

CHILD DEVELOPMENT FUND

Executive Summary

1. In April 2008, the Government set up the Child Development Fund (CDF) with an initial allocation of \$300 million. CDF seeks to: (a) support the longer-term development of children from a disadvantaged background; (b) encourage these children to plan for the future and cultivate positive attitudes; (c) provide them with more personal development opportunities; and (d) help them formulate and implement personal development plans (PDPs), develop an asset-building habit, and accumulate financial as well as non-financial assets. In 2015, the Government increased the financial commitment on CDF by \$300 million. In 2018, the financial commitment on CDF was further increased by \$300 million. The Government expected that, with a total financial commitment of \$900 million, CDF would benefit some 30,000 children. Non-governmental organisations (NGOs) and schools can apply for funding to operate CDF projects. Children participating in projects are those aged between 10 and 16 (or studying at Primary 4 to Secondary 4), coming from a disadvantaged background, and not having participated in CDF projects before. Each project lasts for 3 years. One of the key components of CDF projects is the targeted savings (TS) programme, under which each participant is required to set a savings target and accumulate savings for realising his/her PDP. Project operators are provided with funding provisions on a per-participant basis.

2. The management of CDF involves different parties, namely: (a) Labour and Welfare Bureau (LWB) which is the policy bureau for CDF; (b) Steering Committee on CDF (SCCDF) which steers the design, and oversees and monitors the implementation of CDF; (c) Vetting Committee which assesses the quality aspects of applications for CDF projects; and (d) Social Welfare Department (SWD) which assists LWB in the day-to-day administration and monitoring of projects. As at 30 June 2019, 193 projects had been launched and 18,140 children had participated in the projects. The Audit Commission (Audit) has recently conducted a review on CDF.

Planning the launch of projects and commissioning project operators

3. *Planning the launch of projects.* According to the information provided to the Legislative Council (LegCo) by LWB in 2008 and 2009, it was envisaged that at least 13,600 children (i.e. participants) would benefit from the first financial commitment of \$300 million created for CDF, and that CDF would be fully implemented by batches in 3 to 5 years (para. 2.5). Audit noted the following issues:

- (a) *Need to provide LegCo with updated information on CDF.* In 2017, the accumulated number of participants in CDF reached 14,796. The envisaged number of 13,600 participants was therefore attained. Meanwhile, 8 years had elapsed since the first batch of CDF projects was launched in 2009. This did not appear to tally with the envisaged time frame of fully implementing CDF in 3 to 5 years. In September 2019, LWB and SWD informed Audit that (paras. 2.6 and 2.7):
 - (i) the time frame which LegCo was informed of (i.e. fully implementing CDF by batches in 3 to 5 years) was only a very rough estimate. The schedule for launching subsequent batches of CDF projects was subsequently adjusted (para. 2.7(a) and (b)); and
 - (ii) the funding provision for each CDF participant was adjusted upwards in 2014 and 2016. The original estimated number of 13,600 participants would become smaller in light of the increase in per-head provision for each CDF participant. To simplify the presentation in the papers submitted to LegCo when seeking increases in the financial commitment in 2015 and 2018, LWB did not mention the latest estimate of the total number of participants in relation to the first funding allocation (para. 2.7(c) and (e)).

According to a speech given at a ceremony celebrating CDF 10th anniversary in March 2019, the estimated total number of participants (i.e. funded by the financial commitment of \$900 million) was updated to 30,000. However, LegCo was not separately informed of this updated number. CDF projects had yet to be launched for many (11,860 or 30,000 less 18,140 (see para. 2)) children and LWB needs to keep in view any need for expediting the launch of future CDF projects. In Audit's view, there is also scope for improving public accountability in the launch of CDF

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projects by providing updated information to LegCo (paras. 2.7 to 2.9, 2.11 and 2.12); and

- (b) ***Need for launching NGO-run projects regularly.*** In April 2013, LWB informed LegCo Members of its annual target for launching new projects (i.e. 20 new projects for 2,000 to 2,300 new participants). Audit noted that in the 7 years from 2013 to 2019, for 2 years (i.e. 2013 and 2016), no NGO-run projects were launched. The lapse of time between the launch of a batch of NGO-run projects and the launch of an ensuing batch varied, ranging from 18 to 21 months. On the other hand, arrangements had been made for launching school-based projects every year since 2014. In August and September 2019, LWB and SWD informed Audit that a timetable had been drawn up for regularly launching future NGO-run and school-based projects (paras. 2.13 and 2.14).

