

The Hong Kong Council of Social Service

Position paper on LSG Best Practice Manual

General Principles

- 1) Since 2000 NGOs have paid tremendous efforts including organizational reengineering continuously in order to adjust to the new LSG subvention mode. Best Practice Manual is a positive step forward to share good experience. However, enforcing 'mandatory best practices' is a change in the condition of grant which should be well justified and grounded in the LSG framework.

- 2) The Preamble of Lump Sum Grant Manual has stated very clearly that "...Under LSG, SWD will no longer impose input controls with regard to staffing structures, levels of pay and individual items of expenditure.... With the exception of a few designated expenditure items, NGOs may freely deploy the funds as long as the required objectives, outputs, results and standards are met." Flexibility was one of the most important features and conditions for NGOs to accept LSG as a new subvention mode. Mandatory practices that diverge from that aforesaid LSG spirit are in fact changes to the original contract and that
 - a) They must not be determined unilaterally by the government;
 - b) There should be a formal process to negotiate and agree on the changes;
 - c) NGOs would be given a choice to opt out from the LSG arrangement, without having their rights of continuing services in the community deterred.

- 3) NGOs having different background, history, culture and workflow in practice is a reflection of our pluralistic civil society context. While best practice sharing is a good way to promote continuous improvement, making 'Best Practices' mandatory is in danger of creating one-size-fit-all-solutions that are not practical.

- 4) SWD has to make clear the consequence of not following these mandatory practices and to provide for an appeal system for NGOs to justify their cases.

On Finance related issues

- 5) The purposes of keeping LSG Reserve and Provident Fund Reserve are clearly stated in the LSG manual. The Reserves constituted public money that NGOs are held responsible for managing. NGOs agreeing to LSG arrangement are committed to follow the related stipulations in the LSG Manual. SWD has the

duty to clarify publicly that NGOs' keeping and managing the Reserves are noble, responsible and warranted acts, so as to do NGOs justice and prevent further damage to the sector.

- 6) NGOs welcome changes to existing measures that enable NGOs to use the PF Reserve creatively for its intended purposes. To allow pooling of the PF reserve of snap-shot and non-snap-shot colleagues is one of such measures.

On Human Resource related issues

- 7) NGOs treasure its staff as the most important asset. The sole reason for not being able to offer remuneration packages that commensurate with work experience, similar to snapshot staff, is the capping of the funding level at mid point. Given adequate funding, NGOs are keen to improve on the salary and benefit packages so as to practice a "fair" human resource policy, without differentiation of snapshot and non-snapshot staff, so as to retain talents for long term sustainability of the organizations.
- 8) NGOs do agree that communication with staff members especially in relation to the salary and benefits is a basic element to modern management practice.
- 9) The LSG spirit is to allow flexibility for NGOs to deploy resources so as to respond to community needs in a more timely and effective manner. (Please refer to the quote at the end of this document, regarding 'flexibility' as stipulated in the LSG Manual) Any new restriction on flexibility in human resources management and instruction from SWD on how to determine salary levels and benefits would be a change in the LSG agreement. Under the LSG environment, many NGOs have created new staff and salary structures delinked from the civil service practice, SWD should be very cautious of micro-management and stipulating requirements that would dismantle the entire reengineering efforts and would defeat the whole purpose of LSG.

On Governance related issues

- 10) NGOs are formed by enthusiastic, benevolent people and groups in the community to do good for society, according to the legal framework in Hong Kong. NGOs' independence is a most important feature that we must respect and preserve.

11) SWD is an important funder, and yet not the sole income source, to the social service sector. Its partnership with the third sector is manifested through the various funding and service agreements. NGOs respect SWD's having a duty to ensure compliance to requirements on governance and management of the funded services. The Government however has no rights to prescribe the composition and formation of NGOs' governance. Any mandatory item in the Best Practice Manual related to the formation and composition of the Governance of NGOs is therefore inappropriate and not acceptable.

12) Engaging stakeholders in the making of important management decisions is a good practice for mutual sharing and learning across NGOs. Public accountability and continual organization enhancement are common goals that NGOs would work with Government to improve. Having said that, increasing transparency should not be mandatory, and should be confined to certain clearly defined areas.

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Abstract from LSG Manual Chapter 2 (May 2012)

Flexibility of LSG

2.14 Within the context of Funding and Service Agreements (FSAs), NGOs have flexibility in deploying their LSG (excluding the PF part) for purposes including, but not limited to, the following :

(a) staff expenses including salary, allowances and personnel-related expenses (including fringe benefits) for their staff based on their own staffing structure and remuneration; and

(b) other operating expenses.

2.15 LSG is provided on a NGO basis. NGOs' management may redeploy LSG resources across service units as long as these are within the service units governed by FSAs after assessing needs, and vire from one cost item to another cost item, e.g. from OC to salaries and vice versa. There is no need for NGOs to obtain approval from SWD as long as the NGO ensures that redeployment, virement and cost items comply with the principles as stated in paragraph 2.14 above. Governing bodies of NGOs will have to develop their own processes and delegation of authority for the development and virement of funds.

5 December, 2012