

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).

Executive Summary

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,

Executive Summary

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 targeting 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).

Executive Summary

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));

Executive Summary

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.