

Briefing Session on Operational Guidelines on Funding and Service Agreement-related Activities and Cost Apportionment for NGOs

Social Welfare Department

2 May 2023

**Operational Guidelines on
Funding and Service
Agreement-related Activities
and Cost Apportionment for
NGOs**

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Ground Rule

Lump Sum Grant (LSG) and LSG Reserve

**For the operating expenses
of the prescribed Funding
and Service Agreement
(FSA) services and FSA-
related activities**

Cross Subsidisation

**NGOs must ensure that there is no
cross-subsidisation of non-
subvented activities by the
subvented programmes in money
or in kind. An appropriate basis
should be adopted for apportioning
the costs between FSA services and
non-FSA services.**

Chapter 1 : Funding and Service Agreement

Funding and Service Agreement

01

What is FSA services, FSA-related activities and non-FSA services

02

Handling of **different ratio** of FSA-related activities supported by LSG

03

Arrangement of **financial reporting** of FSA services/ FSA-related activities supported by other funds

04

Shared use of resources amongst the subvented and subsidised services of SWD and across NGOs and/or Agreement Service Units (ASUs)

05

Financial arrangement on **donations** (in cash or in kind) for FSA services/ FSA-related activities

Funding and Service Agreement

FSA services

Services or activities meeting the

- (i) purpose and objectives;
- (ii) service nature;
- (iii) service contents; and
- (iv) service targets

of an FSA are regarded as FSA services.

FSA-related activities

Services or activities not specified in FSA but having the :

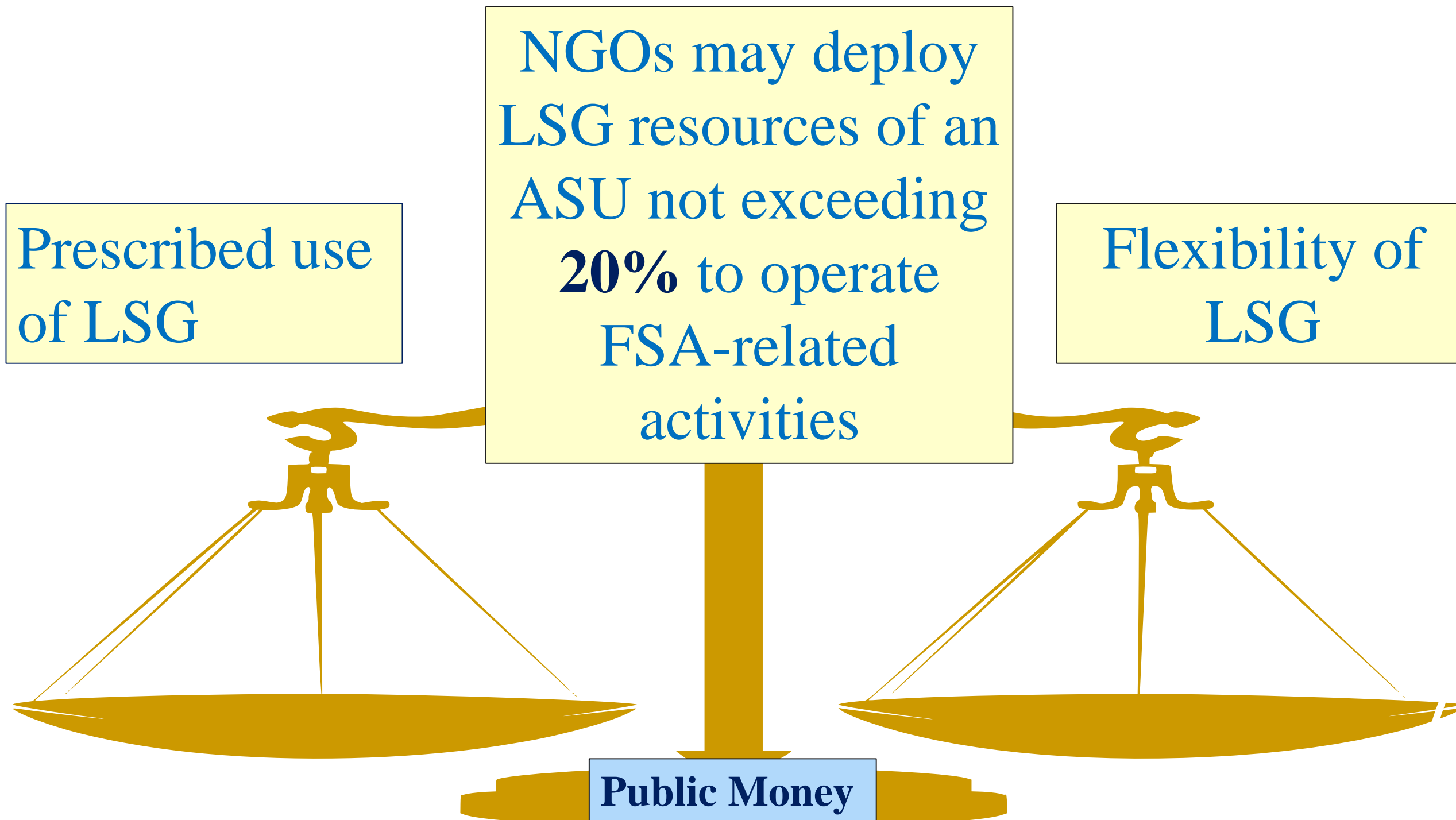
- (i) **same** purpose and objectives of the FSA;
- (ii) **same** service nature of the FSA;
- (iii) the service contents **in line** with the FSA; and
- (iv) the service targets **in line** with the FSA,

