

Our Ref. : (15) in SWD/S/109/10/6 Pt. 7
Your Ref. :
Tel. No. : 2832 4363

Subventions Section
38/F, 248 Queen's Road East
Wanchai
Hong Kong

22 May 2009

NGO Head,
Subvented Non-governmental Organisation

Dear Sir/Madam,

**Review Report on the
Lump Sum Grant Subvention System (LSGSS)**

You may be well aware that the Administration has accepted in principle all the 36 recommendations made in the Review Report on the LSGSS during the Legislative Council's Panel on Welfare Services meeting held on 9 February 2009 and planned to take them forward in concert with the welfare sector and seek funding approval as necessary.

While some of the recommendations are to be implemented later this year as the Administration needs some time to secure necessary resources from the related authorities or collect views from different stakeholders, the following 12 recommendations, which can streamline the financial reporting and budgeting of the non-governmental organisations (NGOs), and enhance accountability and service and human resource planning of the NGOs, will be implemented with immediate effect:

Recommendations on Streamlining Financial Reporting and Budgeting of NGOs

Recommendation 8: *In exceptional and justifiable cases, the Social Welfare Department (SWD) will allow NGOs to advance the subventions for Other Charges.*

On exceptional and justifiable circumstances, NGOs may apply to SWD for advancement of allocation of subventions on Other Charges. The advancement should normally be within the same financial year. In case of special request for cross-year advancement, approval from related authority has to be sought.

Recommendation 10: *NGOs which anticipate financial difficulties can alert SWD in advance, so that remedial measures can be taken as appropriate before the NGOs concerned exhaust their reserves.*

NGOs are advised to have annual financial budgeting at the beginning of every financial year and if they anticipate financial difficulty, they should:

- have thorough deliberation in their Board; and
- inform SWD in advance about their anticipation under their conscious management decision.

SWD will study individual case situation and request the NGOs to provide further information for analysis if necessary. SWD will follow up with the NGO concerned on the possible way out.

Recommendation 14: *SWD is prepared to explain, at the request of individual NGOs, the basis of their LSG calculations.*

Recommendation 19: *SWD will streamline the financial reporting requirements:*

Please note that starting from 2008-09, **submission of Note 9 to the Annual Financial Report (AFR) is no longer required.** However, to achieve sound and prudent financial management, NGOs are still expected to maintain separate accounting records for each subvented service unit themselves as before. This would not only be useful for resources management purpose by NGOs, it would also contribute to their monitoring of service performance of individual service units. During subvention inspection to be carried out by SWD, NGOs are expected to produce income and expenditure statements in respect of each subvented service unit for review when required.

Recommendation 20: *SWD should review the deadline for NGOs to submit their AFR, taking into account the practicability of the requirement.*

To allow more time for NGOs and their auditors to prepare the AFR and the related schedules, the deadline for submission of the 2008-09 financial statements will be extended to 31 October 2009. For administrative convenience, the deadlines for submission of reports of Special One-off Grant, One-off Subsidy and Block Grant will also be extended to 31 October 2009. Thereafter, deadline for submission of NGOs' AFR will be 31 October of each year.

Recommendations on Enhancing Accountability and Service & Human Resource Planning of NGOs

Recommendation 4: *In budgeting for non-subvented services, NGOs need to factor in pay adjustments, so that they may be in a better position to meet staff expectations when subvented services receive additional funds for pay adjustments.*

Recommendation 9: *In managing their reserves, NGOs should take into account their Snapshot Staff commitments, as well as the need for service enhancement and staff development.*

Recommendation 11: *NGOs should fully deploy the Provident Fund (PF) provisions and reserves for non-Snapshot Staff on PF contributions, including possibly special contributions to award non-Snapshot Staff for their good performance.*

Recommendation 18: *To avoid misunderstanding, NGOs should consult the SWD in a timely manner as to what constitute “Funding and Service Agreement (FSA)-related” activities before conducting such activities.*

Recommendation 23: *Small NGOs may consider submitting joint proposals to enhance their competitiveness in the bidding of new services. While NGO participating in such joint ventures have to identify a representative to sign the FSA and liaise with the SWD, the NGOs should also enter into an agreement among themselves to set out clearly their individual contributions and shared responsibilities.*

Recommendation 25: *NGOs should carefully consider their resource implications before preparing service proposals. NGOs should also take into account the views of their staff and share with them the considerations in submitting service proposals.*

Recommendation 28: *A formal public accountability framework should be in place for NGOs to disclose their AFRs as submitted to the SWD, so that they will also be accountable to the public for the proper and prudent use of public funds.*

NGOs should establish their channels of disclosure of AFR to public and disclose the AFR to public upon their submission of AFR to SWD each year, including:

- posting up a copy of AFR to their notice board(s) at the Central Administration Unit/Head Office;
- uploading to website;
- placing the AFR into their Annual Report; and
- issuing special circular, newsletter or whatever means to provide the content of AFR and should be made available to public upon request etc.

