

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

Executive Summary

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

Executive Summary

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).

Executive Summary

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

Executive Summary

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).

Executive Summary

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).

Executive Summary

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).

Executive Summary

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));

Executive Summary

- (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)).

Executive Summary

Response from the Government

17. The Secretary for Development agrees with the audit recommendations.