社會福利署
Social Welfare Department

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Chairpersons of Subvented
Non-governmental Organisations

18 January 2012

Dear Sir/Madam,

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

The Director of Audit has made, in his Report No. 56 (Chapter 3), a total of 25 recommendations of which three are addressed to the Director of Social Welfare[1]. While two of the aforementioned three recommendations were dealt with in our letter of 22 September 2011, I now write again to address the audit recommendation for the Social Welfare Department (SWD) to issue additional guidelines to elucidate what constitutes minor/routine capital expenditure and marginal capital items that may justify the use of Lump Sum Grant (LSG) or LSG Reserve.

In setting the financial thresholds for funding capital expenditure by LSG or LSG Reserve, we have made reference to LSG Circular No. 9/2003, in particular paragraphs 3 and 4 therein, and we have been scrupulous in following the intent of the Circular to ensure no departure from the substance of its stipulations. We also consulted the Lump Sum Grant Steering Committee on 28 June 2011 and 6 December 2011 where proposals on the financial thresholds were thoroughly discussed. To strike a balance between the need to use LSG or LSG Reserve for service development and the need to meet contractual commitments as well as staff training and development commitments, the threshold levels are set out below for compliance -

[1] The three recommendations addressed to the Director of Social Welfare include (a) to disseminate relevant audit recommendations for reference by LSG subvented NGOs and for wider application; (b) to remind LSG-subvented NGOs which have accumulated sizeable reserves to formulate strategic plans on the use of these reserves; and (c) to issue additional guidelines to all NGOs receiving LSG regarding what constitutes minor/routine/marginal capital expenditure that may be charged to the LSG (in the context of LSG Circular No. 9/2003).

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(a) For "minor or routine capital expenditure" which may legitimately be charged to LSG or LSG Reserve (lines 3 to 4, paragraph 3 of LSG Circular No. 9/2003), the threshold levels are -

    (i) capital works projects each costing no more than $200,000 on a service unit basis; and

    (ii) furniture and equipment (F&E) items each costing no more than $20,000.

(b) As "major acquisitions or renovation works" should be charged to the Lotteries Fund (LF) (lines 5 to 6, paragraph 3 of LSG Circular No. 9/2003), it is necessary to ensure that -

    (i) capital works projects each costing no more than $500,000 be subsumed under block grant as far as possible, and those each costing more than $500,000 should seek major LF grants; and

    (ii) F&E items each costing no more than $50,000 be subsumed under block grant as far as possible, and those each costing more than $50,000 should seek major LF grants.

(c) Within the ambit of block grant, "marginal capital items" could be charged to LSG or LSG Reserve where justified on either resource or timing grounds (lines 8 to 10, paragraph 3 of LSG Circular No. 9/2003). The threshold levels are -

    (i) capital works projects each costing from more than $200,000 to $500,000 on a service unit basis; and

    (ii) F&E items each costing from more than $20,000 to $50,000.

(d) "Special or major expenditure items" which could be charged to LSG or LSG Reserve (line 7, paragraph 4 of LSG Circular No. 9/2003) refer to -

    (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.

The charging of the aforementioned special or major expenditure items to LSG or LSG Reserve, however, should only be made on condition that -

(i) proper mechanism be in place for deployment of LSG or LSG Reserve [this condition also applies to (a) and (c) above];

(ii) NGO management should ensure that such expenditure will not cause any financial difficulties to the NGO [this condition also applies to (a) and (c) above];

(iii) the NGO's management board has thoroughly discussed the deployment of LSG or LSG Reserve to meet the special or major expenditure item, has considered it well justified and has well documented the decision; and

(iv) SWD's advice has been sought in advance.

It is imperative that NGOs should put in place a proper mechanism for deployment of LSG and LSG Reserve. As set out in the LSG Manual (Edition 2), LSG or LSG Reserve should be used in the context of Funding and Service Agreements (FSA), i.e. FSA activities and related support services (paragraphs 2.14 and 2.34(b) of the LSG Manual). NGOs should therefore tap the LF for annual block grants or major grants in respect of major acquisitions or renovation works, unless there are resource constraints or justifiable reasons in terms of expediency and operational needs. In the event that NGOs have to deploy LSG or LSG Reserve to cover capital expenditure, they should always exercise prudence in doing so having regard to their subventions and reserve levels as well as the frequency of such use in particular.

Any decision relating to the deployment of LSG or LSG Reserve to meet special or major expenditure items should be thoroughly discussed by the NGO's management board, and should be well justified and documented in the minutes of their meetings. Given the nature of special or major capital expenditure, SWD's advice should be sought in advance to ensure full compliance with the above requirements, and to consider whether the NGO should tap the LF instead, and if feasible, whether the LF application can be fast-tracked under special consideration.

Please note that the requirements as set out in this letter are to be observed with immediate effect but carry no retrospective implication. If you have any enquiries, please contact Ms Janet Wan, Social Work Officer (Subventions) designated for your organisation, on 2116 4301.

Yours faithfully,

(Philip Tang)
for Director of Social Welfare

c.c. Chief Executive Officers/Directors of NGO