

YOUTH HOSTELS CONSTRUCTED WITH GOVERNMENT FUNDING

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1. In his important speech delivered on 1 July 2022, President Xi Jinping remarked that “Hong Kong will prosper only when its young people thrive”. According to the Government, it has all along attached great importance to youth development. In the 2011-12 Policy Address, the Chief Executive of the Hong Kong Special Administrative Region of the People’s Republic of China announced the Youth Hostel Scheme (YHS) with the objectives to unleash the potential of under-utilised sites held by non-governmental organisations (NGOs) by constructing youth hostels on these sites, to meet the aspirations of some working youths in having their own living space and to enable young people to accumulate savings for pursuing their aspirations in personal development. The Home and Youth Affairs Bureau (HYAB) is responsible, amongst other duties, for overseeing NGOs’ development and management of youth hostels constructed with Government funding.

2. For the construction of youth hostels, the Government would provide the full capital cost for NGOs to construct youth hostels on sites held by them and funding would be provided under the Capital Works Reserve Fund (CWRF) for NGOs to carry out pre-construction activities and construction works. As of December 2025, seven youth hostels (Hostels A to G, each managed by NGOs A to G respectively) had been/would be fully funded by the Government for construction, giving rise to a total of 3,444 hostel places in 2,877 hostel units (i.e. hostel rooms). The total approved project estimates under CWRF for the construction of the seven youth hostels amounted to \$3,155.58 million.

3. NGOs operate the youth hostels on a self-financing basis. They are responsible for the recurrent expenditure relating to the operation and maintenance of the youth hostels. An NGO will enter into a Grant and Operation Agreement (GOA) with the Government as represented by HYAB. The GOA sets out the framework within which the NGO will operate the youth hostel in line with the Government policy objectives. The NGO is also required to separately enter into tenancy agreements with individual tenants. The Audit Commission (Audit) has recently

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conducted a review to examine HYAB's work in the development and management of youth hostels constructed with Government funding.

Provision and construction of youth hostels

4. **Target number of hostel units not met.** In July 2012, the Government informed the Legislative Council (LegCo) that, depending on the implementation ability of NGOs, the target was to provide a first batch of 3,000 units of accommodation. As of December 2025 (more than 13 years since 2012), only 1,326 hostel units were completed and in operation and 2,877 hostel units would be provided in the seven youth hostels constructed/to be constructed with Government funding (paras. 2.2 and 2.3).

5. **Long time taken to deliver youth hostel projects.** In February 2013, the then Home Affairs Bureau (HAB) informed LegCo that it planned to start with two relatively more mature youth hostel projects (i.e. Hostels A and E) on a pilot basis and, if the projects proceeded smoothly, it was expected that the construction of the two hostels would be completed by 2016. In February 2016, the then HAB informed LegCo of the expected completion dates of Hostels A to E, which ranged from mid-2018 to end-2020. As of December 2025, the time required to complete the construction of five youth hostels (i.e. Hostels A to E) was 3 to 11 years longer than their respective original expected completion dates, or up to 2.5 years longer than their respective revised expected completion dates as stated in the concerned LegCo Finance Committee paper when funding approval for the construction works was sought. On the other hand, for Hostels F and G, HYAB had not yet sought funding approval for the construction works and specified the completion timeframe (paras. 2.5 to 2.7).

6. **Construction of Hostel A.** The site for Hostel A is located in Tai Po and was previously occupied by an old building accommodating a youth centre managed by NGO A (para. 2.14). Audit examination found that:

- (a) **Long time taken to finalise GOA.** According to the then HAB, NGO A would be governed by a GOA and a land lease (governing issues related to the land use for hostel purposes). In June 2016, NGO A invited tenders for the demolition works of the old building occupying the concerned site and planned to award the concerned works contract in July 2016. As the

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GOA had not been signed, the then HAB informed NGO A in December 2016 that no reimbursement of the cost for any works would be made to the NGO unless and until the GOA was signed and the relevant land lease was modified to accommodate a youth hostel. Acknowledging the commercial risk involved, NGO A awarded the demolition works contract in order to avoid escalation in project cost and the need for re-tendering. The works were commenced five months later than the original planned commencement date of July 2016. In April 2017, the Lands Department asked for NGO A's acceptance of the terms of the lease modification by late April 2017. From April to July 2017, NGO A requested for extensions of the reply deadline on four occasions as the NGO was still liaising with the then HAB on some fundamental principles of the GOA. It was not until February 2018 that the then HAB signed a GOA with NGO A and the relevant lease modification was completed (paras. 2.15 and 2.16); and

