

CHAPTER 6

**Labour and Welfare Bureau
Social Welfare Department**

**Management of projects
financed by the Lotteries Fund**

**Audit Commission
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This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

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Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

MANAGEMENT OF PROJECTS FINANCED BY THE LOTTERIES FUND

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MANAGEMENT OF PROJECTS FINANCED BY THE LOTTERIES FUND

Executive Summary

1. The Lotteries Fund (LF) was established in 1965 by resolution of the Legislative Council (LegCo) for the purpose of financing the support and development of social welfare services in Hong Kong by way of providing grants, loans and advances. Under the Betting Duty Ordinance (Cap. 108) and the Road Traffic (Registration and Licensing of Vehicles) Regulations (Cap. 374E), 15% of the Mark Six Lottery proceeds and net proceeds from the sale of special vehicle registration marks by auction are allocated to the LF respectively. In 2015-16, the LF recorded receipts of \$1,331 million and payments of \$937 million. As of March 2016, the LF had a fund balance of \$22 billion which was placed with the Exchange Fund.

2. An non-governmental organisation (NGO) or a government bureau or department (B/D) may apply for an LF grant to finance 5 major categories of social-welfare related expenditures, including: (a) those incurred for premises renovation and construction; (b) an experimental project; (c) subvention-linked minor expenditures; (d) Social Welfare Development Fund expenditures; and (e) fitting-out works and furniture and equipment (F&E) expenditures for new/reprovisioned premises. For the 5-year period 2011-12 to 2015-16, 3,234 grants totalling \$10,104 million had been approved.

3. The Lotteries Fund Project Section of the Social Welfare Department (SWD) is responsible for administering the LF. As of December 2016, the Section had 17 staff members. Audit has recently conducted a review to examine the SWD's management of projects financed by the LF.

Administration of funding applications

4. An NGO is eligible to apply for an LF grant if it is recognised by the SWD, the Department of Health or the Education Bureau as a non-profit-making organisation providing a valuable service to the community (para. 2.2).

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5. ***Application processing time exceeding target time.*** According to the SWD, the target time for processing an application for an LF grant with a value exceeding \$400,000 (known as a major grant) is 9 months and with a value of \$400,000 or below (known as a minor grant) is 4 months. For the 5.5 years from April 2011 to September 2016, the SWD had processed and approved 1,251 applications for major grants and 1,087 applications for minor grants. Audit examination revealed that the time taken to process 236 (19% of 1,251) applications for major grants and 245 (23% of 1,087) applications for minor grants had exceeded the target time of 9 months and 4 months respectively. In particular, the SWD had taken 2 to 7.5 years to complete processing 82 major-grant applications and 1 to 3.6 years to complete processing 30 minor-grant applications (para. 2.6).

6. ***Commencement and completion of an LF-funded project without funding approval.*** An LF grant exceeding \$4 million required the funding approval of the Financial Services and the Treasury Bureau (FSTB). For a project financed by an LF grant of \$35.7 million to construct three welfare facilities for, among others, provision of 120 service places for the elderly at a private development, the FSTB granted an in-principle approval for the grant in December 2004, subject to the submission of an accurate and detailed technical appraisal of the construction cost. However, the FSTB's approval for the LF grant was not obtained until May 2012, 10 months after the completion of the construction of the welfare facilities in July 2011 (para. 1.8 and Case 1 in para. 2.7).

7. ***Need to strengthen assistance to NGOs for early implementation of Special Scheme projects.*** In his 2013 Policy Address, the Chief Executive of the Hong Kong Special Administrative Region announced that the Government would seek to use the LF more flexibly and make better use of the land owned by NGOs through redevelopment or expansion to provide diversified subvented and self-financing facilities. In February 2014, the Finance Committee of LegCo approved the allocation of \$10 billion from the General Revenue to the LF to ensure that the LF would have sufficient resources to implement feasible projects under the Special Scheme on Privately Owned Sites for Welfare Uses (the Special Scheme). In November 2013, upon closing of submission of preliminary proposals for grants under the Special Scheme, 43 NGOs had submitted 63 preliminary proposals. In February 2014, the Labour and Welfare Bureau (LWB) and the SWD informed LegCo that, if all the proposals were technically feasible and could be implemented smoothly, about 9,000 additional service places for the elderly and 8,000 additional places for rehabilitation services for persons with disabilities would be provided,

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and the amount of LF allocation required for implementing the projects was estimated to be in the order of \$20 billion (paras. 1.12 and 1.14).

8. As of November 2016, of the 63 preliminary proposals targetting to provide 17,000 service places, only 1 project providing 100 service places had been completed, and 11 projects that would provide 3,609 service places were at different implementation stages. However, the remaining 51 projects were at different planning stages. As of September 2016, LF grants for the 12 (1 completed project + 11 projects at different implementation stages) projects amounted to \$227 million, only representing 1% of the total estimated grant amount of \$20 billion (para. 2.24).

Administration of project implementation

9. *Long-outstanding projects and long time taken in finalising project accounts.* As of September 2016, 1,198 LF-funded projects were in progress and approved commitments totalling \$7.5 billion had not been disbursed to related NGOs or B/Ds. Of these 1,198 projects, funding approvals for 280 (23%) projects had been granted 5 to 25 years ago. Of these 280 projects, 5 projects (2%) for which funding approvals had been granted 5 to 8 years ago had not commenced any works, 16 projects (6%) for which funding approvals had been granted 5 to 7 years ago had not completed the works, and 259 projects (92%) for which funding approvals had been granted 5 to 25 years ago had had the works completed but the project accounts had not been finalised and submitted to the SWD. Approved commitments totalling \$690 million had not been disbursed for these 259 projects. Approved LF commitments not required for LF projects could be released for funding other projects upon finalisation of the project accounts (paras. 3.3 to 3.6).

10. The long time taken in finalising project accounts was attributed to a variety of reasons. In one example where an LF grant of \$1.46 million was approved in February 1993 for the construction and fitting-out works of a social centre for the elderly, the project account could not be finalised 19 years after the substantial completion of the works in December 1997, because the assignment of the title of the social centre to the Government had not been finalised (Case 7 in para. 3.6).

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11. *Lack of information on NGO board approvals for departures from procurement requirements.* In 2015-16, grant payments totalling \$937 million were made under 641 LF grants for implementing capital works, or procurement of F&E or services. As specified under the LF Manual, the Board of an NGO may approve departures from LF requirements on procurement of goods and services. However, NGOs were not required to report to the SWD details and justifications of their board approvals for departures from LF procurement requirements. The absence of this information has weakened the SWD's monitoring of the procurement of goods and services financed by LF grants (paras. 3.8 to 3.10).

Governance and management issues

12. The Lotteries Fund Advisory Committee (LFAC), an advisory body to the SWD on considering applications for LF grants and fund-raising activities (such as the allocation of flag days), is chaired by the Director of Social Welfare and comprises 11 members including a representative from the LWB and 10 non-official members from the social welfare, academic and business sectors. Members are appointed on a two-year term by the Secretary for Labour and Welfare (para. 4.2).

13. *Some LFAC members not declaring potential conflicts of interest.* Audit's examination of SWD records revealed that two LFAC members had not made declarations of potential conflicts of interest on 2 and 1 agenda items respectively discussed at LFAC meetings (paras. 4.8 to 4.11).

14. *Some LFAC members who were also paid executive staff of NGOs attended meetings involving discussion of related agenda items.* According to the Standing Orders of the LFAC, if an LFAC member is a paid executive staff of an agency of which a matter would be considered by the LFAC, the member normally would not be issued the relevant committee paper of the agenda item concerned. However, Audit examination revealed that two LFAC members, who were paid executive staff of two NGOs respectively, were issued relevant LFAC papers and attended meetings involving discussion of 3 and 1 grant applications which were respectively related to the two NGOs concerned (paras. 4.12 and 4.13).

Executive Summary

Audit recommendations

15. 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 Government should:

Administration of funding applications

- (a) strengthen measures with a view to processing grant applications within the target completion time of 9 months for major grants and 4 months for minor grants (para. 2.15(f));
- (b) take measures to ensure that an LF-funded project will not commence without obtaining funding approval for the project (para. 2.15(a));
- (c) sustain and strengthen actions to coordinate with the applicant organisations and related B/Ds with a view to implementing projects under the Special Scheme as early as possible (para. 2.27);

Administration of project implementation

- (d) take measures to provide assistance to NGOs of LF-funded projects to commence works in a timely manner (para. 3.19(a));
- (e) take measures to ensure that works-project accounts are finalised in a timely manner after works completion, with a view to releasing unpaid commitments not required for LF projects for funding other projects (para. 3.19(c));
- (f) expedite actions to follow up the assignment of the social centre for the elderly in Case 7 to the Government (para. 3.19(f));
- (g) consider requiring NGOs to submit to the SWD annual returns showing details and justifications of their board approvals for departures from the LF procurement requirements (para. 3.19(g));

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Governance and management issues

- (h) **strengthen measures to periodically remind LFAC members of the need to fully make declarations of potential conflicts of interest for agenda items discussed at LFAC meetings (para. 4.18(a)); and**
- (i) **critically consider whether an LFAC member who is also a paid executive staff of an NGO needs to be issued relevant LFAC papers (para. 4.18(c)).**

Response from the Government

16. The Government agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The Lotteries Fund (LF) was established in 1965 by resolution of the Legislative Council (LegCo) for the purpose of financing the support and development of social welfare services in Hong Kong by way of providing grants, loans and advances (Note 1).

1.3 Under the Betting Duty Ordinance (Cap. 108), 15% of the Mark Six Lottery (Note 2) proceeds are allocated to the LF. Moreover, under the Road Traffic (Registration and Licensing of Vehicles) Regulations (Cap. 374E), net proceeds from the sale of special vehicle registration marks by auction are also allocated to the LF. In 2015-16, relevant proceeds from the Mark Six Lottery and sale of special vehicle registration marks being allocated to the LF were \$1,219 million and \$103 million respectively.

1.4 In 2015-16, LF provided grants totalling \$937 million for the support and development of social welfare services. The total receipts and payments of the LF as well as its fund balances from 2011-12 to 2015-16 are shown in Table 1. As of March 2016, the LF had a fund balance of \$22 billion which was placed with the Exchange Fund (Note 3).

Note 1: *According to the Social Welfare Department, the LF had not approved any loan or advance from 2007 to 2016.*

Note 2: *The Mark Six Lottery is a 6 out of 49 lottery game conducted by the HKJC Lotteries Limited, a subsidiary of The Hong Kong Jockey Club.*

Note 3: *The Exchange Fund is established under the Exchange Fund Ordinance (Cap. 66). The principal objectives of the Fund are safeguarding the exchange value of the currency of Hong Kong and maintaining the stability and integrity of Hong Kong's monetary and financial systems.*

Introduction

Table 1

**Receipts, payments and fund balances of the LF
(2011-12 to 2015-16)**

Particulars	Financial year				
	2011-12 (\$ million)	2012-13 (\$ million)	2013-14 (\$ million)	2014-15 (\$ million)	2015-16 (\$ million)
(a) Receipts					
(i) Mark Six Lottery	1,208	1,172	1,159	1,182	1,219
(ii) Investment income	514	530	518	– (Note 1)	– (Note 1)
(iii) Auction of vehicle registration marks	62	77	77	71	103
(iv) Allocated from the General Revenue	–	–	10,000 (Note 2)	–	–
(v) Donation and others	33	1	3	69	9
Total	1,817	1,780	11,757	1,322	1,331
(b) Total payments	916	881	812	875	937
(c) Fund balance at year end	9,329	10,228	21,173	21,620	22,014

Source: Social Welfare Department records

Note 1: According to the Financial Secretary's directives, investment income of \$700 million for 2014-15 and \$1,197 million for 2015-16 were set aside and retained in the Exchange Fund as the housing reserve to provide financial resources to meet the ten-year public housing supply target.

Note 2: In March 2014, the Government allocated \$10 billion from the General Revenue to the LF (see para. 1.12).

