Review Report on Enhancement of
Lump Sum Grant Subvention System

Task Force for Review on Enhancement of
Lump Sum Grant Subvention System
July 2021

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Chapter 1

Introduction

1.1   The Government introduced Lump Sum Grant Subvention System (LSGSS) in 2001.   Before that, the Social Welfare Department (SWD) allocated subvention to non-governmental organisations (NGOs) to pay the actual costs incurred in delivering recognised welfare services, and at the same time imposed stringent control on NGOs' inputs of resources, and examined each expenditure item in great detail.   In addition, the stipulation of staffing structures, levels of pay, qualifications for various 'grades' and 'levels' of staff, etc. for NGOs necessitated complicated audit procedures, including vetting staff qualifications, procurement procedures and reimbursement of recognised expenses etc.   Such arrangements were heavily criticised on the ground of hefty administrative costs on both the Government and NGOs.   Moreover, the funding criteria were criticised for failing to effectively ensure the provision of quality social welfare services to service users by NGOs.   In contrast, LSGSS seeks to focus on the effectiveness of service delivery and hence allows NGOs better flexibility and efficiency in utilising public funds and providing quality services.   LSGSS helps simplify administration work and enhance the quality of service substantively.   Experience in past years has proved that LSGSS allows NGOs to keep abreast of the times through effective deployment of resources to enhance their services for those in need.   In this regard, whilst complying with SWD's stipulated basic service requirements, many NGOs have made good progress to adjust or even upgrade their services standards/ levels to meet the increasing user expectations and demands.

1.2   After the implementation of LSGSS, SWD has provided $1 billion in 2009 to set up the Social Welfare Development Fund (SWDF) dedicated for staff training, business system upgrading and studies which aimed at enhancing NGOs' service delivery.   In addition, SWD set up the Lump Sum Grant (LSG) Independent Complaints Handling Committee in 2009 to handle complaints from stakeholders and the public, and implemented the LSGSS Best Practice Manual for NGOs (BPM) in 2014 to provide guidance to NGOs on matters relating to the enhancement of the management of LSG.

1.3   After a comprehensive review of LSGSS in 2008, the Government agrees that this system, which has been implemented for 20 years, needs to keep pace with the times. The Government announced in the Policy Agenda published in October 2017 that it would discuss with the social welfare sector on how to optimise LSGSS.   The Secretary for Labour and Welfare tasked SWD to set up a Task Force to conduct the review on the enhancement of LSGSS.   The Task Force, chaired by the Director of Social Welfare, comprises representatives from different sectors, including the Legislative Council (LegCo) Members, and

representatives from the Hong Kong Council of Social Service (HKCSS), NGOs' management, staff and service users, independents from the community and representative of the Labour and Welfare Bureau (LWB). Members of committees which have participated in LSGSS-related work were also appointed as members of the Task Force. The Task Force's Terms of Reference and membership list are at **Annex 1**.

1.4   The Task Force held 14 meetings, four rounds of sector consultation sessions and three focus groups to garner views from different stakeholders. A consultancy firm was also engaged to conduct research and data collection. It has completed the review and made 30 recommendations to enhance LSGSS under five domains, namely (1) quality of welfare services; (2) staffing establishment, subvention benchmark and human resource management matters; (3) financial planning matters; (4) relevance of utilising LSG subvention; and (5) accountability and corporate governance of NGOs. This report is the conclusion of the Task Force and the recommendations on enhancement of LSGSS are the result of considering the invaluable views of all stakeholders.

Chapter 2

Review Areas and Method of the Review

2.1   After reviewing the views expressed by different stakeholders on enhancement of LSGSS, the Task Force confirmed the following eight review areas :

   (a)   operating environment of NGOs under LSGSS;
   (b)   review of staffing establishment and subvention benchmarks;
   (c)   use of LSG reserve/ Provident Fund (PF) reserve and financial planning;
   (d)   pay structures, staff turnover rate and vacancies;
   (e)   Funding and Service Agreement (FSA)-related activities and flexibility provided for NGOs;
   (f)   mechanisms for reviewing FSAs and reviewing NGOs' service performance assessment;
   (g)   NGOs' transparency and public accountability; and
   (h)   NGOs' communication with stakeholders and participation of stakeholders.

Please refer to **Annex 2** for details of the review areas.

2.2   As the review for areas (a) to (d) involves a large amount of data, SWD has also engaged a consultancy firm to conduct data collection and research by means of questionnaires, focus groups and in-depth interviews with relevant stakeholders:

   (i)   NGO survey: The consultancy firm issued questionnaires to 164 NGOs receiving LSG in April 2019 and 132 replies were collected with a response rate of 80.5%.   After conducting data analysis, the consultancy firm conducted seven focus groups involving 50 NGOs and three in-depth interviews respectively with three NGOs of different scales from July to August 2019;

   (ii)   Staff survey: The consultancy firm issued questionnaires to around 2 100 frontline staff selected through random sampling from 51 NGOs of different scales in July 2019.   The information collected in the questionnaires includes: age, sex, type of work, service type, length of service, salary and working hours of staff; and staff's views on training, change of work, salary structure, difficulties encountered in work, communications with the NGOs and

participation in the decision making of important matters. As at 16 August 2019, 838 replies were collected with a response rate of 39%. According to the views of Task Force, the consultancy firm conducted the second round of follow-on staff survey from November 2020 to January 2021 to collect staff's length of service in current NGOs. There were 1 287 replies collected, including replies collected in the first round of staff survey, with the response rate reaching 60% for two rounds of staff survey. The consultancy firm also conducted four focus groups (based on four major job types: social worker, paramedical staff, general grade staff[1] and other staff[2]) in September 2019, and

(iii) Service users survey: The consultancy firm conducted on-site surveys at 40 agreement service units (ASUs) (through random sampling according to four major service types: family and child welfare service, elderly service, rehabilitation service, and youth and community service) from July to August 2019 in order to meet service users and conduct questionnaire survey. Information collected by the questionnaire includes : years of using service by service users and carers, service type, and their views on service needs, service quality, communication with the NGOs and participation in the decision making of important matters. As at 30 August 2019, 432 replies were collected. Besides, the consultancy firm conducted four focus groups (one for each major service type) with 30 service users and carers in September 2019.

2.3 As for areas (e) to (h), the Task Force collected information and views of NGOs through SWD on areas including the financial arrangement of handling FSA-related activities, performance monitoring and NGOs implementation position of internal service inspections mechanism. The Task Force issued questionnaires on areas (e) to (h) to 164 NGOs receiving LSG in July 2018, collecting 136 replies with a response rate of 82.9%. In addition, the Task Force has conducted four rounds with a total of eight sector consultation sessions and three focus groups with a total of 964[3] attendance, between August 2018 and April 2021 for all review areas.

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[1] General grade staff: e.g. personal care workers, health workers, welfare workers, etc

[2] Other staff: e.g. executives, other professionals, etc.

[3] Sector Consultation Sessions: 224 attendance in the First Round (August 2018), 218 attendance in the Second Round (January 2019), 239 attendance in the Third Round (October 2019) and 231 attendance in the Fourth Round (April 2021). Focus Groups: 25 attendance in the first group (August and September 2018), 12 attendance in the second group (November 2018) and 15 attendance in the third group (January 2020).

Chapter 3

Quality of Welfare Services

3.1   In an ever-changing social environment, NGOs are facing different challenges in respect of corporate governance, human resource management and financial management, etc.   NGO management should continue to improve services to keep pace with the times through flexible deployment of resources and re-engineering of services made possible under LSGSS, so as to meet service users' need.   Under LSGSS, SWD has formulated BPM in collaboration with the sector to enhance and consolidate the corporate governance of governing boards and the management capabilities of NGOs so as to improve the overall services.   SWD also updates the Social Welfare Services Lump Sum Grant Manual (LSG Manual) from time to time to provide the necessary guidance and support to NGOs.   Moreover, SWD has been increasing LSG to NGOs in a timely manner, so as to enable NGOs to continuously enhance and strengthen the services to users.   In this chapter, we will examine the challenges and difficulties faced by NGOs currently receiving LSG subvention in their sustainable development in an ever-changing social environment, so as to facilitate NGOs in continuous quality maintenance and service development (i.e. review area (a)).

3.2   The Government agrees that there is a need to develop a standing mechanism to conduct reviews on welfare services in a more systematic manner to ensure that welfare service quality and service development will keep pace with the times (i.e. review area (f)). In conducting service reviews, NGOs must give due regard to resource constraints and the need of redeploying existing resources.

NGOs' knowledge and capacity in governance and management

3.3   Since the implementation of LSGSS in January 2001, there have been significant changes in the recurrent subvention amount provided by SWD to NGOs, number of subvented staff in NGOs and number of subvented service units under NGOs.   Regarding the recurrent subvention amount, it has increased from $6.45 billion (covering a total of 173 NGOs) in 2000-01 to $20.79 billion (covering a total of 164 NGOs receiving LSG) in 2020-21, representing an increase of 222%.   As for the number of subvented staff, it has increased from 21 638 (Snapshot Staff in April 2000) in 2000-01 to 38 528 (as at 30 June 2019) in 2019-20, representing an increase of 78%.

3.4   In January 2008, the Lump Sum Grant Independent Review Committee (LSGIRC) was appointed to assess the overall effectiveness of LSGSS and identify areas for improvement.   It put forward 36 recommendations in its Review Report.   One of the recommendations was that the welfare sector should develop a BPM for NGOs on three areas, i.e. human resource management, financial management, as well as corporate governance and accountability.   To this end, SWD has been working with the sector to develop the BPM since 2010 through a number of visits, meetings and consultation sessions.   The 14 items of BPM were endorsed by the Lump Sum Grant Steering Committee (LSGSC) in April 2014 and came into effect on 1 July 2014. At its meeting subsequently held in July 2018, the LSGSC endorsed the implementation of 3 new items with effect from 1 October 2018.

3.5   On the other hand, relevant guidelines or templates on corporate governance of the Efficiency Office (EffO) (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 for NGOs to refer to and adopt good practice of corporate governance.   To promote NGOs' wider adoption of good practices on areas of declaration of interest, attendance of board/committee meetings and appointment of board/committee members, SWD follows the recommendation of the Director of Audit's Report No. 69 to continuously encourage NGOs to adopt other good governance practices, including those set out in the Guide to Corporate Governance for Subvented Organisations of the EffO.   Briefing sessions were also held by SWD to share with NGOs the good practices in the sector.

3.6   Furthermore, SWD has allocated $9.7 million from the Lotteries Fund (LF) to the HKCSS in 2016 to launch a four-year project "NGOs' Governance Platform" so as to provide a learning platform and more exchange and training opportunities for NGOs' Board of Directors and further enhance the governance capacity of NGOs.   The "NGOs' Governance Platform" project concluded in April 2020[4].

3.7   According to the views collected by the consultancy firm, different stakeholders (including the management, staff and service users of NGOs) have different requests for and expectations of NGOs and services.   The NGOs' management indicated that there was a need to strengthen corporate governance in administration, human resources and financial management in order to tie in with the changing service needs of the society.   The biggest challenge faced by the staff is manpower shortage amidst the changing service demand, while service users expect quality services that meet their needs or address/relieve their difficulties.

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[4]   An evaluation report on the impact of the project was submitted to the Lotteries Fund Advisory Committee on 26 November 2020 for examination.

3.8   To conclude from the above views, the Task Force is of the view that NGOs were facing different degrees of challenges, be they corporate governance, human resource management, financial management and communication with staff and service users, under LSGSS.   NGOs' management needs to continuously improve governance systems and management skills.   The Task Force is of the view that the learning platform was conducive to corporate governance in that it may enhance and consolidate the capacity of the directors and the management in governance and management.   A member of the Task Force remarked that many NGOs' management agreed that the training programmes provided under the "NGOs' Governance Platform" project launched by the HKCSS over the past few years helped promote understanding of directors of different backgrounds as to the operation mode of the social welfare sector.   Many NGOs invited the HKCSS to provide consultation service so as to strengthen communication between directors and the management.   The Task Force agrees that the training programmes provided by the HKCSS over the past few years had built up an extensive network among NGOs and laid a good foundation for a learning platform.

3.9   The Task Force recommends that the learning platform should have a frame of reference and draw up clear learning objectives, content, mode and ways to provide relevant support that serves the governance and management needs of NGOs of different characteristics. The Task Force also agrees that the learning platform should provide consultation services and specific training programmes having regard to the specificity of individual NGOs.

Recommendation 1

Provide a learning platform on governance and management, so as to consolidate and enhance NGOs' knowledge and capacity in governance and management required in different areas

- Where the financial conditions of the Government permit, it is recommended that a learning platform on governance and management be provided for NGO governing boards and senior management, so as to consolidate and enhance NGOs' knowledge and capacity in governance and management required in different areas.
- It is recommended that ways to enhance HKCSS's role as a learning platform on NGO governance and management should be looked into, covering provision of consultation services and specific training programmes that cater for the characteristics and needs of different NGOs.
- The learning platform should provide appropriate information on governance and management for NGOs' reference, while enhancing the networking among NGOs to facilitate transfer of useful management knowledge through sharing of good practices.   The platform should also provide relevant support that serves the governance and management needs of NGOs of different scales, types, etc.

Sustainable Development of NGOs

3.10   To facilitate continued service improvement of NGOs, SWD implemented a recommendation of LSGIRC to set up a $1 billion SWDF in 2009 which was implemented in 3 phases for a total of 11 years from 2010-11 to 2020-21[5].   NGOs were provided with subsidy to conduct staff training, business system upgrading and service studies.

3.11   A funding of $540 million was provided in the first 2 phases of the SWDF for 159 NGOs to carry out projects.   Of which, staff training benefitted around 400 000 attendance (more than 160 000 attendance of social workers benefitting from the training programmes), whereas 503 business system upgrading projects and 235 service studies were progressively completed. SWD was allocated with $460 million from the LF to implement Phase 3 of the SWDF (2016-17 to 2020-21).   155 NGOs were approved funding with a total of $457 million in Phase 3 to carry out projects of staff training, business system upgrading and service studies.   Some of the funded projects are scheduled for completion by 2022.   As at March 2021, a total funding of $997 million from the SWDF had been provided to 161 NGOs in 3 phases to carry out projects.

3.12   The sector was generally of the view that there was a need to provide staff with more training and that the SWDF could effectively enhance staff capacity and promote sustainable development of NGOs.   The subsidy amount for the projects should be increased and the domain for application should be expanded (e.g. to cover information technology (IT) system maintenance and innovative services), so as to cater for the changing work requirements of the NGOs.

3.13   The Task Force agrees with the objectives of implementing the SWDF and recommends that a Central Item[6] be put in place to provide recurrent funding (capped at 1% of the NGOs' annual recurrent subvention amount or $250,000, whichever is the higher) for NGOs to carry out staff training, business system upgrading (IT projects and non-IT projects) and service studies.

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[5]   The SWDF was originally scheduled for implementation in 3 phases for a total of 9 years (i.e. from 2010-11 to 2018-19).   With the consent of the LSGSC, SWD extended the third phase of the SWDF. The third round of application for the third phase was launched in July 2020 for NGOs to conduct staff training and professional development projects.   The projects are scheduled for completion by 2022.

[6]   Central Items refer to subsidised items that are not included in LSGSS and shall be used for designated purposes.   Besides, Central Items must be included in the Annual Financial Report submitted by the NGOs.

3.14   Some are of the view that the proposed funding cap may not be sufficient to meet the expenditure of the NGOs' IT projects (e.g. cloud projects). Some are also of the view that NGOs should not be required to bear 15% of the cost of IT projects.   SWD has reservation as to the above recommendations.

3.15   At present, NGOs obtain funding for IT projects via the LF, Block Grant and SWDF, all of which are non-recurrent grants.   Applicant NGOs are responsible for covering the recurrent expenditure incurred from the relevant projects (such as maintenance fees or cloud service charges), which is the principle that the Government has all along adopted regarding the funding of IT projects.   IT systems developed under the aforementioned grants can help optimise the work procedures of the relevant subvented services and improve work efficiency.   The resources saved can be used for covering the subsequent operation and maintenance fees.   In addition, SWD notices the new trend of developing IT systems on cloud platforms in the recent years (where users are charged recurrent fees for using cloud service).   At present, NGOs can cover the recurrent expenditure of relevant IT facilities, including cloud service charges with LSG or LSG Reserve.   Depending on the funding obtained for additional recurrent expenditures in future, NGOs can make use of this Central Item to cope with IT development needs (including IT facilities, recurrent maintenance and cloud service) in future.   Therefore, SWD considers that the existing arrangement should be maintained, pending further discussion upon implementation of the latest Information Technology Strategies for the Social Welfare Sector.

<u>Recommendation 2</u>
Provide subsidy for staff training, business system upgrading, including IT and non-IT projects, and service studies

- To help NGOs meet their development needs, where the financial conditions of the Government permit, it is recommended that SWD put in place a Central Item for NGOs to apply for funds for the purposes of staff training, business system upgrading (covering IT development projects, including IT facilities and recurrent maintenance as well as cloud service, and non-IT development projects) and service studies. The funds are capped at 1% of the NGOs' annual recurrent subvention amount or $250,000, whichever is the higher.
- Regarding the requirement for NGOs to bear 15% of the expenditure of IT projects, SWD considers that the existing arrangement should be maintained, pending further discussion upon implementation of the latest Information Technology Strategies for the Social Welfare Sector.

