

**REPORT OF THE  
PUBLIC ACCOUNTS COMMITTEE  
ON  
REPORT NO. 62 OF THE DIRECTOR OF AUDIT  
ON  
THE RESULTS OF  
VALUE FOR MONEY AUDITS**

*July 2014*

*P.A.C. Report No. 62*

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*Introduction*

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**The Establishment of the Committee** The Public Accounts Committee is established under Rule 72 of the Rules of Procedure of the Legislative Council of the Hong Kong Special Administrative Region, a copy of which is attached in *Appendix 1* to this Report.

2. **Membership of the Committee** The following Members are appointed by the President under Rule 72(3) of the Rules of Procedure to serve on the Committee:

**Chairman** : Hon Abraham SHEK Lai-him, GBS, JP

**Deputy Chairman** : Hon Paul TSE Wai-chun, JP

**Members** : Hon CHAN Hak-kan, JP  
Hon Alan LEONG Kah-kit, SC  
Hon WONG Yuk-man  
Hon NG Leung-sing, SBS, JP  
Hon Kenneth LEUNG

**Clerk** : Mary SO

**Legal Adviser** : Stephen LAM

*Procedure*

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**The Committee's Procedure** The practice and procedure, as determined by the Committee in accordance with Rule 72 of the Rules of Procedure, are as follows:

- (a) the public officers called before the Committee in accordance with Rule 72 of the Rules of Procedure, shall normally be the Controlling Officers of the Heads of Revenue or Expenditure to which the Director of Audit has referred in his Report except where the matter under consideration affects more than one such Head or involves a question of policy or of principle in which case the relevant Director of Bureau of the Government or other appropriate officers shall be called. Appearance before the Committee shall be a personal responsibility of the public officer called and whilst he may be accompanied by members of his staff to assist him with points of detail, the responsibility for the information or the production of records or documents required by the Committee shall rest with him alone;
- (b) where any matter referred to in the Director of Audit's Report on the accounts of the Government relates to the affairs of an organisation subvented by the Government, the person normally required to appear before the Committee shall be the Controlling Officer of the vote from which the relevant subvention has been paid, but the Committee shall not preclude the calling of a representative of the subvented body concerned where it is considered that such a representative could assist the Committee in its deliberations;
- (c) the Director of Audit and the Secretary for Financial Services and the Treasury shall be called upon to assist the Committee when Controlling Officers or other persons are providing information or explanations to the Committee;
- (d) the Committee shall take evidence from any parties outside the civil service and the subvented sector before making reference to them in a report;
- (e) the Committee shall not normally make recommendations on a case on the basis solely of the Director of Audit's presentation;
- (f) the Committee shall not allow written submissions from Controlling Officers other than as an adjunct to their personal appearance before the Committee; and

*Procedure*

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- (g) the Committee shall hold informal consultations with the Director of Audit from time to time, so that the Committee could suggest fruitful areas for value for money study by the Director of Audit.

2. **Confidentiality undertaking by members of the Committee** To enhance the integrity of the Committee and its work, members of the Public Accounts Committee have signed a confidentiality undertaking. Members agree that, in relation to the consideration of the Director of Audit's reports, they will not disclose any matter relating to the proceedings of the Committee that is classified as confidential, which shall include any evidence or documents presented to the Committee, and any information on discussions or deliberations at its meetings, other than at meetings held in public. Members also agree to take the necessary steps to prevent disclosure of such matter either before or after the Committee presents its report to the Council, unless the confidential classification has been removed by the Committee.

3. A copy of the Confidentiality Undertakings signed by members of the Committee has been uploaded onto the Legislative Council website.

4. **The Committee's Report** This Report by the Public Accounts Committee corresponds with Report No. 62 of the Director of Audit on the results of value for money audits which was tabled in the Legislative Council on 16 April 2014. Value for money audits are conducted in accordance with the guidelines and procedures set out in the Paper on Scope of Government Audit in the Hong Kong Special Administrative Region - 'Value for Money Audits' which was tabled in the Provisional Legislative Council on 11 February 1998. A copy of the Paper is attached in *Appendix 2*.

5. **The Government's Response** The Government's response to the Committee's Report is contained in the Government Minute, which comments as appropriate on the Committee's conclusions and recommendations, indicates what action the Government proposes to take to rectify any irregularities which have been brought to notice by the Committee or by the Director of Audit and, if necessary, explains why it does not intend to take action. It is the Government's stated intention that the Government Minute should be laid on the table of the Legislative Council within three months of the laying of the Report of the Committee to which it relates.

**Consideration of the Director of Audit's Report tabled in the Legislative Council on 16 April 2014** As in previous years, the Committee did not consider it necessary to investigate in detail every observation contained in the Director of Audit's Report. The Committee has therefore only selected those chapters in the Director of Audit's Report No. 62 which, in its view, referred to more serious irregularities or shortcomings. It is the investigation of those chapters which constitutes the bulk of this Report. The Committee has also sought and obtained information from the Administration on some of the issues raised in two other chapters of the Director of Audit's Report No. 62. The Administration's response has been included in this Report.

2. **Meetings** The Committee held a total of nine meetings and eight public hearings in respect of the subjects covered in this Report. During the public hearings, the Committee heard evidence from a total of 28 witnesses, including four Directors of Bureau and five Heads of Department. The names of the witnesses are listed in *Appendix 3* to this Report. A copy of the Chairman's introductory remarks at the first public hearing in respect of the Director of Audit's Report No. 62 on 5 May 2014 is in *Appendix 4*.

3. **Arrangement of the Report** The evidence of the witnesses who appeared before the Committee, and the Committee's specific conclusions and recommendations, based on the evidence and on its deliberations on the relevant chapters of the Director of Audit's Report, are set out in Chapters 1, 2 and 4 of Part 4 below.

4. The video and audio record of the proceedings of the Committee's public hearings is available on the Legislative Council website.

5. **Acknowledgements** The Committee wishes to record its appreciation of the cooperative approach adopted by all the persons who were invited to give evidence. In addition, the Committee is grateful for the assistance and constructive advice given by the Secretary for Financial Services and the Treasury, the Legal Adviser and the Clerk. The Committee also wishes to thank the Director of Audit for the objective and professional manner in which he completed his Report, and for the many services which he and his staff have rendered to the Committee throughout its deliberations.

## **A. Introduction**

The Audit Commission ("Audit") conducted a review to examine the planning, construction and redevelopment of public rental housing ("PRH") flats.

### Background

2. The Hong Kong Housing Authority ("HA") is a statutory body established under the Housing Ordinance (Cap. 283) to implement the majority of Hong Kong's public housing programme, including PRH to assist low-income families who cannot afford private rental accommodation.

3. The Housing Department ("HD"), as the executive arm of the HA, is headed by the Permanent Secretary for Transport and Housing (Housing) who also assumes the office of the Director of Housing. The HD also supports the Transport and Housing Bureau in dealing with all housing-related policies and matters.

4. Housing in Hong Kong is provided through three channels, namely private housing, PRH, and subsidized home ownership housing (primarily Home Ownership Scheme ("HOS") flats). PRH and subsidized home ownership housing are primarily provided by the HA.

5. The HD is responsible for the provision of PRH including, amongst others, the planning, construction and redevelopment of PRH flats. As at end of December 2013, the HA had a stock of about 742 000 PRH flats in 210 estates, accommodating some two million people (721 000 households) or about 30% of Hong Kong's total population. As at 31 December 2013, out of a strength of 8 848 HD staff, about 2 135 staff worked in the Development and Construction Division which is responsible for the production of new PRH flats.

6. Public housing resources are valuable and heavily subsidized. According to the HD, the average construction cost for a PRH flat is about \$0.7 million (not including the land cost) and it takes about five years to complete a project containing PRH flats, from site inception to works completion.

## The Committee's Report

7. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 11)
- Planning for the provision of public rental housing flats (Part B);
  - (a) Assessment of public housing supply and demand (paragraphs 12 to 24)
  - (b) Meeting the pledged production targets (paragraphs 25 to 27)
  - (c) Supply of land for public housing (paragraphs 28 to 46)
- Management of public rental housing construction projects (Part C);
  - (a) Monitoring progress of construction projects (paragraphs 47 to 55)
  - (b) Monitoring costs of construction projects (paragraphs 56 to 59)
- Redevelopment of public rental housing estates (Part D);
  - (a) Comprehensive Structural Investigation Programme (paragraphs 60 to 64)
  - (b) Refined Policy on Redevelopment (paragraphs 65 to 69)
  - (c) Exploring future redevelopment potential (paragraphs 70 to 73)
- Way forward (Part E) (paragraphs 74 to 79); and
- Conclusions and recommendations (Part F) (paragraphs 80 to 82).

## Public hearings

8. The Committee held two public hearings on 5 and 12 May 2014 to receive evidence from witnesses.



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Declaration of interests

9. At the beginning of the Committee's first and second public hearings held on 5 and 12 May 2014:

- **Hon Alan LEONG Kah-kit** declared that he was currently a member of the HA; and
- **Hon Kenneth LEUNG** and **Hon NG Leung-sing** declared that they were former members of the HA.

Opening statement by the Secretary for Transport and Housing

10. **Professor Anthony CHEUNG, Secretary for Transport and Housing**, made an opening statement at the beginning of the Committee's first public hearing held on 5 May 2014. The full text of his statement is in *Appendix 5*.

Opening statement by the Secretary for Development

11. **Mr Paul CHAN Mo-po, Secretary for Development**, made an opening statement at the beginning of the Committee's first public hearing held on 5 May 2014. The full text of his statement is in *Appendix 6*.

**B. Planning for the provision of public rental housing flats**

Assessment of public housing supply and demand

*Long-term housing demand assessment*

12. According to paragraph 2.9 of the Director of Audit's Report ("Audit Report"), in order to determine the quantum of PRH production required to maintain the Average Waiting Time ("AWT")<sup>1</sup> at three years as pledged by the Government, the HD had since 2000 used a statistical model for assessing the demand for new PRH flats. As revealed in paragraph 2.17 of the Audit Report, the last assessment was made in 2011-2012 covering the 10-year period from 2011-2012 to 2020-2021. The HD had not made any assessment of long-term PRH demand since 2012-2013.

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<sup>1</sup> The Average Waiting Time ("AWT") for PRH applicants refers to the average of the waiting time between registration on the WL and the first housing offer for all general applicants who were housed to PRH in the past 12 months, excluding any frozen period in between.

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13. The Committee noted from paragraph 2.10 of the Audit Report that the Long-term Housing Strategy ("LTHS") Steering Committee, formed in September 2012, had adopted a new methodology for projecting the long-term housing demand. Under the methodology adopted by the LTHS Steering Committee, housing demand, which included demand for both private and public housing, was defined as the total number of new housing units required to be built if each and every household was to be accommodated in adequate housing over the long term.

14. As reported in paragraph 2.19 of the Audit Report, the methodology adopted by the LTHS Steering Committee was built upon that used by the HD until recently, and had taken into consideration similar factors in assessing the total housing demand, except for not using the statistical model to determine the quantum of PRH production required to maintain the AWT at about three years. The Committee noted that according to the LTHS Steering Committee's recommendation, the long-term housing demand projection would be updated annually to reflect any changes in circumstances in a timely manner.

15. Given that the AWT was widely known and accepted as the measurement for timeliness in satisfying PRH demand, the Committee enquired:

- why the HD had not used its statistical model to assess the long-term PRH demand since 2012-2013; and
- whether the HD would continue to conduct assessments of long-term PRH demand, duly taking into account the target of maintaining the AWT at about three years for general applicants.

16. **Mr Stanley YING Yiu-hong, Director of Housing**, responded that:

- the regular exercise to assess the long-term housing demand for PRH using the previous statistical model was to provide a broad-brush, indicative reference for long-term land-use planning and reservation for PRH for internal reference only. The assessment results were presented to the Committee on Housing Development ("CHD"). The assessment was meant to serve as a tool to facilitate CHD's deliberations only, since the projected housing demand was only one of the many factors considered by the CHD. The then assessments focused on demand projection for PRH. Private housing demand was touched

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upon, but essentially as a residual under the then methodology. There was however no detailed analysis into the demand of the private sector;

- the LTHS Steering Committee's objective was to assess the long-term, overall housing demand for the whole of Hong Kong, whilst the HD's statistical model was used to project the long-term PRH demand only. The two had different focuses and objectives;
- to support the work of the LTHS Steering Committee, the HD had, in collaboration with relevant bureaux/departments ("B/Ds"), developed and submitted a proposal of a new methodology for the projection of long-term housing demand for consideration by the LTHS Steering Committee and hence, the HD had not used its statistical model to conduct long-term housing demand assessment since 2012-2013;
- under this new methodology, housing demand (including both public and private housing) was assessed as a whole. The result of the assessment was that the total housing demand for public and private housing was 470 000 units over the next 10 years, with a 60:40 public-private split. The overall housing supply target and the public-private split were guided by strategic policy considerations and were not just limited to maintaining the three-year AWT target for general PRH applicants;
- the Government would use this new methodology to project long-term housing demand in future and would review it on an annual basis as recommended by the LTHS Steering Committee; and
- the HD had been working on the operational details of the annual updating of the long-term housing demand forecast. Such details included establishing processes for the preparation of various data inputs, internal process for validating data and projections, as well as timing and method for the promulgation of the updated forecasts, etc. The HD aimed to have them sorted out before the end of 2014.

17. **Secretary for Transport and Housing** provided, after the public hearings, a paper on the new methodology adopted by the LTHS Steering Committee for assessing the long-term housing demand (in *Appendix 7*).

*Demand for PRH flats*

18. The overall demand for PRH broadly comprises demand from Waiting List ("WL") applicants and other demands. The HA maintains a WL of PRH applicants. The HA's current target is to maintain the AWT at around three years for general applicants (including both family applicants and single elderly applicants) and around two years for single elderly persons (i.e. those aged 60 or above). The demand from WL applicants has been increasing in recent years. As reported in paragraph 1.9 of the Audit Report, as at end of December 2013, there were about 121 100 general applicants and about 122 200 non-elderly one-person applicants under the Quota and Points System on the WL. The large number of WL applicants indicates a great demand for PRH. This also put immense pressure on the HA in meeting the AWT target of around three years for general applicants.

19. Other demands are housing requirements arising from redevelopment of old PRH estates, urban renewal, clearance of squatters and roof-top structures, compassionate rehousing, quota for civil servants and transfer from sitting tenants. These demands are, to a large extent, dependent on the housing policies and programmes of the HA and the Government.

20. Responding to the Committee's enquiry as to how the HA had allocated the PRH flats to meet the demand from WL applicants and other demands in the past years, **Ms Ada FUNG Yin-suen, Deputy Director of Housing (Development and Construction)**, said that the annual PRH Allocation Plan<sup>2</sup>, which served as a guiding framework for the allocation work of the HA in the year, was drawn up taking account of the anticipated supply of PRH flats and the anticipated demand for PRH flats under various rehousing categories in the year ahead. The annual PRH Allocation Plan was submitted to the Subsidized Housing Committee ("SHC") of the HA each year for endorsement. Upon endorsement of the PRH Allocation Plan by the SHC, the HA would publicize the approved PRH Allocation Plan onto the

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2 In drawing up the PRH Allocation Plan, the HA would ensure the following targets/key performance indicators("KPIs")/practices are met:

- (a) given the large number of applicants on the WL, the HA should allocate as many of the year's available flats as possible to this category in the light of PRH supply and other competing demand;
- (b) the HA's AWT target of around three years for general applicants (excluding applicants subject to the Quota and Points System);
- (c) the HA's KPI on the percentage of vacant flats (which is currently set at below 1.5% of the PRH stock); and
- (d) the HA's KPI on the percentage of overcrowded households (which is currently set at less than 0.55% of the total PRH households).

*Planning, construction and redevelopment of public rental housing flats*

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HA/HD's website for public information. The actual allocation result, which reflected the actual demand and changing circumstances, of PRH flats would be reported to the SHC in the Allocation Plan of the following year.

*Supply of PRH flats*

21. The Committee noted from paragraph 2.11 of the Audit Report that the overall supply of new PRH flats included production of new flats and flats recovered from the surrender by and transfer of existing tenants. The total PRH production for the past 10 years from 2003-2004 to 2012-2013 was 150 312 flats, i.e. 15 031 per annum.

22. Responding to the Committee's enquiry as to how the PRH production level for the past 10 years was derived, **Secretary for Transport and Housing** replied, after the public hearings, in his letter dated 30 May 2014 (in *Appendix 8*) that:

- before the 2013 Policy Address, for a time the HA did not have fixed targets for PRH production. The future PRH production was determined taking into account the following factors:
  - (a) demand assessment for PRH;
  - (b) availability of land, including whether the sites identified were suitable for PRH development and whether the sites would be available in time;
  - (c) competing uses of land, including land for private housing, other community uses, conservation, etc.; and
  - (d) measures to manage PRH resources, such as the well-off tenants policies.

23. According to Figure 1 in paragraph 2.11 of the Audit Report, the annual production of new PRH flats fluctuated between a high of 24 682 in 2004-2005 and a low of 7 192 in 2006-2007 for the past 10 years. The Committee asked what had caused such fluctuations in the PRH production over the past years.

24. **Deputy Director of Housing (Development and Construction)** responded that:

- subsequent to the cessation of sale and production of HOS flats in 2002, some HOS projects had been transferred to PRH projects, resulting in a significant increase in the PRH production at 24 682 units in 2004-2005;
- as a result of the Government's review of the reclamation proposal at the South East Kowloon Development Area, the production of around 12 600 PRH units in the South East Kowloon Development Area, originally scheduled for completion in 2006-2007 and 2007-2008, had been delayed. Hence, only 7 192 new PRH units were produced in 2006-2007;
- implementation of public housing development depended on various factors such as planning, construction and resource allocation, etc. PRH production might vary from year to year, depending on the scale, site specific characteristics/constraints and construction progress of individual projects;
- the HD had put in place the Public Housing Construction Programme ("PHCP"), which was a rolling programme forecasting PRH production of the coming five years, with the March PHCP as a baseline for each financial year. The HD closely monitored the projects in the PHCP and reported the progress of the projects to the HA's Building Committee ("BC") on a monthly basis; and
- in parallel, the HD had performed the Public Housing Development Forecast ("PHDF"), which was a rolling programme forecasting PRH production of the second coming five years. Production beyond the first five years might be subject to changes due to a wide range of factors such as the planning process, consultations, land matters, funding procedures, infrastructures and site formation, etc. The PHDF was reviewed periodically and reported to the CHD on a regular basis.

#### Meeting the pledged production targets

##### *Increasing AWT expected*

25. As reported in paragraph 2.29 of the Audit Report, as at December 2013, the AWT reported by the HD was 2.9 years. Based on the assessment of the long-term housing demand for PRH endorsed by the CHD on 22 December 2010, the AWT

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would reach 3 years by 2014-2015, 3.1 years by 2017-2018, 3.3 years by 2018-2019 and 4.6 years by 2020-2021. Based on the demand assessment in February 2012, the AWT for general PRH applicants was projected to reach 3 years by 2014-2015, 3.4 years by 2015-2016, increasing to 3.5 years by 2018-2019 and 5 years by 2020-2021.

26. The Committee was of the view that the AWT was an important benchmark for assessing the timeliness in satisfying PRH demand, albeit the AWT did not reflect the average actual time for PRH applicants to be housed to the PRH. In view of the higher PRH production target, the Committee asked what measures would be taken by the HD to maintain the AWT at about three years for general PRH applicants.

27. **Secretary for Transport and Housing** responded and **Director of Housing** supplemented that:

- the waiting time<sup>3</sup> was counted up to the first housing offer because an applicant was provided with a housing opportunity at the first offer whilst eligible applicants were given up to three offers. It was a matter of personal decision if the applicant declined the first housing offer to wait for subsequent offers;
- the assessments on the long-term housing demand for PRH conducted by the HD were to provide a broad-brush, indicative reference for long-term land-use planning and reservation for PRH for internal reference only. Indeed, any long-term projection was subject to a number of limitations. Due to the limitations of the previous method, a projection made in 2012 to project what would happen eight years later was likely to be inaccurate;
- besides, various changes in respect of Government policies and their implementation had taken place after the HD's assessment made in 2012, including increasing long-term supply of public housing. The objective was to prevent the projected AWT of five years from happening;

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3 The waiting time refers to the time taken between registration on the WL and the first housing offer, excluding any frozen period in between (e.g. when the applicant had not yet fulfilled the residence requirement; the applicant had requested to put his/her application on hold pending arrival of family members for family reunion; the applicant was imprisoned, etc).

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- the HA would continue to strive at maintaining the AWT target at around three years for general PRH applicants, albeit the fluctuations in demand and supply might lead to occasional departure from this target;
- the HA would keep in view the number of new general applications in a year (which could serve as a medium term reference for the number of PRH flats required to meet the housing needs of these PRH applicants after three years) and the changes in the actual AWTs (which captured the latest changes in the past 12 months). In addition, the HA would continue the existing practice of publicizing the actual AWT on a quarterly basis for public's reference; and
- the HA would also maintain the interchangeability of production between PRH and HOS flats so that the supply of PRH flats could be adjusted wherever necessary and feasible to meet the evolving needs of the community in a timely manner.

Supply of land for public housing

28. The major source of land supply for PRH comes from the Government. According to the Supplemental Agreement between the Government and the HA, the Government would provide formed land and supporting infrastructure for the implementation of the approved public housing development.

*Shortfall in supply of PRH flats in the coming 10-year projection*

29. According to paragraph 2.27 of the Audit Report, the HD's 2012-2013 projections had revealed that the production forecast for the first five-year period from 2012-2013 to 2016-2017 was about 79 000 PRH flats. For the second five-year period from 2017-2018 to 2021-2022, the Government had identified sufficient sites to produce about 100 000 PRH flats. Although this meant about 179 000 flats would be produced for the 10-year period, there was currently still a projected shortfall of supply when compared to the new production target of 200 000 PRH flats. The Committee asked what steps would be taken by the Government to ensure a steady supply of new PRH flats for meeting the new production target of 200 000 PRH flats.

30. **Secretary for Transport and Housing** said that to meet the new production target, it was imperative to secure timely supply of suitable sites for PRH development and expedite the process of PRH projects to ensure that the delivery of



ramped-up production in the second five-year period made up for the shortfall in the first five-year period for the coming 10 years.

31. **Secretary for Development** advised that:

- as at January 2014, some 150 housing sites had been identified and could be made available for residential development in the coming five years (i.e. from 2014-2015 to 2018-2019) providing over 210 000 public and private units, subject to approval from the Town Planning Board for amendments to their respective statutory plans, including land use rezoning and/or increasing development intensity of the residential sites, and the carrying out of the necessary works (infrastructures, clearance of land, etc.);
- the relevant B/Ds would actively explore all feasible ways to increase land supply for public housing development. These included:
  - (a) liaising closely with the concerned bureaux, government departments, District Councils ("DCs") and local communities to identify suitable sites for public housing development in different parts of the territory;
  - (b) optimizing the development potentials of public housing sites having regard to the principles of cost effectiveness and sustainability. Where planning and infrastructure capacity permitted, the Planning Department ("PlanD") and HD would strive to achieve relaxation in plot ratios and height restrictions without compromising the environmental quality; and
  - (c) examining the build-back potential of aged PRH estates so as to increase the supply of PRH flats; and
- sites for subsidized housing development were tracked and driven by the HD which liaised with relevant B/Ds and DCs and local communities on the development programmes. The PlanD-HD Liaison Meeting provided a forum for the two departments to discuss planning parameters and land provision for subsidized housing development. Converting some private housing sites to PRH sites and vice versa could also be explored where necessary and feasible.

*Land supply and site production for PRH development*

32. According to paragraph 2.39 of the Audit Report, increasing land supply required not only identifying areas and land which were suitable for development, but also undertaking comprehensive planning, with a view to providing adequate infrastructure and facilities and addressing the impacts arising from developments, thereby making the development of land better suit the needs of people and community. Therefore, increasing land supply, either by way of optimal use of developed land or identification of new land for development, had to go through certain procedures. The Committee asked:

- what were the principles in identifying sites for PRH production; and
- what steps would be taken to ensure that the development of PRH sites would not adversely impact on the surrounding living environment.

33. **Secretary for Development** responded and **Mr LING Kar-kan, Director of Planning**, supplemented that:

- in reserving sites for public housing, the Government would adopt a prudent approach to maintain a healthy balance between public and private housing, taking into account various considerations such as location, site area, local character, accessibility and housing mix. In general, sites which were considered suitable for PRH included:
  - (a) those located within or in close proximity to the existing PRH or HOS estates as these sites were suitable for extension of the existing estates or for redevelopment purpose;
  - (b) preferably sizable sites that would facilitate comprehensive planning of mass housing with supporting community facilities and achieve cost-effectiveness of housing projects;
  - (c) those located in areas that were considered suitable for high-rise, high-density developments; and
  - (d) sites that were/would be conveniently accessible and/or well-served by public transport. To build a balanced community, it was also necessary to maintain an appropriate mix of public and private housing in a district;

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- before making the relevant proposals, the PlanD and other relevant departments would assess all relevant aspects in accordance with an established mechanism and criteria, e.g. whether there were sufficient infrastructure and community facilities to meet the needs of the proposed developments and the local community nearby; and
- the Government had commenced the consultation with DCs on the proposed housing developments. The Government appreciated that some DC members and residents would be worried that the proposals would have adverse impact on the traffic, infrastructure, environment and visual impacts, or community facilities and open space would not be sufficient to cater for the population intake. Where necessary, departments concerned would further conduct detailed technical assessments and propose implementation of appropriate mitigation measures. The Government hoped DCs and local communities would understand that appropriate mitigation measures would be introduced in phases and some impacts were just inevitable, albeit the Government would endeavour to minimize any impacts brought about by the proposed developments when converting the sites for housing development.

34. The Committee noted from paragraph 2.47 of the Audit Report that as at March 2014, a number of sites which had been earmarked for public housing had not been included in the HD's PHCP/PHDF because the availability of these sites was subject to technical assessments, engineering studies, rezoning, land resumption, graves/land clearance, reprovision/relocation of existing/planned facilities, extensive site formation, availability of basic infrastructures such as sewage, land decontamination, road works gazettal, etc.

35. On the measures to expedite the inclusion of the sites earmarked for public housing in the HD's PHCP/PHDF, **Secretary for Development** replied in his letter dated 29 May 2014 (in *Appendix 9*) that:

- as announced in the 2014 Policy Address, additional sites had been identified in various districts with potential to be rezoned for residential use. The Government had already commenced the consultation with DCs so as to proceed with the proposed rezoning as soon as practicable. The relevant B/Ds had also been working closely to carry out the necessary assessments and/or resolve the technical issues involved, with a view to expediting the land formation, infrastructure construction and

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other required procedures for the timely delivery of public housing units. Furthermore, the PlanD and Lands Department ("LandsD") would conduct site search for permanent and temporary reprovisioning of affected facilities respectively;

- besides, to enhance the capability in land supply and development, a new team would be established in the Development Bureau ("DevB"), subject to the Finance Committee's approval, to oversee the site production process and enhance inter-bureau and inter-departmental coordination in site tracking and land production; and
- the DevB would continue to liaise closely with the Transport and Housing Bureau/HD to secure sufficient number of suitable sites and discuss how best to streamline the procedures to fast-track the site delivery for meeting the new PRH production target.

*Public housing sites returned to the Government*

36. According to paragraph 2.59 of the Audit Report, most of the sites identified for PRH involved site constraints and issues to overcome before development could proceed. Generally there were 15 general studies for potential PRH sites and 10 specific studies depending on the specific characteristics and constraints of individual sites.

