

CHAPTER 2

LUMP SUM GRANT

2.1 This chapter describes the Lump Sum Grant (LSG), Provident Fund (PF) arrangements, treatment of income, reserves, fees and charges and insurance.

LUMP SUM GRANT

2.2 The following paragraphs explain the structure, payment, adjustment mechanism and flexibility of LSG.

Structure of LSG

2.3 A non-governmental organisation (NGO) which opts for LSG will receive an LSG in respect of :

Subvention Financing Modes

- | | |
|--|---------------------------------------|
| |) (i) Lump Sum Grant Mode |
| (a) Existing Service Units ¹ |) (ii) Model System |
| |) (iii) Modified Standard Cost System |
| | |
| (b) Newly Allocated Service Units ² | |

Total LSG for the NGO is equal to (a) + (b). Calculation of the LSG is explained in paragraphs 2.4 to 2.10 below.

Lump Sum Grant Mode

2.4 LSG incorporates the amount of the existing Lump Sum Grant Mode subvention calculated for the year 2000-01.

Model System

2.5 LSG replaces the Model System and consists of the total of Salaries, Salary-related Allowances, PF, Other Charges (OC) and Recognised Fee Income calculated as follows :

¹ Existing service units refer to those service units allocated under conventional mode of subventions, before the NGO opts for LSG.

² Newly allocated service units refer to those service units with LSG subventions, allocated after the NGO opts for LSG.

(a) Salaries

- (i) First of all, the **Benchmark**³ for the LSG of each NGO is determined on the basis of the **mid-point salaries of the pay scales as at 31 March 2000 of its recognised establishment** (i.e. all approved posts including fractional posts) **as at 1 April 2000**;
- (ii) A **Snapshot** of staff strength of each NGO as at 1 April 2000 is taken and its salary subvention for 2000-01 under the current subvention rules is projected;
- (iii) This Snapshot is then compared with the Benchmark;
- (iv) NGOs with Snapshot **above** the Benchmark will receive the Snapshot. There will be no top-up and no claw-back except for adjustment as explained in paragraph 2.12 below. Their Snapshot will be reduced annually **in steps of 2% per annum** starting from 2006-07⁴ to reach the Benchmark; and
- (v) For NGOs with Snapshot **below** the Benchmark, they will receive the Benchmark **in one step** provided that their service has already been fully commissioned (otherwise in line with the agreed phased commissioning of the facility/ service). Likewise, there will be no top-up and no claw-back except for adjustment as explained in paragraph 2.12 below.

(b) Salary-related Allowances

Salary-related allowances include the provision for relief workers, hardship allowance, responsibility allowance and training allowance. The provisions for these items are based on the existing formulae or the amount

³ The Benchmark will take into account the price adjustment factors effected after 2000-01, i.e. salary increases and decreases, based on the civil service adjustments.

⁴ As one of the facilitating measures under the Special One-off Grant (SOG) package to assist NGOs to achieve financial viability after Tide-Over Grant period from 2001-02 to 2005-06, the implementation was postponed for two years until 2008-09. Individual subvented organisations which had genuine financial difficulties in implementing the coming down in 2008-09 were allowed to defer for one year until 2009-10.

recognised for 1999-2000.

(c) Provident Fund

Arrangements for PF are explained in paragraphs 2.17 to 2.21 below.

(d) Other Charges and Allowances

- (i) The provision for OC is based on the existing recognised level;
- (ii) OC allowances include the provision for overtime allowance for drivers in day care centre for the elderly, special allowance on holiday for home help service, house parent allowance and incentive payment for sheltered workers. The provision for these items is based on the existing formulae; and
- (iii) Insurance (see paragraphs 2.43 to 2.45)

(e) Recognised Fee Income

Income from fees recognised for the purpose of subvention is deducted from the LSG. Please refer to **Annex 1** for the list of fees and charges.