are regarded as FSA-related activities

Non-FSA services

The self-financing services or projects or social enterprises that are not subsidised by the Social Welfare Department (SWD) and outside the scope of FSAs

FSA-related Activities



FSA-related activities

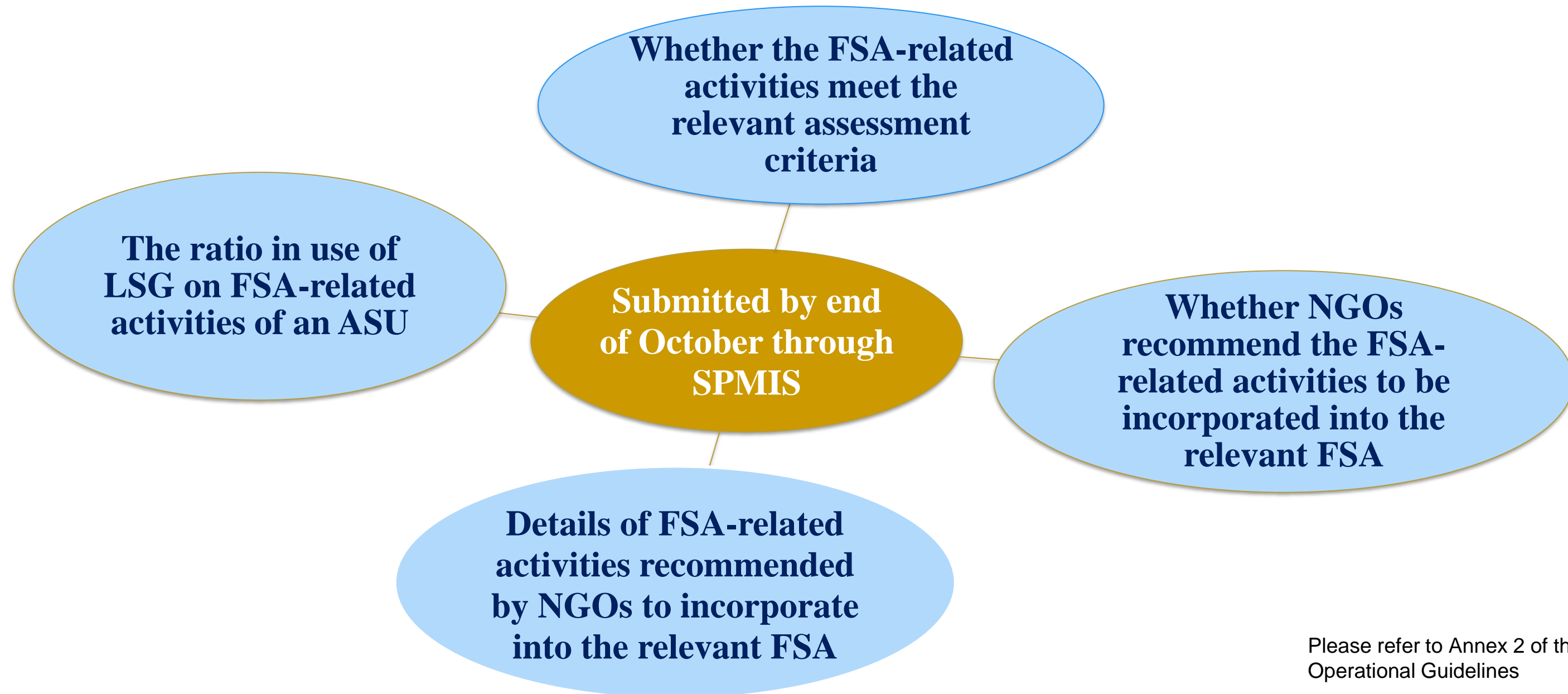
Handling of different ratio in use of LSG on FSA-related activities of an ASU

