

CHAPTER 6

Development Bureau

**Funding schemes for conservation of built
heritage managed by the Development Bureau**

**Audit Commission
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FUNDING SCHEMES FOR CONSERVATION OF BUILT HERITAGE MANAGED BY THE DEVELOPMENT BUREAU

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FUNDING SCHEMES FOR CONSERVATION OF BUILT HERITAGE MANAGED BY THE DEVELOPMENT BUREAU

Executive Summary

1. Heritage is a valuable and unique asset of the community. In 2007, to implement a new heritage conservation policy to protect, conserve and revitalise historical and heritage sites and buildings, the Development Bureau (DEVB) had taken forward a package of administrative measures including setting up the Commissioner for Heritage's Office (CHO) under DEVB in April 2008 and launching the Revitalising Historic Buildings Through Partnership Scheme (Revitalisation Scheme) and the Financial Assistance for Maintenance Scheme on Built Heritage (FAS) in 2008. In January 2017, DEVB launched two pilot funding schemes, namely the Funding Scheme for Public Engagement Projects on Built Heritage Conservation (FSPEP) and the Funding Scheme for Thematic Research on Built Heritage Conservation (FSTR). DEVB is responsible for the management of these four funding schemes.

2. Details of the four funding schemes are as follows:

- (a) ***Revitalisation Scheme.*** Revitalisation Scheme aims to put selected vacant government-owned historic buildings to adaptive re-use. Under the Scheme, non-profit-making organisations (NPOs) are invited to submit proposals for using the designated historic buildings to provide services or run business in the form of social enterprises. Financial support would be provided to NPOs in terms of capital grants, grants for starting costs and operating deficits and nominal rental for the buildings. As of July 2020, a total of 19 projects were selected under 5 batches of Revitalisation Scheme launched from February 2008 to November 2016 (involving approved capital grants totalling \$1,704 million and grants for starting costs and operating deficits totalling \$63 million);
- (b) ***FAS.*** FAS aims to provide financial assistance to owners of privately-owned graded historic buildings as well as NPO tenants of

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government-owned declared monuments or graded historic buildings to carry out maintenance works themselves. As of July 2020, a total of 79 FAS applications (involving total grant of \$96.6 million) had been approved; and

- (c) ***Two pilot funding schemes.*** FSPEP is a pilot funding scheme which aims to provide funding for public education, community involvement and publicity activities. Another pilot funding scheme, FSTR aims to encourage interest in, render financial support to, and recognise quality academic research on the theme of built heritage conservation. As of July 2020, a total of 3 and 6 applications (involving total grant of \$5.9 million and \$11.4 million respectively) had been approved under FSPEP and FSTR respectively.

The Audit Commission (Audit) has recently conducted a review of the funding schemes for conservation of built heritage managed by DEVB.

Management of the Revitalising Historic Buildings Through Partnership Scheme

3. ***Scope for improvement in inviting applications.*** DEVB is responsible for processing of applications received from NPOs for historic buildings under Revitalisation Scheme. Regarding the number of applications received during Batches I to V of Revitalisation Scheme, Audit noted that: (a) the number of applications received for each historic building varied considerably from 2 to 30 applications (averaging 10 applications); and (b) the percentage of invalid applications in 2 of the latest 3 batches of Revitalisation Scheme was relatively high (i.e. 15% and 19% respectively). Audit noted that the common reasons for invalid applications included the information required for assessment was not provided by applicants or irrelevant information was provided by applicants and application forms were not filled in. There is scope for improvement in inviting applications (paras. 2.2, 2.4 and 2.5).

4. ***Project works completed later than the scheduled completion date.*** According to DEVB guidelines for projects under Revitalisation Scheme, NPO is responsible for monitoring the progress of its renovation works project closely with a view to having the works completed on time. To ensure timely delivery of the works project, NPO should adhere to the works commencement and completion dates

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as stated in the submission for funding approval and where possible, strive to commence works as soon as possible. As of July 2020, for 11 of the 12 completed projects under Batches I to III of Revitalisation Scheme, Audit noted that the works were completed 37 to 560 days (averaging 284 days) later than the scheduled completion dates as stated in the submissions for funding approval (paras. 2.16 and 2.17).

5. ***Need to strengthen monitoring of works variations.*** According to DEVB guidelines for projects under Revitalisation Scheme, for variation works deemed absolutely necessary by NPO, it should obtain prior approval from DEVB before issuing instructions to the contractor to proceed with the variation works. The Architectural Services Department (ArchSD) will assist DEVB to examine the draft final project account. Audit noted a project with variation works of about \$13.3 million. After examining the draft final project account and relevant supporting documents from the NPO, ArchSD provided comments to DEVB in December 2019 that: (a) many instructions of works variations had been issued by the NPO without prior approval from DEVB and the reasons for not seeking prior approval were not recorded; and (b) quite a number of instructions of works variations had been issued by the NPO after the certified completion date of the works in June 2013 (paras. 2.14, 2.20 and 2.21).

6. ***Need to strengthen monitoring of the finalisation of project accounts.*** According to DEVB guidelines for projects under Revitalisation Scheme, NPO should submit the draft project account and other supporting documents to DEVB within one year after the date of practical completion of the renovation works. Of the 11 completed projects which had applied for the capital grant under Revitalisation Scheme, Audit found that the project accounts of 6 (55%) projects had not been finalised as of July 2020, including 3 projects which had been substantially completed for 3 to 7 years. Among these 3 projects, two projects' draft accounts were submitted 2.3 and 4.7 years respectively after the practical completion of renovation works. The other project's draft account had not been submitted as of July 2020 (i.e. 3.2 years after the practical completion of renovation works). DEVB informed Audit that the one-year time limit for submission of draft project accounts was a very stringent requirement and DEVB would review the guidelines and set a more realistic time limit for the submission of draft project accounts by NPOs. In Audit's view, DEVB needs to expedite action to complete the review and strengthen monitoring mechanism of the project accounts finalisation process (paras. 2.21, 2.24 to 2.27).

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7. *Need to ensure NPOs' compliance with submission requirements.* According to tenancy agreements of projects under Revitalisation Scheme, to facilitate performance monitoring by DEVB, NPOs are required to submit project plans (including business plan, financial plan and building management plan), mid-year progress reports and annual reports (including audited financial statements) to DEVB within the specified time limits. For the 12 completed projects, Audit examined the submission of documents by NPOs as required by the tenancy agreements at commencement of operation and for the period from 2015-16 to 2019-20, and found that: (a) regarding the project plans required to be submitted by the 12 NPOs, 8 NPOs submitted their first business plans and financial plans to DEVB later than the specified time limits and 10 NPOs submitted their first building management plans later than the specified time limits; (b) of the 40 mid-year progress reports required to be submitted by the 12 NPOs, 3 (7%) reports had not been submitted by 3 NPOs as of July 2020 and 24 (60%) reports were submitted by 7 NPOs later than the specified time limits; and (c) of the 39 annual reports required to be submitted by the 12 NPOs, 1 (3%) report had not been submitted by an NPO as of July 2020 and 27 (69%) reports were submitted by 9 NPOs later than the specified time limits (paras. 2.35 and 2.36).

Management of the Financial Assistance for Maintenance Scheme on Built Heritage and two pilot funding schemes

8. *Scope for assisting applicants to submit required information and expediting the processing of FAS applications.* For the 145 valid FAS applications received during August 2008 to July 2020, Audit noted that: (a) of the 79 (54% of 145) applications approved by DEVB, the processing time of 22 (28% of 79) applications was more than 2 years. The case with the longest processing time lasted for more than 4 years (1,554 days) and the processing time of the other 78 approved applications ranged from 82 to 1,210 days (averaging 519 days); and (b) 66 (46% of 145) applications were still being processed by DEVB as of July 2020, of which 4 (6% of 66) applications were received some 4 to 5 years ago. According to DEVB, for approved applications with long processing time, applicants of most of these cases took months to years in submitting required information for approval. In Audit's view, there was scope for assisting applicants to submit required information and expediting the processing of FAS applications (paras. 3.3 to 3.5).

9. *Scope for providing further guidelines on handling concurrent FAS applications in relation to a single historic building.* According to the Guide to

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Application, an applicant may submit more than one application for each item of graded historic buildings or declared monuments concurrently (i.e. “concurrent applications”) under FAS. According to DEVB, under its current practice, a single historic building can at most have 3 concurrent applications at any instant covering different aspects of the building. However, Audit noted that such practice for handling concurrent FAS applications was neither specified in the Guide to Application nor in DEVB’s internal guidelines (paras. 3.6 and 3.7).

10. ***Maintenance works commenced long time after DEVB’s formal approval.***

According to the Guide to Application, a grantee should commence the maintenance works within one year after formal approval of the FAS application has been obtained. For the 79 approved FAS projects, Audit noted that: (a) for 62 (78% of 79) projects where the maintenance works had commenced, the time elapsed from formal approval date to commencement date of maintenance works ranged from 11 days to 3.3 years (averaging 369 days). For 25 (40% of 62) projects, the time elapsed was more than one year and up to 3.3 years, exceeding the one-year limit in the Guide to Application; and (b) for 17 (22% of 79) projects where the maintenance works had not commenced as of July 2020, the time elapsed from formal approval date to July 2020 ranged from 29 to 2,261 days (averaging 560 days). For 5 (29%) of the 17 projects, the time elapsed was more than one year, exceeding the one-year time limit in the Guide to Application (paras. 3.9 and 3.10).

11. ***Need to ensure that grantees comply with submission requirements.***

According to the Guide to Application, upon the completion of the maintenance works, a grantee is required to submit a brief report with photographs to DEVB each year within the agreed period demonstrating that conditions under the FAS agreement of not demolishing and transferring the ownership of the building and allowing public access were complied with. Of the 59 projects with maintenance works completed, Audit selected 5 projects for examination of grantees’ submission of brief reports after project works completion. Audit noted that, as of July 2020: (a) for 2 projects (with project works completed in 2011 and 2015 respectively), only 3 and 2 brief reports had been submitted by the grantees after the completion of maintenance works. For the other 3 projects, no reports had been submitted by the grantees; and (b) DEVB did not issue reminders in a timely manner to those grantees which had not submitted or had delay in submitting the brief reports. For 4 projects, DEVB only issued reminders to the grantees once about 2 to 3 years after works completion or the last submission of brief report (paras. 3.17 to 3.19).

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12. ***Scope for improvement in implementing the projects under two pilot funding schemes.*** As of July 2020, 3 FSPEP projects and 6 FSTR projects had been approved by DEVB. Audit selected 2 FSPEP and 2 FSTR projects for examination and noted that for a FSPEP project, the grantee was required to provide a series of workshops to secondary school students, teachers and professionals for helping communities to better understand places with heritage value and each workshop was anticipated to attract up to 30 or 40 participants. Audit noted that, of the 6 workshops, 1 (17%) workshop fell short of the target number of participants by 62%. According to DEVB, it had followed up with the grantee to understand the reasons for not achieving the target. In Audit's view, DEVB needs to make continued efforts to monitor the implementation of FSPEP and FSTR projects (para. 3.24).

Other management issues

13. ***Scope for improvement in organising guided tours by NPOs under Revitalisation Scheme.*** According to tenancy agreements of projects under Revitalisation Scheme, NPOs are required to organise guided tours of the historic buildings under the Scheme. Audit found that: (a) for 7 projects which had operated for more than 3 years as of December 2019, the number of guided tour participants for the period from June 2016 to May 2019 for 4 (57%) projects had dropped by 3% to 39% (averaging 22%). The number of participants for 3 of the 4 projects dropped continuously during the period; and (b) according to tenancy agreements of 12 NPOs, 2 (17%) NPOs should provide guided tours in Cantonese, English and Putonghua. However, for the remaining 10 (83%) NPOs, the languages of guided tours were not specified in the tenancy agreements (para. 4.4).

14. ***Scope for organising more experience-sharing sessions among NPOs under Revitalisation Scheme.*** According to DEVB, a total of 13 experience-sharing sessions were organised by DEVB from 2008 to 2020. Audit noted that: (a) no experience-sharing sessions were held in 5 years (i.e. 2013, 2015, 2016, 2018 and 2019) without a new batch of projects launched; and (b) according to DEVB, through the experience-sharing sessions, it had obtained valuable feedback for the implementation of Revitalisation Scheme. In Audit's view, there is merit for DEVB to organise more experience-sharing sessions when needed through suitable means, with a view to further improving the implementation of Revitalisation Scheme (paras. 4.6 to 4.8).

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15. ***Scope for reviewing the funding schemes.*** There is scope for reviewing the four funding schemes, taking into account the related audit findings and recommendations in this Audit Report including the following (paras. 4.21, 4.25 and 4.28):

- (a) ***Revitalisation Scheme.*** Of the 12 projects under Revitalisation Scheme which had been completed and commenced operation, 2 projects ceased operation with effect from January 2017 and June 2020 respectively. Also, a historic building had been included in Revitalisation Scheme twice (i.e. Batches III and IV) with 5 and 11 applications received by DEVB respectively, but none of the applications had been selected after the assessment process. In the event, the historic building was included in Batch VI of Revitalisation Scheme in December 2019 again and application closed in September 2020. It is yet to know whether there will be successful projects for the abovementioned three historic buildings, but a long time might be needed for any projects to commence operation as only projects up to Batch III (launched in October 2011) had commenced operation as of July 2020 (para. 4.18);
- (b) ***FAS.*** Pursuant to the suggestion of a policy review conducted by the Antiquities Advisory Board in June 2014, after consulting the advisory committee, the ceiling of the grant under FAS for each successful application has been increased and the scope of the Scheme has been expanded to cover the government-owned declared monuments and graded historic buildings leased to NPOs since November 2016. In January 2019, a Legislative Council Member expressed concerns about FAS that the ceiling of grant at \$2 million for each successful application was still low which warranted a review of the Scheme by DEVB (paras. 4.23 to 4.25); and
- (c) ***Two pilot funding schemes.*** According to DEVB, FSPEP and FSTR were launched on a pilot basis in 2017. To determine whether to have the pilot funding schemes regularised after the first-round project period, DEVB would evaluate the effectiveness of the Schemes by reviewing feedbacks from the research sector and the public, as well as collaboration between the funded institutes, the engaged owners of historic buildings and other stakeholders. There is a need to kick start the review of these two pilot schemes for mapping out the way forward as soon as practicable (paras. 4.26 and 4.28).

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Audit recommendations

16. 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 Development should:

Management of Revitalisation Scheme

- (a) continue to explore measures to attract applications with high quality proposals for buildings included in Revitalisation Scheme and for further enhancing applicants' understanding of the application requirements of the Scheme (para. 2.11(a) and (b));
- (b) make continued efforts to monitor the implementation of projects under Revitalisation Scheme with a view to ensuring their timely completion (para. 2.28(a));
- (c) complete the review of the validity of the variation orders as mentioned in ArchSD's comments as early as practicable and take measures to ensure that NPOs seek DEVB's prior approval for variation works in accordance with DEVB guidelines (para. 2.28(b) and (c));
- (d) expedite action to complete the review of the guidelines relating to the time limit for submission of draft project accounts and strengthen monitoring mechanism of the project accounts finalisation process (para. 2.28(d) and (e));
- (e) strengthen measures to ensure that NPOs comply with the submission requirements as stipulated in tenancy agreements of projects under Revitalisation Scheme (para. 2.42(b));

Management of FAS and two pilot funding schemes

- (f) continue to take measures to assist applicants in submission of required information and expedite the processing of FAS applications as far as practicable (para. 3.21(a));

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- (g) specify in the Guide to Application and DEVB's internal guidelines DEVB's practice for handling concurrent FAS applications (para. 3.21(b));
- (h) continue to take measures to ensure that maintenance works of approved FAS projects commence in a timely manner in accordance with the Guide to Application (para. 3.21(c));
- (i) take measures to ensure that grantees submit annual brief reports in accordance with the requirements in FAS agreements (para. 3.21(e));
- (j) make continued efforts to monitor the implementation of FSPEP and FSTR projects with a view to identifying areas for improvement (para. 3.25);

Other management issues

- (k) regarding the provision of guided tours organised by NPOs under Revitalisation Scheme, keep under review the issue of decreasing number of guided tour participants for some projects under the Scheme and consider setting out the language requirements as appropriate for guided tours in all tenancy agreements (para. 4.9(a));
- (l) organise more experience-sharing sessions when needed through suitable means, with a view to further improving the implementation of Revitalisation Scheme (para. 4.9(b));
- (m) continue to keep under review the implementation of Revitalisation Scheme (para. 4.29(a));
- (n) keep under review the implementation of FAS (para. 4.29(b)); and
- (o) kick start the review of the two pilot funding schemes (i.e. FSPEP and FSTR) for mapping out the way forward as soon as practicable (para. 4.29(c)).

