



Sharing Session on Financial Management Issues for Non-governmental Organisations

**Social Welfare Department
6 May 2022**



Topics

(A) Management of Holding Accounts

(B) Annual Financial Projections



Holding Accounts

Background:

- ▶ A facilitating measure for non-governmental organisations (NGOs) to meet **contractual commitments towards the Snapshot Staff** as well as enhancing **human resources practices**, with a view to achieving financial viability in providing subvented services
- ▶ To withhold the claw-back of Lump Sum Grant (LSG) reserve above 25% cap for the three years from 2004-05 to 2006-07. The cumulative LSG reserve as at 31 March 2007 was kept in Holding Accounts (HAs) of the NGOs concerned



Management of Holding Accounts

Review on Enhancement of Lump Sum Grant Subvention System (LSGSS) - Recommendation 11

- ▶ Observations by the Task Force for Review on Enhancement of LSGSS
 - **121** NGOs have HAs (73% of NGOs receiving LSG)
 - From 2016-17 to 2020-21 (5 years), **33** NGOs on average had to refund to the Government the reserve exceeding 25% cap of the annual operating expenditure
 - Substantial reduction in the number of Snapshot Staff (**around 21 000 in 2000 > 6 959 in 2015 > 3 707 in 2021**) dropped 46% from 2015 to 2021 but no corresponding decrease in the accumulated balance of HAs (around **\$1.8 billion** in 2021)



Management of Holding Accounts

Review of Enhancement of LSGSS

- Recommendation 11

- ▶ According to “ Maximised Use of Reserve “ (level one) in **Best Practice Manual**, NGOs should decide 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.



Management of Holding Accounts

Review of Enhancement of LSGSS

- Recommendation 11

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



Management of Holding Accounts

(i) NGOs with HA but no Snapshot Staff

- ▶ If there is no Snapshot Staff in September 2021, the HA reserve and LSG reserve should be merged in 2022-23



Management of Holding Accounts

(i) NGOs with HA but no Snapshot Staff

Merging HA reserve and LSG reserve

- ▶ To enhance human resource management
- ▶ Others (with specification, and complying to the financial threshold of deploying LSG on capital expenditure, if applicable)
- ▶ With utilisation plan and financial projection (i) be discussed, assessed and agreed by the governing board / management committee with proper records; and (ii) the staff, including frontline ones, should be consulted under the established mechanism



Management of Holding Accounts

(i) NGOs with HA but no Snapshot Staff

Reporting Requirement

- ▶ For the first three years after merging the reserve in HA with LSG reserve, NGOs should -
 - reflect the overall utilisation situation with itemised breakdown and plans of utilisation of the reserve in HA in a Schedule to the Annual Financial Report (AFR) to be submitted to SWD by 31 October annually; and
 - with a separate disclosure of the expenditure funded by HA reserve in the AFR with the same total amount as shown on the said Schedule.



- ▶ **The Schedule for the Utilisation of Reserve in HA for 2022-23 and the Plan of Utilisation of HA Reserve for 2023-24**



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**Schedule for the Utilisation of Reserve in Holding Account (HA) for 2022-23
and the Plan of Utilisation of HA Reserve for 2023-24**

Name of NGO : _____

Please submit this schedule together with the Annual Financial Report to the Finance Branch of Social Welfare Department on or before 31 October 2023.

(A) Utilisation of HA Reserve (2022-23)

		\$
(1)	Balance as at 31 March 2022 brought forward	(a)
(2)	Actual Expenditure	
	(i) Meeting contractual commitments towards Snapshot Staff	(b)
	(ii) Enhancing human resources management (please specify: _____)	(c)
	(iii) Others [<i>applicable to NGOs without Snapshot Staff</i>] (please specify: _____)	(d)
	Total = (b) + (c) + (d)	(e)
(3)	Balance as at 31 March 2023 carried forward [i.e. = (a) – (e)]	(f)
(4)	No. of Snapshot Staff (as at 1 September 2022)	

(B) Plan of Utilisation of HA Reserve (2023-24)

		\$
(1)	Balance as at 31 March 2023 brought forward [i.e. (f) of Part (A)]	(a)
(2)	Estimated Expenditure	
	(i) Meeting contractual commitments towards Snapshot Staff	(b)
	(ii) Enhancing human resources management (please specify: _____)	(c)
	(iii) Others [<i>applicable to NGOs without Snapshot Staff</i>] (please specify: _____)	(d)
	Total = (b) + (c) + (d)	(e)
(3)	Estimated balance as at 31 March 2024 carried forward [i.e. (a) – (e)]	(f)
(4)	Estimated no. of Snapshot Staff (by 1 September 2023)	



Management of Holding Accounts

(i) NGOs with HA but no Snapshot Staff

Claw-back Arrangement

New Arrangement

- Both the expenditure funded by HA reserve and the closing balance of HA reserve will be exempt for the purpose of calculating the annual claw-back amount for the first three years after merging the HA reserve with the LSG reserve
- From the fourth financial year onwards, any balance of HA reserve and LSG reserve will be counted towards a combined reserve, of which amount over 25% of the operating expenditure of the year shall be refunded to the Government