4. ***Commissioning project operators.*** NGO-run projects and school-based projects are launched in different batches. For each batch, LWB sets a target of the number of projects to be launched. For NGO-run projects, SWD divides the target number among different districts. The number so allocated to a district serves as its quota. Applications for projects were required to meet basic requirements (referred to as “mandatory requirements” by SWD) and to undergo a quality assessment (para. 2.19). Audit noted the following issues:

- (a) ***Applications exceeding quotas for some districts.*** For CDF projects launched in the period from April 2009 to June 2019, a considerable proportion of applications (35% or 62 applications) for NGO-run projects were unsuccessful (i.e. not resulting in the award of projects). Of the 62 unsuccessful applications, 51 had met the mandatory requirements and passed the quality assessment but were not awarded projects, because the district quotas had been reached or exceeded. In contrast, for 2 districts (each involving the launch of one batch of NGO-run projects in the period), no applications were submitted for NGO-run projects, and the quotas concerned were therefore not used (paras. 2.21, 2.22 and 2.24);
- (b) ***Need to improve setting of district quotas.*** SWD records showed that district quotas for NGO-run projects were set based on 2 parameters, namely, the number of children (aged 10 to 16) living on Comprehensive Social Security Assistance (CSSA) over the territory, and the number of projects operated in previous batches in the districts. Audit noted that this

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methodology did not take into account the number of other children who, while not living on CSSA, were having a disadvantaged background and eligible to join CDF projects (e.g. those whose household income was less than 75% of the median monthly domestic household income). Audit further noted that the number of such other children would be considerable (i.e. in the order of 150,000) (paras. 2.25 and 2.26); and

- (c) ***Need to improve quality assessment of school-based project applications.*** For school-based projects, no passing marks were set for the quality assessment. In contrast, a passing mark of 50% had been adopted for the quality assessment of NGO-run projects (para. 2.29).

Implementation of projects

5. ***Practices in project delivery.*** In June and July 2019, Audit visited 5 project operators to examine their project delivery. A total of 10 completed projects were examined (para. 3.2). Audit noted the following issues:

- (a) ***Need to ensure compliance with requirements in service agreements.*** A service agreement is signed between SWD and the operator for each CDF project, stipulating the scope of service and funding conditions. In the 10 projects examined, Audit noted 6 incidents of non-compliance with requirements on insurance and procurement. While SWD had conducted site visits to the operators concerned, for 4 of the 6 incidents, SWD did not identify the non-compliance during the site visits (paras. 3.3 to 3.5);
- (b) ***Need to ensure effective use of training provisions.*** Training provisions are granted to operators on a per-participant basis. Audit analysed 50 training programmes which were conducted with training provisions, and found a wide variation in programme types (e.g. lunch/dinner events and overseas tours) and in programme costs (ranging from \$28 to \$6,773 per person). In September 2019, SWD informed Audit that for projects launched from 2018 onwards, it was set out that operators were required to use 60% of training provisions for participants directly. However, Audit noted that no SWD guidelines had been issued setting out other principles of using training provisions (e.g. on the types and costs of programmes) (paras. 3.7 to 3.10); and