<ul style="list-style-type: none">(i) Purpose and objective same as relevant FSA;(ii) Service nature same as relevant FSA;(iii) Service contents in line with relevant FSA; and(iv) Service targets in line with relevant FSA	10% or less
<p>The above (i) to (iv) and</p> <ul style="list-style-type: none">(v) Governing board / management committee should discuss assess its impact on services, staff and service users;(vi) Frontline staff and service users must be consulted according to established mechanism; and(vii) Prior consent sought from the relevant service branch of SWD	More than 10%
NGOs should bear those cost of exceeding 20% with its own resources	More than 20%

Financial Arrangement for FSA Services/ FSA-related Activities Supported by Other Funds

To report in the Annual Financial Report (AFR)	Not to report in the AFR
<ul style="list-style-type: none"> • Relevant income and expenditure are included into the LSG account 	<ul style="list-style-type: none"> • Apportionment of cost is required if LSG resources are deployed on these activities <p style="text-align: right; font-size: small;">Please refer to paragraphs 1.4.3, 1.4.4, 1.5.10 and Annex 1 of the Operational Guidelines</p>
<ul style="list-style-type: none"> • Complete Annex 1 attaching to AFR 	
<ul style="list-style-type: none"> • Unspent balance to be returned to the funder should be borne by the NGO's own resources 	

Annual Statement on FSA-related Activities



Shared Use of Resources

**Subvented
services of
SWD**

**Subsidised
services of
SWD**

(including programmes initiated
or co-ordinated by SWD)

ASUs within or across NGOs

Please refer to paragraph 1.6 of the
Operational Guidelines

Donations

LSG

✓ Some donated items (e.g. computers, vehicles, washing machines, etc.) may incur related operating expenses which may be charged to LSG, on condition that they are solely used for FSA/FSA-related services

✗ SWD will not be responsible for replacement or replenishment of the donated items

✗ SWD will not provide any additional subvention for meeting the recurrent expenses incurred by the donated items

- Donations in cash or any income generated from the donated items shall be treated as Other Income and included into AFR
- Donated items will not bring any adverse effects to the service operation or financial difficulty of the NGO concerned

Please refer to paragraph 1.7 of the Operational Guidelines

FSA- related Activities

**Four
assessment
criteria**

Common language, consistent and objective

**Financial
reporting**

NGOs decide whether or not to include the income and expenditure of the FSA services/FSA-related activities supported by other funds into the AFR

