

Financial Projection under Lump Sum Grant Subvention System



Mr C.F. Fong
CEO of SAHK

18 November 2015



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Why we need financial projection



- Financial stability is a basic requirement for an organisation to provide services.
- Financial projection provide the management with financial information of the organisation to facilitate timely planning.
- The management can refer to the results of financial projection to make timely and appropriate financial decisions to ensure financial stability and good use of financial resources.



Features of Financial Projection



- It is based on prediction rather than accounting.
- It combines data and experience rather than actuary.
- It aims to provide the management with the outline of future financial trend of the organisation.
- The purpose is to maintain sustainable operation of existing services.
- The management must conduct projection by making proper assumption on each financial parameters, on the basis of the organisation's financial system and its operating conditions.



Parameters of Financial Projection

Income from LSG (AA):

- LSG (A)
- Additional grants for enhancement of existing service and new services (B)
- Additional allocation for salary adjustment (C)
- Service fee charging (D)

Total income from LSG (AA) = A+B+C+D



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Parameters of Financial Projection (cont'd)



Expenses from LSG (BB) :

- Employees' salaries (E)
- Reserve on vacancies (F)
- Allowances and bonus (G)
- Budget for already known newly added posts for service enhancement of existing services and new services (H)
- Additional expenses arising from salary adjustment (I)



Parameters of Financial Projection (cont'd)



Expenses from LSG (BB) (cond't) :

- Expense at annual salary increment (J)
- Expense on relief staff (K)
- Other staff expense (L)
- Other operating expense (OC)(M)

LSG expense (BB) =

$E+F+G+H+I+J+K+L+M$



Parameters of Financial Projection (cont'd)



Salary expense savings (CC) :

- Savings from staff retirement (N)
- Savings from natural staff turnover (O)

Salary expense savings (CC) : $N+O$

Annual closing: $AA-BB+CC$ +income from the reserve interests of that year



Conclusion



- Dilemma faced by organisational finance management: over-conservative vs. over-progressive.
- Financial projection provides the management with basic information to understand whether the organisation's future finance is stable.
- Therefore, financial projection is required for an organisation whether it has reserve or not and no matter how much reserve it has.



Conclusion



- There may be a deficit since not all conditions are predictable; reserve will be used to deal with the deficit.
- If an organisation has financial deficits for years, financial projection will alert the management to take necessary measures to avoid extreme conditions.





Thank you !



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Approach to Projection of Agency-based Lump Sum Grant (LSG) Status - A Reference Example
by C F Fong, Chief Executive Officer, SAHK

1. Purpose: To get a holistic estimate of financial sustainability over a period for maintenance of existing services operating under LSG System
2. The projection period - 10 years, 15 years, or 20 years?
3. A universal template

<u>Year</u>	<u>Estimated LSG Income (A)</u>	<u>Estimated LSG Expenditure (B)</u>	<u>Projected Year Balance (C=A-B)</u>	<u>Projected Accumulative Balance</u>	<u>Projected Accumulative Balance Last Year</u>
<u>LSG Reserve Brought Forward (if any):</u>				<u>\$\$\$\$\$\$ (D)</u>	<u>\$\$\$\$\$\$</u>
<u>2015/16</u>				<u>D+C(15/16) = E</u>	
<u>2016/17</u>				<u>E+C(16/17) = F</u>	