Modified Standard Cost System

2.6 Those units under Modified Standard Cost System **which have been vetted** (including hitherto unvetted units undergoing regularisation) have their LSG calculated in the same way as units under Model System as explained in paragraph 2.5 above.

2.7 Those **unvetted** units under Modified Standard Cost System **which the NGOs choose not to regularise** have their LSG calculated as follows :

(a) Salaries and Provident Fund

- (i) the LSG, comprising salaries and PF, is calculated at 106.8% of the mid-point salary of the recognised establishment; and
- (ii) LSG payment will be split into salary and PF in the ratio of 100 : 6.8.

(b) Salary-related Allowances

Same as paragraph 2.5(b) above.

(c) Other Charges and Allowances

Same as paragraph 2.5(d) above.

(d) Recognised Fee Income

Same as paragraph 2.5(e) above.

Regularisation of Unvetted Units

2.8 NGOs are encouraged to seek regularisation of their unvetted units before switching to LSG. The regularisation process and conditions are as follows :

- (a) NGOs may apply for regularisation of all their unvetted units at the time they indicate intention to join the LSG.
- (b) Staff included in the 1 April 2000 Snapshot of these units will be vetted.

The following relaxation measures will be adopted in the regularisation process :

- (i) Holding-against arrangement will be allowed where the rank of the incumbent of a post does not match with the recognised establishment. However, the salary allowed for that staff in the LSG salary would be capped by the maximum pay point of the recognised post.
- (ii) If the result of vetting identifies overpayment before regularisation (normally where the staff employed was not fully meeting the qualifications for that particular post in the recognised establishment), the NGO will **not** be required to repay the “overpayment” on the understanding that the process of regularisation is an integral part of an organisation joining LSG and not a routine subvention inspection.

- (c) The LSG salary amount for the concerned units will be adjusted in line with the results of the vetting.
- (d) All staff of these units in the 1 April 2000 Snapshot (whether they are occupying posts held against the recognised establishment or “extra” posts outside the recognised establishment of the unit) will be regarded as **Snapshot Staff** (see paragraph 2.17 below) for PF arrangements.

Newly Allocated Service Units

2.9 LSG for new service units will be based on the mode of allocation. For those newly allocated service units for which agreement on allocation has been agreed before implementation of LSG but the commissioning of the service has yet to take place, LSG is calculated as follows :

- (a) Salaries and Provident Fund

For all new service units already allocated to NGOs, LSG – salaries and PF are calculated on the basis of the **prevailing mid-point salary** of the recognised establishment plus 6.8% PF.

- (b) Salary-related Allowances

Same as paragraph 2.5(b) above.

- (c) Other Charges and Allowances

Same as paragraph 2.5(d) above.

- (d) Recognised Fee Income

Same as paragraph 2.5(e) above.

Total LSG

2.10 An NGO will receive **one** LSG for all its existing service units and newly allocated service units. LSG **underspending** will be transferred to the Reserve Fund as explained in paragraph 2.32 below.

Payment of LSG

2.11 LSG will be paid monthly and credited to NGOs around the 15th of each month. The payment advice will explicitly identify the PF from the other part of the LSG paid to the NGO.

Adjustments to LSG

2.12 LSG will not be topped up in the course of the year except for supplementary provision required to effect annual pay adjustment to their staff in subvented units in line with the civil service pay adjustment, where these adjustments have not been factored into the LSG provided. The LSG will be adjusted annually in line with salary and price movements on the following basis :

Personal Emoluments	Civil Service Pay Adjustment
OC	Price Adjustment Factor (currently the Composite Consumer Price Index)
Fee Income	As advised by the Social Welfare Department (SWD)

2.13 Adjustments to LSG may be considered by the Government for meeting payment for statutory obligations which are unforeseen and therefore not budgeted for in the LSG.

Flexibility of LSG

2.14 Within the context of Funding and Service Agreements (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; and
- (b) other operating expenses.

2.15 LSG is provided on an 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 OC 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 paragraph 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.