**Annual
Statement**

NGOs decide whether or not to recommend the FSA-related activities be incorporated into the concerned FSA after assessment

**Synergetic
use of
resources**

Unless otherwise specified, resources of subvented and subsidised services of SWD may be shared

**Arrangement
of donations**

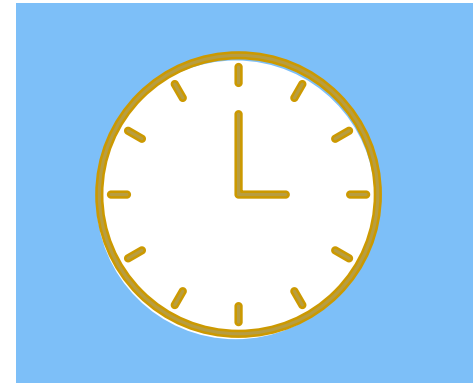
Recurrent expenses incurred by donated items may be charged to LSG

Chapter 2 : Non-subvented Services and Cost Apportionment

Guiding Principles of Cost Apportionment



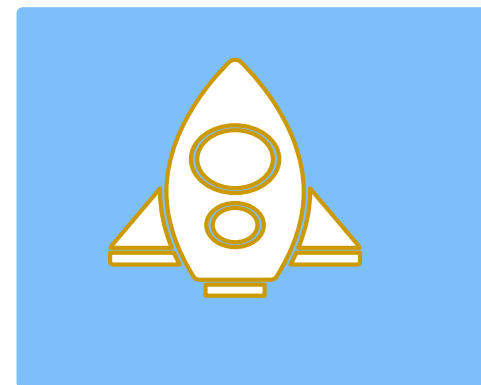
Transparency



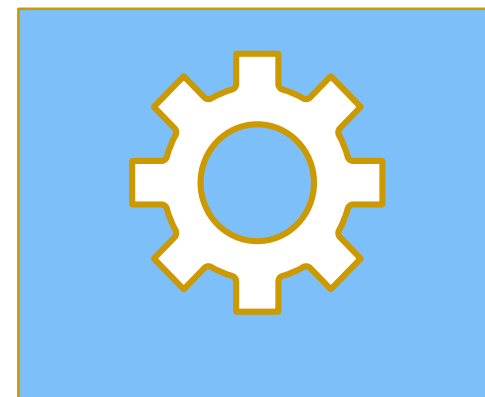
Consistency



Fairness and Reasonableness



Materiality



Causality and Relevance

Please refer to paragraph 2.3 of the Operational Guidelines

Cost Groups

Direct Staff Costs

**Other Direct
Operating Costs**

**Administrative Costs
of the ASU**

**Central Administrative
Costs of an NGO**

Please refer to paragraph 2.4.3 of
the Operational Guidelines

Commonly Used Cost Apportionment Bases for Direct Staff Costs

Cost Items/Types	Apportionment bases and methods
<ul style="list-style-type: none">✧ Salaries✧ Provident Fund Contributions✧ Allowances✧ Fringe Benefits	<ul style="list-style-type: none">✧ Time spent by direct staff on FSA services and non-FSA services, irrespective of whether they work during normal office hours

Commonly Used Cost Apportionment Bases for Other Direct Operating Costs

Cost Items/Types	Apportionment bases and methods
✧ Food, e.g. food for service users and food for staff	✧ Number of service users joining FSA services and non-FSA services
✧ Programme Expenses, e.g. admission fees, hire of venue, hire of transport service	✧ Time spent by direct staff on FSA services and non-FSA services ✧ Number of service users joining FSA services and non-FSA services
✧ Accommodation related costs, e.g. R&R (recognised by SWD), utilities, repair and maintenance, cleansing and insurance expenses	✧ Floor area deployed for FSA services and non-FSA services ✧ Number of service users joining FSA services and non-FSA services ✧ Duration of utilisation (based on available operating hours)

