

PROVISION OF DISTRICT COUNCIL FUNDS FOR COMMUNITY INVOLVEMENT PROJECTS

Executive Summary

1. It has been the Government's long-standing policy to foster a sense of belonging and mutual care among the people of Hong Kong. To this end, the Home Affairs Department (HAD) formulates and develops initiatives in respect of community building. An important vehicle for community building is community involvement projects (CI projects). CI projects aim at enhancing community spirit and social cohesion and promoting well-being of the people in the 18 districts of Hong Kong. Examples of CI projects organised included district festivals, activities to promote sports and culture, and activities to care for the disadvantaged groups. CI projects are implemented through District Councils (DCs). The HAD provides funds to DCs for implementing CI projects in districts annually (DC-CIP funds).

2. In 2015-16, the provision of DC-CIP funds amounted to \$361.6 million. Implementation parties, such as government departments (mainly the Leisure and Cultural Services Department (LCSD)) and non-governmental organisations (NGOs), can apply to DCs for DC-CIP funds to carry out CI projects. The number of CI projects implemented in 2015 was 37,827, which had a total of 18.6 million participants. The Audit Commission (Audit) has recently conducted a review of the provision of DC-CIP funds by the HAD.

Allocation and use of district council funds for community involvement projects

3. *Allocation of funds to DCs.* The HAD allocated DC-CIP funds to DCs through a mechanism: (a) a portion was allocated to individual DCs as basic allocation on a historical/equal basis; (b) a portion was allocated to individual DCs taking into account a number of factors (e.g. population and socio-economic factors); and (c) a small remaining portion was kept by the HAD as central reserve for contingency. Audit found that the factors adopted by the HAD in allocating the relevant portion of DC-CIP funds (see (b) above) had been subject to changes

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since 2008-09 (e.g. the population of the Sai Kung District had increased from 5.9% (420,100) of the 18 districts' total population in 2008-09 to 6.3% (463,700) in 2015-16). The HAD, however, had not taken into account changes in the factors in allocating the relevant portion. For example, in allocating the relevant portion of \$256.11 million in 2015-16, the allocation was based on the old data (e.g. district population) of 2008-09, 2012-13 and 2013-14. Audit also noted that it had been announced in the 2017 Policy Address that the annual provision of DC-CIP funds would be increased by \$100 million starting from 2017-18. The HAD needs to review the allocation of DC-CIP funds taking into account this additional annual provision as well as changes in the factors (paras. 2.2 to 2.5).

4. *Use of funds by DCs.* The number of CI projects and the number of participants in CI projects are key performance indicators of the HAD. Audit noted that: (a) for the period 2011 to 2015, the number of projects decreased by 3.3% from 39,127 to 37,827 and the number of participants decreased by 13.3% from 21.49 million to 18.63 million, whereas the expenditure of projects increased by 17% from \$272.35 million to \$319.52 million; (b) Audit's analysis of the \$205.63 million of DC-CIP funds spent in 2015-16 on the 15 categories of DC projects indicated that \$146.27 million (71%) were spent on the three categories of arts and cultural activities, recreational and sports activities, and festival celebrations and district festivals. The funds spent on some other categories were small. For example, each of the categories of civic education (\$2.42 million) and building management (\$1.7 million) incurred a spending of less than 2% of the \$205.63 million; (c) for some DC projects targeting specific groups of people, the number of projects and participants was low. For example, of the some 6,900 DC projects in total, there were only 133 (1.9%) projects for people with disabilities or special needs, and of the some 15 million participants, there were only 19,000 (0.1%) ethnic minorities; (d) the HAD had not made use of its data on DC-CIP funds and CI projects to conduct analyses to facilitate the management of the funds and projects; and (e) the annual provision of DC-CIP funds included funds which were designated for arts and cultural activities pursuant to the 2013 and 2015 Policy Addresses. However, 10 of the 18 DCs had used the designated funds on other activities, involving amounts ranging from \$220,000 to \$1.09 million (paras. 2.9, 2.10, 2.18, 2.20, 2.23, 2.25 and 2.27).

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Management of conflicts of interest in community involvement projects

5. *Declaration of interests.* It is not unusual for members of DCs and DC committees to be associated with implementation parties (see para. 2) of CI projects. DC standing orders concerning management of conflicts of interest in CI projects require members to make a first-tier declaration of interests by reporting their registrable interests (e.g. remunerated directorships and “other declarable interests”) at the commencement of each DC/committee term or upon changes in the interests. Members shall also make a second-tier declaration of interests (e.g. at meetings) before dealing with matters on DC-CIP funds. Audit noted that: (a) as “other declarable interests” had not been clearly defined in DC standing orders, of the 129 second-tier declarations made by members at meetings in 2016, in 122 (95%) declarations (made by 76 members), positions (e.g. president or chairperson) held by members in implementation parties had not been reported in the first-tier declaration; (b) in seven meetings where members considered the earmarking of funding for implementation parties, 34 members had not declared connections with the implementation parties (e.g. as board members); and (c) for the nine DCs examined by Audit, their standing orders had not spelt out how declarations were to be made when matters were handled through circulation of papers (paras. 3.2, 3.3, 3.5 to 3.8).

6. *Handling of interests declared.* For the 129 cases of declaration of interests at meetings (see para. 5(a)), the related minutes of meetings indicated that in 73 (57%) cases (involving three DCs), contrary to the requirements of DC standing orders, rulings (e.g. a member may remain in the meeting as an observer) had not been made and recorded on the interests declared. Those who had declared interests continued their attendance in the meetings (para. 3.13).