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Response from the Government

17. The Secretary for Development 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 Heritage is a valuable and unique asset of the community. Hong Kong being a civilised and developed society, citizens aspire for richness in life through links to the past and building a sense of identity through conservation of built heritage which comprises:

- (a) ***Declared monuments.*** According to the Antiquities and Monuments Ordinance (Cap. 53), a place, building, site or structure considered to be of public interest by reason of its historical, archaeological or palaeontological significance would be declared to be a monument for protection by the Antiquities Authority (i.e. the Secretary for Development — Note 1), after consultation with the Antiquities Advisory Board (AAB — Note 2) and with the approval of the Chief Executive of the Hong Kong Special Administrative Region. As of July 2020, there were a total of 126 declared monuments in Hong Kong; and
- (b) ***Graded historic buildings.*** For proper conservation of historic buildings with heritage value, 3 grades are assigned to historic buildings according to their heritage value on an administrative basis (Note 3), as follows:

Note 1: *The Antiquities Authority refers to the Secretary for Development (since July 2007).*

Note 2: *AAB, established under the Antiquities and Monuments Ordinance, advises the Antiquities Authority on, among others, any matters relating to antiquities, proposed monuments or monuments. The Chairman and members of AAB are appointed by the Chief Executive of the Hong Kong Special Administrative Region.*

Note 3: *During 1996 to 2000, the Antiquities and Monuments Office (see Note 13 to para. 1.12(b)) carried out a territory-wide survey of some 8,800 historic buildings mainly built before 1950. During 2002 to 2004, 1,444 buildings with higher heritage value were selected from the 8,800 surveyed buildings with proposed grading given in reflecting their value assessed according to their heritage significance. Besides, new items proposed by the public would also be considered.*

Introduction

- (i) **Grade 1.** Buildings are those of outstanding merits, for which every effort should be made to preserve if possible (Note 4);
- (ii) **Grade 2.** Buildings are those of special merits, for which efforts should be made to selectively preserve; and
- (iii) **Grade 3.** Buildings are those of some merits, for which preservation in some form would be desirable and alternative means could be considered if preservation is not practicable.

As of July 2020, there were a total of 1,141 graded historic buildings (187, 385 and 569 historic buildings were assigned with Grades 1, 2 and 3 status respectively).

Built heritage conservation policy

1.3 In 2007, upon the transfer of policy responsibility from the Home Affairs Bureau to the Development Bureau (DEVB), the Government promulgated a new heritage conservation policy to protect, conserve and revitalise as appropriate historical and heritage sites and buildings through relevant and sustainable approaches for the benefit and enjoyment of present and future generations. To implement the policy, DEVB had taken forward a package of administrative measures including, among others (Note 5), the following:

- (a) setting up the Commissioner for Heritage's Office (CHO) under DEVB in April 2008 to provide support to the Secretary for Development in implementing the policy on heritage conservation and keeping it under constant review;

Note 4: *AAB has agreed that all Grade 1 buildings should, given their outstanding heritage value, form a pool of potential candidates for the Antiquities Authority to consider monument declaration.*

Note 5: *Other measures included requiring new capital works projects to undergo heritage impact assessment and devising economic incentives (e.g. relaxation of development parameters such as plot ratio, building height and site coverage) to facilitate the conservation of privately-owned historic buildings.*

- (b) encouraging an adaptive re-use of government-owned historic buildings by launching the Revitalising Historic Buildings Through Partnership Scheme (Revitalisation Scheme) in 2008 (see paras. 1.5 to 1.9); and
- (c) extending financial assistance to enhance the maintenance of privately-owned historic buildings by launching the Financial Assistance for Maintenance Scheme on Built Heritage (FAS) in 2008 (see para. 1.10).

1.4 In 2014, upon the invitation of DEVB, AAB conducted a policy review on the conservation of built heritage by making reference to the challenges met and experience gained in the conservation work over the past few years. AAB's recommendations under the policy review were accepted by DEVB in December 2015, including the setting up of a dedicated fund on conservation of built heritage. Pursuant to this recommendation, DEVB set up the Built Heritage Conservation Fund (Note 6) in April 2016 with \$500 million earmarked for this purpose in the 2016 Policy Address. Apart from providing funding for Revitalisation Scheme (see para. 1.3(b)) and FAS (see para. 1.3(c)), the Fund also covers new measures on public education, community involvement and publicity activities, and academic research (Note 7). Two funding schemes related to these new measures were introduced by DEVB in January 2017 as pilot schemes (see para. 1.11).

Revitalisation Scheme

1.5 In order to preserve and put vacant government-owned historic buildings into good and innovative use, transform historic buildings into unique cultural landmarks, promote active public participation in the conservation of historic

Note 6: *According to DEVB, to ensure early implementation of AAB's recommendations, the Fund was set up as an administrative measure at its inception and started operating within a relatively short period of time. In the long run, DEVB would not rule out the possibility of evolving towards a statutory fund given its merits.*

Note 7: *As of July 2020, of the \$500 million earmarked for the Built Heritage Conservation Fund in the 2016 Policy Address, \$400 million was earmarked to cover the capital costs of works projects under Revitalisation Scheme (see Note 8 to para. 1.5(a)) and \$100 million was earmarked for non-works initiatives in conservation and revitalisation of historic buildings, including Revitalisation Scheme (see para. 1.5(b)), FAS (see para. 1.10) and the two pilot funding schemes launched in 2017 (see para. 1.11).*

Introduction

buildings, and create job opportunities in particular at the district level, DEVB has launched Revitalisation Scheme since 2008 to put selected historic buildings to adaptive re-use. Funding was provided by the Government as follows:

- (a) \$1 billion was earmarked in the 2007-08 Policy Address to cover the capital costs of projects under Revitalisation Scheme. The Government had further earmarked a total of \$1.4 billion thereafter (Note 8). As of July 2020, the total earmarked funding was \$2.4 billion (i.e. \$1 billion + \$1.4 billion); and
- (b) \$100 million was earmarked in February 2008 to cover the non-works related costs of projects under Revitalisation Scheme. Another \$100 million, covering non-works related costs of projects under Revitalisation Scheme as well as 3 other funding schemes (i.e. FAS and the two pilot funding schemes), was earmarked in the 2016 Policy Address (see Note 7 to para. 1.4).

1.6 Under Revitalisation Scheme, non-profit-making organisations (NPOs) are invited to submit proposals for using the designated historic buildings to provide services or run business in the form of social enterprises. Financial support would be provided to NPOs in terms of the following:

- (a) **Capital grants.** One-off grant would be provided to NPOs to cover the cost of major renovation to the buildings. Funding is provided from the Capital Works Reserve Fund (via Subheads controlled by DEVB under Head 708 — Capital Subventions and Major Systems and Equipment);
- (b) **Grants for starting costs and operating deficits.** One-off grant would be provided to NPOs to meet the starting costs and operating deficits of the projects for the first two years of operation at a ceiling of \$5 million. Funding is provided from the General Revenue Account (GRA) via DEVB Subhead; and

Note 8: *The Government earmarked \$0.5 billion in 2009-10 Budget, \$0.5 billion in 2011-12 Budget and \$0.4 billion in the 2016 Policy Address.*

- (c) *Nominal rental for the buildings.* The selected NPOs are required to enter into tenancy agreements with the Government and nominal rental would be charged. NPOs are required to comply with all the terms and conditions laid down in the tenancy agreements.

1.7 As of July 2020, a total of 19 projects were selected (see Appendix A) under 5 batches of Revitalisation Scheme launched from February 2008 to November 2016 (with approved capital grants totalling \$1,704 million and approved grants for starting costs and operating deficits totalling \$63 million — see Table 1). The latest Batch VI (involving five projects) was launched in December 2019 with application closing dates of September 2020 (for 4 projects) and December 2020 (for 1 project) (Note 9).

Note 9: *Four projects were included upon launching of Batch VI with application closing date of September 2020. One more project (relating to a project under Batch I that ceased operation in June 2020 — see para. 1.8(a)) was subsequently included in August 2020 with application closing date of December 2020.*

Table 1

**Approved grants to projects under Revitalisation Scheme
(July 2020)**

Batch	Launch date	Capital grants approved (\$ million)	Grants for starting costs and operating deficits approved (\$ million)	Number of projects selected
I	February 2008	600 (Note 1)	15 (Note 1)	6
II	August 2009	183	9	3
III	October 2011	388	12	3
IV	December 2013	169	9	3
V	November 2016	364 (Note 2)	18	4
Total		1,704 (Note 3)	63 (Note 3)	19

Source: DEVB records

Note 1: Of the 6 projects selected under Batch I, the NPO of one project did not apply for both the capital grant and the grant for starting costs and operating deficits, while the NPO of another project did not apply for the grants for starting costs and operating deficits.

Note 2: According to DEVB, the figure is derived from the estimated project costs stated in the Consolidated Project Proposals of the NPOs. DEVB will in due course seek funding from the Finance Committee of the Legislative Council based on the updated and detailed project cost estimates provided by the NPOs.

Note 3: As of July 2020, the actual expenditure under Revitalisation Scheme for the capital grants was \$1,033 million and the grants for starting costs and operating deficits was \$24 million.

1.8 Of the 19 selected projects (see Appendix A):

- (a) 12 projects (under Batches I to III) had been completed and commenced operation between September 2010 and April 2019. As of July 2020, 10 of the 12 projects were in operation and 2 projects (under Batch I) had ceased operation with effect from January 2017 and June 2020 respectively; and

- (b) 7 projects (under Batches IV and V) were at planning or construction stage.

1.9 According to DEVB, five projects had received the United Nations Educational, Scientific and Cultural Organization (UNESCO) Asia-Pacific Awards for Cultural Heritage Conservation (see Appendix A). Former North Kowloon Magistracy in Sham Shui Po received UNESCO Award (Honourable Mention) in 2011, Old Tai O Police Station in Tai O received UNESCO Award of Merit in 2013, Mei Ho House in Shek Kip Mei (see Photograph 1) received UNESCO Award (Honourable Mention) in 2015, Old Tai Po Police Station in Tai Po received UNESCO Award (Honourable Mention) in 2016 and Blue House Cluster in Wan Chai (see Photograph 2) received UNESCO Award of Excellence in 2017. The Award of Excellence is the awards' highest honour and it was also the first time that a built heritage conservation project in Hong Kong has received this top award.

Photograph 1

Mei Ho House included under Batch I of Revitalisation Scheme



Source: DEVB records

Photograph 2

Blue House Cluster included under Batch II of Revitalisation Scheme



Source: DEVB records

FAS

1.10 With a view to helping preserve privately-owned graded historic buildings from deterioration due to a lack of maintenance, DEVB has launched FAS since 2008 to provide financial assistance to owners of privately-owned graded historic buildings to carry out maintenance works themselves. Under FAS, ceiling of the grant for each successful application initially set at \$600,000 was increased to \$1 million in April 2009. Starting from November 2016, the ceiling has been further increased from \$1 million to \$2 million and the scope has been expanded to cover the government-owned declared monuments and graded historic buildings leased to NPOs. During 2008 to 2016, funding was provided from a GRA block allocation vote of the Leisure and Cultural Services Department (LCSD — Note 10). Starting

Note 10: *Upon the transfer of policy responsibility of heritage conservation from Home Affairs Bureau to DEVB in 2007, it was announced that the financial assistance in subsidising the maintenance of privately-owned declared monuments at that time would be extended to cover the privately-owned graded historic buildings (i.e. introduction of FAS — see para. 1.3(c)). Since 2008-09, the ambit of the GRA block allocation vote of LCSD (see Note 13 to para. 1.12(b)) has been expanded to include grants approved under FAS. As such, while FAS was administered by CHO of DEVB, it was financed by LCSD during 2008 to 2016.*

from 2016-17, funding was provided from GRA via DEVB Subhead (Note 11). As of July 2020, a total of 79 applications (involving total grant of \$96.6 million) had been approved and the actual expenditure was \$63 million.

Two pilot funding schemes

1.11 With a view to stepping up efforts in public engagement through collaboration with partners (e.g. NPOs), enhancing the understanding and awareness of the public on built heritage conservation through creative means and channels, and exploring the feasibility of conserving and protecting selected building clusters of unique heritage value under the “point-line-plane” approach (Note 12), two funding schemes were launched by DEVB on a pilot basis in 2017, as follows:

- (a) ***Funding Scheme for Public Engagement Projects on Built Heritage Conservation (FSPEP)***. It was introduced to provide funding for public education, community involvement and publicity activities. Under FSPEP, five professional institutes closely involved in the conservation of built heritage were invited to submit applications and the ceiling of grant for each successful application was \$2 million. As of July 2020, a total of 3 applications (involving total grant of \$5.9 million) had been approved and the actual expenditure was \$2 million; and
- (b) ***Funding Scheme for Thematic Research on Built Heritage Conservation (FSTR)***. It was introduced to encourage interest in, render financial support to, and recognise quality academic research on the theme of built heritage conservation. Under FSTR, eight degree-awarding academic institutions funded by the University Grants Committee were invited to submit applications and the ceiling of grant for each successful application

Note 11: *Following the earmarking of \$100 million for funding FAS (and 3 other funding schemes) under the 2016 Policy Address (see Note 7 to para. 1.4), FAS has been funded under GRA via DEVB Subhead since 2016-17.*

Note 12: *Under the “point-line-plane” approach, the scope of conservation would be extended beyond an individual building (i.e. “point”) to a “line” (e.g. a particular street) and even the whole “plane” (e.g. a particular district). The concept is to conserve not only individual buildings but also their wider urban or rural setting. According to DEVB, it had been pursuing the “point-line-plane” approach in implementing heritage conservation initiatives in Central.*

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was \$2 million. As of July 2020, a total of 6 applications (involving total grant of \$11.4 million) had been approved and the actual expenditure was \$6 million.

Management of funding schemes by DEVB

1.12 Two offices and one section of DEVB are responsible for the management of the four funding schemes (i.e. Revitalisation Scheme, FAS, FSPEP and FSTR):

- (a) **CHO.** CHO provides dedicated support to the Secretary for Development in implementing the policy on heritage conservation and keeping it under constant review, taking forward a series of new initiatives on heritage conservation and serving as a focal point of contact, both locally and overseas. Specifically, it provides support for the management of the four funding schemes, including:
 - (i) identification of historic buildings under Revitalisation Scheme;
 - (ii) processing of applications under the four funding schemes;
 - (iii) monitoring the implementation of projects and NPOs'/grantees' operations under the four funding schemes; and
 - (iv) vetting of supporting documents in processing the payment of grants under Revitalisation Scheme and two pilot funding schemes.