37. As reported in paragraph 2.60 of the Audit Report, during the period from 2001 to 2013, the HA had returned 24 PRH redevelopment sites to the Government for other uses to tie in with local development needs, or to fully utilize the economic benefits of individual prime sites. These sites were already formed and were thus available for immediate PRH construction. In some cases, replacement sites were provided by the Government in exchange for the return of existing PRH sites. However, such replacement sites were usually at the early planning stage. They might not be immediately available for PRH development since it would normally involve rezoning of sites, land resumption clearance, large-scale site formation works, technical feasibility study and other site development constraints.

38. In reply to the Committee's enquiry about the policies on the return of PRH redevelopment sites to the Government and the mechanism for returning such sites to the Government, **Secretary for Development** stated, after the public hearings, in his letter dated 9 June 2014 (in *Appendix 10*) that:

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- the Government, when making the decisions regarding sites returned from the HA for other uses, would take into consideration a host of factors including the local context, planning parameters, technical feasibility, housing mix, provision of government, institution or community and open space facilities, other social needs, the prevailing policy, etc.; and
- more importantly, whilst certain PRH sites were returned to the Government, the Government had pledged to provide sufficient land to the HA for PRH production to meet the production target. To this end, the PlanD and the HD had been and were in close liaison to identify sufficient sites for development of public housing. For instance, a number of sites including those in Fanling Area 49, Tung Chung Area 39, Mok Cheong Street, Wah Fu North, San Hing Tsuen, Sau Mau Ping, and the Fanling North and Kwu Tung North New Development Areas had been identified as additional/replacement sites for PRH development over the years.

39. **Secretary for Transport and Housing** stressed that on account of the then demand and supply situation of both public and private housing, as well as the prevailing policies and circumstances, the Government and the HA had come up with the arrangements for the return of the 24 PRH redevelopment sites to the Government for other uses. There was an internal coordination mechanism in the Government which operated through the Steering Committee on Land Supply ("SCLS"), the Committee on Planning and Land Development ("CPLD") and the CHD that together coordinated plans for development and supply of land for different types of land use. In view of the new production target for the coming 10 years, the Government was working very hard to secure adequate land supply for public housing development. In this regard, the HA had no plan to return PRH redevelopment sites to the Government. **Secretary for Transport and Housing** pledged that sites vacated by the demolition of aged PRH estates for redevelopment would be retained for development of public housing.

40. Responding to the Committee's enquiry as to why the HA had returned the the Ex-Homantin Estate redevelopment site to the Government in 2013, **Secretary for Transport and Housing** explained that:

- the HA agreed to return the Ex-Homantin Estate redevelopment site (referred to in Case 4 of the Audit Report) in 2005 after the announcement of the Housing Policy Statement in 2002, subject to the availability of replacement sites. Phases 2, 3, 5, 6 and 7 of the Ex-Homantin Estate

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redevelopment site were grouped into three sites: Phases 2 and 7 as Site I (net site area being 20 810 square metre ("sq.m.)), Phase 6 and part of Phase 3 as Site II (7 191 sq.m.), and Phase 5 and part of Phase 3 as Site III (5 960 sq.m.). Since 2005 the three redevelopment sites had been in the Government's total stock of sites, and considered together with all other sites against the many demands for land that the Government had to meet;

- as a matter of fact, there had always been a need to ensure a steady land supply for private housing for a healthy development of the property market. The current-term Government similarly had to determine how to use each site in the best way to meet demands for community uses, conservation, private housing, public housing etc.;
- as Sites I and II were considered suitable for private residential use, they were included in the 2011-2012 Land Sale Programme in February 2011 pursuant to the 2010-2011 Policy Address. The two sites were made available for sale by application in November 2011 after the LandsD had finalized the sale conditions, and successfully tendered in March 2013 and June 2013 respectively through government-initiated sale. Site III was earmarked for Government, Institution or Community use; and
- whilst the three redevelopment sites had been used for other purposes, the Government had allocated replacement sites to the HA for public housing development, including major sites such as Queen's Hill, Tai Po Area 9, Shek Mun, Lai Chi Kok Road-Tonkin Street and Kai Lung Wan in Pok Fu Lam, etc.

*Development costs written off*

41. According to paragraph 2.62 of the Audit Report, in general, the HA was not responsible for the costs of land formation. However, for redevelopment sites, agreement between the Government and the HA was reached on a case-by-case basis. There were often cases in which the HA had agreed with the Government to take up the works and/or the costs of some site formation/reclamation to facilitate the development process. The Government was, in general, responsible for funding the land formation of the new sites. Nonetheless, in some cases, the sites returned to the Government were finally sold to developers or converted to other uses, the development costs incurred by the HA had to be written off in its financial statements. The development costs for such returned sites written off in 2011-2012 and 2012-2013 were \$84 million and \$125 million respectively. The Committee asked why the development costs of such returned sites were not borne by the Government.

42. **Secretary for Transport and Housing** explained that:

- the Government usually allocated sites to the HA under two types of agreements, namely the Vesting Order ("VO") and the Short Term Tenancy ("STT");
- for Ex-Homantin Estate, the HA was vested the control and management of the relevant premises under a VO. For Inverness Road, the HA was allocated the site under a STT to carry out site formation and road works. Under both types of agreements, there was no provision for compensation to be made to the HA upon revocation of the agreement; and
- for the remaining four sites, namely, Welfare Road Aberdeen, Wong Tai Sin Police Quarters, Tseung Kwan O Area 74 South Phases 1 & 2, and Sha Tau Kok Road Fanling, the Government had not allocated the sites to the HA for public housing construction. They had been earmarked for the HA to carry out preliminary studies or other preparations. As there was no agreement between the Government and the HA, there was no basis for the HA to seek reimbursement of the development costs incurred.

*Parties involved in development and supply of land*

43. As reported in paragraph 2.34 of the Audit Report, the Steering Committee on Housing Land Supply ("SCHLS"), chaired by the Financial Secretary, was set up in October 2010 to coordinate the efforts of the various policy bureaux and government departments concerned in making available land for the housing supply targets set by the Government. The SCHLS had been re-organized into the SCLS since February 2013. Apart from the SCLS, the CPLD and the CHD were also involved in the development and supply of land for housing development. The Committee asked about the roles and responsibilities of various committees in meeting the pledged production target at 200 000 PRH flats over the coming 10 years.

44. **Secretary for Transport and Housing** replied that:

- under the existing mechanism, the CHD, chaired by the Permanent Secretary for Transport and Housing (Housing) cum Director of Housing, was responsible for assessing the housing demand, monitoring the timely supply of suitable land for public housing development to meet the anticipated demand, as well as the implementation of public housing development programme to meet the housing supply targets set by the Government, subject to timely availability of land;

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- the CPLD, chaired by the Secretary for Development, coordinated land use planning and land development matters, including planning and allocation of land for various uses such as residential uses, and made decisions on development proposals and development parameters of individual sites;
- in 2010, on top of the CHD and CPLD, the then SCHLS was set up to coordinate the efforts of the various policy bureaux and government departments concerned on increasing housing land supply. The SCHLS had been re-organized into the SCLS since February 2013, with its scope of work expanded to coordinate the overall plans for development and supply of land for different types of land uses including housing and commercial uses; and
- with the announcement of the new housing supply target in the 2014 Policy Address, the SCLS would continue to coordinate the efforts of B/Ds to increase land supply for housing with a view to meeting the target. With the involvement of relevant policy secretaries and heads of departments, the SCLS provided a forum for resolving inter-bureau and inter-departmental issues affecting the availability of individual housing sites, such as infrastructure provision, and had been coordinating the overall land supply.

45. Despite the Government's pledge to increase the PRH production to 200 000 flats for the coming 10 years, the Committee noted from paragraph 2.14 of the Audit Report that the LTHS Steering Committee had recommended that the new production target should be adjusted flexibly to cater for changes in circumstances, in order to give due consideration to and strike a balance between the two major objectives of increasing the production of public housing to satisfy public demand and stabilizing the private market. The Committee asked what measures would be taken by the Government to ensure the continuity of housing policy.

46. **Secretary for Transport and Housing** advised that as stated in the LTHS Steering Committee's report on public consultation, there was general support for the recommendation to adopt a supply-led LTHS with public housing accounting for 60% of the new housing production at 470 000 units. With the announcement of the new production target in the 2014 Policy Address, there was public expectation that the Government would implement measures to increase land supply for public housing and expedite the process of PRH projects to meet the new target. In



consideration of the public expectation of increased PRH production level, there was no ground for the discontinuation of housing policy upon the change of Government.

### **C. Management of public rental housing construction projects**

#### Monitoring progress of construction projects

##### *Construction works management*

47. According to Table 7 in paragraph 3.4 of the Audit Report, since 2013 the HA had streamlined the construction process to reduce the timeframe for PRH construction from seven years to five years under the fast-track programme. The Committee enquired whether consideration could be given to setting the life cycle of all PRH construction projects at five years.

48. **Deputy Director of Housing (Development and Construction)** replied that:

- in order not to compromise the quality of construction works and site safety, the five-year duration was achievable only under fast-track programme for completion of a 40-storey public housing block on "spade ready" sites (i.e. sites which had been properly zoned for residential use, and sites which were flat, resumed, cleared and formed with adequate provision of infrastructure). The key to prompt delivery of public housing hinged essentially on securing "spade ready" sites;
- in addition, early support of DCs and the local communities as well as having all the other resources including adequate manpower in place were essential. Under the five-year fast-track programme, the HD had to make best efforts to fast-track the preparatory work by compressing the programme for various feasibility studies, consultations with DCs and local communities, planning and design works from three years for a normal project to one year for a fast-track project;
- apart from "spade ready" sites and early community support, there were occasions where construction works had taken longer than three and a half years to complete. This had happened in cases such as building exceeding 40-storey in height, or building sitting on podium with deep and difficult foundation or hilly site with extensive site formation work; and

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- the HD would examine the nature and relevant features of a particular project site for determining the project life cycle. In view of the aforesaid, it was not advisable to rigidly set the life cycle of all PRH construction projects at five years.

49. In the light of the new PRH production target and the compressed timeframe, the Committee asked about the measures to expedite the construction process of a PRH project. **Deputy Director of Housing (Development and Construction)** responded that:

- the HD would continue to enhance and streamline the administrative procedures for public housing development by bringing in advance building technology and equipment. These included outsourcing detailed design works and wider use of mechanization and prefabrication technology. The HD had been extending adoption of precast elements to roof and external works including precast parapet wall, water tank and manhole. Since precast elements were cast independent of the in-situ construction works, the use of precast elements and prefabricated technology could help save construction manpower resources and shorten construction time;
- besides, the HD would conduct a series of upfront measures to minimize the risk of project delays. These included the implementation of more investigation works to assess ground conditions, advanced trial pit for underground utilities to ensure no underground obstruction, advanced hoarding work and off-site drainage and plumbing work to facilitate the building construction; and
- the HD would closely monitor the project progress at all stages to ensure that the development programmes would be completed in a timely manner. In addition, the project progress was reported to the HA's BC on a monthly basis for programme monitoring.

*Planned timeframe for PRH production*

50. The Committee noted from paragraph 3.2 of the Audit Report that the HA currently had six standing committees, including the Strategic Planning Committee ("SPC") and the BC. According to the terms of reference, the SPC considered the viability of projects relating to public housing development, approved the inclusion of sites in the production process, and reviewed all housing programmes relating to

policy targets. The BC approved project budget, master layout plans and scheme designs for public housing projects.

51. As revealed in paragraph 3.7 of the Audit Report, for the Tuen Mun Area 18 project, the HA's BC meeting was held 1.5 years after the SPC meeting. The project was delayed because there had been a lengthy consultation between the HA and the Tuen Mun DC on the provision of additional community facilities, causing major changes to the original Project Brief. Given that it was not unusual for the HD to encounter problems such as objections by the local concern groups or other stakeholders during the process of the development of PRH projects, the Committee asked what measures would be taken by the HD to minimize the risk of project delays.

52. **Deputy Director of Housing (Development and Construction)** responded that:

- the HA was entrusted by the relevant B/Ds to construct ancillary facilities for the PRH residents and the local communities after constructing the domestic blocks, despite the fact that the provision of community facilities was not planned by the HA and was beyond the control of the HA;
- during the process of the development of the project, there were objections to the Tuen Mun Area 18 project from the local communities, on the grounds of a high concentration of public developments and inadequate community facilities in the district. The Project Team had taken steps proactively to address the issue of the provision of a Community Hall, and to actively liaise with all concerned B/Ds for funding and technical approvals;
- the HA had revised the scheme design proposal continually during the lengthy consultation with the Tuen Mun DC. In February 2009, the BC approved the project scheme design and the project budget. There was no delay to the completion of the domestic portion of the Tuen Mun Area 18 project and the respective Building Contract as the planned completion date of the Community Hall was not specified in the relevant BC paper; and
- after consolidating the experience from the Tuen Mun Area 18 project, the HA had been conducting consultations as early as practicable to deal

with concerns and objections from the local communities or other stakeholders, with a view to ensuring a timely delivery of both the domestic portion and the community facilities. Where practicable, development programmes in the same district would be bundled together for consultation with the local communities or other stakeholders.

*PRH construction project delays*

53. According to paragraph 3.5 of the Audit Report, the period of construction project could be significantly shortened by two years because the first four stages relating to planning and approval would be compressed.

54. The Committee noted from paragraph 3.9 of the Audit Report that after the land site was ready for construction, it normally took the HD around 3.5 years to carry out the construction work. According to the 2012-2013 PHCP, six PRH projects would be completed in 2012-2013 involving the production of 13 114 flats. Audit found that there had been some project delays in these six projects. The period of delay ranged from 2 to 7 months compared with the planned completion dates stated in the relevant BC papers. Given that project delays would cause great inconvenience to the incoming tenants and lengthen their actual waiting time for PRH, the Committee asked:

- what had caused the delays in the six PRH projects completed in 2012-2013; and
- what measures would be taken by the HD to better monitor the progress of the construction works and minimize construction programme slippage.

55. **Deputy Director of Housing (Development and Construction)** explained that:

- there were usually two months of extension allowed for delays due to inclement weather for building contracts. The delays in the six PRH projects were mainly due to extra inclement weather and some legitimate or genuine grounds for extension of time that the contractors were entitled to. There were also reasons for delay which were beyond the control of the contractors or the HA. These included late possession of site, delay by other parties such as the utility companies, delayed utilities connections due to congested underground conditions

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and complex ground conditions. As a result, most of these projects had legitimate postponement of project completion date which resulted in no or only very minor slippage. In order not to affect PRH in-take, the HD staff concerned would endeavour to separate the domestic portion and try to complete it earlier. This was the reason why the completion of non-domestic portion was sometimes later than that of the domestic portion in a PRH construction project;

- the HD had put in place a systematic performance monitoring and reporting system underpinned by an objective Performance Assessment Scoring System so that any delay or failure in performance could be identified and mitigation measures would be implemented promptly;
- besides, there was a Liquidated Damages provision in construction contracts to deal with delays in various sections of the works. If there was a delay to the construction works for which the contractor was responsible, the Contract Manager would enforce the Liquidated Damages provision and recover the damages from the payment due to the contractor; and
- during the construction period, the Contract Manager, his representatives and site staff would closely monitor the construction progress, pay regular site visits, hold site meetings and perform site supervision and inspection in order to ensure the contractor's performance meeting the quality standard and adhering to the works programme.

Monitoring costs of construction projects

56. The Committee noted from paragraph 3.16 of the Audit Report that under the current HA's budget system, the Project Construction Cost Ceilings are approved by the SPC at the feasibility study stage. A Project Budget is approved by the BC at the budget stage provided that it is within the Project Construction Cost Ceiling previously approved by the SPC and the project budget is revised at the building tender stage.

57. According to paragraph 3.20 of the Audit Report, Audit analyzed the six projects completed in 2012-2013. All of them involved budget revisions. The actual/estimated costs of all the six completed projects were within the approved budgets. Comparing with the original budgets, variances of 27% to 37% were noted for the actual/estimated costs of three of the six projects.

58. On the measures to improve the accuracy of budgeting for PRH construction projects, **Deputy Director of Housing (Development and Construction)** advised that:

- the HA had in place a proper budget preparation and approval process, and an effective budgetary control system. The Construction Cost Ceilings/Budgets at the feasibility study and budget stage were prepared based on the cost yardsticks with adjustments made for known requirements and detailed design information of individual projects. The construction cost yardsticks were compiled in June every year to reflect the tender price movement and changes in design requirements since last compilation. Blanket approval covering those developments parameters requiring updating was sought from the SPC, or the BC where the updating only involved changes resulting from the use of the latest approved standard cost yardsticks, tender price inflation and contract price fluctuation adjustment factors;
- when preparing the tender documents, the contract team of the HD was responsible for monitoring costs against the approved budget parameters and amending project design if required to bring costs within the approved budget parameters. Revisions to the project budget would be submitted to the BC for approval after the Tender Committee's approval of the award of the contracts. Once the construction work started, the project manager would carry out annual budget review for the latest estimate of annual construction expenditure to avoid over/under spending; and
- to further improve the accuracy of budgeting for PRH construction projects, the HD had been enhancing the following aspects of the system:
  - (a) closer monitoring of construction market cost trends, in particular the cost movements of construction labour and materials;
  - (b) closer monitoring of construction costs at the detailed design and tender stages against the approved budgets; and
  - (c) closer monitoring of design variations at the construction stage against the design upon which the approved budget was made.

59. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, further information on the dates the original and revised budgets for the three projects were compiled and the reasons for such revisions (in *Appendix 11*), as well as the financial information of the HA for the financial years from 2009-2010 to 2013-2014 (in Appendix 7).

#### **D. Redevelopment of public rental housing estates**

##### Comprehensive Structural Investigation Programme

60. As reported in paragraph 4.5 of the Audit Report, the Comprehensive Structural Investigation ("CSI") Programme had been rolled out since September 2005. It included a detailed investigation which aimed to determine the material strength and rate of deterioration of the structural elements of a building, focusing on major aspects such as concrete strength, extent of spalling and cracks, and corrosion of steel reinforcement bars, etc.

61. According to paragraph 4.8 of the Audit Report, primarily in consideration of the estates' age, a total of 42 estates built in 1980 or earlier were included under the CSI Programme in two batches. Up to January 2014, assessment on the 26 oldest estates had been completed. So far, all estates had been found to be structurally safe. The CSI found varying extent of structural deterioration in the older public housing blocks.

62. On the way forward of those PRH blocks or estates which remained structurally safe after the CSI, **Mr CHAN Siu-tack, Assistant Director of Housing (Estate Management)**<sup>2</sup>, said that:

- for those PRH blocks/estates which remained structurally safe but required improvement works to enhance the structural capacity, appropriate works such as structural strengthening, recasting or tailor-designed concrete repair would be arranged so that no major structural repairs would be necessary for at least 15 years. Another detailed CSI would be carried out near the end of the 15-year period;
- the expenses on maintenance and improvement works for old blocks generally increased with age. Whilst it might be technically feasible to extend the serviceable lifespan of the PRH blocks through various upgrading works, the associated costs would at a certain point outweigh

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the benefits, thus making it uneconomic to retain the blocks. A financial appraisal would be carried out for the costs of repair works to determine its financial viability. Demolition might be considered if the cost-benefit analysis suggested that the aged blocks or estates were beyond economic repair;

- the estimated repair cost per flat varied amongst various estates. It ranged from \$1,200 to \$47,900 per flat. So far, only So Uk Estate and Tung Tau Estate Block 22 had been recommended for redevelopment under the CSI Programme because their estimated structural repair costs per flat (in the range of \$46,200 to \$47,900) were not economically viable; and
- for those PRH blocks/estates which were identified for redevelopment in the next few years, repair and maintenance works including those concerning statutory compliance, safety and hygiene would be carried out to maintain these blocks/estates in satisfactory conditions until their clearance, instead of works for at least another 15 years.

63. The Committee noted from paragraph 4.10 of the Audit Report that in consideration of the resource demand and the anticipated amount of works involved, the HD currently adopted a manageable programme approach by conducting CSI for only three to four estates per year. Audit noted that there were 42 estates included in the CSI Programme from 2005 to 2018 (26 estates completed during the eight years from 2005 to 2013), and more estates would probably be included in the next CSI Programme beyond 2018. The Committee asked whether the HD had critically assessed the resource requirements for conducting CSI and planned ahead for the implementation of the next CSI Programme which was expected to start from 2018.

64. **Assistant Director of Housing (Estate Management)**<sup>2</sup> responded and **Secretary for Transport and Housing** replied, after the public hearings, in his letter dated 30 May 2014 (in Appendix 11) that:

- to ascertain the building conditions of individual estates, the HD had since 2005 conducted the CSI on ageing estates which was about 40 years old or above and often associated with soaring maintenance and repair costs;
- the whole investigation process covered desktop study, visual inspection, site and laboratory testing, and technical assessment. The



findings would facilitate the consideration and planning of the necessary follow-up actions such as monitoring, repair or clearance. If certain blocks or estates were found to be structurally unsafe, demolition would be recommended; and

- a total of 38 HD staff was currently involved in the CSI Programme. Based on the HD's assessment, no additional resources was required for the rest of the current CSI Programme from 2005 to 2018. The HD would conduct an early review to assess the resource requirements for the CSI and prepare an implementation plan ahead of the next CSI Programme expected to start in 2018.

### Refined Policy on Redevelopment

#### *Refined Policy on Redevelopment of aged PRH estates*

65. According to paragraph 4.18 of the Audit Report, in November 2011, in response to an initiative announced in the Policy Address of 2011-2012 "to explore ways to appropriately increase the densities and plot ratio of PRH projects without compromising the living environment", the HA implemented the Refined Policy on Redevelopment of aged PRH estates by considering the build-back potential and the availability of rehousing resources of the estates in addition to the structural conditions of the housing blocks and the economic viability of repair works under the current CSI Programme. The Committee noted from paragraph 4.20 of the Audit Report that out of the 26 estates with the CSI completed, the HD had recommended the way forward for 16 estates.

66. **Deputy Director of Housing (Development and Construction)** advised that:

- as the redevelopment potential assessment of the 16 estates was completed before the introduction of the Refined Policy on Redevelopment in November 2011, the build-back potential of these 16 estates was not considered;
- of the 16 estates, two estates (i.e. So Uk Estate and Tung Tau Estate Block 22) had been identified for clearance based on an earlier set of redevelopment criteria, i.e. structural safety and economic viability of repair works;

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- as announced in the 2014 Policy Address, Wah Fu Estate was considered suitable for redevelopment following the Government's decision to partially lift the development moratorium at Pok Fu Lam South and adjacent government sites to facilitate the use of the five government sites for public housing development; and
- as for the remaining 13 retained estates, a preliminary review on the redevelopment potential of these estates had been completed in early 2014. Such review was a starting point for the HD to conduct detailed studies of selected aged estates in future.

*Build-back potential for the old estates*

67. Responding to the Committee's enquiry about the timeframe for conducting a detailed review on the build-back potential of all aged estates with CSI completed, **Secretary for Transport and Housing** responded and **Deputy Director of Housing (Development and Construction)** supplemented that:

- up to February 2014, the HA had completed a preliminary review on the redevelopment potential of 22 aged estates with CSI completed. The completion of the preliminary review served as a starting point for detailed studies of selected aged estates in the future, not a decision that all 22 estates would be redeveloped in the near future with a firm timetable;
- the HA had no plan to redevelop all 22 aged PRH estates in one go. In fact, the HA was constrained by established policies and considerations in deciding how many estates it could redevelop at one time;
- in deciding whether individual estates should be redeveloped, the HA would consider the following three criteria holistically:
  - (a) whether the housing blocks were no longer safe or economic to maintain as confirmed by the findings of the CSI;
  - (b) whether individual estates had a promising flat gain upon optimization of development potential; and
  - (c) whether suitable rehousing resources were available nearby; and

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- the HD would prudently plan its redevelopment programme and would allow adequate time for negotiations with the tenants, local community or other stakeholders, and DC members.

68. As reported in paragraph 4.22 of the Audit Report, among estates in the pipeline for the CSI Programme and the 2009 redevelopment potential review, Pak Tin Estate had been identified with high redevelopment potential and promising flat gain as well as suitable rehousing resources. In January 2012, the HA endorsed the plan for the redevelopment of Pak Tin Estate. However, Audit found that new lifts were installed shortly before the launching of the redevelopment of Pak Tin Estate. The Committee asked what measures would be taken to avoid potential wastage of resources due to the launching of redevelopment plan shortly after the completion of major improvement works in an estate in future.

69. **Deputy Director of Housing (Development and Construction)** responded that addition of lifts was to enhance mobility of the tenants especially the senior citizens and disabled persons. The lift addition works at Blocks 2 and 12 commenced in January 2011, well before the implementation of the Refined Policy on Redevelopment, and were completed respectively in July and August 2012. Since the HA had adopted the Refined Redevelopment Policy in November 2011, there had been an established mechanism to enhance coordination within the HD so that the redevelopment programme of aged estates would be made known to the parties handling various programmes of maintenance and improvement works to the concerned estates to enable better planning.

### Exploring future redevelopment potential

#### *PRH Interim Housing blocks*

70. According to paragraph 4.29 of the Audit Report, as at January 2014, the HA had three Interim Housing ("IH")<sup>4</sup> estates, namely Shek Lei (II) IH, Long Bin IH and Po Tin IH, which provided a total of 4 914 units. The vacancy rates as at January 2014 of the three IHs were 60%, 40% and 8% respectively. Two Transit Centres, namely Po Tin Transit Centre and Lung Tin Transit Centre also provided

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4 It is the Government's policy to ensure that no people would be rendered homeless as a result of natural disasters, fire, emergencies, as well as the Government's clearance and enforcement actions. At present, the HD provides temporary accommodation to those in need in the Po Tin Transit Centre at Tuen Mun through the referral of the Buildings Department or the LandsD. Those who have lived in the transit centre for three months, passed the "homeless" test, and fulfilled the eligibility criteria for PRH can be rehoused to IH while awaiting PRH allocation through the WL system.

temporary accommodation. In view of the age, increasing maintenance cost and high vacancy rates, the Committee asked whether consideration would be given to making better use of the IH blocks and the Transit Centres.

71. **Secretary for Transport and Housing** replied that:

- it was the Government's policy that no person would be rendered homeless as a result of natural disasters or clearance operations. Persons affected by natural disasters and emergencies would be provided temporary accommodation at the Transit Centres and thenceforth IHs for those with genuine housing needs but not immediately eligible for the allocation of PRH flats. To this end, there was a need to maintain sufficient vacant IH and Transit Centre units;
- after the reviews in 2011 and 2013, decision was made to retain the Shek Lei IH and clear the Long Bin IH in January 2016. The overall supply of IH units had therefore decreased substantially by 840 units with the Long Bin IH withheld from letting pending clearance; and
- from an operational perspective, there was a need to maintain the Shek Lei IH, being the only IH in Extended-urban area, to accommodate affected households of various emergencies taken place in Urban/Extended-urban areas despite the fact that the HA's established policy was to rehouse the affected persons to Transit Centres and IHs in the New Territories. Over the years, the Shek Lei IH had been used as a temporary accommodation for affected households of various natural disasters and emergencies. The HD would continue to review the provision of IH and Transit Centre units on a regular basis.