LF grants

1.5 An non-governmental organisation (NGO) or a government bureau or department (B/D) may apply for an LF grant to finance expenditures of the following:

- (a) ***Premises renovation and construction.*** This includes, for example, construction of new premises, renovation and maintenance of existing premises, as well as slope inspection and remedial works. A B/D may be allocated an LF grant to carry out a project of the above-mentioned nature with an NGO being the target user or beneficiary;
- (b) ***An experimental project.*** This refers to a project which is experimental or innovative in nature with a duration not exceeding four years;
- (c) ***Subvention-linked minor expenditures.*** An NGO receiving annual subventions from the Social Welfare Department (SWD) may apply for an annual LF grant (also known as a Block Grant) which is equivalent to 1.5% of the amount of the SWD recurrent subvention provided to the NGO. The grant could be used for purchase of furniture and equipment (F&E) subject to each item costing \$50,000 or below, and for carrying out repairs and maintenance works subject to each project not exceeding \$500,000;
- (d) ***Social Welfare Development Fund (SWDF) expenditures.*** In 2009, pursuant to the recommendations of the Lump Sum Grant Independent Review Committee (Note 4), \$1 billion was earmarked under the LF to set up the SWDF over a period of nine years from 2010-11 to 2018-19 to support NGOs receiving subventions from the SWD to provide training for their board members, management and staff, as well as upgrading their business systems and conducting studies aiming at enhancing their service delivery;

Note 4: *The Committee, appointed by the Secretary for Labour and Welfare in January 2008, is chaired by a person from the business sector and comprises four members from the academic and professional sectors.*

Introduction

- (e) ***Fitting-out works and F&E for new/reprovisioned premises.*** For a newly constructed government-owned welfare service premises, the SWD may apply for an LF grant on behalf of a future operator to meet the costs of fitting-out works and F&E. For a reprovisioned project, the NGO concerned may apply for an LF grant to meet the costs of fitting-out works and F&E; and

- (f) ***Others.*** This includes, for example, expenditures relating to implementation of an information technology project or purchase of vehicles.

1.6 Table 2 shows the amounts and numbers of LF grants approved from 2011-12 to 2015-16.

Table 2
Amounts and numbers of LF grants approved
(2011-12 to 2015-16)

LF grant purpose	2011-12	2012-13	2013-14	2014-15	2015-16
	\$ million (no. of grants)				
Premises renovation and construction (see para. 1.5(a))	323 (118)	516 (104)	512 (109)	434 (83)	2,881 (126) (Note 1)
Experimental project (see para. 1.5(b))	367 (9)	380 (2)	120 (11)	107 (6)	1,120 (9) (Note 2)
Subvention-linked minor expenditures (see para. 1.5(c)) (Note 3)	126 (154)	139 (199)	148 (237)	162 (296)	177 (150)
SWDF expenditures (see para. 1.5(d)) (Note 4)	– (–)	330 (1)	– (–)	– (–)	460 (1)
Fitting-out works and F&E (see para. 1.5(e))	196 (56)	321 (91)	304 (138)	287 (138)	229 (91)
Others (see para. 1.5(f))	99 (367)	107 (199)	71 (153)	89 (206)	99 (180)
Total	1,111 (704)	1,793 (596)	1,155 (648)	1,079 (729)	4,966 (557)

Source: Audit analysis of SWD records

Note 1: In 2015-16, two works projects, namely construction of an integrated rehabilitation services complex each at the site of ex-Siu Lam Hospital in Tuen Mun costing \$1,854 million and the ex-Kai Nang Sheltered Workshop and Hostel in Kwun Tong costing \$502 million, were approved. Excluding the two projects, the average project grant was \$4.2 million.

Note 2: In 2015-16, two experimental projects initiated by the SWD, namely a pilot scheme each on on-site pre-school rehabilitation services costing \$422 million and the community care service vouchers for the elderly costing \$559 million, were approved. Excluding the two projects, the average project grant was \$19.9 million.

Note 3: In 2012-13, 2013-14 and 2014-15, supplementary LF grants for subvention-linked minor expenditures were approved for some NGOs.

Note 4: Of the \$1 billion SWDF (see para. 1.5(d)), \$330 million and \$460 million were allocated to the SWD in 2012-13 and 2015-16 respectively. As of January 2017, SWDF disbursements totalling \$577 million had been made to NGOs for implementing approved projects.

Remarks: For the 6-month period April to September 2016, 289 applications for a total of \$661 million grants were approved.

Introduction

Grant approving authority

1.7 Under section 6(4) of the Government Lotteries Ordinance (Cap. 334), the Financial Secretary of the Hong Kong Special Administrative Region (HKSAR) may appropriate moneys from the LF for the purpose of financing the support and development of social welfare services in Hong Kong.

1.8 ***Before August 2016.*** Before 4 August 2016, the Financial Secretary had delegated the approving authority to the Director of Social Welfare to approve the following LF grants:

- (a) grants for minor fitting-out works, renovations and purchase of additional or replacement F&E costing between \$10,000 and \$400,000 each;
- (b) grants disbursed on an agency basis for minor capital works costing below \$500,000 for each service unit and minor capital expenditure on F&E and vehicles with the cost not exceeding \$50,000 per item on the advice of the Lotteries Fund Advisory Committee (LFAC — Note 5); and
- (c) grants for non-experimental/experimental projects not exceeding \$4 million each on the advice of the LFAC.

Commitments for non-experimental/experimental projects exceeding \$4 million each were subject to the approval of the Financial Services and the Treasury Bureau (FSTB) on the advice of the LFAC.

Note 5: *The Committee, an advisory body to the SWD on considering applications for LF grants and conducting charitable fund-raising activities, is chaired by the Director of Social Welfare and comprises 11 members including a representative from the Labour and Welfare Bureau and 10 non-official members from the social welfare, academic and business sectors, who are appointed by the Secretary for Labour and Welfare. The Committee holds meetings once every two months.*

1.9 *From August 2016.* Under Financial Circular No. 7/2016, with effect from 4 August 2016, the Financial Secretary has delegated the approving authority to the Director of Social Welfare to approve the following LF grants:

- (a) grants for minor fitting-out works, renovations and purchase of additional or replacement F&E costing between \$10,000 and \$400,000 each;
- (b) grants disbursed on an agency basis for minor capital works costing below \$500,000 for each service unit and minor capital expenditure on F&E and vehicles with the cost not exceeding \$50,000 per item on the advice of the LFAC; and
- (c) grants for non-experimental projects costing below \$15 million each, and for experimental projects costing below \$4 million each on the advice of the LFAC.

Non-experimental projects each with a value of \$15 million or above, and experimental projects each with a value of \$4 million or above are subject to the approval of the FSTB on the advice of the LFAC.

1.10 LF grants may be approved for projects within the scope of work of the Education Bureau and the Department of Health having social welfare contents. From 2011-12 to 2015-16, 38 LF grants totalling \$49 million had been approved for projects within the scope of the Education Bureau having social welfare contents, and no LF grant had been approved for projects within the scope of the Department of Health.

1.11 The Lotteries Fund Projects (LFP) Section of the SWD is responsible for administering the LF. As of December 2016, the LFP Section had 17 staff members who were responsible for processing LF applications. An extract of the SWD's organisation chart relevant to the operation of the LF is shown in Appendix A.

Introduction

Projects under the Special Scheme financed by the LF

1.12 In his 2013 Policy Address, the Chief Executive of the HKSAR announced that the Government would seek to use the LF more flexibly and make better use of the land owned by NGOs through redevelopment or expansion to provide diversified subvented and self-financing facilities. The Government would also provide targeted assistance to NGO land owners during the planning or development process. In February 2014, the Finance Committee of LegCo approved the allocation of \$10 billion from the General Revenue to the LF to ensure that the LF would have sufficient resources to implement feasible projects under the Special Scheme on Privately Owned Sites for Welfare Uses (the Special Scheme — Note 6). According to the Labour and Welfare Bureau (LWB), if necessary, the Government would flexibly deploy the allocated funds to support other projects within the remit of the LF.

1.13 The Special Scheme, launched by the LWB in September 2013, seeks to encourage welfare NGOs to provide or increase on their own sites those welfare facilities considered by the Government as being in acute demand, in particular elderly and rehabilitation facilities, through in-situ expansion, redevelopment or new development. The Special Scheme would support the capital costs of feasible projects. Under the Special Scheme, an applicant organisation has to make available on a site under its ownership, through expansion, redevelopment or new development, a net increase in the provision of one or more than one type of elderly or rehabilitation service specified by the Government.

1.14 Upon closing of the submission of preliminary proposals under the Special Scheme in November 2013, 43 welfare NGOs had submitted 63 preliminary proposals. According to information provided to LegCo in February 2014, based on the rough estimation of the applicant organisations, if all the proposals received under the Special Scheme were technically feasible and could be implemented smoothly:

Note 6: *From 2008-09 to 2012-13, the average revenue and expenditure of the LF amounted to about \$1.6 billion and \$800 million per year respectively.*

- (a) about 9,000 additional service places for the elderly and 8,000 additional places for rehabilitation services for persons with disabilities would be provided;
- (b) the amount of LF allocation required for implementing the projects was estimated to be in the order of \$20 billion; and
- (c) the LWB was co-ordinating the examination and implementation of the preliminary proposals received under the Special Scheme.

Audit review

1.15 In 2002, the Audit Commission (Audit) completed a review on administration of grants from government funds (see Chapter 3 of the Director of Audit's Report No. 38 of March 2002).

1.16 In October 2016, Audit commenced a review to examine the SWD's management of projects financed by the LF. The review focuses on the following areas:

- (a) administration of funding applications (PART 2);
- (b) administration of project implementation (PART 3); and
- (c) governance and management issues (PART 4).

Audit has identified areas where improvements can be made by the Government in the above areas, and has made a number of recommendations to address the issues.

General response from the Government

1.17 The Director of Social Welfare welcomes this audit review and agrees with the audit recommendations with a view to improving the administration of funding applications, project implementation, and governance and management issues of the LF.

Introduction

1.18 The Secretary for Financial Services and the Treasury welcomes this audit review and supports the audit recommendations with a view to improving the administration of funding applications, project implementation and other management issues identified. He trusts that the Director of Social Welfare, being the Controlling Officer for the LF, will take the lead and work with relevant parties to take necessary follow-up actions.

Acknowledgement

1.19 Audit would like to acknowledge with gratitude the full cooperation of the staff of the LWB and the SWD during the course of the audit review.

PART 2: ADMINISTRATION OF FUNDING APPLICATIONS

2.1 This PART examines actions taken by the SWD in administering LF funding applications (paras. 2.2 to 2.17) and the Special Scheme on Privately Owned Sites for Welfare Uses (paras. 2.18 to 2.29).

Funding applications

2.2 The LFP Section of the SWD is responsible for processing LF funding applications before submitting them to the Director of Social Welfare or the Secretary for Financial Services and the Treasury for approval (see paras. 1.8 and 1.9). Under the LF Manual (Note 7), an NGO is eligible to apply for an LF grant if it is recognised by the SWD, the Department of Health or the Education Bureau as a non-profit-making organisation providing a valuable service to the community.

2.3 In 2015-16, a total of 557 LF grants amounting to \$4,966 million were approved. Details are shown in Table 3.

Note 7: *The LF Manual was issued by the SWD for regulating matters related to the use of LF grants. It stipulated procedures for applications, payments and controls of the grants.*

Administration of funding applications

Table 3
Approved LF grants
(2015-16)

LF grant	LF grant approved	
	(Number)	(\$ million)
Provided to NGOs receiving SWD annual subventions	525	710
Provided to NGOs not receiving SWD annual subventions	10	46
Provided to B/Ds as works agents (Note) for constructing new welfare-service premises	12	2,630
Provided for experimental projects and SWDF (see para. 1.5(b) and (d))	10	1,580
Total	557	4,966

Source: Audit analysis of SWD records

Note: For example, the Hong Kong Housing Authority (with the Housing Department as its executive arm) is the works agent for projects located in public housing developments.