Subvented Items not Included in LSG

2.16 LSG will not, at the outset, include the following :

- (a) **Standalone Child Care Centres**, which will continue to be subvented under current subvention rules and accounting arrangements;
- (b) **Rent and Rates**, which will continue to be paid on an actual basis; and
- (c) **Central Items**, which will continue to be subvented under current subvention rules and accounting arrangements. The list of Central Items (as may be updated) is in **Annex 2** and also available on the homepage of SWD –

http://www.swd.gov.hk/en/index/site_ngo/page_subventions/sub_modesofsub/id_subvention/

PROVIDENT FUND ARRANGEMENTS

2.17 **Snapshot Staff** are defined as the staff occupying recognised/held against subvented posts as at **1 April 2000** in Model System Units, Vetted Modified Standard Cost System Units, and staff engaged in unvetted units under Modified Standard Cost System as at 1 April 2000 specially recognised as a result of the regularisation.

2.18 Snapshot Staff deployed to non-FSA activities in the NGO will continue to be recognised as long as these staff are working in services funded by subventions and grants within the control of SWD. These include contract services such as enhanced home and community care services, as well as experimental projects funded by the Lotteries Fund

(LF). This approach also extends to staff deployed to Community Investment and Inclusion Fund (CIIF) projects, but excludes contract residential care homes for the elderly allocated through competitive bidding. Snapshot Staff on no pay leave will continue to enjoy the benefit as other Snapshot Staff upon their resuming duties after leave.

2.19 The purpose of actual PF payment is to enable NGOs to honour their contractual commitments in terms of PF benefits to their Snapshot Staff. All staff members included in the 1 April 2000 Snapshot will be given protection in respect of their PF benefits. The detailed arrangements are described below.

2.20 In respect of PF Provision for **Model System and Vetted Units under Modified Standard Cost System** :

- (a) For all Snapshot Staff, PF will be paid actual according to the reported rank and number of posts (including fractional posts) in the Snapshot.
- (b) PF for Snapshot Staff will be paid on an actual basis under their contractual employment based on the previous recognised level (i.e. SWD will recognise PF contribution from the employer at the scale specified in the existing Guide to Social Welfare Subventions) until they leave the NGOs, irrespective of whether they remain in the same post or are promoted/ regraded.
- (c) When a member of the Snapshot Staff within the recognised establishment leaves the NGO, the salary portion of the LSG (regardless of whether the LSG was originally above or below the benchmark) will remain unchanged, but the PF provision will be replaced by 6.8% of the mid-point salary of the recognised rank of that staff member in the Snapshot on 1 April 2000. In addition, for NGO whose LSG salary is above the benchmark, the LSG will have to gradually come down to the benchmark.

2.21 In respect of **Unvetted Units under Modified Standard Cost System** :

For unvetted units undergoing regularisation

- (a) All staff of these units in the 1 April 2000 Snapshot

(whether they are occupying posts held against the recognised establishment or “extra” posts outside the recognised establishment of the unit) will continue to receive PF benefits in accordance with the contractual agreement, irrespective of the results of the vetting. Government will meet the actual PF payment through subvention.

- (b) For staff occupying (or held against) posts in the recognised establishment, upon their departure from the organisation, the PF provision will be calculated at 6.8% of the mid-point salary of the recognised post whereas for staff occupying posts which are “extra”, the PF provision for these staff will cease when they leave the NGO, that is, this will not be replaced by any other provision.

For unvetted units that the NGO chooses not to regularise

- (c) PF arrangements are **not** applicable for staff in unvetted units which NGOs choose not to have them regularised despite opting for LSG. Accordingly, those staff will not be regarded as Snapshot Staff for the purpose of PF arrangements.
- (d) The LSG salary provision for these units will be kept at mid-point of the recognised establishment and PF will be subvented at 6.8% of the mid-point salary of the recognised notional establishment as at 1 April 2000.
- (e) NGOs are required to honour their contractual commitments to staff in post in these unvetted units on 1 April 2000 in respect of salary increment and PF benefits through their own means.