Supervisory support for paramedical grades

3.16   In view of the fast growing ageing population and the increasing demand for rehabilitation services for persons with disabilities, the demand for occupational therapy and physiotherapy services has drastically increased. Meanwhile, the cases handled by occupational therapists (OTs) and physiotherapists (PTs) have become more complex, such as those involving dementia and children with special needs.   At present, OTs and PTs in most of the service units are mainly under the supervision of senior social workers (i.e. the officers-in-charge of the relevant service units).   With the exception of a very small number of NGOs having senior therapists, the professional guidance and supervision of therapists generally rely on their mutual support and motivation.   The Task Force considers that experienced senior therapists could help to directly handle complex cases, provide professional supervision and support to frontline therapists, and co-ordinate relevant professional service development in NGOs to ensure the quality of frontline services.

3.17   The results of the survey conducted by the consultancy firm showed that the vacancy rate (13%) and turnover rate (18%) of paramedical grades were higher than other grades, with the lack of supervision and career advancement ladder being the main reasons for their departure.   NGOs also considered that additional supervisory manpower should be provided to staff of paramedical grades so as to assist in supervising and facilitating their professional development, and handling complex cases.   Besides, a career advancement ladder should be provided to retain the staff of paramedical grades.

Recommendation 3
Provide additional supervisory support for paramedical grades to facilitate relevant professional development and handle complex cases

- It is recommended that additional supervisory support be provided for the positions of occupational therapist and physiotherapist in paramedical grades in order to offer supervisory support for paramedical staff, facilitate relevant professional development and handle complex cases. As for whether there are other positions requiring additional supervisory support, various service branches of SWD should, having regard to priorities, look into the matter when conducting service reviews.

3.18   In light of the above recommendation, SWD has increased the recurrent provision to NGOs by $104 million in December 2019 for the creation of about 94 positions equivalent to the ranks of senior OTs and senior PTs to provide professional supervision and support for frontline therapists, with a view to offering supervisory support for paramedical staff, facilitating relevant professional development and handling complex cases.

Provision of rental subsidy to NGOs and increasing the Block Grant

3.19   In general, SWD will assist subvented NGOs to secure premises in government properties or public housing estates for operation of subvented services.   According to the Guide to Social Welfare Subventions, NGOs leasing government properties, public housing units or private buildings for operation of subvented services may apply for reimbursement of rent, rates and government rent.   The subsidy is a designated expenditure item and thus not included in LSG.

3.20   With SWD's allocation of additional resources over the years, the manpower and output standards of various service units have increased, and correspondingly, service units need larger premises.   Moreover, in view of the continuous development of social services in the recent years, service units have an increasing need for premises.   In the 2019-20 Budget, the Government allocated additional resources to purchase premises for provision of welfare services and would continue to identify suitable sites or premises for provision of facilities for various types of welfare services.   However, as it is difficult to find premises for expansion of service units in public housing estates or government properties, NGOs are facing a great challenge of shortfall in accommodation.

3.21   The Task Force recommends that the Government provide commercial rental subsidy to subvented service units leasing commercial premises on a short-term basis so as to maintain a stable supply of services.   Moreover, there are views that as services develop and the staffing establishment of individual services increases, SWD should review the approved Schedule of Accommodation (SoA) of service units in a timely manner.

3.22   In addition to the increasing demand for premises from service units, a number of NGOs pointed out in the survey that the expenditures on maintenance works and replenishment of furniture and equipment (F&E) had been escalating in the recent years.   The financial support is made available in the form of a non-recurrent Block Grant under the LF (i.e. the Block Grant), on an annual basis.   The Block Grant usually involves a large volume of items with each at small sums.   It shall be used for minor works or replenishment of F&E for existing premises providing subvented welfare services, including the replacement of old F&E items.   The Block Grant may also be used for replenishment of IT equipment, including computer hardware, computer software, and adaptive/assistive computer devices.   At present, the annual cap of the Block Grant is set as a sum equal to 1.5% of an NGO's annual recurrent subvention.   The current cost for each minor works project covered by the Block Grant is below $500,000 while the cost ceiling for procurement of each F&E item is not exceeding $50,000.

3.23   To help NGOs meet the expenditure for replenishment/replacement of F&E arising from fair wear and tear as well as contingency needs, and cover the costs of minor works, the Task Force recommends that the annual cap of the Block Grant under the LF should be increased from the existing 1.5% of an NGO's annual recurrent subvention to 2% where the financial conditions of the Government permit.   The Government should also adjust the current cost ceiling for each minor works project covered by the Block Grant.

Recommendation 4

Provide commercial rental subsidy to subvented service units; and increase the Block Grant under the LF to help NGOs meet the expenditure for replenishment/replacement of furniture and equipment, as well as to cover the costs of minor works

- Apart from securing welfare premises for subvented service units through purchase and the Special Scheme on Privately Owned Sites for Welfare Uses, it is recommended that SWD also, where the financial conditions of the Government permit, provide subsidy to subvented service units that have not secured welfare premises in public housing estates or government properties for paying commercial rent according to the approved SoA, and review the actual situation and draw up implementation timetables through its service branches.   Service branches may also review the approved SoA (including storage space) of service units and the need for subsidy for paying rent/management fee when conducting service reviews.
- Where the financial conditions of the Government permit, it is recommended that the annual cap of the Block Grant under the LF be increased from the existing 1.5% of an NGO's annual recurrent subvention to 2%, with a view to helping NGOs meet the expenditure for replenishment/ replacement of F&E arising from fair wear and tear as well as contingency needs, and cover the costs of minor works.
- The current cost ceiling of $500,000 on each minor works project covered by the Block Grant is recommended to be adjusted subject to examination and approval.

Regular review mechanism for FSAs

3.24   The sector considers that it is necessary to set up a regular review mechanism for FSAs, so as to provide appropriate and continuous planning and review on the development of each welfare service, as well as to collect the views of services users for ensuring service quality and promoting service development.   Besides, the Audit Commission published the Audit Report No. 69 in 2017 and recommended that SWD should review the service monitoring and self-assessment of service quality by NGOs when conducting the review on enhancement of LSGSS.

3.25   FSAs can be classified into two types, namely time-defined FSAs and non-time-defined FSAs.   Before 2001, FSAs of subvented services were set on a non-time-defined basis.   Since 2001, FSAs of new services have been set on a time-defined basis.   Currently, the validity period of a time-defined FSA of residential services is fixed at five years while that of a time-defined FSA of day services is three years.   Before the expiry of the time-defined FSA, SWD will take into account the service needs and NGOs' performance when considering renewal of the FSA.   SWD will also review the content of the FSA, including the output and outcome standards, in consultation with relevant NGOs.

3.26   SWD and the sector review the FSAs, including the time-defined FSAs and non-time-defined FSAs, from time to time to meet the demand for service development.   For instance, SWD revised FSAs in the light of allocation of additional resources, including upgrading social centres for the elderly to district elderly community centres and neighbourhood elderly centres in October 2014, individual service units were also allocated with additional resources.

3.27   Based on the results of the data collection questionnaire, around 60% of the NGOs (60.3%) opined that the cycle of reviewing the output and outcome standards of an FSA should be set at 5 years.   Meanwhile, the majority of NGOs (86.8%) remarked that regular reviews of non-time-defined FSAs should also be conducted according to service type.   The senior management and staff of NGOs both reckoned the need for reviewing FSAs regularly to meet service needs; yet some members of senior management noted that the review should not be conducted too frequently as service continuity may be affected. Meanwhile, staff members expressed concern over the workload incurred by regular reviews.   To conclude, the Task Force agrees that there is a need for regular reviews of FSAs in order to timely meet the demand for service development.

> **Recommendation 5**
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> **Standardise the cycle of reviewing the output standards and outcome standards of a time-defined FSA at five years; and review the output standards and outcome standards of a non-time-defined FSA if there are new resources**
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> - Currently, the validity period of a time-defined FSA of residential services is fixed at five years while that of a time-defined FSA of day services is three years. It is recommended that the validity period of a time-defined FSA be standardised at a cycle of five years, and the output standards and outcome standards be reviewed every five years as per the cycle so that sufficient time and manpower can be made available to conduct service reviews.
> - Currently, although the validity period of a non-time-defined FSA is not fixed, SWD and the sector will review the FSA, including the output standards and outcome standards, from time to time to timely meet the demand for service development. It is recommended that subject to availability of new resources, the output standards and outcome standards of a non- time-defined FSA be reviewed to timely meet the demand for service development.

Service review

3.28   SWD conducts review on individual services from time to time to meet the service demand of service users.   Based on the results of the data collection questionnaire, the majority of NGOs (over 95%) considered that service reviews should cover service targets, service nature, notional staffing establishment, service performance standards as well as administrative and other support. Some staff members remarked that service reviews should cover manpower, service resources and venues, etc.   Meanwhile, some service users stated that SWD should consider increasing the number of quality standards under the service review in order to avoid an excessive number of output standards and minimise the phenomenon of "chasing to meet the targets".

3.29   The Task Force expressed concern over the review of staffing establishment and regarded some staffing establishments as outdated.   In order to fulfil service demand, NGOs have employed additional manpower and thus have to set aside sufficient reserve to fund expenditure and avoid deficits. Some stakeholders noted that since SWD has already uploaded the notional staffing establishments of different services on its website, an NGO employing excessive manpower and thus suffering from an increase of financial burden should be regarded as an act of mismanagement.   Some members reflected that many NGOs have already ceased hiring staff of certain ranks, such as ward attendants which were replaced by hiring personal care workers; while some opined that a review on whether these obsolete ranks should be replaced may also be done during service reviews.   Other suggestions related to staffing

establishment include: setting up of a staff to supervisor ratio and seeking to minimise the said ratio, increasing promotion opportunities, etc.

3.30   Meanwhile, in order to facilitate a more systematic review of welfare services, it has been proposed that NGOs should provide data and information for comprehensive review by SWD and the sector.   When conducting the service review of FSAs, SWD will require NGOs to provide data and information as requested to facilitate the analysis on service demand and planning.   Apart from the provision of data by NGOs, the Task Force proposes that SWD should also provide relevant data to NGOs during service reviews in order to assist the review of service needs.

3.31   The Task Force noted the Government currently conducts large-scale service planning for various services (e.g. the Elderly Services Programme Plan and the Persons with Disabilities and Rehabilitation Programme Plan, etc.) as required.   Meanwhile, the Government also conducts reviews on the demand for individual services while seeking additional resources to enhance manpower and service.   Taken into consideration the views of stakeholders and the fact that many services have not been reviewed for a long time, the Task Force suggested that the Government should commence relevant work as soon as possible, draw up the criteria for setting priority and establish the timetable for service review, and plan for services and staffing establishment based on population growth and structure, district characteristics, etc.

3.32   In terms of drawing up the criteria for setting priority of service reviews, some NGOs suggested that priority should be accorded to services that have not been reviewed since 2000, while the list of services and the priority for review should be determined between the service branches of SWD and the sector.   As for service review, the majority of NGOs (over 94%) agreed on establishing a mechanism to examine the list of service types for priority service review once every 5 years.   The Task Force broadly agrees that the service branches of SWD should consult relevant stakeholders on the list of service types and their priority for review in the next 5 years, and collect relevant views in the Welfare Agenda and Priorities Setting Exercise annually co-hosted with the HKCSS for consideration by service branches of SWD.   Meanwhile, 2 service types/ service type groups at most under individual service areas should be reviewed in the same period having regard to NGOs' capacities and SWD's human resources, with each service type/service type group aiming to complete the review within a year.   If that cannot be done within a year, the review of another service type/ service type group under the same service area should not be commenced.

3.33   When conducting service reviews, SWD generally engages in discussion with senior management of service operators, while frontline staff and service users are seldom invited to participate.   Based on the results of the data collection questionnaire, the majority of NGOs (over 88%) agreed that frontline staff and service users should be invited to participate in service reviews.

Recommendation 6
Conduct systematic reviews on notional staffing establishments, service targets, service nature and service performance standards to keep pace with the changing needs of users of various types of social services

- SWD will cover different areas in future service reviews, including the corresponding notional staffing establishments (including the academic qualifications/seniority requirements of the posts, manpower for supervisory support, functions required for the service, etc.).
- The scope of service reviews should cover the following:
    - service targets;
    - service nature;
    - service performance standards, including essential service requirements, output standards and outcome standards;
    - notional staffing establishment;
    - administrative and other support; and
    - other considerations.
- NGOs should provide data and information for comprehensive review by SWD and the sector, covering information on the following:
    - changes in service needs;
    - changes in staffing requirements;
    - changes in service nature; and
    - changes in administrative and other support.
- SWD will also provide district information, e.g. demographic profiles and social indicators of district welfare needs for reference.
- It is recommended that the criteria for setting priority of service review should be drawn up, e.g. priority should be accorded to services that have not been reviewed for a long time, involve a larger number of units or have a greater development need.
- Service branches of SWD will consult relevant stakeholders the service types and their priority for review in the next five years, and collect relevant views in the Welfare Agenda and Priorities Setting Exercise for consideration by service branches.
- After the items and priority for service review are determined, two service types/service type groups at most under individual service areas should be reviewed in the same period having regard to NGOs' capacities and SWD's human resources. Each service type/ service type group should aim at completing the review within a year. If it cannot be done within a year, the review of another service type/ service type group under the same service area should not be commenced.
- A mechanism is to be established to examine the list of service types for priority service review in the annual Welfare Agenda and Priorities Setting Exercise.
- Apart from SWD and the senior management of service operators, frontline staff and service users should also be invited to participate in the service reviews.

Enhance the self-assessment mechanism for service performance

3.34   Apart from optimising the FSA and the service review mechanism, NGOs should also evaluate their own performance and propose recommendations for improvement.   In this regard, the Director of Audit recommended in his Report No. 69 published in 2017 that SWD should set outcome indicators for all FSAs, and that NGOs should improve the accuracy of self-assessment on output/outcome indicators.   Generally speaking, the frequency and means of internal service inspections conducted by NGOs should vary depending on the scale of the NGO.   Results of the data collection questionnaire indicate that the sector broadly agreed that internal service inspections should be conducted by staff of service supervisory rank or above or internal service inspection units/teams at least once every 12 months to ensure service quality.   The Task Force recommends that NGOs share good practices on the mechanism for internal service inspections and formulate sector benchmarks through regular sector sharing sessions.   NGOs should also consult staff and service users when establishing a mechanism for internal service inspection.

Recommendation 7
Specify in LSG Manual the frequency and means of internal service inspections conducted by NGOs to enhance the self-assessment mechanism for service performance; share good practices on the mechanism for internal service inspections among NGOs and formulate sector benchmarks through regular sector sharing sessions

- Since the frequency of internal service inspections conducted by NGOs of different scales may vary, it is recommended that all NGOs should conduct inspections by service supervisors or internal service inspection units/teams at least once every year to enhance the self-assessment mechanism for service performance.   Such inspections should be conducted by means of on- site assessments (including surprise checks, inspections by appointment), written reports, random checks, etc.to enhance the self-assessment mechanism for service performance.
- NGOs may, based on the actual situations, consider allowing the participation of staff and service users when establishing a mechanism for internal service inspections.
- It is recommended that regular sector sharing sessions be held, through which NGOs may share good practices on the mechanism for internal service inspections and formulate sector benchmarks.

Chapter 4

Staffing Establishment, Subvention Benchmark and Human Resource Management Matters

4.1   NGOs should regularly review their own human resource management policies on the premise of ensuring compliance with the service requirements and standards stipulated by SWD and, having regard to the overall financial situation, put in place a remuneration policy that recognises staff's contribution and is conducive to sustainable development, so as to attract and retain staff, especially those holding posts with recruitment difficulty.   Under LSGSS, SWD takes into account the NGO's salary costs, salary-related allowances, PF for its staff, and recognised fee income in calculating LSG, with a view to ensuring that NGOs receive sufficient subvention to cover the required expenditure for providing services, and at the same time have the flexibility to deploy resources among different items of expenditure.

4.2   In this chapter, we will explore issues concerning staffing establishment, benchmark at mid-point salaries and human resource management (i.e. review areas (b) and (d)).   These are what the NGOs and their staff are most concerned.   The Task Force collected relevant information and data from the sector through the consultancy firm, so as to comprehensively review the items in question as service demands become more complex and expectation of service users rises, and put forward recommendations for improvement.

Staffing establishment and benchmark at mid-point salaries

4.3   The subvention for salary costs is calculated on the basis of the notional staffing establishment set by SWD for individual service unit with reference to the mid-point salaries of the relevant posts of the civil service pay scales.   It is worth noting that under LSGSS, the salary structures and pay scales of NGOs are already delinked from those of the civil service.   The benchmarking against civil service pay scales is only adopted by SWD to calculate individual NGOs' funding.   It is not intended to prescribe or restrict NGOs' pay practices.   In other words, NGOs can determine staff salaries according to their own human resource management policies, and do not need to follow the civil service pay scales.   There have been complaints from the staff side that some NGOs employ staff with salaries lower than starting-point salaries and cap staff salaries at mid-point.   It should be noted that LSGSS neither stipulates any pay structure for NGOs, nor necessitates NGOs capping staff salaries at mid-point.

4.4   The subvention benchmark at mid-point salaries is a fair mechanism which allows NGOs the flexibility to deploy resources to hire staff with different

seniority by, for example, hiring new recruits at entry point and senior staff at above mid-point respectively, so as to facilitate development of diversified and quality services. It is noted that a lot of NGOs have, in response to service needs, established ranks of staff and pay structures which are different from SWD's estimated notional staffing establishment. Some NGOs have also categorised some professional grades into different levels taking into account their professional expertise and work complexity, etc. As explained above, NGOs can develop human resource management policies that suit their needs on the condition of meeting the requirements of FSAs.