*Better utilization of vacant sites*

72. As revealed in paragraph 4.27 of the Audit Report, Audit found that some PRH redevelopment sites which had been cleared a number of years ago were still left undeveloped. An example was the Phases 3, 6 and 7 of Shek Kip Mei Estate. The Committee considered that the HD needed to explore the better use of its existing land resources and explore the feasibility and expedite the process of putting the vacant sites into beneficial uses.

73. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, in his letter dated 30 May 2014 (in Appendix 11) further information on the steps taken by the HD to put the vacant sites into beneficial uses after the demolition works were completed in the sites of Phases 3, 6 and 7 of Shek Kip Mei Estate.

## **E. Way forward**

### Financing the new PRH production target

74. The Committee noted that according to the 2014-2015 Budget Speech, the HA would have an estimated balance of \$68 billion at the end of 2013-2014, which could meet the funding requirement of the development programme for the next four years; however, to achieve the new housing production target, the HA should keep enhancing cost-effectiveness and sustainability of its modus operandi in the long run. In this connection, the Financial Secretary had indicated that the HA was expected to assess the additional financial resources needed for the coming 10 years. The Committee asked:

- what was the estimated construction expenditure for the 200 000 PRH flats in the 10-year period from 2013-2014 to 2022-2023; and
- how such costs would be financed.

75. **Director of Housing** replied that:

- between 2003-2004 and 2012-2013, the HA's production target of 150 000 PRH units had generally been met. The HA had annual consolidated surpluses for the past five years, after offsetting the PRH's operating deficit from the surplus of other operations and investment. With the fund generated from the annual operation and over \$60 billion balance carried forward in the past five years, the HA had been able to meet the funding requirement of its operation and construction programmes;
- with the new production target at 200 000 PRH units, the HA was expected to produce an additional supply of 50 000 PRH units in 10 years on top of the previous 10-year production level of 150 000 units;

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- currently, the construction cost of a PRH flat (not including the land cost) was on average around \$0.7 million. However, this might not reflect the unit cost for constructing all the 200 000 PRH flats in the coming 10 years as the unit cost would be affected by factors such as the site conditions, the scale of development projects, the specific building designs to overcome site constraints, price level changes of construction labour and materials, etc.;
- the Housing Authority Tender Price Index ("HATPI") was compiled for each quarter to provide an indication of the price level of tenders for new building contracts returned in that quarter and accepted by the HA. Nonetheless, the level of tender prices was not a determining factor in the planning of public housing development programme. A comparison between the HATPIs and the tender price indices of the two major private quantity surveying consultant firms revealed that the HA's tender price trend for building works was similar to that of the private sector in the previous 10 years;
- under the established PRH rent adjustment mechanism, PRH tenants' affordability was the objective basis for determining PRH rent, which was adjusted in accordance with extent of changes in PRH tenants' overall household income. That said, it was not possible for the HA to finance its construction programmes by raising rents to unacceptable levels. Apart from PRH rental income, the HA also generated revenue from the Commercial and Home Ownership Assistance Operations; and
- it was the HA's practice to prepare budgets and forecasts on a rolling basis covering the first and the second coming 5-year periods. In response to the Financial Secretary's Budget Speech of 2014, the HA was in the process of conducting an assessment on additional financial resources needed for the next 10 years taking account of revenue increases and cost savings before discussing with the Government on a feasible long-term financial arrangement.

76. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, further information on the construction expenditure for PRH each year in the past 10 years and the HATPIs over the same period (in *Appendix 12*).

Redevelopment of old PRH estates

77. Redevelopment of old PRH estates offers an opportunity for better utilizing the plot ratio of the sites and providing additional supply of PRH flats. The Committee asked about the HA's plan for implementation of PRH redevelopment projects in future.

78. **Secretary for Transport and Housing** said that:

- according to the Refined Policy on Redevelopment of aged PRH estates, in considering redevelopment of the existing estates, the HA would refer to the findings of the CSI on structural safety and cost effectiveness of repair works, and consider the build-back potential of individual estates as well as availability of suitable and adequate rehousing resources nearby;
- availability of rehousing resources alone could not determine a redevelopment plan. The HA would review the development constraints and opportunities pertaining to individual aged estates, conduct a series of detailed technical studies and liaise with relevant B/Ds on the provision of ancillary facilities such as community, welfare, transport and educational facilities in order to confirm the build-back potential and flat gain as well as feasibility of redeveloping a particular aged estate before preparing an implementation programme;
- these factors might change over time for individual estates. Taking Wah Fu Estate as an example, this estate was considered suitable for redevelopment after the Government decided to partially lift the development moratorium at Pok Fu Lam South and adjacent government sites which could be used as reception resources; and
- as the Director of Audit had rightly pointed out, redevelopment of aged estates would in the short term reduce the public housing stock and generate additional rehousing needs from the affected tenants, resulting in an immediate adverse impact on the AWT for PRH. The HA had to duly take this into account in planning and implementing major PRH redevelopment projects. In this connection, the HA would consolidate the experience from the implementation of the redevelopment of Pak Tin Estate before considering the launch of another redevelopment project.

79. Responding to the Committee's enquiry about the steps to be taken to uphold the quality of surrounding living environment during the redevelopment of PRH estates, **Secretary for Development** replied that:

- in assessing the development potential of redeveloping aged PRH estates, apart from making reference to the Hong Kong Planning Standards and Guidelines, the Government would consider a host of factors including the development restrictions on the statutory plans (such as the maximum plot ratio/total gross floor area, building height and site coverage), development constraints, local context, environmental, traffic, air ventilation and visual impacts of the redevelopment on the surrounding area, infrastructure capacity, the concerns from the local communities, provision of government/community facilities required by relevant government departments/DCs, etc. Where necessary, the PlanD would liaise with relevant B/Ds to explore with the feasibility of permanent and temporary reprovisioning of affected facilities;
- the Government needed to reiterate that the development potential of aged estates was just one of the factors to be taken into account in considering redevelopment programmes. According to the HA's Refined Policy on Redevelopment, in considering redevelopment of the existing estates, the development potential of the sites, structural conditions of the housing blocks, economic viability of repair works and availability of suitable rehousing resources nearby would be taken into account; and
- the HA would conduct various technical studies on the traffic, environment, ventilation, visual impacts, supporting facilities, etc. and consult the relevant government departments to ensure that the public housing development would be compatible with the development of the district concerned and would not compromise the surrounding living environment.



## **F. Conclusions and recommendations**

<b>Overall comments</b>
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80. The Committee:

- affirms that as providing public rental housing ("PRH") to low-income families and individuals is one of the most effective means of alleviating poverty and having regard to the long queue for public housing, it is incumbent upon the Hong Kong Housing Authority ("HA") and the Housing Department ("HD") to maintain the average waiting time ("AWT") target of around three years for general applicants on the Waiting List ("WL");
- expresses grave concern that the housing problem of the under-privileged had not been adequately addressed as it should have been due to the failures of the HA and the HD to secure an adequate supply of land for PRH development, maximize the rational utilization of public housing resources, effectively tackle abuse of PRH flats and ensure timely and steady delivery of new PRH flats;
- urges the Government not to repeat its wavering housing policy by taking away 24 sites reserved for PRH development for other uses during the period from 2001 to 2013;
- notes that:
  - (a) the Secretary for Development has undertaken to ensure a steady supply of land to meet the PRH production target at 200 000 flats for the 10-year period from 2013-2014 to 2022-2023; and
  - (b) the Secretary for Transport and Housing has pledged to retain PRH sites for PRH production;
- expects that the HA and the HD will continue to do their utmost to ensure a steady supply of PRH flats so as to maintain the AWT for general applicants of PRH at three years;

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- notes that as stated in the 2014 Policy Address, the Government has decided to accept the recommendation of the Long-term Housing Strategy ("LTHS") Steering Committee to provide a total of 200 000 PRH units in the coming 10-year period from 2013-2014 to 2022-2023, which is higher than the 10-year production target of 150 000 PRH units from 2003-2004 to 2012-2013;
- considers that despite a higher PRH production target, the HA should maintain the AWT at about three years for general applicants on the WL;

*Average Waiting Time*

- expresses great dissatisfaction and finds it unacceptable that:
  - (a) since 2012-2013 the HD had ceased to use a statistical model to determine the quantum of PRH production required to maintain the AWT at about three years for general applicants. This model has been replaced by a new methodology adopted by the LTHS Steering Committee for projecting the long-term demand for both private and public housing, without reference to the AWT; and
  - (b) although the AWT is an important benchmark for assessing the timeliness in satisfying PRH demand, the AWT does not reflect the average actual time for PRH applicants to be housed to the PRH. The AWT for general applicants on the WL is defined by the HD as the average of the waiting times between registration on the WL and the first housing offer for all general applicants who were housed to PRH in the past 12 months, excluding any frozen period in between;
- notes that:
  - (a) the Secretary for Transport and Housing has pledged that the HD will continue to strive at maintaining the AWT target at around three years for general applicants, albeit the fluctuations in demand and supply may lead to occasional departure from the target;
  - (b) the HD has been working on the operational details of the annual updating of the long-term housing demand forecast;

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- (c) the HD will keep in view the number of new general applications in a year and the changes in the actual AWT. The HD will also maintain the interchangeability of production between PRH and Home Ownership Scheme ("HOS") flats so that the supply of PRH flats can be adjusted wherever necessary and feasible; and
- (d) the HD had incorporated into the brochure on "Waiting List for Public Rental Housing - Information for Applicants" and the application form the definition and computation method of the AWT for applicants, as well as publicizing the definition and computation method of the AWT on the HA/HD's website to better inform the PRH applicants;

*Supply of land*

- considers that:
  - (a) the Development Bureau ("DevB") should actively explore ways to ensure a steady supply of suitable land for public housing; and
  - (b) the HA should liaise closely with the relevant bureaux/departments ("B/Ds") to secure sufficient land for the long-term sustainable development of public housing;
- expresses grave dismay and alarm that:
  - (a) whilst the Steering Committee on Land Supply ("SCLS"), chaired by the Financial Secretary, provides the overall steer on land supply-related matters, the task of driving and delivering individual potential sites currently involves different parties and mechanisms such as the Committee on Planning and Land Development, the Committee on Housing Development and the Planning Department-HD Liaison Meeting;
  - (b) the Government had only identified sufficient sites to produce 179 000 PRH flats for the 10-year period from 2012-2013 to 2021-2022. As at January 2014, there was still a shortfall of land to produce the remaining 21 000 PRH flats for meeting the new production target;
  - (c) the new production target of 200 000 PRH flats in the 10-year period from 2013-2014 to 2022-2023 may be changed due to policy change

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and various considerations, as evidenced by the fact that the HA had returned 24 PRH redevelopment sites to the Government for other uses during the period from 2001 to 2013. In some cases, the sites returned were eventually sold to developers or converted to other uses. The development costs incurred by the HA were not borne by the Government but had to be written off; and

- (d) despite the Secretary for Transport and Housing's pledge that the current-term Government would retain sites vacated by the demolition of aged PRH estates for redevelopment and the Secretary's power to retain such sites, the HA had returned three PRH redevelopment sites in 2013;
- does not accept the explanation given by the Secretary for Transport and Housing for the HA to return the three PRH redevelopment sites to the Government in 2013 because such return was agreed to by the previous Government in 2005;
- notes that:
  - (a) as at January 2014, some 150 housing sites had been identified to have potential for rezoning and could be made available in the coming five years from 2014-2015 to 2018-2019 for providing over 210 000 housing units, with over 70% of them to be public housing; and
  - (b) with the announcement of the new production target in the 2014 Policy Address, the SCLS would continue to coordinate the efforts of various B/Ds to increase land supply for housing with a view to meeting the target. With the involvement of relevant B/Ds, the SCLS provides a forum for resolving inter-bureau and inter-departmental issues affecting the availability of individual housing sites, such as infrastructure provision, and has been coordinating the overall land supply;
- urges the SCLS to step up its efforts to coordinate the efforts of various B/Ds in making available land for meeting the new PRH production target;
- reiterates the recommendations made in the Committee's Report No. 61 that to maximize the rational utilization of public housing resources, the HA/HD should:

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- (a) expeditiously review the well-off tenants policies with a view to enhancing recovery of PRH flats from well-off tenants for reallocation to more needy families;
- (b) strengthen enforcement actions against the suspected abuse cases of PRH resources;
- (c) step up its efforts to ensure better utilization of "unlettable" flats and higher turnover of "under offer" flats;
- (d) exert greater efforts to ensure that the revised Prioritized Under-occupation ("PUO") threshold is strictly adhered to and the Notice-to-quit is issued against those PUO households who refused four housing offers without valid reasons; and
- (e) better monitor the conversion of Converted One Person and Housing for Senior Citizens Type 1 units into PRH flats;

*Financing the new production target*

- expresses grave concern that the HA may not have sufficient funds to support its construction programmes for the coming 10 years;
- notes that the HA will discuss with the Government on a feasible long-term financial arrangements, after conducting an assessment on the additional financial resources needed for the next 10 years taking account of revenue increases and cost savings;
- urges the HA to expeditiously come up with a timetable for working out with the Government the financial arrangement for meeting the new PRH production target and consult the relevant Panel of the Legislative Council before implementation;

Management of PRH construction projects

- expresses concern that:
  - (a) in the four years from 2008-2009 to 2011-2012, the 10-year production targets of the HA had remained unchanged at 150 000 PRH flats, despite the increasing projected 10-year demand for PRH (from 151 900 to 186 100);

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- (b) there had been fluctuations in the PRH production from 2003-2004 to 2012-2013 due to policy change and various considerations;
  - (c) the Tuen Mun Area 18 project was delayed because it took the HD a long time to discuss and resolve the demand of the Tuen Mun District Council on the provision of additional community facilities. During the process of the development of PRH projects, it is not unusual that the HD would encounter problems such as objections by the local concerned groups or other stakeholders; and
  - (d) in respect of the six PRH projects planned for completion in 2012-2013, all of them involved project delays of two to seven months and budget revisions. Comparing with the original budgets, variances of 27% to 37% were noted in three of these six projects although their actual/estimated costs were within the approved budgets;
- notes that:
- (a) under the fast-track programme implemented in 2013, the HA has streamlined the construction process to reduce the timeframe for PRH construction from seven years to five years on "spade ready" sites (i.e. sites which have been properly zoned, and which are flat, resumed, cleared and formed with adequate provision of infrastructure);
  - (b) the HD would take measures to expedite the whole construction process without compromising quality and site safety. These include extending the adoption of precast elements to roof and external works including precast parapet wall, water tank and manhole, and conducting a series of upfront measures to avoid the risk of project delays; and
  - (c) the HD staff would actively liaise with all stakeholders to deal with resistance or objections to PRH projects promptly, and to enhance communications with the relevant B/Ds for necessary approval;
- urges the HD to:
- (a) closely monitor the progress of PRH construction projects and implement effective measures to ensure a steady supply of new PRH flats;

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- (b) conduct consultation work with the local communities or other stakeholders as early as practicable and enlist the support of the relevant B/Ds in dealing with objections to the PRH projects where appropriate; and
- (c) enhance its system of budgeting and monitoring of project costs with a view to further improving the accuracy of budgeting for PRH construction projects;

Redevelopment of PRH estates

*Comprehensive Structural Investigation ("CSI") Programme*

- notes that:
  - (a) since September 2005 the HD has conducted a CSI Programme on ageing estates which are about 40 years old or above and often associate with soaring maintenance and repair costs. For PRH blocks/estates which remain structurally safe, appropriate works would be arranged so that no major structural repairs would be necessary for at least another 15 years; and
  - (b) of the 42 aged estates included in the current CSI Programme from 2005 to 2018, assessment on 16 estates had not been completed;
- considers that for those PRH blocks/estates identified for redevelopment in the next few years, the HD should carry out repair and maintenance works to maintain them in satisfactory conditions until their clearance, instead of maintenance works for at least another 15 years;
- expresses grave concern that the HD may not have sufficient resources to cope with the increasing number of PRH blocks/estates requiring inspection in the next CSI Programme beyond 2018;
- urges the HD to critically assess the resource requirements and plan ahead for the implementation of the next CSI Programme which is expected to start from 2018;

*Refined Policy on Redevelopment*

- notes that:
  - (a) under the Refined Policy on Redevelopment of aged PRH estates implemented in November 2011, the build-back potential is one of the factors to be considered for the redevelopment of PRH estates; and
  - (b) whilst redevelopment of old PRH estates may increase the supply of PRH flats in the long term, it would in the short term reduce the public housing stock and generate additional rehousing needs from the affected tenants, resulting in an immediate adverse impact on the AWT for PRH;
- expresses grave concern that:
  - (a) up to December 2013, the HD had not completed detailed assessment of the build-back potential of 22 aged estates with CSI completed. These estates will continue to age and maintenance costs are anticipated to rise. It is becoming imperative for the HD to plan for the redevelopment of individual aged estates and make better use of the valuable land resources in existing PRH sites; and
  - (b) there was a lack of coordination within the HD to avoid wastage of resources due to launching of redevelopment plan shortly after the completion of improvement works in an estate (Case 7 in paragraph 4.22 of the Director of Audit's Report ("Audit Report") refers);
- urges the HD to:
  - (a) expedite the detailed assessment of the build-back potential for all aged PRH estates with CSI completed in order to facilitate the future planning for redevelopment of PRH estates; and
  - (b) take measures to enhance coordination within the HD in order to avoid the possible wastage of resources due to launching of redevelopment plan shortly after the completion of major improvement works in aged estates;
- strongly urges the Planning Department and the HD to ensure that relaxation in plot ratio and height restriction of individual PRH sites will not compromise the surrounding living environment; and



*Exploring future redevelopment potential*

- considers that whilst there is a need to maintain sufficient vacant Interim Housing ("IH") units for accommodating persons affected by disasters and emergencies, the HD should closely monitor the vacancy rates of IH blocks and explore effective measures to make better use of the vacant units.

<b>Specific comments</b>
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81. The Committee:

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*Assessment of public housing supply and demand*

- expresses great dissatisfaction and finds it unacceptable that:
  - (a) prior to 2013, the HD had used a statistical model to determine the quantum of PRH production required to maintain the AWT of general PRH applicants at about three years. Since 2013, this statistical model has not been used to assess the demand for PRH. Instead, the overall demand for both private and public housing over a 10-year period has been projected and a higher production target of 200 000 PRH units in the coming 10 years is set without reference to the AWT; and
  - (b) based on a PRH demand assessment in February 2012, the HD projected that the AWT for general PRH applicants will reach three years by 2014-2015 and further increase to well above three years;
- expresses concern that:
  - (a) in the four years from 2008-2009 to 2011-2012, despite increasing projected 10-year demand for PRH (from 151 900 to 186 100) based on the long-term housing demand assessments endorsed by the Committee on Housing Development, the 10-year PRH production targets had remained unchanged at 150 000, resulting in projected shortfalls in PRH production against demand forecasts; and

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- (b) with reference to the production target of 200 000 PRH flats for the next 10 years (announced in the 2014 Policy Address), the HD's 2012-2013 PRH production forecast has still fallen short of the new production target;
- notes that:
- (a) the HD has considered the PRH demand within the context of the long-term housing demand assessment as adopted by the LTHS Steering Committee and will continue to do so in its annual updating of the demand assessment, taking into account the latest Government policy changes and the prevailing economic circumstances;
  - (b) the HD undertakes to closely monitor the number of applications on the WL and maintain its objective to provide PRH for low-income families who cannot afford private rental accommodation, with a view to maintaining the AWT for general applicants on the WL at around three years. The development plans for PRH can be adjusted wherever feasible to maintain the target; and
  - (c) the Director of Housing has agreed with the audit recommendations in paragraphs 2.22 and 2.31 of the Audit Report;

*Supply of land*

- expresses grave dismay and alarm that:
- (a) the Government had only identified sufficient sites to produce 179 000 PRH flats for the 10-year period from 2012-2013 to 2021-2022. As at January 2014, there was still a shortfall of land to produce the remaining 21 000 PRH flats for meeting the new production target;
  - (b) the shortage of land supply for public housing and the long time taken for planning and land development process had posed challenges to both the Government and the HA in meeting the PRH production target in the past, and would pose greater challenges ahead in striving to meet the even higher production target of 200 000 PRH flats in 10 years' time;
  - (c) during the past 13 years, the HA had returned 24 PRH redevelopment sites to the Government for other uses. These sites were already formed and were thus available for immediate PRH

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construction. In exchange for some of these sites, the Government provided replacement sites to the HA for PRH development. However, such replacement sites were usually at the early planning stage and might not be immediately available for PRH development;

- (d) returning ready PRH sites to the Government in exchange for sites which take long time to develop will inevitably cause long delays in the PRH supply. The Shui Chuen O Estate at Shatin Area 52 (Case 1 in paragraphs 2.61 and 2.62 of the Audit Report refers) was delayed by 10 years for development into a PRH estate and the Ex-Yuen Long Estate (Case 2 in paragraph 2.61 of the Audit Report refers) will only be developed into a new PRH estate by 2015, 12 years after the old estate was demolished; and
- (e) in some cases, the sites returned to the Government were eventually sold to developers or converted to other uses. The development costs incurred by the HA had to be written off. The development costs for such returned sites written off in 2011-2012 and 2012-2013 totalled \$209 million. Another \$99 million would be required to be written off in coming years;

- notes that:

- (a) the HD will continue to liaise closely with the DevB/Planning Department to secure sufficient number of suitable sites for public housing development; and
- (b) the Director of Housing has agreed with the audit recommendations in paragraphs 2.56 and 2.69 of the Audit Report;

Management of PRH construction projects

- expresses concern that:

- (a) for the PRH construction in Tuen Mun Area 18, it took the HD a long time to discuss and resolve the demand of the Tuen Mun District Council for more community facilities, and obtain the necessary agreement/approval from the relevant B/Ds;
- (b) according to the 2012-2013 public housing construction programme, six PRH projects were planned for completion in 2012-2013 involving the production of 13 114 flats. There had been project

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delays of two to seven months in these six projects. Such project delays, not only affecting the timely delivery of PRH flats which were in great demand, might also cause great inconvenience to the incoming tenants and lengthen their actual waiting time for PRH; and

- (c) all six PRH projects completed in 2012-2013 had involved budget revisions due to changes in construction cost yardsticks, award of contracts, or contract price fluctuations, etc. Comparing with the original budgets, variances of 27% to 37% were noted in three of these six projects although their actual/estimated costs were within the approved budgets;
- notes that:
- (a) during the process of the development of PRH projects, it is not unusual that the HD would encounter problems such as objections by the public or local concerned groups, or construction delays caused by reasons which are very often beyond the control of the HA or the contractors;
  - (b) the HD undertakes to closely monitor the PRH construction projects and take early remedial actions; and
  - (c) the Director of Housing has agreed with the audit recommendations in paragraphs 3.14 and 3.22 of the Audit Report;

Redevelopment of PRH estates

*CSI Programme*

- expresses grave concern that:
- (a) the HD currently conducts CSI on ageing estates which are about 40 years old or above and often associated with soaring maintenance and repair costs, but such CSIs are conducted for only three to four estates per year. There are 42 estates, built in 1980 or earlier, included in the CSI Programme covering 2005 to 2018 (26 estates completed during the eight years from 2005 to 2013). More estates would likely be included in the next CSI Programme beyond 2018. Moreover, by that time, some of the retained estates of the current CSI Programme would approach the end of the 15-year cycle and thus would require another CSI; and

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- (b) the existing HD resources for conducting CSI may not be sufficient to cope with the increasing number of PRH blocks requiring inspection in future;
- notes that:
  - (a) the HD undertakes to conduct an early review to assess the resource requirements for the CSI and prepare an implementation plan ahead of the next CSI Programme expected to start in 2018; and
  - (b) the Director of Housing has agreed with the audit recommendation in paragraph 4.12 of the Audit Report;

*Refined Policy on Redevelopment*

- expresses grave concern that:
  - (a) under the Refined Policy on Redevelopment of aged PRH estates implemented in November 2011, the build-back potential is one of the factors to be considered for the redevelopment of PRH estates. Up to December 2013, 22 estates with CSI completed had not been assessed for their build-back potential. Pak Tin Estate was the only estate with CSI completed and identified for redevelopment under the Refined Policy;
  - (b) new lifts at a cost of \$32 million had been installed shortly before the decision was made to launch the redevelopment of Pak Tin Estate, and less than one year after the installation of the new lifts, 94% of the tenants had moved out;
  - (c) some PRH redevelopment sites had been cleared a number of years ago, but were still left undeveloped. An obvious example is the Phases 3, 6 and 7 of Shek Kip Mei Estate (Case 8 in paragraph 4.27 of the Audit Report refers); and
  - (d) from past experience, while redevelopment of old PRH estates might increase the supply of PRH flats in the long term, it would in the short term reduce the public housing stock and generate additional rehousing needs from those displaced tenants who would take priority over those on the WL in the allocation of PRH flats. In general, it would take a long time before the supply of new PRH flats from the redevelopment can be realized;

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- notes that:
  - (a) the HD has enhanced coordination within the department so that the redevelopment programme of aged estates will be from time to time made known to the parties handling various programmes of maintenance and improvement works to the concerned estates to enable better planning;
  - (b) under the Refined Policy on Redevelopment, the HD will launch the redevelopment of aged PRH estates on a project-by-project basis. The HD considers it prudent to contain the scale and pace of redevelopment taking into account the availability of reception resources, demand from the general applicants on the WL, and other relevant factors;
  - (c) apart from making reference to the experience of the Comprehensive Redevelopment Programme, the HD will also refer to recent experience gained in the latest redevelopment projects such as Pak Tin Estate as and when appropriate in terms of optimization of the use of land and other resources; and
  - (d) the Director of Housing has agreed with the audit recommendations in paragraphs 4.25 and 4.32 of the Audit Report;

*Exploring future redevelopment potential*

- expresses concern that as at January 2014, the HA had three IH estates, namely Shek Lei (II) IH, Long Bin IH (to be cleared in January 2016) and Po Tin IH, which provided a total of 4 914 units, but had a vacancy rate of 60%, 40% and 8% respectively;
- notes that the HD will continue to closely monitor the demand and supply of IH units and explore the feasibility of putting them into other beneficial uses;

Way forward

- expresses grave concern that:
  - (a) there has been an increasing demand for PRH flats in recent years. As at end-March 2014, the AWT for general PRH applicants was 3.0 years; and

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- (b) there are challenges facing the HA and the Administration in planning, construction and redevelopment of PRH estates for meeting the new production target at 200 000 units and the three-year AWT target; and
- notes that:
  - (a) the Government has accepted the LTHS Steering Committee's recommendation to adopt a higher 10-year target of 470 000 units for new public and private housing supply (with public housing accounting for 60% of this target);
  - (b) the Government will take account of the LTHS consultation report and other views collected during the consultation in formulating the LTHS which is expected to be announced later in 2014; and
  - (c) the Secretary for Transport and Housing has agreed to take on board the audit observations and recommendations in the Audit Report in formulating the LTHS.

<b>Follow-up action</b>
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82. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and the Audit Commission.

*Mega Events Fund*

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## **A. Introduction**

The Audit Commission ("Audit") conducted a review of the overall operation, management and effectiveness of the Mega Events Fund ("MEF").

### Background

2. In May 2009, the Finance Committee ("FC") of the Legislative Council ("LegCo") approved a commitment of \$100 million for setting up the MEF for three years to provide financial support for local non-profit-making organizations to host mega arts, cultural and sports events in Hong Kong ("original MEF").