- (b) ***Delay in finalising project account for Hostel A.*** According to Financial Circular No. 7/2017 "Capital Works Programme", the concerned Directors of Bureaux and works directors should finalise project accounts as soon as possible and in any event no later than three years after commissioning of the facilities. While Hostel A commenced operation in March 2020, the project account had not yet been finalised as of mid-March 2026, representing a delay of 3 years (paras. 2.22 and 2.23).

7. ***Construction of Hostel E.*** The site for Hostel E is located in Sheung Wan and was occupied by a vacant school previously operated by NGO E. Adjacent to the site is a monument (also managed by NGO E) declared under the Antiquities and Monuments Ordinance (Cap. 53) (para. 2.24). Audit examination found that:

- (a) ***Long time taken to complete the pre-construction activities for Hostel E.*** In 2013, the then HAB expected that, if the project proceeded smoothly, the construction of Hostel E would be completed within 3 years by 2016. However, Audit noted that the then HAB and NGO E had taken about 8 years from 2013 to 2021 for completing the necessary pre-construction activities for Hostel E, including appointment of consultant for technical feasibility studies, consultations with the district council concerned and the Antiquities Advisory Board, proposed rezoning of the concerned site and amendments to an outline zoning plan, seeking planning permission,

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conduct of detailed design and various surveys, and seeking funding approval (para. 2.26); and

- (b) *Need to closely monitor the works progress of Hostel E.* In September 2024, the foundation works for Hostel E commenced with the target completion date of November 2025. However, as of December 2025, the foundation works were still in progress, and NGO E expected that the foundation works would be completed in April 2026 and the main works for Hostel E would commence in the same month. According to HYAB, Hostel E would be completed in 2027 (para. 2.34).

8. *Some furniture and equipment (F&E) items for Hostel A procured at a relatively high cost.* Based on the information provided by NGO A to the then HAB, Audit found that some F&E items for Hostel A were procured at a relatively high cost. For example, NGO A procured 78 thermo ventilators for Hostel A under a contract awarded in January 2020 at \$903,200, comprising the supply, delivery and installation fee (\$733,200) for 78 thermo ventilators (i.e. \$9,400 per ventilator) and a lump-sum fee (\$170,000) for the related preparation works and miscellaneous cost. In this regard, Audit research found that the retail price for the supply, delivery and installation of a thermo ventilator of the same model was about \$2,300 in December 2016 and about \$1,900 in January 2021 (para. 2.40).

9. According to NGO A, the procurement for thermo ventilators was a turnkey supply, delivery and installation package, and the average unit price in the procurement contract included multiple additional cost elements (e.g. product cost, installation labour, delivery, insurance and site protection). The price of a thermo ventilator for a newly built construction site was higher than the retail price due to several key factors, including the specific qualifications for installation workers, insurance cost, the 21-day timeframe for the supply and installation of the thermo ventilators to facilitate the commencement of operation of Hostel A (that had been postponed from the expected commissioning date) and the uncertainty created by the black-clad violence in 2019. While noting NGO A's explanations, Audit found room for improvement (see paras. 12 and 13) in its procurement procedures (paras. 2.41 and 2.46).

10. *Some F&E items procured at a higher cost under a separate F&E contract.* Audit examination found that:

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- (a) the main works contract awarded by NGO A to a contractor (Contractor A) in May 2018 had included the procurement of some F&E items for hostel units in Hostel A at \$886,508. In October 2019, NGO A omitted the procurement of these F&E items from the main works contract and procured them under a separate tender exercise. After tender assessments, in January 2020, NGO A awarded the F&E contract to Contractor A at \$3,506,546 (para. 2.42); and
- (b) Audit selected some items procured under both contracts for examination and found that the average cost of procuring some F&E items through the F&E contract in January 2020 was higher than the unit rate stated in the main works contract in May 2018 (para. 2.44).