4.5   Some NGOs remarked that it was not sufficient to adopt mid-point salaries as the benchmark in calculating salary provision. As such, the Government should increase funding under LSGSS so as to help NGOs recruit and retain staff. SWD has briefed the Social Welfare Advisory Committee (SWAC) on the method and progress of the Review on Enhancement of LSGSS. Members of SWAC in general considered that LSGSS provided NGOs with greater autonomy and flexibility to deploy resources to meet changing service needs. Members of SWAC also raised that even if the salary provision was increased beyond the mid-point benchmark, some NGOs might still cap staff salaries at the adjusted salary benchmark if these NGOs did not have proper financial planning to assess their ability to meet staff pay commitments under LSGSS.

4.6   To examine notional staffing establishment set by SWD under this review, the consultancy firm collected data concerning NGOs' actual staffing for comparison with notional staffing establishment set by SWD.   In June 2019, the total number of staff (38 528) in 164 NGOs receiving LSG was comparable with that (39 184) of notional staffing establishment set by SWD (see **Table 1**). Besides, the consultancy firm also collected data concerning the actual staffing establishment of ASUs.   Among 17 major types of services[7,] the actual staffing establishment of 14 types was larger than notional staffing establishment set by SWD, while that of 3 types of services was smaller than notional staffing establishment set by SWD[8].   The actual grade/ rank was also different from notional staffing establishment set by SWD.   The result shows that many NGOs have, over the last 20 years, implemented measures involving organisational restructuring and service re-engineering for more effective service delivery and better wellbeing of service users.

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[7]   According to SWD's record, there were a total of 146 types of ASUs as at 31 March 2018.   The consultancy firm could only select 17 types for analysis.   The remaining 129 types were not analysed because the number of valid samples from comparable service types was less than 5, which was not representative; there was/were only 1 or 2 posts in the notional staffing establishment, or most of them being subsidiary service types; many NGOs could not provide data of individual ASUs; some service types did not have typical notional staffing establishment, etc.

[8]   There were 7 service types that had an actual staffing establishment larger than the notional staffing establishment by 13% to 23%.   There were 7 service types that had an actual staffing establishment larger than the notional staffing establishment by less than 10%.   There were 3 service types that had an actual staffing establishment smaller than the notional staffing establishment by 6% to 13%.

Table 1: Comparison of number of subvented staff of 164 NGOs receiving LSG and notional staffing establishment set by SWD

	Social worker	Paramedical staff	General grade staff	Other staff	Total
Number of subvented staff of 164 NGOs receiving LSG	8 090	3 873	17 550	9 015	38 528
			26 565		
Percentage	21%	10%	46%	23%	100%
			69%		
Notional staffing establishment set by SWD	8 062	4 894	21 002	5 226	39 184
			26 228		
Percentage	21%	13%	53%	13%	100%
			66%		

4.7   Regarding the review of subvention benchmarks at mid-point salaries, the consultancy firm initially collected information from NGOs on their actual salary expenditure.   Due to insufficient information collected[9], the consultancy firm then collected the average length of service of relevant staff at their current NGOs through 2 rounds of staff survey to project salary expenditure based on the notional staffing establishments of the 17 types of services and relevant civil service pay scales.   The consultancy firm received 1 287 questionnaires, representing an overall response rate reaching 60%.   Survey results showed that among 17 types of services, the projected salary expenditures of 14 types were on par with SWD's total amount of mid-point salary provision or lower than the subvention benchmarks at mid-point salaries.   For the remaining 3 types, their projected salary expenditures exceeded the subvention benchmarks at mid-point salaries by 1% to 3%[10] respectively.   Meanwhile, the total amount of salary expenditures of the 17 types of services was lower than SWD's total amount of

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9   Regarding the information gathered from valid ASUs (856) of NGOs, the respondents only made up 31% of the total number of ASUs (2 730) as at 31 March 2018.

10   Based on analysis of the data collected from the 2 rounds of staff survey, among the 17 types of main services,

   ● The projected salary expenditures of 3 types of ASUs were on par with the subvention benchmarks at mid-point salaries, i.e. Integrated Children and Youth Services Centres, Integrated Family Service Centres and District Youth Outreaching Teams;

   ● The projected salary expenditures of 11 types of ASUs were lower than the subvention benchmarks at mid-point salaries (varying from 94% to 99%), i.e. Care and Attention Homes, Integrated Community Centres for Mental Wellness, Early Education and Training Centres, Day Care Centres for the Elderly, Neighborhood Elderly Centres, District Elderly Community Centres, Small Group Homes, Foster Care Service, Hostels for Severely Mentally Handicapped Persons, Special Child Care Centres and Home Care Service for Persons with Severe Disabilities; and

   ● The projected salary expenditures of 3 types of ASUs exceeded the subvention benchmarks at mid-point salaries by 1% to 3% respectively, i.e. Hostels for Moderately Mentally Handicapped Persons, Integrated Vocational Rehabilitation Services Centres and Day Activity Centres.

subvention at mid-point salaries by 3%. In conclusion, the projected salary expenditures of NGOs were broadly on par with SWD's amount of subvention at mid-point salaries. According to the findings of the consultancy firm, there is no data to show that SWD's subvention amount based on benchmarking against mid-point salaries of civil service pay scales is insufficient to cover NGO's expenditure on salaries. Please refer to **Annex 3** for detailed data.

4.8   However, some members of the Task Force remarked that the consultancy firm did not take into account the length of service of staff prior to joining the existing NGOs when projecting salary expenditures, hence the conclusion was unable to reflect the actual operations of NGOs comprehensively. Meanwhile, many NGOs had to purchase paramedical services due to difficulty in hiring paramedical staff, which resulted in less actual staff employed. As a matter of fact, as mentioned in paragraph 4.4 above, NGOs already developed a variety of job ranks or functions and pay structures according to various job requirements. As such, SWD reckoned that using the length of service of staff at their current NGOs as the basis of the projection was a relatively objective method. During the research process, the consultancy firm observed that the majority of NGOs already recognised the length of service of staff prior to joining, or conducted reforms to revamp their staffing establishment, grade and pay adjustment mechanism in order to cater for ever-changing social need with an innovative mindset.

4.9   Regarding the collection of actual number of staff under subvented services by the consultancy firm as mentioned in paragraph 4.6 above, the consultancy firm calculated the staff distribution ratio with a breakdown by 4 types of job nature (i.e. social workers, paramedical staff, general grade staff, and other staff) and compared that with the ratio calculated from the 2 rounds of staff survey. Based on the consultancy firm's analysis, the staff distribution ratio gathered from the 2 rounds of staff survey was broadly the same as that of the 164 subvented NGOs, which illustrated the representativeness of the samples gathered from the surveys. Please refer to **Annex 4** for relevant statistics.

4.10   The Task Force agrees that the subvention benchmark at mid-point salaries was a fair mechanism which allowed NGOs the flexibility to deploy resources to cope with their human resource management and service development strategies. The Task Force recognises that some NGOs were concerned about the long-term commitment of salary expenditure, hence adopting an extremely prudential approach pertaining to staff remuneration (such as setting the ceiling salary at the mid-point salary). As stated in paragraph 4.1 above, LSGSS significantly enhanced the flexibility of NGOs in managing human resource. The Task Force considers that NGOs should strike an appropriate balance between the need for supporting staff and continuous development of services while maintaining financial stability.

> **Recommendation 8**
>
> **Maintain the subvention benchmark at mid-point salaries to allow NGOs to continue to exercise the flexibility to employ staff, respond to service needs swiftly and provide welfare services efficiently**
> - The consultancy firm's data analysis showed that most NGOs have exercised the flexibility provided by LSGSS to employ staff so as to efficiently deliver quality welfare services, and therefore it is recommended that LSGSS should be retained.
> - According to the findings of the consultancy firm, there is no data to show that SWD's subvention amount based on benchmarking against mid-point salaries of civil service pay scales is insufficient to cover NGOs' expenditure on salaries, and therefore it is recommended that such benchmark should be maintained.

4.11   Regarding the review of subvention benchmark at mid-point salaries, the Task Force is aware of the continuously growing cumulative balance of LSG reserve for some NGOs.   Some staff representatives reflected that earmarking cash flow for 2 to 3 months of salary should be sufficient with stable funding, while keeping excessive cash could suppress remuneration packages.   NGOs should optimise the use of LSG/LSG reserve and draw up long-term plans to enhance the staff pay structure.   On the other hand, the senior management of NGOs opined that instead of the senior management being deliberately conservative, a variety of factors contributed to LSG reserve of certain NGOs surpassing the 25% cap.   Those factors included vacancies, high staff turnover rate, inability to hire new staff promptly due to subvention funding received in the second half of the financial year, etc.   In this regard, we will discuss in detail matters relating to the use of reserves by NGOs and make recommendations on optimising the use of subvention resources in Chapter 5.

Level of subvention for central administration

4.12   Taking into consideration the varying scales and development pace of NGOs, it has been suggested that SWD should further review the arrangement of subvention for central administration.   Prior to the implementation of LSGSS, SWD had provided subvention for central administration to NGOs pertaining to subvented services, with the subvention for central administration[11] being calculated based on the number of subvented service units, amount of subvention and staffing establishment of NGOs, with effect from 1 April 1988. Between 1988 and 1994, SWD further enhanced the basis of calculation, which included the provision of subvention for large NGOs to establish posts for executive and clerical support, enhancement of clerical support for small NGOs,

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[11.] Central administration then covered 3 areas: (1) co-ordination and planning of services; (2) general administration and (3) financial control and accounting.

upgrading of NGO head of individual NGOs, creation of a deputy NGO head post (equivalent to Senior Social Work Officer) for NGOs with a NGO head holding a post that was equivalent to Chief Social Work Officer, strengthening of subvention for accounting support, etc. As at 2000-01, among the 173 NGOs, there were a total of 83 NGOs receiving central administrative subvention, while all 173 NGOs received fund for accounting support.

4.13 Since the implementation of LSGSS in 2001, previously recognised central administrative support items[12] have already been integrated into the subvention baseline for LSG. Meanwhile, SWD also reviews the needs of NGOs from time to time and allocate additional resources to help NGOs strengthen administrative capacity, which include the following:

Year	Item	Amount
Additional Recurrent Funding		
2008-09	Strengthening the administrative capacity of NGOs	$200 million
2014-15	Strengthening central administrative ($160 million) and supervisory support ($130 million), making additional allocation to "Other Charges" ($50 million) and assisting NGOs to recruit and retain paramedical staff more effectively or to hire paramedical services ($130 million)	$470 million
Additional One-off Funding		
2008-09	Supporting NGOs to implement measures for enhancing human resource and financial management	$200 million
2009-10 to 2012-13	Enhancing administrative and professional support for small NGOs	$24 million
2010-11 to 2020-21	Setting up the Social Welfare Development Fund to subsidise NGOs to implement staff training, business system upgrading and service studies	$1 billion

In view that services not subvented by LSG also involve central administrative work, SWD has provided an additional provision of 5% for funds under its purview as central administrative support for relevant projects with effect from August 2017.

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[12] Taking reference from SWD's arrangement on funds under its purview with effect from August 2017, central administrative support mainly covered the following 7 types of expenditure:

(1) Service planning, supervisory support and quality assurance;
(2) Human resources management;
(3) Accounting management and financial monitoring;
(4) Risk management, including internal auditing and compliance;
(5) Publicity, public relations and corporate communications;
(6) Rent and rates of office venues, utilities and facilities expenses; and
(7) Information technology facilities and support.

4.14   NGOs remarked in the review that SWD should first strengthen support for central administration offices of NGOs and formulate different base levels of subvention for central administration according to the scales of NGOs while setting a minimum subvention level.   NGOs can only improve their quality of governance with sufficient support on central administration.   As for small NGOs without dedicated administrative staff, the Government should also enhance administrative support.   Meanwhile, when conducting review of notional staffing establishment for central administration, NGOs noted that apart from conventional establishments (e.g. administrative staff, accounting staff and clerical officers/clerks), SWD should introduce new staffing establishment (e.g. public relations/corporate communications staff, information systems staff and property development/management staff) according to the scale of NGOs.

4.15   Some Task Force members recommend that the level of subvention for central administration should be formulated based on the actual expenditures of NGOs.   However, SWD opined that there were significant discrepancies in central administrative expenditures among different NGOs, even though they were of the same scale.   According to the data collected by the consultancy firm from NGOs on central administrative expenditures[13], the percentages of central administrative expenditures out of the total subvention for large NGOs ranged from 2.75% to 12.04%; while those for medium NGOs ranged from 0.85% to 13.24%; medium-to-small NGOs ranged from 1.44% to 23.38%; and small NGOs ranged from 5.11% to 51.94%.   Therefore, no representative percentages of central administrative expenditure could be derived for reference. Moreover, the data could not show the reasons for lower or higher central administrative expenditures of some NGOs.   In this regard, SWD proposed adopting a pragmatic approach, which was to formulate different base levels of subvention for central administration according to the scales of NGOs, with a view to providing additional resources to NGOs that had fallen below the base levels to strengthen their central administrative capacity.

4.16   After examining the views of stakeholders on the level of subvention for central administration, the Task Force opines that different base levels of subvention for central administration should be formulated according to the scales of NGOs and the allocation of subvention for central administration previously provided by the Government, with a view to providing additional resources to NGOs that had fallen below the base levels after taking into account the subvention for central administration previously provided by the Government, so as to strengthen their central administrative capacity for central administrative work.   Considering the fact that small NGOs, despite their smaller scales, had to handle basic administrative work, the Task Force opines that a minimum base level of subvention for central administration should be set

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[13.]   When completing the NGO questionnaire, only 38 NGOs were able to provide separate data on the central administrative costs for "LSG-subvented services" while 70 NGOs were unable to do so for "LSG-subvented services" and "Services subsidised by other SWD funding".   As such, they provided data on the combined central administrative costs.

for small NGOs.   The Task Force also opines that an additional 5% of the subvention for central administration (based on direct services) should be provided for each new service unit.

4.17   In addition, the Task Force considers that it was appropriate for NGOs to append a schedule in the Annual Financial Report (AFR) to list the resources from LSG and the actual expenditures for central administration as well as the subvented staff for central administration, so as to enhance the transparency in the use of funds.   SWD can also make reference to the information when reviewing the level of subvention for central administration in future.

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Recommendation 9

Formulate different base levels of subvention for central administration according to the scales of NGOs to strengthen NGOs' capacity for central administration

- Where the financial position of the Government permits, it is recommended that different base levels of subvention for central administration (about 5% on average) be formulated for existing services according to the subvention of NGOs in general in 2020-21 (based on direct services), with a view to providing additional resources to NGOs that have fallen below the relevant levels for the year to supplement their future expenses related to central administration.   In consideration of the special circumstances of NGOs with an annual subvention below $10 million, the base levels of subvention for central administration should be set at a higher level (about 10%) for their existing services, or a suitable minimum subvention for central administration should be provided for these small NGOs.
- Where the financial position of the Government permits, it is recommended that 5% of the basic recurrent subvention (based on direct services) be provided in future as subvention for central administration for each new service unit.
- It is recommended that a schedule be appended in the Annual Financial Report to list the resources transferred from LSG and the actual expenditures for central administration as well as the subvented staff for central administration (e.g. staff responsible for human resource management, financial management and information technology).

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Human resource management

4.18   Staff are NGOs' important resources, and personnel stability is of utmost importance to social welfare services.   Under LSGSS, the responsibilities of actual management of human resource, including setting an appropriate staff structure, pay policies and remuneration levels, rest with individual NGOs. According to the data collected by the consultancy firm,

service users were concerned that the staff turnover would affect the service quality and the staff indicated that the main reasons for leaving the NGOs were related to their remunerations, working hours and professional development. In the light of some posts being left vacant for a long time due to recruitment difficulty as reported by NGOs, SWD since 2014 made special arrangements to provide additional funding of two to three pay points on top of the mid-point salary provision of the relevant posts [14]. NGOs should make use of the additional funding to ease recruitment difficulties of these posts.

4.19   Regarding pay determination, the consultancy firm found that the entry salaries of individual ranks in NGOs were lower than those of civil servants of comparable ranks.   There were also cases where the maximum pay points/maximum salaries of staff were higher than the mid-point salaries of civil servants of comparable ranks.   According to the staff data collected by the consultancy firm, some staff reflected that their salaries lacked competitiveness and there was room to adjust their minimum and maximum pay points, and their maximum salaries were capped at the mid-point salaries of civil servants of comparable ranks.   Meanwhile, the relevant working experience or years of service of 64% of the staff were recognised or partially recognised.

4.20   Regarding vacancies and turnover rate of different grades[15], the Task Force observes that the turnover and vacancy rates of paramedical staff and general grade staff were generally higher.   This might have a negative impact on services as service users might find it difficult to adapt to the changes.   Some social workers indicated in the staff survey that as frontline staff of general grades had serious vacancy and turnover problems, they had to take up the duties of the vacant posts, thus increasing their workload.   Moreover, service users were concerned that the staff turnover would affect the service quality and considered that NGOs should improve their pay structures and provide frontline staff with a career advancement ladder, such as increasing the posts of unit in charge/senior staff in service units to retain staff.