3. In April 2012, the FC approved another commitment of \$150 million to support the MEF which would continue for another five years up to March 2017. The MEF was at the same time modified into a two-tier MEF to enhance flexibility and facilitate its effective operation ("modified MEF"). The modified MEF covers:

- Tier 1 which is a new mechanism to attract new or established high profile mega events to Hong Kong. These events may be owned or operated by private event management companies or professional organizations established outside Hong Kong; and
- Tier 2 which is essentially a revised version of the original MEF with scope expanded to cover events with more entertainment elements<sup>1</sup>.

4. To be qualified for financial support from the MEF, an event (either Tier 1 or Tier 2) must meet the following four basic broad principles:

- the event should raise the profile of Hong Kong internationally, create a branding impact, attract visitors to come to Hong Kong specifically for the event and/or lengthen their stay in Hong Kong and generate media coverage (both local and overseas);

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<sup>1</sup> Tier 2 improvements include expanding the MEF scope to cover entertainment events, removing the practice of reducing the funding amount for repeated applications and allowing organizers to retain operating surplus for organizing the same event in the following year.



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- the mega arts, cultural, sports or entertainment event should be of a considerable scale, with at least 10 000 people involved (including participants, spectators and reporters);
- the event should contain an international element and include participants from the Mainland and overseas; and
- the event should allow participation by the local public.

5. When approving the MEF in May 2009, the FC set a funding condition (which has continued to apply under the modified MEF) that the Government's funding support for each event should not exceed 50% of the event's total cost. This condition was set in order to give a clear signal to event organizers that it would be their own responsibility to secure sufficient funding for the events and that they could not rely solely on public funding. In other words, the Government would only provide partial funding to the MEF events. Contributions may be made to the events by the organizers, business sponsors or from event revenue (such as income from tickets sold).

6. The MEF is administered by the Tourism Commission ("TC") of the Commerce and Economic Development Bureau ("CEDB"), with the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) serving as the Controlling Officer of the Fund. A MEF Assessment Committee was formed in June 2009 to advise the Government on the administration of the MEF<sup>2</sup>. Six TC staff, with other duties, formed the MEF Secretariat which was set up to support the MEF Assessment Committee and the operation of the MEF.

7. For the operation of the MEF, the TC generally invites applications twice a year through the mass media and its website. For each round of applications, the MEF Secretariat conducts an initial screening of the applications and will consult relevant Government bureaux/departments ("B/Ds") and the Hong Kong Tourism Board ("HKTB") to assess the merits of the applications before making submissions to the MEF Assessment Committee. In considering the applications<sup>3</sup>, the MEF Assessment Committee takes into account the following assessment criteria:

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2 As at 12 June 2014, the MEF Assessment Committee is chaired by a non-official member and comprises seven other non-official members from relevant fields and three official members. The terms of reference of the MEF Assessment Committee under the original MEF and the modified two-tier MEF are in *Appendices 13 and 14* respectively.

3 According to the TC, the assessment criteria for the Tier 1 scheme are being developed.

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- the economic benefits of the proposal, such as the number of visitors and participants to be brought to the event, their likely length of stay, jobs to be created, etc;
- public relations and other benefits of the proposal, such as the event's ability to raise Hong Kong's international profile and the publicity value that will be generated in local and non-local media;
- the scale of the event, particularly the number of participants;
- the applicant's technical and project management capability, background and governance structure, track record, and whether the proposed implementation plan of the proposed event is practicable and reasonable, etc.; and
- financial viability of the project, whether the proposed budget is prudent and realistic, with sufficient alternative sources of funding, and whether the proposed performance indicators are reasonable.

In order to have a better understanding of selected applications, the MEF Assessment Committee invites eligible applicants for a presentation before finalizing its view. The MEF Assessment Committee will make recommendations on individual applications to the Controlling Officer of the Fund who may, in his absolute discretion, decide whether or not to approve an application; the appropriate amount of MEF funding to be approved; and the appropriate terms and conditions that might be applied to individual events. He may also decide to impose additional terms and conditions in the agreement, including stipulate specific terms and conditions for the use of the MEF funding.

8. A marking scheme detailing the above assessment criteria has been developed (in *Appendix 15*). Applications that received an average overall score of at least 60 (out of 100) and 60% of the maximum score for each of the five assessment criteria would be eligible for being recommended for MEF funding support. To enable the interested applicants to clearly understand their eligibility and the assessment criteria, a detailed MEF Guide to Application and the marking scheme were available at the dedicated MEF website.

9. The application form for MEF funding and the Guide to Application is in *Appendix 16*, and the standard MEF funding agreement (English version only) is in *Appendix 17*.

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10. Since its inception and up to February 2014, the MEF had supported the hosting of 24 events, involving approved MEF funding of \$97 million (\$51 million under the original MEF and \$46 million under the modified MEF). Of the 23 events already held, 22 had been completed by mid-February 2014, i.e. organizers had already submitted their post-event evaluation reports and audited accounts for the events as required by the MEF. Amongst the 22 completed MEF events as of February 2014, nine (41%) events had been subject to financial sanctions imposed by the TC, with funding reductions ranging from \$0.1 million to \$1.1 million. Two event organizers were disallowed to apply for MEF funds in future. Financial sanctions had been imposed due to the organizers' non-compliance with the terms and conditions of the funding agreements and/or their less than satisfactory performance.

The Committee's Report

11. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 13);
- Achievement of the MEF objectives (Part B) (paragraphs 14 to 39);
- Assessment of applications (Part C) (paragraphs 40 to 63);
- Monitoring and evaluation of events (Part D) (paragraphs 64 to 104);
- Way forward (Part E) (paragraphs 105 to 112); and
- Conclusions and recommendations (Part F) (paragraphs 113 to 115).

Public hearings

12. The Committee held five public hearings on 12 and 17 May and 7, 9 and 17 June 2014 to receive evidence from witnesses. **Mr Andrew WONG Ho-yuen, Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)**, made a statement at the beginning of the first public hearing held on 12 May 2014. The full text of his statement is in *Appendix 18*.

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Disclosure

13. At the beginning of each of the five public hearings,
- **Hon Abraham SHEK** disclosed that he and Hon Jeffrey LAM Kin-fung, Chairman of the Mega Events Fund Assessment Committee ("MEF Assessment Committee"), were both members of the Business and Professionals Alliance for Hong Kong. **Mr SHEK** also disclosed that he had donated money to either Event C1, C2, C3 or C4 referred to in the Director of Audit's Report ("Audit Report");
  - **Hon Paul TSE** disclosed that he and Hon CHAN Kam-lam, Convenor of the organizer of Events C1, C2, C3 and C4, were both candidates contesting for a Kowloon East geographical constituency seat in the 2012 LegCo election. **Mr TSE** also disclosed that being a LegCo Member returned from the tourism functional constituency, he might have attended some MEF events during the period from 2008 to 2012;
  - **Hon Alan LEONG** disclosed that he and Hon CHAN Kam-lam, Convenor of the organizer of Events C1, C2, C3 and C4, were both candidates contesting for a Kowloon East geographical constituency seat in the 2004, 2008 and 2012 LegCo elections; and
  - **Hon CHAN Hak-kan** disclosed that he and Hon CHAN Kam-lam, Convenor of the organizer of Events C1, C2, C3 and C4, were both members of the Democratic Alliance for the Betterment and Progress of Hong Kong. **Mr CHAN** also disclosed that he had attended the Hong Kong Well-wishing Festival 2013 and the Manchester United Asia Tour 2013 (Hong Kong Leg) funded by the MEF.

**B. Achievement of the MEF objectives**

Review of the funding procedures of the MEF by the Independent Commission Against Corruption ("ICAC")

14. According to paragraph 1.10 of the Audit Report, since the inception of the MEF, the ICAC had been providing advice to the TC on the funding procedures of the Fund. In view of the risk of abuse, the ICAC conducted a follow-up study in 2010 to review the adequacy of the safeguards in the TC's procedures. In its Assignment Report of September 2010, the ICAC made recommendations to further enhance the application procedures to prevent corruption arising from the MEF scheme.

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15. According to paragraph 1.11 of the Audit Report, after presenting the Assignment Report to its Corruption Prevention Advisory Committee ("CPAC"), the ICAC further recommended that the TC should issue more stringent guidelines for its staff in evaluating events that involved substantial grants and carried a commercial name. Furthermore, the ICAC raised its concern with the need for continuing the MEF which was set up at a time of financial difficulties and, in view of the changed economic situation, suggested that the TC should consider returning the unused funds (i.e. the balance of the time-limited MEF of \$100 million) to the Government. As it transpired, the MEF had continued to operate and in April 2012, the CEDB/TC introduced a modified two-tier MEF which comprised a new category called Tier 1 with Tier 2 which is essentially a revised version of the original scheme operated by the MEF.

16. Noting that the CEDB did not mention the ICAC review, including the doubts of the ICAC about the need for continuing the MEF, in its funding proposal to the FC on 27 April 2012 for the setting up of the modified MEF, the Committee enquired about the reasons for such non-disclosure and whether this was deliberate.

17. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** explained that:

- the Assignment Report of September 2010 on the administration of the MEF did not contain any recommendation on whether the MEF should be continued. When the Corruption Prevention Department ("CPD") of the ICAC sent the Assignment Report to the TC in November 2010, it mentioned in the covering letter that members of the CPAC also doubted the need for continuing the MEF which was set up at the time of financial difficulties and, in view of the changed economic situation, suggested that the TC should consider returning the unused funds to the Government. The TC informed the CPD that the Government would examine the way forward to the MEF in 2011, and had indeed taken the said view into account when reviewing the way forward for the MEF in 2011. The conclusion of the review was that Hong Kong's economic situation had indeed changed, but Hong Kong was facing fierce competition from neighboring cities in seeking to host mega events. In view of this, the TC considered that the operation of the MEF should be extended, but that the scheme should be revised. The conclusion of the review was explained in the CEDB's submission to the FC on 27 April 2012;

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- there was no question of the CEDB deliberately not informing the FC of the concerns raised by CPAC members about the need of continuing the MEF. The CEDB/TC's view then was that the Assignment Report focused on the prevention of corruption through more corruption prevention measures to the MEF. The recommendations had been put into practice. The suggestion made by CPAC members for the TC to consider returning the unused funds to the Government contained in the CPD's letter was more a policy question and not related to corruption prevention. As the TC had returned the balance of the time-limited MEF to the public coffer in accordance with the established practice of other time-limited Government funds, the CEDB therefore did not flag up the CPD's report nor the contents of the CPD's letter in the submission to the FC; and
  
- as Hong Kong was faced increasingly with challenges caused by zealous effort of competitor cities such as Singapore, Seoul, Macau and Shanghai in attracting mega events and entertainment projects through providing financial and other incentives, the Government had therefore decided to revamp the MEF by introducing a new Tier 1 system that aimed at attracting new or renowned international mega events to Hong Kong, and revising the previous system to form a more flexible Tier 2 system with a view to supporting local non-profit-making bodies to hold events that had the potential of developing into mega events, especially those that could showcase Chinese or local cultural features.

18. **Miss Rosanna LAW, Deputy Commissioner for Tourism**, supplemented that:

- in the update on the progress of the MEF for the meeting of the LegCo Panel on Economic Development held on 22 November 2010, the CEDB/TC had mentioned in paragraph 7 of the relevant paper that the ICAC, amongst others, had been consulted on the modus operandi of the MEF. In accordance with the ICAC's advice, a set of probity guidelines for members of the MEF Assessment Committee, which covered acceptance of advantage and entertainment, declaration of conflict of interest, handling of confidential and privileged information and misuse of one's official capacity was developed. Members of the MEF Assessment Committee were also required to declare their interests, including employment in public and other services, and such information was open for public inspection upon request; and

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- as the LegCo Panel on Economic Development had been informed of the ICAC review and the TC had accepted and implemented all of the ICAC recommendations since December 2010, the CEDB/TC's view then was that there was no need to include the ICAC review in the CEDB's submission to the FC in 2012.

19. The Committee queried whether the reason for CPAC members to suggest that the MEF should be discontinued was that there was a high risk of abuse of the Fund.

20. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** responded that:

- the CPD did not mention in its Assignment Report of September 2010 on the administration of the MEF that there were serious flaws in the control and monitoring mechanism of the Fund. Rather, the CPD's study recommended a series of measures that should be taken to make the existing mechanism more stringent from the corruption prevention angle. The recommendations had been put into practice; and
- the concern raised by some CPAC members about the need to continue the MEF in view of the improved economic situation was more a policy question and not related to corruption prevention. Nevertheless, the CEDB and the TC had taken into account the concern of these CPAC members in their overall review of the MEF in 2011, as evidenced in the TC's reply to the CPD dated 1 February 2011 enclosing a summary of implementation status of the CPD's recommendations in which it was stated that the Administration would examine the way forward of the MEF in mid 2011 (in *Appendix 19*).

21. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided the CPD's Assignment Report of September 2010 on the administration of the MEF and the CPD's covering letter dated 15 November 2010 sent to the TC (in *Appendix 20*). The Report had set out a series of recommendations on further enhancing the approval procedures and the monitoring system of the MEF. These include:

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- including the applicants' background and governance structure, track records, and human, financial and technical resources in the marking scheme to ensure that the successful applicants are capable of operating the events to the Government's satisfaction;
- verifying the values of sponsorships in kind included in the proposed budgets against the market prices of the sponsored items as appropriate;
- providing a copy of the Best Practice Checklists on procurement and staff recruitment issued by CPD to the grantees and advising them to seek CPD's assistance in adopting the best practices;
- requiring the grantees to establish a two-tier approval system for the hiring of key personnel or award of major procurement contracts to enhance checks and balances;
- issuing guidelines on the disposal of the equipment acquired with the MEF funds, requiring the grantees either to sell the equipment and return the proceeds to the Government or, if the grantees are allowed to keep the equipment, to properly record it for audit checks;
- designing a standard monitoring report form for recording the observations made in site visits by the TC's staff and the members of the MEF Assessment Committee;
- requiring the staff concerned to randomly verify the number of staff employed by the grantees when making site visits, and the number and price of the equipment purchased; and
- issuing guidelines on different levels of enforcement action for non-compliance with the funding conditions, taking into account the nature of the breaches.

22. Noting from the CPD's covering letter to the TC in November 2010 that the concern about the need to continue the MEF, in view of the improved economic situation, was raised by CPAC members instead of by the ICAC as mentioned in paragraph 1.11 of the Audit Report, the Committee sought clarification on why Audit changed the concern raised from CPAC members to the ICAC.



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23. **Mrs Josephine NG LEUNG Wai-fun, Deputy Director of Audit,** responded that:

- it was the standard practice of Audit to provide the draft Audit Report to witnesses for comments so that their comments could be incorporated into the Audit Report before publication. As the ICAC was mentioned in certain paragraphs of the draft Audit Report, the draft Audit Report was also provided to the ICAC for comments;
- in paragraph 1.11 of the draft Audit Report, Audit had followed the wordings in the CPD's covering letter to the TC in November 2010 in that the concern about the need of continuing the MEF were raised by CPAC members; and
- changes were subsequently made to paragraph 1.11 of the draft Audit Report, after considering the suggested changes to the paragraph from the ICAC. The reasons given by the ICAC for the changes were that it was not the usual practice of the ICAC to quote whether and which individual recommendations of its assignment reports were made by CPAC members when making the issue known publicly. As the advice from the CPAC on the draft report was an integral process of completing and endorsing the assignment studies, the ICAC considered it unnecessary to differentiate the recommendations made by the CPAC members from other recommendations in the assignment report.

24. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** said that Audit did not provide the revised paragraph 1.11 of the draft Audit Report to the CEDB and the TC for comments. If this had been done, the CEDB and the TC would not have agreed to the changes as now presented in paragraph 1.11 of the published Audit Report.

25. At the request of the Committee,

- **Mr Simon PEH Yun-lu, Commissioner, ICAC,** provided a response on the reasons for the ICAC's suggested changes to paragraph 1.11 of the draft Audit Report (in *Appendix 21*); and
- **Mr TSE Man-shing, Director of Corruption Prevention, ICAC,** provided a response on the reason for members of the CPAC to raise the

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concern about the need to continue the MEF and the number of CPAC members who had raised such concern (in *Appendix 22*).

26. The Committee pointed out that one of the terms of reference of the MEF Assessment Committee was to advise on any matters related to the MEF as referred by the Secretary for Commerce and Economic Development or the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism). On the question as to whether the MEF Assessment Committee had been informed of the concern raised by some CPAC members about the need of continuing the MEF in view of the improved economic situation, **Deputy Commissioner for Tourism** replied as follows:

- during the course of the study by the CPD on the administration of the MEF, the TC had informed the MEF Assessment Committee of the progress of the study via email;
- the TC did not provide to the MEF Assessment Committee the CPD's covering letter dated 15 November 2010 sent to the TC and the Assignment Report of September 2010 on the administration of the MEF because the Assignment Report was focused on the prevention of corruption through introducing more corruption prevention measures to the MEF. The suggestion by members of the CPAC for the TC to consider returning the unused funds to the Government contained in the covering letter was more a policy matter and not related to corruption prevention;
- although the TC did not provide the MEF Assessment Committee with the CPD's covering letter dated 15 November 2010 enclosing the Assignment Report of September 2010 on the administration of the MEF, the full set of CPD's recommendations was reported to the MEF Assessment Committee through an MEF Assessment Committee paper for discussion at its meeting on 2 December 2010. At the meeting, the MEF Assessment Committee was further invited to endorse a series of proposed measures that aimed to take forward the CPD's recommendations; and
- prior to seeking approval from the FC on 27 April 2012 for funding commitment of \$150 million for extending the operation of the MEF under a modified two-tier system, the CEDB and the TC had consulted the MEF Assessment Committee on the way forward of the MEF at two meetings on 2 August 2011 and 14 February 2012. At the meeting on

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2 August 2011, the MEF Assessment Committee was also updated on the implementation status of the ICAC's recommendations on the administration of the MEF through an MEF Assessment Committee paper (in *Appendix 23*). The views of members of the CPAC, including that on returning the unused MEF upon the lapse of the funding scheme, were included in the summary of recommendations/views attached to the MEF Assessment Committee paper.

High percentage of rejected applications and frequent cases of MEF events subject to financial sanctions

27. As revealed in paragraph 2.8 of the Audit Report, the number of rejected applications remained high at 69%. This indicates that many of the applicants still did not understand the MEF basic broad principles and/or many of the proposed events could not reach the standard required by the MEF Assessment Committee and the TC. The Committee enquired about the measures which would be taken to address the high percentage of rejected applications, and if so, what they were.

28. **Deputy Commissioner for Tourism** responded that:

- in the past, the TC had, upon request, informed unsuccessful applicants of the main reason(s) for their failure in applying for MEF grants, e.g. which criterion/criteria they had failed to meet; and
- the TC would, starting from the next round of Tier 2 applications, state in the regret letter for every unsuccessful application the main reasons for the failure.

29. According to paragraph 2.10 of the Audit Report, even with the small number of 24 applications approved and with 22 events completed by February 2014, nine events had been subject to financial sanctions imposed by the TC. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided, after the public hearing on 17 May 2014, the guidelines on level of sanction to be imposed by the TC on MEF grantees (in *Appendix 24*). The relevant guidelines have been in force since December 2010.

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Reported achievements not always verified

30. According to paragraph 2.15 of the Audit Report, in April 2012, when seeking approval for funding commitment for the modified MEF, the CEDB informed the FC that the 16 MEF events approved as of March 2012 had created a total of about 10 000 jobs and had attracted a total of over 900 000 participants (including more than 170 000 non-local visitors).

31. Although the 16 events were reported to have created a total of about 10 000 jobs during the events periods, it is revealed in paragraph 2.17 of the Audit Report that although the MEF Secretariat staff conducted headcounts on the number of the organizers' staff present during on-site inspections, they did not randomly verify the number of paid staff employed for the events, nor did they carry out subsequent checks of the organizers' recruitment and payroll records. As a result, there could be a risk of over-reporting in the number of paid jobs created. An example of one event with inadequacies in the Secretariat's on-site inspection in monitoring the number of paid jobs created is shown as follows:

- Event C4<sup>4</sup> was a one-day event (involving MEF approved funding of \$1.5 million) held in a popular tourist shopping district in early 2014. In the funding agreement, the organizer undertook to create a minimum of 3 100 paid jobs for the people of Hong Kong, including 3 000 performers of specified types; and
- on the event day, three MEF Secretariat staff conducted an on-site inspection, accompanied by two Audit staff (attending the event as observers). Specifically, Audit noted the following:
  - (a) the event was, prima facie, smoothly run and had been able to create a festive atmosphere;
  - (b) during the event, MEF Secretariat staff conducted a headcount of the number of the organizer's staff present at the time of their inspection along the parade route, and reported that about 2 650 performers and supporting staff participated in the event. The number however could cover both "paid" and "non-paid" performers/staff because the MEF Secretariat staff had not made

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4 Event C4 was a repeated event and similar events (namely Events C1, C2 and C3) had been held by the organizer from 2011 to 2013.

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any attempt to verify the attendance records of the paid performers/staff; and

- (c) nonetheless, many performers involved in specified shows on the event day were not professional ones, with many young children accompanied by parents/teachers and with some elderly people.

32. Responding to the Committee's enquiry about whether the MEF Secretariat would conduct random verification on the number of employed staff for an MEF event by the grantee, **Deputy Commissioner for Tourism** advised that the TC would develop a robust mechanism to validate whether the deliverables and targets of the MEF events (e.g. the target number of paid jobs created) had been achieved. Details of the proposed enhancement measures included the following:

- conducting random checks on the deliverables and targets (e.g. number of paid jobs created) as reported by the organizers in their post-event evaluation reports. Resources permitting, random checks against the employment contract, payroll records, bank statement or other evidence as appropriate would also be conducted;
- conducting random verification on the staff employed for the events against the attendance records on the spot during the MEF Secretariat's on-site inspection;
- requesting the organizers to specify clearly the number of local/non-local participants, visitors, employees and reporters respectively without overlapping and identify ways for random checking; and
- improving the documentation of the checking and/or clarifications made with the organizers as appropriate, and continuing to endeavour to check the validity of the events' recruitment as far as practicable.

33. On the numbers of participants in the MEF events, the Committee noted from paragraph 2.22 of the Audit Report that the organizers were not required to inform or agree with the MEF Secretariat beforehand the counting methods adopted and the Secretariat seldom verified or raised queries on the counting methods or the results the organizers reported in their post-event evaluation reports. The number of non-local visitors was usually projected by the organizers based on the percentage of non-local visitors interviewed in their feedback surveys conducted.

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34. Responding to the Committee's enquiry about the steps that had been/would be taken by the MEF Secretariat to verify the number of participants in the MEF events, **Deputy Commissioner for Tourism** advised as follows:

- under the four prevailing broad principles for considering MEF applications, an event should be of a considerable scale with at least 10 000 people involved (including participants, spectators and reporters). An applicant for the MEF should state in its application form the estimated number of people to be involved in the event. The funding agreement signed between the Government and the successful applicant (i.e. the event organizer) would stipulate the pre-determined deliverables and targets that the event organizer should achieve, including the number of people to be involved in the event. On the event day/during the event period, members of the MEF Secretariat would conduct on-site observation of the event's implementation, including its attendance;
- upon the completion of an event, the event organizer was required to submit to the Secretariat of the MEF Assessment Committee an evaluation report detailing the event result. The evaluation report should set out, inter alia, the number of people involved in the event. The event organizer must also submit the audited accounts of the event certified by an independent registered Certified Public Accountant ("CPA") who should provide his opinion on whether the organizer had complied with all terms and conditions of the funding agreement concerned and whether any non-compliance by the organizer of any terms and conditions of the funding agreement was found;
- when scrutinizing the post-event evaluation report, the Secretariat of the MEF Assessment Committee would verify the number of people involved in the event (including participants, spectators and reporters) as stated in the report by cross-checking the Secretariat's on-site observation. The MEF Secretariat would also make reference to the evidence provided by the event organizer. For events held in a self-contained venue, such evidence would include the clicking record at the entrance(s) of the event venue, report on the admission tickets sold/issued, or stubs of admission tickets. For events held in an open area with free-flow of pedestrians, the Secretariat of the MEF Assessment Committee would examine the survey report produced by the event organizer, media clippings reporting the attendance of the event, photos showing the event crowds, or where available the pedestrian-flow figures released by the Hong Kong Police Force; and

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- the TC would consider requesting the organizers to develop more scientific methods in counting participants such as by commissioning tertiary institutions or professional entities to conduct the survey, etc.; indicating their counting method in the application form; and assisting the TC in counting the staff employed for the event during the MEF Secretariat's on-site inspection as far as practicable.

35. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided, after the public hearing on 17 May 2014, information on the MEF-supported events subject to financial sanctions due to failure to achieve target of number of people involved in the event (in *Appendix 25*).

Developing special tourist packages

36. According to paragraph 2.26 of the Audit Report, although the MEF funding agreements had generally laid down the requirement for the organizers to develop special tourist packages to attract visitors to the events, no measurable target was set in the funding agreements on the number of special tourist packages to be developed. Audit reported in paragraph 2.27 of its Report that for nine of the 18 events with the requirement of developing special tourist packages included in the funding agreements, the organizers reported in their post-event evaluation reports that no such packages could be developed. Given that the MEF aimed at attracting visitors to come to Hong Kong specifically for the events, the Committee enquired about the reason for not setting a measurable target in the MEF funding agreements on the number of special tourist packages to be developed.

37. **Deputy Commissioner for Tourism** responded that:

- the reason for not setting a measurable target in the MEF funding agreement on the number of special tourist packages to be developed was because there were practicable reasons which could render it not possible for the organizer to come up with such tours, such as lack of capability and experience of the organizer to develop such packages and not enough time to develop or sell such packages;
- the fact that no special tourist packages were developed for some events as stipulated in the funding agreements did not necessarily mean that the number of non-local visitors attending the events was less than the target

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numbers, as evidenced by the on-site inspections conducted by the MEF Secretariat and other means such as the survey report produced by the event organizer, media clippings reporting the attendance of the event, photos showing the event crowds, or where available the pedestrian-flow figures released by the Hong Kong Police Force; and

- the TC, would consider, taking into account the circumstances of individual events, setting a reasonable target in the MEF funding agreements on the number of special tourist packages to be developed.

**38. Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** supplemented that:

- although no measurable target was set on the number of special tourist packages to be developed by the organizer, the organizer should provide reason in the post-event evaluation reports on why no such packages could be developed; and
- there was no question of the MEF Assessment Committee not following the guidelines and criteria in evaluating the performance of the grantee in organizing the event. Although the grantees were required to comply with all the terms and conditions in the funding agreements, it was not realistic to expect the grantees, which were local non-profit-making organizations, to do so as many of them lacked the capability and experience to host large scale events. The MEF Assessment Committee would take into account the nature, seriousness and circumstances of the non-compliance and the overall outcome of the event before making recommendation on the level of sanction to be imposed. As mentioned in paragraph 2.10 of the Audit Report, two event organizers were disallowed to apply for MEF funds in future for failing to comply with the terms and conditions of the funding agreements and/or their less than satisfactory performance.

Some MEF events also funded by other Government funding sources/schemes

**39.** Responding to the Committee's enquiry as to why a few MEF events were also financially supported by other Government funding sources/schemes (paragraph 2.37 of the Audit Report refers), **Deputy Commissioner for Tourism** advised that:

- an event for which public funding would normally be earmarked under other Government funding sources/schemes would not be considered for



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MEF funding unless full justification was given to the satisfaction of the MEF Assessment Committee and the Controlling Officer of the MEF that the additional funds sought would be deployed strictly to organize additional activities to significantly enlarge the scale of the event or significantly raise its international profile;

- to prevent duplication of public funding for MEF-supported events, applicants were required to mention in their application forms if they would receive funding from other Government sources/schemes to cover certain expenditures of the proposed events. Moreover, representatives from the Home Affairs Bureau ("HAB") responsible for the policies on sports, culture and arts also sat on the MEF Assessment Committee; and
- the Government's total contributions, including MEF funding, to an MEF-supported event would not exceed 50% of the total cost of the event.