As of July 2020, 33 staff of CHO were involved in the management of the four funding schemes;

- (b) ***Antiquities and Monuments Office (AMO).*** AMO (Note 13) provides secretarial and executive support to AAB and carries out restoration and repair works to a number of historic buildings. In addition, vetting of supporting documents in processing the payment of grants under FAS is

Note 13: *AMO was previously under the administration of LCSD. On 1 April 2019, it was amalgamated with CHO to achieve synergy and for streamlining day-to-day operations.*

carried out by AMO. As of July 2020, 12 staff of AMO were involved in providing support to CHO and management of the four funding schemes; and

- (c) ***Finance Section.*** The Finance Section supports CHO in carrying out monitoring functions in relation to Revitalisation Scheme (e.g. conducting review visits for NPOs on financial aspect and reviewing the business plans, financial plans and regular reports submitted by NPOs). In addition, the Finance Section supports CHO in vetting the financial viability aspect of the applications under Revitalisation Scheme as well as the financial aspect of the applications under FSPEP and FSTR. Besides, it also handles the payment of grants to NPOs under Revitalisation Scheme. As of July 2020, 4 staff of the Finance Section were involved in the management of the aforesaid funding schemes.

1.13 An extract of organisation chart covering the aforesaid offices and section of DEVB as at 31 July 2020 is shown at Appendix B.

Advisory Committee on Built Heritage Conservation

1.14 The Advisory Committee on Built Heritage Conservation (ACBHC) was established in May 2016 to take up the work of the Advisory Committee on Revitalisation of Historic Buildings (ACRHB — Note 14) as well as shoulder additional responsibilities (e.g. work relating to the two pilot funding schemes). ACBHC examines applications, recommends selected applicants and levels of subsidy for successful applications and advises actions to be taken in case of non-compliance by the successful applicants under Revitalisation Scheme, monitors the operation of FAS and advises the Secretary for Development on the two pilot funding schemes.

Note 14: *ACRHB was established in 2008 to provide advice to the Secretary for Development on the revitalisation of historic buildings. In particular, it helped assess applications under Revitalisation Scheme and monitor the subsequent operation of the successful applicants. It was subsequently dissolved in May 2016 after ACBHC was established.*

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As of July 2020, ACBHC comprised a Chairman, 18 non-official members (Note 15) and three official members (Note 16).

Audit review

1.15 In 2013, the Audit Commission (Audit) completed a review on conservation of monuments and historic buildings, including some issues concerning Revitalisation Scheme and FAS (Note 17). The results were included in Chapter 1 of the Director of Audit's Report No. 60 of March 2013.

1.16 In May 2020, Audit commenced a review of the funding schemes for conservation of built heritage managed by DEVB. The audit review has focused on the following areas:

- (a) management of Revitalisation Scheme (PART 2);
- (b) management of FAS and two pilot funding schemes (PART 3); and
- (c) other management issues (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Note 15: *The non-official members are from different fields and professions including architecture, historical research, social enterprise, engineering, surveying, town planning, finance, business, art and culture, as well as private practitioners of built heritage conservation.*

Note 16: *The three official members include the Commissioner for Heritage, the Assistant Director of Architectural Services (Property Services) and the Assistant Director of Leisure and Cultural Services (Heritage and Museums).*

Note 17: *At the time of the 2013 audit, there were a relatively small number of completed projects/approved applications under Revitalisation Scheme and FAS (4 completed projects under Batch I of Revitalisation Scheme and 27 approved applications under FAS). At the time of this audit review, a total of 19 projects (with 12 completed) had been selected under Revitalisation Scheme (involving a total grant of \$1,767 million) and 79 FAS applications (involving a total grant of \$96.6 million) had been approved.*

Acknowledgement

1.17 During the audit review, in light of the outbreak of coronavirus disease (COVID-19), the Government had implemented various special work arrangements and targeted measures for government employees, including working from home. Audit would like to acknowledge with gratitude the full cooperation of the staff of DEVB during the course of the audit review amid the COVID-19 epidemic.

PART 2: MANAGEMENT OF THE REVITALISING HISTORIC BUILDINGS THROUGH PARTNERSHIP SCHEME

2.1 This PART examines the management of Revitalisation Scheme by DEVB, focusing on:

- (a) processing of applications (paras. 2.2 to 2.12);
- (b) monitoring of project implementation (paras. 2.13 to 2.29); and
- (c) monitoring of project performance (paras. 2.30 to 2.43).

Processing of applications

2.2 DEVB is responsible for processing of applications received from NPOs (Note 18) for historic buildings (Note 19) under Revitalisation Scheme. According to DEVB, the general procedures for processing applications under Revitalisation Scheme are as follows (summarised in Figure 1):

Note 18: *An NPO with charitable status under section 88 of the Inland Revenue Ordinance (Cap. 112) is eligible to apply for the use of historic buildings included under the Scheme.*

Note 19: *According to DEVB, historic buildings fulfilling the following criteria would be identified for inclusion into Revitalisation Scheme: (a) being government-owned; (b) being normally vacant or not being used by government bureaux/departments; (c) having limited commercial viability; and (d) having potential for social enterprise operation (i.e. viable for an NPO to operate a social enterprise business on a self-financing and self-sustainable basis). DEVB will consider comments received from relevant government bureaux/departments for inclusion of the buildings into Revitalisation Scheme. Buildings identified would then be discussed by ACBHC or ACRHB (see para. 1.14) and recommended for the endorsement of the Secretary for Development.*

Management of the Revitalising Historic Buildings Through Partnership Scheme

- (a) ***Invitation of applications and initial vetting.*** DEVB will prepare the Guide to Application and resource kits (Note 20) for individual historic buildings under Revitalisation Scheme. NPOs will be invited to submit proposals (Note 21) to revitalise selected historic buildings and the proposed usage should take the form of a social enterprise (Note 22). DEVB will organise workshops and open days with guided tours and briefings for interested applicants to learn more about the historic buildings, application procedures and assessment criteria. Besides, DEVB will check for the completeness and validity (Note 23) of applications received;
- (b) ***First-round assessment.*** Valid applications will be passed to relevant government bureaux/departments (B/Ds) for comments. DEVB will summarise the comments received and assign a preliminary score according to the five assessment criteria (Note 24) to each valid proposal. Together with the proposals received, assessment forms and preliminary score sheets prepared by DEVB will be passed to ACBHC (formerly ACRHB — hereinafter referred to as the advisory committee) for consideration. The advisory committee will discuss the relative merits of the proposals and

Note 20: *Resource kits contain information of each historic building, including historical background and architectural merits, conservation guidelines, site information and town planning issues.*

Note 21: *According to DEVB, NPOs are required to provide detailed plans on how the historic buildings will be preserved and their historical significance brought out effectively, how the social enterprises will be operated in order to achieve financial viability and how the local community will benefit.*

Note 22: *According to the Guide to Application, while there is no universal definition on social enterprise, it generally refers to business that fulfils the following criteria: (a) achieve specific social objectives; (b) be able to make profits and operate on a self-financing basis; and (c) the profits cannot be distributed, but should be principally reinvested in the social enterprise business or in the community for the social objectives pursued by the social enterprise.*

Note 23: *According to DEVB, applications would be considered as invalid if the applicants failed to meet the eligibility criteria, complete the application forms or supply the required information for assessment.*

Note 24: *According to the Guide to Application, the five assessment criteria are: (a) reflection of historical value and significance; (b) technical aspects; (c) social value and social enterprise operation; (d) financial viability; and (e) management capability and other considerations.*

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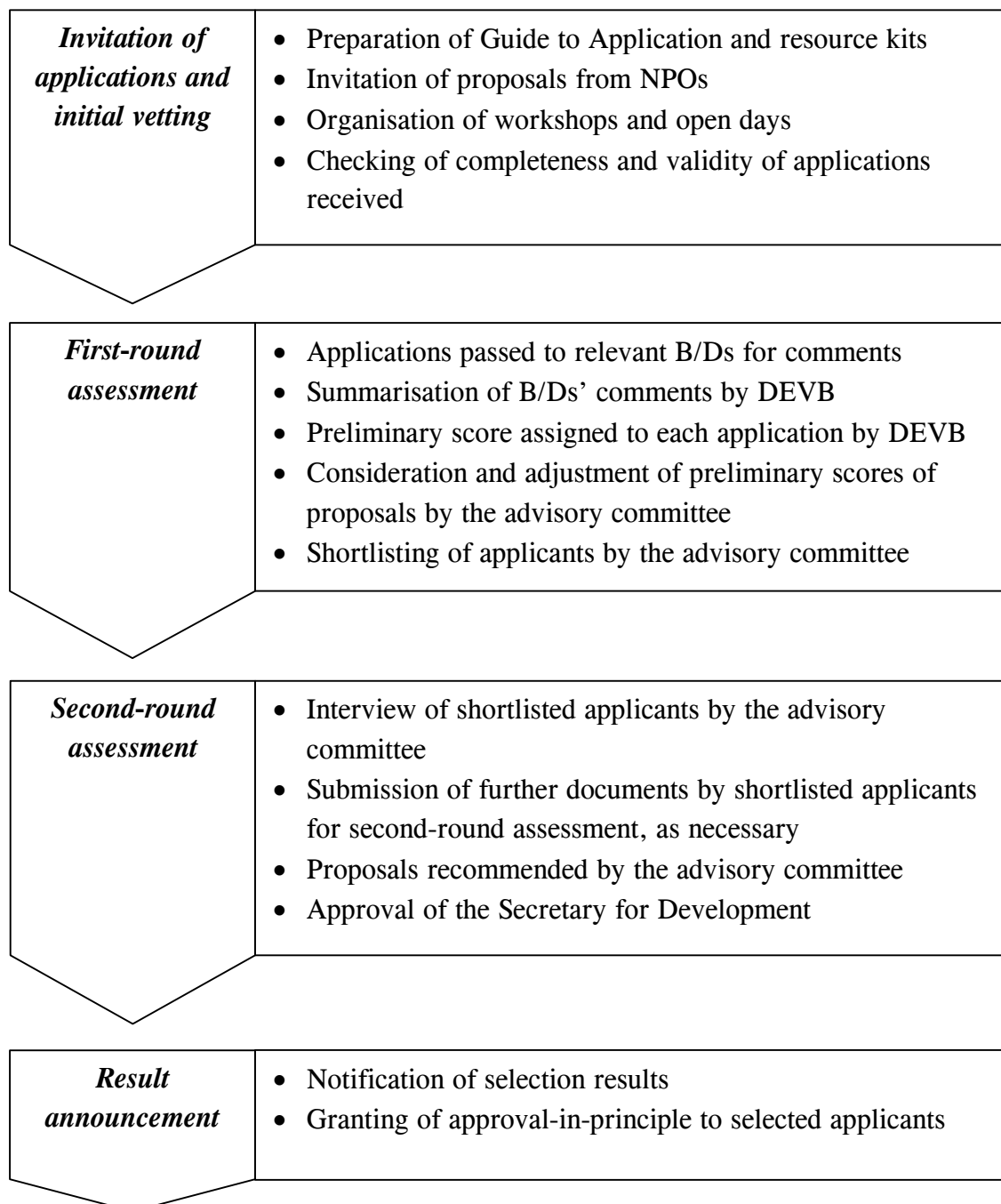
may adjust their preliminary scores. Applicants will be shortlisted by the advisory committee for the second-round assessment;

- (c) ***Second-round assessment.*** Shortlisted applicants will be invited to attend an interview with the advisory committee to present their proposals and may be required to submit further information for the second-round assessment. Proposals recommended by the advisory committee would be put forward for the approval of the Secretary for Development; and
- (d) ***Result announcement.*** Applicants will be notified of the results and selected applicants will be given an approval-in-principle. Upon the issuance of approval-in-principle letters by the Government, the selected applicants are required to complete all necessary preparatory work for the projects and sign the tenancy agreements within the validity period specified in the letters.

Management of the Revitalising Historic Buildings Through Partnership Scheme

Figure 1

General procedures for processing applications under Revitalisation Scheme



Source: DEVB records

Management of the Revitalising Historic Buildings Through Partnership Scheme

Scope for improvement in inviting applications

2.3 Under Revitalisation Scheme, NPOs are invited to submit proposals to revitalise selected historic buildings and operate the projects according to the proposed usage in the form of a social enterprise. Interested applicants are required to submit the completed application forms to DEVB by the submission deadline.

2.4 Regarding the number of applications received during Batches I to V of Revitalisation Scheme (see Table 2), Audit noted that:

- (a) the number of applications received for each historic building varied considerably from 2 applications (for a historic building launched under Batch V) to 30 applications (for a historic building launched under Batch I) (averaging 10 applications); and
- (b) the percentage of invalid applications in 2 (Batches III and IV) of the latest 3 batches of Revitalisation Scheme was relatively high (i.e. 15% and 19% respectively).

Table 2

**Number of applications received under Revitalisation Scheme
(February 2008 to November 2016)**

Batch	Number of historic buildings for application (a)	Range of number of applications received for each historic building (b)	Total number of applications received (c)	Total number of invalid applications received (d)	Percentage of invalid applications (e) = (d) ÷ (c) × 100%
I	7	5 – 30	114	8	7%
II	5	4 – 20	38	3	8%
III	4	5 – 15	34	5	15%
IV	4	3 – 11	26	5	19%
V	5	2 – 12	34	2	6%

Source: DEVB records

Management of the Revitalising Historic Buildings Through Partnership Scheme

2.5 Audit noted that the common reasons for invalid applications included:

- (a) the information required for assessment (e.g. schedule of accommodation, estimated capital cost, business plan and financial projections) was not provided by applicants or irrelevant information was provided by applicants;
- (b) application forms were not filled in;
- (c) applications were submitted in personal capacity instead of in the capacity of NPOs (see Note 18 to para. 2.2); and
- (d) the applicants did not have the charitable status under section 88 of the Inland Revenue Ordinance (Cap. 112) (see Note 18 to para. 2.2).

2.6 In September and October 2020, DEVB informed Audit that:

- (a) regarding the small number of applications received for some buildings:
 - (i) the main purpose of Revitalisation Scheme was to find a good new use of the historic buildings so that the buildings can sustain long term for public enjoyment. DEVB attached emphasis and importance on the concept of the projects under the Scheme. A large number of applications did not mean that DEVB could find a good proposal. Instead, the proposed new use of the historic buildings and the quality of applications should be the focus of DEVB;
 - (ii) for Batch I of Revitalisation Scheme, most of the historic buildings included were in prime locations in urban area and easily accessible by transport. It thus attracted a large number of applications. However, the quality of these applications varied as many applicants did not fully understand the objectives and detailed mechanism of the Scheme, including the assessment criteria and operation mode required. As such, many applications had failed to fulfil the application requirements. With the experience gained in Batch I, DEVB had enhanced the Guide to Application in subsequent batches of projects (e.g. elaboration of the assessment criteria in detail and

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specifying the requirement of public access) and had organised open days and workshops for interested parties when new batches of projects were launched so as to help the applicants understand more about the Scheme and how to complete the application forms. As a result, the number of applications with poor quality and misunderstanding of the Scheme had dropped significantly since Batch II. The total number of applications received had remained rather stable since then (i.e. from 26 to 38 applications), even with the reduction in number of historic buildings; and

- (iii) the number of applications depended on various factors, such as the nature of the building, geographical constraints and building size. In particular, for the historic building launched under Batch V with 2 applications received, it was a historic building located in remote area and the gross floor area of the building was relatively small. Such physical and geographical constraints might have reduced its attraction for potential applicants. For the latest Batch VI launched in December 2019, DEVB had received 42 applications for the first 4 historic buildings and overwhelming registration for the open day-cum-briefing for a historic building launched in August 2020, even under the outbreak of COVID-19; and

- (b) regarding the invalid applications received by DEVB:

- (i) DEVB had already used various means to facilitate potential applicants to understand the application requirements, including organising workshops, enhancing the Guide to Application and resource kits, and publicising such requirements on its website, newsletters and roving exhibitions; and
- (ii) in some cases, due to the negligence of applicants in submitting invalid applications (e.g. not using the designated application forms), it would be difficult for DEVB to prevent such obvious errors.