Calculation of PF Requirements and Disbursement Arrangements

2.22 NGOs are required to update the Snapshot Staff position in September each year with the staff departure date, and also the date of promotion/ change of rank clearly indicated. PF for both Snapshot and non-Snapshot Staff will be paid provisionally according to the September position and projected total PF requirements as part of the monthly subvention. When the actual PF subvention is determined, the actual surplus/ shortfall for Snapshot Staff as well as the additional subvention

for 6.8% posts arising from departure of Snapshot Staff as per paragraph 2.20(c) above will be taken into account in determining future PF subvention.⁵

2.23 In respect of Snapshot Staff, any surplus in PF should be placed in the separate designated PF account of the NGO and reported to SWD in the NGO's Annual Financial Report (AFR). The surplus as reported in AFR and the accumulated surplus of the Snapshot Staff PF reserve will be used to offset (a) future PF subvention for Snapshot Staff and (b) PF subvention for 6.8% posts.

2.24 The PF arrangements set out in the above paragraphs necessitate PF provision to be disclosed in the following ways :

- (a) in the payment advice on LSG paid to NGOs, PF given to Snapshot Staff and 6.8% posts will be separately identified;
- (b) in NGOs' accounting records, PF of Snapshot Staff and 6.8% posts should be separately stated in respect of the PF received and PF expenditure; and
- (c) the NGO's AFR will include a PF analysis showing PF subvention received, expenditure and surplus in respect of Snapshot Staff and 6.8% posts.

2.25 PF schemes of NGOs are subject to statutory requirements under the Mandatory Provident Fund Ordinance. For the purpose of subvention, NGO is required to inform all the contributors annually of :

- (a) the position of their benefits under the scheme; and
- (b) the amounts of employee's and employer's contributions during the year,

by providing the contributors with an annual statement of their accounts. The total of each contributor's account must be available for inspection

⁵ As an illustration, the surplus/ shortfall for PF subvention to Snapshot Staff and the additional subvention for 6.8% posts arising from departure of Snapshot Staff in respect of 2015-16 will be known in 2016-17. The sums will be taken into account in determining the 2017-18 subvention payment, which will comprise the following :

- a. provisional payment for 2017-18; and
- b. adjustments for 2015-16.

by the contributor and SWD.

2.26 As PF reserve will not be capped by the 25% rule as in the case of LSG reserve, it should be spent on staff for the intended purpose. While PF for Snapshot Staff is paid actual by SWD, NGOs Board/Management Committee should **consider measures to optimally use the PF surplus from the 6.8% posts on staff who are not protected under the snapshot arrangement.**

2.27 NGOs should fully deploy the PF provisions and reserves for non-Snapshot Staff on PF contributions, including possibly special contributions to award non-Snapshot Staff for their good performance.

TREATMENT OF INCOME

Fees and Charges

2.28 NGOs can retain all income other than recognised fee income (which is included in the calculation of LSG). This means that NGOs may, subject to the principles governing fees and charges as described in paragraph 2.42 below, generate and fully retain income from other miscellaneous services incidental to the operation of the subvented service, e.g. running a gift shop or providing photocopying services.

2.29 When operating income generating activities, NGOs should ensure that :

- (a) the activities are in line with the aims and objectives of their organisations;
- (b) the relevant legal requirements are strictly abided by (such as the terms of the land grant and tenancy agreements, the licensing requirement and copyright issue);
- (c) subvented activities are not affected; and
- (d) in general there is no detrimental effect on welfare services.

Income so generated will not be deducted from the LSG, but should be separately accounted for and reported in the NGOs' annual audited accounts and AFR.

Donations

2.30 NGOs may accept and retain all donations on the understanding that funds to meet recurrent commitments arising from the donations will not be provided by SWD.