11. According to NGO A, there was a need to further revise the design and dimensions of some F&E items taking into account the latest design of hostel units in Hostel A. The main works contract for Hostel A encountered budgetary constraints due to emergence of design changes and adjustments on the main works. The F&E items were omitted from the main works contract and procured under a separate contract with a view to avoiding exceedance of the main works budget. The F&E contract was awarded when anti-government black-clad violence was at its peak, during which the widespread disruption inevitably constrained the normal conduct of the tender exercise and induced upward pressure on pricing. Different from the main works contract, the average unit price in the new F&E contract also included multiple additional cost elements (e.g. product cost, installation labour, delivery, insurance and site protection). To facilitate the commencement of operation of Hostel A (that had been postponed from the expected commissioning date), less than three months were available when the F&E were procured. While noting NGO A's explanations, Audit found room for improvement (see paras. 12 and 13) in its procurement procedures (paras. 2.43 and 2.46).

12. *Limited number of potential suppliers invited to submit tenders.* According to HYAB guidelines, emphasis should be placed on the promotion of a level-playing field and competitive bidding (para. 2.38(e)). Audit examination found that:

- (a) in September 2019, NGO A invited tenders from 7 potential suppliers for the supply, delivery and installation of thermo ventilators for Hostel A (see para. 8). In October 2019, NGO A also invited tenders from 10 potential

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suppliers (including the 7 potential suppliers for thermo ventilators) for the supply, delivery and installation of F&E items for hostel units (see para. 10(a)). However, the reasons for selecting the potential suppliers to submit tenders were not documented in the concerned tender reports prepared by NGO A (para. 2.48); and

- (b) according to NGO A's procurement procedures of September 2025, with full justifications and approval from the appropriate authority in the NGO, restricted tendering may be conducted by inviting a small number of potential suppliers to submit tenders in a tender exercise. To ensure fair and competitive bidding and given the large number of General Building Contractors and Minor Works Contractors registered under the Buildings Ordinance (Cap. 123) available, there are merits for HYAB to request NGOs to take measures to enhance competition as far as possible (e.g. increasing the number of potential suppliers) when there is a need to conduct restricted tendering (para. 2.50).

13. ***Scope for improvement in NGOs' procurement procedures.*** According to HYAB guidelines, an NGO should invite tenders making references to practices in the Government. With reference to the Stores and Procurement Regulations (SPRs) issued by the Financial Services and the Treasury Bureau, Audit examination found room for improvement in NGOs' procurement procedures. For example, according to SPRs, when seeking approval to adopt restricted tendering procedures, if a shortlist of contractors from whom tenders are to be invited is recommended, government bureaux/departments should explain how the shortlist is drawn up, elaborating specifically on the criteria used for the shortlisting, and the professional capability and experience of all the contractors considered, including those not shortlisted. Audit noted that NGO A's procurement procedures did not request the originating officer to explain the rationale in drawing up a shortlist for restricted tendering (paras. 2.51 and 2.52).

14. ***Need to ensure NGOs' adherence to frugality and environmentally-friendly principles in design and choice of materials for youth hostels.*** According to HYAB guidelines, the design and choice of materials for a youth hostel should be frugal and environmentally friendly, and each hostel unit may have an en-suite bathroom with simple and basic furniture. Audit found significant variation in the F&E provision between Hostels A and B, and some F&E items were procured only for Hostel A (e.g. thermo ventilators) (paras. 2.38 and 2.54).

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15. *Some F&E items not installed due to safety or design issues.* Under the F&E contract awarded in January 2020 (see para. 10(a)), Contractor A was required to supply and install various F&E items at hostel units in Hostel A in accordance with the project specifications. According to NGO A, the specifications and requirements of F&E items under this contract were enhanced based on review of mock-up floors (paras. 2.56 and 2.57). However, upon enquiry, NGO A informed Audit in March 2026 that:

- (a) the installed bathroom paper holders (76 holders were purchased at a unit cost of \$3,390) were found to be difficult to use when replacing toilet papers, and were therefore replaced by equivalent products (para. 2.56(a));
- (b) the original soap dispenser holders (46 holders were purchased at a unit cost of \$2,390) might cause potential safety issues and inconvenience to users, and were replaced by equivalent products (para. 2.56(b)); and
- (c) the original design was to install two handlebars/towelbars (152 handlebars/towelbars were purchased at a unit cost of \$1,890) in each bathroom. However, one of the handlebar/towelbar locations was considered a potential safety risk and therefore only one handlebar was installed in each bathroom. The other handlebar was kept as a spare part for future maintenance (para. 2.56(c)).