Financial Reporting Arrangements

Please note the following modified financial reporting arrangements:

Note 8 and Annex 1(a) on the Reporting of Central Items

The Note 8 of LSG Circular No. 1 - Guideline for Preparation of AFR and Annex 1(a) are revised for the reporting of the use of Lump Sum Grant Reserve to cover the salary adjustment of the Programme Assistants, Care Assistants and the dementia supplement and infirmary care supplement (if applicable) as stated in our letter ref (23) in SWD/S/104/2 Pt. 4 dated 16 July 2008. The updated versions of the above schedules are enclosed for your completion.

Please be reminded the following items when preparing AFR of your organization:

1. Reporting of Special One-off Grant (SOG)

If your organisation is receiving the Special One-off Grant (SOG), please also refer to the revised format of AFR (which includes items for reporting SOG) and Annual Progress Report (APR) on usage of SOG in our letter under reference SWD/S/109/20/1 dated 8 February 2007.

2. Submission of Schedule for Investment

According to LSG Circular No. 8, you are also required to submit the Schedule for Investment (i.e. annex to the circular) in case of positive LSG Reserve balance.

Enquiries

Please contact the following officers if you have any enquiries on:

Nature of Enquiries	Responsible Officer
- Modified financial reporting arrangements and preparation of financial statements	- Ms Rita MOK at 2836 5798 - Mr. Ivan YEUNG at 2892 5340
- Financial reporting on central items	- Ms Cindy WONG at 2892 5351
- General enquiries on the Review Report of LSGSS	- Agency Officer designated to your organisation

We will keep you posted of the implementation arrangements of other recommendations of the Review Report in due course.

Yours sincerely,

(Signed)

(Ms Lily Ng)
for Director of Social Welfare

Encl.

c.c. Chairperson of NGO

Schedule for Central Items
Analysis of Subvention and Expenditure for the Period from _____ to _____

Name of Agency : _____

Unit Code and Name (Note 7)	Subvented Element	Subvention Released (Note 1)	Actual Expenditure (Note 2)	Surplus (Note 3) (a)	Deficit for the Year			Surplus b/f (Note 5) (e)	Surplus c/f (Note 6) (f)=(e)+(a)-(d)
					Deficit (Note 3) (b)	Deficit transferred to LSG (Note 4) (c)	Adjusted Deficit (d) = (b) - (c)		
XXX1 - xxxxxxxxxxxx	Dementia Supplement for Elderly with Disabilities	\$	\$	\$	\$	\$	\$	N.A.	N.A.
XXX2 - xxxxxxxxxxxx	Infirmiry Care Supplement for the Aged Blind Persons							N.A.	N.A.
XXX3 - xxxxxxxxxxxx	Dementia Supplement for Residential Elderly Services							N.A.	N.A.
XXX4 - xxxxxxxxxxxx	Infirmiry Care Supplement for Residential Elderly services							N.A.	N.A.
XXX5 - xxxxxxxxxxxx	Foster Care Allowance / Emergency Foster Care Allowance					N.A.		N.A.	N.A.
XXX6 - xxxxxxxxxxxx	After School Care Programme					N.A.		N.A.	N.A.
XXX7 - xxxxxxxxxxxx	Programme Assistants / Care Assistant (Permanent) - Elderly Services					N.A.		N.A.	N.A.
XXX8 - xxxxxxxxxxxx	Programme Assistants / Care Assistant (Permanent) - Rehabilitation Medical and Social Services					N.A.		N.A.	N.A.
XXX9 - xxxxxxxxxxxx	Temporary Financial Aid					N.A.			
XX10 - xxxxxxxxxxxx	Emergency Fund					N.A.			
XX11 - xxxxxxxxxxxx	Three-year Time-defined Subsidy Scheme for Extended Hours Child Care Service (1 September 2005 - 31 August 2008)					N.A.			
XX12 - xxxxxxxxxxxx	Extension of Time-defined Subsidy Scheme for Extended Hours Child Care Service (1 September 2008 - 31 March 2011)					N.A.		N.A.	
XX13 - xxxxxxxxxxxx	Visiting Medical Practitioner Scheme					N.A.			
XX14 - xxxxxxxxxxxx	Training Subsidy Scheme for Standalone Child Care Centre (CCC), KG-cum-CCC and Residential CCC					N.A.			
XX15 - xxxxxxxxxxxx	Training Subsidy under Training Scheme for Child Care Supervisors and Special Child Care Workers in Pre-school Rehabilitation Services					N.A.			
XXXPA - xxxxxxxxxxxx	Programme Work posts for 3 years from 2008-09 to 2010-11					N.A.		N.A.	N.A.
XXXS - xxxxxxxxxxxx	Programme Assistants (PA) / Care Assistants (CA) allocated vide our letter ref. (17) in SWD/S/203/1 Pt.8 dated 17 March 2007							N.A.	N.A.
N.A.	Subsidy under the Home Environment Improvement Scheme for the Elderly					N.A.			
TOTAL									