Administration of funding applications

2.4 According to the SWD, the general procedures for processing LF grant applications are as follows:

- (a) ***Initial screening.*** Upon receiving an application from an NGO or a B/D, the LFP Section will issue an acknowledgement letter, conduct initial screening of the application and liaise with the applicant for supplementary information to ensure that the application information is complete and the application is ready for service assessment and technical vetting;
- (b) ***Service assessment.*** Upon receipt of an application after initial screening by the LFP Section, the relevant SWD service branch (Note 8 — see Appendix A) and/or other B/Ds (e.g. Education Bureau, Department of Health and Home Affairs Department) will assess and provide comments on the support-worthiness of the application from the policy or service point of view and confirm whether the application is within the ambit of the LF;
- (c) ***Technical assessment (for projects related to works or purchase of vehicles).*** If an application for an LF grant for meeting the costs of construction, renovation and fitting-out works exceeds \$500,000, the Architectural Services Department (ArchSD) (or the Architectural Section of the SWD for a related LF funding application of \$500,000 or below) will conduct the technical vetting (including assessing the feasibility, specifications, requirements and cost estimates) of the project. For procurement of vehicles, the Electrical and Mechanical Services Department will assess and provide comments on the application from the technical perspective;
- (d) ***Clarification and revision of application.*** Upon receipt of comments relating to service and/or technical assessments, the applicant NGO or B/D needs to make clarifications and provide supplementary information for further assessments. For an application requiring major changes to the scope of a project, the applicant organisation may need to substantially revise the original application, which will require going through the procedures stated in items (a) to (c) above;

Note 8: *LF applications are mainly vetted by four SWD service branches, namely Elderly Branch, Family and Child Welfare Branch, Rehabilitation and Medical Social Services Branch, and Youth and Corrections Branch.*

Administration of funding applications

- (e) ***Consultation with different stakeholders.*** For projects having impacts on the environment, transport or society, the SWD will conduct consultations with stakeholders including District Councils, Incorporated Owners and related groups. For projects having policy and financial implications, the SWD will also seek the endorsement of relevant B/Ds. For projects involving significant resources from the LF and the Government, the SWD will consult the relevant LegCo Panels; and
- (f) ***Funding approval.*** The SWD will seek funding approval from the relevant approving authority (see paras. 1.8 and 1.9) for an eligible application. For a project incurring recurrent government expenditure exceeding \$10 million a year, the SWD will consult the relevant LegCo Panel before proceeding to seek funding approval.

The specific procedures for processing LF grants for different purposes are summarised in Appendix B.

2.5 In 2015-16, 557 LF applications were approved and 19 applications were not approved. Of the 19 unsuccessful applications:

- (a) 9 applications were withdrawn by NGOs; and
- (b) 10 applications were not approved on the grounds of inadequate justifications or not falling within the ambit of the LF.

Application processing time exceeding target time

2.6 According to the SWD, the target time for processing an application for an LF grant with a value exceeding \$400,000 (hereinafter referred to as a major grant) and a grant with a value of \$400,000 or below (hereinafter referred to as a minor grant) is 9 months and 4 months respectively. From April 2011 to September 2016, the SWD had processed and approved 1,251 applications for major grants and 1,087 applications for minor grants. Audit examination revealed that, of these 1,251 and 1,087 applications, the time respectively taken to process 236 (19%) and 245 (23%) applications had respectively exceeded the SWD's target time of 9 months for major grants and 4 months for minor grants. Analyses of the time taken in processing approved applications are shown in Table 4.

Administration of funding applications

Table 4
Time taken in processing applications
(April 2011 to September 2016)

Time taken from grant application to approval	Applications approved	
	(No.)	(Percentage)
(a) Major grants		
Within 9 months	1,015	81%
More than 9 months to 1 year	53	4%
More than 1 year to 2 years	101	8%
More than 2 years to 3 years	82 { 46	4%
More than 3 years to 7.5 years	{ 36	3%
Total	1,251	100%
(b) Minor grants		
Within 4 months	842	77%
More than 4 months to 1 year	215	20%
More than 1 year to 2 years	30 { 24	2%
More than 2 years to 3.6 years	{ 6	1%
Total	1,087	100%

Source: Audit analysis of SWD records

2.7 Audit selected two approved applications with the longest processing time, namely Case 1 for a major grant and Case 2 for a minor grant, for examination.

Case 1

Commencement and completion of a premises-construction project (Project A) without funding approval (October 2004 to May 2012)

1. In October 2004, after endorsement by the LFAC, the SWD sought the FSTB's approval for a premises-construction grant (see para. 1.5(a)) of \$35.7 million (comprising \$32.5 million construction cost and \$3.2 million for contingencies) to meet the construction costs of three welfare facilities (Project A) for, among others, provision of 120 service places for the elderly in a private development.

2. According to the proposed land lease conditions of the land grant for the private development, a developer was required to construct the proposed welfare facilities at the cost of the Government. The ArchSD was the technical adviser responsible for estimating the cost of the proposed welfare facilities for inclusion in the conditions of the land grant. According to the ArchSD, in the absence of a design for the facilities, the estimate was a rough indication of the related cost.

3. In December 2004, the FSTB granted an in-principle approval for the LF grant subject to the submission of a more accurate and detailed technical appraisal of the \$32.5 million construction cost. The FSTB also suggested that LF fund of \$35.7 million should be reserved for Project A.

4. In the same month, the ArchSD advised the SWD to approach the developer, who would be entrusted this project as the works agent, to undertake a more accurate and detailed technical appraisal requested by the FSTB.

5. In January 2005, the SWD requested the Lands Department (Lands D) to add a clause in the land lease to require the developer to undertake a more accurate and detailed technical appraisal of the \$32.5 million construction cost. In response, the Lands D said that the SWD and ArchSD should have carried out the cost appraisal before advising it to incorporate in the land lease the maximum construction cost of \$32.5 million payable by the Government, and the Lands D did not see the need or rationale to require the developer to separately undertake a detailed technical appraisal of the construction cost. According to the Lands D, given the potential conflict of interest involved, it would not be appropriate for the developer, being the beneficiary of the reimbursement arrangement, to undertake the detailed appraisal of the construction cost. According to the SWD, it would not be feasible for the ArchSD to conduct a more accurate and detailed technical appraisal of the project construction cost before the completion of a detailed design, which would only be prepared by the developer after the execution of the land grant.

Case 1 (Cont'd)

6. In February 2005, the SWD informed the FSTB that: (a) as the developer would be the works agent for the project, the ArchSD was unable to fulfil the condition as mentioned in paragraph 3; and (b) according to the Lands D, the Government was considered to have already reserved considerable control since the eventual payment made by the Government to the developer would be either the consideration cost stated in the land grant (i.e. \$32.5 million) or the actual cost of the construction of the social welfare facilities as determined by the Director of Lands, whichever was less, and the Director of Lands' decision should be final and binding on the developer. In response, the FSTB restated the requirement for more information and elaborations in connection with the in-principle approval (see para. 3). According to the FSTB, it expected the SWD to take follow-up actions on the issue.

7. In December 2005, before execution of the land grant, the ArchSD issued a memo to the SWD, copied to the Lands D, reminding the SWD to secure funding for the welfare facilities. In the event, the land grant was executed in July 2006, under which construction of the welfare facilities concerned was targeted for completion by July 2011.

8. Between March 2005 and February 2009, the SWD LFP Section repeatedly requested the SWD Project Planning Unit to follow up with the FSTB on the funding approval for Project A.

9. In February 2009, the SWD informed the FSTB that the developer would complete construction of the welfare facilities by July 2011 in accordance with the land lease condition and sought the FSTB's approval for the LF grant before the project works commencement.

10. In August 2009, in response to the FSTB's further request raised in February 2009 for a detailed breakdown of the construction cost of the welfare facilities, the SWD informed the FSTB of the calculation basis of the estimated total construction cost of \$32.5 million, which had been incorporated into the land grant as the maximum amount payable by the Government. In response, the FSTB asked whether there was a detailed breakdown of the construction cost.

11. In July 2011, the construction of the welfare facilities was completed. In March 2012, the SWD informed the FSTB that the developer would hand over the welfare facilities to the Government in May 2012, and sought the FSTB's approval for the LF grant.

Administration of funding applications

Case 1 (Cont'd)

12. In May 2012, the FSTB approved an LF grant of \$35.7 million for the project, 7.5 years after the SWD first sought funding approval in October 2004, and 10 months after the completion of the works in July 2011.

Audit comments

13. Audit considers it unsatisfactory that, while the land grant was executed in July 2006 under which the Government was committed to reimbursing \$32.5 million to the developer for constructing three welfare facilities at the private development, the related LF grant of \$35.7 million was not approved by the FSTB until May 2012, 7.5 years after the FSTB's approval for the grant was first sought in October 2004. At the time of grant approval, the construction of the welfare facilities had already been completed in July 2011 and subsequently handed over to the Government in May 2012. In Audit's view, the SWD needs to take measures to ensure that an LF-funded project will not commence without obtaining funding approval for the project.

Source: Audit analysis of SWD records

Case 2

**Repeated revisions of grant application for vehicle purchase
(Project B)
(November 2011 to July 2015)**

1. In November 2011, an NGO (NGO 1) made an application for a vehicle-purchase grant (see para. 1.5(f)) of \$754,000 to replace an existing 7-seater van with a 14-seater light bus for its integrated home-care services for the elderly (Project B).

2. Under the SWD's requirement, a centre providing integrated home-care services for the elderly may apply for an LF grant for replacement of not more than half of its existing vehicle fleet by 16-seater vans with the remaining vehicles being 5-seater or 6-seater vans. In January 2012, since an LF grant had already been allocated to NGO 1 for replacing one of its three 7-seater vans by a 16-seater light bus in January 2008, the SWD informed NGO 1 that the application was not supported and the SWD reiterated its requirement as mentioned above.

3. In August 2013, NGO 1 submitted a revised application for an LF grant to replace an existing 7-seater van with a 4-seater car. Given that the 4-seater car was not the standard SWD-supported provision, the application again was not supported by the SWD.

4. In November 2014, NGO 1 resubmitted an application for a 5-seater van. In July 2015, an LF grant of \$341,000 was approved for NGO 1, 3.6 years after NGO 1 first sought funding approval for a 14-seater light bus in November 2011.

Audit comments

5. Audit noted that NGO 1 had repeatedly revised the grant application from November 2011 to November 2014. In Audit's view, in order to facilitate management of long-outstanding cases, the SWD needs to consider a revised application involving a significant change of scope as a new application.

Source: Audit analysis of SWD records

Administration of funding applications

2.8 In February 2017, after carrying out an examination of the 82 applications for major grants with processing time exceeding 2 years and the 30 applications for minor grants with processing time exceeding 1 year (see Table 4 in para. 2.6), the SWD noted that:

- (a) 66 (80% of 82) applications for major grants and 20 (67% of 30) applications for minor grants involved re-submissions of applications due to complexities and changes of scope of the funding applications;
- (b) the dates of 12 (15% of 82) applications for major grants and 1 (3% of 30) application for a minor grant had been mistakenly inputted into the database;
- (c) 3 (4% of 82) applications for major grants and 7 (23% of 30) applications for minor grants involved NGOs' delays in submitting supplementary information; and
- (d) 1 (1% of 82) application for a major grant and 2 (7% of 30) applications for minor grants involved other reasons (such as a B/D taking a long time to vet an application due to its complexities).

2.9 Furthermore, of the 272 applications for major grants and 51 applications for minor grants which were under processing, as of September 2016, the time used for handling 179 (66%) applications for major grants and 36 (71%) applications for minor grants had exceeded their corresponding target processing time. Analyses of the time taken in processing the applications as of September 2016 are shown in Table 5.

Administration of funding applications

Table 5

**Time taken in processing applications in progress
(September 2016)**

Time taken from grant application to 30 September 2016	Applications in progress	
	(No.)	(Percentage)
(a) Major grants		
Within 9 months	93	34%
More than 9 months to 2 years	62	23%
More than 2 years to 3 years	48	18%
More than 3 years to 4 years	18	7%
More than 4 years to 5 years	39	14%
More than 5 years to 8.5 years	12	4%
Total	272	100%
(b) Minor grants		
Within 4 months	15	29%
More than 4 months to 1 year	20	39%
More than 1 year to 3 years	8	16%
More than 3 years to 5 years	3	6%
More than 5 years to 6.9 years	5	10%
Total	51	100%

Source: Audit analysis of SWD records

2.10 Audit selected two applications with the longest processing time as of September 2016, namely Case 3 for a major grant and Case 4 for a minor grant, for examination.