7. *Management of conflicts of interest in working groups.* DCs and their committees have appointed working groups to help carry out specified functions. Audit noted that while DC standing orders have stipulated the procedures for managing conflicts of interest, the procedures are not applicable to working group meetings. Furthermore, of the nine DCs examined by Audit, there were three working groups (under three DCs) that endorsed applications for CI projects on behalf of DCs/committees. Audit noted that once project applications were endorsed by the working groups, CI projects could be implemented without DCs’ further endorsements. However, according to the District Councils Ordinance

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(Cap. 547), a DC may delegate its functions to a committee only (paras. 3.16, and 3.18 to 3.20).

Implementation of community involvement projects

8. *Selection of NGOs for implementing projects.* Audit examined the practices of four DCs in implementing CI projects. Audit noted that: (a) designated NGOs (i.e. those which have a long-term working relationship with DCs) are earmarked with funds by DCs in their annual budgets for carrying out CI projects. Of the four DCs examined, one DC last reviewed its list of designated NGOs more than 10 years ago; and (b) it is a usual practice that partner NGOs are selected for implementing CI projects in partnership with committees/working groups of DCs through invitation (e.g. by posting an open invitation on the DC's website). However, for one DC, partner NGOs are nominated by DC members in charge of CI projects. There is scope for enhancing the openness and transparency of this selection process (paras. 4.2, 4.3, 4.6, 4.8 and 4.9).

9. *Performance management of projects.* According to the HAD Manual on the use of DC-CIP funds, a DC should have an evaluation system in place to monitor the effectiveness of CI projects. Audit noted that, of the four DCs examined by Audit (see para. 8): (a) one DC had discontinued the use of any evaluation systems in the six-year period 2011-12 to 2016-17; (b) another DC had not set any criteria for selecting projects for evaluation purpose. It only conducted project evaluations upon request by the HAD's district office concerned; (c) there were cases where the ratings given in evaluations of CI projects were not reflecting the actual situation. For example, in one project, the rating for the assessment item of number of participants was "Very Satisfactory", while the actual number of participants was only 33% of the expected number; and (d) Audit's examination of 38 projects held in 2015-16 at performance venues of the LCSD revealed that in 30 (79%) projects, the audience size reported by the implementation parties was higher than that recorded by the LCSD venue management, with variances ranging from 3% to 323% and averaging 71% (paras. 4.12 to 4.14, 4.16 and 4.18).

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Audit recommendations

10. Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director of Home Affairs should:

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- (a) taking into account changes in the factors (e.g. population and socio-economic factors) and the additional annual provision of DC-CIP funds, conduct a review of the allocation of the funds to ensure that they are allocated in the most appropriate manner (para. 2.6);
- (b) keep under review the number of CI projects and participants in the projects vis-à-vis the expenditure of the projects and take improvement measures as appropriate (para. 2.28(a));
- (c) produce analyses of DC projects to individual DCs to facilitate them to review whether their existing spending patterns best meet the needs of their districts (para. 2.28(b));
- (d) produce analyses of DC projects targeting specific groups of people to individual DCs to facilitate them to assess the need to initiate more such projects (para. 2.28(c));
- (e) periodically generate data and conduct different analyses for HAD management information purposes and for dissemination to DCs to facilitate their management of DC-CIP funds and CI projects (para. 2.28(d));
- (f) take measures to ensure that the funds for arts and cultural activities are spent as designated (para. 2.28(f));

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- (g) provide guidelines with broad principles of what constitute “other declarable interests” to DC/committee members as appropriate to facilitate the reporting of “other declarable interests”, and remind them to make more efforts in declaring their interests (para. 3.9(a));
- (h) take more measures to ensure that DC/committee members declare their interests before earmarking funding for implementation parties (para. 3.9(b));
- (i) provide guidelines to DCs on how declarations of interests could best be made in handling matters through circulation of papers (para. 3.9(c));
- (j) remind DCs that rulings should be made and recorded on interests declared by members in DC/committee meetings (para. 3.14);
- (k) ensure that the stipulated procedures for handling conflicts of interest applicable to DC/committee meetings also apply to working group meetings (para. 3.21(a));
- (l) ascertain whether DCs’ practice of delegating functions to their working groups is in line with the District Councils Ordinance and take remedial action as appropriate (para. 3.21(b));

Implementation of community involvement projects

- (m) provide DCs with suitable guidelines to facilitate their reviewing of designated NGOs and incorporate the guidelines into the HAD Manual (para. 4.10(a));
- (n) set out in the HAD Manual, for DCs’ reference, good practice guidelines on the selection of partner NGOs as adopted by most DCs (para. 4.10(b));
- (o) advise the DC concerned (see para. 8(b)) to review its existing practice of selecting NGOs with a view to enhancing the openness and

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transparency of the selection process, taking account of the good practice guidelines mentioned in (n) above (para. 4.10(c));

- (p) take measures to ensure that DCs set up a system for evaluating CI projects (para. 4.20(a));**
- (q) take measures to ensure that DCs set proper criteria for selecting CI projects for evaluation, and that CI projects meeting the criteria are evaluated (para. 4.20(b) and (c));**
- (r) remind DC secretariats to follow up with evaluators in cases where the ratings given by them in evaluation of CI projects are not in line with the actual situation (para. 4.20(e));**
- (s) ascertain the discrepancies between the size of audience reported and that recorded by the LCS D venue management, and take measures to ensure the accuracy of the number of participants reported (para. 4.20(g)); and**
- (t) consider reviewing the existing methods adopted by implementation parties for counting the number of participants (para. 4.20(h)).**

Response from the Government

11. The Director of Home Affairs agrees with the audit recommendations.