Management of Holding Accounts

(ii) NGOs with HA and Snapshot Staff

Use of Reserve in HA

- ▶ To meet the contractual commitments towards the Snapshot Staff; and
- ▶ To enhance human resources management.
- ▶ With utilisation plan and financial projection (i) be discussed, assessed and agreed by the governing board / management committee with proper records; and (ii) the staff, including frontline ones, should be consulted under the established mechanism



Management of Holding Accounts

(ii) NGOs with HA and Snapshot Staff

Reporting Requirement

(same as those NGOs with no Snapshot Staff)

- ▶ NGOs should -
 - reflect the overall utilisation situation with itemised breakdown and plans of utilisation of the reserve in HA in a Schedule to the AFR to be submitted to SWD by 31 October annually; and
 - with a separate disclosure of the expenditure funded by HA reserve in the AFR with the same total amount as shown on the said Schedule.



Management of Holding Accounts

(ii) NGOs with HA and Snapshot Staff

Claw-back Arrangement

- ▶ expenditure funded by HA reserve is regarded as part of the operating expenditure
- ▶ The amount of annual claw-back will be calculated according to the prevailing practice
- ▶ closing balance of HA reserve will be exempt for the purpose of calculating the annual claw-back amount



Annual Financial Projections

Review on Enhancement of LSGSS

- Recommendation 13

Background

- ▶ Some NGOs have accumulated large amount of reserve
 - \$4.47 billion in 2019-20 and \$5.17 billion in 2020-21 (including HAs)
- ▶ Some NGOs have operating deficits or no reserve



Annual Financial Projections

Review on Enhancement of LSGSS

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- ▶ *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.*
- ▶ *NGOs are also encouraged to provide channels for staff to note the results of financial projections.*



Annual Financial Projections

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Implementation Plan

- ▶ From 2022-23 onwards, NGOs to appoint professionals or assign designated staff / divisions to conduct annual financial projections for the coming three years
- ▶ NGO to report the details to their governing boards and let staff be noted of the results of financial projections
- ▶ Template on financial projections is provided for NGOs' reference



Annual Financial Projections

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► Financial Projection of NGO



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Lump Sum Grant Subvention System (LSGSS)
Financial Projection of Non-governmental Organisation

1. Purpose: To get a holistic estimate of financial sustainability over a period for maintenance of existing services operating under LSGSS
2. The projection period –upcoming three financial years
3. Universal Template (for 2023-24 to 2025-26)

Year	Estimated LSG Income (AA)	Estimated LSG Expenditure (BB)	Projected LSG Surplus/(Deficit) for the Year (CC=AA-BB)	Projected LSG Reserve as at 31 March	Projected Accumulative Balance Last Year
<i>LSG Reserve as at 31 March 2023 brought forward (if any):</i>				\$ (DD)	\$
2023-24				DD+CC(2023-24) = EE	
2024-25				EE+CC(2024-25) = FF	
2025-26				FF+CC(2025-26) = GG	

4. Estimated LSG Income (AA = A + B + C + D + Interest from LSG Reserve (if any))

Parameter	For Base Year - Based on known facts	For the following Two 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 may be off-set by additional expenditure in PE and OC (please refer to the expenditure part below)
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, ignore it, please refer to the expenditure part below) 	
Fee Income / Other Income (D)	<ul style="list-style-type: none"> • Use the budgeted amount of the current year or total fee income/other income of the past 12 months, adjustment may be needed for known significant factors/changes 	<ul style="list-style-type: none"> • Assume no change throughout the projection period • Assumption - increase in stipulated fee of a service may be off-set by a deduction of subvention allocations of that service.

5. Estimated LSG Expenditure (**BB = E + F + G + H + I + J + K + L – M – N + O**)

5.1 Personal Emoluments

Parameter	For Base Year - Based on known facts	For the following Two 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 (L)	<ul style="list-style-type: none"> As appropriate 	<ul style="list-style-type: none"> Assume no change throughout the projection period

5.2 Savings in Personal Emolument

	For Base Year - Based on known facts	For the following Two Years - Assumptions
From staff retirement (M)	<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 (N)	<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

5.3 Other Charges

	For Base Year - Based on known facts	For the following Two Years - Assumptions
Other Charges (O)	<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

6. The above only serves to provide some guidelines for performing the projection. NGOs may add additional items relevant to their organisations and adopt suitable parameters which they consider more appropriate for projection purpose. Besides, for better monitoring, NGOs may consider listing out the breakdown of income and expenditure by items with reference to the format of Annual Financial Report (AFR) as a supplementary information.

- END -



Annual Financial Projections

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Parameters

- ▶ **Income** : LSG allocation; Civil Service pay Adjustment (CSPA); fee income / other income, etc.
- ▶ **Expenditure** : salaries, salaries for vacant posts, allowances and awards; salaries for new posts arising from service expansion, CSPA, incremental creeps; relief worker expenses
- ▶ **Others** : Savings in Personal Emolument due to staff retirement and natural turnover; other charges



Thank You!