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[14] The categories of these posts include clinical psychologist, speech therapist, occupational therapist, physiotherapist, nursing officer, registered nurse, enrolled nurse, special child care worker, personal care worker, home helper and ward attendant.

[15].

Grade	Vacancy rate[(1)]	Turnover rate[(2)]
General grades	13%	17%
Social Worker grade	5%	12%
Management	2%	5%

(1)   The vacancy rate is the difference between the staffing establishment and strength of NGOs.

(2)   This refers to the number of leavers from NGOs in 2017-18 (excluding those having completed the contract or retired) out of their total staffing establishment over the same period.

4.21 The Task Force generally agrees that NGOs could, according to their respective human resource policies, create professional ranks, which were different from notional staffing establishment set by SWD. Moreover, NGOs should establish a clear system to provide their staff with professional career paths. The pay levels should be commensurate with the experience and responsibilities required for the posts concerned. Regarding staff of other grades, especially for those posts with recruitment difficulties, NGOs should review the remunerations in a timely manner so as to attract, retain and motivate staff.

4.22 Regarding remunerations, the Task Force reviews the provision of PF by NGOs to their staff and considered that there was still room for NGOs to enhance retirement protection for their staff. For instance, staff with longer length of service may be provided with PF contribution above the minimum statutory requirements so as to retain experienced staff. We will discuss in detail matters relating to the use of PF reserve by NGOs and make recommendations on optimising the use of PF reserve in Chapter 5.

4.23 In addition, staff wastage is one of the greatest challenges facing NGOs. The results of the survey conducted by the consultancy firm showed that it was often difficult for NGOs to retain staff when they were employed under shorter-term contracts. The contract term ranged from one to three years, with the contract term of one year being the most common type used by the sector. Some NGOs also employed staff with contract terms of two years or more during the initial period of employment before changing to non-time-defined employment contracts having regard to the circumstances.

4.24 After examining the relevant data and analysis of the consultancy firm as well as the views of stakeholders, the Task Force recommends that NGOs should improve human resource management continuously, including the establishment of a manpower structure conducive to staff career development, optimal use of the Holding Account and/or PF reserves, and formulation of appropriate staff-friendly and staff wastage reduction initiatives. The relevant human resource management initiatives should also be long-term in nature rather than short-term and NGOs should review these initiatives regularly.

Recommendation 10
NGOs should improve human resource management continuously, including the establishment of a manpower structure for staff career development, optimal use of the Holding Account and/or PF reserves, and formulation of appropriate staff-friendly and staff wastage reduction initiatives

- NGOs should establish a mechanism for assessing staff's experience in professional services when devising the staff pay structure, and the pay levels should be commensurate with the experience and responsibilities required for the posts concerned.
- NGOs should maintain or enhance human resource measures (including the development of a strong team of staff) to retain experienced staff by optimising the use of the Holding Account and/or PF reserves, e.g. providing staff with longer length of service with PF contribution above the minimum statutory requirement (i.e. maximum monthly contribution of $1,500 or 5% of the staff's monthly income, whichever is the lower). [This recommendation is relevant to those under the domain of "Financial planning matters" in Chapter 5.]
- It is recommended that NGOs should establish a manpower structure for staff career development, e.g. specifying a reasonable time and conditions under which non-time-defined employment contracts will be provided to outstanding staff who have served in the NGOs for a certain period of time, in order to enhance their sense of belonging to the organisations and ensure the provision of stable service to users.
- NGOs should continuously improve human resource management, e.g. arranging meetings with resigned staff, making regular reports on information on staff turnover rate, etc. to their governing boards, in order to facilitate formulation of appropriate staff-friendly and staff wastage reduction initiatives.

Chapter 5

Financial Planning Matters

5.1   Effective resource management and ensuring financial stability are the basic responsibilities of NGOs.   NGOs should make better use of LSG reserve and the accumulated balance of the Holding Account which is for honouring contractual commitments to Snapshot Staff[16] to develop effective and long-term financial plans and arrangement, so as to strike an appropriate balance between maintaining financial stability and supporting the continuous development of staff and services.   In this regard, SWD has been monitoring the financial needs of NGOs closely.   Apart from the provision of additional resources for new service needs and annual price adjustments, SWD reviews NGOs' financial situation from time to time, and increases resources to enhance the administrative and professional support to NGOs. When LSGSS was introduced, the shortcomings of the old subvention mode were addressed by allowing NGOs to manage their own resources and keep reserves.   The Government recognises that the reserves help NGOs meet emergency needs and develop financial plans for future development.   On the other hand, the Director of Audit recommended in his Report No. 69 published in 2017 that SWD should have measures to facilitate NGOs to share, adopt and implement the good practices relating to the use of reserves (i.e. LSG reserve, Holding Account balances and PF reserve) in order to improve the quality of welfare services.

5.2   In this chapter, we will examine the use of LSG reserve and PF reserve by NGOs, and how to early identify financial risks and conduct financial planning (review area (c)).

LSG Reserve

5.3   SWD all along has mechanisms in place to monitor NGOs' financial position so as to ensure NGOs' financial stability and ability to provide subvented services, including reviewing the AFR submitted by NGOs together with review reports issued by external auditors, and the audited financial statements of the NGO as a whole, as well as conducting subvention inspections to subvented service units.

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[16] "Snapshot Staff" refers to staff members who were on the recognised establishment of NGOs' subvented service units as at 1 April 2000.   After the implementation of LSGSS, the terms and conditions of employment of Snapshot Staff are guaranteed provided that they remain employed by the same NGO and have not been regarded or promoted to another rank.   To facilitate NGOs to honour contractual commitments to their Snapshot Staff while achieving financial viability, SWD withheld the claw-back of LSG reserve above the 25% cap from 2004-2005 to 2006-2007.   The cumulative LSG reserve as at 31 March 2007 was kept in the Holding Account to cover the expenditure of honouring the contractual commitments to Snapshot Staff.

5.4   Under LSGSS, NGOs can retain a reserve (excluding PF reserve) not exceeding 25% of the NGOs' operating expenditure to meet operational needs under special circumstances.   Any amount above this cap needs to be refunded to the Government.   Other than LSG reserve, most NGOs have reserve in the Holding Account to honour the contractual commitment to Snapshot Staff. Following re-engineering of services and with assistance from the Government over the years, the majority of NGOs have managed to achieve financial balance. It is worth noting that some NGOs' cumulative reserves show a continuous rise, while others even have to return to the Government the reserve exceeding the 25% cap of the annual operating expenditure[17].   Moreover, it is not uncommon for NGOs that record a substantial reduction in the number of Snapshot Staff but no corresponding decrease in the accumulated balance of Holding Account.

5.5   According to SWD, although the overall number of NGOs' Snapshot Staff has reduced from 6 959 in September 2015 to 4 738 in September 2019 (a decrease of 32%), there is no corresponding decrease in the accumulated balance of Holding Account.

5.6   According to the guidelines of "Maximised Use of Reserve" (Level One) in BPM, NGOs are required to, based on their actual circumstances and development strategies, decide on their own how LSG reserve be allocated and utilised in different areas, such as fulfilling the contractual commitment to staff, maintaining or strengthening service delivery and implementing strategic development plans, including building up a staff team with high quality through enhancement of the employment terms of the existing staff, supporting the professional development of staff, etc.   The Task Force agrees to the above principles and recommends NGOs to improve the management of Holding Account and formulate utilisation plans and financial projections (including to honour the contractual commitments towards Snapshot Staff and enhance human resource arrangement, etc.) in order to optimise the use of the reserves.

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[17] In 2017-18, 2018-19 and 2019-20, among the 164 subvented NGOs, 28, 34 and 33 NGOs had to return to the Government the amount of reserve above the 25% cap of annual operating expenditure respectively.

> **Recommendation 11**
>
> **Improve the management of Holding Account, and formulate utilisation plans and financial projections (including to honour the contractual commitments towards the Snapshot Staff and enhance human resource arrangements, etc.) to optimise the use of the reserve**
>
> - It is recommended that NGOs which still have Holding Account reserve but without Snapshot Staff should merge the Holding Account reserve and LSG reserve, and formulate utilisation plans and financial projections to optimise the use of the reserves.
> - It is recommended that NGOs which still have both Holding Account reserve and Snapshot Staff formulate annual utilisation plans and financial projections on using the Holding Account to honour the contractual commitments towards the Snapshot Staff and enhance human resource arrangements according to the guidelines of "Maximised Use of Reserve (Level One)" in the BPM.
> - The utilisation plans and financial projections on the Holding Account reserve should :
>   - be discussed, assessed and agreed by the governing boards/ management committees; and the discussion has to be put on record; and
>   - the staff, including frontline ones, should be consulted according to established mechanisms.
> - NGOs should reflect the overall utilisation situation with itemised breakdown and plans of the Holding Account reserve in the Annual Financial Reports.

PF Reserve

5.7 Under LSGSS, SWD provides PF provision to NGOs for PF contributions for Snapshot Staff and non-Snapshot Staff; and the former is calculated on the basis of actual PF contributions. On the other hand, the Government at that time set the benchmark of PF provision for non-Snapshot Staff by making reference to the average PF contribution rate of the employers in the welfare sector, which was 6.8% of employees' monthly salary. The PF provision for new service has also been increased from 5% to 6.8% of the mid-point salaries since January 2001. It is considered that PF provision calculated at a rate of 6.8% of the mid-point salaries is cost-effective and fair. NGOs are allowed to put the surplus of PF provision for non-Snapshot Staff into a separate reserve account for future use, not limited to the 25%[18] cap.

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18 To allow NGOs' flexible use of PF reserve, the Government allows transferring PF reserve of Snapshot Staff to non-Snapshot Staff account as announced in the "2014 Policy Address" in order to enhance the retirement benefit of non-Snapshot Staff. With sector's consensus, the Government conducted a one-off transfer of 64.9% Snapshot Staff's PF reserve to non-Snapshot Staff reserve in order to enhance NGO's PF contribution to non-Snapshot Staff, while returning the remaining 35.1% to the Government or offsetting against the future PF provision. Such arrangement has been completed in 2015-16.

5.8   According to data collected by the consultancy firm, NGOs not only could meet the PF expenditure of non-Snapshot Staff, but also had PF reserve. Among the 118 NGOs who replied in respect of PF contribution rates, 34 of them capped the upper limit of PF contribution rate at 6.8% (29%), 41 of them set a standard PF contribution rate at 5% for all staff (35%) and 43 of them increased PF contributions according to employees' length of service and the contribution rates exceed 6.8% (36%).   According to data of SWD, the utilisation rate of the total PF provision is maintained at 84% to 88% [19] during the past five-year period (2015-16 to 2019-20), reflecting that there is still room for NGOs to deploy PF provision for non-Snapshot Staff on enhancing the retirement benefit of the existing staff, e.g. providing PF higher than the lowest requirement of legislation for staff having longer years of service in order to retain experienced staff.

5.9   Under LSGSS, the responsibilities of setting PF contribution rate, which is part of the human resource policy of individual NGO, rest with individual NGOs.   The Task Force noticed that many NGOs provided one-off PF injection to staff, but not direct increase of PF contribution rate in order to avoid long term financial burden; some NGOs provided a unified but relatively low PF contribution rate to all staff (including LSG-subvented staff and non-subvented staff) for maintaining the same/ similar PF contributory system between LSG-subvented staff and non-subvented staff.   In the management of PF reserve, BPM has set out the way to maximise the use of PF reserve and disclose the status of reserve, in order to encourage NGOs to enhance accountability to staff, enhance staff morale and their sense of belonging to the NGOs.   SWD considered that NGOs should exercise prudence in deploying PF reserve to enhance the retirement benefit of the existing staff.   In LSG Circular No. 7/2003 and a letter to NGOs in May 2009, SWD appealed to NGO management to take early measures to optimally use the PF reserve on non-Snapshot Staff in order to protect their retirement benefits.   The LSG Manual also requires that NGOs should separately account for PF contributions of Snapshot Staff and non-Snapshot Staff in their accounting records in order to facilitate staff to have better understanding of the utilisation of PF.

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[19] According to SWD, the PF provision, expenditure and reserve for non-Snapshot Staff in NGOs as reported in their Annual Financial Reports from 2015-16 to 2019-20 are as follows :

Financial Year	PF provision	PF expenditure	Utilisation Rate	PF reserve
2015-16	$0.541 billion	$0.453 billion	84%	$1.12 billion
2016-17	$0.585 billion	$0.507 billion	86%	$1.21 billion
2017-18	$0.621 billion	$0.549 billion	88%	$1.29 billion
2018-19	$0.714 billion	$0.623 billion	87%	$1.40 billion
2019-20	$0.845 billion	$0.708 billion	84%	$1.55 billion

5.10   The Task Force understands that NGOs determine PF contribution levels according to their own human resource management policies. As mentioned in paragraph 5.8 above, NGOs broadly can cover PF expenditure for subvented non-Snapshot Staff, and with PF reserve.   The Task Force considers that NGOs should actively and optimally use the PF provision and reserve on PF contributions for non-Snapshot Staff, including one-off injection of PF contribution, increase of PF contribution rate by length of service, rewarding staff with good performance, etc. in order to enhance staff morale and their sense of belonging to NGOs.

Recommendation 12
Optimise the use of PF reserve to enhance staff morale and their sense of belonging to NGOs

● It is recommended that NGOs continue to optimise the use of the reserve to enhance staff morale and their sense of belonging to the NGOs according to the guidelines of "Use of PF Reserve for Non-Snapshot Staff (Level One)" in the BPM.

Financial projections and planning

5.11   SWD has established mechanisms to ensure that the use of subvention complies with the requirements of SWD, including reviewing NGOs' submission of the AFRs, the audited financial statements of the NGO as a whole, as well as subvention inspection. SWD also ensures the service performance of NGOs meet the required service outcome levels and Service Quality Standards through the Service Performance Monitoring System.

5.12   There are views that some NGOs have accumulated large amount of reserve while lacking concrete usage and some have financial deficit. In general, LSG reserves arise due to staff turnover, streamlining and re-engineering of services, structural changes and successful bidding of new services.   On the other hand, some small NGOs have operating deficit because they may need to hire and retain staff with a higher salary due to their limited competitive power in the market.   Since 2009, SWD set up SWDF designated for staff training, business system upgrading and studies. In business system upgrading, SWD encourages NGOs to apply for funding actuarial studies to enhance NGOs' salary structure and financial projection; there are 11 NGOs having conducted actuarial studies through SWDF.   Generally, these NGOs agree that actuarial studies enable them to conduct effective and long-term financial planning for a better use of public fund.

5.13   The Task Force considers that NGOs should conduct annual financial projection to ensure financial stability, and more effectively manage LSG resources with a view to focusing on some NGOs with high reserve level. The Task Force recommends subsidising NGOs to conduct actuarial studies for financial projection for utilisation of public fund and consideration of a more progressive human resource policies.

Recommendation 13
Conduct annual financial projections, including examination of the accuracy and limitations of the projection for the last financial year

● It is recommended that NGOs appoint professionals or assign designated staff/ divisions to conduct annual financial projections for the coming three years.   Apart from examining reserve status and assessing financial position, NGOs may also examine the accuracy and limitations of the projection for the last financial year and make revisions for the coming year accordingly, and report the details to their governing boards. NGOs are also encouraged to provide channels for staff to note the results of financial projections.

Recommendation 14
Regularise the scheme to subsidise NGOs to use actuarial service for financial projections to assist NGOs in striking a balance between maintaining financial stability and protecting staff's interest; and accord priority to NGOs that record a substantial reduction in the number of Snapshot Staff but no corresponding decrease in the cumulative balance of Holding Account; NGOs that have huge accumulated reserve; and NGOs that have to return to the Government the amount of reserve exceeding the cap

● It is recommended to regularise the scheme to subsidise NGOs to use actuarial service for financial projections to assist NGOs in striking a balance between maintaining financial stability and protecting staff's interest; and accord priority to NGOs that record a substantial reduction in the number of Snapshot Staff but no corresponding decrease in the cumulative balance of Holding Account; NGOs that have huge accumulated reserve; and NGOs that have to return to the Government the amount of reserve exceeding the 25% cap of the annual operating expenditure.

Chapter 6

Relevance of Utilising Lump Sum Grant Subvention

6.1   FSAs are binding documents between SWD as a funder and the service operators.   Both parties are required to observe the terms of respective agreements for different services as laid down in the FSAs.   FSAs define the obligations of SWD to service operators, the role of SWD in monitoring the service performance of the service operators, the kind of services to be provided, the service performance standards and the basis of subvention.   In administering subvention, SWD is responsible for ensuring that NGOs should use public money for purposes prescribed by FSAs and NGOs should give a proper account of the expenditures to the Government and the public.   These principles should not be compromised even though NGOs are given flexibility in resources management under LSGSS.

6.2   In this chapter, we will look into the parameters for assessing FSA-related activities, their financial implications and principles of cost apportionment between these services/activities and other non-FSA services (i.e. review area (e)).

<u>Criteria for assessing FSA-related activities and the maximum proportion of LSG used for FSA-related activities</u>

6.3   FSA-related activities can be regarded as services that are not specified in the FSAs but meet such requirements as service targets, objectives and nature in support of the delivery of FSA services.   The criteria for defining FSA-related activities and the auditing procedures drawn up by NGOs should be commensurate with the regulatory requirements of SWD and NGOs must ensure that there is no cross-subsidisation of self-financing activities by the subvented programmes in money or in kind.   In this regard, the Government's relevant guidelines on the management of government funding for subvented organisations stipulates that NGOs should ensure that there is no cross-subsidisation of self-financing activities by the subvented programmes in money or in kind.   The LSG Manual also stipulates that both LSG and LSG reserve are intended for operating expenditure for FSA or FSA-related activities.   For the avoidance of doubt, NGOs should consult SWD in a timely manner as to what constitutes "FSA-related" activities before conducting such activities.