2.31 All donations and income derived therefrom have to be separately identified in the accounts of the NGO.

RESERVES

2.32 Unspent LSG must be kept in a Reserve Fund and reported to SWD as part of the LSG AFR. **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 and LSG Reserve kept in the holding account⁶) 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 the Director of Social Welfare upon application with justification from the NGO.**

Investment of LSG Reserve

2.33 Other than bank deposits, NGOs may consider investing surplus funds in their LSG Reserves based on the following investment framework :

⁶ Upon the implementation of Lump Sum Grant Subvention System (LSGSS) in 2001, Tide-Over-Grant (TOG) was provided to NGOs from 2001-02 to 2005-06 to honour the contractual commitments in respect of salary increment to their Existing Staff. After the cessation of TOG in 2006-07, SWD put forward another financial assistance scheme named Special One-off Grant (SOG) and other facilitating measures, to assist NGOs in meeting their contractual commitments towards the Snapshot Staff as well as enhancing their human resources practices. **One of the facilitating measures for NGOs was to withhold the claw-back of LSG Reserve above the 25% cap for the three years from 2004-05 to 2006-07.** The amount of the cumulative LSG Reserve as at 31 March 2007 can be kept in a holding account, while the use of this reserve is in line with the requirements as stipulated in the LSG Manual and/or prevailing policies.

Type of Investment	Investment Criteria/ Conditions
(a) HK dollar bank deposits : (i) Fixed deposit (ii) 24-hour call deposits	(1) Total value of deposits with any one bank shall not exceed \$500,000 or 20%/ 50% ⁷ of the balance of the LSG Reserve prevailing at the time of investment, whichever is greater. (2) The bank must be licensed under the Banking Ordinance, Cap.155. (3) Sufficient liquidity must be maintained to meet the use of LSG Reserve, including the required refund to the Government (please also see the paragraph 2.34 below).
(b) HK dollar bonds or certificates of deposits (CD) - short to medium term with a maturity period of one to five years	(1) Total value of bonds/ CD shall not exceed 50% of the balance of LSG Reserve prevailing at the time of investment. (2) Total value of bonds/ CD/ bank deposit with any one institution shall not exceed HK\$50 million , or 20%/ 50% ⁷ of the balance of LSG Reserve prevailing at the time of investment, whichever is the lower. (3) The credit rating of the issuer must not be lower than the rating of A3 given by Moody's Investors Service Inc. or A- given by Standard & Poor's Corporation. (4) Sufficient liquidity must be maintained to meet the use of

⁷ 20% if the LSG Reserve is \$100 million or above and 50% if the LSG Reserve is under \$100 million.

LSG Reserve, including the required refund to the Government (please also see paragraph 2.34 below).

Liquidity Constraints and Market Risks

2.34 Certificates of deposits and corporate bonds are rather illiquid in the secondary market. The bid/ offer spread is usually wide and investors may experience difficulties if there is a need to liquidate the holdings prior to maturity. In addition, there are market risks involved in debt securities. If interest rate has gone up at the time when there is a need to liquidate the holdings, investors may experience a loss on the principal even after taking into consideration the interest element. When making investment, NGOs should pay special attention to such liquidity constraints and market risks and should make allowance for contingencies in projecting the use of the LSG Reserve.

Income from Investments

2.35 LSG Reserve should be separately invested. Income derived from the investment must be fully and promptly credited to Interest Received in the AFR and form part of the LSG Reserve.

Control of Investments

2.36 NGO Boards/ Management Committees should, as part of their corporate governance, ensure that there are proper and effective internal procedures to control investments, which should cover the following aspects :

- (a) clearly laid-down responsibilities and authorisation for decision making, transacting, recording and monitoring of investments;
- (b) ensuring investments are made after careful financial planning to meet future uses of the LSG Reserve and to avoid undue loss from sale of investments prior to maturity;
- (c) safe custody of investments with local licensed banks or their custodial subsidiaries;

- (d) periodic reconciliation with the statements from banks and other parties concerned;
- (e) keeping of proper accounting records for the transactions;
- (f) attaching to the AFR submitted to the Finance Branch of SWD a schedule showing the breakdown of investments at the financial year-end (see **Annex 3**). The schedule should be certified by the Chairperson/ NGO Head/ Head of Social Welfare Services. In case there is a difference between the total amount of LSG Reserve and investments, they should be clearly explained by way of notes to be attached to the schedule;
- (g) regular audit of the investment operation to ensure compliance with the investment guidelines and framework; and
- (h) regular reviews of investments and their returns.