Case 3

Long time taken by an NGO to satisfy funding requirements (Project C) (March 2008 to September 2016)

1. In March 2008, an applicant NGO (NGO 2) submitted an application for a premises-renovation grant (see para. 1.5(a)) of \$4.5 million to carry out renovation works and purchase of F&E items for an elderly home (Project C). In September 2008, after the initial screening conducted by the LFP Section, the application was forwarded to the SWD Elderly Branch for vetting. Photographs 1 and 2 show the deteriorated conditions of the elderly home when NGO 2 made the application.

Photographs 1 and 2

Deteriorated conditions of the elderly home (October 2008)



Source: SWD records

2. From November 2009 to June 2011, in response to comments of the SWD Elderly Branch and Licensing Office on the proposed layout plan, NGO 2 made repeated revisions to the application.

3. In September 2011, the application was forwarded to the ArchSD for technical vetting. In response to the technical comments, NGO 2 revised the application in December 2011. In February 2012, the SWD forwarded the ArchSD's further technical comments to NGO 2.

4. From February 2012 to May 2013, the SWD had issued several email reminders to urge NGO 2 to revise the application and submit a list of F&E items to support the funding application.

Case 3 (Cont'd)

5. In March 2015, the SWD contacted NGO 2 again to follow up the application. In September 2015, NGO 2 made a revised application to apply for a grant of \$42.9 million.

6. In August 2016, the application was forwarded to the ArchSD for technical vetting. As of September 2016, processing of the application was in progress, 8.5 years after NGO 2 first sought funding approval in March 2008.

Audit comments

7. As revealed in this case, NGO 2 had taken a long time from March 2008 to March 2015 to respond to enquiries and comments of the SWD and the ArchSD with a view to satisfying the funding requirements. Moreover, NGO 2 had significantly revised the project scope from works costing \$4.5 million to \$42.9 million (part of the cost increase was due to inflation). In order to facilitate management of long-outstanding cases, the SWD needs to identify long-outstanding cases where the NGOs have difficulties in meeting funding requirements and provide necessary assistance to them. It also needs to consider a revised application involving a significant change of scope as a new application.

Source: Audit analysis of SWD records

Case 4

Lack of follow-up actions on a long-outstanding application (Project D) (October 2009 to September 2016)

1. In October 2009, an applicant NGO (NGO 3) submitted an application for a premises-renovation grant (see para. 1.5(a)) of \$197,900 to carry out repair works on slopes and retaining walls adjacent to an elderly home (Project D).

2. In December 2009, the SWD informed NGO 3 that the application would not be approved because the elderly home would soon be redeveloped, with the remaining life span probably be less than three years. The SWD requested NGO 3 to provide justifications and more information to support the application if the repair works were considered necessary.

3. In March 2010, the SWD issued a letter to NGO 3 and asked if the application was still required. There was no file record showing any SWD action taken from April 2010 to September 2016 on the \$197,900 grant application. Audit noted that a premises-construction grant of \$179 million was approved in January 2011 and a supplementary grant of \$119 million was approved in October 2013 for the redevelopment of the elderly home into a service complex, and the works were completed in 2016.

Audit comments

4. Audit noted that, as of September 2016, this application was still in progress, 6.9 years after NGO 3 first sought funding approval in October 2009. In Audit's view, the SWD needs to follow up with NGO 3 to ascertain if the LF grant of \$197,900 for carrying out repair works on slopes and retaining walls is still required. The SWD also needs to strengthen measures on following up long-outstanding cases (including coordinating different funding requests by the same NGO in the same location) and remove from SWD database those no longer in need of LF grants.

Source: Audit analysis of SWD records

Administration of funding applications

2.11 In February 2017, after carrying out an examination of the 117 applications for major grants with processing time exceeding 2 years and the 16 applications for minor grants with processing time exceeding 1 year (see Table 5 in para. 2.9), the SWD noted that:

- (a) 82 (70% of 117) applications for major grants and 9 (56% of 16) applications for minor grants involved re-submissions of applications due to complexities and changes of scope of the works;
- (b) 13 (11% of 117) applications for major grants involved NGO consultants taking a long time to prepare and revise the LF applications for the works projects;
- (c) 3 (3% of 117) applications for major grants and 1 (6% of 16) application for a minor grant involved NGOs' delays in submitting supplementary information;
- (d) in 3 (3% of 117) applications for major grants and 2 (13% of 16) applications for minor grants, each of the NGO applicants was found to have submitted more than one LF application for a works project with the same scope (e.g. renovation or redevelopment of premises) for the same premises;
- (e) 12 (10% of 117) applications for major grants and 3 (19% of 16) applications for minor grants involved other reasons (such as a B/D taking a long time to vet an application due to its complexities); and
- (f) 4 (3% of 117) applications for major grants and 1 (6% of 16) application for a minor grant involved data input errors (including incorrect file references and duplicated records of the same application). These cases should have been removed from SWD database.

Administration of funding applications

2.12 According to the SWD:

- (a) the SWD's existing database was designed to record the total time taken in processing a grant application from the date of receipt of the application to the date of granting funding approval. A re-submission of an application involving a major change of the scope will not be re-classified as a new application;
- (b) the long processing time was normally not caused by delays on the part of SWD staff involved. Factors contributing to the delays included insufficient and incomplete information provided by NGO applicants, revisions of project scopes, and time taken on consultations with B/Ds; and
- (c) from April 2011 to September 2016, despite an upsurge of LF applications in terms of the number and complexities, there were improvements in meeting the target processing time. In particular, 81% and 77% of applications for major grants and minor grants respectively had been processed within the target processing time, as compared to 77% and 70% respectively in 2000-01.

2.13 In Audit's view, in order to facilitate management of long-outstanding cases, the SWD needs to consider a revised application involving a significant change of scope as a new application. Moreover, the SWD also needs to take measures to ensure the accuracy of data in SWD database.

2.14 Audit noted that the long time taken to process applications for LF grants would lead to delays in providing improved welfare services and facilities to persons in need of the services. The SWD needs to strengthen measures with a view to processing grant applications within the target completion time of 9 months for major grants and 4 months for minor grants. The SWD also needs to consider promulgating performance pledges on the time of processing applications for LF grants.

Audit recommendations

2.15 **Audit has *recommended* that, in processing applications for LF grants, the Director of Social Welfare should:**

- (a) **take measures to ensure that an LF-funded project will not commence without obtaining funding approval for the project;**
- (b) **identify long-outstanding cases where the NGOs have difficulties in meeting funding requirements and provide necessary assistance to them;**
- (c) **strengthen measures on following up long-outstanding cases and remove from SWD database those no longer in need of LF grants;**
- (d) **consider a revised application involving a significant change of scope as a new application;**
- (e) **take measures to ensure the accuracy of data in SWD database;**
- (f) **strengthen measures with a view to processing grant applications within the target completion time of 9 months for major grants and 4 months for minor grants; and**
- (g) **consider promulgating performance pledges on the time of processing applications for LF grants.**

Response from the Government

2.16 The Director of Social Welfare agrees with the audit recommendations. She has said that:

- (a) the SWD has strengthened procedural requirements to ensure that B/Ds involved complete technical work and assessments before seeking funding approvals;
- (b) the SWD will liaise closely and provide assistance to NGOs having difficulties in meeting funding application requirements;
- (c) the SWD will examine the target processing time to take into account the complexity of a project, the need for revisions of the scope of a project, the need for consultation with different stakeholders and other B/Ds, and the upsurge in the number of LF applications. The SWD will revamp the database to better reflect the time taken to process applications; and
- (d) for Case 4 in paragraph 2.10, in February 2017, NGO 3 formally withdrew the grant application for carrying out repair works on slopes and retaining walls because the required works had been carried out under another redevelopment project which had been completed.

2.17 The Director of Architectural Services has said that the ArchSD will continue to provide necessary assistance and technical advice to the SWD upon request with a view to ensuring that an LF-funded project will not commence before obtaining funding approval for the project.

Special Scheme on Privately Owned Sites for Welfare Uses

2.18 Under the Special Scheme (see paras. 1.12 to 1.14), a participating NGO needs to make available a net increase in the provision of one or more than one type of elderly or rehabilitation service as specified by the Government on a site under its ownership through expansion or redevelopment of an existing premises, or undertaking a new development. An NGO may apply for an LF grant to finance the related technical feasibility studies as well as the construction and fitting-out costs.

2.19 In February 2014, when seeking \$10 billion funding approval for the Special Scheme, the LWB and the SWD informed LegCo:

- (a) that the Government had received 63 preliminary proposals submitted by 43 NGOs, which comprised proposals for:
 - (i) 42 redevelopment projects;
 - (ii) 9 expansion projects; and
 - (iii) 12 new development projects;
- (b) that if all the projects under the Special Scheme could be implemented smoothly, these 63 projects would create about 9,000 and 8,000 additional places for elderly services and rehabilitation services respectively;
- (c) that the estimated amount required under the LF would be around \$20 billion; and
- (d) of the details of the distribution of the 17,000 (9,000 plus 8,000) additional service places among the 18 District Council districts in terms of four broad service types (namely residential care services for the elderly, day care services for the elderly, residential care services for persons with disabilities, and day care/vocational rehabilitation services for persons with disabilities).

Administration of funding applications

2.20 According to the SWD, whilst an applicant NGO may apply for an LF grant under the Special Scheme to meet the non-recurrent costs of an eligible project, it may also seek other funding sources (such as private trust funds) for the project.

2.21 In January 2017, the SWD informed Audit that the estimated cost of \$20 billion of the 63 projects was based on a rough estimate of an average of \$300 million cost of each project.

Need to strengthen assistance to NGOs for early implementation of Special Scheme projects

2.22 After receiving preliminary proposals submitted by NGOs under the Special Scheme in November 2013 (see para. 1.14), relevant B/Ds (including the SWD, Planning Department, Lands D and Buildings Department) conducted preliminary examination of the proposals.

2.23 According to the LWB, subject to the general agreement of the SWD on a preliminary proposal (such as types of services and floor area requirements) and no insurmountable development constraints as advised by relevant B/Ds, the applicant NGO needs to conduct a technical feasibility study (Note 9) for the project with a view to making a more accurate cost estimate before applying for an LF grant for the capital cost of the project.

2.24 In December 2016, the LWB and the SWD informed the LegCo Panel on Welfare Services that, as of November 2016, the progress of the Special Scheme was as follows:

- (a) 1 project providing 100 additional service places had been completed;

Note 9: *The study covers areas such as the definition of the scope of the project, topographical surveys, site investigations, assessments of the need for environmental impact assessments and risk assessments at the detailed design stage, site constraints, cost estimates, preliminary schematic designs, works programmes, as well as assessments of site accessibility and availability of utility services.*

Administration of funding applications

- (b) 2 projects providing 321 additional service places had been approved with LF grants for the capital works, and the works were in progress;
- (c) 1 project providing 160 additional service places was having the capital works in progress and the LF grant application for the cost of F&E items was under processing;
- (d) 2 projects providing 690 additional service places were having the capital works in progress and the NGOs concerned were preparing to apply for LF grants for the cost of F&E items;
- (e) 6 projects providing 2,438 additional service places had had LF grants approved for conducting technical feasibility studies for the projects, including one project providing 1,400 additional service places of which the technical feasibility study had been completed; and
- (f) the remaining projects were at different planning stages.

Audit noted that, as of September 2016, the 12 projects in items (a) to (e) above involved LF grants totalling \$227 million, only representing 1% of the total estimated amount of \$20 billion targeted for the Special Scheme.