Commonly Used Cost Apportionment Bases for the Administrative Costs of an ASU

Cost Items/Types	Apportionment bases and methods
<ul style="list-style-type: none"> ✧ Salaries ✧ Provident Fund ✧ Contributions ✧ Allowances ✧ Fringe Benefits 	<ul style="list-style-type: none"> ✧ Total time spent by direct staff on FSA services and non-FSA services, irrespective of being in normal office hours or not ✧ Headcount of direct staff for FSA services and non-FSA services
<ul style="list-style-type: none"> ✧ Accommodation related costs, e.g. R&R (recognised by SWD), utilities such as electricity, gas and fuel, water 	<ul style="list-style-type: none"> ✧ Floor area deployed for FSA services and non-FSA services ✧ Number of service users joining FSA services and non-FSA services
<ul style="list-style-type: none"> ✧ Stores and Equipment, e.g. printing and stationery, newspapers and periodicals, consumables, computer hardware, software and network product. 	<ul style="list-style-type: none"> ✧ Time spent by direct staff on FSA services and non-FSA services ✧ Headcount of direct staff for FSA services and non-FSA services ✧ Number of service users joining FSA services and non-FSA services

Commonly Used Cost Apportionment Bases for the Administrative Costs of an ASU

Cost Items/Types	Apportionment bases and methods
<ul style="list-style-type: none"> ✧ Repair and Maintenance <ul style="list-style-type: none"> - for accommodation - for equipment 	<ul style="list-style-type: none"> ✧ For accommodation related expenses: Floor area deployed for FSA services and non-FSA services ✧ For equipment related expenses: Number of service users joining FSA services and non-FSA services
<ul style="list-style-type: none"> ✧ Transportation and Travelling (e.g. vehicle license, vehicle third party insurance, vehicle repair and maintenance, parking fees and fuel charges) 	<ul style="list-style-type: none"> ✧ Proportion of utilisation level of vehicles, in terms of mileage or time spent) deployed for FSA services and non-FSA services

Commonly Used Cost Apportionment Bases for Central Administrative Costs of an NGO

Cost Items/Types	Apportionment basis and methods
<ul style="list-style-type: none"> ✧ Salaries ✧ Provident Fund (PF) Contributions ✧ Allowances ✧ Fringe Benefits 	<ul style="list-style-type: none"> ✧ Man-hour of staff of CAO spent between FSA services and non-FSA services
<ul style="list-style-type: none"> ✧ Utilities ✧ Repairs and Maintenance ✧ Stores and equipment 	<ul style="list-style-type: none"> ✧ Floor area occupied by staff of CAO between FSA services and non-FSA services ✧ Percentage of man-hour of staff of CAO spent between FSA services and non-FSA services
<ul style="list-style-type: none"> ✧ Audit fee 	<ul style="list-style-type: none"> ✧ Total expenditure between FSA services and non-FSA services

Illustration of Cost Apportionment Process of Central Administrative Costs of an NGO

<i>Cost incurred for all services [both FSA services and non-FSA services] of an NGO</i>	<u>FSA</u> (HK\$'000)	<u>Non-FSA</u> (HK\$'000)
Direct staff costs	400	200
Other direct operating costs	100	100
Administrative costs of all services	100	100
Total	600	400
% split applied to central administrative costs	60%	40%
If central administrative costs incurred for the NGO = \$150	90	60

Method of Cost Apportionment



Basing on the guiding principles, NGOs may adopt an appropriate method of cost apportionment taking into consideration the circumstances of different service operations and ensure no cross subsidisation of non-FSA services by FSA services in money or in kind.

Please refer to paragraph 2.4.4 of the Operational Guidelines



01

Reasonable and Feasible
Reasonable basis with records of calculations



02

Internal Control
Internal procedural guidelines, management and control



03

Responsible
Accountable to the government and the public

Enquiries

Designated Liaison
Officers of
Subventions Section
of SWD

Email to Subventions
Section of SWD-
suenq@swd.gov.hk

PPT and
Frequently Asked
Questions to be uploaded
onto the webpage of SWD





Thank you