Use of LSG, LSG Reserve and PF Reserves

2.37 Both LSG and LSG Reserve are accounted for under recurrent subventions and, in essence, are intended for operating expenditure for 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 LF either through annual block grants or major grants.

2.38 While there are resource constraints in annual block grant allocations, NGOs may use 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 may be essential both in terms of expediency and operational needs. Given that NGOs are using LSG/ LSG Reserve and LF for the purchase of goods and services, NGOs should 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 LF Manual.

2.39 On the other hand, while promoting NGO's autonomy and flexibility, it is also SWD'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. NGOs should therefore put in place a proper mechanism for deployment of LSG Reserve and any decisions relating to the deployment of LSG Reserve to meet special or major expenditure items, such decisions should be thoroughly discussed in the NGO Board/ Management Committee, well justified and documented. In particular, NGO management should ensure that such expenditure will not cause any financial difficulties to the NGO.

2.40 The reserves can be used at the discretion of NGOs subject to the following :

- (a) PF 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.

2.41 When an 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;
- (c) ensure that the problem(s) and resolution(s) do not have adverse effects on the NGO achieving the requirements of FSAs and the interests of its service users; and
- (d) take into account their Snapshot Staff commitments, as well as the need for service enhancement and staff development.

FEES AND CHARGES

2.42 In administering fees and charges, NGOs are required to observe the following :

- (a) they must continue to manage those fees and charges which produce recognised income for the purpose of offsetting subvention in accordance with the existing practices and procedures;
- (b) if an NGO wishes to introduce new user fees and charges for value-added services in respect of the services governed by FSAs for which subvention is provided, it must ensure that the proposed new fees and charges :
 - (i) do not affect their FSA activities;
 - (ii) are not detrimental to the interests of users. In this respect, NGOs should pay particular attention to the affordability and need of users; and
 - (iii) have obtained SWD's prior approval (or in future to be incorporated in the NGOs' Annual Plan).
- (c) all fees and charges must be clearly displayed in service units so that users have unhindered access to information about the fees and charges. The display should also contain details of :
 - (i) whom in the NGO the service user can contact if he/she has a query and/or complaint about the fees and charges; and
 - (ii) whom in SWD the service user can contact if he/she is dissatisfied with the response to (i).

INSURANCE

2.43 Under current subvention policy, it is mandatory for NGOs to procure insurance for subvented social welfare services in respect of the Employees' Compensation Insurance (ECI) and Public Liability Insurance (PLI) throughout their operation. NGOs are required to

arrange renewal before expiry of the current ECI and PLI policies⁸.

2.44 NGOs have been provided with autonomy and flexibility to choose insurance packages if the insurance packages are within the scope of FSA related activities and staff expenses/ operating expenses as stated in paragraphs 2.14 and 2.15. NGOs may select appropriate insurance packages for the best protection of service users and staff, including items such as Malpractice Liability Insurance and Staff Group Life Insurance on top of ECI and PLI for their own unique service nature, as long as the packages are within NGOs' financial capability without affecting the quality of service.

2.45 In administering the insurance policy, NGOs are required to

- (a) closely monitor the insurance procurement and strictly comply with and observe the mandatory insurance requirements for their subvented welfare services;
- (b) ensure occupational or workplace safety for the benefit of staff;
- (c) ensure a safe environment for the benefit of service users; and
- (d) strengthen risk and claim management continuously.

⁸ Before 1 April 2009, NGOs are required to confirm the policy renewal with SWD approaching the turn of the financial year. Starting from April 2009, NGOs are not required to submit the annual returns on their renewal of ECI and PLI to SWD.