

Ref: SWD/SL 101/6

Social Welfare Department
5 December 2003

Lump Sum Grant Circular No. 9/2003

Use of Lump Sum Grant and Lump Sum Grant Reserve

Purpose

The purpose of this circular is to advise NGOs to ensure that there are proper procedures and mechanism in place regarding the use of LSG and LSG Reserve.

Background

2. The LSG Reserve and the liberal provision in respect of Tide-Over Grants (TOG) taken together are intended to help NGOs build up its financial strength to meet requirements after cessation of TOG. Whilst upholding the principle of recognising NGOs' autonomy and flexibility in the use of LSG and LSG Reserve, the LSG Manual Edition 2 (the Manual) contains the needed safeguards to ensure NGOs to exercise financial prudence. The conditions setting out as well as restricting the use of the LSG and LSG Reserve are clearly set out in the Manual and some relevant stipulations from the Manual are extracted at Annex. SWD has no intention to deviate from these principles. To ensure good management practice, NGOs are advised to put in place proper procedures and mechanism regarding the use of LSG and LSG Reserve.

Use of LSG/LSG Reserve

3. Both LSG and LSG Reserve are accounted for under recurrent subventions and, in essence, are intended for operating expenditure for Funding and Service Agreement (FSA) or FSA related activities. Minor or routine capital expenditure may legitimately be charged to LSG or LSG Reserve. However, for major acquisitions or renovation works, NGOs should tap the Lotteries Fund either through annual block grants or major grants. On the other hand, noting that there are resource constraints in annual block grant

allocations, we do not feel that we should debar the use of LSG or LSG Reserve for marginal capital items where justified either on resource or timing grounds. Also, in the course of delivering or improving their services, NGOs may come across situations in which procurement of capital items would be essential both in terms of expediency and operational needs. In this light, as NGOs are using LSG/LSG Reserve and Lotteries Fund for the purchases of goods and services, it would be expedient for NGOs to adopt the same procurement procedures for management and control purposes. Hence, the governing bodies of NGOs should draw up procurement guidelines on the use of LSG/LSG Reserve in line with those of the Lotteries Fund Manual.

4. On the other hand, while promoting NGOs' autonomy and flexibility, it is also the Department's responsibility to monitor NGOs' proper use of public resources and to assist NGOs in strengthening their corporate governance and accountability, both to the public and their staff, under the LSG environment. In this light, NGOs should have put in place a proper mechanism for deployment of LSG Reserve and that any decisions, relating to the deployment of LSG Reserve to meet special or major expenditure items, should be thoroughly discussed in the NGO management Board, well justified and documented. In particular, NGO management should ensure that such expenditure would not cause any financial difficulties to the NGO. This will surely help NGOs explain and justify its decision regarding any irregular spending being identified by the Department.

Enquiries

5. If you have any enquiries, please contact the responsible Liaison Officer of your Agency.

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Extract

Lump Sum Grant Manual Edition 2

2.14 Within the context of 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 provided that the principle of “no better than” comparable ranks in the civil service is observed; 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 other charges 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 paragraphs 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.

2.33 Unspent LSG must be kept in a Reserve Fund and reported to SWD as part of the LSG Annual Financial Report. An amount of cash equivalent to the accumulated reserve must be kept in a separate interest-bearing account with a bank licensed in Hong Kong. The level of cumulative reserves (including interest but excluding PF reserve) at the financial year end will be capped at 25% of the NGO’s operating expenditure (excluding PF expenditure) for that year. Any amount above this cap needs to be refunded to the Government in the following financial year, unless the cap is raised by DSW upon application with justification from the NGO.

2.34 The reserves can be used at the discretion of NGOs subject to the following -

- (a) Provident Fund reserves can only be used for PF commitments in the future;
- (b) The Reserve Fund must be used on FSA activities and the related support services; and
- (c) the NGO will absorb all financial consequences arising from the use of the reserves.

2.35 When a NGO considers using its reserves, it must -

- (a) ensure that it will not encounter financial difficulties;
- (b) if the NGO subsequently encounters financial difficulties, resolve the problem(s) on its own without any financial assistance from the Government; and
- (c) ensure that the problems(s) and resolution(s) do not have adverse effects on the NGO achieving the requirements of FSAs and the interests of its service users.