

For discussion on
13 April 2010

Legislative Council Panel on Security

Proposed Capital Injection to the Beat Drugs Fund

PURPOSE

This paper consults Members on the proposed injection of \$3 billion into the Beat Drugs Fund (BDF) in the 2010-11 financial year.

PROPOSAL

2. As mentioned by the Financial Secretary in his Budget Speech on 24 February 2010, the Administration proposes to create a new non-recurrent commitment of \$3 billion for injection into the BDF in the 2010-11 financial year to allow the BDF to generate an enhanced level of funding in subsequent years for supporting various sectors of the community in combating drug abuse on a sustainable and long-term basis.

JUSTIFICATION

3. The BDF was established in 1996 to provide for a steady and long-term source of additional funding to augment Government subventions to finance worthwhile anti-drug projects. It provides financial support to worthwhile anti-drug projects in the areas of preventive education and publicity, treatment and rehabilitation, research, and early identification. The number of approved projects and the level of grant since the inception of the BDF are at Appendix.

Deterioration of youth drug abuse problem

4. The deterioration of the youth drug abuse problem in recent years has drawn concern from different quarters of the community. The number of reported young drug abusers below the age of 21 saw a significant rise of 54% in the past five years, from some 2 200 in 2004 to 3 400 in 2009. Indeed the percentage of young drug abusers (aged below 21) in the entire drug abuse population rose from 14.7% in 2004 to

24% in 2009. In November 2008, the high-level inter-departmental Task Force on Youth Drug Abuse (the Task Force) led by the Secretary for Justice set out in its Report over 70 recommendations on measures to be pursued in the short run, and sustainable and comprehensive strategies to be implemented in the medium to longer terms for tackling the problem.

5. Since the stepping up of a community-wide anti-drug campaign in June 2008, the number of reported drug abusers aged below 21 decreased by 3% in 2009 when compared to 2008 (from 3 460 to 3 360). Nonetheless, the statistics still reflect the following trend -

- school as a locality of drug abuse saw a sharp increase of 18% (from 56 to 66 reported student drug abusers);
- the reported number of student drug abusers saw a rise of 5% (from 932 to 976);
- the reported number of female abusers aged under 21 saw an increase of 6.8% (from 1 072 to 1 145); and
- the number of newly reported female abusers aged from 12 to 15 increased by 28% (from 261 to 335).

6. Results of the "2008/09 Survey of Drug Use among Students" (the 2008/09 Survey) confirm the increasing prevalence of youth drug abuse. The 2008/09 Survey was conducted in the 2008/09 school year covering about 20% of all secondary school students, and included primary four to six as well as post-secondary programmes students for the first time since the first survey conducted more than 20 years ago. Among secondary school students, 4.3% of the respondents indicated that they had abused drugs, representing an increase of 1% as compared with the survey results of the 2004/05 school year. Among the secondary school students aged 12 or below, the percentage of students indicating that they had abused drugs rose from 2.4% to 4.6% over four years. The 2008/09 Survey confirms the trend of lowering age of drug abusers.

7. The 2008/09 Survey shows a rising trend in the number of young people who abused psychotropic substances. Among the primary school students who claimed to have abused drugs, 37.5% abused cough medicine and 30.7% abused inhalants. As regards secondary school students, nearly half of the students who claimed to have abused drugs

indicated that they had abused ketamine (49.4%), followed by cannabis (35.6%). The 2008/09 Survey also confirms the hidden nature of youth drug abuse: 36.2% of the secondary school students who claimed to have abused drugs indicated they took drugs in friends' homes, while 25% took drugs in their own homes. About a quarter of them abused drugs in entertainment venues. Majority (75%) of the abusers did not seek help.

Need for sustained efforts

8. The drug abuse problem is often a manifestation of underlying personal, family and social problems. Fighting drug abuse cannot be a one-off or short-term effort. Further, the entire community must be mobilised in order to effectively address the youth drug abuse problem in view of the hidden nature of youth drug abuse, the lack of motivation for drug-abusing students to seek help, and the presence of many risk factors that involve multiple stakeholders in the community. It is imperative that different stakeholders, including schools, parents, community bodies, youth organisations, professional groups, businesses and the anti-drug sector, collaborate in tackling the problem in a multi-faceted manner.