### **C. Assessment of applications**

#### Governance of the MEF Assessment Committee

##### *Members' attendance*

40. According to paragraph 3.5(a) of the Audit Report, up to January 2014, the MEF Assessment Committee had held 14 meetings. Amongst the six non-official members (not including the Chairman), the attendance of two was particularly low, with one absent continuously for six meetings and another absent for four of the seven meetings since November 2011. The two members' attendance in all 14 meetings was 50% and 57% respectively. The Committee considered that given that members in the MEF Assessment Committee represented different sectors, their low attendance might have deprived them of taking an active part in assessing the applications and the Government could not always obtain their expert advice in the assessment and selection of events.

41. **Hon Jeffrey LAM Kin-fung, Chairman of the MEF Assessment Committee**, responded that the quorum of the MEF Assessment Committee meeting was 50% of the membership of the Assessment Committee. To his knowledge, no meeting of the MEF Assessment Committee had been cancelled due to lack of a quorum.

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42. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** supplemented that:

- although some of the non-official members of the MEF Assessment Committee needed to travel extensively due to business needs and might not be available for meetings as often as desirable, those members who could not attend the meetings had often provided pertinent advice on the basis of their vast experience in relevant sectors, in writing prior to the meetings to facilitate the MEF Assessment Committee's discussion; and
- to improve the attendance rate of the MEF Assessment Committee, the MEF Secretariat would try to schedule a meeting which most members could attend, take the lead to ask those members who would not be available for a meeting to provide written advice prior to the meeting, and arrange telephone or video conference where appropriate.

*Conflict of interest*

43. On how the MEF Assessment Committee managed conflict of interest in assessing applications, **Deputy Commissioner for Tourism** advised that:

- in accordance with the MEF Assessment Committee meeting arrangements, should a member (including the Chairman) had any direct or potential personal or pecuniary interest in any matter under consideration by the MEF Assessment Committee, the member (including the Chairman) must, as soon as practicable after he became aware of it, disclose the details of such conflict prior to the discussion of the item. The Chairman of the MEF Assessment Committee should decide whether the member of the MEF Assessment Committee who made the declaration of interests should refrain from taking part in the discussion or deliberation of the relevant application and should withdraw from the meeting. The MEF Assessment Committee should decide on the case if the declaration was made by the Chairman of the MEF Assessment Committee; and
- there had so far been a total of 12 occasions whereby members (including the Chairman) of the MEF Assessment Committee had made declaration of interests in respect of individual applications put to the MEF Assessment Committee for consideration. On these occasions, all of the concerned members (including the Chairman) of the MEF

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Assessment Committee were allowed to stay at the meetings concerned, albeit they were not allowed to give scores to the applications.

*Assessment of applications*

44. **Chairman of the MEF Assessment Committee** advised that:

- in deciding whether or not to support an application for MEF funding, major considerations had always been given to whether the proposed events could raise the profile of Hong Kong internationally, attract visitors to come to Hong Kong specifically for the events, generate media coverage both locally and overseas and develop Hong Kong's ability in hosting large scale iconic events; and
- the MEF Assessment Committee assessed each application individually, having regard to the four broad basic principles set out in paragraph 4 above and the five assessment criteria set out in paragraph 7 above.

45. On the steps that had been taken by the MEF Assessment Committee to assess that the deliverables and target proposed in the applications for MEF funding were reasonable, **Deputy Commissioner for Tourism** advised as follows:

- under paragraph 5.1.4 of the MEF Guide to Application referred to in paragraph 9 above, an applicant for the MEF was required to state, inter alia, the event's deliverables, targets and methods for measuring performance in the application form, and to provide necessary document proof for the MEF Assessment Committee's consideration. Apart from checking whether an application could fulfil the four broad basic principles, the MEF Assessment Committee would also conduct a preliminary assessment on the reasonableness of the application's proposed deliverables and targets, including the estimated number of participants/spectators (e.g. whether the proposed venue could reasonably accommodate the expected number of participants/spectators); the estimated number of visitors (e.g. whether the suggested proportion of visitors out of the total number of attendees seemed reasonable); and the estimated number of jobs to be created by the event (e.g. whether the proposed number of jobs and their respective duration were reasonable given the event's proposed scale); and

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- in addition, the MEF Secretariat would pass the application to relevant B/Ds and the HKTB for their views on the targets and deliverables proposed by the applicant. Should the need so arise, the MEF Secretariat would also seek further clarification and/or supplementary information from the applicant. The MEF Secretariat would present their assessment and the views collected for the MEF Assessment Committee's consideration. The applicant would also be invited to present the proposed event before the MEF Assessment Committee, and members of the MEF Assessment Committee could raise questions on all aspects of the application, including the event's proposed deliverables and targets, during the presentation.

46. On how much weight did the MEF Assessment Committee give to the proposed number of paid jobs that could be created by an event in assessing an application for MEF funding, **Deputy Commissioner for Tourism** advised as follows:

- the number of jobs to be created by an MEF event was only one of the four considerations to assess the economic benefits of hosting the event, and economic benefits comprised 30% of the overall maximum mark of an application. The other considerations to assess the economic benefits of hosting the event were the event's ability to attract visitors and participants from Mainland and overseas, and to attract their length of stay in Hong Kong; the economic impact on related trades and services, such as hotel, airline, food and beverage and retail; and whether other local bodies, chambers or businesses could leverage on the event to create business opportunities, conventions, exhibitions or other related events;
- comparing to 2009 when Hong Kong's economy was hard hit by the global financial tsunami and the swine flu epidemic, less emphasis had been placed by the MEF Assessment Committee on the ability of an MEF event to create jobs as Hong Kong gradually recovered from the economic downturn in 2011; and
- job creation was never the major consideration in assessing applications for MEF funding, having regard to the fact that most of the jobs created were extremely short term and temporary in nature, with many lasting for one to a few days only.

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47. **Mr Philip YUNG Wai-hung, Commissioner for Tourism**, supplemented that although providing job opportunities was one of the justifications for setting up the MEF mentioned in all of the CEDB/TC's papers on the MEF for the meetings of the LegCo Panel on Economic Development and in the CEDB's funding proposals to the FC for setting up the MEF, the CEDB and the TC had stressed at the relevant meetings of the LegCo Panel on Economic Development and of the FC that the main reasons for setting up the MEF were to enhance Hong Kong's position as a popular traveller destination and events capital in Asia.

48. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** pointed out that the MEF Assessment Committee, the MEF Secretariat and himself as Controlling Officer of the MEF would consider a basket of factors before deciding whether, and if so, the level of sanction that should be imposed on the grantee for non-compliance with the terms and conditions of the funding agreement. Generally speaking, no sanction would be imposed on the grantee if the MEF event achieved the major objective of the MEF to raise Hong Kong's international profile and the failure, if any, to achieve a certain key performance indicator ("KPI") or some KPIs was not serious.

49. Responding to the Committee's enquiry about whether the CEDB/TC would consider removing the number of paid jobs to be created by an MEF event in assessing applications for MEF funding in view of the improved financial situation of Hong Kong, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** said that the MEF Assessment Committee, the MEF Secretariat and himself as Controlling Officer of the MEF would, in their impending review of the operation of the MEF, take into account the views/recommendations of the Committee as well as Audit before deciding on the way forward.

Comments/reservations made by relevant B/Ds not always followed up

50. As revealed in paragraph 3.13 of the Audit Report, the MEF Secretariat did not follow comments/reservations made by the relevant B/Ds in assessing application for one case, i.e. Event G. Details are as follows:

- the MEF Secretariat did not adequately follow up the comments made by (i) the HAB, the Leisure and Cultural Services Department ("LCSD") and the TC that Event G was just merging and bundling together four local re-run productions which had been staged many times in the past,

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including 11 shows of one performance (Performance A) which had been staged in the LCSD venue one month before the organizers submitted their application; and (ii) also the comments made by the HAB/LCSD that the budgeted marketing expenses of \$2.5 million for Event G appeared high;

- in the application submitted on 30 July 2009, 10 shows of Performance A were included in Event G. It however transpired that in approving a \$2.5 million MEF funding to the organizers of Event G for promoting the event, which comprised a total of 45 shows of four local production performances over a period of three weeks in March and April 2010, both locally and overseas, the MEF Secretariat did not set any provisions in the funding agreement to govern the re-performance of the four MEF performances on dates in close proximity to the MEF event period, which might affect the attractiveness and attendance of the MEF shows. The MEF funding agreement was signed on 5 February 2010;
- according to the information published on the organizers' websites, after the submission of their application on 30 July 2009, six shows of Performance A had been staged in Hong Kong from 13 to 16 August 2009 (in the same venue as the MEF event), and four shows in Guangdong Province between August and September 2009; and
- Performance A was once again re-performed in Macau on the second day after the funding agreement was signed, and three more times in Canada two days after the last MEF show for Performance A was staged in Hong Kong. Although the organizers reported in their post-event evaluation report for Event G that \$0.91 million had been spent on promotion of Performance A locally and outside Hong Kong, the ticket income for Performance A under Event G was only \$0.87 million and the average number of audience for Performance A in the 10 MEF shows was not at all higher than that for the six shows staged by the organizers before the MEF event period in the same venue.

The timetable for the repeated shows of Performance A is in *Appendix 26*.

51. The Committee enquired about whether the MEF Assessment Committee and/or the MEF Secretariat were aware of the repeated shows of Performance A; and if so, the reasons for approving the application of Event G.

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52. **Deputy Commissioner for Tourism** responded as follows:

- the MEF Assessment Committee and the MEF Secretariat knew that Performance A had been performed many times locally and overseas in the past, as such information was mentioned by the organizers of Event G in their application;
- the reasons why the MEF Assessment Committee supported the application was that the organizers claimed that the four performances, which had been successfully performed locally and overseas, could increase the period of stay of non-local visitors in Hong Kong. The event could also develop a brand for local musical productions, showcase local cultural characteristics as well as building up an audience base and helping performers to acquire experience to complement the West Kowloon Cultural District;
- whilst the TC considered that the organizers should have informed the MEF Secretariat after they decided to re-perform Performance A in Macau and Canada on dates in close proximity to the MEF event period, the organizers did not do so; and
- due to the TC's lack of experience in administering the MEF during the early stage of the establishment of the MEF, the TC admitted that not stipulating specific condition in the funding agreement to govern the re-performance of the same performances under Event G was not desirable.

53. The Committee asked the Representative of the organizers of Event G why the organizers of Event G did not inform the TC of their plans to stage one show of Performance A in Macau one day after the signing of the funding agreement, and three shows of Performance A in Canada immediately after the last show of Performance A was held in Hong Kong under Event G.

54. **Mr KO Chi-sum, Representative of the organizers of Event G**, responded that:

- the organizers of Event G had not decided to stage one show of Performance A in Macau and three shows of Performance A in Canada when the MEF funding agreement was signed on 5 February 2010; and

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- the MEF funding agreement did not contain a term prohibiting organizers of Event G to stage the re-performance of the four MEF performances on dates in close proximity to the MEF event period.

55. At the request of the Committee, **Representative of the organizers of Event G** provided, after the public hearing on 12 May 2014, the exact dates on which the organizers of Event G decided to stage one show of Performance A in Macau on 6 February 2010 and three shows of Performance A in Canada on 23 April and 1 May 2010 (in *Appendix 27*).

56. On the effect of staging the re-performances of the four MEF performances on dates in close proximity to the MEF event period on the attractiveness and attendance of the MEF shows, **Representative of the organizers of Event G** made the following points:

- he did not consider that there had been negative effects, as the people who attended the shows under Event G and the people who attended the same shows not under Event G in Canada were basically two different groups of audiences. This was particularly clear if the dates on which the shows were held were in close proximity, as people from Canada wishing to attend the show in Hong Kong would choose to come to Hong Kong or vice versa;
- it was a common practice of the local performing arts community to, after staging a show in Hong Kong, immediately stage the same show overseas wherever possible;
- in the past, the HAB had specified in its funding agreements entered with the local performing arts groups a "blackout period" to govern the re-performance of the same performances funded by the HAB. The LCSD had also prohibited partners of its Venue Partnership Scheme from staging the same shows, which used the LCSD venues, in other non-LCSD venues on dates in close proximity to the dates which the same shows were staged at the LCSD venues. In recent years, both the HAB and the LCSD had not included such "blackout period" in their agreements with the local performing arts groups. Hence, inclusion of a "blackout period" in the funding agreements of projects funded by the Government had become a norm rather than the rule. In the light of this, the organizers of Event G did not see the need to inform the TC when they decided to stage Performance A in Macau and Canada after



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the signing of the agreement for MEF funding on 5 February 2010. If the TC was concerned that the organizers of Event G might stage re-performance of the same performances under Event G on dates in close proximity to the MEF event period, the TC should have included a "blackout period" in the funding agreement in the first place; and

- he disagreed that there was a conflict of interest for the organizers of Event G to re-perform Performance A on dates in close proximity to the MEF event period, as the organizer of Performance A was only remunerated to stage the shows in Macau and Canada. The organizer did not have any involvement in the sales and ticket income of the shows in Macau and Canada nor did the organizer take part in the promotional activities in the run-up to the shows. Moreover, as only some 100 tickets of the Macau show were made available for public sale by the operator, this should have minimal impact, if any, on the attractiveness and attendance of Event G. To his understanding, some Macau people who failed to obtain the tickets for Performance A in Macau did come to Hong Kong for the show.

57. The Committee enquired about whether the application for MEF funding by the organizers of Event G would not be approved, if the MEF Assessment Committee were aware that the organizers planned to stage Performance A repeatedly on dates in close proximity to the MEF event period.

58. **Deputy Commissioner for Tourism** responded that if the MEF Assessment Committee were aware that the organizers of Event G planned to stage Performance A repeatedly on dates in close proximity to the MEF event period, the MEF Secretariat would certainly request the organizers to provide more information for consideration by the MEF Assessment Committee in assessing their application.

59. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** supplemented that being the Controlling Officer of the MEF, he might or might not approve the funding for Event G if he was aware that the organizers planned to stage Performance A repeatedly on dates in close proximity to the MEF event period. Should he approve their application, specific terms might be stipulated in the funding agreement to ensure that the Fund would be used as intended to achieve the objectives of the Fund.

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60. The Committee further enquired about whether, in accordance with the funding agreement, the TC could seek indemnity from the organizers of Event G for not informing the MEF Assessment Committee and the MEF Secretariat of their plans to stage repeated shows of Performance A on dates in close proximity to the MEF event period.

61. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** replied in the negative, as the TC had already released to the organizers of Event G the remaining MEF approved funding. Financial sanctions had been imposed on the organizers for failing to achieve the pledged targets of participants and non-local visitors.

62. The Committee enquired why no action had been taken by the CEDB/TC against the organizers of Event G for not informing the MEF Secretariat of their plan to re-perform the MEF performances on dates in close proximity to the MEF event period, having regard to the following provisions in the MEF funding agreement signed with the organizers of Event G:

- Clause 9.1(b) stipulated that "the Grantee shall, during the continuation of this Agreement and for six (6) months thereafter immediately notify the Government in writing of all or any facts which may reasonably be considered to give rise to a situation where the financial, professional, commercial, personal or other interests of the Grantees or any of the Project Co-ordinator or Deputy Project Co-ordinator or any of the Grantees's Directors, employees, agents, contractors and sub-contractors, or any of their respective Associates or Associated Persons, conflict or compete, or may conflict or compete, with the Grantees's duties to the Government under this Agreement"; and
- Clause 9.4 stipulated that "the Grantees further agrees that, if so required by the Government, it shall take all such steps as are lawful and necessary to enforce such undertakings or to co-operate with the Government in their enforcement".

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63. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** responded that:

- the CEDB and the TC did not do so because the CEDB and the TC were not aware of the repeated performance of MEF performances staged on dates in close proximity to the MEF event period, until these repeated performances were discovered by Audit;
- there had been cases whereby the CEDB and the TC had laid down additional conditions in the MEF funding agreements to govern the re-performance of the MEF performances; and
- depending on the nature/type of individual cases, the TC would continue its prevailing practice to disallow the organizer to stage similar events in Hong Kong or in overseas within a reasonable period or require the organizer to set out clearly the incremental costs on the advertising, promotion or costumes solely arising from the staging of the MEF-supported event. The MEF Assessment Committee would be invited to take note of this and its potential impact on the attractiveness of an event during assessment.

**D. Monitoring and evaluation of events**

64. Responding to the Committee's enquiry about the lessons that the CEDB/TC had learnt from the Hong Kong Harbour Fest to ensure the proper use of the MEF funding, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** set out the following control and monitoring measures that had been put in place:

- the MEF Assessment Committee, with the support of the MEF Secretariat, assessed applications for MEF funding in accordance with the established procedures, guidelines and criteria;
- to give a clear signal to event organizers that it would be their own responsibility to secure sufficient funding for the events that they could not solely rely on public funding, the Government's total contribution to an MEF event (including the MEF funding) should be capped at 50% of the total events' costs;
- during the implementation stage, there would be close contact between the organizer and the MEF Secretariat throughout the planning and

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implementation of the whole event. Members of the MEF Assessment Committee and the MEF Secretariat staff would pay site visits<sup>5</sup> and participate in working meetings of the event, observe the attendance and collect feedback from participants on site, and record such observations properly. Staff and equipment deployed by the organizer would be inspected on site by the MEF Secretariat staff. Major changes in the event's plan were subject to the endorsement of the MEF Assessment Committee. As one of the financial control measures, in general, only 50% of the approved funds was provided to the successful application upon the coming into force of the funding agreement; and

- after the completion of the event, the organizer was required to submit a post-event evaluation report, a publicity report, a survey report (collectively termed "post-event reports") and the audited accounts of the event within a specified time period<sup>6</sup>. The Controlling Officer, on the advice of the MEF Assessment Committee, reserved the right to impose appropriate sanctions on the organizer if its performance in organizing the event was not satisfactory or if it failed to achieve the pledged targets and deliverables of the supported event, including to terminate the funding agreement, reduce the level of funding, not to disburse the outstanding fund or suspend the organizer from future MEF application, etc.

#### Events C1, C2, C3 and C4

65. According to paragraph 4.14(c) of the Audit Report, the majority of the services, including the recruitment of performers, for Events C1, C2 and C3 were procured from two associates of the organizer. However, there were no quotations, invoices, staff recruitment and payroll records with performers' acknowledgement of receipt available to support the recruitments of performers for these events. The two associates together had been paid \$1.5 million, \$1 million and \$1.4 million, representing 48%, 36% and 44% of the total expenditures incurred for the three

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5 According to the TC, as an integral part of the monitoring work over MEF-supported events, the MEF Secretariat staff typically arranges staff members to conduct on-site inspection to the venue(s) of every event since the inception of the MEF scheme in 2009. A standard form (in *Appendix 28*) has been in use since January 2011 to facilitate the recording of on-site observation findings by the MEF Secretariat staff and the MEF Assessment Committee members.

6 According to the TC, the deadline for submission of post-event reports and audited accounts under the original MEF is within three months after the completion of the event. Under the modified MEF, such deadline was changed to within four months after the completion of the event.

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events respectively. Noting from the post-event evaluation reports of Events C1, C2 and C3 that expenditures on performers for the events were only supported by self-declarations by the two associated service providers, the Committee asked why the MEF Secretariat did not raise any queries on such self-declarations.

66. **Deputy Commissioner for Tourism** responded that:

- the MEF Secretariat did not solely rely on self-declarations by the two associated service providers to assess whether the expenditures on performers were reasonable. The MEF Secretariat also made reference to the findings of the on-site inspection to the events conducted by MEF Secretariat staff, the number of manpower deployed for the events reported by the organizer, and the applications submitted by the organizer to the Guinness World Records to attempt or break a world record, say, for the largest gathering of lion dance<sup>7</sup>. In addition, the MEF Secretariat counterchecked the consistency between the post-event evaluation reports and the final audited accounts of the events submitted by the organizer of Events C1, C2 and C3; and
- although the MEF funding was usually granted to finance specific expenditure items, monitoring of the MEF-supported event by the MEF Secretariat was on the event's total cost to ensure that the Fund was used in a proper manner. Generally speaking, more random inspection was conducted on those expenditure items which fell within the MEF funding and less on those expenditure items which were not financed by the MEF funding. The reason why less rigorous random inspection was made on expenditure items not financed by the MEF funding was that the MEF Secretariat relied to a large extent on the audited accounts duly audited, dated, signed and certified as being accurate and complete by a CPA. The independent CPA was expected to conduct appropriate checks on the supporting documents. Also, the independent CPA was required to express his opinion on whether the organizer and the Project Account had complied with the terms and conditions of the funding agreement, and included an assurance that funds were spent in accordance with the terms and conditions of the funding agreement.

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<sup>7</sup> According to the organizer of Events C1, C2, C3 and C4, an independent CPA was engaged for each event to count the number of people participated in the Guinness record-breaking performance.

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67. Responding to the Committee's enquiry as to why there were no quotations, invoices, staff recruitment and payroll records with performers' acknowledgement of receipt available to support the recruitments of performers for Events C1, C2 and C3, **Hon CHAN Kam-lam, Convenor of the organizer of Events C1, C2, C3 and C4**, explained that:

- the organizer of Events C1, C2 and C3 did not have staff recruitment and payroll records with performers' acknowledgement of receipt, as the organizer did not directly recruit the performers for the events;
- as the organizer had procured the services of the two associates of the organizer to recruit performers for the events, the organizer therefore did not see the need to know which performer recruited was paid or not paid, and if paid, how much was paid. Payments to the two associated service providers were based on the actual numbers of, say, lions and dragons, that had participated in the events; and
- he had turned over to the MEF Secretariat all the information relating to recruitment of performers that the two associated service providers had provided to him.

68. As MEF funding support for an event could be up to 50% of the total event's cost, the Committee queried whether the organizer of Events C1, C2 and C3 had overstated the target number of paid jobs to be created by these events and/or overstated the expenditures on performers for these events in order to obtain more funding support from the MEF.

69. **Convenor of the organizer of Events C1, C2, C3 and C4** pointed out that:

- there was no incentive for the organizer of Events C1, C2 and C3 to overstate the target number of paid jobs to be created by these events and/or overstate the expenditures on performers for these events in order to obtain more funding support from the MEF, as the MEF funding only financed two specific expenditure items of Events C1, C2 and C3, namely, to enhance publicity of the events, both locally and overseas; and to enrich the quality and content of the events; and
- the main objective of organizing Events C1, C2, C3 as well as C4 was to showcase Chinese cultural characteristics so as to raise the profile of

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Hong Kong internationally. Job creation was never the major consideration for organizing these events.

70. **Deputy Commissioner for Tourism** supplemented that:

- the MEF Assessment Committee must satisfy that the costs budgets proposed in the application for MEF funding were reasonable, before recommending the application for MEF funding support; and
- although 50% of the approved MEF funding would normally be released to the successful applicant upon the coming into force of the funding agreement, disbursement of the remaining 50% of the approved MEF funding would only be made if the MEF Assessment Committee was satisfied with the post-event reports and the audited accounts of the event submitted by the successful applicant. The MEF Secretariat would scrutinize the contents of and countercheck the consistency between the final audited accounts and the post-event evaluation reports, as well as invite comments from relevant B/Ds. The Secretariat might also request the successful applicant to provide supporting documents, proofs and payment receipts relating to the event, including those expenditures not financed by the MEF, and to give reasons to account for any deviation exceeding 10% between the budget and the actual amounts for each income or expenditure item. In other words, the total contribution of the MEF to an event might not be the original approved amount indicated in the funding agreement even if the grantee was successful in achieving the pre-determined deliverables and targets and had not breached any terms and conditions as stipulated in the funding agreement.

71. The Committee noted that allowances for the dancing teams for Event C4 was \$732,340, which was drastically lower than that for Events C1, C2 and C3 at \$1.5 million, \$1 million and \$1.4 million respectively. The Committee queried whether this had something to do with the wide public concern over the use of MEF funding following the publication of the Audit Report on the operation of the MEF in April 2014.

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72. **Convenor of the organizer of Events C1, C2, C3 and C4** explained that:

- the contents of Events C1, C2, C3 and C4 were different. For example, Event C1 was mainly a gathering of 1 111 lions, whereas that of Event C2 was mainly a gathering of 88 dragons; and
- the expenditure on performers for Event C4 was much lower than that for Events C1, C2 and C3 because the actual number of performers employed for Event C4 was 1 376, as opposed to the target number of 3 101, which was attributed by the following:
  - (a) the number of lions participating in the event was reduced from 500 to 300, thereby reducing the need of hiring some 600 to 700 performers;
  - (b) the actual number of Happy Buddhas was 936 as opposed to the target number of 1 000;
  - (c) of the 936 Happy Buddha performers, only 545 were paid performers; and
  - (d) more students had turned up to participate in the event than expected, thereby obviating the need to hire several hundred paid performers.

73. As also revealed in paragraph 4.14(c) of the Audit Report, the organizer of Events C1, C2 and C3 had neither made any declaration of conflicts nor sought permissions from the TC for procurement from associated service providers in accordance with the funding agreements. The Committee also noted from the MEF funding agreement entered with the Convenor of the organizer of Event C4 that the organizer of Event C4 had also neither made any declaration of conflicts nor sought permissions from the TC for procurement from associated service providers in accordance with the funding agreement. In the light of this, the Committee queried whether the prices charged by the associated service providers for Events C1, C2, C3 and C4 were above the then prevailing market prices.

74. **Deputy Commissioner for Tourism** responded that:

- the MEF Assessment Committee knew during the application stage of Events C1, C2, and C3 that the organizer of these events intended to



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procure the services of the two associates of the organizer for forming the dancing teams for the events. Such arrangements were mentioned in the application forms submitted by the organizer and at the meetings with the MEF Assessment Committee members to present its proposed events;

- the main reason why the MEF Assessment Committee did not object to the organizer for procuring the services of the two associates of the organizer to form the dancing teams for the events was that the organizer assured the MEF Assessment Committee that the two associates of the organizer, who were venerable figures in the lion and dragon dance market, had the ability to line up large scale lion and dragon dances for the one-day events which fell on a public holiday;
- to assess whether the budgeted costs for staging the lion and dragon dances for Events C1, C2, C3 and C4 were reasonable, the MEF Secretariat had checked with those B/Ds and the HKTB which staged lion and dragon dances from time to time on the prices they had paid for such performances; and
- the CEDB/TC agreed with Audit's observation that the work in the area of requiring proper declaration of interests by applicants was insufficient. Hence, arrangement would be made to insert a specific entry in the relevant documents to mandate the declaration of potential and possible conflict of interests by applicants.

75. **Convenor of the organizer of Events C1, C2, C3 and C4** pointed out that money paying to the associated service providers for lining up dancing teams for Events C1, C2, C3 and C4 was 30% to 40% below the then prevailing market prices for staging similar performances.