2.7 In Audit's view:

- (a) as DEVB focuses on the quality of applications (see para. 2.6(a)(i)), it needs to continue to explore measures to attract applications with high quality proposals for buildings included in Revitalisation Scheme; and
- (b) while DEVB had used various means to facilitate potential applicants to understand the application requirements (see para. 2.6(b)(i)), there were still some applications received by DEVB being considered as invalid (see para. 2.4(b)). DEVB needs to continue to explore measures for further enhancing applicants' understanding of the application requirements of Revitalisation Scheme.

Scope for improvement in setting the shortlisting criteria for second-round assessment

2.8 According to the Guide to Application, there are two rounds of assessment for assessing the applications received under Revitalisation Scheme (see para. 2.2(b) and (c)). After the first-round assessment, applicants will be shortlisted by the advisory committee for the second-round assessment.

2.9 Audit examined the assessment records of DEVB for Batches I to V of Revitalisation Scheme and noted that:

- (a) ***Batch I.*** In assessing the applications received for 7 historic buildings under Batch I, it was agreed by the advisory committee that a passing score would be adopted for assessing applications received for 2 historic buildings. However, no pre-determined passing score was set for the other 5 historic buildings;
- (b) ***Batches II to IV.*** As far as could be ascertained, there was no documentary evidence showing that pre-determined shortlisting criteria (e.g. passing score or number of shortlisted applicants) had been set by the advisory committee in considering the applications received for all historic buildings under Batches II to IV; and

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- (c) **Batch V.** Prior to the first-round assessment of Batch V, it was agreed by the advisory committee that proposals attaining the passing score in the first-round assessment would normally be shortlisted for the second-round assessment and be invited to attend an interview with the advisory committee. However, for a historic building with two applications received, an applicant with a score below the passing score was shortlisted to attend the interview with the advisory committee. According to DEVB records, as the historic building was located at a site with a number of constraints and was launched for the second time, members of the advisory committee agreed to give this applicant a chance to attend the interview under the second-round assessment.

2.10 In Audit's view, in line with the practice adopted in Batch V, DEVB needs to continue to take measures to ensure that the pre-determined shortlisting criteria for the second-round assessment of applications under Revitalisation Scheme are set and the justifications for any deviations from the pre-determined criteria are documented.

Audit recommendations

2.11 Audit has *recommended* that the Secretary for Development should continue to:

- (a) **explore measures to attract applications with high quality proposals for buildings included in Revitalisation Scheme;**
- (b) **explore measures for further enhancing applicants' understanding of the application requirements of Revitalisation Scheme; and**
- (c) **take measures to ensure that the pre-determined shortlisting criteria for the second-round assessment of applications under Revitalisation Scheme are set and the justifications for any deviations from the pre-determined criteria are documented.**

Response from the Government

2.12 The Secretary for Development agrees with the audit recommendations.

Monitoring of project implementation

2.13 For renovation works projects under Revitalisation Scheme funded by the Government under the Capital Works Programme, DEVB will apply for allocation of resources in accordance with the established mechanism. Subject to the approval of DEVB, NPO will engage consultant according to the prescribed guidelines (Note 25) and obtain approvals (Note 26) from B/Ds. Funding approval for the works project will then be sought from the Finance Committee of the Legislative Council (LegCo) (Note 27) or under the delegated authority as appropriate. After that, DEVB will arrange to take over the project site and enter into a tenancy agreement with NPO. Subject to the approval of DEVB, NPO will engage consultant(s) and contractor(s) for carrying out the renovation works of the project.

2.14 According to DEVB's "Guidelines for Delivery of Capital Works Projects under the Revitalising Historic Buildings Through Partnership Scheme" (the Revitalisation Scheme Works Projects Guidelines), the roles of major stakeholders in a capital works project are as follows:

- (a) **DEVB.** DEVB is the policy bureau of all the capital works projects under Revitalisation Scheme and offers the necessary policy support for these projects. CHO undertakes the client's role for the projects of the Scheme and the Permanent Secretary for Development (Works) of DEVB acts as the vote controller and controls the expenditure of all capital works projects under the Scheme;

Note 25: *NPOs should follow the "Guidelines on Consultant Selection for Architectural and Associated Consultancy Services by NPOs under the Revitalisation Scheme" and the "Guidelines on Consultant Selection for Quantity Surveying Consultancy Services by NPOs under the Revitalisation Scheme" issued by DEVB in engaging consultants.*

Note 26: *Examples include approval under the Buildings Ordinance (Cap. 123) from the Buildings Department and endorsement of heritage impact assessment by AAB.*

Note 27: *DEVB will prepare the papers for submission to the Public Works Subcommittee of the Finance Committee of the Legislative Council for funding approval based on the updated detailed estimated project cost, programme and other technical information of the works project provided by the NPO.*

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- (b) ***Architectural Services Department (ArchSD).*** The Heritage Unit of ArchSD provides technical advice to DEVB in respect of the financial control of all capital works projects under Revitalisation Scheme. It offers technical advice to DEVB for consideration based on NPO's Consolidated Project Proposal approved by the Secretary for Development and the final design (as well as the approved project estimate (APE)). ArchSD will also assist DEVB to examine the draft final project account and the project account will only be considered as finalised when all the comments from ArchSD are satisfactorily resolved; and
- (c) ***NPO.*** NPO assumes the role of works agent and is ultimately responsible for the delivery of the works project from its inception to completion of construction in accordance with the Consolidated Project Proposal approved by the Secretary for Development and within the APE.

2.15 To facilitate the monitoring of project implementation, NPO should submit the following documents to DEVB and ArchSD:

- (a) ***Master programme.*** A master programme for the delivery of works project conforming with the Consolidated Project Proposal and with all milestone dates incorporated should be submitted within 2 weeks from the receipt of approval-in-principle;
- (b) ***Monthly progress reports.*** Monthly progress reports containing the most updated project information should be submitted every month;
- (c) ***Quarterly progress reports.*** Quarterly progress reports for monitoring the project progress and the performance of the contractors should be submitted quarterly from the commencement of the works until the issue of the maintenance certificate (Note 28);

Note 28: *According to DEVB, a contractor performance mechanism had been implemented since Batch III of Revitalisation Scheme (see para. 2.18(c)). The consultant of NPO is required to submit quarterly progress reports and a final report on the contractor's performance upon the completion of the final account. NPO should check the reports and should entirely satisfy itself with the assessment by the consultant before agreement and endorsement of the reports.*

- (d) ***Final reports.*** A final report should be submitted within one month from the completion of the project (see Note 28); and
- (e) ***Final project account.*** A draft final project account should be ready for comments by DEVB within one year after the practical completion of the renovation works. ArchSD assists DEVB to examine the draft final project account submitted by NPO and the project account will only be considered as finalised until all the comments from ArchSD on the draft account are satisfactorily resolved.

Project works completed later than the scheduled completion date

2.16 According to the Revitalisation Scheme Works Projects Guidelines, NPO is responsible for monitoring the progress of its renovation works project closely with a view to having the works completed on time. To ensure timely delivery of the works project, NPO should adhere to the works commencement and completion dates as stated in the submission for funding approval and where possible, strive to commence works as soon as possible. If NPO foresees any major slippage on the progress of works which may result in delay in completion, NPO must report to DEVB immediately.

2.17 According to DEVB, of the 5 batches of Revitalisation Scheme launched since February 2008 (see para. 1.7), the works of all 12 projects under Batches I to III had been completed as of July 2020. For 11 (92%) of these 12 completed projects, Audit noted that the works were completed 37 to 560 days (averaging 284 days) later than the scheduled completion dates as stated in the submissions for funding approval (see Table 3).

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Table 3

Completion dates of projects under Revitalisation Scheme (July 2020)

Project	Works commencement date	Scheduled completion date (a)	Substantial completion date (b)	No. of days later than the scheduled completion date (c) = (b) – (a)
Batch I				
1	1.12.2009	17.7.2010	17.7.2010	—
2	4.6.2010	27.8.2011	10.1.2012	136
3	7.1.2011	24.1.2012	1.3.2012	37
4	31.1.2011	21.9.2012	25.6.2013	277
5	31.5.2011	25.3.2012	17.9.2012	176
6	18.7.2011	9.9.2012	29.8.2013	354
Batch II				
7	15.1.2013	10.3.2014	23.3.2015	378
8	15.5.2013	9.5.2014	23.4.2015	349
9	19.9.2013	17.11.2015	30.5.2017	560
Batch III				
10	13.6.2016	4.11.2017	22.6.2018	230
11	20.6.2016	13.8.2017	11.7.2018	332
12	27.6.2016	24.9.2017	13.7.2018	292

Source: DEVB records

2.18 In September and October 2020, DEVB informed Audit that:

- (a) in general, for projects completed later than the scheduled completion dates, they were usually due to some uncontrollable factors (e.g. inclement weather and unforeseeable site conditions that required additional time and work for design revision). This was especially the case for projects under Revitalisation Scheme as the historic buildings involved were often

dilapidated with various site constraints. Common problems encountered included concrete spalling more widespread than anticipated, unauthorised changes to building structure not fully documented and underground conditions more complex than anticipated;

- (b) regarding the 11 projects completed later than the scheduled completion dates (see Table 3 in para. 2.17):
 - (i) for 7 (64%) projects, extension of time (EOT) had been/would be granted for the entire period of additional time required by the contractors in completing the works. According to DEVB, the additional time required was mainly due to uncontrollable factors, including inclement weather, unforeseeable site conditions leading to design changes and additional tasks for fulfilling statutory requirements;
 - (ii) for 2 (18%) projects, EOT had been granted for part of the additional time required by the contractors in completing the works and liquidated damages had been deducted from payment to the contractors (representing 23% and 53% respectively of the additional time required by the contractors); and
 - (iii) for 2 (18%) projects, EOT had been/would be granted for 13% and 93% respectively of the additional time required by the contractors in completing the works and liquidated damages for the remaining period were yet to be ascertained by DEVB; and
- (c) DEVB had all along been monitoring the works progress of the projects under Revitalisation Scheme through various progress and site meetings. A contractor performance mechanism (see Note 28 to para. 2.15(c)) had been implemented since Batch III of Revitalisation Scheme to monitor the works progress.

2.19 In Audit's view, DEVB needs to make continued efforts to monitor the implementation of projects under Revitalisation Scheme with a view to ensuring their timely completion.

Need to strengthen monitoring of works variations

2.20 According to the Revitalisation Scheme Works Projects Guidelines, NPO is responsible for monitoring the expenditure under the construction contract within the contract sum. For variation works deemed absolutely necessary by NPO, it should obtain prior approval from DEVB (Note 29) before issuing instructions to the contractor to proceed with the variation works. Retrospective approval is not permitted and no variation should be issued after the completion of contract (Note 30).

2.21 Of the 11 projects under Batches I to III which had applied for the capital grant under Revitalisation Scheme (see Note 1 to Table 1 in para. 1.7), Audit selected the project with the highest APE for examination and noted scope for improvement in monitoring works variations by DEVB. The salient points are as follows:

- (a) an NPO awarded the contract for the main works of a project to a contractor at a contract sum of \$195.5 million. According to the draft final project account of the project in August 2019, the estimated final contract sum had increased by \$26.6 million (i.e. from \$195.5 million to \$222.1 million), with variation works (e.g. addition of lift and removal of paint on wall) of about \$13.3 million; and
- (b) ArchSD examined the draft final project account and relevant supporting documents from the NPO, and provided the following comments, among others, to DEVB in December 2019:

Note 29: *In obtaining approval from DEVB, NPO should submit justifications, works scope, and a detailed assessment of cost and time implications of the variation works. DEVB may consult ArchSD prior to the granting of approval.*

Note 30: *NPO will be liable for the cost and time implications of all variation orders issued to the contractor without prior approval from DEVB. DEVB reserves its right in rejecting any variation/expenditure that is considered beyond the scope and ambit of the project and/or in excess of the original contract sum or APE without obtaining its prior approval and deducting amounts in respect of unauthorised variation/expenditure from any outstanding grant to the NPO or requiring the NPO to repay partly or fully the grant received.*

- (i) many instructions of works variations had been issued by the NPO without prior approval from DEVB and the reasons for not seeking prior approval were not recorded; and
- (ii) quite a number of instructions of works variations had been issued by the NPO after the certified completion date of the works in June 2013 (Note 31).

2.22 DEVB informed Audit in September and October 2020 that:

- (a) NPOs had been reminded all along to timely submit the variation requests for DEVB's prior approval. However, some decisions of change were required to be made immediately on site in order to avoid delay of works, in particular those involving minor changes. Hence, verbal approval-in-principle would be given first, and detailed justifications of such variations would be submitted later by the NPOs and followed by DEVB's subsequent written approval;
- (b) DEVB would strive to ensure that NPOs get prior written approval for variation works as far as possible; and
- (c) regarding ArchSD's comments on instructions of works variations issued by the NPO without DEVB's prior approval (see para. 2.21(b)(i)), as the comments were based on the information in the draft final project account submitted by the NPO (Note 32), the NPO and the consultants had yet to provide supplementary information and justifications for the variation orders (including whether DEVB's verbal approval-in-principle had been given for any variation works) to complete the finalisation of project account. All variation orders would be carefully scrutinised and reviewed to ascertain their validity and cost and time implications in accordance with

Note 31: *According to DEVB, there were 7 variation orders amounting to \$0.4 million approved by DEVB during August 2013 to March 2014 (i.e. after the certified completion date of the works).*

Note 32: *Based on a sample check of variation orders in relevant subject files, Audit noted that 4 variation orders amounting to \$6.2 million had been issued by the NPO without prior written approval from DEVB.*

the provisions of the contract. The review was still in progress and hence the number of variation orders had yet to be formally approved and the final amount could not be ascertained at this moment.

2.23 In Audit's view, DEVB needs to:

- (a) complete the review of the validity of the variation orders as mentioned in paragraph 2.22(c) as early as practicable; and
- (b) take measures to ensure that NPOs seek its prior approval for variation works in accordance with the Revitalisation Scheme Works Projects Guidelines.

Need to strengthen monitoring of the finalisation of project accounts

2.24 According to the Revitalisation Scheme Works Projects Guidelines, NPO should submit the draft project account and other supporting documents (e.g. original invoices and receipts) to DEVB within one year after the date of practical completion of the renovation works. ArchSD will assist DEVB to examine the draft final project account and the project account will only be considered as finalised when all the comments from ArchSD are satisfactorily resolved.

2.25 Regarding the project accounts of the 11 completed projects under Batches I to III of Revitalisation Scheme (see para. 2.21), Audit found that the project accounts of 6 (55%) projects had not been finalised as of July 2020, including 3 projects which had been substantially completed for 3 to 7 years. Among these 3 projects, two projects' draft accounts were submitted 2.3 and 4.7 years respectively after the practical completion of renovation works. The other project's draft account had not been submitted as of July 2020 (i.e. 3.2 years after the practical completion of renovation works). As a result, these 3 projects did not meet the one-year time limit for submitting draft project accounts.

2.26 In September and October 2020, DEVB informed Audit that:

- (a) in finalising the project accounts, NPOs were facing longer than expected time to settle issues (e.g. extra claims for additional works by contractors and the granting of EOT); and
- (b) finalisation of project accounts involved a rigorous financial negotiation process between the concerned parties, which was a time-consuming exercise. Given that the maintenance certificate could only be issued at least one year after works completion and that documents in relation to the draft project accounts would not be ready, the one-year time limit for submission of draft project accounts was a very stringent requirement. DEVB would review the guidelines making reference to the requirement stipulated in Financial Circular No. 7/2017 (Note 33) and experience in the finalisation of project accounts under Revitalisation Scheme, and set a more realistic time limit for the submission of draft project accounts by NPOs.

2.27 In Audit's view, DEVB needs to:

- (a) expedite action to complete the review of the guidelines relating to the time limit for submission of draft project accounts; and
- (b) strengthen monitoring mechanism of the project accounts finalisation process and remind NPOs to timely submit the draft project accounts in accordance with the Revitalisation Scheme Works Projects Guidelines.