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16. *Room for improvement in processing new applications and filling room vacancies.* As of December 2025, two youth hostels (i.e. Hostel A and Hostel B) constructed with Government funding were in operation. According to NGOs A and B, applications for hostel places will be vetted against the eligibility criteria, applicants who fulfil the criteria will be invited to an interview for conducting an assessment, and tenancy agreements will be offered to those who are successful. According to GOAs for the two hostels, the NGOs shall process all applications expeditiously. In 2024-25 and 2025-26 (up to September), 34 and 308 new tenancy agreements commenced for Hostel A and Hostel B respectively. Audit examined the records of 10 new applications (including 5 each for Hostel A and Hostel B) and noted the following issues:

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- (a) ***Some rooms remained vacant despite existence of waiting list and no detailed guidelines on basis for room allocation.*** For Hostel A, as there was a waiting list of applicants for vacant rooms, vetting should have been conducted for the applications already received. However, for the 5 applications examined, the application dates of the tenants were later than the room vacancy dates, with the time elapsed ranging from about 7 to 14 months (averaging about 10 months). In addition, as of February 2026, there were no detailed guidelines laid down on the basis for room allocation; and
- (b) ***Scope for improving timeliness in vetting applications, conducting interviews and entering into tenancy agreements.*** As of February 2026, NGOs A and B had not specified in the guidelines the timeframes for processing new applications. For the 10 applications examined, the time elapsed between the application dates and the interview dates ranged from 25 days to about 9 months (averaging about 5 months), and that between the interview dates and the signing of the tenancy agreements ranged from 35 days to about 6 months (averaging about 2 months) (paras. 3.2, 3.4, 3.5, 3.7, 3.8 and 3.10).
17. ***Need to enhance checking of aggregate tenancy period.*** According to GOAs for Hostels A and B, the NGOs shall ensure that the aggregate period of tenancy with each tenant shall under no circumstances exceed 5 years. As the effective date for the first tenancy agreement of the youth hostels was 1 April 2020, the checking of compliance should commence by 31 March 2025. In April 2025, HYAB launched YHS Management System to facilitate the checking of compliance with the aggregate 5-year tenancy period requirement. Audit noted the following issues:
- (a) ***Need to ensure that tenants' information in YHS Management System is complete and up to date.*** In April 2025, HYAB requested NGOs A and B to provide lists of tenants in Hostels A and B on a monthly basis for uploading to YHS Management System. As of February 2026, both NGOs only submitted the lists of tenants to HYAB twice, not meeting the requirement of monthly submission;
- (b) ***Need to ensure that applicants comply with aggregate tenancy period requirement before signing tenancy agreements.*** According to HYAB, NGOs A and B are required to send requests to HYAB to check the aggregate tenancy period of applicants before signing tenancy agreements.

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For the 10 new applications examined (see para. 16), the tenancy agreements for 3 of them were signed after April 2025 (i.e. after the launch of YHS Management System for checking compliance with the aggregate 5-year tenancy period requirement). For the 3 applications, NGOs A and B only submitted their requests to HYAB after the tenancy agreements had been signed, with the elapsed time ranging from about 6 to 7 months; and

- (c) ***Some tenants had aggregate tenancy periods exceeding 5 years.*** For Hostel A, of the 38 tenants with tenancy renewal agreements commencing in 2024-25 and 2025-26 (up to September), 6 (16%) tenants had aggregate tenancy periods in Hostel A exceeding 5 years, with excesses ranging from 1 to 60 days (averaging about 17 days). Audit noted that, as of February 2026, HYAB had not requested NGOs to include, with reasons, the approved cases of tenants with aggregate tenancy periods exceeding 5 years in their annual reports to HYAB (paras. 3.16 to 3.18 and 3.20).