6.4   With the increasing diversity of services provided by NGOs, different stakeholders (including the NGO management, staff and service users) consider that FSA-related activities are important to the development of welfare services. However, there are public concerns over the use of LSG subvention for

supporting non-FSA related activities, thus reducing the manpower resources deployed for the original FSA services. To avoid cross-subsidisation and unnecessary misunderstanding, the sector has generally been mindful of the need to set criteria for assessing FSA-related activities and a ceiling/proportion of the resources deployed for FSA-related activities, as well as distinguishing between FSA-related activities and non-FSA activities.

6.5   The results of the survey showed that the majority (more than 70%) of NGOs agreed that the criteria for delineating FSA-related activities should include the following: the activities should have the same purpose and objectives as the FSA, the same service nature as that covered by the FSA, service contents are in line with the FSA, and service targets are in line with those covered by the FSA; existing FSA services and other subvented services should not be affected; the interests of existing FSA service users should not be affected; staff interests should not be affected; and the NGOs should not be brought into financial difficulties.   Besides, the staff agreed that FSA-related activities could meet the needs of the community and fill the service gaps.   However, if NGOs organised too many FSA-related activities, this would affect the staff and service users. After examining the relevant data and analysis as well as views of the stakeholders, the Task Force recommends that a broader interpretation regarding the objectives, nature, targets and basic requirements of services should be adopted when delineating FSA-related activities, so that NGOs could display their creativity and use the flexibility allowed under LSGSS to develop services and meet the needs of the community in a more effective manner.

6.6   Since organising FSA-related activities involves the use of LSG, the Government must give due consideration from the accounting and auditing perspectives, and set a ceiling for LSG to be used for organising FSA-related activities, so as to comply with the principle of proper use of public money.

6.7   The sector generally considers that the maximum proportion of LSG to be used for FSA-related activities should be set at 10% of an ASU's LSG, so as to strike a balance between the necessary provision of main activities by service operators as specified in FSAs and maintaining appropriate flexibility in providing FSA-related activities.   The Task Force considers that the ASU concerned may be allowed to implement FSA-related activities without other restrictions, subject to the premise of meeting the four criteria (i.e. to ensure that the activities have the same purpose and objectives as the FSA, the same service nature as that covered by the FSA, service contents are in line with the FSA and service targets are in line with those covered by the FSA).

6.8   Furthermore, the Task Force members recommend that if the proportion of LSG used for providing FSA-related services by the ASU exceeds 10% but remains under 20%, the FSA-related activities, in addition to meeting the above four criteria, must first be put forward to the governing board/management committee for discussion and assessment of their implications on the NGOs'

services, staff and service users, and supported by the board/committee. Besides, the NGO must consult frontline staff and service users according to their established mechanisms.   The NGO must obtain the consent of SWD before the FSA-related activities are held if such activities do not comply with the terms stipulated in the FSA, for instance, falling outside/altering the age of service targets or the service districts as specified in the FSA.

Recommendation 15
Draw up criteria for delineating FSA-related activities and the maximum proportion of LSG used for FSA-related activities

- For FSA-related activities with expenditure accounting for 10% or less of an ASU's LSG, the NGO must ensure that the activities meet criteria (i) to (iv) below:
  (i)   they have the same purpose and objectives as the FSA;
  (ii)   they have the same service nature as that covered by the FSA;
  (iii)   the service contents are in line with the FSA; and
  (iv)   the service targets are in line with those covered by the FSA.

- For planned FSA-related activities with expenditure accounting for 10% to 20% of an ASU's LSG, the NGO, in addition to ensuring that the activities meet criteria (i) to (iv) above, must adopt the more prudent principles as follows:
  (v)   the activities must first be put forward to the governing board/management committee for discussion and assessment of their implications on the NGO's services, staff and service users, and supported by the board/committee;
  (vi)   frontline staff and service users must be consulted according to established mechanisms; and
  (vii) consent of SWD must be obtained before the activities are held.

- Regardless of the proportion of the expenditure for planned FSA-related activities against LSG of an ASU, the NGO must obtain the consent of relevant service branches of SWD before the FSA-related activities are held if such activities do not comply with the terms stipulated in the FSA:
  -     if the planned FSA-related activities fall outside the scope of service targets specified in the FSA, e.g. altering the upper and lower age limits of service targets; and
  -     if the planned FSA-related activities fall outside/alter the scope of service districts specified in the FSA.

Formulation of operational guidelines for FSA-related activities

6.9   The Task Force agrees that, according to the recommendations of the Audit and the LegCo Public Accounts Committee, guidelines to the requirements of FSA-related activities (such as financial and outcome monitoring) should be provided for the compliance of NGOs to avoid cross-subsidisation.   The operational guidelines should set out the criteria for delineating FSA-related activities and relevant examples for the compliance of NGOs, so as to avoid potential uncertainties or unnecessary disputes arising from the implementation of FSA-related activities.   The operational guidelines should also be updated in a timely manner.

6.10   Regarding incomes generated from FSA-related activities, the results of the survey showed that the majority of the sector considered that they should credit to LSG accounts for any additional incomes generated from FSA-related activities (including those payments from charitable organisations/funding bodies or participants).   Furthermore, a separate account should be used for handling incomes and expenditures arising from the provision of non-FSA services.

6.11   Moreover, the Task Force recommends that NGOs should submit information on the proposed FSA-related activities to be incorporated into FSA services to SWD (such as the service contents, output and outcome standards of these activities, etc.), so that SWD can consider incorporating such activities into FSA services when conducting service reviews.

> **Recommendation 16**
>
> **Formulate operational guidelines for FSA-related activities**
>
> - It is recommended that operational guidelines be formulated to set out the criteria for delineating FSA-related activities and relevant examples for the compliance of NGOs, so as to avoid potential uncertainties or unnecessary disputes arising from the implementation of FSA-related activities. The operational guidelines should be regularly updated for timely enhancements.
> - The operational guidelines will specify that NGOs should account for any incomes and expenditures generated from the FSA-related activities in LSG accounts. NGOs should also use a separate account should be used for handling incomes and expenditures arising from the provision of non-FSA services. If LSG resources are used to provide non-FSA services, NGOs should make cost apportionment for corresponding cost items with additional incomes/funding (e.g. funding for manpower, activity or venue expenses).
> - It is recommended that SWD and the sector, when conducting service reviews, also review the information and effectiveness of FSA-related activities as well, and assess whether such activities should be incorporated into and regularised as FSA services.
>
> [This recommendation is relevant to those under the domain of "Quality of welfare services" in Chapter 3.]

Guidelines on cost apportionment

6.12   The Government's relevant guidelines stipulate that NGOs should ensure that there is no cross-subsidisation of self-financing activities by the subvented programmes in money or in kind. The LSG Manual also stipulates that both LSG and LSG reserve are recurrent subventions intended for operating expenditures of FSA or FSA-related activities. SWD is responsible for ensuring the proper use of Government resources on the specified purposes of the subvention instead of subsidising unrelated activities. The principle of no cross-subsidisation is similarly applicable to areas of subsidy other than social welfare, such as tertiary institutions funded by the University Grants Committee.

6.13   The Director of Audit recommended in his Report No. 69 published in 2017 that SWD should have measures to help NGOs adopt an appropriate basis for apportioning overheads between FSA activities and non-FSA activities, including the apportionment of the overheads of the head office between FSA activities and non-FSA activities. NGOs also expressed their hope that SWD would establish clear guidelines on cost apportionment.

6.14 Moreover, it has been mentioned in the Guide to Corporate Governance for Subvented Organisations published by the EffO in June 2015, that the best practices of human resource management for subvented NGOs should be set out in documented written personnel policies and procedures covering recruitment and termination, remuneration, performance appraisal and standard work rules. They should be regularly reviewed and updated, while sufficient communication with staff should be ensured. Moreover, SWD recommended that NGOs should formulate transparent human resource policies in order to enhance the handling of issues in relation to overall staff remuneration, while keeping their staff informed about the pay system as well as the source and mode of subvention pertaining to their salaries with a view to enhancing transparency and human resource management.

6.15 The Task Force agrees that SWD should take forward the recommendation of the Audit Commission while making reference to the Government's relevant guidelines to draw up a set of cost apportionment guidelines, which covers the principle, method and examples of cost apportionment of Central Administration and Service, as well as the scenarios and examples that do not require cost apportionment for reference by NGOs.

Recommendation 17
Formulate guidelines on cost apportionment to set out the cost apportionment arrangements, benchmarks and examples for the use of LSG subvention

- SWD will formulate a set of cost apportionment guidelines on the use of LSG subvention, which covers the arrangements and benchmarks for cost apportionment between FSA-activities and non-FSA activities, and cite suitable examples provided by NGOs in the questionnaires for their reference.
- NGOs should be reminded that the Operating Income and Expenditure Account for each subvented service unit must be separated into FSA activities and non-FSA activities as required under the LSG Manual.
- Central administration expenses for LSG-subvented services and non-LSG-subvented services should be fairly apportioned. NGOs may make reference to the related recommendations in respect of relevancy in utilisation of subvention for the cost apportionment arrangements and benchmarks.
- It is recommended that NGOs formulate transparent human resource policies, such as allowing LSG-subvented staff and non-LSG- subvented staff to understand the source and mode of subvention pertaining to their salaries.

Evaluating the cost-effectiveness of FSA-related activities

6.16   Currently, NGOs are not required to incorporate FSA-related activities into the quarterly reports of the statistical information system (SIS).   However, many NGOs have adopted various methods to evaluate the cost-effectiveness of FSA-related activities, such as formulating their own evaluation survey on the effectiveness of the activities, setting the output level e.g. number of activities, number of participants and outcome requirements, listing out the expenditure of all subvented items, calculating the number of targeted beneficiaries and concluding whether such number is reasonable, etc.

6.17   Due to the varying nature of FSA-related activities, the Task Force considers it inappropriate to incorporate FSA-related activities into the quarterly reports of the SIS, and recommended that NGOs should submit to SWD an annual statement on the FSA-related activities held, so as to report the proportion of the expenditure for such activities against LSG of an ASU.   When launching FSA-related activities, the expenditure of activities should be evaluated from a cost-effectiveness perspective, and the same principle should be applied when evaluating whether social needs have been effectively met.   Some stakeholders noted that NGOs should record the details of FSA-related activities for SWD's future consideration on whether to incorporate the FSA-related activities into FSA services.

Recommendation 18
NGOs should submit to SWD annual statement on FSA-related activities held, so as to report the proportion of the expenditure for such activities against LSG for an ASU

- Due to their varying nature, it is not suitable to incorporate FSA-related activities into the quarterly reports of the SIS.
- NGOs should submit to SWD an annual statement on the FSA-related activities held, so as to report the proportion of the expenditure for such activities against LSG for an ASU.   SWD will prepare a template for the annual statement which covers the following :
  - whether the FSA-related activities meet the criteria in Recommendation 15;
  - the proportion of the expenditure for FSA-related activities against LSG for an ASU;
  - whether NGOs suggest incorporating the FSA-related activities into FSA services; and
  - NGOs should provide the service details, output and outcome of the FSA-related activities to be incorporated into FSA services for SWD's consideration.

[This recommendation is relevant to those under the domain of "Quality of welfare services" in Chapter 3.]

Participation of staff and service users

6.18   The number and proportion of FSA-related activities held by service units of NGOs could potentially affect the quality of original services under the FSA and increase the workload of staff.   In fact, complaints have been received from time to time pertaining to the abuse of subventions by NGOs on non-FSA services or non-designated target service users, with the majority of these complaints being filed by staff and/or service users or their family members.

6.19   Results of the survey indicated that the majority of NGOs (over 80%) agreed that they should consult/advise staff regarding their concerns and worries and the actual impact on their original work; while the majority of NGOs (over 70%) also agreed that they should consult/advise service users on whether the design of related activities could meet the needs of service users and the potential impact on service users. To enhance the transparency of NGOs, the Task Force recommended that NGOs should first evaluate the impact on staff and service users, as well as consulting staff and service users and garnering their support before launching FSA-related activities.

Recommendation 19
NGOs should consider the criteria for consulting/advising staff and service users on implementing FSA-related activities to enhance transparency

● NGOs should consider the following in deciding if it is necessary to consult/advise staff of the FSA-related activities:
  - addressing possible concerns and worries of staff;
  - actual impact on the original work of staff; and
  - enhancing the transparency of FSA-related activities, etc.
● NGOs should consider the following in deciding if it is necessary to consult/advise service users of the FSA-related activities:
  - confirming that the design of the activities meets the needs of service users;
  - possible impact on service users; and
  - enhancing the transparency of FSA-related activities, etc.
● Regardless of NGOs' decision to consult/advise staff and service users, it should document the relevant decisions and considerations.
[This recommendation is relevant to those under the domain of "Accountability and corporate governance of NGOs" in Chapter 7.]

Chapter 7

Accountability and Corporate Governance of NGOs

7.1   Good corporate governance enhances corporate performance and ensures proper accountability for different levels of management and staff in the interests of all stakeholders.   NGOs should maintain effective communication with staff and service users by advising staff of the funding sources of each welfare service, remuneration policies and career development ladders; as well as advising staff and service users of NGOs' plans to ensure the provision of quality and sustainable services.   SWD has reminded NGOs of the importance and relevant issues of accountability and good corporate governance in LSG Manual, as well as the need to establish effective communication channels with staff and service users.

7.2   It is stated in the Guide to Corporate Governance for Subvented Organisations, published in June 2015 by the EffO that subvented organisations have an ethical obligation to be accountable and transparent.   They should share relevant information with their stakeholders and use it to continually improve the quality of their processes, programmes and work.   An adequate degree of transparency and disclosure of both the financial and non-financial measures that an NGO is taking are two cornerstones of any good corporate governance framework.   This helps support the quality and reliability of the information that an organisation reports, which is important for maintaining its achievements and status.

7.3   Transparency and disclosure may enable an NGO to achieve such objectives as improving the ability of its management to make more-informed decisions; giving greater confidence regarding its operations to its stakeholders; showing stakeholders whether, and to what extent, it is meeting its legal responsibilities; increasing public understanding of its activities, performance and overall financial conditions; and deterring fraud and corruption.   In this Chapter, we will look into the most suitable arrangements regarding disclosure requirements relating to NGOs' staff and pay structures, financial situation, etc. (review area (g)) and communication between NGOs and stakeholders (i.e. review area (h)).

NGOs' Annual Financial Reports (AFRs)

7.4   Under the requirements of the LSG Manual, NGOs are required to disclose their AFRs [20] to the public through at least one of the following channels, including posting up the AFRs on the notice boards at the Central Administration Unit/ Head Office, uploading the AFRs to their website, or disclosing the AFRs through special circulars, newsletters or other means. Since 2017, SWD has required NGOs to submit their AFRs or links to their AFRs, so as to upload the information onto SWD's website for public scrutiny.

7.5   The Task Force agrees that it is necessary to continue to require NGOs to disclose information about their AFRs.   However, members generally consider that under the scope of LSG subvention, it is inappropriate to require NGOs to disclose their financial information falling outside the scope, including their annual audited financial statements.

Recommendation 20
NGOs should disclose their AFRs for public scrutiny

- It is recommended that NGOs should disclose their AFRs through the channels currently specified in the LSG Manual, and submit to SWD their reports or relevant links for uploading onto SWD's website for public scrutiny.

Structure/ membership list of governing boards and the list of senior management/executives

7.6   At present, according to the principles of the Level Two guidelines on "Delineation of roles and responsibilities of the governing board" in the Best Practice Manual (BPM), SWD encourages NGOs to have documents and the organisation chart to illustrate the structure and membership of the governing board, the relevant committees and senior management, their roles and responsibilities, and delineate the roles and responsibilities between governing board members and senior management.   Moreover, NGOs should provide appropriate channels for the staff and service users to access such information. As at 31 March 2020, 139 NGOs (representing 84.8% of 164 NGOs receiving subvention under LSG) had implemented the guidelines.

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[20] The basic financial reporting requirement for SWD's subvented NGOs is the submission of the AFR together with a review report thereon issued by the external auditors in respect of FSA activities (including their support services to FSA activities), and the audited financial statements of the NGO as a whole.

7.7   The Task Force notes that most NGOs have disseminated information about the structure/membership list of governing boards, and the list of senior management/executives, etc. to the public through different channels.   To meet the public's reasonable expectations of enhancing the transparency of governance structure and public accountability of NGOs, the Task Force recommends that NGOs should provide proper channels for disseminating the information about the membership list and structure of governing boards and senior management to the public, and update such information in a timely manner.

Recommendation 21
NGOs should enhance the transparency of their governing boards and senior management by disclosing to the public the membership list and structure of governing boards, as well as the list of senior management/ executives, and update such information in a timely manner.

- It is recommended that NGOs should provide proper channels (such as annual reports and websites) for the public (including their staff and service users) to access the membership list and structure of governing boards, as well as the list of senior management/executives, and update such information in a timely manner.