Audit recommendations

2.28 **Audit has *recommended* that the Secretary for Development should:**

- (a) **make continued efforts to monitor the implementation of projects under Revitalisation Scheme with a view to ensuring their timely completion;**

Note 33: *According to Financial Circular No. 7/2017, project accounts under the Capital Works Programme should be finalised as soon as possible and in any event no later than three years after commissioning of the facilities.*

- (b) **complete the review of the validity of the variation orders as mentioned in paragraph 2.22(c) as early as practicable;**
- (c) **take measures to ensure that NPOs seek DEVB's prior approval for variation works in accordance with the Revitalisation Scheme Works Projects Guidelines;**
- (d) **expedite action to complete the review of the guidelines relating to the time limit for submission of draft project accounts; and**
- (e) **strengthen monitoring mechanism of the project accounts finalisation process and remind NPOs to timely submit the draft project accounts in accordance with the Revitalisation Scheme Works Projects Guidelines.**

Response from the Government

2.29 The Secretary for Development agrees with the audit recommendations.

Monitoring of project performance

2.30 According to DEVB, NPOs are required to comply with the terms and conditions laid down in the tenancy agreements, the Guide to Application and all instructions and correspondence relevant to the project and the historic building issued by the advisory committee or the Government. To enable the Government to monitor the performance of projects, NPOs are required to submit project plans (including business plans, financial plans and building management plans), progress reports (including mid-year progress reports and annual reports) and audited financial statements in relation to the projects to DEVB on a regular basis.

Need to continue to keep under review financial viability and sustainability of projects

2.31 Under all batches of Revitalisation Scheme, financial viability has been one of the five assessment criteria in project selection. NPOs should demonstrate that their project proposals are projected to become self-sustainable after the first

two years of operation. To facilitate monitoring by DEVB, NPOs need to submit the audited financial statements of the projects (Note 34) to DEVB every year. Besides, DEVB conducts review visits at the project site with a view to appraising the performance of projects from technical, operational and financial perspectives.

2.32 Audit examined the audited financial statements for the accounting year ended in 2019 of 7 projects which had operated for at least two years as of July 2020 (Note 35) and noted that:

- (a) 4 projects had accumulated surplus ranging from \$0.4 million to \$11.6 million (Note 36) as of their reporting dates in 2019. Of these 4 projects:
 - (i) 3 projects had surplus of \$0.1 million, \$0.3 million and \$4.3 million respectively for the accounting year ended in 2019; and
 - (ii) 1 project had deficit of \$2.8 million for the accounting year ended in 2019; and
- (b) 3 projects had accumulated deficits of \$1 million, \$1.8 million and \$6.6 million respectively as of their reporting dates in 2019. They had deficits of \$0.2 million, \$1.5 million and \$1.6 million respectively for the accounting year ended in 2019. In fact, they had incurred deficits for 2 to 4 consecutive accounting years since their commencement of operation in 2015 or 2017.

Note 34: *According to the tenancy agreement, NPO should keep a separate set of accounts in respect of the project.*

Note 35: *The 7 projects (under Batches I and II) had different reporting dates in 2019 (i.e. 31 March 2019 for 5 projects, 31 August 2019 for 1 project and 30 September 2019 for 1 project).*

Note 36: *According to DEVB, for the project with accumulated surplus of \$11.6 million, part of the operating income had been set aside to a reserve. As of its reporting date in 2019, apart from the accumulated surplus of \$11.6 million, the reserve had a balance of \$6.3 million.*

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2.33 In September 2020, DEVB informed Audit that:

- (a) DEVB had all along regularly monitored and reviewed the financial viability and sustainability of projects under Revitalisation Scheme through review of audited financial statements and reporting to the advisory committee annually. Besides, DEVB had also urged the NPOs with projected deficits in their financial plans of the projects to implement measures to improve the financial performance; and
- (b) for the 2 projects with accumulated deficits of \$1.8 million and \$6.6 million respectively as of their reporting dates in 2019 (see para. 2.32(b)), the grants for operating deficits for the first two years of operation (see para. 1.6(b)) were yet to be taken into account. According to DEVB, for the project with accumulated deficit of \$1.8 million, the maximum amount of grant would be \$3.3 million. For the other project with accumulated deficit of \$6.6 million, a grant of \$2.2 million had been approved. The accumulated deficits of these NPOs would be reduced by the corresponding grants approved/to be approved.

2.34 Given that the provision of grants for operating deficits is a one-off measure for the first two years' operation, a project needs to become self-sustainable after the first two years of operation. In Audit's view, DEVB needs to continue to keep under review the financial viability and sustainability of projects under Revitalisation Scheme and provide assistance to NPOs as needed in running the projects.

Need to ensure NPOs' compliance with submission requirements

2.35 According to tenancy agreements, to facilitate performance monitoring by DEVB, NPOs are required to submit the following documents to DEVB:

- (a) ***Commencement of operation.*** Tenancy agreements of different projects set out different time limits for NPOs to submit the first project plans (including business plan, financial plan and building management plan), as follows:
 - (i) within six months after the signing of tenancy agreements for 3 projects under Batch I;

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- (ii) four months before the commencement of operation of the project or a specified date, whichever is earlier, for a project under Batch I; or
 - (iii) six months before the commencement of operation of the project or a specified date, whichever is earlier, for 2 projects under Batch I and all projects under Batches II and III; and
- (b) ***On a regular basis.*** NPOs should submit:
- (i) updated project plans within four months after the end of the accounting year;
 - (ii) mid-year progress reports within two months following the end of the six-month period after the end of the accounting year; and
 - (iii) annual reports (including audited financial statements) within four months after the end of the accounting year.

Failure to submit the above-mentioned documents may result in termination of the tenancy agreement.

2.36 For the 12 completed projects (see para. 2.17), Audit examined the submission of documents by the NPOs as required by the tenancy agreements at commencement of operation and for the period from 2015-16 to 2019-20, and found the following issues:

Commencement of operation

- (a) ***First project plans.*** Regarding the project plans required to be submitted by the 12 NPOs:
- (i) ***Business plans and financial plans.*** Eight NPOs submitted their first business plans and financial plans to DEVB later than the specified time limits (see para. 2.35(a)). The delays ranged from 3 to 26 months, averaging 10 months; and

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- (ii) ***Building management plans.*** Ten NPOs submitted their first building management plans later than the specified time limits (see para. 2.35(a)). The delays ranged from 1 to 36 months, averaging 13 months;

For the period from 2015-16 to 2019-20

- (b) ***Mid-year progress reports.*** Of the 40 reports required to be submitted by the 12 NPOs:
 - (i) 13 (33%) reports were submitted by 6 NPOs in a timely manner;
 - (ii) 3 (7%) reports had not been submitted by 3 NPOs as of July 2020. Each of them had been overdue for 244 days; and
 - (iii) 24 (60%) reports were submitted by 7 NPOs later than the specified time limits (see para. 2.35(b)(ii)). The delays ranged from 1 to 303 days, averaging 69 days; and
- (c) ***Annual reports.*** Of the 39 reports required to be submitted by the 12 NPOs:
 - (i) 11 (28%) reports were submitted by 6 NPOs in a timely manner;
 - (ii) 1 (3%) report had not been submitted by an NPO as of July 2020, which had been overdue for 366 days; and
 - (iii) 27 (69%) reports were submitted by 9 NPOs later than the specified time limits (see para. 2.35(b)(iii)). The delays ranged from 2 to 399 days, averaging 93 days.

2.37 According to DEVB, verbal and written reminders would be given to NPOs whose reports were outstanding after the due dates or cases with serious delay would be escalated to senior management of both DEVB and NPOs with written advices given. While noting this, Audit considers that late submission of documents by NPOs is not conducive to effective performance monitoring by DEVB. In Audit's view, DEVB needs to strengthen measures to ensure that NPOs comply with the submission

requirements as stipulated in tenancy agreements of projects under Revitalisation Scheme.

***Scope for making better use of information system to
record and monitor project performance***

2.38 According to the operational guidelines of DEVB, DEVB adopts a performance monitoring system to ensure the accountability of public funds and the provision of quality services as stipulated in the tenancy agreement. The performance monitoring system enables early detection and intervention of problem performance under risk management.

2.39 According to DEVB, apart from the tenancy agreement, NPOs should also carry out and operate the projects in accordance with Consolidated Project Proposals, funding papers, project plans, annual budgets and annual reports. These documents set out a number of quantitative performance indicators for various aspects, including, for example:

- (a) number of visitors (e.g. training participants, guests from hotel, facilities rental guests, restaurant customers, participants of guided tours and walk-in visitors);
- (b) events and activities organised (e.g. statistics on guided tours, events and activities organised in relation to heritage and culture and results of visitor satisfaction survey);
- (c) employment information (e.g. number of jobs and positions to be created);
and
- (d) financial performance (e.g. projected incomes and expenditures).

2.40 From time to time, results attained by NPOs would be reported to DEVB after the commencement of tenancy period. According to DEVB, it monitored the project performance of NPOs against the targets and indicators set out in the documents mentioned in paragraph 2.39 through reviewing documents (e.g. mid-year

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progress reports and annual reports) submitted by NPOs. Audit noted that DEVB relied on manual means to monitor the project performance.

2.41 In Audit's view, DEVB needs to consider making better use of information system to enhance its efficiency in recording, analysing and monitoring the project performance of NPOs over time.

Audit recommendations

2.42 **Audit has *recommended* that the Secretary for Development should:**

- (a) **continue to keep under review the financial viability and sustainability of projects under Revitalisation Scheme and provide assistance to NPOs as needed in running the projects;**
- (b) **strengthen measures to ensure that NPOs comply with the submission requirements as stipulated in tenancy agreements of projects under Revitalisation Scheme; and**
- (c) **consider making better use of information system to enhance DEVB's efficiency in recording, analysing and monitoring the project performance of NPOs over time.**

Response from the Government

2.43 The Secretary for Development agrees with the audit recommendations.

PART 3: MANAGEMENT OF THE FINANCIAL ASSISTANCE FOR MAINTENANCE SCHEME ON BUILT HERITAGE AND TWO PILOT FUNDING SCHEMES

3.1 This PART examines the management of FAS and two pilot funding schemes by DEVB, focusing on:

- (a) management of FAS (paras. 3.2 to 3.22); and
- (b) management of two pilot funding schemes (paras. 3.23 to 3.26).

Management of the Financial Assistance for Maintenance Scheme on Built Heritage

3.2 FAS has been launched since 2008 to provide financial assistance to owners of privately-owned graded historic buildings with a view to helping preserve such buildings from deterioration due to a lack of maintenance (see para. 1.10). FAS applications received are processed by DEVB in two stages (i.e. two-stage processing mechanism) since April 2015 (Note 37). Under stage one, selected applicants would be granted with approval-in-principle and are allowed to engage consultants for technical assessment. Under stage two, formal approval would be granted to successful applicants. The general procedures are as follows (summarised in Figure 2):

Note 37: *Before April 2015, an applicant was required to submit an application form together with the proposed scope of maintenance works and cost estimates. Upon receipt of the application, DEVB would check the eligibility of the application (e.g. completeness of the submitted information) and site visits would be conducted by DEVB and ArchSD to inspect the historic building and carry out assessments to form a view on the proposed maintenance works. FAS applications would be approved by DEVB in one stage. Successful applicants granted with DEVB's formal approval (without first granting an approval-in-principle) were required to commence the maintenance works within one year after the date of formal approval.*

Management of the Financial Assistance for Maintenance Scheme on Built Heritage and two pilot funding schemes

- (a) ***Verification of applications.*** Upon receipt of FAS applications from owners of privately-owned graded historic buildings or NPO tenants of government-owned declared monuments or graded historic buildings, DEVB will verify whether the applications received comply with the basic requirements specified in the Guide to Application, including eligibility criteria for applicants (Note 38), pre-requisite conditions (Note 39) and degree of public access to the respective historic buildings allowed by the applicants (Note 40). DEVB will request the applicants to clarify and amend deficiencies, where necessary, in their applications. Shortlisted applicants would then be recommended to the Vetting Panel for FAS (hereinafter referred to as Vetting Panel — Note 41) for further discussion;
- (b) ***Applications considered by Vetting Panel.*** The Vetting Panel will consider the applications recommended by DEVB according to the assessment

Note 38: *For a privately-owned graded historic building, the applicant should be the sole owner, co-owners or one of the co-owners authorised by all co-owners. For a government-owned declared monument or graded historic building, the applicant should be the NPO tenant which has entered into a tenancy agreement with the Government, and has obtained a charitable status under section 88 of the Inland Revenue Ordinance.*

Note 39: *For a privately-owned graded historic building, the applicant should not: (a) demolish the building in whole or part during the implementation period of the maintenance works and for a specified period (say ten years) after the completion of maintenance works; or (b) transfer the ownership of the building, save for letting out, during the specified period unless such transfer of ownership has obtained consent from the Government. For a government-owned declared monument or graded historic building, the applicant should complete the maintenance works and pay in full the costs of the maintenance works.*

Note 40: *The applicant should allow reasonable public access to the historic building for appreciation within a specified period, say ten years (for privately-owned graded historic building) or the term of the tenancy agreement (for government-owned declared monument or graded historic building), after the completion of maintenance works.*

Note 41: *The Vetting Panel comprises representatives from CHO, AMO and ArchSD.*

Management of the Financial Assistance for Maintenance Scheme on Built Heritage and two pilot funding schemes

criteria (Note 42) and prioritise the applications according to a number of other factors (Note 43);

- (c) ***Granting of approval-in-principle and engagement of consultant.*** According to the selection results of the Vetting Panel, DEVB will issue an approval-in-principle (Note 44) letter to a selected applicant. The selected applicant is required to sign an agreement with the Government and conform with the terms and conditions specified in it. Subject to the approval of DEVB, the applicant is allowed to proceed with the selection and employment of consultant according to the prescribed guidelines (Note 45) within the validity period;
- (d) ***Technical assessment and site visit.*** The appointed consultant assists the applicant to conduct technical assessment on the historic building and provide a conservation proposal. Besides, site visits to the subject historic building will be conducted by DEVB and relevant B/Ds in assessing the proposed maintenance works. Application will then be considered by DEVB and recommendations will be made to the Vetting Panel for consideration to accept the proposal; and
- (e) ***Formal approval and engagement of contractor.*** For the proposal selected by the Vetting Panel, the applicant is required to sign the undertaking and comply with conditions stipulated in it. After that, formal approval would be granted to the successful applicant by DEVB. The amount of grant approved based on the estimate in the proposal would be confirmed by DEVB at the same time. Subject to the approval of DEVB, the applicant is allowed to proceed with the selection and employment of contractor for carrying out the maintenance works.

