The Audit Commission ("Audit") conducted a review of the management of the Dedicated Fund on Branding, Upgrading and Domestic Sales ("BUD Fund"), including the management of funded projects.

2. BUD Fund was established in June 2012 with a non-recurrent commitment of $1,000 million to assist enterprises in developing brands, upgrading and restructuring their operations, and promoting domestic sales in the Mainland. It comprises the Enterprise Support Programme ("ESP") and the Organization Support Programme ("OSP"), which provides funding support to individual Hong Kong non-listed enterprises and non-profit-distributing organizations respectively in undertaking projects. The Commerce and Economic Development Bureau ("CEDB") and the Trade and Industry Department are responsible for administering BUD Fund. CEDB has engaged the Hong Kong Productivity Council ("HKPC") as the ESP Secretariat and partner to implement ESP. The OSP Secretariat is under the Industries Support Division of the Trade and Industry Department.

3. The Committee noted the following findings from the Director of Audit's Report:

- as at October 2015, the approved ESP and OSP projects (349 and 45 respectively) and the amount of approved funding for ESP and OSP ($157 million and $147 million respectively) were lower than estimated;[1]

- from June 2012 to June 2015, the applications received for both ESP and OSP showed a downward trend, in particular that the applications withdrawn before assessment stood at 21.1% and 16.3% respectively, and the low overall success rates of ESP and OSP applications (33% and 38% respectively) highlighted room for improvement;

- more projects might become unsuccessful as time progress. As at October 2015, 45 (13%) of 349 approved ESP projects were terminated before completion;

- the number of promotion events on ESP organized by HKPC showed a decreasing trend since June 2012;

[1] According to the paper submitted to the Finance Committee of the Legislative Council in May 2012, the Government allocated $440 million for OSP and about $500 million for ESP, and estimated that about 1 000 enterprises could directly benefit from ESP and around 90 projects could be undertaken under OSP.

- when the Financial Services and the Treasury Bureau vetted the paper submitted to the Finance Committee of the Legislative Council for the BUD Fund in early 2012, it expressed concerns on the selection of HKPC as the implementation partner and advised CEDB to consider if the arrangement was a procurement of services subject to the Stores and Procurement Regulations and tendering procedures;

- the estimated administration cost of ESP was $77 million (15% of the $500 million approved funding). However, up to October 2015, the cost for administering ESP had amounted to $55.3 million, representing about 35% of the approved funding of $157 million approved to-date. The implementation fee charged by HKPC was calculated at the highest staff cost rates. Notwithstanding that the numbers of ESP applications and approved projects were low and decreasing, the actual number of full-time staff of the ESP Secretariat remained at about 15 to 16, and over 50% of them were at consultant grade. Audit noted that there was no documentation indicating whether CEDB had discussed with HKPC on the feasibility of using lower charging rates and why lower rates were not applicable;

- as at October 2015, HKPC was engaged as implementation agent for 22 of 45 approved OSP projects, and the approved consultancy fees for these 22 projects amounted to $19.8 million;

- of the 10 completed OSP projects selected by Audit, six had engaged implementation agents, but the consultancy fees represented 26% to 63% of their respective approved project funding, while three of the six projects did not have detailed breakdown of the proposed consultancy fees. Also, two of the 10 selected projects did not keep the recruitment records for seven years as stipulated in the project agreements and did not widely advertise the job vacancy(ies). One of the two projects even charged non-allowable costs to the project account, which made the OSP Secretariat consider that the management of this project was below standard;

- apart from requiring a letter from the grantees listing out the nature and the amount of in-kind contribution, the OSP Secretariat did not require the grantees to produce documents to support the valuation of in-kind contribution;

- the Programme Management Committee chaired by the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) met once every three months to consider the applications for ESP. ESP applicants needed to wait, in addition to the some three to six months taken for project approval, one to seven months for the signing of the agreement for project commencement, depending on whether conditions were attached to the projects; and

- of the 20 completed ESP projects selected by Audit, 11 progress reports were submitted late to the ESP Secretariat. According to the ESP Secretariat, most of the grantees did not have enough manpower and experience to prepare the progress reports and final reports. The ESP Secretariat needed to take measures to facilitate the grantees in the submission of reports and to streamline the process.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the measures to improve the operation, management, promotion and effectiveness of OSP and ESP. The replies from Secretary for Financial Services and the Treasury, and the consolidated replies from Secretary for Commerce and Economic Development, Acting Director-General of Trade and Industry and Executive Director of HKPC are in ***Appendices 16*** and ***17*** respectively.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.