9. The Task Force has set out over 70 recommendations in its Report issued in November 2008, some of which require sustained and long-term efforts. The Chief Executive has promulgated five strategic directions to combat the youth drug problem in an enhanced and expedited manner, namely community mobilisation, community support, drug testing, treatment, and law enforcement. The Administration is committed to strengthening and sustaining efforts to tackle the youth drug problem with community bodies and non-government organisations (NGOs) following the recommendations of the Task Force and the strategic directions. The drug abuse problem also changes over time, for example recent months have seen prominent news reports on young drug-abusing adults. It is necessary to devise strategies and facilitate measures to tackle new developments in drug abuse in a timely manner.

10. The BDF is an established and effective vehicle for enhancing the community's anti-drug efforts. The BDF is a key source of funding to support effective or innovative community-led programmes which would help address the drug abuse problem. It offers flexibility for the allocation of grant to projects that meet the priority or prevailing issues as identified by the Action Committee Against Narcotics (ACAN) and the Administration through the continuous monitoring system, regular surveys and work contacts. It also provides a sustained source

of funding to support various projects from its investment income. NGOs may contribute their ideas, expertise and knowledge in anti-drug or other related work. Projects sponsored included preventive education projects in schools and community, treatment and rehabilitation programmes, research, and early identification projects.

11. The Administration is committed to taking the lead in combating youth drug abuse and will work closely with community stakeholders to take forward a host of recommendations set out in the Report of the Task Force. Hitherto, we are constrained by the size of and the need to keep intact the capital base of \$350 million, and limited income available for funding worthwhile projects. As illustrated by the statistics in the Appendix, only around 15% of funding sought is granted in the annual funding exercise.

12. To respond to the worsening youth drug abuse problem, \$33 million and \$23 million were granted in the 2008 and 2009 rounds of funding exercise. In addition, \$18 million was granted for the implementation of the Task Force recommendations. It should be noted that such funding levels exceed the normal expected return from the existing capital base. A larger capital base is needed to generate a larger stream of investment income to respond to the community's needs.

13. The proposed injection will increase the capital base of the BDF from \$350 million to \$3.35 billion. Based on the assumption of an average annual investment return rate of about 4 to 5% in the long run, the BDF may generate around \$134 to \$168 million investment proceeds per year. The enhanced level of return will, on one hand, provide adequate financial support to worthwhile anti-drug projects and, on the other hand, allow the BDF to build up necessary reserves to buffer fluctuations arising from market volatility to ensure steady and adequate funding to projects on an on-going basis. Given the past record on funding applications and anticipated increase in funding needs, the expected return available for funding is considered appropriate.

14. The proposed injection underlines the Administration's commitment to fighting against youth drug abuse in the long run. It also helps mobilise various sectors of the community to join the anti-drug cause by contributing their ideas, knowledge and skills.

POSSIBLE FUTURE USES OF BDF

15. The Beat Drugs Fund Association (BDFA), a company formed to manage BDF, will continue the established requirement for inviting ACAN's advice before deciding on the allocations to worthwhile projects by the BDF. The BDFA will consult ACAN on a regular basis on the priority areas for BDF grants, having regard to the prevailing drug scene at the material time. To start with, the much enhanced BDF would be used to support the following key areas of work following the approval of the proposed injection.

Preventive education and promotional efforts

16. Preventive education is one of the principal elements of a five-pronged strategy to combat the drug abuse problem. On the universal prevention level, it is necessary to enhance the roles and skills of different stakeholders in strengthening the protective factors and reducing the risk factors to prevent youth drug abuse. Parents, schools and the community should be encouraged to organise programmes to prevent and tackle youth drug abuse. On the targeted prevention level, it is more important to reach out to high-risk youths and strengthen their resolve against drug abuse. As many high-risk youths and drug rehabilitees need to set a life direction, projects that mobilise and make effective use of community stakeholders and resources to help young people in this respect are important. The BDF is a key source of funding to support community stakeholders such as parent-teacher associations, schools, youth groups and NGOs to organise community-based, school-based and evidence-based drug prevention programmes.