Note 42: *According to the Guide to Application, the assessment criteria include: (a) whether there is a need for the proposed maintenance works; (b) whether the maintenance works are beneficial to the community in terms of heritage conservation; and (c) whether reasonable degree of access to the declared monuments or graded historic buildings can be allowed to public for appreciation.*

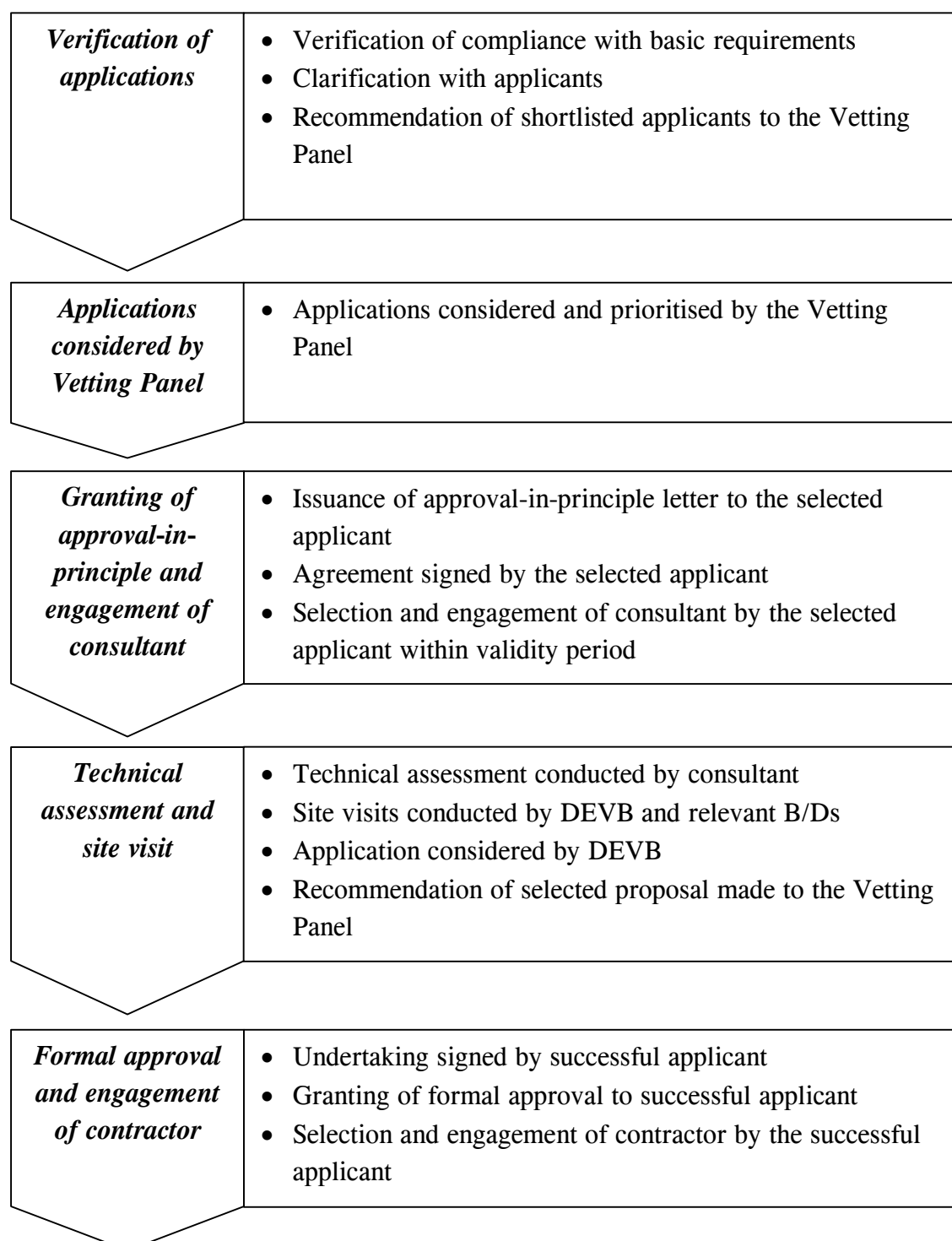
Note 43: *Other factors include the heritage value of the declared monuments or graded historic buildings, urgency for maintenance and the timing of submissions.*

Note 44: *There is a specific validity period for each approval-in-principle granted by DEVB.*

Note 45: *Applicants should follow the “Guidelines on Consultant Selection for the Maintenance Scheme on Built Heritage” issued by DEVB in engaging consultants.*

Figure 2

General procedures for processing FAS applications



Source: DEVB records

Scope for assisting applicants to submit required information and expediting the processing of FAS applications

3.3 For the 145 valid applications received during August 2008 to July 2020, Audit noted that:

- (a) 79 (54% of 145) applications had been approved by DEVB (see Table 4):
 - (i) the processing time (i.e. the duration between the date of receipt of application and date of formal approval) of 22 (28% of 79) applications was more than 2 years;
 - (ii) the case with the longest processing time lasted for more than 4 years (1,554 days). According to DEVB, this was an isolated case and the long processing time was due to special circumstances (Note 46); and
 - (iii) the processing time of the other 78 (i.e. 79 minus 1) approved applications ranged from 82 to 1,210 days (averaging 519 days); and

Note 46: *According to DEVB, the structure of the building was deemed not stable as some cracks were observed on the building wall which was also tilted. There was at the same time a heap of soil at the back of the building and hence the consultant could not ascertain the structural integrity of the aforesaid wall. Besides, the soil was stockpiled outside the lot boundary of the building and the applicant had taken a long time to confirm the ownership of the land where the soil sat before its removal. Afterwards, the consultant had taken quite some time to carry out thorough inspection and prepare the structural assessment of the building. All these needed to be carried out before formal approval was given.*

Management of the Financial Assistance for Maintenance Scheme on Built Heritage and two pilot funding schemes

Table 4

**Processing time of FAS applications
(August 2008 to July 2020)**

Processing time	Number of applications
1 year or less	30 (38%)
More than 1 year to 2 years	27 (34%)
More than 2 years to 3 years	14 (18%)
More than 3 years to 4 years	7 (9%)
More than 4 years to 5 years	1 (1%)
Total	79 (100%)

Source: Audit analysis of DEVB records

- (b) 66 (46% of 145) applications were still being processed by DEVB as of July 2020 (see Table 5):
 - (i) 28 (42% of 66) applications were pending approval-in-principle (i.e. stage one approval) from DEVB and 38 (58% of 66) applications were pending formal approval (i.e. stage two approval) from DEVB; and
 - (ii) 4 (6% of 66) applications were received some 4 to 5 years ago.

**Management of the Financial Assistance for Maintenance
Scheme on Built Heritage and two pilot funding schemes**

Table 5

**FAS applications pending formal approval
(July 2020)**

Year of application received	Number of applications		
	Pending Stage 1 approval	Pending Stage 2 approval	Total
2015-16	—	1	1 } 4 (6%)
2016-17	—	3	3 }
2017-18	2	13	15
2018-19	2	21	23
2019-20	21	—	21
2020-21 (up to July 2020)	3	—	3
Total	28	38	66

Source: Audit analysis of DEVB records

3.4 According to DEVB:

- (a) the procedures for processing FAS applications were reviewed by DEVB in December 2014 with a view to simplifying the procedures and encouraging more owners of privately-owned graded historic buildings to apply for the grants under FAS. The two-stage approval mechanism was introduced in April 2015 after the review (Note 47); and

Note 47: *According to DEVB, regarding the previous one-stage assessment process, there were concerns from private owners of graded historic buildings that they did not have any knowledge or expertise in building and construction, nor built heritage conservation. They found it difficult to fill in the application form and needed to approach conservation consultants for assistance in completing their application forms on a voluntary basis. Besides, as most of the conservation consultants provided their services on a voluntary basis, they would give low priority to follow up the comments from DEVB and ArchSD on technical issues. As a result, it delayed the commencement of the maintenance works under the project and discouraged the private owners from applying for the grant.*

- (b) for approved applications with long processing time, they were cases with matters to be resolved before formal approval was given (including arrangement of permit from relevant departments for conducting site visits to historic buildings at restricted area, clarification of ownership matters by applicants, and conducting tendering exercise for employing consultants by applicants). Applicants of most of these cases took months to years in submitting required information for approval. As a result, longer time was needed in processing the applications.

3.5 The early completion of processing of FAS applications would enable the applicants to proceed with the maintenance works promptly. In Audit's view, DEVB needs to continue to take measures to assist applicants in submission of required information and expedite the processing of FAS applications as far as practicable.

Scope for providing further guidelines on handling concurrent FAS applications in relation to a single historic building

3.6 According to the Guide to Application, an applicant may submit more than one application for each item of graded historic buildings or declared monuments concurrently (i.e. "concurrent applications" — Note 48) under FAS. Besides, according to DEVB's internal guidelines, "concurrent FAS applications" received by DEVB in relation to a single historic building or a group of historic buildings may be approved by relevant authority according to the cumulative value of the concurrent applications after consultation with the Vetting Panel.

3.7 According to DEVB, under its current practice, a single historic building can at most have 3 concurrent applications (Note 49) at any instant covering different aspects of the building. However, Audit noted that such practice for handling

Note 48: *Examples include applications for roof repair and brick wall repair in a single historic building and applications for maintenance of different structures in a group of buildings graded under the same item by AAB.*

Note 49: *According to DEVB, the quota of 3 "concurrent applications" is related to a single historic building and covers applications under DEVB's processing and approved applications with the project accounts for the maintenance works not yet finalised.*

Management of the Financial Assistance for Maintenance Scheme on Built Heritage and two pilot funding schemes

concurrent applications was neither specified in the Guide to Application nor in DEVB's internal guidelines.

3.8 In this connection, in January 2019, a LegCo Member commented that owing to the low grant ceiling of \$2 million for each successful application under FAS, some owners of privately-owned graded historic buildings might intentionally carry out the repair and maintenance works of the buildings in phases in order to obtain more subsidies under separate applications. In Audit's view, DEVB needs to specify in the Guide to Application and DEVB's internal guidelines its practice for handling concurrent FAS applications (see para. 3.7).

Maintenance works commenced long time after DEVB's formal approval

3.9 According to the Guide to Application, a grantee should commence the maintenance works within one year after formal approval of the FAS application has been obtained.

3.10 For the 79 approved FAS projects (see para. 3.3(a)), Audit noted that:

- (a) the maintenance works of 62 (78% of 79) projects had commenced (see Table 6). The time elapsed from formal approval date to commencement date of maintenance works ranged from 11 days to 3.3 years, averaging 369 days. For 25 (40% of 62) projects, the time elapsed was more than one year and up to 3.3 years, exceeding the one-year time limit in the Guide to Application; and

Table 6

**Time taken to commence maintenance works after formal approval
(August 2008 to July 2020)**

Time elapsed from formal approval date to commencement date of maintenance works	Number of projects
1 year or less	37 (60%)
More than 1 year to 2 years	18 (29%)
More than 2 years to 3 years	4 (6%)
More than 3 years to 4 years	3 (5%)
Total	62 (100%)

Source: Audit analysis of DEVB records

- (b) as of July 2020, the maintenance works of 17 (22% of 79) projects had not commenced. The time elapsed from formal approval date to July 2020 ranged from 29 to 2,261 days, averaging 560 days. For 5 (29%) of the 17 projects, the time elapsed was more than one year, exceeding the one-year time limit in the Guide to Application, as follows:
- (i) for 2 projects, the time elapsed ranged from more than 1 to 2 years; and
 - (ii) for 3 projects, the time elapsed was more than 6 years (ranging from 2,195 to 2,261 days).

3.11 In September and October 2020, DEVB informed Audit that:

- (a) of the 25 projects with time elapsed of more than one year (see para. 3.10(a)), 24 projects were approved under one-stage assessment mechanism (see Note 47 to para. 3.4(a)) prior to April 2015. For these 24 projects, selection of consultants and main contractors by tendering exercises were carried out by the applicants after formal approval was granted by DEVB, leading to commencement of maintenance works more than one year after formal approval. It was envisaged that the maintenance works of FAS projects approved under two-stage assessment mechanism

since April 2015 could be commenced one year or less from the formal approval date; and

- (b) of the 3 projects with time elapsed of more than 6 years (see para. 3.10(b)(ii)), the delay of commencement of maintenance works for 1 project was due to the cessation of public kai-to service to the building site, which was located on a remote outlying island, for some years. The relevant kai-to service had recently been resumed and the consultant could now access the site more readily and was expediting the design work so that the construction works could start as early as possible. For the other 2 projects, the delays were both due to internal affairs of the grantees, including change of committee members of the grantees. With DEVB's efforts, the issues had been resolved and the consultants of these 2 projects were expediting the design work so that the construction works could start as early as possible.

3.12 In Audit's view, DEVB needs to continue to take measures to ensure that maintenance works of approved FAS projects commence in a timely manner in accordance with the Guide to Application.

***Maintenance works completed later than
the scheduled completion dates***

3.13 According to DEVB, the Secretariat of FAS (i.e. CHO of DEVB) should monitor and evaluate the approved FAS projects from time to time. In case of failure to complete the works without any reasonable justifications or breach of any condition of the agreement and undertaking, DEVB might require the grantee to refund the whole or part of the grant. If slippage to the programme of the maintenance works is anticipated/noted (Note 50), the grantee should include in the progress reports the justifications for the slippage, the mitigation measures and the anticipated revised completion date of the maintenance works.

Note 50: *According to DEVB, the grantee is required to submit a tender report for works tender and include the commencement date and anticipated completion date of the contract works in the report. The latest anticipated completion date of contract works would also be extended due to EOT granted and reflected in the progress reports submitted quarterly by consultant.*

Management of the Financial Assistance for Maintenance Scheme on Built Heritage and two pilot funding schemes

3.14 For the 62 projects with maintenance works having commenced (see para. 3.10(a)), Audit noted that, as of July 2020, the maintenance works of 59 (95%) projects had been completed. The works of 3 (5%) projects were in progress (Note 51). Regarding the 59 completed projects, Audit noted that:

- (a) 20 (34% of 59) projects had been completed on or before the scheduled completion dates; and
- (b) 39 (66% of 59) projects were completed 4 to 578 days (averaging 88 days) later than the scheduled completion dates. Of these 39 projects with slippage:
 - (i) for 38 (97% of 39) projects, EOT had been granted for the entire period of additional time required by the contractors in completing the works; and
 - (ii) for 1 (3% of 39) project, EOT had been granted for 39% of the additional time required by the contractor in completing the works and liquidated damages had been deducted from payment to the contractor for the remaining time.

3.15 In Audit's view, DEVB needs to make continued efforts to closely monitor the progress of maintenance works of approved FAS projects with a view to ensuring that the works are completed in a timely manner.

Note 51: *For one of these projects, Audit noted that the works commenced in June 2016 and were scheduled for completion in October 2016. However, as of July 2020 (i.e. about 4 years after the scheduled completion date), the works had still not been completed. According to DEVB, this was an isolated case concerning defects of waterproofing works at the roof of the building which evolved to become disputes between the grantee and the contractor on the quality of works. The disputes were eventually resolved with the concerted efforts by the consultant and DEVB. The concerned defects would be rectified soon (there was a need to wait for dry weather before proceeding) after which the maintenance works would be completed. The slippage was well noted and reminders had been issued to both the grantee and the consultant by DEVB.*

Need to ensure that grantees comply with submission requirements

3.16 According to the Guide to Application, on accepting the grants under FAS, grantees are required to accept a number of conditions specified in the agreement signed with the Government, including:

- (a) not to demolish the buildings or transfer the ownership of the buildings without the approval of the Government for a specific period of time (usually ten years); and
- (b) to allow reasonable public access to their buildings for appreciation within an agreed period of time after the maintenance works have been completed. According to DEVB, the required public access will be subject to the agreement between the parties on a case-by-case basis.

3.17 According to the Guide to Application, upon the completion of the maintenance works, a grantee is required to submit a brief report with photographs to DEVB each year within the agreed period demonstrating that conditions under the FAS agreement of not demolishing and transferring the ownership of the building and allowing public access were complied with. Besides, CHO staff will carry out ad-hoc checks (e.g. site inspections) to ensure compliance with these conditions especially for the cases where the compliance conditions cannot be ascertained from other sources of information (e.g. final report submitted by the consultant after completion of works and brief report submitted by the grantee). The grantee is required to repay the Government the whole or part of the grant together with the administrative cost incurred at Government's discretion should the grantee breach any condition in the agreement.

3.18 Of the 59 projects with maintenance works completed (see para. 3.14), Audit selected 5 projects for examination of grantees' submission of brief reports after project works completion (see Table 7).