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- (c) ***Need to disseminate good practices on monitoring participants' use of TS.*** For the 10 projects examined, Audit analysed operators' practices on monitoring participants' use of TS. Of the 5 operators involved, 4 had adopted control measures on making purchases with TS (i.e. requirements on the number of quotations were imposed, ceilings were set on the purchase of certain goods/services, and/or participants were required to submit applications to the operator for using TS before making the purchases). The fact that one operator had not adopted any such control measures was less than satisfactory (paras. 3.13 and 3.14).
6. ***Financial monitoring of projects.*** Operators are required to submit audited financial reports on CDF projects. The due dates of submission are set out in service agreements (para. 3.24). Audit noted the following issues:
- (a) ***Need to ensure timely submission of reports.*** Audit analysed the timeliness of submission of audited financial reports for 83 completed CDF projects. As at 31 July 2019, of the 295 reports required to be submitted, 247 (84%) reports had been overdue, with delays ranging from 1 to 1,092 days (averaging 229 days). For the 10 projects examined (see para. 5), SWD had not taken adequate follow-up actions on delay cases (e.g. of the 30 delayed submissions in these 10 projects, written reminders were not issued in 24 (80%) cases). Delays in the submission of audited financial reports would hamper SWD's financial monitoring of CDF projects (paras. 3.25, 3.26 and 3.28); and
- (b) ***Need to ensure timely clawing back of surplus funds.*** For the 10 projects examined, audited financial reports indicated surplus funds in 6 projects. Audit noted that these surplus funds had not been clawed back promptly, and that considerable time (e.g. 956 days for a project) had been taken to complete the review of the audited financial reports. As at 31 July 2019, of the 6 projects, only 2 projects had the surplus funds clawed back (para. 3.31).
7. ***Attainment of intended outputs and outcomes.*** For each CDF project, the service agreement stipulates the output and outcome indicators, as well as the standards agreed for each indicator. Operators report to SWD the progress of meeting these standards through the submission of statistical returns (para. 3.35). Audit noted the following issues:

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- (a) ***Need to improve attainment of intended outputs and outcomes.*** For the 83 completed projects (see para. 6(a)), there were 10 or 11 indicators stipulated in their service agreements totalling 895 indicators in aggregate. Audit noted that, of the 895 indicators, the agreed standards had not been attained for 136 (15%) indicators (para. 3.36); and
- (b) ***Need for adequate remedial actions.*** According to SWD's internal guideline, for projects which do not attain the output standards and/or outcome standards, follow-up actions will be taken (e.g. operators are required to work out an improvement plan). Audit examined the 3 projects which had attained less than half of the standards. Audit noted that follow-up actions of SWD were less than satisfactory (paras. 3.39 and 3.40).

Governance and other administrative matters

8. ***Governance issues.*** SCCDF and the Vetting Committee are the two committees set up for CDF (para. 4.2). Audit noted the following issues:

- (a) ***Need to keep SCCDF informed of progress of CDF projects.*** For the monitoring of CDF, a range of information (e.g. statistics on output and outcome indicators) was provided to SCCDF. Audit noted that, over the years, less information was provided to SCCDF as more batches of projects were implemented. In September and October 2019, LWB explained that as more batches of projects were implemented, the focus of materials presented to SCCDF had changed to, for example, reporting key changes of CDF. In Audit's view, there is a need to ensure that the materials and information presented can keep up with any changes in SCCDF's information need (paras. 4.3 to 4.6); and
- (b) ***Room for improving practices on declaration of interests.*** LWB and SWD have laid down guidelines on handling conflicts of interest. Audit noted one case where an SCCDF member's declaration of interests had not been recorded in the minutes of meeting as required. Moreover, records did not show that LWB had reviewed, from time to time, SCCDF's system for declaration of interests having regard to the memorandum issued by the Secretary for Home Affairs in 2005. By the memorandum, bureaux and departments are reminded to review from time to time the system for

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declaration of interests for advisory and statutory bodies under their purview (paras. 4.7 to 4.10).