2.25 In February 2017, the LWB informed Audit that:

- (a) the preliminary proposals submitted by applicant NGOs would be subject to reviews by the SWD on the proposed services and further assessments of the site and development issues and constraints by other B/Ds concerned. The time required for implementing these project proposals would hinge on many factors including the scale and complexity of the projects, comments received from B/Ds concerned, views and sentiments of local stakeholders, and the necessary development and planning procedures involved (e.g. outline zoning plan amendments, planning permissions and lease modifications); and

Administration of funding applications

- (b) the LWB and the SWD had been making sustained efforts in monitoring the progress of the project proposals and in facilitating their implementation. For example:
 - (i) the SWD had been compiling monthly progress reports in respect of the project proposals received under the Special Scheme and the LWB had been conducting housekeeping meetings to keep track of the implementation of the Scheme and the progress of individual project proposals;
 - (ii) the SWD had held meetings with all the applicant NGOs individually, shortly after receiving their preliminary proposals, to discuss how their proposals might be refined to better meet the welfare demand and how the respective technical issues could be resolved to optimise the site utilisation and augment service provision. Liaison and follow-up actions with NGOs, including meetings to provide them with suitable assistance to proceed with the project proposals, had been ongoing;
 - (iii) for some projects, the LWB and the SWD had conducted site visits and held meetings with the B/Ds concerned with a view to resolving site issues and constraints; and
 - (iv) six information-exchange sessions had been conducted with the applicant NGOs to update them on the salient issues and progress of the Scheme, and advise the NGOs of the clarifications and refinements about the various arrangements under the Scheme.

2.26 Given that timely implementation of projects under the Special Scheme would substantially improve the provision of welfare services to persons in need of the services, the LWB and the SWD need to sustain and strengthen actions to coordinate with the applicant organisations and related B/Ds (such as the Planning Department, Lands D and the Buildings Department) with a view to implementing the projects as early as possible.

Audit recommendation

2.27 Audit has *recommended* that the Secretary for Labour and Welfare and the Director of Social Welfare should sustain and strengthen actions to coordinate with the applicant organisations and related B/Ds with a view to implementing projects under the Special Scheme as early as possible.

Response from the Government

2.28 The Secretary for Labour and Welfare and the Director of Social Welfare agree with the audit recommendation. The Secretary for Labour and Welfare has said that the LWB will sustain and strengthen, if deemed necessary, efforts on related issues.

2.29 The Director of Planning has said that the Planning Department would provide necessary planning advice as required to facilitate implementation of projects under the Special Scheme.

PART 3: ADMINISTRATION OF PROJECT IMPLEMENTATION

3.1 This PART examines the SWD's administration of the implementation of LF-funded projects.

Project implementation

3.2 After approval of LF grants, details of the implementation of different types of LF-funded projects are as follows:

- (a) ***Premises renovation and construction projects.*** From 2011-12 to 2015-16, 540 works projects on premises renovation and construction with estimated costs totalling \$4,666 million had been approved. In implementing a works project, an NGO might employ a consultant for preparing the detailed design, tender documents and the pre-tender estimate, and submit them to the SWD's Architectural Section or the ArchSD for technical vetting (see para. 2.4(c)). The consultant would then invite tender submissions and submit a tender report for the SWD's approval. The SWD would seek the ArchSD's advice if necessary. The consultant supervises the progress of works. Grant payments are made to the NGO on a reimbursement basis up to 95% of the contract sum. The payment for the remaining balance of 5% of the grant is subject to the SWD's approval of the final accounts of the project. The SWD would seek the ArchSD's advice if necessary;
- (b) ***Experimental projects.*** From 2011-12 to 2015-16, 37 experimental projects with estimated costs totalling \$2,094 million had been approved. For the implementation of an experimental project, the related NGO has to comply with the programme and conditions endorsed by the SWD. Grant payments are made to the NGO in accordance with a pre-set payment schedule or on a quarterly basis after commencement of the project. A percentage of the grant (normally 5%) will normally be withheld until completion of the project and the NGO has submitted to the SWD the audited financial statements of the project. The NGO is required to perform an evaluation of the project after its completion;

Administration of project implementation

- (c) ***Subvention-linked minor expenditures (or Block Grant).*** From 2011-12 to 2015-16, 1,036 grants for subvention-linked minor expenditures totalling \$752 million had been approved. Grant payments are normally made on a quarterly basis. Within 7 months after the end of a financial year, an NGO in receipt of the grant needs to submit to the SWD a summary showing the nature of expenditures financed by the grant in the previous year, and any unspent grant balance would be carried forward to the ensuing year;

- (d) ***SWDF expenditures.*** From 2011-12 to 2015-16, 2 grants totalling \$790 million had been approved under phases 2 and 3 of the SWDF for disbursement to approved NGOs. Unallocated SWDF would be refunded to the LF. As of January 2017, disbursements totalling \$577 million had been made to NGOs for implementing approved projects. Grant payments to an NGO are made according to an approved payment schedule. After completion of a related project, the NGO concerned needs to submit to the SWD a project evaluation report. Any unspent disbursement should be refunded to the SWDF;

- (e) ***Fitting-out works and F&E for new/reprovisioned premises.*** From 2011-12 to 2015-16, 514 related grants totalling \$1,337 million had been approved. For fitting-out works, the payment procedures are similar to those of works projects as stated in item (a) above, except that the SWD's Architectural Section would act as the technical adviser to carry out technical vetting of the tender documents, monitor the works progress and ensure satisfactory completion of works. Payments for purchase of F&E are made on a reimbursement basis; and

- (f) ***Others.*** From 2011-12 to 2015-16, 1,105 other grants totalling \$465 million had been approved. Grant payments are made on a reimbursement basis.

Administration of project implementation

Long-outstanding projects

3.3 As of September 2016, 1,198 LF-funded projects with approved commitments totalling \$12.4 billion were in progress and commitments totalling \$7.5 billion (60%) were yet to be disbursed to related NGOs or B/Ds (hereinafter referred to as unpaid commitments). Details are shown in Table 6.

Table 6

**LF-funded projects in progress
(September 2016)**

Time taken from grant approval to September 2016	Projects (No.)	Approved grants (\$ million)	Unpaid commitments (\$ million)
Within 3 years	717	6,500	5,802
More than 3 to 5 years	201	1,932	856
More than 5 to 10 years	191	2,147	586
More than 10 to 15 years	33	1,171	47
More than 15 to 20 years	38	521	141
More than 20 to 25 years	18	172	28
Total	1,198	12,443	7,460

Source: Audit analysis of SWD records

3.4 As shown in Table 6, as of September 2016, more than 5 years after grant approvals, the accounts of 280 projects involving unpaid commitments totalling \$802 million had not been finalised. Audit examination revealed that, as of September 2016, of these 280 projects:

- (a) 5 projects (2%) involving unpaid commitments of \$15 million had not commenced works (see para. 3.5);
- (b) 16 projects (6%) involving unpaid commitments of \$97 million had not completed the works. The time taken for these projects from grant approval to September 2016 ranged from 5 to 7 years; and

Administration of project implementation

- (c) 259 projects (92%) involving unpaid commitments of \$690 million had works completed but the project accounts had not been finalised and submitted to the SWD (see para. 3.6).

Long time taken before commencing LF-funded project works

3.5 According to the LWB, the timely delivery of welfare projects is of paramount importance to the community. However, as of September 2016, works for 5 LF-funded works projects with approved LF grants totalling \$15 million had not commenced 5 to 8 years after approval of the LF grants. As of September 2016, of the total \$15 million grants, only \$0.2 million (1%) had been paid to 2 NGOs concerned. Audit considers that the SWD needs to take measures to provide assistance to NGOs of LF-funded projects to commence works in a timely manner. Case 5 shows details of the longest outstanding project.

Case 5

Unsatisfactory performance of NGO consultants for a works project (Project E) (July 2008 to January 2017)

1. In July 2008, a premises-renovation grant (see para. 1.5(a)) of \$0.98 million was approved for an NGO (NGO 4) to carry out renovation works for a social service centre (Project E). Photographs 3 and 4 show the deteriorated conditions of the social service centre when NGO 4 made the application.

Photographs 3 and 4

Deteriorated conditions of the social service centre (December 2007)



Source: SWD records

Administration of project implementation

Case 5 (Cont'd)

2. In April 2009, NGO 4 obtained approval from the SWD to engage a consultant (Consultant E1) for the project.

3. In November 2009, February 2010 and May 2010, Consultant E1 respectively submitted to the SWD and the ArchSD draft tender documents for employment of a contractor for the works. The ArchSD asked for additional information regarding each submission. In August 2010, Consultant E1 withdrew from providing services for Project E.

4. In June 2011, NGO 4 obtained approval from the SWD to engage another consultant (Consultant E2) for Project E. Between December 2011 and June 2015, in response to the ArchSD's comments, Consultant E2 made eight rounds of submissions on the draft tender documents. In August 2015, the SWD informed NGO 4 that the latter could proceed with the tender exercise for employment of a contractor for the works.

5. In September 2016, NGO 4 decided not to proceed with the tender exercise and informed the SWD that it would terminate the service of Consultant E2 due to his sub-standard performance.

6. As of January 2017, more than 8 years after the approval of the LF grant, related works under Project E had not yet commenced.

Audit comments

7. As revealed in this case, the unsatisfactory performance of consultants engaged by NGO 4 had significantly delayed the commencement of the renovation works for the social service centre. Audit considers that the SWD, in collaboration with the ArchSD, needs to strengthen actions on providing necessary assistance to NGOs on engaging works consultants.

Source: Audit analysis of SWD records

***Long time taken in finalising project accounts
after works completion***

3.6 As of September 2016, 259 projects had been completed but the NGOs and B/Ds involved had not finalised and submitted the project accounts to the SWD, where approvals for these grants had been made 5 to 25 years ago. The 259 projects involved unpaid LF commitments totalling \$690 million. According to SWD records, of the 259 projects, the Hong Kong Housing Authority (HKHA) and the ArchSD were respectively the works agent and technical adviser for 39 and 20 projects. These 59 (39 plus 20) works projects involved unpaid LF commitments totalling \$175 million. In Audit's view, the SWD, in collaboration with related B/Ds, needs to take measures to ensure that accounts of works projects are finalised in a timely manner after works completion, with a view to releasing unpaid commitments not required for LF projects for funding other projects. Audit selected the longest outstanding project with the related works design and supervision being entrusted to the HKHA (see Case 6) and the longest outstanding project of which the ArchSD was the technical adviser (see Case 7) for examination.

Case 6

Incorrect charging of project expenditures and overspending of a completed works project (Project F) (October 1991 to January 2017)

1. In October 1991, a premises-renovation grant (see para. 1.5(a)) of \$0.58 million was approved as an interim funding measure for the HKHA to carry out fitting-out works for a child care centre located in a public housing estate (Project F).

2. In November 1993, the fitting-out works were substantially completed and the child care centre commenced operation. At that time, the HKHA informed the SWD that the estimated final project cost of the project would exceed the approved grant of \$0.58 million. In 1995, the then Finance Branch (now the FSTB) agreed that the project cost of \$0.58 million would be funded by the Capital Works Reserve Fund (CWRF) instead of the LF, and the sum having been disbursed from the LF would be reimbursed from the CWRF to the LF.

3. In March 1999, the HKHA informed the SWD that Project F's cost of \$0.84 million had been charged to the accounts of two projects, comprising \$0.27 million to Project F and \$0.57 million wrongly charged to another LF-funded project entrusted to the HKHA, and the project account of the latter project had been finalised. In April 2004, the HKHA advised the SWD that the final cost of Project F should be \$0.86 million. In September 2006, the SWD sought the HKHA's clarification on the reason for the difference of \$20,000 (between \$0.84 million and \$0.86 million) in the final project cost, and the HKHA clarified that \$20,000 was part of the cost of Project F.

4. As of January 2017, of the \$0.86 million expenditures under Project F having been disbursed from the LF, a total sum of \$0.84 million had been reimbursed from the CWRF to the LF (on 4 occasions in March 1997, May 1998, February 2006 and October 2006), with an outstanding sum of \$20,000 yet to be reimbursed to the LF.

Audit comments

5. Audit considers it unsatisfactory that, more than 23 years after the substantial completion of the works in November 1993, although Project F should be financed by the CWRF instead of the LF, expenditures of about \$20,000 under Project F having been disbursed from the LF had not been reimbursed to the LF. Furthermore, the HKHA had wrongly charged the cost of Project F to another LF-funded project account. The SWD and the HKHA need to, in collaboration with NGOs and B/Ds, strengthen controls over project expenditures to prevent recurrence of similar errors in future. The SWD also needs to take follow-up actions on the reimbursement of about \$20,000 to the LF.