4. Estimated LSG Income

Parameter	For Current Year - Based on known facts	For Future Years - Assumptions
LSG Allocations (A)	<ul style="list-style-type: none"> ● SWD Subvention Allocation Summary 	<ul style="list-style-type: none"> ● Adjustments only for known/approved allocations e.g. by phase service expansion or new service implementation etc. ● Otherwise, assume no change throughout the projection period ● Assumption - Additional allocations from SWD for CSPA and inflation will be off-set by additional expenditure in PE and OC (please refer to the expenditure part below) ● Assume no change throughout the projection period ● Assumption - increase in stipulated fee of a service will be off-set by a deduction of subvention allocations of that service.
LSG Allocations - additions and/or adjustments (B)	<ul style="list-style-type: none"> ● Additions and/or adjustments for service expansion/enhancement and/or new service implementation 	
Allocations for Civil Service Pay Adjustment (CSPA) (C)	<ul style="list-style-type: none"> ● SWD letter for CSPA (If not yet receive the letter, ignor it, please refer to the expenditure part below) 	
Fee Income (D)	<ul style="list-style-type: none"> ● Use the budgeted amount of the current year or total fee income of the past 12 months, adjustment may be needed for known significant factors/changes 	

Total Income: A + B + C + D = AA

5. Estimated LSG Expenditure

5.1 Personal Emoluments

Parameter	For Current Year - Based on known facts	For Future Years - Assumptions
Salary (E)	<ul style="list-style-type: none"> ● Use the total payroll sum in the month of projection x 12 	<ul style="list-style-type: none"> ● Assume no change throughout the projection period
Salary for vacant posts (F)	<ul style="list-style-type: none"> ● No need to include for all vacant posts. Make a good guess (allow a reasonable vacancy rate, if necessary include expenses for some vacant key posts) 	<ul style="list-style-type: none"> ● Assume no change throughout the projection period
Allowance and awards (e.g. training allowance, merit awards) (G)	<ul style="list-style-type: none"> ● Based on last year figure with adjustments as appropriate 	<ul style="list-style-type: none"> ● Assume no change throughout the projection period
Salary for new posts due to service expansion/ enhancement and new service implementation (H)	<ul style="list-style-type: none"> ● Only for known service expansion/enhancement and/or new service implementation with additional/adjusted allocations included in the Income Table above. 	<ul style="list-style-type: none"> ● Adjust according to implementation phases ● Assume no change throughout the projection period after full implementation
Civil Service Pay Adjustment (I)	<ul style="list-style-type: none"> ● Add estimated expenditure for CSPA ● If the amount not yet known and is not included in the income, only put down the estimated balance figure, <u>negative</u> if there will be an expected surplus) 	<ul style="list-style-type: none"> ● If assume balance, no change throughout the projection period ● If not, look for the trend and include the balance figures as appropriate
Incremental creeps (J)	<ul style="list-style-type: none"> ● Estimate in accordance with the HR policies 	<ul style="list-style-type: none"> ● Estimate year by year and don't forget the cumulative effect
Relief worker expenses (K)	<ul style="list-style-type: none"> ● Based on last year figure with adjustment 	<ul style="list-style-type: none"> ● Can make adjustment in the coming one or two year and then assume no change afterward or otherwise, assume no change throughout the projection period
Others	<ul style="list-style-type: none"> ● As appropriate 	<ul style="list-style-type: none"> ● Assume no change throughout the projection period

5.2 Other Charges

	For Current Year - Based on known facts	For Future Years - Assumptions
Other Charges (M)	<ul style="list-style-type: none"> ● Apply the budget figure of the current year 	<ul style="list-style-type: none"> ● Assume no change throughout the projection period as inflation will be covered by yearly adjustment in allocation by SWD

Total Expenditure : $E + F + H + I + J + K + L + M = BB$

5.3 Savings in Personal Emolument

	For Current Year - Based on known facts	For Future Years - Assumptions
From staff retirement (N)	<ul style="list-style-type: none"> ● Based on facts, estimate the difference in salary between a retired staff and a newly recruited staff. 	<ul style="list-style-type: none"> ● Based on facts, and don't forget the cumulative effect of the savings.
From natural turnover (O)	<ul style="list-style-type: none"> ● Based on last year turnover parameters for estimation 	<ul style="list-style-type: none"> ● Assume no change throughout the projection period

Total PE Savings: $N + O = CC$

6. Projected Year Balance: $AA - BB + CC + \text{Interest from LSG Reserve (if any)}$

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