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26 April 2012

Ms Christine Fang  
Chief Executive  
The Hong Kong Council of Social Service  
13/F, Duke of Windsor Social Service Building  
15 Hennessy Road  
Hong Kong

Dear Ms Fang,

**Report No. 56 of the Director of Audit (Chapter 3)**

**Financial Thresholds for Funding Capital Expenditure by  
Lump Sum Grant or Lump Sum Grant Reserve**

Thank you for your letter of 14 March 2012.

You may recall that the proposal of setting financial thresholds for funding capital expenditure by Lump Sum Grant (LSG) or LSG Reserve was twice discussed at the LSG Steering Committee (LSGSC) on 28 June and 6 December 2011.

At the LSGSC meetings, Members were aware that in pursuance of the Audit Commission's recommendation made in its Report No. 56 of 13 April 2011, the Director of Social Welfare is to issue additional guidelines to non-governmental organisations (NGOs) to elucidate what constitutes minor/routine capital expenditure and marginal capital items that may justify the use of LSG or LSG Reserve as set out in the LSG Circular No. 9/2003. As such, the question of interfering with NGOs' corporate governance should not arise.

Taking into consideration the views of Members, the additional guidelines seek to strike a balance between the need to use LSG or LSG Reserve for service development including capital expenditure and the need to use the same for staff training and development as well as their contractual commitments. You will appreciate that apart from the NGO management, we also need to consult the staff side on these matters.



Following the Audit Commission's recommendation, and having regard to Members' views, we have therefore set the relevant thresholds for tapping the LSG or LSG Reserve for (i) capital works projects each costing no more than \$500,000 on a service unit basis; and (ii) furniture and equipment (F&E) items each costing no more than \$50,000 – in short, within the ambit of block grant.

As we explained at the LSGSC meeting held on 6 December 2011 and in our management letter to NGOs of 18 January 2012, the seeking of the Department's prior advice is required on capital expenditure above the aforementioned thresholds, namely (i) capital works projects each costing more than \$500,000 on a service unit basis; and (ii) F&E items each costing more than \$50,000. This is to ensure that the requirements as set out in the management letter are fully complied with, and before the NGO taps the LSG or LSG Reserve for that purpose, to consider whether the NGO should tap the Lotteries Fund (LF) instead, and if feasible, whether the LF application can be fast-tracked under special consideration.

We note that for religious reasons some NGOs do not wish to associate their service with donations arising from gambling activities and hence have not applied for LF including block grant. There are also some NGOs whose earlier block grant applications were not successful due to the LF acknowledgement requirement. To facilitate these NGOs' application for LF grants, the Lotteries Fund Advisory Committee endorsed at their meeting on 18 November 2008 on the "Special Arrangements" to waive the requirement for them to acknowledge LF through their confirmation of noting the sources of income from LF and their confirmation of having never acknowledged any donation arising from gambling activities. Indeed, some religious NGOs have opted for exemption on an individual basis.

Pursuant to the LSG Independent Review Committee's recommendation, the LSGSC has been reconstituted to strengthen its role and composition, so that it can lead the sector in the continuous development of the LSG Subvention System. All along, the Department has consulted the LSGSC with representatives from the NGO management, the staff side, service users and independent persons, and there is no question of any top-down approach as mentioned in your letter. Having said that, we welcome any dialogue with NGOs including HKCSS on discussion items as mutually agreed.

Yours sincerely,

( LAM Ka-tai )  
for Director of Social Welfare