Case 6 (Cont'd)

HKHA response

6. According to the HKHA:
- (a) since 2007, the HKHA has enhanced its computer system on recording funding approvals and expenditures of entrusted projects to avoid erroneous accounting entries and expenditures exceeding approved commitments;
 - (b) for this case, the error was due to the HKHA's incorrect charging of expenditures to another project account. The HKHA would collaborate with the SWD to strengthen controls over charging of project expenditures;
 - (c) the HKHA will take follow-up actions with the SWD on the reimbursement of \$20,000 to the LF; and
 - (d) as of March 2017, of the 39 completed projects for which the HKHA was the works agent, the project accounts of 12 projects had been finalised, and the HKHA will expedite actions to finalise the project accounts of the remaining 27 projects as soon as possible. Of the 39 projects, the unpaid commitments totalling \$58 million, and with the finalisation of project accounts of the 12 projects, the total unpaid commitment was reduced to \$39 million. To prevent long delays in finalising accounts after completion of works projects, the HKHA will collaborate with the SWD for implementation of the SWD's enhancement measures.

Source: Audit analysis of SWD records

Case 7

A social centre for the elderly not being assigned to the Government 19 years after works completion (Project G) (October 1993 to January 2017)

1. In February 1993, a premises-construction grant (see para. 1.5(a)) of \$1.46 million (estimated construction cost of \$1.22 million (based on the ArchSD's rough indication of cost) plus 20% on-cost) was approved for the construction and fitting-out works for a social centre for the elderly located in a private development (Project G). Under a land exchange document executed in October 1993, a developer was required to construct a social centre for the elderly within the subject land lot and to assign the premises to the Government after works completion when the premises was fit for occupation and operation and directed by the Government. The LF would reimburse to the developer the cost incurred subject to a ceiling of \$1.22 million (the consideration sum). The ArchSD was the technical adviser to the SWD and the developer was the works agent responsible for designing, constructing and supervising works for the centre.

2. In December 1997, the construction and fitting-out works were substantially completed. In August 1998, the social centre for the elderly was handed over to the SWD which subsequently leased the premises at nominal value to an NGO (NGO 5) to commence operation of the centre.

3. From July 1998 to December 2008, the SWD, the Lands D and the ArchSD had repeatedly requested the developer to provide them with information on the cost of Project G. In March 2009, after receipt of related information from the developer in January 2009, the ArchSD and the SWD agreed that the construction cost of \$1.22 million of Project G should be reimbursed to the developer.

4. As of January 2017, the Government Property Agency (GPA) and the developer had not completed the assignment of the social centre for the elderly to the Government. According to the SWD, as stipulated under the related land exchange document, the \$1.22 million construction cost would only be reimbursed to the developer upon assignment of the centre to the Government.

Audit comments

5. Audit considers it unsatisfactory that, more than 19 years after the substantial completion of the works in December 1997, owing to the social centre for the elderly not having been assigned to the Government, the account of Project G could not be finalised. In Audit's view, the SWD and the ArchSD need to take measures to prevent long delays in finalising project accounts after works completion. The SWD also needs to, in collaboration with the GPA and the Lands D, expedite actions to follow up with the developer on completing the assignment of the social centre for the elderly to the Government.

Source: Audit analysis of SWD records

Lack of information on NGO board approvals for departures from procurement requirements

3.7 The LF Manual has specified general requirements on procurement of goods and services by NGOs. For example, for a works project costing:

- (a) between \$5,000 and \$50,000, 2 quotations are required;
- (b) between \$50,001 and \$1 million, 5 quotations are required; and
- (c) over \$1 million, open tendering is required.

3.8 Nevertheless, as specified under the LF Manual, the Board of an NGO may approve the following departures from the general procurement requirements laid down in the LF Manual (known as Exception Authority):

- (a) for procurement with a value not exceeding \$1 million for works, \$500,000 for services and \$200,000 for stores, inviting or accepting quotations/tenders from less than the specified number of suppliers, or not accepting the lowest conforming quotation or tender;
- (b) for procurement with a value not exceeding \$500,000 for works, \$250,000 for services and \$100,000 for stores, in writing delegating authority to staff members of appropriate levels or to quotation/tender boards to approve inviting or accepting quotations/tenders from less than the specified number of suppliers, or not accepting the lowest conforming quotation or tender; and
- (c) except for engaging a consultant for a works project funded by a grant for subvention-linked minor expenditures (see para. 1.5(c)) or for fitting-out works and F&E for new/reprovisioned premises (see para. 1.5(e)), the justifications for the exercise of the Exception Authority by the Board or staff of an NGO must be properly documented on each occasion.

Administration of project implementation

3.9 In 2015-16, grant payments totalling \$937 million were made under 641 LF grants for implementing capital works or procurement of F&E or services. According to the SWD, NGOs have not provided it with information on the amounts of LF grants being incurred by invoking the Exception Authority because there is no requirement under the LF Manual for NGOs to do so.

3.10 Audit considers it unsatisfactory that the SWD has not required NGOs to provide it with information on the departures from general procurement requirements and the amounts of LF grants incurred by NGOs invoking the Exception Authority. The absence of this information has weakened the SWD's monitoring of the procurement of goods and services financed by LF grants and has impeded Audit examination of the justifications for the exercise of the Exception Authority. With a view to enhancing the SWD's monitoring and public accountability of the use of LF grants, the SWD needs to consider requiring NGOs to submit to the SWD annual returns showing details and justifications of their board approvals for departures from the LF procurement requirements.

Lack of effective control over advance payments

3.11 Under the LF Manual:

- (a) an NGO being approved with a grant for premises renovation and construction, fitting-out works and F&E for new/reprovisioned premises, or other uses (see para. 1.5(a), (e) and (f)) may apply for an advance payment from the LF to meet the expenditures;
- (b) the NGO should submit to the SWD documents to support expenditures incurred by using the advance payment no later than one month after the receipt of an advance payment; and
- (c) any unpaid commitment may be reverted to the LF if the NGO could not submit the related documents within the one-month period.

Administration of project implementation

3.12 In relation to advance payments under the LF, according to the SWD:

- (a) it has been its long established practice on the monitoring and control of an advance payment through the use of a project-based control sheet which is kept in each LF project file for keeping track of advance payments and receipts of documents to support related expenditures incurred; and
- (b) it has not maintained a summary register for monitoring advance payments for LF projects.

3.13 Advance payments not being substantiated by expenditure evidence should be repaid by NGOs. In Audit's view, the absence of an effective system for centrally monitoring advance payments under the LF is unsatisfactory as the SWD could not provide assurance that NGOs in receipt of advance payments have fully and properly provided documents to support related expenditures incurred within the one-month period as required under the LF Manual. It has also impeded the SWD's monitoring of such advance payments. With a view to enhancing controls over advance payments under the LF, the SWD needs to maintain a summary register for the purpose.

Lack of evaluation of some LF-funded projects

3.14 Under the LF Manual, after completion of an experimental project or a project under the SWDF (see para. 3.2(b) and (d)):

- (a) the NGO concerned is required to submit to the SWD an evaluation report on the impact of the project, specifying whether it has achieved its original objectives and whether the project implementation was cost effective; and
- (b) SWD staff and members of the LFAC may pay visits to the NGO to review the implementation of the project.

Administration of project implementation

3.15 According to the SWD:

- (a) LF-funded experimental and information technology projects are monitored by relevant advisory bodies including the LFAC, and specific project steering committees set up for experimental projects. As and when necessary, details of these projects would be reported to the relevant LegCo Panels; and
- (b) regular LF progress reports are submitted to LFAC members, and SWD staff would conduct site inspections of completed capital works projects when necessary.

3.16 Audit noted that, except for experimental projects and projects under the SWDF, the SWD did not require NGOs in receipt of LF grants to provide project evaluation reports. Audit examination of 10 works projects (other than experimental and SWDF projects) with the highest estimated costs having been completed between April 2011 and March 2016 revealed that only 2 of the 10 NGOs involved had submitted project evaluation reports to the SWD after project completion. For the two NGOs having provided project evaluation reports, the submission of the evaluation reports was one of the requirements specified by a trust fund which co-financed the projects.

3.17 In March 2002, in response to Audit's recommendation on establishing procedures to evaluate the performance of projects financed by the LF (see para. 1.15), the Director of Social Welfare said that:

- (a) the SWD agreed that the utilisation of grants of the LF should be evaluated and reported since the LF was mainly funded from community resources; and
- (b) since the revamping of procedures of the LF in September 2001, the LFAC had taken a more active role in the evaluation and monitoring of LF-funded projects. Apart from receiving regular progress reports, members of LFAC made visits to the funded projects from time to time.

3.18 In Audit's view, in order to improve evaluation of effectiveness of LF-funded projects and enhance public accountability, the SWD needs to consider requiring NGOs in receipt of LF grants to submit a project evaluation report after project completion, and to conduct satisfaction surveys of stakeholders where appropriate. The SWD also needs to conduct an evaluation of the extent of achieving the objectives of experimental projects and publish the evaluation results on SWD website.

Audit recommendations

3.19 **Audit has *recommended* that, in administering LF-funded project implementation, the Director of Social Welfare should:**

- (a) **take measures to provide assistance to NGOs of LF-funded projects to commence works in a timely manner;**
- (b) **in collaboration with the Director of Architectural Services, strengthen actions on providing necessary assistance to NGOs on engaging works consultants;**
- (c) **in collaboration with related B/Ds, take measures to ensure that works-project accounts are finalised in a timely manner after works completion, with a view to releasing unpaid commitments not required for LF projects for funding other projects;**
- (d) **in collaboration with NGOs and B/Ds, take measures to strengthen controls over project expenditures to ensure correct charging of the expenditures;**
- (e) **take follow-up actions on long-outstanding cases and on the reimbursement of Project F expenditures of about \$20,000 to the LF;**
- (f) **in collaboration with the Government Property Administrator and the Director of Lands, expedite actions to follow up the assignment of the social centre for the elderly in Case 7 to the Government;**

Administration of project implementation

- (g) **consider requiring NGOs to submit to the SWD annual returns showing details and justifications of their board approvals for departures from the LF procurement requirements;**
- (h) **maintain a summary register for advance payments under the LF showing the dates of advance payments and receiving documents to support related expenditures;**
- (i) **consider requiring NGOs in receipt of LF grants to submit a project evaluation report after project completion, and to conduct satisfaction surveys of stakeholders where appropriate; and**
- (j) **conduct an evaluation of the extent of achieving the objectives of experimental projects and publish the evaluation results on SWD website.**

Response from the Government

3.20 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD will:

- (a) remind relevant B/Ds and NGOs to expedite finalisation of project accounts;
- (b) consider requiring NGOs who have invoked the Exception Authority in procurement of goods and services to submit annual returns with pertinent details and justifications;
- (c) maintain a register for advance payments under the LF; and
- (d) consider the ways to publish the evaluation results of experimental projects. In addition, as endorsed by the LFAC in January 2017, enhancement measures on post-service evaluations of LF projects would be implemented in 2017-18, such as seeking confirmations from grantees on meeting funding requirements, and advice from SWD service branches on satisfactory delivery of social welfare services after project completion.

Administration of project implementation

3.21 For paragraph 3.19(b) and (c), the Director of Architectural Services has said that the ArchSD would provide assistance/technical advice to the SWD on measures:

- (a) necessary to assist NGOs on hiring works consultants such as promulgating related guidelines and practice notes; and
- (b) to prevent long delays in finalising project accounts after works completion.

PART 4: GOVERNANCE AND MANAGEMENT ISSUES

4.1 This PART examines governance and management issues of the LF, focusing on:

- (a) management of potential conflicts of interest (paras. 4.2 to 4.21); and
- (b) revamp of management information system (paras. 4.22 to 4.28).

Management of potential conflicts of interest

4.2 The LFAC, an advisory body to the SWD on considering applications for LF grants and conducting charitable fund-raising activities including the allocation of flag days, is chaired by the Director of Social Welfare and comprises 11 members including a representative from the LWB and 10 non-official members from the social welfare, academic and business sectors who are appointed by the Secretary for Labour and Welfare. LFAC non-official members are appointed on a two-year term, with the current term commencing in September 2015.