Funding for drug treatment and rehabilitation centres

17. The BDF set up in 2002 a Special Funding Scheme (SFS) for Drug Dependent Persons Treatment and Rehabilitation Centres with a sum of \$23 million earmarked to provide sponsorships to complement other funding sources to assist drug treatment and rehabilitation centres (DTRCs) to carry out capital works with a view to meeting the licensing standards under the *Drug Dependent Persons Treatment and Rehabilitation Centres (Licensing) Ordinance* (Cap 566)¹. A ballpark estimate indicates that the capital works for all centres concerned may add up to \$200 million in cost depending on the scale and complexity of

¹ The objective of the statutory licensing scheme is to enhance the standard of service provided by DTRCs and to ensure that drug dependent persons undergoing treatment at these centres would receive services in a properly managed and secure environment.

the projects. At present, because of limited funds available, each DTRC may only obtain a maximum of \$3 million, while each NGO may obtain a maximum of \$6 million for all its DTRCs.

18. As at end February 2010, among a total of 40 DTRCs currently covered by the said Ordinance, 17 have obtained licences and 23 are operating under a Certificate of Exemption (CoE) issued by the Director of Social Welfare. Of the 23 DTRCs issued with CoEs, seven have obtained funding from the BDF or other sources, one has submitted an application to SFS, while 15 have indicated that they may possibly apply for funding. Many of these DTRCs have encountered difficulties in planning, land issues, relocation, or project implementation. Some encounter difficulties in raising sufficient funds or donations for the requisite capital works to supplement BDF's sponsorship. Some also require professionals to prepare planning and land submissions, building plans, and other technical documents. Some DTRCs may also need funding for improvements to premises or purchase of new equipment.

19. Upgrading these DTRCs to meet licensing standards, relocation and/or expansion is important to ensure adequate and appropriate provision of treatment and rehabilitation services to drug abusers. The proposed injection would provide the BDF with additional funds to enhance funding support for DTRCs in this regard. With a larger stream of income following the proposed injection into the BDF, the scope of SFS may be expanded to sponsor the fees for engaging authorised experts and other necessary professionals to help expedite the planning and implementation processes.

20. Apart from projects which are to help the DTRCs meet the statutory requirements, SFS may also sponsor projects which can help further increase the capacity and sophistication of residential drug treatment and rehabilitation services. For example, DTRCs which have already obtained full licences may seek sponsorships from the BDF to expand their capacity or improve their premises. We may also sponsor potential new players to set up and operate new DTRCs. We envisage that with the \$3 billion capital injection and the additional investment income, we will be able to increase the maximum level of grant for each application and each organisation, which currently stands at \$3 million and \$ 6 million respectively.

21. We will further consult ACAN and the anti-drug sector on the appropriate level of funding having regard to the actual needs and cost estimates from the DTRCs.

New and innovative treatment and rehabilitation programmes targeting young drug abusers

22. The increasing prevalence of psychotropic substances abuse among young people requires targeted, innovative and effective treatment and rehabilitation programmes. The BDF is an important source to fund pilot or innovative treatment and rehabilitation programmes and modes, including residential or community-based programmes, and reintegration programmes with multi-disciplinary co-operation elements. However, the role that the BDF can play has been constrained by its financial resources. With the increase in income subsequent to the enlargement of the capital base, the BDF may support pilot schemes of a larger scale with more systematic evaluation and research. The BDF may also encourage and fund programmes allowing a continuum of treatment and rehabilitation services.

23. Reintegration of rehabilitated drug abusers into mainstream schools or society is important to help them stay away from drugs. The BDF may fund NGO-run programmes with good community networks to mobilise community resources and the expertise to motivate and help young drug abusers reintegrate into mainstream schools or society, such as internship or vocational training programmes.

New measures and tools for secondary prevention, early identification and intervention at schools

24. Schools are at the forefront of the preventive education efforts. With the enhanced level of income following the proposed injection, the BDF may strengthen its support for effective programmes for developing students' anti-drug knowledge, skills and attitude. Measures may include promoting healthy school policy and developing and strengthening students' life skills and refusal skills. The BDF may also encourage and fund projects that promote and assist schools to adopt effective tools and programmes to foster high-risk students' anti-drug knowledge and psycho-social skills. These projects would be complementary to the existing preventive education work.