76. The Committee enquired about the reasons for the following phenomenon:

- no financial sanction was imposed by the MEF Assessment Committee on the organizer of Events C1, C2 and C3, whereas a 7% financial sanction was imposed on the organizer of Event C4 on the grounds that the organizer failed to, amongst others, meet the pre-determined target on creation of paid jobs and the target number of Happy Buddhas participating in the Guinness record-breaking performance as stipulated in the funding agreement;

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- no performers list was contained in the post-event evaluation reports of Events C1, C2 and C3, whereas such a list was contained in the post-event evaluation report of Event C4; and
- no non-compliance with the terms and conditions of the MEF funding agreement was mentioned in the independent CPA's reports on Events C1, C2 and C3, whereas it was mentioned in the independent CPA's report on Event C4 that the bank accounts used by the organizer contained brought forward bank balance of \$10,781 that was not related to Event C4 and there was no evidence that the organizer had sought permission from the Government in procuring services from the associated service providers.

77. On the imposition of financial sanctions or otherwise on the organizer of Events C1, C2, C3 and C4, **Deputy Commissioner for Tourism** responded that:

- the MEF Secretariat had always endeavoured to closely monitor the proper use of the MEF funding by the grantees. Following the publication of the Audit Report on the operation of the MEF, an additional staff with accounting background was deployed within the TC to assist the MEF Secretariat in the scrutiny of the reports submitted by the organizer of Event C4 after the completion of the event. With the assistance of this staff member with accounting background, a sum of \$40,755 was excluded from both the total income and expenditure of the event; and
- resources permitting, the TC would recruit staff member with accounting/audit background/knowledge to serve the MEF Secretariat with a view to enhancing the effectiveness of its monitoring work.

78. On why the performers list was only provided in the post-event evaluation report of Event C4, **Convenor of the organizer of Events C1, C2, C3 and C4** explained that:

- the performers list for Event C4 was provided to him by the two associated service providers;
- he did not know why the same two associated service providers did not provide the performers lists for Events C1, C2 and C3 to him in the past; and

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- he did not know the contents of the independent CPA's report on Event C4 until the report was made available to him on 8 May 2014. Whilst he respected the opinions made in the independent CPA's report regarding the event's accounts and the procurement of services from associated service providers which were factually true, he could not concur with these opinions for the following reasons. The balances in the event's accounts totalling \$10,781 were surplus accumulated from past MEF events which were permitted under the funding agreement<sup>8</sup>, and the related party transaction was permitted by the MEF Assessment Committee, albeit such permission was not clearly stated in the relevant documents of the MEF.

79. Although the deadline for the organizer of Event C4 to submit the post-event reports and the audited accounts of Event C4 to the MEF Secretariat was 30 April 2014, the actual submission dates of the post-event reports and the audited accounts of Event C4 were 7 and 8 May 2014 respectively. The Committee enquired about whether the organizer of Event C4 had sought prior approval from the MEF Secretariat for extension of submission deadline; and if so, the reasons given by the organizer.

80. **Deputy Commissioner for Tourism** responded that:

- the Convenor of organizer of Event C4 issued an email to the MEF Secretariat on 25 April 2014 seeking the latter's agreement to extend the date of submitting the post-event reports and the audited accounts from 30 April 2014 to 7 May 2014. The reason given by the organizer was that additional time was required for the audit work. The MEF Secretariat replied to the organizer on 28 April 2014;

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8 Under Clause 14.3 of the MEF funding agreement, when the grantee submits the final audited accounts, the grantee may submit an application to the MEF Assessment Committee for approval for retaining the operating surplus in the project account for the sole purpose of organizing the same event in the following year in Hong Kong subject to a series of conditions.

Further, under Clause 14.4(a) of the MEF funding agreement, where approval is granted to the application under Clause 14.3, the grantee shall warrant and undertake in writing to the Government that it shall immediately return the surplus, plus all interest generated in the project account, to the Government if the grantee discontinues with organizing the new event in the following year; or the grantee does not apply for the MEF for the event or decline to receive any fund from the MEF for organizing the event; or the grantee does not apply to use the surplus or declines to use the surplus to organize the new event; or the surplus has been left idle in the project account for more than 24 months, whichever is earlier.

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- on 7 May 2014, the Convenor of organizer of Event C4 issued another email to the MEF Secretariat seeking further extension of the submission deadline of the post-event reports and the audited accounts from 7 May 2014 to 17 May 2014. Subsequently to this email, the organizer of Event C4 submitted the post-event reports to the MEF Secretariat on 7 May 2014. It also submitted the audited accounts of the event on 8 May 2014; and
- the MEF Secretariat typically reminded the organizers to observe the requirement and ensure the timely submission of the post-event reports and the audited accounts within the prescribed period after the completion of the event. In cases where the organizers could demonstrate a genuine need for a deferral of the submission deadline, the MEF Secretariat would give agreement to such requests for deferral. Reasons for deferral accepted in the past included the fact that the independent CPA required more time to complete the final audited accounts, or that inputs from the organizers' overseas counterparts were pending.

81. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided, after the public hearing on 7 June 2014, details of the MEF-supported events seeking extension of deadline for submitting the post-event reports and the audited accounts (in *Appendix 29*).

82. Noting that the dates on which the post-event reports and the audited accounts of Event C3 were submitted to the MEF Secretariat were 27 February 2013 and 22 February 2013 respectively, the Committee enquired about the reasons for the much longer time taken for the submission of the post-event reports and the audited accounts of Event C4.

83. **Convenor of the organizer of Events C1, C2, C3 and C4** responded that:

- the reason for the much longer time taken to submit the post-event reports and the audited accounts of Event C4 to the MEF Secretariat was because he did not receive all supporting documents relating to the income and expenditures of the event until late April 2014;
- as regards the reason for seeking further extension of the submission deadline of the post-event reports and the audited accounts of Event C4

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from 7 May 2014 to 17 May 2014, this was because additional time was needed for the audit work given that there were only two clear working days between 1 and 7 May 2014; and

- there was no question of the organizer delaying the submission of the post-event reports and the audited accounts of Event C4 in order to allow more time for the organizer to fudge the information to be provided in the reports because of the findings made by Audit, as the organizer did not know that Audit staff attended Event C4 as observers until the publication of the Audit Report and the supporting documents relating to the income and expenditures of the Event C4 were provided to the independent CPA upon receipt since the end of March 2014.

84. According to paragraph 4.14(h) of the Audit Report, for one event (Event C2), the organizer received a sponsorship of \$0.8 million from one sponsor. Because the event had an unspent balance of \$0.28 million, the organizer refunded \$0.28 million to the sponsor. As the organizer should have refunded the unspent event balance of \$0.28 million to the Government under the funding agreement, the Committee enquired about the reason why this was not done.

85. **Deputy Commissioner for Tourism** responded that:

- in March 2014, the organizer explained to the TC that the sponsor had committed to use its sponsorship to make up for any deficit of the event and, with an unspent event balance of \$0.28 million, it refunded the amount to the sponsor; and
- the TC admitted that the above refund of an unspent balance to sponsor, instead of the Government, was not desirable. In future, the TC would state explicitly in the funding agreement that the organizer must notify the TC in writing and seek its prior consent, should there be any special arrangement for returning sponsorships to commercial sponsors.

86. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided, after the public hearing on 7 June 2014, the breakdown of the expenditure items which fell within the scope of expenditure that may be covered by the MEF funding for Events C1, C2, C3 and C4 (in *Appendix 30*).

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Events E1 and E2

87. The Committee noted from paragraph 4.9 of the Audit Report that the agent (a company) employed by the organizer of Events E1 and E2<sup>9</sup> was related to the organizer in that the shareholders of the agent were also ex-officio members of the organizer's executive committee. Services of \$2.9 million and \$2.7 million had been provided by the agent in the two events, representing 12% of the total expenditures incurred. However, the organizer had neither made any declarations of the relationship nor sought the Government's permissions for procurements from the related agent.

88. **Deputy Commissioner for Tourism** explained that:

- the MEF Assessment Committee and the MEF Secretariat knew from the application forms of the organizer of Events E1 and E2 and from the organizer's presentations on their proposed events at the meetings of the MEF Assessment Committee that (a) the agent would be employed by the organizer to organize the proposed events; (b) the agent had been providing services to the organizer at a fee prior to the latter's application for organizing Event E1; (c) the reason why the shareholders of the agent were also ex-officio members of the organizer's executive committee was because the agent was assisting the organizer in organizing tennis tournaments; and (d) the two shareholders of the agent who were also ex-officio members of the organizer's executive committee did not have the right to vote at meetings of the executive committee;
- the reason why the MEF Assessment Committee did not object to the organizer employing the agent to organize Events E1 and E2 was because from the documents provided by the organizer the agent had a track record of staging successful tennis tournaments; and
- the CEDB/TC agreed with the audit recommendation that applicants/organizers of MEF-funded events should be required to disclose in their applications and post-event reports their management teams and the related organizations that might take/had taken an active part in organizing the events. On this, the TC would insert a specific entry in the relevant documents to mandate the declaration of potential and possible conflict of interest by applicants/organizers.

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<sup>9</sup> The organizer of Events E1 and E2 was a limited company which was dissolved on 28 January 2014.

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89. As the agent was a profit-making company and would receive payments from the organizer of Events E1 and E2 for organizing the events, the Committee considered that the CEDB/TC should have required the organizer of Events E1 and E2 to operate a proper procurement/tendering system for the events with sufficient checks and balances as stipulated in the funding agreement.

90. The Committee noted from paragraph 2.37 of the Audit Report that the MEF funding agreement of Event E1 had not defined the specific use of the MEF funding. Responding to the Committee's enquiry as to why this was the case, **Deputy Commissioner for Tourism** explained that this was due to the lack of experience of the MEF Secretariat during the initial stage of the MEF's operation. However, the organizer of Event E1 well understood that the MEF funding was granted to finance the organizer to enhance its ability to line up more players so as to increase the attractiveness of the event; and to enhance publicity of the event, both locally and overseas.

91. The Committee enquired as to why the MEF Secretariat did not raise any queries on the organizer of Event E1 making an unbudgeted bonus payment of \$0.2 million to the agent.

92. **Deputy Commissioner for Tourism** responded that:

- the organizer of Event E1 explained to the TC that the making of a bonus payment to the agent was in line with the past practice that if the agent had staged successful tennis tournaments in the past year, the agent would be awarded a bonus payment; and
- as the actual amount of MEF funding provided to the organizer of Event E1 was \$7,883,719, as opposed to the original approved funding of \$9 million, because the agent was able to generate more income than the budget income through sponsorship and ticket sales, the TC therefore did not object to the organizer making an unbudgeted bonus payment of \$0.2 million to the agent.

Event J

93. According to paragraph 4.19(a) of the Audit Report, under the funding agreement which was executed in January 2013, the organizer undertook that no

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similar matches would be held by the organizer/team in the Southern China and "nearby South East Asian countries" during the 2013 tour. However, the team had held a match in Thailand (which is in South East Asia) during its 2013 tour. Even though the MEF Secretariat had been informed of the match in Thailand, yet because the funding agreement had not defined clearly the term "nearby South East Asian countries", the funding condition of requiring the organizer/team not to hold similar matches in "nearby" places was difficult to enforce. The Committee enquired about the rationale for setting down such term in the funding agreement of Event J.

94. **Deputy Commissioner for Tourism** responded that:

- to expect the team of such high international stature to only come to Hong Kong to hold matches was not realistic; and
- in order not to undermine the attractiveness and attendance of Event J, a condition was specified in the funding agreement to prohibit the organizer/team for holding matches in "nearby South East Asian countries" which should be taken to mean places such as Macau, Shenzhen and Guangzhou, which were within one to two hours travelling time to Hong Kong.

Event G

95. As revealed in paragraph 4.14(a)(i)-(ii) of the Audit Report, almost all expenditures on overseas TV advertisements of \$240,000 were spent on TV promotion in Canada and solely for Performance A, instead of all four MEF performances. Moreover, the organizers of Event G made no reference to any of the TV advertisements in Canada in their publicity report submitted to the MEF Secretariat. The Committee was concerned that the money might have been spent on promoting the three shows of Performance A staged in Canada two days after the MEF shows in Hong Kong.

96. **Representative of organizers of Event G** responded that there was no question of the organizers of Event G charging the expenditures on TV promotion in Canada on the three shows of Performance A staged in Canada two days after the MEF shows in Hong Kong to the MEF funding. He further said that:

- the organizers of Event G were invited by an organization to stage the three shows of Performance A in Canada two days after the MEF shows



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in Hong Kong. The three shows staged in Canada were for charity and the organizers of Event G only received fees for producing the shows. The organizers of Event G were not involved in the promotion of the three shows in Canada nor did they have a share in the income of the shows;

- the main reason for allocating most of the overseas advertising budget of Event G on promoting Performance A in Canada was because the organizers of Event G considered that Performance A best suit the taste of Canadian Chinese people visiting Hong Kong. In fact, survey results revealed that Performance A had the highest numbers of overseas audience and attendance; and
- the organizers of Event G had provided the MEF Secretariat with the TV advertisements they planned to air in Canada and the contents of these TV advertisements were all on promoting Performance A of Event G.

97. Responding to the Committee's enquiry as to when the organizers of Event G decided to allocate most of the overseas advertising budget of Event G on promoting Performance A in Canada, **Representative of organizers of Event G** advised that this should be between after the signing of the funding agreement on 5 February 2010 and before the organizers decided to stage the three shows of Performance A in Canada on 8 April 2010. **Representative of organizers of Event G** surmised that the inviting organization might have decided to invite the organizers of Event G to stage three shows of Performance A in Canada on 23 April and 1 May 2010 after watching the TV advertisements in Canada on promotion of Performance A under the MEF event.

98. The Committee noted from paragraph 4.14(a)(iii) of the Audit Report that of the \$240,000 expenditures spent on overseas TV advertisements, a payment of some \$92,000 was not properly supported by any official invoice. The receipt in support of the payment was not an official one because it did not bear the customer name and there was no description of the service provided (such as the nature, duration and period of the advertisements). There was no authorized signature and no official company chop. Another payment of \$32,970 for promotion in North America for all four performances was not supported by invoice or official receipt, but only by a bank exchange memo for purchase of Canadian dollars. The Committee asked why the MEF Secretariat had paid the organizers for these two expenditure items which were not supported by documents, proofs and/or payment receipts.

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99. **Deputy Commissioner for Tourism** admitted that as Event G was one of the first batch of applications for MEF funding, verification of supporting documents was not conducted thoroughly enough by the MEF Secretariat staff due to lack of experience. Nevertheless, the MEF Secretariat had randomly inspected the documents, proofs and payment receipts relating to the event and had asked the organizers to provide explanation should there be any missing parts or irregularities. The fact that nothing was documented in the files of the MEF Secretariat in respect of the two expenditures referred to in paragraph 4.14(a)(iii) of the Audit Report showed that the MEF Secretariat was satisfied with the two expenditure items.

100. **Representative of organizers of Event G** advised that after the completion of Event G, the organizers had provided the MEF Secretariat with all supporting documents, proofs and payment receipts relating to the two expenditure items referred to in paragraph 4.14(a)(iii) of the Audit Report. The organizers of Event G might no longer have these documents, having regard to the fact that the MEF Secretariat had already settled the account with them back in 2011.

101. The Committee pointed out that under Clause 12(1) of the MEF funding agreement, the grantee must maintain all relevant records of the MEF-supported event, including separate and complete books of accounts, a register of equipment procured and all relevant receipts, for inspection and checking by the MEF Assessment Committee or the MEF Secretariat as and when required. Such records must be kept for a period of seven years following completion of the event.

102. After the public hearing held on 7 June 2014, **Representative of organizers of Event G** informed the Committee (in *Appendix 31*) that:

- the organizers of Event G could not provide any more supporting documents relating to the payment of some \$92,000 and another payment of \$32,970 for overseas TV advertisements referred to in paragraph 4.14(a)(iii) of the Audit Report; and
- the organizations which the organizers of Event G used to place TV advertisements for Performance A under the MEF event (paragraph 4.14(a)(iii) of the Audit Report refers) did not retain the relevant transaction records.

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Disbursement of funds not in accordance with pre-set milestones

103. In June 2009, shortly after the inception of the MEF, the MEF Assessment Committee endorsed that disbursement of funds would be made by phases "in accordance with business plan, budget and cash flow requirement of the successful event, .... subject to fulfilment of pre-set and clearly defined milestones/targets acceptable to the Assessment Committee." However, according to paragraph 4.26 of the Audit Report, instead of disbursing funds in accordance with the pre-set milestones of the events, payments were made to the organizers in all 22 completed MEF events based on the same payment schedule, i.e. 50% upon the execution of the funding agreements and the remaining 50% after the successful completion of the events and the submission of post-event reports and audited accounts to the satisfaction of the MEF Assessment Committee and the Controlling Officer.

104. **Deputy Commissioner for Tourism** responded that:

- the reason 50% of the approved MEF was released to 22 MEF events upon the coming into force of their funding agreements was because the funding agreements were executed very close before the event dates. Because many of these organizers had relatively less experience than professional and commercial event organizers in organizing large scale events, long time was often taken to finalize their operation plans and event budgets which formed part of the funding agreements;
- following a brainstorming session held with the MEF Assessment Committee in March 2014 to look into ways to improve the Tier-2 scheme, the TC was considering starting each round of applications earlier as well as adding another round of invitation for applications per year. Such arrangements would allow interested local non-profit-making organizations to come to apply for the Fund way ahead of their event dates, and this in turn would enable the disbursement of the Fund by phases, subject to the fulfilment of pre-set milestones; and
- without waiting for the funding agreements to be finalized, the MEF Secretariat had taken steps in a proactive manner to monitor the implementation of the events and remind the organizers to observe the terms and conditions of the yet-to-be executed agreements.

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**E. Way forward**

105. According to paragraph 2.12 of the Audit Report, no Tier 1 events have been held as of March 2014 since the modified MEF was launched in May 2012. The Committee asked why this was the case.

106. **Deputy Commissioner for Tourism** explained that:

- as the CEDB informed the FC in April 2012, to take forward the new Tier I scheme, an independent consultant would be engaged to conduct a comprehensive survey to identify a list of potential Tier I events to be introduced to Hong Kong. After consideration by the MEF Assessment Committee and obtaining the approval-in-principle approval from the Controlling Officer, i.e. the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), the TC would approach the relevant owners of the identified events according to the agreed priority to explore whether they were interested in bringing these events to Hong Kong;
- a consultant was appointed in September 2012. The consultant's report was accepted by the MEF Assessment Committee in May 2013. Given that the MEF funding was limited, and was designated for use of both Tier 1 and Tier 2 events, the MEF Assessment Committee considered it prudent to adopt a step-by-step approach to take forward the Tier 1 scheme, and advised the TC to concentrate efforts on one or two mega events with real potential to be introduced to Hong Kong. In accordance with the MEF Assessment Committee's advice, the TC had been discussing with the organizers of two potential Tier 1 events the possibility of introducing such events to Hong Kong. These discussions were ongoing and the TC would continue to follow up this matter in a proactive matter; and
- also as the CEDB informed the FC in April 2012, given that Tier 1 events would entail substantial amounts of public funds and would involve commercial event organizers or professional sports associations established outside Hong Kong, the TC would need to develop a more versatile monitoring and control mechanism for Tier 1 events. Based on the existing monitoring mechanism for Tier 2 events, the TC had recently worked out a more versatile monitoring and control mechanism for Tier 1 events. The ICAC had been consulted on the enhanced mechanism for Tier 1 events from the corruption prevention angle.

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The TC was presently studying the replies and comments from the ICAC. As the Government would be entitled to sharing profits of the supported event in a manner commensurate with the MEF's sharing of funding contribution in relation to other financiers towards the event on a pro rata basis, the TC was presently working out the additional requirements that should be included in the relevant documents for Tier 1 events.

107. According to paragraph 5.19(a)(i) of the Audit Report, Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) agreed that there was a need to improve the governance of the MEF Assessment Committee. When considering appointment/re-appointment of members of the MEF Assessment Committee in future, the TC would, bearing in mind that the continuity of the MEF Assessment Committee was important in ensuring the consistency of assessment, consider introducing new blood to the Assessment Committee.

108. On 12 June 2014, the Government announced an appointment and re-appointments to the MEF Assessment Committee for a term of two years with effect from 15 June 2014. With the exception of one non-official member who was newly appointed, the Chairman and six other non-official members of the MEF Assessment Committee were re-appointed. In view of the various deficiencies on the monitoring and evaluation of MEF events identified by Audit and that only six of the 24 MEF events approved as of February 2014 were brand new events with the rest being ongoing and/or repeated events, the Committee enquired about the reason for re-appointing all existing non-official members and only introducing one new member to the MEF Assessment Committee.

109. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** responded that:

- all six re-appointed non-official members were experts from the tourism, culture, arts, sports, event management and entertainment sectors who had provided the CEDB/TC with valuable advices on bringing in more signature mega events to Hong Kong. Besides, the CEDB/TC considered it important to ensure continuity and retain experience in the assessment of applications for MEF funding. To enhance the assessment and supervision work of the MEF Assessment Committee, an additional non-official member who had rich knowledge of the

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tourism sector as well as profound professional accounting knowledge was appointed to the MEF Assessment Committee; and

- as not all local non-profit-making organizations had the experience and the capability to organize large scale events, the CEDB/TC considered it appropriate to provide MEF funding support to those local non-profit-making organizations to host events which had the potential to become mega events in Hong Kong.

110. As Hon Jeffrey LAM Kin-fung was re-appointed as the Chairman of the MEF Assessment Committee for a third term, the Committee enquired Mr LAM about whether he considered the monitoring of Events C1, C2, C3, C4, E1, E2 and G satisfactory and what measures he would suggest to the Government on addressing the deficiencies on the operation of the MEF identified by Audit.

111. **Chairman of the MEF Assessment Committee** responded that:

- whilst the monitoring of Events C1, C2, C3, C4, E1, E2 and G was less than desirable, these events had been staged in line with the aim of the MEF; and
- the MEF Assessment Committee would shortly meet to examine ways on enhancing the existing control and monitoring mechanism of the Fund. In particular, he had recently raised with the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) the need for the TC to step up its checking and controls over the operation of the MEF events. Hitherto, the Secretary for Commerce and Economic Development had appointed a new member who had rich knowledge of the tourism sector as well as profound professional accounting knowledge to the MEF Assessment Committee and the TC would add new staff with accounting knowledge to the MEF Secretariat.

112. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided, after the public hearing on 17 June 2014, a list of measures/actions that would be taken by the TC to enhance the control and monitoring mechanism of the MEF (in *Appendix 32*).

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**F. Conclusions and recommendations**

<b>Overall comments</b>
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113. The Committee:

- expresses grave dismay and finds it inexcusable that:
  - (a) the failure to ensure the compliance of the terms and conditions in the funding agreements of the Mega Events Fund ("MEF") by the Commerce and Economic Development Bureau ("CEDB") and the Tourism Commission ("TC") of the CEDB in areas, such as procurement of equipment and services; return of surpluses to the Government; seeking the prior written consent of the MEF Assessment Committee and the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) if there is any material change to any information provided in the funding agreement; and keeping of books and records, had resulted in a number of irregularities and suspected irregularities identified by the Audit Commission ("Audit") in the MEF-supported events;
  - (b) the failure to carry out the avowed intention of the CEDB to inject new blood into the MEF Assessment Committee, i.e. the chairman has taken up the office since the inception of the MEF in 2009 and only one of the seven non-official members is a new member (appointed on 12 June 2014), might not be conducive to the identification of new events, having regard to the facts that only six of the 24 approved events held thus far were brand new events and only one new event had been approved in the recent five rounds of applications (since mid-2011) and no Tier 1 events have been held even though the two-tier MEF has been implemented since May 2012; and
  - (c) the MEF Secretariat, with only six staff all without accounting/auditing background and all having other duties, failed to provide sufficient support to the MEF Assessment Committee for carrying out its remit in an effective manner;

Monitoring and evaluation of events

- finds it unacceptable and inexcusable that the CEDB failed to draw sufficient lessons from the experience from the Hong Kong Harbour

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Fest in that the TC had not taken adequate safeguard measures to ensure the proper use of the MEF, as evidenced by the following shortfalls:

*Monitoring of event implementation*

- (a) failure to require organizers of Events C1, C2, C3, C4 and G to provide full supporting documents for all event expenditure items, as a result of which a number of irregularities and suspected irregularities in these events had been identified by Audit;
- (b) failure to require organizers of Events C1, C2, C3, C4 and E1 to disclose in their applications and post-event evaluation reports their management teams and related organizations that might take and had taken an active part in staging the events, as a result of which abuses had occurred in these events in that payments were made by the organizer of Events C1, C2, C3 and C4 to its associated service providers based on the latter's self-declarations; and an unbudgeted gratuitous bonus payment of \$200,000 was made to the agent employed by the organizer of Event E1;
- (c) although the related party transactions in Events C1, C2, C3, C4, E1 and E2 were made known to the MEF Assessment Committee and the MEF Secretariat by the organizers of these events, neither did the MEF Secretariat document the reasons/justifications for exempting the organizers of these events from carrying out the tendering procedures for procuring services, including staff recruitments, as stipulated in the funding agreements or for waiving the organizers from complying with the relevant clauses in the funding agreements; nor did it conduct additional checks on the organizers' procurement and recruitments; and
- (d) although it is provided in the funding agreements that the organizers shall establish a two-tier approval system for the recruitment of key personnel/staff and the award of major goods, services and equipment contracts in procurement/tendering exercises conducted for the events, no adequate measures had been taken to ensure such implementation by the organizers;



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*Evaluation of events*

- (e) achievements reported by organizers were not always adequately verified in that:
  - (i) the MEF Secretariat did not conduct random verification on the numbers of jobs created by the events during the on-site inspections and did not conduct adequate check on the organizers' recruitment and payroll records; and
  - (ii) organizers were not required to inform or agree with the MEF Secretariat their methods in counting participants in the events, and the MEF Secretariat seldom verified or raised queries on the counting methods or the results;
- (f) failure to ascertain the underlying reasons why organizers could not develop special tourist packages required in their funding agreements; and

*Disbursement of funds not in accordance with pre-set milestones*

- (g) although disbursement of MEF funding should be subject to the fulfilment by the organizers of the pre-set milestones, payments were made to the organizers in all 22 completed MEF events based on the same payment schedule, i.e. 50% upon the execution of the funding agreements and the remaining 50% after the completion of the events and the submission of post-event reports and audited accounts to the TC;
- notes that the MEF Secretariat has started:
- (a) the practice of holding "kick-off" meetings with the organizers of MEF-supported events upon approval of their MEF applications and receipt of their acceptance of the conditional offers to inform the organizers of the expectations of the Government and the MEF Assessment Committee, as well as the obligation to facilitate the MEF Secretariat's monitoring work; and
  - (b) documenting the checking and/or clarifications made with the organizers of MEF-supported events during the verification and

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cross-checking of the post-event reports and audited accounts submitted by the organizers;

- notes that the MEF Secretariat will also take the following measures/actions in the near future:
  - (a) put a specific requirement in the Guidelines to MEF Application, application form, funding agreement and evaluation form, such that organizers of MEF-supported events must declare any potential conflict of interest, in particular those involving monetary transactions. Such declarations must either be done in writing or be recorded properly in writing;
  - (b) put a specific requirement in the application form and evaluation form, such that organizers of MEF-supported events must declare their management team and any related-parties who will be actively involved in organizing the events. Such declarations and the Government's agreement thereto must either be done in writing or be recorded properly in writing;
  - (c) put a specific requirement in the application form and evaluation form, such that organizers of MEF-supported events must disclose any intention on their part to organize in Hong Kong or overseas any kind of activities/events of similar contents and nature to the MEF-supported events. The MEF Secretariat will also develop a standard clause in the funding agreement on such requirement and the need for the organizers to seek the Government's consent;
  - (d) step up monitoring of the declaration of interests in relation to the procurement of services and recruitment of key personnel by the organizers of MEF-supported events; and
  - (e) step up random verification on the deliverables and targets as reported by the organizers and request the organizers to ensure that all event expenditure items should be supported by official invoices/receipts. The MEF Secretariat will check whether the organizers have fulfilled these requirements when conducting the random document checks;
- urges the MEF Secretariat to take steps to execute MEF funding agreements as early as practicable, so that disbursement of funds to the organizers could be made in phases subject to their fulfillment of the