Remunerations of senior executives in the top three tiers of NGOs

7.8   In its Report No. 69 issued in 2017, the Audit Commission recommended that SWD should follow up on the advice of the Director of Administration on the control and monitoring of remuneration practices in subvented bodies for the implementation of the review of the remuneration of NGOs' top three tiers of senior executives and the disclosure requirement.

7.9   SWD currently requires all subvented NGOs, unless being exempted[21], to disclose the number, ranking and remuneration packages of their senior executives in the top three tiers under the requirements of the guidelines issued by the Administration Wing.   SWD also requires NGOs to provide the total salary expenses of their senior executives in the top three tiers, and set out the salary expenses funded and not funded by SWD separately.

7.10   According to the results of the survey, the proportion of support (54.4%) and opposition (45.6%) to the existing requirement (i.e. the proposal to cancel the current exemption of some NGOs) were roughly the same.   The majority of the staff considered that it was necessary to disclose to the public items involving the expenditure of public funds. Moreover, disclosure of such

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[21]   An NGO is to be exempted from disclosing the number, ranking and remuneration packages of its senior executives in the top three tiers if it (i) is receiving subventions of less than $10 million a year from SWD; or (ii) has received from SWD operating income which accounts for 50% or less of its total operating income under welfare purview.

information would help members of the public to understand the use of funds by NGOs for remunerations of their senior executives in the top three tiers.

7.11   Regarding the current practice of exemption of some NGOs, the majority of the Task Force members agree that NGOs currently being exempted should be encouraged to make public the remuneration information of their senior executives in the top three tiers as far as possible to enhance their public accountability and promote the public's understanding of their financial position. A few members propose to cancel the current practice of exemption of some NGOs.

7.12   Furthermore, regarding the calculation method for NGOs to be exempted from submitting "the Review Report on Remuneration Packages for Staff in the Top Three Tiers"[22], the Task Force members consider that contract payments made by SWD to NGOs for the purchase of services (such as Contract Home) should be included in the calculation of recurrent subventions (i.e. the numerator of the calculation formula). If contract payments are only included in the calculation of operating incomes (i.e. the denominator of the formula), this may reduce the number of NGOs that are required to submit the report. In this regard, amendments were proposed by SWD at the 45th meeting of LSGSC on 18 September 2019. The LSGSC considered that contract sums of Contract Home that an NGO had received from SWD should also be regarded as recurrent operating income and should therefore be included in the numerator of the formula. SWD has taken follow-up actions and made amendments to the Self-Assessment Report of NGOs since 2019-20, requiring them to include the relevant income from contract service in the calculation of "the operating income from SWD".

Recommendation 22
NGOs should disclose the remuneration of their senior executives in the top three tiers in order to enhance their public accountability and promote public understanding of their financial position

- It is recommended that NGOs should disclose the number, ranking and remuneration packages of their senior executives in the top three tiers as per the updated guidelines issued by the Administration Wing on 27 August 2018 (i.e. if the NGO (i) is receiving subvention of $10 million or more from SWD every year; and (ii) has received from SWD operating income which accounts for over 50% of its total operating income under welfare purview).
- NGOs currently exempted from completing and disclosing their Review Report on Remuneration Packages for Staff in the Top Three Tiers are encouraged to consider making public the remuneration information of such staff in order to enhance their public accountability and promote the public's understanding of NGOs' financial position.

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[22]   This refers to the criteria for calculating operating income relating to the scope of welfare services.

Use of LSG and PF reserves

7.13   At present, the Level One guidelines on "Status of Reserve" (LSG reserve) in the BPM specifies that NGOs are required to, through convenient, effective and timely channels, disseminate information about the utilisation of LSG reserve in the past year in a reader-friendly format to staff members and the public. Such information should include briefly a plan on how the reserve will be used in the future. As at 30 June 2017, all NGOs had implemented the guidelines. In addition, the Level One guidelines on "Status of Reserve" (PF reserve) in the BPM specifies that NGOs are required to use convenient, effective and timely channels to disseminate information about the utilisation of the PF reserve in the past year to staff members, including a brief plan on how the PF reserve will be used in the future. As at 30 June 2017, all NGOs had also implemented the guidelines.

7.14   Considering that NGOs have met the requirements of disclosing information about the use of LSG and/or PF reserves to their staff members and the public, the Task Force recommends that NGOs should disclose information about the use of PF reserve to the public, so as to enhance their transparency and public accountability.

Recommendation 23
NGOs should disseminate information about the use of LSG reserve and PF reserve to the public to enhance transparency

- It is recommended that NGOs should disclose information about the use of LSG reserve and PF reserve to the public (including service users) and staff by making available the information by various channels (such as posting information on a unit's notice boards), with a view to enhancing transparency.

Pay structure

7.15   Pursuant to the decision of the LSGSC made at its meeting on 12 July 2018, three new items have been added to the BPM with effect from 1 October 2018, one of which is the disclosure of remuneration policy (Level Two guidelines)[23].   The guidelines recommend that NGOs should have in place a remuneration policy, including their salary structure and/or minimum salary points, for reference of the staff of respective grades/ ranks/ posts.   As at 31 March 2020, 91 NGOs (representing 55.5% of 164 NGOs receiving subventions under LSG) had implemented the guidelines.   According to the results of the survey, more than half of the NGOs (55.1%) had disclosed their

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[23]   Regarding the guidelines on the disclosure of remuneration policy, NGOs should have documents spelling out their remuneration policy, including their salary structure and/or minimum salary points, for reference of the staff of respective grades/ranks/posts.   Moreover, NGOs should establish channels of communication with their staff to explain their remuneration policy and collect feedback.

pay structures mainly through meetings (68.0%), special circulars/annual reports (30.7%) and other means (33.3.%).

7.16 The Task Force agrees with the above principle of the BPM. However, it understands that a number of NGOs have reservations about disclosing their remuneration policy to the public. In this connection, having regard to the lead time required for NGOs to prepare the information to be disclosed and the need for discussion about and adjustment to their pay structures, the Task Force recommends that a transition period of five years should be given to NGOs for their preparation in order to fully implement the recommendation of disclosing the pay structures and/or starting salary points of their regular posts (i.e. non-temporary or non-short-term posts) under LSG.

Recommendation 24
NGOs should enhance the transparency of their staff remuneration policies, including disclosing the pay structure and/or starting salary points of their regular posts under LSG, and offer a transition period of five years for NGOs' preparation

- It is recommended that all NGOs should disclose their pay structures and/or starting salary points of their regular posts, i.e. non-temporary or non-short-term posts, under LSG so as to enhance the transparency of their remuneration policies. NGOs' staff, the LegCo, the Audit Commission, the media and the general public have all expressed their request, concern and aspiration for the disclosure of such information. However, having regard to the lead time required for NGOs to prepare the information to be disclosed or the need for discussion about and adjustment to their pay structures, it is recommended that a transition period of five years be given to NGOs for their preparation in order to fully implement the recommendation of disclosing the pay structures and/or starting salary points of their regular posts under LSG. Meanwhile, NGOs are encouraged to disclose such information during the transition period as far as practicable.

Staffing establishment

7.17 Regarding staffing establishment, SWD currently requires that all subvented service units should comply with the requirement of Service Quality Standard that job description and duty statements which define roles, responsibilities and accountabilities in respect of all positions should be made available to all employees, service users and other interested parties. The subvented service units should also provide an organisation chart which depicts the overall organisation structure and accountabilities. The Task Force reckons that all service units had disclosed staffing establishment as required by SWD. The Task Force recommends that NGOs should be required to upload the organisation structure and relevant staffing establishment of service units onto

their websites, or disclose such information through other means such as notice boards, with a view to enhancing the transparency of staffing establishment of service units.

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Recommendation 25
NGOs should enhance the transparency of the establishment of their regular posts (i.e. non-temporary or non-short-term posts) under LSG

- It is recommended that NGOs should make public the organisation structure and staffing establishment of LSG-subvented regular posts (i.e. non-temporary or non-short-term posts) of their service units by making available the information on notice boards and/or websites, with a view to enhancing transparency.

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Matters related to the handling of special incidents and significant incidents

7.18   Regarding "special incidents"[24] occurred in subvented service units of NGOs, SWD currently requires subvented service unit to file a report on "special incidents" occurred during the provision of services at subvented service units and/or other venues within 3 working days.   Moreover, according to the results of the data collection questionnaire, the majority of NGOs (77.9%) disclosed information in relation to "significant incidents"[25] to the public (including service users) and staff.   Some NGOs expressed concern over the need to strike a balance between the public's right to know and the privacy of relevant persons.

7.19   The Task Force recommends that NGOs should disclose the details of special incidents which occurred in NGOs or service units to the service users/ family members/ staff members concerned or any other parties involved on the premise that personal data privacy is protected.   Moreover, the Task Force recommends the establishment of a mechanism to report to SWD on significant incidents involving public interest or the public's right to know, and to timely disclose the relevant information to the public through proper channels.

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[24] Special incidents include:
    (1)   uncommon death/death caused by severe injury of service user(s);
    (2)   missing of service user(s) requiring police assistance;
    (3)   established/suspected cases of abuse of service user(s) by staff/other service user(s);
    (4)   dispute resulting in physical injury requiring report to the police for assistance; and
    (5)   other serious incidents affecting the daily operation of the service unit for over 24 hours/ drawing media concern.
[25] Significant incidents include:
    (1)   an NGO's governance crisis; and
    (2)   impact on an NGO's service and manpower deployment due to financial management problem.

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Recommendation 26
NGOs should enhance the transparency on special incidents and significant incidents which occurred in the NGOs concerned or their service units by disclosing the relevant information to the service users/ family members/ staff concerned or any other parties involved, on top of the established practice to make timely report to SWD

- It is recommended that NGOs should establish a mechanism, on top of the established practice to inform SWD of the details of special incidents which occurred in the NGOs concerned or their service units, to disclose the relevant information to the service users/ family members/ staff members concerned or any other parties involved on the premise that personal data privacy is protected (e.g. determining the targets and channels for information disclosure based on the type of special incidents), within three working days following the incidents; and
- NGOs should establish a mechanism to report to SWD on significant incidents involving public interest or the public's right to know, and to timely disclose the relevant information to the public through proper channels. Examples of significant incidents include NGOs' governance crisis, or impact on service and manpower deployment due to financial management problem.

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Enhance accountability to staff and service users

7.20   As laid down in the principles of Level Two guidelines of "NGOs' Decision Making on Important Management Issues of SWD-subvented Services"[26], it is recommended that NGOs should consult affected staff and service users on important matters.   As at 31 March 2020, 113 NGOs (representing 68.9% of 164 NGOs receiving subventions under LSG) had already implemented such guidelines.   According the results of the data collection survey, the majority of NGOs (over 81%) has already consulted potentially affected staff on items listed in the survey (such as changes in the existing establishment structure and staffing ratio, changes in the remuneration packages or working conditions, service re-engineering or changes in the mode

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[26]   The criteria and procedures in relation to the principles of "NGOs' Decision Making on Important Management Issues of SWD-subvented Services" (Level Two guidelines) include the following: NGOs should prepare documents and policies on their own, explaining how feedback from staff and/or service users will be collected and responded to when making important decisions related to LSGSS, such as through meetings, visits to service units, emails, questionnaires, newsletters, notice boards, suggestion boxes, etc.   Examples of important decisions include:
- changing the existing establishment structure and staffing ratios, etc.;
- changing the remuneration package or working conditions;
- re-engineering and rationalising the service delivery modes, and the corresponding manpower redeployment that may become necessary;
- service re-engineering;
- changing the existing service delivery mode; and
- monitoring compliance with service performance standards.

of service delivery, etc.).   Moreover, according to results of the survey, over half of the NGOs have consulted potentially affected service users on items listed in the survey (such as service re-engineering or changes in the mode of service delivery, adjustment of service charge, service development/implementation of FSA-related activities, etc.).

7.21   To enhance the accountability to staff and service users, the Task Force recommends that NGOs should consult potentially affected staff and service users on important matters and conduct discussions on such matters.

Recommendation 27
NGOs should consult potentially affected staff on important matters to enhance accountability to staff

- NGOs should consult staff on important matters that may have bearing on staff, such as changes in the existing staffing establishment, significant changes in the staffing ratio, remuneration packages or working conditions, service review/ service re-engineering or changes in the mode of service delivery, service development/implementation of FSA-related activities, and changes in service performance standards.

Recommendation 28
NGOs should consult potentially affected service users on important matters to enhance accountability to service users

- NGOs should consult service users and/or their family members on important matters that may have direct bearing on service users, such as changes in the existing staffing establishment, significant changes in the staffing ratio, service review/ service re-engineering or changes in the mode of service delivery, service development/implementation of FSA-related activities, changes in service performance standards and adjustment in service fees and charges.

Communication between NGOs and stakeholders and participation of stakeholders

7.22   Effective communication between NGOs and stakeholders is crucial to the overall operations of NGOs.   The feedback from stakeholders can help the governing board and senior management continuously enhance governance measures, improve the decisions of the senior management and minimise conflict.   Moreover, an effective consultation mechanism can enhance the sense of responsibility among staff and gain their support for decisions of senior management and the implementation of reforms, with a view to enhancing efficiency and service quality of NGOs.

7.23   SWD encourages NGOs to establish effective communication channels between the governing boards, senior management, staff and service users in accordance with Level Two guidelines of the BPM pertaining to the principles of "Communication", with a view to ensuring that NGOs can collect feedback from staff and service users on matters related to LSG subventions.   As at 31 March 2020, 137 NGOs (representing 83.5% of 164 NGOs receiving subventions under LSG) had already implemented such guidelines.   Currently, many NGOs have established solid communication channels with staff and service users, such as communicating with staff/service users through general meetings/consultation sessions, arranging regular meetings for the senior management and staff, etc., so as to allow staff and service users express and share their views.   Meanwhile, based on the results gathered by SWD through the data collection survey, all NGOs had established different channels such as websites and other social media to collect and respond to the views of staff and service users.   The Task Force encourages NGOs to maintain communication with stakeholders and recommends that NGOs should establish regular communication channels between the governing boards/senior management and staff/service users.

7.24   On the other hand, some pointed out that NGOs should invite staff and service users to participate in major management decisions as well as decisions related to service development plans.   In view of this, SWD encourages NGOs to invite staff and service users to participate in the decision-making process of certain important matters in accordance with Level Two guidelines of the BPM pertaining to the principles of "NGOs' Decision Making on Important Management Issues of SWD-subvented Services" [27] .   As at 31 March 2020,

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[27] Examples of important decisions are as followings:
- changing the existing establishment structure and staffing ratios, etc.;
- changing the remuneration package or working conditions;
- re-engineering and rationalising the service delivery modes, and the corresponding manpower redeployment that may become necessary;
- service re-engineering;
- changing the existing service delivery mode; and
- monitoring compliance with service performance standards.

Criteria and procedures stipulated that NGOs should prepare documents and policies on their own,

113 NGOs (representing 68.9% of 164 NGOs receiving subventions under LSG) had already implemented such guidelines.

7.25   Based on the results of the data collection survey, the majority of senior management and governing boards (95.6%) invited staff to participate in the decision-making process of NGOs through channels such as holding staff general meetings (46.9%), inviting staff representatives to attend/sit in on service management committees (41.5%), inviting staff representatives to attend/sit in on service centre/unit management committees (38.5%), and inviting staff representatives to attend/sit in on the governing board (30.8%).   Below are examples of NGOs inviting staff to participate in the decision-making process: the senior management of an NGO once hosted a number of briefing sessions in relation to the formulation of staff remuneration policies, and the relevant policies were implemented smoothly and staff cohesiveness was correspondingly enhanced.   Meanwhile, another NGO consulted all staff members through a survey in relation to long service payment and PF arrangements before the formulation of proposals.

7.26   Based on the results of the data collection survey, the majority of senior management and governing boards (83.8%) invited service users to participate in the decision-making process of NGOs through various channels, such as holding consultation sessions (55.3%), inviting service user representatives to attend/sit in service centre/unit management committees (21.1%), service management committees/service quality supervisory committees (9.68%), and the governing board (7.9%).   An example of service users participating in the decision-making process of NGOs involved an NGO inviting representatives of service users to join the governing board as they were believed to have a clear understanding of service needs and be able to provide adequate feedback on service planning and improvements.

7.27   The Task Force encourages the governing boards of NGOs to continue to engage staff and service users in the decision-making process of important matters, and recommends that NGOs should establish channels for affected staff and service users to participate in the decision-making process of important matters, and list out examples of participation.   Some members of the Task Force are of the view that subvented services could only be improved by inviting staff and service users to participate in the decision-making process, considering that the governing boards/senior management might take reference from the views shared between the governing boards/senior management and staff/service users.

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explaining how feedback from staff and/or service users will be collected and responded to when making important decisions related to LSGSS, such as through meetings, visits to service units, emails, questionnaires, newsletters, notice boards, suggestion boxes, etc.

Recommendation 29
NGOs should establish regular communication channels between the governing boards/ senior management and staff/ service users, so as to collect and respond to feedback on LSG-related matters from staff and service users

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Recommendation 30
NGOs should establish channels for potentially affected staff and service users to participate in the decision-making process of important matters, so as to enhance stakeholders' participation

- It is recommended that NGOs should establish channels (e.g. allowing potentially affected staff/service users and/or their family members to attend/sit in on meetings of governing boards, service management committees and service centre/unit management committees, holding consultation sessions or general meetings, etc.) so that they can participate in the decision-making process of certain important matters.