4.3 According to a memorandum issued by the Secretary for Home Affairs in August 2005:

- (a) B/Ds should introduce one of the following systems for declaration of interest for each of the advisory and statutory bodies under their purview:
 - (i) ***One-tier reporting system.*** When a member of a board or committee perceives a potential conflict of interest in a matter placed before the board or committee, he/she should make a full disclosure of his/her interest. In this connection, it is the responsibility of the member to judge and decide if the situation warrants a declaration, and to seek a ruling from the chairman in case of doubt; and
 - (ii) ***Two-tier reporting system.*** This system applies to boards and committees with extensive powers over policy or financial matters. To maintain public confidence in the integrity of members, as well

as in the impartiality of their advice tendered to the board or committee, members should disclose their general pecuniary interests on appointment to these boards and committees and annually thereafter, in addition to the report of conflicts of interest as and when they arise;

- (b) if a member (including the chairman) has any direct personal or pecuniary interest in any matter under consideration by the committee, he must, as soon as practicable after he has become aware of it, disclose to the chairman (or the committee) prior to the discussion of the item;
- (c) the chairman (or committee) shall decide whether the member disclosing an interest may speak or vote on the matter, may remain in the meeting as an observer, or should withdraw from the meeting;
- (d) if the chairman declares an interest in a matter under consideration, the chairmanship may be temporarily taken over by a vice-chairman;
- (e) when a known direct pecuniary interest exists, the secretary may withhold circulation of relevant papers to the member concerned. Where a member is in receipt of a paper for discussion which he knows presents a direct conflict of interest, he should immediately inform the secretary and return the paper; and
- (f) all cases of declaration of interests shall be recorded in the minutes of the meeting.

LFAC practice on declaration of potential conflicts of interest

4.4 Before 2017, the LFAC adopted the one-tier reporting system (see para. 4.3(a)(i)) for members' declaration of potential conflicts of interests. At its meeting held on 19 January 2017, the LFAC decided that, instead of the previously adopted one-tier reporting system, the LFAC would adopt the two-tier reporting system (see para. 4.3(a)(ii)) for members' declaration of interests. According to the SWD, the change was due to the revision of the LF grant approving authority of the Director of Social Welfare effective from August 2016 (see para. 1.9), and the promulgation of the Best Practice Checklist on Strengthening Integrity and

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Accountability — Administration of Government Funding Schemes by the Independent Commission Against Corruption in late 2016.

4.5 According to the Standing Orders of the LFAC:

- (a) a member who has a potential conflict of interest in a matter placed before the LFAC should make full disclosure of his/her interest before the matter is discussed; and
- (b) potential conflict-of-interest situations include a significant connection with an organisation which is the subject of a matter under consideration by the LFAC.

4.6 According to SWD records as of December 2016, about one week before an LFAC meeting, the LFAC Secretariat would circulate papers for agenda items to be discussed at the meeting together with a declaration of interest form to each LFAC member for him/her to complete and return it to the Secretariat to indicate whether he/she has:

- (a) no conflict of interest in all agenda items of the meeting; or
- (b) potential conflicts of interest in certain agenda items of the meeting. He/she should specify each relevant item and the interest involved.

4.7 According to the SWD:

- (a) the LFAC Secretariat would remind members vide a letter to make declaration of potential conflicts of interest for each meeting. The Secretariat would also remind members by phone who have not returned the declaration form. Before commencement of a meeting, the Secretariat would also remind members who have not returned the declaration form to make declarations if necessary; and
- (b) at the beginning of each meeting, the Secretariat would report the potential conflicts of interest so declared by members and ask if supplementary information on declaration of potential conflicts of interest would be made.

Some LFAC members not declaring potential conflicts of interest

4.8 From September 2015 to July 2016, the LFAC held 7 meetings (comprising 6 regular meetings and one special meeting). Based on their engagements in NGOs as reflected in their declaration forms (some members had made declarations of potential conflicts of interest in relation to some agenda items), Audit's research and SWD records, Audit noted that two LFAC members, namely Members A and B, who had attended pertinent LFAC meetings from September 2015 to July 2016 and had returned the declaration forms (see para. 4.6) had not made declarations of potential conflicts of interest for some agenda items discussed at LFAC meetings. Details are as follows:

- (a) Member A, who was the vice-chairman of one of an NGO (NGO 6)'s district branches as well as the chairman of one of another NGO (NGO 7)'s district associations, attended LFAC meeting on 30 September 2015 involving consideration, among others, of endorsement of a list of eligible applicant organisations (including NGOs 6 and 7) for flag-day lots-drawing for 2016-17 (see para. 4.9). However, Member A did not make declarations of potential conflicts of interest in relation to association with NGOs 6 and 7 (Note 10); and
- (b) Member B, who was the non-executive director of an NGO (NGO 8), attended LFAC meeting on 25 November 2015 involving consideration, among others, of an \$11-million grant for NGO 8, acting as the Government's works agent, to carry out construction works of an elderly centre. However, Member B did not make a declaration of a potential conflict of interest in relation to association with NGO 8.

4.9 The LFAC has set up a vetting panel comprising three LFAC members and two NGO representatives (together with SWD staff) to scrutinise applications and make recommendations on whether applicant organisations for flag-day allocations meet the eligibility criteria. Thereafter, a list of applicant organisations

Note 10: *According to the minutes of an LFAC meeting held in January 2017, among others, on endorsement of a list of applicant organisations eligible for allocation of 2017-18 flag days, in view of an LFAC member's close association with an NGO, the LFAC Secretariat did not issue related LFAC paper to the member. Moreover, the LFAC member abstained from the meeting during the discussion of the related item to avoid conflict of interest.*

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meeting the eligibility criteria would be submitted to the LFAC for endorsement before carrying out lots-drawing for determining priorities for selection of flag days.

4.10 In Audit's view, the SWD needs to strengthen measures to periodically remind LFAC members of the need to fully make declarations of potential conflicts of interest for agenda items discussed at LFAC meetings. To facilitate members making declarations of potential conflicts of interest, the SWD needs to consider requiring the LFAC Secretariat to prepare a list of NGOs involved at each LFAC meeting for members' reference for making declarations of potential conflicts of interest.

4.11 According to a circular issued in August 1999 on appointment of members of advisory and statutory bodies, B/Ds should regularly evaluate the performance and commitment of the members of the bodies to facilitate consideration of their suitability for re-appointment. In Audit's view, the LWB needs to take into account any omission by an LFAC member in declaring potential conflicts of interest when considering his/her suitability for re-appointment upon expiry of his/her term of appointment.

Some LFAC members who were also paid executive staff of NGOs attended meetings involving discussion of related agenda items

4.12 According to the Standing Orders of the LFAC, if a member is a paid executive staff of an agency of which a matter would be considered by the committee, the member normally would not be issued the relevant committee paper and should abstain from the discussion of the agenda item concerned.

4.13 Audit examination of the declaration forms completed and returned by LFAC members for the 7 meetings held between September 2015 and July 2016 revealed that two LFAC members, namely Members C and D, were respectively paid executive staff of two NGOs, namely the director of an NGO (NGO 9) and executive director of another NGO (NGO 10) respectively. However, the two members were issued relevant LFAC papers and attended LFAC meetings involving discussion of grant applications related to the NGOs for which they worked. Details are as follows:

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- (a) Member C, who was the director and paid staff of NGO 9, attended LFAC meetings on 25 November 2015 (for 1 agenda item), 28 January 2016 (for 1 agenda item) and 30 March 2016 (for 1 agenda item) involving discussions of grant applications of NGO 9. Member C had made declarations of potential conflicts of interest for the 3 agenda items, as follows:
 - (i) for the agenda item discussed at the meeting of 25 November 2015 involving applications by 8 NGOs (including NGO 9) to purchase 16 vehicles, an LF grant of \$916,000 was approved for NGO 9 to purchase a vehicle;
 - (ii) for the agenda item discussed at the meeting of 28 January 2016 involving applications by 6 NGOs (including NGO 9) to purchase 9 vehicles, an LF grant of \$2,437,000 was approved for NGO 9 to purchase four vehicles; and
 - (iii) for the agenda item discussed at the meeting of 30 March 2016 involving applications for subvention-linked minor expenditures (see para. 1.5(c)) by 149 NGOs (including NGO 9) for 2016-17, an LF grant of \$4,637,000 for NGO 9 was approved; and
- (b) Member D, who was the executive director and paid staff of NGO 10, attended LFAC meeting on 30 March 2016 (for 1 agenda item) involving discussion of applications for subvention-linked minor expenditures by 149 NGOs (including NGO 10) for 2016-17. Member D had made a declaration of a potential conflict of interest for the agenda item. In the event, an LF grant of \$3,724,000 for NGO 10 was approved.

4.14 In March 2017, the SWD informed Audit that:

- (a) at the pertinent meetings, Members C and D had not participated in the discussion of the pertinent 3 agenda items (see para. 4.13(a)) and 1 agenda item respectively (see para. 4.13(b));
- (b) for paragraph 4.13(a)(i) and (ii), the allocation of an LF grant to an NGO for purchase of a vehicle for service use was based on standard service operation entitlements applicable to all relevant service units, regardless of the NGO providing the service; and

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- (c) for paragraph 4.13(a)(iii) and (b), every SWD-subvented NGO was entitled to an annual non-recurrent Block Grant (calculated at 1.5% of the SWD recurrent subvention) to meet the costs of routine replenishment of F&E, and minor repairs and maintenance works.

4.15 In Audit's view, the Director of Social Welfare needs to critically consider whether an LFAC member who is also a paid executive staff of an NGO needs to:

- (a) abstain from attending an LFAC meeting involving discussion of an agenda item relating to that NGO (see para. 4.3(c)); and
- (b) be issued relevant LFAC papers (see para. 4.3(e)).

Low attendance of some members

4.16 Audit noted that, for the 7 LFAC meetings held between September 2015 and July 2016, the attendance of some members was low. For example, of the 7 meetings:

- (a) Member E had only attended 1 meeting;
- (b) Member F had only attended 3 meetings; and
- (c) Member G had only attended 4 meetings.

4.17 In Audit's view, the LWB needs to take into account an LFAC member's attendance at LFAC meetings when considering his/her suitability for re-appointment upon expiry of his/her term of appointment.

Audit recommendations

4.18 **Audit has *recommended* that the Director of Social Welfare should:**

- (a) **strengthen measures to periodically remind LFAC members of the need to fully make declarations of potential conflicts of interest for agenda items discussed at LFAC meetings;**
- (b) **consider requiring the LFAC Secretariat to prepare a list of NGOs involved at each LFAC meeting for members' reference for making declarations of potential conflicts of interest; and**
- (c) **critically consider whether an LFAC member who is also a paid executive staff of an NGO needs to be issued relevant LFAC papers.**

4.19 **Audit has also *recommended* that the Secretary for Labour and Welfare should take into account any omission by an LFAC member in declaring potential conflicts of interest and his/her attendance at LFAC meetings when considering his/her suitability for re-appointment upon expiry of his/her term of appointment.**

Response from the Government

4.20 The Director of Social Welfare agrees with the audit recommendations in paragraph 4.18. She has said that:

- (a) the LFAC Secretariat will continue to remind LFAC members to make declarations of potential conflicts of interest;
- (b) the LFAC Secretariat will prepare a list of NGOs relating to agenda items at each LFAC meeting for members' reference to facilitate their making of declarations of potential conflicts of interest; and
- (c) when circulating papers and inviting members to attend meetings, the LFAC Secretariat will examine whether a member, who is also a paid executive staff of a related NGO, should be issued with the papers concerned.

4.21 The Secretary for Labour and Welfare agrees with the audit recommendation in paragraph 4.19.

Revamp of management information system

4.22 Since 2003, the SWD has maintained a management information system, namely the Lotteries Fund Project Information System (LFPIS), for maintaining some information of each LF project, including:

- (a) the name of the NGO involved, description of the project nature, the grant type and the amount of grant approved; and
- (b) the grant approval date and project completion date.