Table 7

Brief reports submitted by grantees after project works completion (July 2020)

Project selected	Date of project works completion	Dates of submission of brief reports	Number of brief reports submitted	Dates of reminders issued by DEVB	Number of reminders issued by DEVB
1	Oct 2011	Feb 2013 Jul 2016 Jul 2020	3	Nov 2014 May 2015 Jun 2016 Jul 2020	4
2	Jan 2015	Jul 2016 Jul 2019	2	Jun 2019	1
3	Feb 2016	No report submitted		Jun 2019	1
4	Nov 2017			Jun 2020	1
5	Dec 2018			Jun 2020	1

Source: Audit analysis of DEVB records

3.19 As shown in Table 7, Audit noted that, as of July 2020:

- (a) for 2 projects (with project works completed in 2011 and 2015 respectively), only 3 and 2 brief reports had been submitted by the grantees during the respective 9-year and 5-year periods after the completion of maintenance works. For the other 3 projects, no reports had been submitted by the grantees; and
- (b) DEVB did not issue reminders in a timely manner to those grantees which had not submitted or had delay in submitting the brief reports. For 4 projects, DEVB only issued reminders to the grantees once about 2 to 3 years after works completion or the last submission of brief report.

3.20 In Audit's view, DEVB needs to take measures to ensure that grantees submit annual brief reports in accordance with the requirements in FAS agreements.

Audit recommendations

- 3.21 **Audit has *recommended* that the Secretary for Development should:**
- (a) **continue to take measures to assist applicants in submission of required information and expedite the processing of FAS applications as far as practicable;**
 - (b) **specify in the Guide to Application and DEVB's internal guidelines DEVB's practice for handling concurrent FAS applications;**
 - (c) **continue to take measures to ensure that maintenance works of approved FAS projects commence in a timely manner in accordance with the Guide to Application;**
 - (d) **make continued efforts to closely monitor the progress of maintenance works of approved FAS projects with a view to ensuring that the works are completed in a timely manner; and**
 - (e) **take measures to ensure that grantees submit annual brief reports in accordance with the requirements in FAS agreements.**

Response from the Government

- 3.22 **The Secretary for Development agrees with the audit recommendations.**

Management of two pilot funding schemes

3.23 **FSPEP and FSTR are the two funding schemes launched by DEVB on a pilot basis in 2017. FSPEP aims to provide funding for public education, community involvement and publicity activities with a view to strengthening community awareness and knowledge of built heritage conservation, mobilising the public, private owners of historic buildings and other stakeholders to take direct and positive action to conserve and revitalise historic buildings, and enhancing public participation and increasing volunteering opportunities in heritage conservation work. FSTR aims to encourage interest in, render financial support to, and recognise quality academic**

Management of the Financial Assistance for Maintenance Scheme on Built Heritage and two pilot funding schemes

research on the theme of built heritage conservation (see para. 1.11). DEVB is responsible for monitoring the implementation of projects by grantees.

Scope for improvement in implementing the projects

3.24 As of July 2020, 3 FSPEP projects and 6 FSTR projects had been approved by DEVB (see para. 4.27). Audit selected 2 FSPEP and 2 FSTR projects for examination and noted that for a FSPEP project, the grantee was required to provide a series of workshops to secondary school students, teachers and professionals for helping communities to better understand places with heritage value. According to DEVB records, the grantee had organised six workshops under three planned activities during November 2018 to April 2019. According to the approved funding proposal, each workshop was anticipated to attract up to 30 or 40 participants. Audit noted that, of the 6 workshops:

- (a) 5 (83%) workshops had exceeded the target number of participants by 15% to 210%; and
- (b) 1 (17%) workshop fell short of the target number of participants by 62%.

According to DEVB, it had followed up with the grantee to understand the reasons for not achieving the target number of participants (see (b) above). In Audit's view, DEVB needs to make continued efforts to monitor the implementation of FSPEP and FSTR projects with a view to identifying areas for improvement.

Audit recommendation

3.25 **Audit has *recommended* that the Secretary for Development should make continued efforts to monitor the implementation of FSPEP and FSTR projects with a view to identifying areas for improvement.**

Response from the Government

3.26 The Secretary for Development agrees with the audit recommendation.

PART 4: OTHER MANAGEMENT ISSUES

4.1 This PART examines other management issues, focusing on:

- (a) public education, publicity and experience sharing (paras. 4.2 to 4.10);
- (b) declaration of interests (paras. 4.11 to 4.16); and
- (c) way forward (paras. 4.17 to 4.30).

Public education, publicity and experience sharing

4.2 According to DEVB, it has launched various public education and publicity events on heritage conservation targeting different sectors of the community since 2008 according to its annual publicity plan (Note 52). For the five years from 2015-16 to 2019-20, DEVB had organised 21 public education and publicity events (e.g. heritage fiesta, open day and roving exhibition) wholly or partially related to Revitalisation Scheme and FAS, and promoted these events through various channels (e.g. social media, newsletter, newspaper, magazine and radio).

4.3 For Revitalisation Scheme, guided tours and publicity events (e.g. open day) were organised by NPOs in promoting the historic buildings under their projects.

Scope for improvement in organising guided tours by NPOs under Revitalisation Scheme

4.4 According to the tenancy agreements of projects under Revitalisation Scheme, NPOs are required to organise guided tours of the historic buildings under the Scheme. Audit's examination found scope for improvement in guided tours organised by NPOs, as follows:

Note 52: *Every year, DEVB formulates a publicity plan with different programmes, themes and target groups.*

Other management issues

- (a) ***Some projects with decreasing number of guided tour participants.*** Guided tours should be organised by NPOs according to the frequencies specified in the tenancy agreements. For 7 projects which had operated for more than 3 years as of December 2019, regarding the number of guided tour participants for the period from June 2016 to May 2019, Audit noted that while the number of participants for 3 (43%) projects had increased by 8% to 49% (averaging 26%), the number of participants for 4 (57%) projects had dropped by 3% to 39% (averaging 22%). The number of participants for 3 of the 4 projects dropped continuously during the period. In September 2020, DEVB informed Audit that:
- (i) it was normal for the drop in the number of participants of guided tours of a project over the years as people would not normally wish to join such tours again if they had already joined before; and
 - (ii) notwithstanding that there was a drop in the number of participants of guided tours for some projects during the period from June 2016 to May 2019, the number of participants of some projects had shown an increase over the same period; and
- (b) ***Language requirements for guided tours not specified in some tenancy agreements.*** According to tenancy agreements of 12 NPOs, 2 (17%) NPOs should provide guided tours in Cantonese, English and Putonghua. However, for the remaining 10 (83%) NPOs, the languages of guided tours were not specified in the tenancy agreements. According to DEVB, NPOs are allowed flexibility in providing guided tours in language fitting the need of the participants, which might be different.

4.5 In Audit's view, regarding the provision of guided tours by NPOs under Revitalisation Scheme, DEVB needs to:

- (a) keep under review the issue of decreasing number of guided tour participants for some projects under Revitalisation Scheme; and
- (b) consider setting out the language requirements as appropriate (e.g. providing guided tours in languages fitting the need of the participants) for guided tours in all tenancy agreements.

Scope for organising more experience-sharing sessions among NPOs under Revitalisation Scheme

4.6 NPOs of the existing projects were invited to share their experience upon the launch of a new batch of projects under Revitalisation Scheme to help potential applicants to understand more about the revitalisation process (Note 53). According to DEVB, a total of 13 experience-sharing sessions (e.g. workshops and brainstorming retreat sessions) were organised by DEVB during the 12 years from the launch of Revitalisation Scheme in 2008 to 2020 (see Table 8). For these 12 years, Audit noted that experience-sharing sessions were held in 7 years. No experience-sharing sessions were held in 5 years (i.e. 2013, 2015, 2016, 2018 and 2019) without a new batch of projects launched.

Note 53: *The experience-sharing sessions were held by DEVB to brief participants on how the application form was to be completed, answer queries from applicants and illustrate technical problems that might be encountered by NPOs in revitalising the historic buildings and give suggestions of the possible measures in tackling them.*

Table 8

**Experience-sharing sessions held by DEVB
(May 2009 to September 2020)**

Year	Number of sessions held
2009 (Note)	2
2010	1
2011	1
2012	1
2013	—
2014	1
2015	—
2016	—
2017	2
2018	—
2019	—
2020 (up to September)	5
Total	13

Source: DEVB records

Note: Revitalisation Scheme was launched in February 2008.

4.7 According to DEVB:

- (a) through the experience-sharing sessions, it had obtained valuable feedback for the implementation of Revitalisation Scheme;

- (b) it had incorporated good practices (Note 54) into the latest Guide to Application for each batch of projects under Revitalisation Scheme; and
- (c) it had incorporated the experience of NPOs and the consultant architects of eight projects (Note 55) under Revitalisation Scheme in carrying out alteration and addition works to historic buildings in the past few years in the “Practice Guidebook for Adaptive Re-use and Alteration and Addition Works to Heritage Building 2012” (Practice Guidebook — Note 56), with updates by phases since 2016.

4.8 As experience-sharing sessions were held upon the launch of a new batch of projects under Revitalisation Scheme, no such sessions were held in 5 years since launching of the Scheme in 2008 (see para. 4.6). Given the valuable experience gained by DEVB and NPOs in experience-sharing sessions (see para. 4.7), in Audit’s view, there is merit for DEVB to organise more experience-sharing sessions when needed through suitable means (e.g. face-to-face seminars or webinars), with a view to further improving the implementation of Revitalisation Scheme.

Note 54: *Good practices include enhancement and elaboration of the vetting criteria (including meaning of social enterprise and criterion of management capability) in assessing applications received, allowing more flexibility to NPOs in sub-licensing, outsourcing and hiring of services, requiring NPOs to designate part of the historic buildings they operate as exhibition/interpretation area and specify in the application form the minimum number of guided tours to be provided and the routes of the tours, allowing more time for submitting applications and requiring NPOs to set up special purpose companies with charitable status for the projects concerned to ensure clear and separate accounts of the projects, etc.*

Note 55: *They were projects of Lui Seng Chun, Old Tai O Police Station, Fong Yuen Study Hall, Old Tai Po Police Station, Former Lai Chi Kok Hospital, Stone Houses, Mei Ho House and Haw Par Mansion.*

Note 56: *The Practice Guidebook was published by the Buildings Department to provide design guidelines in terms of straight-forward practical solutions and alternative approach that may be adopted for compliance with building safety and health requirements under the Buildings Ordinance, so as to facilitate the planning and design of adaptive re-use of and alteration and addition works to heritage buildings, including construction safety. According to DEVB, the first, second and third phase updates of the Practice Guidebook were promulgated in July 2016, December 2017 and January 2019 respectively with a view to providing clearer and more concrete references to built heritage practitioners and private owners of historic buildings.*

Audit recommendations

- 4.9 **Audit has *recommended* that the Secretary for Development should:**
- (a) **regarding the provision of guided tours organised by NPOs under Revitalisation Scheme:**
 - (i) **keep under review the issue of decreasing number of guided tour participants for some projects under the Scheme; and**
 - (ii) **consider setting out the language requirements as appropriate (e.g. providing guided tours in languages fitting the need of the participants) for guided tours in all tenancy agreements; and**
 - (b) **organise more experience-sharing sessions when needed through suitable means (e.g. face-to-face seminars or webinars), with a view to further improving the implementation of Revitalisation Scheme.**

Response from the Government

- 4.10 The Secretary for Development agrees with the audit recommendations.

Declaration of interests

- 4.11 Project applications for Revitalisation Scheme, FSPEP and FSTR are vetted by ACBHC (Note 57) and FAS applications are vetted by the Vetting Panel (Note 58). ACBHC adopted a two-tier reporting system for declaration of interests. Under the two-tier reporting system, all members of the committee should:

Note 57: *Project applications for Revitalisation Scheme were vetted by ACRHB before May 2016.*

Note 58: *According to DEVB, members of the Vetting Panel are civil servants who are required to observe government requirements relating to conflict of interests. They should make declarations to confirm that they have no conflict of interests in each application vetting exercise.*

- (a) disclose their general pecuniary interests on appointment and annually thereafter to the committee. To facilitate the members to declare their interests, members are required to complete and return a standard declaration form to the Secretariat (i.e. CHO). A register of members' interests shall be kept by the secretary of the committee, which should be made available for inspection on request by members of the public; and
- (b) report conflict of interests as and when it arises at meetings (Note 59).

Room for improving practices on declaration of interests

4.12 According to ACBHC papers, the chairman and members shall register in writing to the secretary of the committee their personal interests, direct or indirect, pecuniary or otherwise, when they first join the advisory committee, and annually thereafter.

4.13 Audit examined the records of declaration of interests by ACBHC members (including the chairman) from May 2016 to May 2020 and found that:

- (a) DEVB did not request declaration of general pecuniary interests from the members of ACBHC when they were appointed as members of the committee. Instead, members were requested to declare their interests at the first committee meeting (for the term of office from May 2016 to May 2018) or 6 days before the first committee meeting (for the term of office from May 2018 to May 2020), which were 1 to 2 months after the date of appointment. In addition, no time limit was set by DEVB for the return of the declaration forms. Audit noted that some members submitted their declaration forms long after DEVB requested them to do so, as follows:
 - (i) for the term of office from May 2016 to May 2018, 3 members submitted their declaration forms on the day when DEVB made the

Note 59: *If a member (including the chairman) has any direct personal or pecuniary interest in any matter under consideration by the committee, he/she must, as soon as practicable after he/she has become aware of it, disclose to the chairman (or the committee) prior to discussion of the matter.*

Other management issues

request and 15 members did so 2 to 355 days after the request by DEVB (averaging 94 days). The longest time of 355 days involved 2 members; and

(ii) for the term of office from May 2018 to May 2020, 2 members submitted their declaration forms on the day when DEVB made the request and 20 members did so 3 to 114 days after the request by DEVB (averaging 31 days). The longest time of 114 days involved 1 member; and

(b) DEVB had not requested any members of ACBHC to make annual declaration of interests in the second year of the terms of office from May 2016 to May 2018 and May 2018 to May 2020. In the event, no annual declaration forms were submitted by members.

4.14 In September and October 2020, DEVB informed Audit that:

(a) it was DEVB's practice to have the new members signing the declaration forms on or after the first advisory committee meeting. Given that the new members had no idea of the requirements and procedures on the declaration of pecuniary interests upon appointment, DEVB would explain to them details of such requirement during the first meeting of the advisory committee (normally one month after appointment). At the meeting, members were asked to complete and return the declaration form to the Secretariat as soon as possible after the meeting and DEVB staff would then keep track of the return of the forms and send reminders to those who had not submitted the forms. Normally, there was no issue for discussion before the first advisory committee meeting and thus no conflict of interests of members would arise; and

(b) for the term of office from May 2020 to May 2022, in early September 2020, DEVB requested the members to declare their interests by 15 September 2020. As at 24 September 2020, of the 22 members, 9 (41%) members had submitted their declaration forms. The date of the first meeting had yet to be fixed.

Audit recommendation

4.15 **Audit has *recommended* that the Secretary for Development should take measures to ensure that ACBHC members declare interests on appointment and annually thereafter.**

Response from the Government

4.16 The Secretary for Development agrees with the audit recommendation.

Way forward

4.17 Audit noted that there was scope for reviewing Revitalisation Scheme (see paras. 4.18 to 4.21), FAS (see paras. 4.22 to 4.25) and the two pilot funding schemes (see paras. 4.26 to 4.28).