25. The BDF may support new measures and tools for enhanced prevention, cultivation and entrenchment of a drug-free culture on campus, early identification of drug abusers, and downstream support for identified drug abusers. One of the areas that may be sponsored is voluntary school-based drug testing as an innovative tool. It may also fund other effective early identification programmes and associated

support services for students in need.

Research projects

26. Quality researches provide evidence-based findings which can inform the formulation of effective anti-drug policy and measures. The BDF may support more studies on areas of concern, such as studies on drug abuse patterns of primary and post-secondary students as well as young working adults. Large-scale longitudinal studies on drug prevention, early intervention, and treatment and rehabilitation programmes may also be supported.

MANAGEMENT AND MAINTENANCE REQUIREMENT OF BDF

27. To ensure prudent investment and financial management, BDFA has adopted for planning purposes a maximum grant level of \$14 million for its annual funding exercise, or 4% of the \$350 million capital. The \$14 million benchmark is for planning purpose only. The amount of fund available for allocation in a year would vary depending on the performance of the market. The actual level of grant approved will also depend on the prevailing drug scene, number and quality of applications, progress of DTRCs in obtaining planning and other relevant approvals, views of ACAN, and decision of BDFA. Indeed, notwithstanding the fluctuation in investment income in recent years, the BDF approved grants above this benchmark in 2008 and 2009 in view of the worsening drug situation and the number of worthy applications received.

28. BDFA has set up an investment sub-committee comprising non-official members from business, finance and accountancy sectors to advise on investment strategies. BDFA adopts a prudent investment strategy and invests in local and overseas stocks and bonds with a diversified portfolio to manage risks. Since its inception, BDFA has approved, after consulting ACAN, a total of 480 projects with a total grant of about \$240 million. As at end February 2010, the Fund's market value stood at about \$532 million.

29. BDFA will continue to ensure sufficient cash flow for disbursement to approved projects. It will, as far as practicable, keep the capital base intact in the long run. External professional fund managers and advisors have been and will continue to be engaged for investment of funds. To allow flexibility for BDFA to support

worthwhile projects in times of high market volatility, we propose that BDF should be allowed to use part of its capital base if the investment return in a particular year plus the accumulated surplus were inadequate to meet the funding needs. This would ensure that sustained anti-drug efforts would not be disrupted by short-term fluctuations in the investment markets.

ADMINISTRATION AND MONITORING

30. We shall continue to monitor the use of funds and take forward improvements to the administration and management of BDF along the recommendations of the Task Force. Having consulted ACAN, we propose to consider putting in place the following measures in the future to raise transparency on the use and effectiveness of the BDF –

- (a) ACAN and its sub-committee members may form an assessment panel for each round of funding exercise to study and vet the applications to assess if the applications are appropriate to meet the needs of the prevailing drug situation. For projects that require substantial amount of funding, or last for a period of more than two years, consideration may be given to inviting two to three ACAN members to care-take each of such projects in order to monitor the progress of implementation. The BDF secretariat, comprising Narcotics Division (ND) staff, will provide administrative support to the members, including assessment of applications and monitoring of projects;
- (b) further streamlining the procedures for claiming funds. Currently grantees are required to submit all cash receipts and other documentary proof for claiming funds. For projects with a grant above \$500,000, audited accounts are also required. To simplify the arrangement, all grantees with grants above \$50,000 may be required to prepare audited accounts annually and the auditing fees may be included in the project as a reimbursable item. Grantees may be given initial disbursement of a proportion of the approved fund. The BDF may disburse further funds upon receipt of the audited accounts from the grantees instead of requiring grantees to submit cash receipts. Grantees

may still be required to keep their cash receipts for future verification purposes;

- (c) consideration may be given to raising the cap on the grant for each application (currently at \$3 million in general or \$5 million in exceptional cases) and the cap on each organisation at \$6 million. We will further consult ACAN and the anti-drug sector on appropriate new cap levels;
- (d) as regards the SFS for DTRC upgrading/relocation/expansion, the maximum level of grant for each project and each organisation will be reviewed and likely increased. We will further consult ACAN and the anti-drug sector on the appropriate maximum level of funding having regard to the actual needs and cost estimates from the DTRCs;
- (e) to assist grantees to perform self-evaluation, the BDF secretariat will organise training for grantees. More sharing sessions will be organised if necessary for grantees to share their experiences in the effective planning and implementation of projects;
- (f) to strike a balance between the need to ensure the effectiveness of projects and minimise administrative workload on both the grantees and the Administration, a review is to be carried out to consider the need to increase the staffing level, or to engage organisations or personnel to enhance the assessment, monitoring and evaluation of projects; and the administration and investment of BDF; and
- (g) the BDF secretariat will consider holding two rounds of funding exercise instead of just one per year to facilitate applications by interested parties. Grantees are required to prepare half-yearly progress reports and full reports upon completion of the projects. To ensure transparency, such reports may be made available for viewing at the Drug InfoCentre and on the website of the ND.