4.23 In September 2009, the SWD obtained the policy support of the LWB for the revamp of the LFPIS. In November 2011, after obtaining further information from the SWD, the Office of the Government Chief Information Officer (OGCIO) approved funding of \$6 million for the work. In July 2013, the SWD engaged a contractor to develop a revamped LFPIS (Note 11). In March 2016, the revamped LFPIS was implemented. Under the revamped LFPIS, in addition to maintaining some information for each LF project (see para. 4.22), the revamped system would also provide the following functions:

- (a) **Searching.** Searching could be conducted on a more flexible basis;
- (b) **Reporting.** Reports would be generated in different formats based on the parameters inputted by users;
- (c) **Guiding users to accomplish the required tasks.** In monitoring an LF project, 20 main stages from pre-approval to project completion were involved. At each stage, a user would be notified and guided by the system to accomplish the required tasks; and
- (d) **Bring-up.** Bring-up functions would be provided to alert users about specific or critical events or tasks due for completion.

Note 11: *A contractor was engaged for the revamp of the LFPIS and the set up of the Public Subscription Permit System, the latter was for monitoring applications for raising charity donations in public places, at a total cost of \$5.4 million.*

Delay in implementing revamp of the LFPIS

4.24 In November 2011, the OGCI0 approved funding of \$6 million from a block vote of the CWRF under the OGCI0's control for implementing a 19-month project which included the revamp of the LFPIS and setting up of the new Public Subscription Permit System (see Note 11 to para. 4.23). Of the \$6 million estimated cost, \$3.8 million was for meeting contract staff cost, cost of hardware, software and contingency, and \$2.2 million for system implementation, which were targeted for completion in May 2013. In October 2012, the SWD issued an invitation of quotation for system implementation where the lowest tender meeting the technical requirements received was \$5.5 million, which exceeded the SWD's estimated cost of \$2.2 million. As a result, the tender exercise was cancelled. In February 2013, the SWD issued another invitation of quotation for the project where the lowest tender meeting the technical requirements received was \$5.4 million. In July 2013, after obtaining supplementary funding approval of \$3.7 million from the OGCI0, the SWD awarded a contract to the lowest tenderer for carrying out the project, targetting for completion in April 2014. In the event, the project was completed and implemented in March 2016, 2 years and 10 months (or 34 months) later than the original target completion date of May 2013, or 24 months later than the target completion date of April 2014 as specified in the contract.

4.25 In February/March 2017, the SWD informed Audit that the delay in implementing the revamped LFPIS was mainly due to:

- (a) 11 months being spent in dealing with a system breakdown of the LFPIS. In early February 2012, there was a system breakdown, giving rise to a sudden urgent task to recover the LFPIS. The SWD considered it necessary to first determine whether the LFPIS could be recovered before setting the user requirements for the revamped LFPIS. The contract to recover the LFPIS was awarded on 19 October 2012, followed by the issuance of the invitation of quotation for the revamped LFPIS in the same month; and
- (b) the contractor had taken additional 8 months to complete the system analysis and design, and additional 10 months to complete the user acceptance test before the revamped system was accepted by the SWD.

Governance and management issues

4.26 In Audit's view, in implementing a project under a contract, the SWD needs to strengthen measures to ensure that a contractor completes tasks in a timely manner according to the time specified in the contract. Furthermore, in order to minimise cancellation and re-performance of a tender exercise due to under-estimation of the project cost, the SWD needs to strengthen actions with a view to making accurate project cost estimates as far as possible.

Audit recommendations

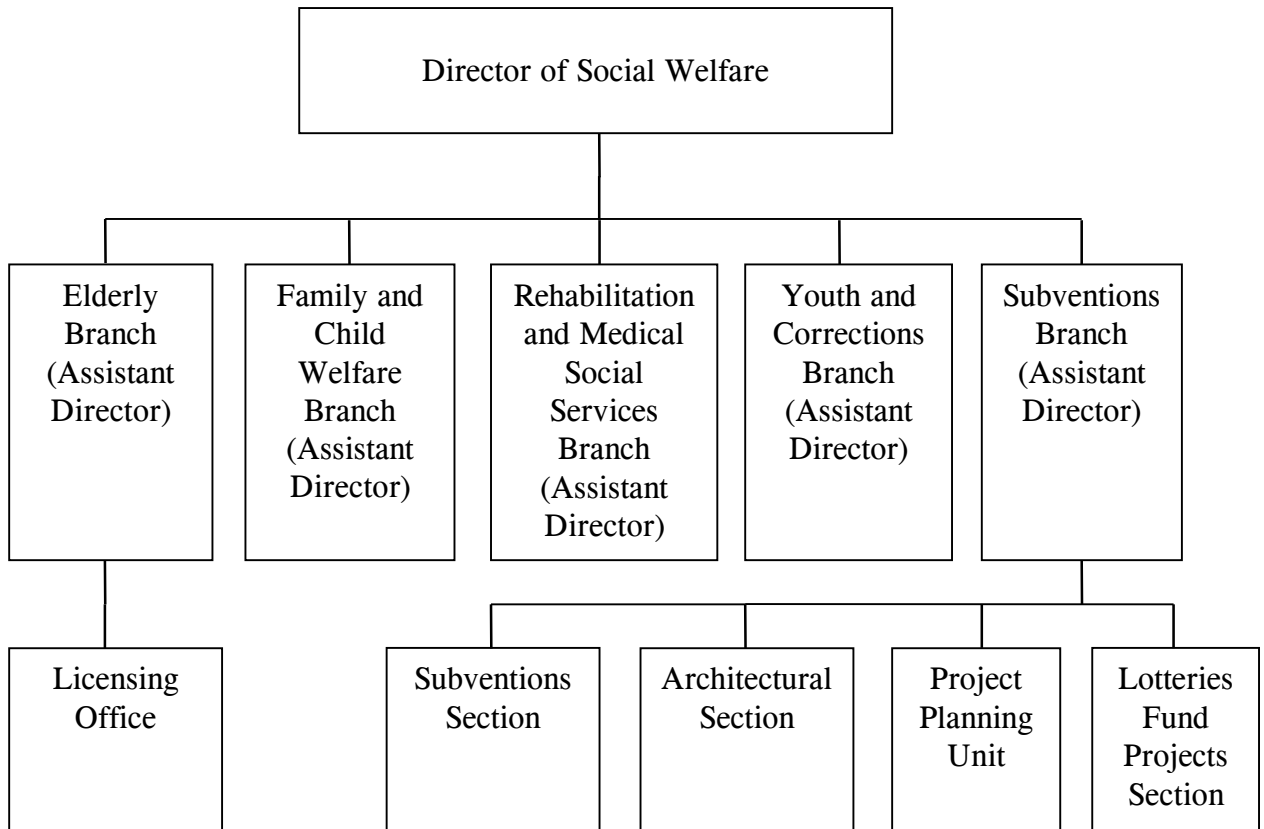
4.27 **Audit has *recommended* that, in implementing a project under a contract in future, the Director of Social Welfare should:**

- (a) **strengthen measures to ensure that a contractor completes tasks in a timely manner according to the time specified in the contract; and**
- (b) **strengthen actions with a view to making accurate project cost estimates as far as possible.**

Response from the Government

4.28 The Director of Social Welfare agrees with the audit recommendations.

**Social Welfare Department:
Organisation chart (extract)
(December 2016)**



Source: SWD records

SWD procedures for processing LF grants

- (a) ***Grants for premises renovation and construction.*** The grants could be used for:
- (i) ***Renovation of existing premises.*** The relevant SWD service branches and/or other relevant B/Ds as appropriate will assess the eligibility and support-worthiness of applications from the service point of view. Meanwhile, for an application meeting the licensing requirements, the SWD Licensing Office will vet the application against the licensing requirements (e.g. for Residential Care Homes for Persons with Disabilities, Residential Care Homes for the Elderly and Drug Dependents Treatment Centres) as appropriate, the relevant Code of Practice, and the related Ordinance and Regulation; and
 - (ii) ***Construction of new welfare premises.*** This includes the construction, redevelopment and expansion of welfare facilities in private developments, government public housing developments and joint-Government user developments initiated by the Government, and projects undertaken by NGOs on their own sites. The SWD Project Planning Unit, which acts as the coordinator for B/Ds and the applicant NGOs, will ensure that a development plan for a project is formulated together with a cost estimate for preparing the funding application. Furthermore, for a project that may have impacts on the environment or transport, the SWD will consult local stakeholders, such as the related District Council, Incorporated Owners and related concern groups, on the proposed project and on whether the scale and design of the project will need to be adjusted;
- (b) ***Grants for experimental projects.*** Experimental projects are mostly initiated by the Government. For experimental projects proposed by NGOs, they need supports from the respective SWD service branches. Prior endorsement has to be secured from the LWB and the FSTB on these funding applications from the policy and financial implication perspective before they are submitted for approval;

- (c) ***Grants for subvention-linked minor expenditures.*** Every year, the LFP Section invites NGOs receiving SWD annual subventions to apply for subvention-linked minor expenditures for the ensuing financial year;

- (d) ***Grants for SWDF expenditures.*** Grants for SWDF were approved in three 3-year phases for allocating to eligible NGOs over the period 2010-11 to 2018-19. A lump sum of \$330 million was approved for phase 1 in 2009-10, \$330 million for phase 2 in 2012-13, and \$460 million (Note) for phase 3 in 2015-16. Before the beginning of each phase, the SWD would invite NGOs receiving annual subventions to apply for the grants. All applications submitted with the related proposals (together with the estimated costs) would be processed on a first-come-first-served basis. The SWD would vet the applications submitted by NGOs and, upon the endorsement by the LFAC, disburse the funding to eligible NGOs. As of January 2017, the LF had allocated \$263 million under phase 1 to 150 NGOs and \$277 million under phase 2 to 154 NGOs to implement approved projects, and the SWD was processing applications under phase 3;

- (e) ***Grants for fitting-out works and F&E for new/reprovisioned premises.*** The related LF grants could be used for:
 - (i) ***New premises.*** For new premises provided by the Government for leasing to NGOs, at the time the premises are ready for leasing, the responsible SWD service branch would submit an application to seek a grant from the LF for disbursement to the future operator to meet the costs of fitting-out works and purchase of F&E (the grant would first be approved and allocated to the SWD and then disbursed to the selected operator at a later stage). In addition, the SWD's Architectural Section would conduct site inspections at the subject premises and prepare a cost estimate for fitting-out works, and the SWD would estimate the amount of grant for purchase of F&E by referring to the SWD standard reference list of F&E items; and

- (ii) ***Reprovisioned premises.*** Grants for reprovisioned premises would be directly allocated to the existing service operator concerned; and

- (f) ***Others.*** An NGO may apply for an LF grant for purchase of F&E and vehicles not covered in items (c) and (e) above. For purchase of F&E (excluding vehicles), the relevant SWD service branch would make reference to the SWD standard reference list of F&E items when vetting the applications. For purchase of vehicles, the Electrical and Mechanical Services Department will conduct technical vetting upon request from the relevant SWD service branch and/or B/Ds.

Source: SWD records

Note: \$120 million unspent fund of phases 1 and 2 (i.e. \$67 million (\$330 million minus \$263 million) for phase 1, and \$53 million (\$330 million minus \$277 million) for phase 2) were transferred to phase 3.

Acronyms and abbreviations

ArchSD	Architectural Services Department
Audit	Audit Commission
B/D	Government bureau or department
CWRF	Capital Works Reserve Fund
F&E	Furniture and equipment
FSTB	Financial Services and the Treasury Bureau
GPA	Government Property Agency
HKHA	Hong Kong Housing Authority
HKSAR	Hong Kong Special Administrative Region
Lands D	Lands Department
LegCo	Legislative Council
LF	Lotteries Fund
LFAC	Lotteries Fund Advisory Committee
LFP Section	Lotteries Fund Projects Section
LPIS	Lotteries Fund Project Information System
LWB	Labour and Welfare Bureau
NGO	Non-governmental organisation
OGCIO	Office of the Government Chief Information Officer
SWD	Social Welfare Department
SWDF	Social Welfare Development Fund