Scope for reviewing Revitalisation Scheme

4.18 Revitalisation Scheme has been launched for more than 12 years since 2008 and involved a total earmarked funding of \$2.4 billion (see para. 1.5). As of July 2020, a total of 19 projects had been selected under 5 batches of the Scheme. Apart from the issues in PART 2 (including processing of applications and monitoring of project implementation and performance), the following issues also merit DEVB's attention and action:

- (a) ***Cessation of two projects.*** Of the 12 projects under Revitalisation Scheme which had been completed and commenced operation, 2 projects ceased operation with effect from January 2017 and June 2020 respectively (see para. 1.8(a)). Audit noted that, of the 2 projects:
 - (i) one project had operated for some 3 years and ceased operation in January 2017 due to operational difficulties. Audit noted that the number of visitors failed to meet the original targets of the project during the 3 years of operation, being 31% to 94% below the

Other management issues

original targets (Note 60). According to DEVB, the project was particularly challenging given its remote location, geographical limitation of the historic building and business nature of the project, and the operating conditions of the project were difficult, which had resulted in low visitor numbers. The historic building was subsequently included in Batch VI of Revitalisation Scheme in December 2019 again and application closed in September 2020; and

- (ii) another project had operated for 10 years and ceased operation in June 2020. According to DEVB, the NPO had decided to discontinue the operation after a comprehensive analysis. The historic building was subsequently included in Batch VI of Revitalisation Scheme in August 2020 and application will close in December 2020 (see para. 1.7); and

- (b) ***No proposal selected for a historic building included in two consecutive batches of Revitalisation Scheme.*** A historic building had been included in Revitalisation Scheme twice (i.e. Batches III and IV) with 5 and 11 applications received by DEVB respectively. However, none of the applications had been selected after the assessment process. According to DEVB, this was due to the fact that the proposals received could not meet the high threshold set by the advisory committee. In the event, the historic building was included in Batch VI of Revitalisation Scheme in December 2019 again and application closed in September 2020.

It is yet to know whether there will be successful projects for the abovementioned three historic buildings, but a long time might be needed for any projects to commence operation as only projects up to Batch III (launched in October 2011) had commenced operation as of July 2020 (see para 1.8).

4.19 At an ACBHC meeting in January 2017, in discussing the failure experience of the project which ceased operation in January 2017 (see para. 4.18(a)(i)), a member commented that with a view to preventing recurrence of

Note 60: *The original target number of visitors for 2013-14 to 2015-16 were 6,900, 30,800 and 42,400 respectively, while the actual visitor numbers were 4,741, 4,578 and 2,680 respectively.*

similar outcome, a review of Revitalisation Scheme might be necessary to see if anything could be done to facilitate the project operation of other NPOs and address their problems. Besides, the chairman commented that as Revitalisation Scheme had been launched for some years, it would be an opportune time to conduct a review of the Scheme.

4.20 In September and October 2020, DEVB informed Audit that:

Achievements of Revitalisation Scheme

- (a) pursuant to the heritage conservation policy promulgated in 2007 (see para. 1.3), one of the initiatives implemented was the flagship programme of Revitalisation Scheme. Of the 12 completed projects under the Scheme, 5 projects had won UNESCO Asia-Pacific Awards for Cultural Heritage Conservation (see para. 1.9);
- (b) under the Scheme, DEVB adopted a new approach of public-private partnership, tapping on the wisdom and collaboration of NPOs and the community in giving new life to old historic buildings. It was the endless source of creative ideas and entrepreneurial spirits of NPOs which had provided such amazing adaptive re-uses;
- (c) through projects under the Scheme, Hong Kong people had the chance to visit and appreciate the historic buildings which had previously been in dilapidated condition. Besides, old communities had been revived, local economy had been stimulated and more local employment opportunities had been created. All in all, the projects had not only brought new life to historic buildings, but also various social benefits to the society;

Review of Revitalisation Scheme

- (d) from time to time, reviews were conducted by DEVB on individual projects based on mid-year progress reports and annual reports received from NPOs, site visits conducted by CHO and upon renewal of tenancy agreements with NPOs. In particular, a comprehensive review had been conducted by DEVB in March 2009 after the first batch of projects under Revitalisation Scheme. Under this review, views had been collected from various stakeholders, including potential applicants and AAB members; and

Other management issues

- (e) a brainstorming retreat was organised for ACBHC members in March 2017 to review the whole operation of Revitalisation Scheme. At the retreat, two NPOs were invited to brief members of the operation of their projects, including among others, the operational challenges and difficulties encountered by them. Subsequent to the review, DEVB had continued to receive feedback and views from various stakeholders, including NPOs and members of the advisory committee.

4.21 In view of the audit findings and recommendations in PART 2 and various issues arising in implementing the Scheme in recent years (e.g. cessation of projects and no proposal selected for an historic building included in 2 consecutive batches — see para. 4.18), in Audit's view, DEVB needs to continue to keep under review the implementation of Revitalisation Scheme, taking into account the related audit findings and recommendations in this Audit Report and its experience and NPOs' difficulties in implementing projects under the Scheme.

Scope for reviewing FAS

4.22 FAS was launched in 2008 as one of the initiatives adopted by the Government in providing financial assistance to private owners of graded historic buildings to carry out maintenance works themselves, so as to extend the lifespan of historic buildings. DEVB has launched FAS for more than 12 years and a total of 157 applications had been received from private owners or NPO tenants of historic buildings as of July 2020.

4.23 In conducting the policy review on the conservation of built heritage in 2014 (see para. 1.4), a public consultation was conducted by AAB in June 2014. It aimed to, among others, address some of the public concerns on FAS, including:

- (a) whether the financial assistance provided under FAS is inadequate and unattractive;
- (b) whether the amount of the grant under FAS should be determined by the grading of the historic buildings; and
- (c) whether the buildings have to be open to the public.

4.24 Under the policy review, AAB suggested that the Government should provide more attractive economic incentives (e.g. financial assistance) to facilitate private owners to carry out maintenance works in a timely manner and protect historic buildings. In this connection, after consulting the advisory committee, the ceiling of the grant under FAS for each successful application has been increased and the scope of the Scheme has been expanded to cover the government-owned declared monuments and graded historic buildings leased to NPOs since November 2016 (see para. 1.10).

4.25 In January 2019, a LegCo Member expressed concerns about FAS. An area of concern was that the ceiling of grant at \$2 million for each successful application was still low which warranted a review of the Scheme by DEVB. In view of the concerns and the areas for improvement on FAS identified by Audit, DEVB needs to keep under review the implementation of FAS, taking into account its experience and the related audit findings and recommendations in this Audit Report.

Scope for reviewing the two pilot funding schemes

4.26 According to DEVB, FSPEP and FSTR were launched on a pilot basis in 2017. To determine whether to have the pilot funding schemes regularised after the first-round project period (i.e. 24 months), DEVB would evaluate the effectiveness of the Schemes by reviewing feedbacks from the research sector and the public, as well as collaboration between the funded institutes, the engaged owners of historic buildings and other stakeholders (e.g. Friends of Heritage engaged in the FSPEP project).

4.27 A total of 3 FSPEP projects and 6 FSTR projects were approved by DEVB in March 2018. As it transpired, only 2 (67%) FSPEP projects and 1 (17%) FSTR project had been completed as of July 2020. According to DEVB, owing to the social unrest in 2019 and the outbreak of COVID-19 in 2020, DEVB granted EOT (ranging from 3.5 to 12 months) to 3 (100%) FSPEP projects and 5 (83%) FSTR projects (one project was completed as scheduled). After taking into account the EOT granted, for the projects not yet completed as of July 2020, the revised target completion dates were April 2021 for one FSPEP project and between September 2020 and April 2021 for five FSTR projects.

Other management issues

4.28 In Audit's view, DEVB needs to keep track of the progress of the projects yet to be completed under FSPEP and FSTR and kick start the review of these two pilot funding schemes for mapping out the way forward as soon as practicable.

Audit recommendations

4.29 **Audit has *recommended* that the Secretary for Development should:**

- (a) **continue to keep under review the implementation of Revitalisation Scheme, taking into account the related audit findings and recommendations in this Audit Report and DEVB's experience and NPOs' difficulties in implementing projects under the Scheme;**
- (b) **keep under review the implementation of FAS, taking into account DEVB's experience and the related audit findings and recommendations in this Audit Report; and**
- (c) **keep track of the progress of the projects yet to be completed under FSPEP and FSTR and kick start the review of these two pilot funding schemes for mapping out the way forward as soon as practicable.**

Response from the Government

4.30 The Secretary for Development agrees with the audit recommendations.

**Selected projects under Revitalisation Scheme
(July 2020)**

No.	Building	Usage	Operation commencement date
Batch I buildings (launched in February 2008)			
1	Former North Kowloon Magistracy in Sham Shui Po (Grade 2 building) (Received UNESCO Award (Honourable Mention) in 2011)	Art and design college	September 2010 (ceased operation in June 2020)
2	Old Tai O Police Station in Tai O (Grade 2 building) (Received UNESCO Award of Merit in 2013)	Hotel	February 2012
3	Lui Seng Chun in Mong Kok (Grade 1 building)	Chinese medicine and healthcare centre	April 2012
4	Fong Yuen Study Hall in Ma Wan (Grade 3 building)	Cultural centre cum museum	March 2013 (ceased operation in January 2017)
5	Mei Ho House in Shek Kip Mei (Grade 2 building) (Received UNESCO Award (Honourable Mention) in 2015)	Hostel	December 2013
6	Former Lai Chi Kok Hospital in Lai Chi Kok (Grade 3 building)	Cultural centre	June 2014 (Note)

Appendix A
(Cont'd)
(paras. 1.7 to 1.9 refer)

No.	Building	Usage	Operation commencement date
Batch II buildings (launched in August 2009)			
7	Stone Houses in Kowloon City (Grade 3 building)	Theme cafeteria	October 2015
8	Old Tai Po Police Station in Tai Po (Grade 1 building) (Received UNESCO Award (Honourable Mention) in 2016)	Centre for promoting sustainable living	November 2015
9	Blue House Cluster in Wan Chai (one Grade 1 and one Grade 3 buildings) (Received UNESCO Award of Excellence in 2017)	Multi-functional service complex	July 2017
Batch III buildings (launched in October 2011)			
10	Former Fanling Magistracy in Fanling (Grade 3 building)	Youth leadership development centre	September 2018
11	Bridges Street Market in Central (Grade 3 building)	News museum	December 2018
12	Haw Par Mansion in Causeway Bay (Grade 1 building)	Music school	April 2019
Batch IV buildings (launched in December 2013)			
13	No. 12 School Street in Causeway Bay (Grade 3 building)	Fire dragon heritage centre	At construction stage and target operation commencement date not yet determined
14	Lady Ho Tung Welfare Centre in Sheung Shui (Grade 2 building)	Local ecology discovery centre	
15	Old Dairy Farm Senior Staff Quarters in Pok Fu Lam (Grade 1 building)	Living museum	

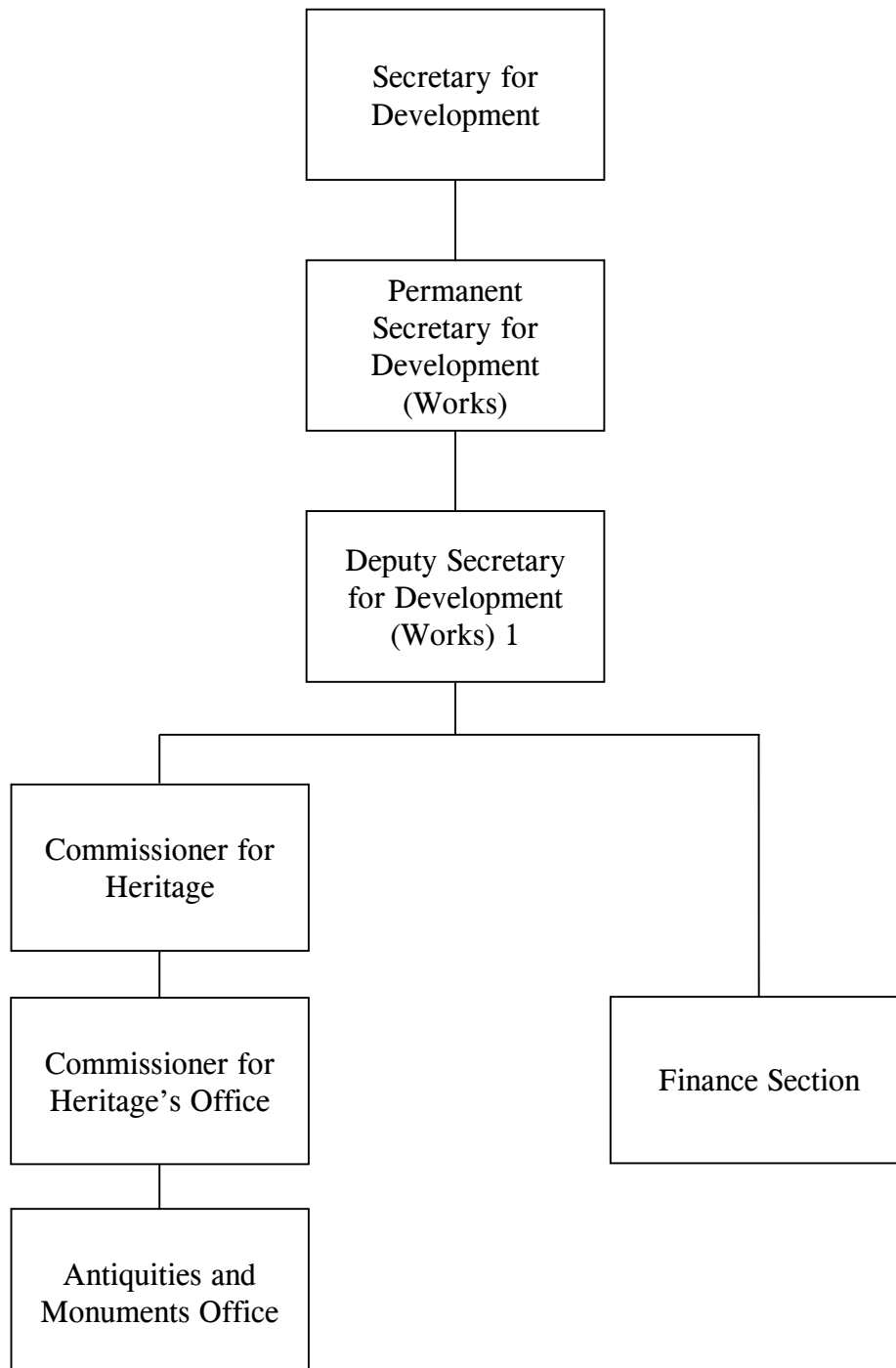
Appendix A
(Cont'd)
(paras. 1.7 to 1.9 refer)

No.	Building	Usage	Operation commencement date
Batch V buildings (launched in November 2016)			
16	Roberts Block, Old Victoria Barracks in Central (Grade 1 building)	Creative arts and play therapy centre	At planning stage and target operation commencement date not yet determined
17	Luen Wo Market in Fanling (Grade 3 building)	Community stalls	
18	Former Lau Fau Shan Police Station in Yuen Long (Grade 3 building)	Guide dogs academy	
19	Watervale House, Former Gordon Hard Camp in Tuen Mun (Grade 2 building)	Centre for promoting positive lifestyle	

Source: DEVB records

Note: The project had two phases. The date refers to the operation commencement date of second phase.

**Development Bureau:
Organisation chart (extract)
(31 July 2020)**



Source: DEVB records

Acronyms and abbreviations

AAB	Antiquities Advisory Board
ACBHC	Advisory Committee on Built Heritage Conservation
ACRHB	Advisory Committee on Revitalisation of Historic Buildings
AMO	Antiquities and Monuments Office
APE	Approved project estimate
ArchSD	Architectural Services Department
Audit	Audit Commission
B/Ds	Government bureaux/departments
CHO	Commissioner for Heritage's Office
DEVB	Development Bureau
EOT	Extension of time
FAS	Financial Assistance for Maintenance Scheme on Built Heritage
FSPEP	Funding Scheme for Public Engagement Projects on Built Heritage Conservation
FSTR	Funding Scheme for Thematic Research on Built Heritage Conservation
GRA	General Revenue Account
LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council
NPOs	Non-profit-making organisations
Revitalisation Scheme	Revitalising Historic Buildings Through Partnership Scheme
UNESCO	United Nations Educational, Scientific and Cultural Organization