18. ***Need to ensure compliance with requirements in relation to public rental housing (PRH) and interim housing.*** According to GOAs for Hostels A and B, a person eligible to be a tenant of youth hostels shall not occupy a youth hostel unit and a PRH or interim housing flat as a one-person household at the same time. Once a tenancy agreement has been entered into, the NGO shall provide with respect to each tenant a duly executed undertaking to the Hong Kong Housing Authority (HKHA) or the Hong Kong Housing Society (HKHS), or a confirmation to the effect that the tenant fully acknowledges the interface arrangements in relation to PRH and interim housing. For the 10 new applications examined (see para. 16), the applicants had entered into tenancy agreements, and Audit noted the following issues:

- (a) ***Need to ensure submission of tenants' undertakings to appropriate authorities.*** Of the 10 tenants, 7 tenants (3 for Hostel A and 4 for Hostel B) declared that they were living in PRH. For the 3 tenants for Hostel A, as of February 2026, no documentation was available showing the confirmation from HKHA or HKHS regarding their receipt of the tenants' undertakings. According to NGO B and HYAB, the undertakings of the 4 tenants for Hostel B were provided to HKHA in February 2026; and
- (b) ***Need to include interface arrangements with PRH and interim housing in tenancy agreements.*** The 10 tenancy agreements did not include the

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tenants' undertaking for the relevant interface arrangements in relation to PRH and interim housing, thereby not meeting the related requirement under GOAs (paras. 3.24, 3.26 and 3.27).

19. ***Scope for improving utilisation of hostel places.*** Hostel A commenced operation in March 2020 and offered 80 hostel places, while Hostel B commenced operation in May 2023 and offered 1,680 hostel places. Audit noted that the overall occupancy rates of the hostel places for Hostel A ranged from 86% to 99% as at 31 March in the years 2021 to 2025 and 30 September 2025, and those for Hostel B ranged from 77% to 81% as at 31 March 2024, and 31 March and 30 September 2025 (paras. 3.29 and 3.30).

Other related issues

20. ***Room for improvement in the formulation of GOAs and payment of grants.*** Audit noted the following issues:

- (a) ***Payments already made to NGOs before signing GOAs.*** Up to December 2025, the then HAB/HYAB had already made payments totalling about \$134.5 million to the 7 NGOs before the signing of GOAs (para. 4.3);
- (b) ***Need to ensure NGOs' compliance with requirements relating to maintenance of designated bank accounts.*** According to a GOA, in the event the Government has approved an NGO's application for advance payment of the grant, the NGO shall open and maintain a designated interest-bearing bank account solely and exclusively for the grant. According to HYAB, NGO C and NGO D have applied for advance payment of the grant, and they have opened and maintained a designated bank account as required under the GOA. However, Audit noted that the NGOs' bank accounts were not interest-bearing and some transactions shown in the NGOs' bank statements were not related to the youth hostels (paras. 4.6(b) and 4.7); and
- (c) ***Inconsistent clauses in GOAs.*** Some clauses in the five GOAs signed between the then HAB/HYAB and the NGOs concerned were inconsistent. For example, the clauses relating to national security, the reporting of

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employees'/contractors' death or injury to HYAB, and community or volunteer service hours were inconsistent (para. 4.8).

21. ***Need to assess all assets owned and declared by applicants when assessing their eligibility.*** A person eligible to be a tenant of a youth hostel should not own any residential properties in Hong Kong. For the eligibility criteria in relation to the asset limit, according to NGO A, applicants were required to declare all assets they owned. On the other hand, according to NGO B, the assessment of asset value did not cover residential property outside Hong Kong. As of February 2026, HYAB had not specified in its guidelines for NGOs whether residential property outside Hong Kong should be taken into account in assessing the eligibility of applicants. Upon enquiry, HYAB informed Audit in March 2026 that it would advise NGO B to include all assets declared by applicants when assessing their fulfilment of the eligibility criteria (paras. 4.17 and 4.18).

