Finance Committee
Follow-up to the Meeting on 6 July 2007
Supplementary Information

FCR(2007-08)27

"To provide details of the accumulative surplus of non-governmental organizations in the welfare sector and the rationale for allowing these organizations to put aside 25% of the funding for new projects for uses other than the designated purposes."

General Subvention Policy

Under Government's general subvention policy, subject to the provisions of relevant legislation or funding agreement, a subvented organisation may place surpluses arising from subvented programmes into a reserve. The keeping of reserve gives organisations an incentive to economise. It also provides organisations with a buffer to meet contingency. To prevent an organisation from accumulating more than is necessary, the Controlling Officer should set an appropriate reserve ceiling for funds so carried forward.

The Welfare Sector

In the context of the welfare sector, the Social Welfare Department (SWD) has put in place the Lump Sum Grant (LSG) subvention system since 1 January 2001. Under LSG, non-governmental organisations (NGOs) enjoy flexibility in the deployment of funds to meet service needs. Switching to LSG is a conscious and voluntary decision of respective NGOs. At present, 164 NGOs (out of 175 subvented by SWD) are operating under LSG, accounting for 99% of the total subventions by SWD (total subvention to NGOs amount to about $6.8 billion for 2007-08).

For subvented welfare NGOs on LSG, the LSG Manual (edition 2 of October 2000) stipulates that they are allowed to keep unspent LSG in a Reserve Fund, which has to be reported to SWD as part of the LSG Annual Financial Report. The level of cumulative reserves at the end of the financial year is capped at 25% of an NGO's operating expenditure for that year. Any amount above this cap needs to be refunded to the Government in the following financial year. NGOs must use the reserves on Funding and Service Agreement (FSA) activities and related support services. In other words, they are not allowed to use the reserves for purposes other than the designated ones as agreed in the FSAs of subvented services between SWD and NGOs. SWD has advised NGOs to exercise effective and prudent financial management in the use of the LSG Reserve.

From 2001-02 to 2005-06, SWD provided a Tide-Over Grant (TOG) for NGOs on LSG to meet annual salary increments. NGOs had undertaken to provide such annual adjustments to Snapshot Staff (i.e. staff captured in the snapshot of 1 April 2000) when they were given approval to switch to LSG. The total TOG amounted to about $1.5 billion.

Upon cessation of the TOG in 2006-07, SWD introduced the Special One-off Grant (SOG) package to NGOs for achieving financial viability in the long run. The total amount involved is over $900 million. One of the facilitating measures under the SOG package was to withhold the clawback of LSG Reserve above the 25% cap for three years for the financial years from 2004-05 to 2006-07 (to be carried out from 2006-07 to 2008-09). It is against the above background that the 164 NGOs on LSG have accumulated a total amount of LSG Reserves at $1.8 billion as at 31 March 2006, representing 28% of their total operating expenditure in 2005-06.

Social Welfare Department
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