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- pre-set milestones laid down in the funding agreements so as to secure better financial control;
- finds it unacceptable and inexcusable that some MEF funding had been wasted due to the lax attitude adopted by the TC in administering the MEF scheme, as evidenced by the following:
    - (a) an overpayment of \$227,000 was made to an organizer, albeit such overpayment was subsequently recovered from the organizer by the MEF Secretariat after being informed by Audit;
    - (b) a refund of an unspent event balance of \$280,000 was made by the organizer of Event C2 to a sponsor, instead of the Government, as the MEF Secretariat did not require organizers to seek its prior approval should there be any special arrangement for returning sponsorships to sponsors;
    - (c) a payment of \$100,000 and another payment of \$200,000 for financing the publicity costs of commercial sponsors, which should not have been borne by the MEF, were funded by the MEF funding because the TC did not explicitly state in the funding agreement that charges relating to commercial sponsors should not be covered by the MEF funding; and
    - (d) no queries had been raised with the organizer of Event E1 on the latter's making an unbudgeted gratuitous bonus payment of \$200,000 to its agent employed for organizing the event;
  - notes that the MEF Secretariat will state explicitly in the funding agreement that charges relating to commercial sponsors should not be covered by MEF funding, and that the organizers of MEF-supported events must notify the Government in writing and seek the Government's consent should there be any special arrangement for returning sponsorship to commercial sponsors;
  - finds it unacceptable and inexcusable that:
    - (a) only after the publication of the Director of Audit's Report ("Audit Report") did the CEDB and the TC see the need to deploy staff with accounting background to the MEF Secretariat to enhance the effectiveness and professionalism of the supervision and scrutiny work; and

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- (b) some MEF funding might have been wasted due to the lack of foresight of the CEDB/TC to assign staff with accounting knowledge in the MEF Secretariat upon the inception of the MEF, as evidenced by the overpayment of \$227,000 in one event to the organizer (paragraph 4.14(d) of the Audit Report refers) and the irregularity of \$40,775 identified by staff with accounting knowledge more recently deployed by the MEF Secretariat to conduct document inspection checks of Event C4;
- notes that the TC will seek resources for recruiting/deployment on a longer term basis staff members with accounting/auditing knowledge to the MEF Secretariat to enhance the effectiveness of its monitoring work;

Independent Commission Against Corruption ("ICAC")'s review on the operation of the MEF

- notes that in its review of the adequacy of the funding procedures of the MEF to prevent corruption conducted in 2010, two members of the Corruption Prevention Advisory Committee ("CPAC") of the ICAC also raised their concern about the need for continuing the MEF, which was set up at a time of financial difficulties and, in view of the changed economic situation, suggested that the TC should consider returning the unused funds to the Government;
- finds it unacceptable and inexcusable that the failure of the CEDB to mention the concern raised by two members of the CPAC of the ICAC about the need of continuing the MEF in its funding proposal to the Finance Committee ("FC") of the Legislative Council ("LegCo") in April 2012 for setting up the modified two-tier MEF might have hindered the FC from making an informed decision on whether or not to support the funding proposal;
- does not accept the explanation given by the CEDB that the concern raised by two members of the CPAC of the ICAC in November 2010 about the need of continuing the MEF was more a policy question and not related to corruption prevention and, because the TC had taken the relevant view into account when reviewing the way forward for the MEF in 2011, the CEDB did not see the need to inform the FC of such a policy view. Even if this was the case, the CEDB should have informed the FC the CPAC's policy view in its funding proposal for setting up the modified two-tier MEF in April 2012;

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- urges the CEDB and the TC to periodically consult the ICAC on the need to develop more stringent monitoring and control measures for the MEF scheme to ensure that public money is properly handled;

Way forward

- expresses astonishment and finds it unacceptable that although the modified two-tier MEF has been implemented since May 2012, no Tier 1 event has been held;
- notes that the TC has been discussing with the organizers of two potential Tier 1 events the possibility of introducing such events to Hong Kong, and urges the TC to continue to follow up this matter in a proactive manner;
- expresses astonishment and finds it unacceptable that since the inception of the MEF in 2009, only six of the 24 approved MEF events were brand new events;
- notes that the TC will introduce measures, such as enhancing the transparency of the MEF application schedule, proactively providing the reasons for failure of unsuccessful applications to the relevant applicants, and introducing a mechanism for eligible unsuccessful applicants to submit reviewed applications for further consideration by the MEF Assessment Committee, with a view to supporting more new Tier 2 events;
- urges the CEDB to review whether it is still necessary and appropriate to make the number of paid jobs created as an criterion to assess applications for MEF funding given the prevailing economic situation;
- notes that:
  - (a) the TC will consider whether, and if so how, the assessment criteria for MEF applications and the key performance indicators ("KPIs") for MEF-supported events should be updated and revised; and
  - (b) the Government will conduct a comprehensive review on the future of the MEF before its expiry in March 2017; and

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- expects the CEDB and the TC to expeditiously take on board the audit recommendations and other improvement measures as well as to adopt a more stringent and proactive approach in administering the MEF.

<b>Specific comments</b>
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114. The Committee:

Achievement of MEF objectives

- finds it unacceptable and inexcusable that:
  - (a) although a high percentage of applications has been rejected during processing, there was no evidence that the Administration had taken effective measures to address the issue;
  - (b) although the funding agreements signed by the TC with the event organizers have set out in detail the event deliverables, targets and KPIs (such as number of paid jobs created, number of participants and special tourist packages to be developed) against which the latter have to report the actual outcome in their post-event evaluation reports, there were inadequacies in the TC's mechanism in verifying the achievements of these deliverables, targets and KPIs. In particular, Audit has found that:
    - (i) with regards to the number of paid jobs created, the TC did not randomly verify the staff employed for the events against any attendance records on the spot and did not conduct subsequent checks against the organizers' recruitment and payroll records. As a result, the number of paid jobs reported might have been overstated. For example, with Event C4 reported in Example 1 in the Audit Report, although the event was expected in the funding agreement to create a minimum of 3 100 paid jobs for the local people of Hong Kong, including 3 000 performers of specified types, the organizer informed the TC on Audit's enquiries that the event had only created 1 317 paid jobs for performers;

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- (ii) although the CEDB reported to the LegCo in April 2012 that a total of about 10 000 paid jobs had been created by the 16 MEF events approved as of March 2012, it is apparent that the 5 000 jobs created as a result of Events C1 and C2, which had been included among the "10 000 paid jobs", had been overstated; and
  - (iii) with regards to attracting over 900 000 participants (including more than 170 000 non-local visitors), as reported by the CEDB to the LegCo in April 2012, it was noted that a large number of the reported figures were related to a few events which were held in open area with free-flow pedestrians. The organizers were not required to inform or agree with the TC beforehand the counting methods adopted and the TC seldom verified or raised queries on the counting methods or the results the organizers reported in their post-event evaluation reports;
  - (c) many of the MEF events had not been too successful in attracting overseas visitors to come to Hong Kong specifically for the events. For nine of the 18 events with the requirement of developing special tourist packages included in the funding agreements, the organizers reported that no such packages could be developed; and
  - (d) only six brand new events had been held since the inception of the MEF (May 2009), but three of them had been subject to financial sanctions by the TC. Only one brand new event had been approved since mid-2011. Unless new events are approved in the future, the MEF will be supporting only a few repeated events. The imbalance between new and repeated events supported by the MEF is an issue which needs to be addressed;
- notes that the TC (and the MEF Assessment Committee) had imposed financial sanctions on some of the organizers for their failure in meeting the agreed targets and delivering the deliverables as set out in the funding agreements;
  - notes that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), as the Controlling Officer of the MEF, has generally agreed with the audit

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recommendations in paragraph 5.16 of the Audit Report. In particular, the TC has undertaken, amongst others, to:

- (a) look into the operation of the MEF (both the Tier 1 and Tier 2 schemes), including developing a robust mechanism to validate the deliverables and targets reported to have been achieved by the organizers in their post-event reports;
  - (b) endeavour to identify worthwhile Tier 1 events and appealing new Tier 2 events for possible support by the MEF;
  - (c) enhance the operation of the Tier 2 scheme, including stating in the regret letter the main reasons for the failure in the case of unsuccessful applications, and holding kick-off meetings with the organizers in order to inform them the Government's and the MEF Assessment Committee's expectations and the obligations on their side;
  - (d) explore with the Labour Department to define the meaning of "paid jobs" in the funding agreement so as to avoid counting those non-local/local children as employees of the event; and
  - (e) ask organizers of MEF-supported events to develop more scientific methods in counting participants;
- requests the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) to set a timetable for implementing the various measures the TC has undertaken in paragraph 5.17 of the Audit Report;

Assessment of applications

- finds it unacceptable and inexcusable that:
- (a) there were inadequacies in the governance of the MEF Assessment Committee, such as low attendance of two Committee members;
  - (b) there were also inadequacies in the competence of some of the event organizers which must be local non-profit-making organizations but, very often, they were of a small scale and



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lacked the experience and ability to host large-scale events. They often had to struggle with the problem of inadequate financial and human resources and the challenge in managing the logistics of mega events, all of which would affect the success of the MEF events;

- (c) there were inadequacies in the TC's assessment of the associates of the organizer of Events C1, C2, C3 and C4 which had assumed key roles in organizing the events, such as the lack of information on the associates' capability, and the relationship and the extent of arm's length dealings between the organizer and the associates. For example, two associated major service providers in three events, i.e. Events C1, C2 and C3, held from 2011 to 2013 were even named as "Event Co-organizers" in all publicity documents for the events, but they were not so named in the funding agreements and were not joint applicants in the application forms. However, the TC had not raised any enquiries with the organizer;
  - (d) comments/reservations made by relevant bureaux/departments ("B/Ds") in assessing the applications were not always followed up by the TC; and
  - (e) in Example 7 reported in paragraph 3.13 of the Audit Report, although relevant B/Ds had commented that Event G was just merging and bundling together four local re-run productions which had been staged many times in the past, the TC had not included any provisions in the funding agreement to govern the re-performance of the four MEF performances on dates in close proximity to the MEF event period. It transpired that the organizers had staged one of the four performances (Performance A) several times locally and abroad on dates in close proximity to the MEF event period, without informing the TC and the MEF Assessment Committee, and the attractiveness of the event was also affected in that it had failed to attract the pledged numbers of participants and non-local visitors to the event;
- notes that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) has agreed with the audit recommendations in paragraph 5.18 of the Audit Report. In particular, the TC has undertaken, amongst others, to:

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- (a) improve the governance of the MEF Assessment Committee. For example, the MEF Secretariat has started arranging to use tele-conference facilities to enable MEF Assessment Committee members to take part in the meetings and will record the scores awarded to each MEF application under each individual assessment criteria in the minutes of the corresponding MEF Assessment Committee's meetings;
  - (b) require organizers in future to duly disclose their management teams and any associates who will be actively involved in organizing the proposed events in the application forms and post-event evaluation reports, and to record properly such declarations for the TC's checking;
  - (c) require organizers to disclose in the application forms and post-event evaluation reports in detail should they intend to organize in Hong Kong or overseas any kind of activities/events of similar content or nature in close proximity to the MEF-supported events; and
  - (d) include a standard clause in the funding agreement to require the organizer to make such a disclosure on (c) above and to secure the Government's prior consent as appropriate;
- requests the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) to set a timetable for implementing the various measures the TC has undertaken in paragraph 5.19 of the Audit Report;

Monitoring and evaluation of events

- finds it unacceptable and inexcusable that:
- (a) in some MEF events, related agents were employed or major services were procured from associated services providers, but most organizers concerned had neither made written declarations of their relationship with the related parties nor notified the TC in writing of any related party procurements or staff recruitments they had made, as required by the funding agreements;

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- (b) irregularities were identified by Audit from its examination of selected MEF events, including suspected improper charging of the organizers' advertising and promotion expenses incurred for other shows against the MEF funding, payments not properly supported by official invoices/receipts, service procurements and recruitment of performers from related parties without Government permission, procurements and recruitments not supported by quotations/invoices/staff recruitment and payroll records with performers' acknowledgement of receipt, overpayment of \$227,000 to an organizer and improper refund of an unspent event balance of \$280,000 to a sponsor;
  - (c) the TC had generally not set any conditions in the funding agreements to govern the distribution of tickets resulting in that for one MEF event, 93% of the tickets were issued as free tickets to various parties, with only 7% sold to the general public; and
  - (d) owing to the poor condition of the Stadium turf pitch, Event J received some negative publicity. Apart from venue management, there was also scope for improvement in various aspects on the organization of Event J, such as lack of a concrete contingency plan and the difficulty to enforce the funding condition of requiring the organizer/team not to hold similar matches in "nearby" places;
- notes that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) has generally agreed with the audit recommendations in paragraph 5.20 of the Audit Report and the TC has undertaken, amongst others, to:
- (a) step up the monitoring of the declaration of conflicts of interest in relation to procurement and staff recruitment by the organizers;
  - (b) depending on the nature/type of individual cases, disallow the organizer to stage similar events in Hong Kong or overseas within a reasonable period or require the organizer to set out clearly the incremental costs on the advertising, promotion or costumes solely arising from the staging of the MEF-supported event;
  - (c) request organizers to ensure that all event expenditure items should be supported by official invoices/receipts as described in the Guide to Application and the TC will check whether the

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- organizers have fulfilled the requirement when conducting the random document inspection checks;
- (d) consider specifying in the funding agreement the minimum number of tickets required to be made available for public sale for fee-charging events;
  - (e) with the experience from Event J, consider defining key terms under the funding agreement to avoid enforcement difficulty, will request the organizers to explore and develop a contingency plan, and will specify such requirements in the funding agreement; and
  - (f) conduct a wash-up meeting with the organizer of the MEF-supported event within a month after the event has been held;
- requests the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) to set a timetable for implementing the various measures the TC has undertaken in paragraph 5.21 of the Audit Report;

Way forward

- expresses astonishment and finds it unacceptable that:
- (a) although the modified MEF has been implemented since May 2012, no Tier 1 event has been held and the number of approved Tier 2 events was also reducing;
  - (b) although the Administration informed LegCo in April 2012 that it would consult the ICAC to develop more stringent monitoring and control measures relating to Tier 1 events, it had not yet worked out a more versatile monitoring mechanism for Tier 1 events; and
  - (c) no measurable and quantifiable key performance targets had been set to justify the commitment of \$150 million for the modified MEF;
- urges the CEDB to develop a more versatile mechanism for monitoring both Tier 1 and Tier 2 events;

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- notes that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) has agreed with the audit recommendations in paragraph 5.22 of the Audit Report. In particular, the TC has undertaken, amongst others, to:
  - (a) consult the ICAC on the monitoring and assessment mechanism for future Tier 1 events; and
  - (b) look into whether it is still necessary and appropriate to use the number of additional paid jobs created as one of the key criteria to measure the performance of the Tier 2 events in future;
- requests the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) to set a timetable for implementing the various measures the TC has undertaken in paragraph 5.23 of the Audit Report; and
- notes that the Government will conduct a comprehensive review on the future of the MEF before its expiry in March 2017.

<b>Follow-up action</b>
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115. The Committee wishes to be kept informed of the progress made in implementing the various audit recommendations and other improvement measures/actions.

*CreateSmart Initiative*

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The Audit Commission ("Audit") conducted a review of the administration of the CreateSmart Initiative administered by Create Hong Kong ("CreateHK") under the Commerce and Economic Development Bureau.

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

- because CreateHK was late in sending declaration forms to CreateSmart Initiative Vetting Committee members for completion, few members returned their declarations on time;
- of the 15 projects examined by Audit, some expenditures (\$547,000 for two projects) did not have supporting documents. Grantees of 12 projects did not keep a designated bank account. Grantees of three projects used funds to cover unallowable costs (\$63,000). The grantee for one project examined (and its two earlier projects) was allowed, under an alternative funding approach, to retain the unspent balances (\$1.35 million for the three projects) and use funds to cover otherwise unallowable costs (\$100,000 for the project examined); and
- for projects funded by two instalments, CreateHK neither reviewed their progress nor informed the CreateSmart Initiative Vetting Committee of their progress. For 30 projects reviewed by Audit, all site visits were attendance to open ceremonies, press conferences, exhibitions or music shows and for 18 of the projects, inspecting officers did not even meet the project staff.

3. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the details of the CreateSmart Initiative projects, the control of use of funds and the monitoring and evaluation of projects. The replies from the **Permanent Secretary for Commerce and Economic Development (Communications and Technology)** are in *Appendix 33*.

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

## **A. Introduction**

### Background

A social enterprise ("SE") is a business to achieve specific social objectives. Its profits will be principally reinvested in the business for the social objectives that it pursues, rather than distributed to its shareholders. A number of programmes have been launched by various bureaux/departments ("B/Ds"), including the Home Affairs Bureau ("HAB"), the Home Affairs Department ("HAD") and the Social Welfare Department ("SWD"), to support the development of SEs in Hong Kong. The HAB, with the support of the HAD, is responsible for the SE portfolio.

2. The Audit Commission ("Audit") conducted a review of the Government's efforts in promoting SEs. Notably, Audit found that:

- there are areas for improvement in implementing the SWD's Enhancing Employment of People with Disabilities through Small Enterprise Project ("the 3E Project") and the HAD's Enhancing Self-Reliance Through District Partnership Programme ("the ESR Programme");
- more need to be done in creating synergies amongst the various B/Ds' programmes for SEs; and
- there have been concerns from the SE sector and the Legislative Council ("LegCo") about the lack of a clear definition of SEs.

### The Committee's Report

3. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 5);
- Government policy on SE (Part B) (paragraphs 6 to 19);
- The 3E Project (Part C) (paragraphs 20 to 48);
- The ESR Programme (Part D) (paragraphs 49 to 73);
- Publicity and promotional work (Part E) (paragraphs 74 to 77); and

- Conclusions and recommendations (Part F) (paragraphs 78 to 80).

### Disclosure

4. **Hon CHAN Hak-kan** disclosed that the New Territories Association of Societies with which he was affiliated might have applied funding under the 3E Project and the ESR Programme.

### Public hearing

5. The Committee held one public hearing on 5 May 2014 to receive evidence from witnesses. **Mr TSANG Tak-sing, Secretary for Home Affairs**, made a statement at the beginning of the public hearing. The full text of his statement is in *Appendix 34*.

## **B. Government policy on SE**

6. The Committee noted from paragraph 1.2 of the Director of Audit's Report ("Audit Report") that the Government did not have a universal definition of SE. The Committee further noted that unlike many overseas jurisdictions, such as the United Kingdom ("UK"), the focus of the Hong Kong Government in developing SEs was mainly from the angle of the number of jobs that could be created for the socially disadvantaged rather than treating SEs as businesses with social objectives. The Committee considered that the occurrence of repeated grants under different funding schemes for setting up SEs of similar businesses in the same venue, as exemplified in Case 2 referred to in paragraph 2.32 of the Audit Report; the absence in Hong Kong of entrepreneurial SEs similar to those founded by Jamie Oliver to offer young, unemployed people the experience of learning to work in the restaurant business; and the lack of co-ordination in the provision of funding schemes operated by different B/Ds for different social/policy objectives<sup>1</sup>, were testament of a lack of an overall strategy and policy to support the development of SEs in Hong Kong. To

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<sup>1</sup> Apart from the 3E Project administered by the SWD, the ESR Programme administered by the HAD, the Community Investment and Inclusion Fund administered by the Labour and Welfare Bureau ("LWB") and the Revitalising Historic Buildings Through Partnership Scheme administered by the Development Bureau which are listed on the SE website of the HAB (paragraph 5.17 of the Audit Report refers), there are three other government funding schemes supporting the setting up of SEs. They are the Social Innovation and Entrepreneurship Development Fund under the Commission on Poverty, the Partnership Fund for the Disadvantaged administered by the SWD, and the Environmental and Conservation Fund administered by the Environment Bureau (paragraphs 5.19-5.20 of the Audit Report refer).



ensure a long-term sustainable development of SEs in Hong Kong, the Committee enquired whether consideration would be given to drawing up a comprehensive and holistic policy on SE, such as establishing a definition and a regulatory framework for SEs as adopted in the UK in the form of Community Interest Companies<sup>2</sup>, providing tax concession to SEs and conducting social impact assessments of SEs.

7. **Secretary for Home Affairs** responded as follows:

- the Government had an overall policy on SE. As stated on the SE website of the HAB and reproduced in paragraph 1.3 of the Audit Report, the Government's objectives in promoting the development of SEs were to enable the socially disadvantaged to be self-reliant through employment, and to meet the needs of different community groups with entrepreneurial thinking and innovative approaches, with a view to cultivating a caring culture as well as promoting social cohesion and mutual help. The HAB had also set up the Social Enterprise Advisory Committee ("SEAC")<sup>3</sup> in January 2010 to advise the Government on the development of SEs;
- in the past, the general public had little knowledge about SE. Through the concerted efforts of the Government, the business sector and the community, the situation had vastly improved in recent years as evidenced by the over 400 SEs presently operating in Hong Kong. Similar to many overseas jurisdictions, SEs in Hong Kong were operated either by non-profit-making bodies, some of which might be provided with start-up funds from the Government, or by profit-making bodies. These SEs carried out different trades which were not confined to providing jobs to the socially disadvantaged and included meeting social needs, such as providing post-natal and babysitting services to new mothers and operating a taxi service for the frail elderly. There

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2 A community interest company ("CIC") is a new type of company introduced by the UK Government in 2005 under the Companies (Audit, Investigations and Community Enterprise) Act 2004, designed for SEs that want to use their profits and assets for the public good. CICs are intended to be easy to set up, with all the flexibility and certainty of the company form, but with some special features to ensure they are working for the benefit of the community.

3 The SEAC is chaired by the Secretary for Home Affairs and its members comprise SE practitioners, persons from the business and the academic sectors, and government representatives from the HAB, the HAD, the LWB and the Commerce and Economic Development Bureau.

was no lack of successful entrepreneurial SEs in Hong Kong. The iBakery was a case in point;

- there was no question of the Government viewing SEs as welfare businesses. As SE was a business to achieve specific objectives, which included but not limited to creating employment opportunities for the socially disadvantaged, the task of developing SEs was placed under the purview of the HAB and the HAD. At the outset, the objective of funding non-governmental organizations ("NGOs") for setting up SEs was to provide job opportunities for the socially disadvantaged. This was understandable as Hong Kong was then at a time of financial difficulties. As time passed and with the recovery of the economy, the objectives of the SEs funded by the Government had become varied, such as protecting the environment and providing care services to the elderly;
- the question of whether or not to provide a legal definition for SE had been intermittently discussed by the SEAC. Some members considered that SEs should be allowed to distribute some of their surpluses to their shareholders or owners so as to better attract people to invest in SE, whilst some other members held the view that all surpluses should be reinvested into the SE. There was also the debate on the maximum percentage of surpluses that should be allowed to distribute to shareholders or owners. After deliberations, the SEAC considered that providing a strict definition of SE would limit the development of the SE sector which was still at its early stage. This was particularly pertinent given the diversity of SEs (in respect of their trades, business scales, development stages and operation modes) in Hong Kong. The Government had taken into account the views of the SEAC. Hitherto, the Government had encouraged and supported sector-led initiatives to enhance public understanding of SEs, such as launching of the SE Award Scheme<sup>4</sup> in August 2011 to give recognition to outstanding SEs which operated and created social impact in Hong Kong. The Award Scheme had also provided a platform for SEs to share their best practices;
- the fact that there was no legal definition of SE did not mean that the Government did not attach importance to the development of SEs in

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<sup>4</sup> The awardees of the SE Award Scheme in 2011 and 2013 are in *Appendix 35*. According to the HAB, all awardees are still in operation.

Hong Kong. In formulating new initiatives involving public resources to support individual SEs, the SEAC had endorsed a working definition for SEs (paragraph 5.35(b) of the Audit Report refers). This had guided the HAB in further deliberations of measures that would support individual SEs, recognizing the need to support for-profit SEs;

- nevertheless, the HAB agreed that there was a need to keep in view the case for adopting a more refined definition of SE. As mentioned in paragraphs 5.36-5.37 of the Audit Report, the HAB had commissioned an independent research study to capture the existing landscape of SEs in Hong Kong. The study was now at its final stage. Its initial findings concurred with the views of the SEAC that there was no imminent need of any form of regulation for SEs given the small scale and the healthy growth of the SE sector thus far. At this stage, the Government should continue maintaining its current approach for defining SEs as set out in paragraph 5.39 of the Audit Report;
- as the research study mentioned above would provide the up-to-date reference for considering the work required in the development of SEs, it was the Administration's plan to have the next update for the LegCo Panel on Welfare Services as and when the study was completed before the end of 2014;
- except for the ESR Programme, the funding schemes listed in Table 10 referred to in paragraph 5.17 of the Audit Report served various policy objectives, e.g. environmental protection, enhancing employment of persons with disabilities, etc. These other funding schemes were not dedicated for the development of SEs, notwithstanding the fact that SEs might apply for and be funded under them. Accordingly, processing and vetting of applications of a funding scheme should fall under the B/Ds responsible for the relevant policy objective. This explained why the HAB/HAD should not coordinate the processing and vetting of other funding schemes;
- however, he agreed with the audit recommendation that the HAB and the HAD should periodically take stock of the progress and outcome of the efforts made by relevant B/Ds that might contribute to the development of SEs, in particular their funding schemes for setting up SEs, with a view to promoting best practices, identifying service gaps as well as creating synergies. In this regard, the HAB had been stocktaking the various government initiatives that could benefit SEs and make available such information on the SE website and in the

HAB's reports to LegCo. The HAB would continue to engage SEs, stakeholders and B/Ds with a view to creating partnership and synergies; and

- both the Government and the SEAC strongly believed that SE was an important link in social, economic, cultural and environmental improvement and further development of SEs in Hong Kong was worth pursuing.

8. Noting the views of the Secretary for Home Affairs in his article "由社會企業到社企金融" dated 21 April 2013 posted on the HAB website (in *Appendix 36*), the Committee asked the Secretary for Home Affairs whether he would consider, with the assistance of the SEAC, creating an enabling environment for Hong Kong to adopt a social finance approach to further the development of SEs as practised in the UK.

9. **Secretary for Home Affairs** responded that as Hong Kong was an international financial centre, consideration could be given to exploring the viability of adopting a social approach to finance SEs, such as issuing social impact bonds. As social entrepreneurs were crucial to the adoption of social finance, the HAB had put in a lot of resources in nurturing social entrepreneurs by, say, liaising with local tertiary institutions on organizing social entrepreneurship courses and sponsoring seminars and workshops to encourage young people to develop an interest in and knowledge about SEs as well as nurture in them social entrepreneurship.

10. Noting that members of the SEAC comprised, amongst others, persons from the business sector, the Committee enquired about the measures taken to manage conflict of interests.

11. **Secretary for Home Affairs** advised that the SEAC followed the standard procedures for all advisory and statutory bodies in managing potential conflict of interest. SEAC members were required to disclose their general pecuniary interests on appointment to the SEAC and annually thereafter, in addition to the report of conflict of interest as and when they arose. SEAC members were also required to report any potential conflict of interest in matters placed before the SEAC for each meeting/circulation. Should there be any such conflicts reported, the Chairman might request a member to withdraw from the deliberation and record such judgment in the meeting minutes.