22. ***Room for improvement in review of hostel place rentals.*** According to GOAs for Hostels A and B, the average rental charged for the youth hostel units must not exceed 60% of the market rental level for the time being in effect as determined by HYAB. According to HYAB, NGOs should report the rental and its adjustments to HYAB annually, and HYAB would conduct a review to ensure that the NGOs comply with the relevant requirements. For the 2021-22 to 2025-26 rental levels, NGOs A and B submitted a total of 7 rental proposals to HYAB. Audit noted the following issues:

- (a) ***Need to review and work out timeframes for conducting review of rental proposals and for informing NGOs of review results.*** Of the 7 rental proposals, as of February 2026, HYAB had not provided NGOs with written comments on the proposed rental levels for 3 (43%) proposals (including one proposal with rental levels increased (which had been effective for about 11 months)). According to HYAB, it had verbally informed NGOs of its comments on the proposed rental levels. Of the remaining 4 (57%) rental proposals for which HYAB had provided written replies to NGOs, HYAB provided the NGO concerned with written comments on the revised rental levels only one month after the effective date for one proposal; and
- (b) ***Need to set out clearly the basis for NGOs' submission of the breakdown of proposed rentals for HYAB's review.*** According to NGOs A and B,

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apart from basic rent, the rentals charged for the youth hostel units cover rates, government rent and management fees. Audit noted that for HYAB's reviews of the 2 rental proposals in 2024, while some proposed rental levels exceeded 60% of the market rental levels with the highest reaching about 83%, HYAB considered them acceptable as the comparative market rental levels were exclusive of rates, government rent and management fees. For HYAB's reviews of the 2 rental proposals in 2025, the proposed rental levels for Hostel A used for comparison with the market rental levels excluded rates, government rent and management fees. According to HYAB, it would make reference to the relevant information included in the annual reports submitted by the NGOs, as well as the actual rates and government rent paid by the NGOs when estimating the amount of these items. However, as of February 2026, HYAB had not set out clearly the basis for NGOs' submission of the breakdown of their proposed rentals for HYAB's determination of whether the rental levels did not exceed 60% of the market rental level in accordance with GOAs (paras. 4.21, 4.23 to 4.25).

23. ***Room for improvement in submission and approval of revisions to Operation Plans.*** According to GOAs for Hostels A and B, NGOs may propose revisions to the Operation Plans for HYAB's approval. The Operation Plans shall continue in full force and effect until any revision thereto is approved in writing by HYAB. Audit noted that since the commencement of operation of Hostel A, NGO A submitted two proposals for revisions to the Operation Plans. According to NGO A, the first proposal was effective from January 2022 and submitted in the same month, while the second proposal was effective from October 2023 and submitted to HYAB in January 2026 (i.e. about 2.3 years after the effective date). According to HYAB, NGO A had not sought its prior approval for the two revised Operation Plans concerned before implementation (paras. 4.30 and 4.31).

24. ***Room for improvement related to annual reports.*** According to GOAs for Hostels A and B, within 7 months after the end of each financial year, the NGOs shall submit to HYAB an annual report and publish the report on their websites. As of February 2026, 5 and 2 annual reports for Hostel A and Hostel B respectively were submitted to HYAB. Audit noted the following issues:

- (a) ***Need to ensure timely submission of annual reports and audited financial statements.*** For Hostel A, there were delays in submitting all 5 annual

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reports, ranging from 26 days to about 2.2 years (averaging about 1.1 years). Besides, in 4 (80%) of the annual report submissions, the audited financial statements were not included as required under GOA but were submitted separately to HYAB at a later time, with delays ranging from about 3.2 months to about 3.1 years (averaging about 1.7 years); and

- (b) *Need to specify information required in published annual reports and ensure that audited financial statements are published.* As of December 2025, except for one annual report, the annual reports available on the two hostels' websites were not the full version (e.g. excluding the audited financial statements). According to HYAB, NGOs A and B were advised in November 2025 to publish the simplified version of the available annual reports on their websites first, and it had been discussing with the NGOs on the information to be included in the online version as of March 2026 (paras. 4.34 and 4.37).

Audit recommendations

25. **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 Home and Youth Affairs should:**

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- (a) **review the target of providing 3,000 hostel units and take measures to expedite the implementation of the approved youth hostel projects taking into account the implementation ability of NGOs as far as practicable (para. 2.10(a));**
- (b) **strengthen efforts to monitor the construction progress of youth hostels to ensure their timely completion (para. 2.10(b));**
- (c) **review the reasons for the long time taken to finalise GOAs with the NGOs concerned and explore measures to shorten the time required to finalise GOAs in future (para. 2.36(a));**
- (d) **request NGO A to finalise the project account for Hostel A as soon as possible, and take measures to ensure that the accounts of youth hostel**

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projects are finalised within three years after commissioning of the facilities in accordance with Financial Circular No. 7/2017 (para. 2.36(d));