/...Notes

Notes :

Schedule for Central Items
Analysis of Subvention and Expenditure for the Period from _____ to _____

1. The figures for the whole financial year can be extracted from the payroll for March (Final) of the financial year.
2. Actual expenditure represents the total expenditure incurred including provident fund for the respective services after netting off programme income, if any.
3. Surplus/Deficit for each element represents the difference between subvention released and actual expenditure.
4. Deficit i.r.o. the following central items arising from salary adjustment can be transferred to the Lump Sum Grant Reserve as stated in our letter ref. (23) in SWD/S/104/2 Pt. 4 dated 16 July 2008.
 - (i) Dementia Supplement for Elderly with Disabilities
 - (ii) Infirmary Care Supplement for the Aged Blind Persons
 - (iii) Dementia Supplement for Residential Elderly Services
 - (iv) Infirmary Care Supplement for Residential Elderly services
 - (v) Programme Assistants (PA) / Care Assistants (CA) allocated vide our letter ref. (17) in SWD/S/203/1 Pt.8 dated 17 March 2007
5. "Surplus brought forward (b/f)" means surplus, if any, arising from operations in previous years.
6. "Surplus carried forward (c/f)" means surplus brought forward plus surplus, if any, arising from operations in current year.
7. Unit codes and names assigned by SWD should be filled, if available.
8. As the above schedule may not be exhaustive in content, any relevant details in respect of central items released and/or expended during the year may also be included, where appropriate.

8. Analysis of Reserve Fund

	Analysis of Reserve Fund						
	Lump Sum Grant (LSG)	Special One-off Grant (SOG)	Interest Received	Sub-total LSG, SOG and Interest Received	Rent and Rates	Central Items	Total
	\$	\$	\$	\$	\$	\$	\$
Income							
Lump Sum Grant	A+B	-	-	A+B	-	-	A+B
Special One-off Grant	-	C	-	C	-	-	C
Fee Income	D	-	-	D	-	-	D
Other Income	G	-	-	G	-	-	G
Interest Received	-	-	H	H	-	-	H
Rent and Rates	-	-	-	-	F	-	F
Central Items	-	-	-	-	-	E	E
Total Income (a)	x	x	x	x	x	x	I
Expenditure							
Personal Emoluments	J	K	-	J+K	-	-	J+K
Other Charges	L	M	-	L+M	-	-	L+M
Rent and Rates	-	-	-	-	N	-	N
Central Items	-	-	-	-	-	P	P
Total Expenditure (b)	x	x	-	x	x	x	Q
Surplus/(Deficit) for the Year (a) - (b)	x	x	x	x	x	x	U
Less : Surplus/(Deficit) of Provident Fund	R	-	-	R	-	-	R
Surplus/(Deficit) b/f	x	x	x	x	x	x	X
Surplus/(Deficit) b/f	x	x	x	x	x	x	X
Add/(Less): Transfer from LSG Reserve to cover the salary adjustment for Programme Assistants, Care Assistants, Dementia Supplement and Infirmiry Care Supplementary (Note 1)	(x)	-	-	(x)	-	x	X
Less : Refund to Government	x	x	x	X	x	x	X
Less : Refund to Government	x	x	x	x	x	x	X
Surplus/(Deficit) c/f (Note 2)	S	x	T	x	x	x	x

Notes: (1) Amount of LSG Reserve used to cover the salary adjustment for Programme Assistants, Care Assistants, Dementia Supplement and Infirmiry Care Supplement, if any, as per Annex 1(a).

(2) The level of cumulative reserves (i.e. S + T) will be capped at 25% of the NGO's operating expenditure (excluding PF expenditure) for that year.