

Management of projects financed by the Lotteries Fund

The Audit Commission ("Audit") conducted a review to examine the Social Welfare Department ("SWD")'s management of projects financed by the Lotteries Fund.

2. The Lotteries Fund was established in 1965 by resolution of the Legislative Council for the purpose of financing the support and development of social welfare services in Hong Kong by way of providing grants, loans and advances. A non-governmental organization ("NGO") or a government bureau or a department may apply for a Lotteries Fund grant to finance five major categories of social-welfare related expenditures.¹ In March 2014, \$10 billion was allocated from the General Revenue to the Lotteries Fund to finance the Special Scheme on Privately Owned Sites for Welfare Uses ("the Special Scheme") targeting to provide 17 000 additional service places for the elderly and persons with disabilities. As of March 2016, the Lotteries Fund had a fund balance of \$22 billion which was placed with the Exchange Fund.

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

- while the target time for processing a major grant (value exceeding \$400,000) was 9 months and a minor grant (value of \$400,000 or below) was 4 months, from April 2011 to September 2016, the time taken by SWD to process 236 (19% of 1 251) applications for major grants and 245 (23% of 1 087) applications for minor grants had exceeded the respective target time. In particular, SWD had taken 2 to 7.5 years to complete processing and approving 82 major-grant applications and 1 to 3.6 years to complete processing 30 minor-grant applications;
- in October 2004, SWD sought the approval from the Financial Services and the Treasury Bureau for a premises-construction grant of \$35.7 million to meet the construction costs of three welfare facilities for, among others, provision of 120 service places for the elderly in a private development. While the land grant was executed in July 2006 under which the Government was committed to reimbursing \$32.5 million to the developer for constructing the three welfare facilities, the related Lotteries Fund grant of \$35.7 million was not

¹ The five major categories of social-welfare related expenditures are: (a) those incurred for premises renovation and construction; (b) an experimental project; (c) subvention-linked minor expenditures; (d) SWD Fund expenditures; and (e) fitting-out works and furniture and equipment expenditures for new/reprovisioned premises.

Management of projects financed by the Lotteries Fund

approved by the Financial Services and the Treasury Bureau until May 2012. At the time of grant approval, the construction of the welfare facilities had been completed in July 2011 and subsequently handed over to the Government in May 2012;

- in February 2014, when seeking \$10 billion funding approval for the Special Scheme, the Labour and Welfare Bureau and SWD informed the Legislative Council that 63 preliminary proposals from 43 NGOs were received. However, as of November 2016, only one project providing 100 service places had been completed, 11 projects that would provide 3 609 services places were at different implementations stages, and the remaining 51 projects were still at different planning stages;
- as of September 2016, works for five Lotteries Fund-funded projects with approved Lotteries Fund grants totalling \$15 million had not commenced five to eight years after approval of the grants. For 259 completed projects (involved unpaid Lotteries Fund commitments totalling \$690 million which could have been released for funding other projects), the project accounts had not been finalized 5 to 25 years after funding approvals, while the Hong Kong Housing Authority and the Architectural Services Department were respectively the works agent and technical adviser for 39 and 20 projects. For Project F,² although its works had been substantially completed in 1993 and it should be financed by the Capital Works Reserve Fund, expenditures of about \$20,000 under Project F had been disbursed from the Lotteries Fund and yet to be reimbursed to the Lotteries Fund as of January 2017. Furthermore, the Hong Kong Housing Authority had wrongly charged the cost of Project F to another Lotteries Fund-funded project account. As for Project G,³ its account could not be finalized even its works had been substantially completed for more than 19 years; and
- 2 of the 11 Lotteries Fund Advisory Committee ("LFAC") members did not make declarations of potential conflicts of interest on two and one agenda items respectively discussed at LFAC meeting. Two LFAC members, who were paid executive staff of two NGOs respectively, were issued relevant LFAC papers and attended meetings involving

² In October 1991, a premises-renovation grant of \$0.58 million was approved as an interim funding measure for the Hong Kong Housing Authority to carry out fitting-out works for a child care centre located in a public housing estate.

³ In February 1993, a premises-construction grant of \$1.46 million was approved for the construction and fitting-out works for a social centre for the elderly located in a private development.

Management of projects financed by the Lotteries Fund

discussion for three and one grant applications related to the two NGOs respectively, which had violated the Standing Orders of LFAC.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the administration of funding applications and project implementation, and the governance and management of the Lotteries Fund and LFAC. The replies from **Secretary for Labour and Welfare, Director of Social Welfare, Director of Architectural Services** and **Director of Housing** are in *Appendices 22 to 25* respectively.

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