- (e) take into account the long time required to complete the pre-construction activities for Hostel E when planning the works programmes for future youth hostel projects with heritage site(s) in the vicinity (para. 2.36(f));
- (f) review procurement issues for Hostel A identified by Audit and take follow-up actions as appropriate (para. 2.58(a));
- (g) strengthen controls over the procurement of F&E items in future youth hostel projects, including requesting NGOs to:
 - (i) take measures to enhance competition as far as possible when there is a need to conduct restricted tendering (para. 2.58(b)(i)); and
 - (ii) explain the rationale in drawing up a shortlist for restricted tendering, making references to the relevant requirements in SPRs (para. 2.58(b)(ii));
- (h) review the F&E procurement issues identified by Audit and take measures to ensure NGOs' adherence to frugality and environmentally-friendly principles in the design and choice of materials for youth hostels as stated in HYAB's "Note for NGOs" (para. 2.58(c));
- (i) request NGO A to review the safety and design issues of F&E items identified by Audit for Hostel A, conduct an assessment to ascertain whether similar issues exist for other F&E items under the contract concerned, and take follow-up actions as appropriate (e.g. assessing the feasibility of recovering cost from the responsible party and ascertaining the status of unused items) (para. 2.58(d));

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- (j) require NGOs to enhance their monitoring of timeliness in processing applications for hostel places in youth hostels, by making reference to

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the issues identified by Audit and taking follow-up actions as appropriate (para. 3.32(a));

- (k) take measures to ensure that youth hostel tenants' information in YHS Management System is complete and up to date for checking compliance with the aggregate tenancy period requirement (para. 3.32(b));
- (l) remind NGOs to timely submit the requests for checking applicants' compliance with the aggregate tenancy period requirement and to ensure that applicants comply with the requirement before signing tenancy agreements (para. 3.32(c));
- (m) suggest NGOs to include, with reasons, the approved cases of youth hostel tenants with aggregate tenancy periods exceeding 5 years in their annual reports to HYAB (para. 3.32(d));
- (n) for fulfilling the requirements under GOAs in relation to PRH and interim housing, advise NGOs to take measures to provide youth hostel tenants' undertakings to the appropriate authorities, and to include the interface arrangements in tenancy agreements (para. 3.32(f));
- (o) suggest NGOs to implement measures as necessary to improve the occupancy rates of youth hostel places (para. 3.32(g));

Other related issues

- (p) where a payment is required before the GOA is signed, take measures to ensure that justifications are provided and appropriate safeguard measures are implemented (para. 4.11(a));
- (q) take measures to ensure that interest-bearing bank accounts are opened and maintained by NGOs for keeping the grant for youth hostel projects according to the GOAs (para. 4.11(b));
- (r) require NGOs to confirm in their audited financial statements that the grant is kept solely and exclusively in designated bank accounts

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separate from other monies belonging to the NGOs as required under GOAs (para. 4.11(c));

- (s) making reference to the inconsistent clauses identified in the GOAs, review the GOAs and discuss with the relevant NGOs to, where appropriate, align the relevant inconsistent clauses (para. 4.11(d));
- (t) require NGOs to take measures to assess all assets (e.g. residential property outside Hong Kong) owned and declared by applicants for hostel places when assessing their eligibility (para. 4.19(c));
- (u) review and work out the timeframes for conducting reviews of rental proposals for youth hostel places and for informing NGOs of the review results supported by proper documentation (para. 4.28(a));
- (v) set out clearly the basis for NGOs' submission of the breakdown of their proposed rentals for HYAB's determination of whether the rental levels do not exceed 60% of the market rental level (para. 4.28(b));
- (w) take measures to ensure that NGOs submit proposals for revision to the youth hostels' Operation Plans to HYAB in a timely manner, and that any revisions take effect only after obtaining HYAB's approval (para. 4.41(a));
- (x) enhance monitoring to ensure that NGOs submit the annual reports and audited financial statements of youth hostels in accordance with the timeframe requirement stipulated in GOAs (para. 4.41(c)); and
- (y) inform NGOs of the information required in the published annual reports of youth hostels, including ensuring that audited financial statements are published (para. 4.41(e)).

Response from the Government

26. The Secretary for Home and Youth Affairs agrees with the audit recommendations.