9. ***Publicity and other supporting activities.*** In support of CDF, a range of activities are conducted, including general publicity activities for raising the community's awareness of CDF, targeted promotion for engaging stakeholders and partners, and value-added activities for widening participants' horizons (para. 4.14). Audit noted the following issues:

- (a) ***Need to step up promotion efforts.*** In a consultancy study completed in March 2017, a recommendation was to step up publicity and promotion efforts to increase the awareness of CDF projects in schools and among school teachers. In March 2017, SCCDF was informed that follow-up actions would be taken on the recommendation (e.g. LWB and SWD would explore opportunities to reach out to teachers and principals via related bodies such as associations of teachers, and experience sharing sessions would be arranged). Audit noted that, as at 15 August 2019, about 17 months had elapsed since a sharing/collaboration session was last held in February 2018. Moreover, teachers and principals had not been reached out via related bodies as intended (paras. 4.15, 4.16 and 4.18); and
- (b) ***Need to sustain efforts in arranging value-added activities.*** In 2015, LWB informed the LegCo Panel on Welfare Services that it would step up efforts in arranging value-added activities. Audit noted that, from 2014 to 2018, the total number of value-added activities had dropped from its peak of 38 in 2016, by 18% to 31 in 2018, and that the total number of participants in the activities had also dropped from its peak of 2,602 in 2017, by 24% to 1,973 in 2018 (paras. 4.24 and 4.25).

10. ***Way forward.*** Set up in 2008 and having a total financial commitment of \$900 million, CDF is expected to benefit 30,000 underprivileged children under its projects. As at 30 June 2019, CDF had only launched projects for some 18,000 children. In 2017, a "Further Study on the Long Term Development of CDF Project Participants" ("Further Study") was commissioned. In October 2019, the study was still in progress. In Audit's view, taking into account the experience gained over the years in implementing CDF projects, it is worth re-examining by the Government some parameters of CDF (e.g. intended number of participants, time frame for launching projects, and output and outcome standards). LWB needs to keep

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in view the results of the Further Study, and consider the way forward for CDF (paras. 4.29, 4.31, 4.33 and 4.34).

Audit recommendations

11. **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 Secretary for Labour and Welfare should:**

- (a) **keep LegCo updated on relevant information about the implementation progress of CDF (para. 2.17(a));**
- (b) **keep in view any need for expediting the launch of future CDF projects (para. 2.17(b));**
- (c) **take measures to launch new batches of NGO-run projects regularly in accordance with the timetable drawn up (para. 2.17(c));**
- (d) **keep SCCDF appropriately informed of the progress of CDF projects (para. 4.12(a));**
- (e) **record declaration of interests made by committee members in minutes of meetings (para. 4.12(b));**
- (f) **review, having regard to the memorandum issued by the Secretary for Home Affairs in 2005, the system for declaration of interests for SCCDF as necessary (para. 4.12(c));**
- (g) **take measures to step up efforts in promoting CDF among NGOs and schools (para. 4.27(a));**
- (h) **take measures to sustain the efforts in arranging value-added activities for CDF participants (para. 4.27(b)); and**
- (i) **keep in view the results of the Further Study which is currently in progress, and consider the way forward for CDF taking into account other relevant factors, including the results of this audit review (para. 4.35).**

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12. **Audit has *recommended* that the Director of Social Welfare should:**
- (a) **in setting district quotas for CDF projects, adequately take into account relevant factors (para. 2.33(a));**
 - (b) **in consultation with the Vetting Committee, consider setting a passing mark for the quality assessment of school-based projects (para. 2.33(b));**
 - (c) **step up efforts in ensuring project operators' compliance with requirements in the service agreements during project delivery (para. 3.22(a));**
 - (d) **consider issuing guidelines to set out the principles of using training provisions (para. 3.22(b));**
 - (e) **consider disseminating good practices on the use of TS for wider adoption among operators (para. 3.22(c));**
 - (f) **closely monitor any delays in the submission of audited financial reports, and take adequate follow-up actions on delay cases (para. 3.33(a));**
 - (g) **take measures to expedite the clawing back of surplus funds (para. 3.33(b)); and**
 - (h) **closely monitor the attainment of output and outcome standards of projects, and ensure that adequate remedial actions are taken on projects which fail to meet the standards (para. 3.42(a) and (b)).**

Response from the Government

13. The Secretary for Labour and Welfare and the Director of Social Welfare agree with the audit recommendations.