Chapter 8

Recommendations

The Task Force made a total of 30 recommendations covering five domains to enhance LSGSS, covering (i) quality of welfare services, (ii) staffing establishment, subvention benchmark and human resource management matters, (iii) financial planning matters, (iv) relevance of utilising LSG subvention, and (v) accountability and corporate governance of NGOs. The LSGSC is responsible for monitoring and providing advice on the implementation of the recommendations made in this review report. Details of the recommendations are set out below:

(1) **Recommendations in relation to the quality of welfare services**

Recommendation 1 **Provide a learning platform on governance and management, so as to consolidate and enhance NGOs' knowledge and capacity in governance and management required different areas**

- Where the financial conditions of the Government permit, it is recommended that a learning platform on governance and management be provided for NGO governing boards and senior management, so as to consolidate and enhance NGOs' knowledge and capacity in governance and management required in different areas.
- It is recommended that ways to enhance HKCSS's role as a learning platform on NGO governance and management should be looked into, covering provision of consultation services and specific training programmes that cater for the characteristics and needs of different NGOs.
- The learning platform should provide appropriate information on governance and management for NGOs' reference, while enhancing the networking among NGOs to facilitate transfer of useful management knowledge through sharing of good practices. The platform should also provide relevant support that serves the governance and management needs of NGOs of different scales, types, etc.

[This recommendation is relevant to those under the domain of "Accountability and corporate governance of NGOs" below.]

Recommendation 2   **Provide subsidy for staff training, business system upgrading, including information technology (IT) and non-IT projects, and service studies**

- To help NGOs meet their development needs, where the financial conditions of the Government permit, it is recommended that SWD put in place a Central Item for NGOs to apply for funds for the purposes of staff training, business system upgrading (covering IT development projects, including IT facilities and recurrent maintenance as well as cloud service, and non-IT development projects) and service studies.   The funds are capped at 1% of the NGOs' annual recurrent subvention amount or $250,000, whichever is the higher.
- Regarding the requirement for NGOs to bear 15% of the expenditure of IT projects, SWD considered that the existing arrangement should be maintained, pending further discussion upon implementation of the latest Information Technology Strategies for the Social Welfare Sector.

Recommendation 3   **Provide additional supervisory support for paramedical grades to facilitate relevant professional development and handle complex cases**

- It is recommended that additional supervisory support be provided for the positions of occupational therapist and physiotherapist in paramedical grades in order to offer supervisory support for paramedical staff, facilitate relevant professional development and handle complex cases[28].   As for whether there are other positions requiring additional supervisory support, various service branches of SWD should, having regard to priorities, look into the matter when conducting service reviews.

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[28] SWD has increased $104 million of recurrent provision to NGOs in December 2019 for the creation of about 94 positions equivalent to the ranks of senior occupational therapists and senior physiotherapists.

Recommendation 4   **Provide commercial rental subsidy to subvented service units; and increase the Block Grant under the LF to help NGOs meet the expenditure for replenishment/ replacement of furniture and equipment, as well as to cover the costs of minor works**

- Apart from securing welfare premises for subvented service units through purchase and the Special Scheme on Privately Owned Sites for Welfare Uses, it is recommended that SWD also, where the financial conditions of the Government permit, provide subsidy to subvented service units that have not secured welfare premises in public housing estates or government properties for paying commercial rent according to the approved Schedule of Accommodation (SoA), and review the actual situation and draw up implementation timetables through its service branches. Service branches may also review the approved SoA (including storage space) of service units and the need for subsidy for paying rent/ management fee when conducting service reviews.

- Where the financial conditions of the Government permit, it is recommended that the annual cap of the Block Grant under the LF be increased from the existing 1.5% of an NGO's annual recurrent subvention to 2%, with a view to helping NGOs meet the expenditure for replenishment/ replacement of furniture and equipment arising from fair wear and tear as well as contingency needs, and cover the costs of minor works.

- The current cost ceiling of $500,000 on each minor works project covered by the Block Grant is recommended to be adjusted subject to examination and approval.

Recommendation 5   **Standardise the cycle of reviewing the output standards and outcome standards of a time-defined FSA at five years; and review the output standards and outcome standards of a non-time-defined FSA if there are new resources**

- Currently, the validity period of a time-defined FSA of residential services is fixed at five years while that of a time-defined FSA of day services is three years. It is recommended that the validity period of a time-defined FSA be standardised at a cycle of five years, and the output standards and outcome standards be reviewed every five years as per the cycle so that sufficient time and manpower can be made available to conduct service reviews.

- Currently, although the validity period of a non-time-defined FSA is not fixed, SWD and the sector will review the FSA, including the output standards and outcome standards, from time to time to meet the demand for service development. It is recommended that subject to availability of new resources, the output standards and outcome standards of a non-time-defined FSA be reviewed to timely meet the demand for service development.

Recommendation 6   Conduct systematic reviews on notional staffing establishments, service targets, service nature and service performance standards to keep pace with the changing needs of users of various types of social services

- SWD will cover different areas in future service reviews, including the corresponding notional staffing establishments (including the academic qualifications/ seniority requirements of the posts, manpower for supervisory support, functions required for the service, etc.).
- The scope of service reviews should cover the following :
  - service targets;
  - service nature;
  - service performance standards, including essential service requirements, output standards and outcome standards;
  - notional staffing establishment;
  - administrative and other support; and
  - other considerations.
- NGOs should provide data and information for comprehensive review by SWD and the sector, covering information on the following :
  - changes in service needs;
  - changes in staffing requirements;
  - changes in service nature; and
  - changes in administrative and other support.
- SWD will also provide district information, e.g. demographic profiles and social indicators of district welfare needs for reference.
- It is recommended that the criteria for setting priority of service review should be drawn up, e.g. priority should be accorded to services that have not been reviewed for a long time, involve a larger number of units or have a greater development need.
- Service branches of SWD will consult relevant stakeholders the service types and their priority for review in the next five years, and collect relevant views in the Welfare Agenda and Priorities Setting Exercise for consideration by service branches.
- After the items and priority for service review are determined, two service types/ service type groups at most under individual service areas should be reviewed in the same period having regard to NGOs' capacities and SWD's human resources. Each service type/ service type group should aim to complete the review within a year. If it cannot be done within a year, the review of another service type/ service type group under the same service area should not be commenced.
- A mechanism be established to examine the list of service types for priority service review in the annual Welfare Agenda and Priorities Setting Exercise.
- Apart from SWD and the senior management of service operators, frontline staff and service users should also be invited to participate in the service reviews.

Recommendation 7   **Specify in LSG Manual the frequency and means of internal service inspections conducted by NGOs to enhance the self-assessment mechanism for service performance; share good practices on the mechanism for internal service inspections among NGOs and formulate sector benchmarks through regular sector sharing sessions**

- Since the frequency of internal service inspections conducted by NGOs of different scales may vary, it is recommended that all NGOs should conduct inspections by service supervisors or internal service inspection units/ teams at least once every year to enhance the self-assessment mechanism for service performance. Such inspections should be conducted by means of on-site assessments (including surprise checks, inspections by appointment), written reports, random checks, etc. to enhance the self-assessment mechanism for service performance.
- NGOs may, based on the actual situations, consider allowing the participation of staff and service users when establishing a mechanism for internal service inspections.
- It is recommended that regular sector sharing sessions be held, through which NGOs may share good practices on the mechanism for internal service inspections and formulate sector benchmarks.

(2)   **Recommendations in relation to the staffing establishment, subvention benchmark and human resource management matters**

Recommendation 8   **Maintain the subvention benchmark at mid-point salaries to allow NGOs to continue to exercise the flexibility to employ staff, respond to service needs swiftly and provide welfare services efficiently**

- The consultancy firm's data analysis showed that most NGOs have exercised the flexibility provided by LSGSS to employ staff so as to efficiently deliver quality welfare services, and therefore it is recommended that LSGSS should be retained.
- According to the findings of the consultancy firm, there is no data to show that SWD's subvention amount based on benchmarking against mid-point salaries of civil service pay scales is insufficient to cover NGOs' expenditure on salaries[29],

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[29] The consultancy firm collected information on NGO's actual salary expenditure, as well as the average length of service of relevant staff at their current NGOs gathered from two rounds of staff survey, to project salary expenditure based on the notional staffing establishments of the 17 types of services.   The consultancy firm has received 1 287 questionnaires, represented an overall response rate of 60%.   Survey results show that:

(a) Among 17 types of services, the actual salary expenditures of 10 types were on par with SWD's total amount of mid-point salary provision or lower than the subvention benchmarks at mid-point salaries. For the remaining 7 types, their actual salary expenditures exceeded the subvention benchmarks at mid-point salaries by 1% to 15% respectively; and

(b) Among 17 types of services, the projected salary expenditures of 14 types were on par with SWD's

and therefore it is recommended that such benchmark should be maintained.

Recommendation 9   **Formulate different base levels of subvention for central administration according to the scales of NGOs to strengthen NGOs' capacity for central administration**

- Where the financial position of the Government permits, it is recommended that different base levels of subvention for central administration (about 5% on average) be formulated for existing services according to the subvention of NGOs in general in 2020-21 (based on direct services), with a view to providing additional resources to NGOs that have fallen below the relevant levels for the year to supplement their future expenses related to central administration.   In consideration of the special circumstances of NGOs with an annual subvention below $10 million, the base levels of subvention for central administration should be set at a higher level (about 10%) for their existing services, or a suitable minimum subvention for central administration should be provided for these small NGOs.
- Where the financial position of the Government permits, it is recommended that 5% of the basic recurrent subvention (based on direct services) be provided in future as subvention for central administration for each new service unit.
- It is recommended that a schedule be appended in the Annual Financial Report to list the resources transferred from LSG and the actual expenditures for central administration as well as the subvented staff for central administration (e.g. staff responsible for human resource management, financial management and IT).

Recommendation 10   **NGOs should improve human resource management continuously, including the establishment of a manpower structure for staff career development, optimal use of the Holding Account and/ or PF reserves, and formulation of appropriate staff-friendly and staff wastage reduction initiatives**

- NGOs should establish a mechanism for assessing staff's experience in professional services when devising the staff pay structure, and the pay levels should be commensurate with the experience and responsibilities required for the posts concerned.
- NGOs should maintain or enhance human resource measures (including the

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total amount of mid-point salary provision or lower than the subvention benchmarks at mid-point salaries.   For the remaining 3 types, their projected salary expenditures exceeded the subvention benchmarks at mid-point salaries by 1% to 3% respectively.
In conclusion, there is no data to show that SWD's subvention benchmarks at mid-point salaries are insufficient to cover NGO's expenditure on salaries.

development of a strong team of staff) to retain experienced staff by optimising the use of the Holding Account and/or PF reserves, e.g. providing staff with longer length of service with PF contribution above the minimum statutory requirement (i.e. maximum monthly contribution of $1,500 or 5% of the staff's monthly income, whichever is the lower).   [This recommendation is relevant to those under the domain of "Financial planning matters" below.]

- It is recommended that NGOs should establish a manpower structure for staff career development, e.g. specifying a reasonable time and conditions under which non-time-defined employment contracts will be provided to outstanding staff who have served in the NGOs for a certain period of time, in order to enhance their sense of belonging to the organisations and ensure the provision of stable service to users.
- NGOs should continuously improve human resource management, e.g. arranging meetings with resigned staff, making regular reports on information on staff turnover rate, etc. to their governing boards, in order to facilitate formulation of appropriate staff-friendly and staff wastage reduction initiatives.

(3)   Recommendations in relation to the financial planning matters

Recommendation 11	Improve the management of Holding Account, and formulate utilisation plans and financial projections (including to honour the contractual commitments towards the Snapshot Staff and enhance human resource arrangements, etc.) to optimise the use of the reserve

- It is recommended that NGOs which still have Holding Account reserve but without Snapshot Staff should merge Holding Account reserve and LSG reserve, and formulate utilisation plans and financial projections to optimise the use of the reserves.
- It is recommended that NGOs which still have both Holding Account reserve and Snapshot Staff formulate annual utilisation plans and financial projections on using the Holding Account to honour the contractual commitments towards the Snapshot Staff and enhance human resource arrangements according to the guidelines of "Maximised Use of Reserve (Level One)" in the BPM.
- The utilisation plans and financial projections on Holding Account reserve should :
    - be discussed, assessed and agreed by the governing boards/ management committees; and the discussion has to be put on record; and
    - the staff, including frontline ones, should be consulted according to established mechanisms.

- NGOs should reflect the overall utilisation situation with itemised breakdown and plans of the Holding Account reserve in the Annual Financial Reports.

Recommendation 12   Optimise the use of PF reserve to enhance staff morale and their sense of belonging to NGOs

- It is recommended that NGOs continue to optimise the use of the reserve to enhance staff morale and their sense of belonging to the organisations according to the guidelines of "Use of PF Reserve for Non-Snapshot Staff (Level One)" in BPM.

Recommendation 13   Conduct annual financial projections, including examination of the accuracy and limitations of the projection for the last financial year

- It is recommended that NGOs appoint professionals or assign designated staff/ divisions to conduct annual financial projections for the coming three years.   Apart from examining reserve status and assessing financial position, NGOs may also examine the accuracy and limitations of the projection for the last financial year and make revisions for the coming year accordingly, and report the details to their governing boards.   NGOs are also encouraged to provide channels for staff to note the results of financial projections.

Recommendation 14   Regularise the scheme to subsidise NGOs to use actuarial service for financial projections to assist NGOs in striking a balance between maintaining financial stability and protecting staff's interest; and accord priority to NGOs that record a substantial reduction in the number of Snapshot Staff but no corresponding decrease in the cumulative balance of Holding Account; NGOs that have huge accumulated reserve; and NGOs that have to return to the Government the amount of reserve exceeding the cap

- It is recommended to regularise the scheme to subsidise NGOs to use actuarial service for financial projections to assist NGOs in striking a balance between maintaining financial stability and protecting staff's interest; and accord priority to NGOs that record a substantial reduction in the number of Snapshot Staff but no corresponding decrease in the cumulative balance of Holding Account; NGOs that have huge accumulated reserve; and NGOs that have to return to the Government the amount of reserve exceeding the 25% cap of the annual operating expenditure[30].

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[30] Under LSGSS, NGOs may keep unspent subvention as reserve for meeting future expenditure.   The level of cumulative reserve (including interest but excluding PF reserve) at the end of the financial

(4) **Recommendations in relation to the relevance of utilising LSG subvention**

Recommendation 15   Draw up criteria for delineating FSA-related activities and the maximum proportion of LSG used for FSA-related activities

- For FSA-related activities with expenditure accounting for 10% or less of an ASU's LSG, the NGO must ensure that the activities meet criteria (i) to (iv) below :
  (i)   they have the same purpose and objectives as the FSA;
  (ii)   they have the same service nature as that covered by the FSA;
  (iii) the service contents are in line with the FSA; and
  (iv)   the service targets are in line with those covered by the FSA.
- For planned FSA-related activities with expenditure accounting for 10% to 20% of an ASU's LSG, the NGO, in addition to ensuring that the activities meet criteria (i) to (iv) above, must adopt the more prudent principles as follows :
  (v)   the activities must first be put forward to the governing board/ management committee for discussion and assessment of their implications on the NGO's services, staff and service users, and supported by the board/ committee;
  (vi)   frontline staff and service users must be consulted according to established mechanisms; and
  (vii) consent of SWD must be obtained before the activities are held.
- Regardless of the proportion of the expenditure for planned FSA-related activities against LSG of an ASU, the NGO must obtain the consent of relevant service branches of SWD before the FSA-related activities are held if such activities do not comply with the terms stipulated in the FSA :
  -    if the planned FSA-related activities fall outside the scope of service targets specified in the FSA, e.g. altering the upper and lower age limits of service targets; and
  -    if the planned FSA-related activities fall outside/ alter the scope of service districts specified in the FSA.

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year should not exceed 25% of the NGO's operating expenditure (excluding PF expenditure) for that year.

Recommendation 16   Formulate operational guidelines for FSA-related activities

● It is recommended that operational guidelines be formulated to set out the criteria for delineating FSA-related activities and relevant examples for the compliance of NGOs, so as to avoid potential uncertainties or unnecessary disputes arising from the implementation of FSA-related activities.   The operational guidelines should be regularly updated for timely enhancements.

● The operational guidelines will specify that NGOs should account for any incomes and expenditures generated from the FSA-related activities in LSG accounts.   NGOs should also use a separate account should be used for handling incomes and expenditures arising from the provision of non-FSA services.   If LSG resources are used to provide non-FSA services, NGOs should make cost apportionment for corresponding cost items with additional incomes/ funding (e.g. funding for manpower, activity or venue expenses).

● It is recommended that SWD and the sector, when conducting service reviews, also review the information and effectiveness of FSA-related activities as well, and assess whether such activities should be incorporated into and regularised as FSA services.

[This recommendation is relevant to those under the domain of "Quality of welfare services" above.]

Recommendation 17   Formulate guidelines on cost apportionment to set out the cost apportionment arrangements, benchmarks and examples for the use of LSG subvention

● SWD will formulate a set of cost apportionment guidelines on the use of LSG subvention, which covers the arrangements and benchmarks for cost apportionment between FSA-activities and non-FSA activities, and cite suitable examples provided by NGOs in the questionnaires for their reference.

● NGOs should be reminded that the Operating Income and Expenditure Account for each subvented service unit must be separated into FSA activities and non-FSA activities as required under the LSG Manual.