FINANCIAL IMPLICATIONS

31. We propose a one-off injection into BDF in the amount of \$3 billion in 2010-11. The additional workload arising from the administration and operations of the BDF will initially be absorbed by ND and The Treasury. Upon approval of the proposed injection, we will review whether there is a need to enhance the staffing levels of ND and The Treasury, and will seek additional resources under the established procedure when necessary.

PUBLIC CONSULTATION

32. We consulted ACAN on 26 February and 16 March 2010. ACAN supported the proposed injection and the key areas for funding support set out in paragraphs 16 to 26 above. They saw the urgent need to strengthen the BDF as a vehicle for supporting various sectors of the community to combat drug abuse. They also commended the proposed injection as a commitment of the Administration to sustain the fight against drug abuse. Members suggested that the project assessment, monitoring and evaluation should be enhanced to ensure the proper use of the BDF.

BACKGROUND

33. A sum of \$350 million was approved in March 1996 as a one-off injection into the BDF. This capital base has to be kept intact. Investment incomes generated from the BDF are used to finance anti-drug projects which would complement the multi-faceted strategy adopted by the Administration and NGOs.

34. The BDFFA was established in 1996 under the *Companies Ordinance* (Cap. 32) as a vehicle to manage the BDF. The Governing Committee of BDFFA manages BDF and determines the use of the Fund on the advice of ACAN. It is chaired by Permanent Secretary for Security with three non-official members and two official members namely Commissioner for Narcotics and Director of Accounting Services (DAS). DAS manages the finances and investment of the BDF.

35. In his 2010-11 Budget, the Financial Secretary has earmarked \$3 billion for the proposed injection into the BDF to strengthen collaboration with the community to combat the youth drug

abuse problem on a long-term basis.

ADVICE SOUGHT

36. Members are invited to comment on the proposed injection into the BDF. Subject to Members' views, we plan to seek funding approval from the Legislative Council Finance Committee in May 2010.

Appendix

Statistics on the Beat Drugs Fund (1996 to 2010)

Annual Funding Scheme

Year of Approval	No. of applications received	No. of applications approved	Total funding sought (\$m)	Total funding granted (\$m) (Percentage of funding sought)
1996	44	24	59.5	8.7 (15%)
1997	88	30	116.3	11.8 (10%)
1998	89	45	69.6	18.1 (26%)
1999	153	49	117.0	19.8 (17%)
2000	121	29	104.6	16.6 (16%)
2001	121	36	107.7	19.0 (18%)
2002	144	25	139.0	19.7 (14%)
2003	131	16	115.4	5.5 (5%)
2004	56	15	46.4	6.9 (15%)
2005	53	20	50.0	7.7 (15%)
2006	73	18	79.3	9.8 (12%)
2007	75	25	86.9	15.4 (18%)
2008	117	59	125.2	32.9 (26%)
2009	157	68	169.9	22.8 (13%)
Total	1 422	459	1,386.8	214.7 (15%)

Special Funding Scheme for DTRCs

Year of Approval	No. of applications received	No. of applications approved	Total funding sought (\$m)	Total funding granted (\$m) (Percentage of funding sought)
2005	3	3	4.7	3.8(81%)
2008	1	1	10.8	6.0 (56%)
2010	1*	1*	0.28	0.2 (72%)
Total	5	5	15.8	10.0 (63%)

* Application for additional funding

Special Funding Scheme for Measures of Task Force on Youth Drug Abuse and Related Projects

Year of Approval	No. of applications received	No. of applications approved	Total funding granted (\$m)
2008	9	2	2.9
2009	15	15	13.1
2010	6	1	2
Total	30	18	18