● Central administration expenses for LSG subvented services and non-LSG subvented services should be fairly apportioned.   NGOs may make reference to the related recommendations in respect of relevancy in utilisation of subvention for the cost apportionment arrangements and benchmarks.

● It is recommended that NGOs should formulate transparent human resource policies, such as allowing LSG subvented staff and non-LSG subvented staff to understand the source and mode of subvention pertaining to their salaries.

Recommendation 18   NGOs should submit to SWD annual statement on FSA-related activities held, so as to report the proportion of the expenditure for such activities against LSG for an ASU

● Due to their varying nature, it is not suitable to incorporate FSA-related activities into the quarterly reports of the statistical information system.
● NGOs should submit to SWD an annual statement on FSA-related activities held, so as to report the proportion of the expenditure for such activities against LSG for an ASU.   SWD will prepare a template for the annual statement which covers the following :
    - whether the FSA-related activities meet the criteria in Recommendation 15;
    - the proportion of the expenditure for FSA-related activities against LSG for an Agreement Service Unit;
    - whether NGOs suggest incorporating FSA-related activities into FSA services; and
    - NGOs should provide the service details, output and outcome of FSA-related activities to be incorporated into FSA services for SWD's consideration.

[This recommendation is relevant to those under the domain of "Quality of welfare services" above.]

Recommendation 19   NGOs should consider the criteria for consulting/ advising staff and service users on implementing FSA-related activities to enhance transparency

● NGOs should consider the following in deciding if it is necessary to consult/ advise staff of the FSA-related activities:
    - addressing possible concerns and worries of staff;
    - actual impact on the original work of staff; and
    - enhancing the transparency of FSA-related activities, etc.
● NGOs should consider the following in deciding if it is necessary to consult/ advise service users of the FSA-related activities:
    - confirming that the design of the activities meets the needs of service users;
    - possible impact on service users; and
    - enhancing the transparency of FSA-related activities, etc.
● Regardless of NGOs' decision to consult/advise staff and service users, it should document the relevant decisions and considerations.

[This recommendation is relevant to those under the domain of "Accountability and corporate governance of NGOs" below.]

(5) <u>Recommendations in relation to the accountability and corporate governance of NGOs</u>

Recommendation 20   NGOs should disclose their Annual Financial Reports for public scrutiny

●   It is recommended that NGOs should disclose their Annual Financial Reports through the channels currently specified in the LSG Manual and, submit to SWD their reports or relevant web links for uploading onto SWD's website for public scrutiny.

Recommendation 21   NGOs should enhance the transparency of their governing boards and senior management by disclosing to the public the membership list and structure of governing boards, as well as the list of senior management/ executives, and update such information in a timely manner.

●   It is recommended that NGOs should provide proper channels (such as annual reports and websites) for the public (including their staff and service users) to access the membership list and structure of governing boards, as well as the list of senior management/ executives, and update such information in a timely manner.

Recommendation 22   NGOs should disclose the remuneration of their senior executives in the top three tiers in order to enhance their public accountability and promote public understanding of their financial position

●   It is recommended that NGOs should disclose the number, ranking and remuneration packages of their senior executives in the top three tiers as per the updated guidelines issued by the Administration Wing on 27 August 2018 (i.e. if the NGO (i) is receiving subvention of $10 million or more from SWD every year; and (ii) has received from SWD operating income which accounts for over 50% of its total operating income under welfare purview).

●   NGOs currently exempted from completing and disclosing their Review Report on Remuneration Packages for Staff in the Top Three Tiers are encouraged to consider making public the remuneration information of such staff in order to enhance their public accountability and promote the public's understanding of NGOs' financial position.

Recommendation 23　　　**NGOs should disseminate information about the use of LSG reserve and PF reserve to the public to enhance transparency**

● It is recommended that NGOs should disclose information about the use of LSG reserve and PF reserve to the public (including service users) and staff by making available the information by various channels (such as posting information on a unit's notice boards), with a view to enhancing transparency.

Recommendation 24　　　**NGOs should enhance the transparency of their staff remuneration policies, including disclosing the pay structure and/ or starting salary points of their regular posts under LSG, and offer a transition period of five years for NGOs' preparation**

● It is recommended that all NGOs should disclose their pay structures and/ or starting salary points of their regular posts, i.e. non-temporary or non-short-term posts, under LSG so as to enhance the transparency of their remuneration policies.　NGOs' staff, the LegCo, the Audit Commission, the media and the general public have all expressed their request, concern and aspiration for the disclosure of such information.　However, having regard to the lead time required for NGOs to prepare the information to be disclosed or the need for discussion about and adjustment to their pay structures, it is recommended that a transition period of five years should be given to NGOs for their preparation in order to fully implement the recommendation of disclosing the pay structures and/ or starting salary points of their regular posts under LSG.　Meanwhile, NGOs are encouraged to disclose such information during the transition period as far as practicable.

Recommendation 25　　　**NGOs should enhance the transparency of the establishment of their regular posts (i.e. non-temporary or non-short-term posts) under LSG**

● It is recommended that NGOs should make public the organisation structure and staffing establishment of LSG-subvented regular posts (i.e. non-temporary or non-short-term posts) of their service units by making available the information on notice boards and/or websites, with a view to enhancing transparency.

Recommendation 26   **NGOs should enhance the transparency on special incidents and significant incidents which occurred in the NGOs concerned or their service units by disclosing the relevant information to the service users/ family members/ staff concerned or any other parties involved, on top of the established practice to make timely report to SWD**

- It is recommended that NGOs should establish a mechanism, on top of the established practice to inform SWD of the details of special incidents which occurred in the NGOs concerned or their service units, to disclose the relevant information to the service users/ family members/ staff members concerned or any other parties involved on the premise that personal data privacy is protected (e.g. determining the targets and channels for information disclosure based on the type of special incidents), within three working days following the incidents; and
- NGOs should establish a mechanism to report to SWD on significant incidents involving public interest or the public's right to know, and to timely disclose the relevant information to the public through proper channels.　Examples of significant incidents include NGOs' governance crisis, or impact on service and manpower deployment due to financial management problem.

Recommendation 27   **NGOs should consult potentially affected staff on important matters to enhance accountability to staff**
- NGOs should consult staff on important matters that may have bearing on staff, such as changes in the existing staffing establishment, significant changes in the staffing ratio, remuneration packages or working conditions, service review/ service re-engineering or changes in the mode of service delivery, service development/ implementation of FSA-related activities, and changes in service performance standards.

Recommendation 28   **NGOs should consult potentially affected service users on important matters to enhance accountability to service users**

- NGOs should consult service users and/ or their family members on important matters that may have direct bearing on service users, such as changes in the existing staffing establishment, significant changes in the staffing ratio, service review/ service re-engineering or changes in the mode of service delivery, service development/ implementation of FSA-related activities, changes in service performance standards, and adjustment in service fees and charges.

Recommendation 29   **NGOs should establish regular communication channels between the governing boards/ senior management and staff/ service users, so as to collect and respond to feedback on LSG-related matters from staff and service users**

Recommendation 30   **NGOs should establish channels for potentially affected staff and service users to participate in the decision-making process of important matters, so as to enhance stakeholders' participation**

- It is recommended that NGOs should establish channels (e.g. allowing potentially affected staff/ service users and/or their family members to attend/ sit in on meetings of governing boards, service management committees and service centre/ unit management committees, holding consultation sessions or general meetings, etc.) so that they can participate in the decision-making process of certain important matters.

**Task Force for Review on
Enhancement of Lump Sum Grant Subvention System**

Terms of Reference

1. Scope of the review on the enhancement of Lump Sum Grant Subvention System (LSGSS);
2. Collation and study of data relevant to the review;
3. Areas for improvement and feasible measures for enhancement of LSGSS; and
4. Stakeholders' engagement for the review.

Membership List

Chairman
Director of Social Welfare

Member
Hon Cheung Chiu-hung, Fernando (with effect from 27.11.2017 to 30.11.2020)
Hon Leung Che-cheung, SBS, MH, JP
Hon Luk Chung-hung
Hon Shiu Ka-chun (with effect from 27.11.2017 to 30.11.2020)
Mr Chua Hoi-wai, JP
Ms Leung Pui-yiu, Irene, JP
Mr Fong Cheung-fat, JP
Mr Kwok Lit-tung, JP
Ms Yeung Yee-ching, Noel
Mr Cheung Chi-wai
Mr YIP Kin-chung (with effect from 27.11.2017 to 28.6.2018)
Ms Chung Wai-ling (with effect from 29.6.2018)
Ms Chan Yee-ching, Tammy
Mrs Lee Lau Chu-lai, Julie, JP
Mr Hui Chung-shing, Herman, SBS, MH, JP
Ms Chan Mei-lan, Anna May, MH, JP
Ms Au Chor-kwan, Ann
Professor Chan Chi-fai, Andrew, SBS, JP
Mr Eric Tong
Mr Charles Yang, BBS, JP

Deputy Secretary for Labour and Welfare (Welfare)1, Labour and Welfare Bureau
Deputy Director (Administration), Social Welfare Department
Assistant Director (Subventions), Social Welfare Department

<u>Secretary</u>
Chief Social Work Officer (Subventions), Social Welfare Department

Review on Enhancement of Lump Sum Grant Subvention System
Review Areas

(a) Operating environment of NGOs under LSGSS

Under LSGSS, NGOs are given flexibility to deploy resources and re-engineer their services to meet the changing social needs in a timely manner. The scope of the review on the enhancement of LSGSS includes an examination of the challenges and difficulties faced by NGOs currently receiving LSG subvention in their sustainable development in an ever-changing social environment, so as to facilitate NGOs in continuous quality maintenance and service development.

(b) Review of staffing establishment and subvention benchmarks

There are views that the notional staffing establishment and subvention benchmarks should be reviewed to keep pace with service development. In this regard, SWD will collect relevant information and data[31] from the sector so as to comprehensively review the following items as service demand becomes more complex and expectation of service users rises, including :

(i) Notional staffing establishment for service provision, central administrative support and supervisory support to maintain a stable and high-quality workforce;
(ii) Benchmark at mid-point salaries; and
(iii) Benchmark at 6.8% PF.

(c) Use of LSG reserve/PF reserve and financial planning

There are views that some NGOs have kept huge amounts of reserve without a specific purpose of usage while some NGOs are facing deficits. There is a need for NGOs to review the use of LSG reserve and their financial planning as follows :

(i) To examine the current situation of how NGOs utilise LSG reserve and the PF reserve and how the use of the reserves is planned; and
(ii) To examine the mechanism for early identification of financial risks (e.g. continuous deficits in LSG reserve) and the mechanism for financial planning.

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[31] Including engaging a consultant to conduct data collection and research study.

(d) Pay structures, staff turnover rate and vacancies

The staff side has expressed grave concern on the pay policies and salary structures of NGOs. In this regard, the review covers the following areas :

(i)   To review the pay policies and pay scales of the welfare sector (including policies on recognition of experience, minimum point of pay, adjustment of salaries, contractual arrangements, etc.); and

(ii)   To examine the staff turnover rate and vacancies and look into the improvement measures required.

(e) FSA-related activities and flexibility provided for NGOs

NGOs have been supporting the implementation of various policy initiatives through Government/public funding and the scope of services has been diversifying. According to paragraph 2.37 of the LSG Manual, both LSG and LSG reserve are accounted for under recurrent subvention and, in essence, are intended for meeting the operating expenditure on FSA services or related activities. There is concern on the usage of LSG subvention for supporting other initiatives, thus reducing the manpower resources deployed for the original FSA services. To facilitate NGOs to serve the community on various fronts, the SWD has agreed to recognise a provision of central administrative overhead at the backend of NGOs from 5% to 15% for funds under the ambit of the SWD, subject to assessment of individual projects, with effect from August 2017 [32]. However, there are still concerns on the assessment of FSA-related activities. The review covers the following :

(i)   To examine the parameters for assessing FSA-related activities, so as to provide clear guidelines on the provision of activities relating to FSAs and the flexibility allowed for NGOs to respond to and meet the service needs in the districts and the community in a timely manner;

(ii)   To deliberate on FSA-related activities and their financial implications (e.g. whether service performance and monitoring and output standards are required of the FSA-related activities, whether and how they can be covered by LSG, whether rent and rates are allowed to be reimbursed on an actual basis, whether assessments on service components, facilities and space requirements are required to ensure compatibility with FSA services); and

(iii) To elucidate cost apportionment guidelines between FSA services (inclusive of FSA-related activities) and other non-FSA services.

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[32] HKCSS was informed of the decision on 16 August 2017. LSGSC expressed support for the decision at the meeting held in October 2017.

(f) Mechanisms for reviewing FSAs and reviewing NGOs' service performance assessment

To respond to the ever-changing social needs, the sector considers that it is necessary to set up a regular review mechanism for FSAs. In this regard, the Government should develop a standing mechanism to provide appropriate and continuous planning and review on the development of each welfare service, as well as to collect the views of services users for ensuring service quality and promoting service development. The Audit Report has made some recommendations to strengthen self-assessment on the service performance of NGOs. The review covers the following items :

(i)   Regular review mechanism for FSAs;
(ii) To review and refine the mechanism on self-assessment of service performance, and identify good practices on self-assessment for sharing among NGOs; and
(iii) To examine possible enhancement of the service performance self-assessment mechanism.

(g) NGOs' transparency and public accountability

Given the large amount of subvention provided for operating welfare services, NGOs have developed their accountability framework in accordance with paragraph 4.5 of the LSG Manual on the use of subvention, and disclosed the financial information including Annual Financial Report and remuneration of the top three-tier senior executives according to paragraphs 4.14 to 4.19 of the LSG Manual. To comply with the requirements of the Best Practice Manual, NGOs also need to inform staff of their LSG reserve and PF reserve. There have been rising expectations from the Legislative Council, staff side, service users and the public on greater transparency of NGOs. The Audit Report has also recommended the SWD to follow up with NGOs on rectifying the disclosure requirements in accordance with the interpretation of the disclosure guidelines issued by the Director of Administration. In this connection, the scope of review covers the following items:

(i)   To deliberate on areas for enhancing public accountability and transparency (e.g. pay structures, staffing establishment, disclosure of the use of reserves, occurrence of major incidents in the NGO, etc.); and
(ii) To review and define the requirements on reporting the review on the remuneration packages of the top three-tier senior executives of NGOs (e.g. criteria on operating income relating to the scope of welfare services).

(h) NGOs' communication with stakeholders and participation of stakeholders

There are views on the need to enhance the participation of staff and service users and their communication with the Board of Directors in respect of major management decisions and service development plans. The review includes examining the current practices of NGOs and exploring optimal arrangements.

Comparison of Projected Salary Expenditure# and
Mid-point Salary Provision of 17 Service Types
(#based on Notional Staffing Establishments set by SWD and
Average Length of Service[33] of Staff)

	Service Type	Mid-point salary provision	Projected salary expenditure based on 1st round of staff survey response	Projected salary expenditure based on 1st and 2nd rounds of staff survey response
1	Hostel for Moderately Mentally Handicapped Persons (HMMH)	100%	100%	102%
2	Small Group Home (SGH)	100%	102%	99%
3	Neighbourhood Elderly Centre (NEC)	100%	98%	98%
4	Hostel for Severely Mentally Handicapped Persons (HSMH)	100%	97%	99%
5	Care and Attention Home (C&A)	100%	95%	95%
6	Integrated Children and Youth Services Centre (ICYSC)	100%	100%	100%
7	Integrated Family Service Centre (IFSC)	100%	104%	100%
8	Integrated Community Centre for Mental Wellness (ICCMW)	100%	95%	98%
9	Special Child Care Centre (SCCC)	100%	92%	95%
10	Early Education and Training Centre (EETC)	100%	92%	94%
11	Day Care Centre for the Elderly (DE)	100%	96%	96%
12	Home Care Service for Persons with Severe Disabilities (HCS)	100%	95%	98%
13	Integrated Vocational Rehabilitation Services Centre (IVRSC)	100%	101%	103%
14	Day Activity Centre (DAC)	100%	99%	101%
15	Foster Care (FC)	100%	101%	96%
16	District Youth Outreaching Social Work Team (DYOT)	100%	98%	100%
17	District Elderly Community Centre (DECC)	100%	97%	98%

[33] Length of service is calculated by the average length of service of relevant staff in respective service type (such as family and child welfare service, elderly service, rehabilitation service, youth service, etc.)

Service Type	Mid-point salary provision	Projected salary expenditure based on 1st round of staff survey response	Projected salary expenditure based on 1st and 2nd rounds of staff survey response
Total	100%	The total projected salary expenditure for 17 service types, which is based on 1st and 2nd rounds of staff survey response, is 3% less than the mid-point salary provision of SWD	

Task Force for Review on
Enhancement of Lump Sum Grant Subvention System

Results of Two Rounds of Staff Survey

Number of staff and number of staff by job types[34] in 164 LSG-subvented NGOs

	Social worker	Paramedical staff	General grade staff	Other staff	Total
Number of staff	8 090	3 873	17 550	9 015	38 528
Percentage (%)	21%	10%	46%	23%	100%

Results of Two Rounds of Staff Survey

First Round Response	134	81	450	173	838
Percentage (%)	16%	10%	53%	21%	100%

Second Round Response	121	40	207	81	449
Percentage (%)	27%	9%	46%	18%	100%

Response of First and Second Rounds	255	121	657	254	1 287
Percentage (%)	20%	9%	51%	20%	100%

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[34] As at 30 June 2019.