12. On the provision of repeated grants under different funding schemes for setting up SEs of similar businesses in the same venue, **Mrs Pamela TAN KAM Mi-wah, Director of Home Affairs**, advised that the HAD and the SWD had made changes to the format of their respective SE database and had improved their communication to prevent the problem from happening again.

13. **Ms Carol YIP, Director of Social Welfare**, supplemented that:

- since April 2012, the SWD had amended paragraph 2.3 of its Guide to the 3E Project to specify that an application which sought to replace a business of the same nature which was funded by the Project and was to be run by another organization at the same venue was in principle considered not eligible for funding under the Project;
- under the mutual verification system set up between the SWD and the HAD, if an organization came to apply for funding under the 3E Project, SWD staff would send a copy of the application to HAD staff to check whether the same organization had applied for funding under the ESR Programme for setting up a SE of the same nature and in the same venue and vice versa; and
- except for the two venues cited in Case 2 of the Audit Report, there was no repeated funding for setting up similar businesses in the same venue in other cases.

14. The Committee was of the view that in developing SEs, the Government should be mindful of not creating unfair competition for small and medium enterprises ("SMEs").

15. **Secretary for Home Affairs** responded that in developing SEs, the HAB was mindful of the views of SMEs in ensuring an environment for fair competition in the market. Hitherto, the HAB was not aware of any complaint from SMEs that the Government policy on SE had undermined their interests.

16. On the question of how the Government could ensure that SEs would reinvest profits into their businesses, **Secretary for Home Affairs** replied that:

- to his understanding, no SE had been found to distribute all of its profits to its shareholders or owners, despite the fact that there was no regulatory framework for SEs;
- there was at present a voluntary Social Enterprise Endorsement system run by the Hong Kong General Chamber of Social Enterprises Ltd. awarding a Social Enterprise Mark to any SE who successfully passed an assessment on its SE capabilities; and
- he agreed with the audit recommendation that the HAB and the HAD needed to adjust the strategy for promoting the development of SEs in Hong Kong, having regard to changing social and economic environment and relevant overseas experience. In this regard, the HAB had already commissioned a study on the latest developments of SEs as mentioned in paragraph 7 above to outline the current situations of local SEs, ascertain the public perception of SEs and identify the best practices and innovative approaches in running an SE.

17. In 2008, as a policy support to promote the development of SEs, the Government launched a pilot scheme for priority bidding of selected government contracts by SEs. Under the pilot scheme, eligible SEs were first invited to bid for the selected contracts. Only when no suitable SEs were identified for the contracts would non-SE service providers be invited to bid. In administering the pilot scheme, the HAB provided the policy steer, whilst the HAD co-ordinated the implementation and compiled the lists of eligible SEs.

18. The Committee noted from paragraph 5.13 of the Audit Report that in July 2012, the HAD decided to discontinue the pilot scheme for priority bidding of selected government contracts by SEs. The Committee further noted from paragraph 5.14 of the Audit Report that although the HAD had all along reported to the LegCo Panel on Welfare Services on the implementation of the pilot scheme, the Panel had not yet been informed of the event. The Committee enquired about the reasons for discontinuing the pilot scheme and for not informing the LegCo Panel on Welfare Services of the cessation of the scheme.

19. **Ms Gracie FOO Siu-wai, Deputy Secretary for Home Affairs (1)**, responded that:

- as the pilot scheme had achieved its mission of familiarizing participating B/Ds with SEs and gaining their confidence in SEs' general capability in fulfilling contract requirements and having regard to the Government's procurement principles of fairness and open competition, the HAD concluded that the scheme should be a transitional measure only for helping SEs establish themselves, and after the July 2012 review, therefore decided to discontinue the scheme;
- in informing B/Ds of the cessation of the pilot scheme in December 2012, the HAD had encouraged them to continue their support to promote the development of SEs by including SEs in their quotation invitation lists for procurement of stores and services; and
- in the next update for the LegCo Panel on Welfare Services on the development of SEs when the research study, referred to in paragraph 7 above, was completed before the end of 2014, the HAB/HAD would include the cessation of the pilot scheme for priority bidding of selected government service contracts by SEs.

### **C. The 3E Project**

20. In the 2001-2002 Budget, the Financial Secretary announced in March 2001 a package of initiatives to provide better care for the disabled, including a one-off provision of \$50 million for NGOs to create employment opportunities for persons with disabilities ("PWDs"). With the approval of the Finance Committee ("FC") of LegCo in June 2001, a new non-recurrent commitment of \$50 million was created for the SWD to launch the 3E Project in September 2001.

21. In October 2011, the commitment of the 3E Project was increased by \$4 million to \$54 million under delegated authority to meet imminent cashflow requirements. In order to encourage more NGOs to participate in the 3E Project to sustain the momentum in creating more job opportunities for PWDs, the commitment of the Project was further increased by \$100 million to \$154 million which was approved by the FC in January 2012.

22. An applicant for funding under the 3E Project should be a bona fide charitable NGO which possesses the tax exemption status under section 88 of the Inland Revenue Ordinance (Cap. 112). Applications may be submitted throughout the year.

23. The maximum funding support for an approved project under the 3E Project is \$2 million, comprising a capital grant and an operating grant. A grant to support the operation of an SE from the date of commencement should be confined to the funding period currently at three years<sup>5</sup>. The funded SE is expected to become self-sustaining after the funding period. Progress reports are required to be submitted during the contract period<sup>6</sup>.

24. The funded SE will be required to employ PWDs of at least 50%<sup>7</sup> of the total workforce in the business. This is to ensure that the objective of the Project in improving the employment opportunities of PWDs is safeguarded while recognizing that in some cases, the employment of able-bodied persons is necessary to ensure the smooth operation of the business.

25. The SWD has set up the Advisory Committee on Enhancing Employment of People with Disabilities to assist it in administering the 3E Project. The Advisory Committee comprises 16 non-official members (including the Chairman) and two official members. At the request of the Committee, **Director of Social Welfare** provided the criteria adopted by the Advisory Committee for examining and recommending applications under the 3E Project (in *Appendix 37*).

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5 According to Note 6 referred to in paragraph 2.6 of the Audit Report, the funding period was set at one year when the 3E Project was launched in September 2001. It was revised to two years in November 2006, and further revised to three years in April 2012.

6 According to Note 7 referred to in paragraph 2.6 of the Audit Report, the contract period was set at three years when the 3E Project was launched in September 2001, i.e. a one-year funding period plus a two-year monitoring period. It was revised to four years in April 2012, i.e. a three-year funding period plus a one-year monitoring period.

7 According to Note 9 referred to in paragraph 2.7 of the Audit Report, when the 3E Project was launched in September 2001, the requirement on the proportion of PWDs employed was set at 60%. It was revised to 50% in November 2006.

According to the SWD, 48% of PWDs employed by businesses funded under the 3E Project are ex-mentally ill persons, 36% are mentally-handicapped persons, 6% are physically-handicapped persons, 4% are visually-impaired persons and the remaining 6% are hearing-impaired persons, language-impaired persons or persons with other types of disabilities.



## Effectiveness of the 3E Project

### *Sustainability of funded SEs*

26. The Committee noted from paragraph 2.30 of the Audit Report that funding support available under the 3E Project had to be justified mainly on the basis of commercial viability of the business proposal as the business and jobs created had to be sustained on a self-financing basis after the funding period. As at September 2013, amongst the 81 approved projects, the funding period had expired for 69 of them. Out of the 69 SEs which had completed the funding period, 24 (35%) ceased business. The Committee further noted from paragraph 2.31 of the Audit Report that as at 30 September 2013, 45 SEs were operating beyond the funding period (excluding 24 terminated projects and 12 projects which were still within the funding period). For these 45 SEs, Audit noted from their last progress reports submitted to the SWD that 16 (36%) were still operating at a deficit. The Committee queried whether the 3E Project had fallen short of achieving its intended social and economic impacts.

27. **Secretary for Home Affairs** responded that comparing with the life span of commercial enterprises in Hong Kong, that of the SEs, the majority of which operated on a small or very small scale, was not short. In some cases, SEs even fared better than commercial enterprises. This could be attributed to the fact that operators of SEs were mostly people seeking to make a social impact who were willing to put in a lot of efforts without asking for the same returns. Also, some members of the general public were ethical consumers who were more willing to patronize SE goods and services.

28. **Director of Social Welfare** supplemented that:

- as at 30 April 2014, 59 of the 88 approved projects (67%) were still operating. Of the 26 approved projects which had ceased operation, about 70% of them were due to expiry of venue contracts<sup>8</sup>; and
- of the 59 funded businesses still in operation, one-fourth of them had been operating over nine years and was still operating.

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<sup>8</sup> According to the SWD, as at 30 September 2013, 16 approved projects had ceased operation due to expiry of venue contracts. Amongst these 16 projects, six provided food and beverages services.

29. The Committee noted from paragraph 2.30 of the Audit Report that 160 PWDs were employed by the 24 funded businesses which had ceased operation. The Committee enquired about whether the SWD had tracked the whereabouts of these PWDs.

30. **Director of Social Welfare** responded that:

- as the SWD would only track the whereabouts of the PWDs who had left a funded business during the funding period, the SWD therefore did not track the whereabouts of the PWDs employed by the 24 funded businesses which had ceased operation after the funding period; and
- all PWDs wishing to enhance their work opportunities could seek assistance from the various rehabilitation services operated by the SWD.

#### *Jobs created for PWDs*

31. The Committee questioned the effectiveness of the 3E Project in achieving its objective of creating job opportunities for PWDs, thereby facilitating their self-reliance and integration into the community. The Committee noted from paragraph 2.33 of the Audit Report that according to the SWD's survey on operating projects as at 30 September 2013, the actual number of PWD jobs for 52 of the 57 operating projects<sup>9</sup> was lower than the target by 42 (10%).

32. **Director of Social Welfare** explained that after years of operation, some funded businesses had to adjust their operating modes in response to changing circumstances such as market condition and business environment, etc. Business re-organization and/or downsizing had resulted in reduction of the total number of employees, including those with disabilities. For example, a cleaning business at its peak used to hire over 50 employees with disabilities but only two were retained now due to the loss of a service contract from a large corporation.

33. **Director of Social Welfare** also advised that according to management information compiled by the SWD from data collected from 52 operating projects as

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<sup>9</sup> According to Note 1 of Table 3 referred to in paragraph 2.33 of the Audit Report, there were 57 operating projects as at 30 September 2013 (excluding 24 projects which had terminated business). The SWD survey covered only 52 projects because five projects were recently approved and had not yet commenced business.

at September 2013, there were a total of 385 PWD jobs involving the employment of 1 882 PWDs since the commencement of these projects. Amongst the PWD employees, 49 of them ceased receiving the Comprehensive Social Security Allowance after they were employed by the funded SEs. This was a good indication that the PWDs had become self-reliant because of the jobs created by funded SEs.

34. The Committee noted from paragraph 2.38 of the Audit Report that for all the 81 approved projects (as at 30 September 2013), the average grant per PWD job ranged widely from \$12,500 to \$368,800. The Committee asked about the reasons for such wide variation.

35. **Director of Social Welfare** explained that:

- the average grant per job for PWD calculated in the Audit Report had not differentiated the proportion of the capital grant, which however had great influence on the amount of average grant per job. The business with an average grant of \$12,500 per job for PWD stated in the Audit Report was a company providing cleaning service, whilst the one with an average grant of \$368,800 per job for PWD was a business providing catering service. A capital grant of \$21,000 was approved for the former for purchase of equipment, whereas a capital grant of \$1,385,000 for both renovation of the premises and purchase of equipment was given to the latter. Hence, the average grant per job for PWD was affected by the nature of the business and the business delivery mode. The average grant per job for PWD would be comparatively lower for some labour intensive and non-premises-tied businesses; and
- in addition, the average grant per job calculated in the Audit Report had not taken into account the jobs provided for able-bodied persons by the businesses funded under the 3E Project. Therefore, the average grant per job should be lower than that stated in the Audit Report.

36. The Committee noted from paragraph 2.33 of the Audit Report that of the 385 actual PWD jobs recorded as at 30 September 2013, 115 (30%) jobs were full-time ones. The Committee enquired how many of these full-time jobs were managerial ones.

37. **Director of Social Welfare** responded as follows:

- in the compilation of the employment data of the businesses funded under the 3E Project, information about managerial posts was not collected in the past; and
- SWD had since April 2014 started to collect such information. As at April 2014, six out of the 132 full-time PWDs employed had taken up managerial posts.

38. On the salary levels of the PWDs employed by businesses funded under the 3E Project, **Director of Social Welfare** advised that they were determined by the business operators taking into account the market rates and abilities of individual employees. In any case, the fixing of remuneration must comply with the related employment legislation including the Minimum Wage Ordinance (Cap. 608).

#### Processing of applications

39. According to paragraph 2.9 of the Audit Report, the SWD took a long time to process applications, with an average of 184 days from submitting an application to signing the funding agreement. The Committee considered that the long time taken in processing applications would delay the commencement of business and thus the creation of jobs for PWDs. It would also delay the payment of grants to applicants, which could be made only after the agreements were signed. In this connection, the Committee enquired about whether a review of the procedures to streamline the process had been/would be conducted by the SWD.

40. **Director of Social Welfare** advised that the SWD had since April 2012 implemented the following monitoring mechanisms to expedite the processing of applications:

- an Assessment Panel meeting would be held within five weeks upon receipt of a complete application; and
- the applicant would be notified of the result within three weeks after the Assessment Panel meeting if no supplementary information was required from the applicant.

41. **Director of Social Welfare** further advised that for all the projects approved since April 2012, the two-month timeframe from receipt of applicants' relevant information to notification of assessment results had been strictly adhered to.

42. At the request of the Committee, **Director of Social Welfare** provided information on the time taken to process the following four types of applications under the 3E Project as well as the reasons for approving or rejecting these applications (in Appendix 37):

- approved application for a project which had the highest average grant per PWD job to be created;
- approved application for a project which had ceased operation;
- approved application for a project which is still operating; and
- rejected application.

#### Determination of capital and operating grants

43. According to paragraph 2.22 of the Audit Report, whilst the SWD had generally adopted the deficit basis for determining the operating grant to meet the operating loss during the funding period, in practice, it was not applied on a consistent basis. Audit estimated that if the deficit basis had been adopted for the projects, the total operating grants involved would have been reduced by some \$3 million. In the light of this, the Committee enquired about the actions that had been/would be taken by the SWD to reduce ambiguity and to ensure fair treatment to all applicants.

44. **Director of Social Welfare** responded as follows:

- different calculation bases of operating grants were adopted in the past as the 3E Project Guide did not provide detailed information on the basis for determining operating grants; and
- with effect from April 2012, the gross deficit basis had been adopted in assessing all applications. Arrangements would be made to elaborate this calculation basis clearly in the 3E Project Guide.

45. According to paragraph 2.17 of the Audit Report, the capital grant is approved on an item-by-item basis, but the 3E Project Guide does not specify what items are eligible. Audit found that eight of the 29 approved projects in retail business examined included items of refundable deposits with a total amount of \$0.53 million. The Committee enquired about the actions that had been/would be taken by the SWD to address the problem.

46. **Director of Social Welfare** responded that the SWD would set out in the 3E Project Guide that as a matter of principle, a refundable deposit would not be approved, but if a grant was approved for this purpose due to special need, a special provision would be included in the agreement signed between the SWD and the grantee to specify that the deposit should be returned to the SWD immediately after the grantee had recovered the sum.

47. The Committee noted from paragraph 2.19 of the Audit Report that although cost of trading stock was an operating expenditure for calculating the operating loss which was funded by the operating grant, the cost of trading stock received double funding from both the capital grant and the operating grant in some of the 29 approved projects in retail business examined by Audit. The Committee considered that the SWD needed to lay down guidelines to ensure that the cost of trading stock was not counted twice and did not receive double funding from both the capital grant and the operating grant.

48. **Director of Social Welfare** responded that in a meeting of the Assessment Panel held as early as May 2010, it was determined that trading stock should not be funded under the capital grant. As such, the SWD had not approved any capital grant for trading stock since August 2010.

#### **D. The ESR Programme**

49. The Financial Secretary announced in the 2006-2007 Budget Speech that an additional \$150 million would be earmarked for strengthening district-based poverty alleviation work, including support for SEs, from 2006-2007 to 2010-2011. The initiative was subsequently implemented through the ESR Programme administered by the HAD.

50. In the 2009-2010 Policy Address, the Government indicated its commitment to encouraging further development of SEs and reinforcing the district-based approach in alleviating poverty through implementing the ESR Programme. The HAD submitted a request in May 2010 to the Financial Services and the Treasury Bureau ("FSTB") for additional funding of \$150 million for continued implementation of the ESR Programme for another five years from 2011-2012 to 2015-2016. A time-limited funding of \$150 million was approved by the Administration in September 2010 for extending the ESR Programme.

51. An applicant for funding under the ESR Programme should be a bona fide charitable NGO which possesses the tax exemption status under section 88 of the Inland Revenue Ordinance (Cap. 112). Applications can be submitted all year round, but deadlines are set roughly on a half-yearly basis to enable the processing of applications in batches<sup>10</sup>.

52. The maximum funding support for an approved project is \$3 million, comprising a capital grant and an operating grant. The funding period is currently three years counting from the date of funding agreement<sup>11</sup>. A grantee has to submit to the HAD progress reports during the funding period and the monitoring period is three years<sup>12</sup>.

53. The HAB has set up the Advisory Committee on Enhancing Self-Reliance Through District Partnership Programme ("ESR Advisory Committee") to assist it in administering the ESR Programme. The ESR Advisory Committee comprises a Chairman, 21 non-official members (from different sectors of the community), and three official members (from the HAD, the Labour Department and the SWD). At the request of the Committee, **Director of Home Affairs** provided the criteria adopted by the ESR Advisory Committee for examining and recommending applications under the ESR Programme (in *Appendix 38*).

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10 According to Note 13 referred to in paragraph 3.4 of the Audit Report, as at September 2013, the ESR Programme had operated for 14 phases, with Phase 14 still in the processing stage. Phase 13 was completed within 2012-2013.

11 According to Note 14 referred to in paragraph 3.5 of the Audit Report, for Phases 1 to 9, the funding period is two years counting from the date of funding agreement. From Phase 10 onwards, the funding period is three years.

12 According to Note 15 referred to in paragraph 3.5 of the Audit Report, for Phases 10 to 12, the monitoring period is two years following the funding period. For other Phases (i.e. Phases 1 to 9, and Phase 13 onwards), the monitoring period is three years.

## Effectiveness of the ESR Programme

### *Sustainability of funded SEs*

54. According to paragraph 3.35 of the Audit Report, the ESR Programme has been in operation for over seven years since its launch in 2006. The effectiveness of the ESR Programme can be assessed by the sustainability of the SEs created and the jobs created for the socially disadvantaged. As at September 2013, of the 145 approved projects, 25 (17%)<sup>13</sup> had ceased operation after the funding period. Also, according to paragraph 3.38 of the Audit Report, of the 120 projects operating as at 30 September 2013, 41 were still within the funding period and 79 were beyond. Of these 79 projects, 39 (49%) were operating with a deficit. The Committee queried whether the ESR Programme had fallen short of achieving its intended social and economic impacts.

55. **Director of Home Affairs** responded that the ESR Programme was successful, as evidenced by the following figures:

- of the 150 operating projects as at 5 May 2014, 105 were beyond the funding period<sup>14</sup>. Of these 105 projects, close to 80% had operated for five or six years; and
- according to the HAD's survey on the funded projects conducted in 2013, some 60% of the 78 grantees who responded to the survey indicated that their SEs operated at a surplus or at least attained breakeven during the past year. The survey results also revealed that some 70% of the projects operating during the monitoring period were able to attain a surplus or breakeven.

56. At the request of the Committee, **Director of Home Affairs** provided the research report entitled "Social Return on Investment of Enhancing Self-Reliance Through District Partnership projects" published by the "Fullness Social Enterprises Society" (in *Appendix 39*).

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13 Of the 25 terminated projects, six (24%) were terminated at the end of the funding period, 17 (68%) during the monitoring period, and two (8%) after the monitoring period.

14 The funding period was two years at the outset and later changed to three years.



*Jobs created by funded SEs*

57. According to paragraph 3.41 of the Audit Report, the actual number of jobs created had fallen short of the target by 39% for full-time jobs and 22% for part-time jobs. The Committee enquired about the reasons for the shortfall in jobs and what actions had been/would be taken by the HAD to address the problem.

58. **Director of Home Affairs** responded as follows:

- SEs under the ESR Programme ("ESR SEs") had to meet two essential objectives, i.e. the economic and social objectives. In so doing, ESR SEs were required to strike a balance between sustaining business and job creation. Amongst others, in order to sustain their business, SEs needed to adjust their operation, including the number of employees, from time to time having regard to the market situation;
- the number of jobs created in the 99 ESR SEs set out in paragraph 3.40 of the Audit Report was just a snap shot of the number of employees in the selected ESR SEs, and not the holistic picture. If staff turnover was taken into account during the operation of these SEs, which showed a more complete picture, the number of beneficiaries would be much higher than the number of posts created. Hitherto, the jobs created by the 99 SEs under study had employed more than 2 900 people; and
- the number of jobs created by the 99 ESR SEs under study had reached about 90% of the targets in the first year of operation. Expecting business growth, the SEs had set even higher targets for the second year of operation. That was why there was a wider gap between the number of jobs created and the targets, even though the number of jobs created in the second year was more or less the same as that in the first year. The HAD would remind the applicants to set more realistic targets in their applications in the future.

59. The Committee noted from paragraph 3.44 of the Audit Report that the average grant per job varied widely from \$9,000 to \$360,000. The Committee enquired about the reasons for such wide variation.

60. **Director of Home Affairs** explained as follows:

- the average amount of grant per job was calculated on the basis of the number of jobs under the direct employment of the ESR SEs. When approving funding applications, the ESR Advisory Committee<sup>15</sup> would also take into account other job opportunities to be generated by the SEs. For example, some SEs would provide indirect job opportunities like those under self-employment for clothing processing work, finished goods consignments, short-term service ambassadors, etc. Taking into account the number of indirect jobs created (which was nearly four times more than the number of direct jobs) to be provided by the three ESR SEs with the highest average grant per job as mentioned in the Audit Report, the amount of the average grant per job would be much lower; and
- besides, the average grant per job would vary with the business nature of the SEs. Some SEs by their business nature would require a higher start-up cost, like catering business. Some on the other hand would be able to provide a higher number of job opportunities, like domestic service. Despite that, it was one of the HAD's aims to fund SEs with different business nature in order to offer a variety of job opportunities to suit the needs of different disadvantaged groups. Nevertheless, according to standing practice, the ESR Advisory Committee would take into account the number of jobs to be created when considering an application.

### Processing of applications

61. According to paragraph 3.22 of the Audit Report, the HAD took a long time to process applications, with an average time of 239 days from submitting an application to signing the agreement. The Committee enquired whether the HAD had reviewed the procedures to streamline the process.

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15 According to paragraph 3.3 of the Audit Report, the ESR Advisory Committee was set up by the HAD to examine and recommend applications, monitor and evaluate approved projects, and advise the Government on the administration of the ESR Programme. The ESR Advisory Committee comprises a Chairman, 21 non-official members (from different sectors of the community), and three official members (from the HAD, the Labour Department and the SWD).

62. **Director of Home Affairs** advised that:

- in the past, the HAD had strived to shorten the processing time for funding applications through measures like setting deadlines (normally 14 days) for applicants to provide supplementary information; fixing the target dates of milestones, like interview dates at Assessment Panel, beforehand etc. In the last phase of applications with closing date on 31 October 2013, the HAD managed to approve eligible applications within 112 days, compared with an average of 126 days over the previous phases, despite there were Christmas and Lunar New Year holidays during the period; and
- the HAD would continue to explore ways to further shorten the processing time through, for example, taking the steps involved in the process concurrently, instead of sequentially, whenever possible.

63. At the request of the Committee, **Director of Home Affairs** provided information on the time taken to process the following four types of applications under the ESR Programme as well as the reasons for approving or rejecting these applications (in Appendix 38):

- approved application for a project which had the highest average grant per PWD job to be created;
- approved application for a project which had ceased operation;
- approved application for a project which is still operating; and
- rejected application.

#### Determination of capital and operating grants

64. According to paragraph 3.31 of the Audit Report, there were inconsistencies in determining the provision of operating grants on a deficit basis or an expenditure basis to projects under the ESR Programme. The Committee enquired about the actions that had been/would be taken to address the inconsistencies.

65. **Director of Home Affairs** responded that the inconsistencies arose in projects which were approved before 2010. Since 2010, the ESR Advisory

Committee had already clearly laid down guidelines with consistent basis (details as set out in paragraph 3.30 of the Audit Report) for determining the operating grants. In other words, the inconsistencies had discontinued since then.

66. On the measures to take to prevent funding of refundable deposits as well as that of trading stock under the capital grant of the ESR Programme, **Director of Home Affairs** advised that:

- rental and utility deposits were common cost items for starting a business. As the ESR Programme was a funding scheme to provide seed money, the HAD considered it necessary to fund these costs to enable the start-up of SEs. As the deposits were refundable in nature, the HAD would require the grantees to return the deposit to the Government when such deposits were no longer required by the landlords or the utility companies; and
- the HAD agreed with Audit that capital grants should not be the funding source for trading stocks. The HAD would revise its guidelines to put this into practice.

67. As to whether the HAD had required any SE, which had completed the funding period under the ESR Programme, to return surplus to the HAD after they ceased operation, **Director of Home Affairs** advised that should an SE cease operation within the funding or monitoring period, the Government might request the grantee concerned to return any surplus involved. Up to now, only one such SE had been found to have surplus upon finalization of the accounts and it had returned the surplus amount in full (\$21,212) to the Government.

#### Conflict of interest of ESR Advisory Committee members

68. According to paragraph 3.20(a) of the Audit Report, members of the ESR Advisory Committee are required to declare interests at the start of their two years' term of service and annually thereafter. Members are also required to declare possible conflict of interest prior to discussing applications in an Advisory Committee meeting. In September 2008, the HAD reminded members of the requirements that members with possible conflict of interest regarding an application were required to withdraw from the meeting, or the Chairman would decide whether they needed to withdraw from the meeting when the application was discussed. Further, according to paragraph 3.21 of the Audit Report, Audit noted that at four

Advisory Committee meetings held after September 2008, some members declared possible conflict of interest regarding five applications but none of the members concerned withdrew from the meetings. There was, however, no explicit documentation in the meeting minutes of the Chairman's rulings as to whether the members concerned needed to withdraw from the meetings when the applications were discussed. The Committee enquired about why the members concerned did not withdraw from the meetings.

69. **Director of Home Affairs** explained that:

- why the members concerned did not withdraw from the four meetings referred to in paragraph 3.21 of the Audit Report was that they in effect did not have conflict of interest regarding the applications for discussion at the meetings. For example, some of these members were former members of the NGOs applying for funding under the ERS Programme, and the reason they declared such history was to ensure fairness in the consideration of the applications; and
- since 2014, the HAD had requested the Secretary to the ESR Advisory Committee to document in the meeting minutes of the Chairman's rulings as to whether the members concerned needed to withdraw from the meetings when the applications were discussed.

#### Funding arrangements

70. As revealed in paragraph 3.9 of the Audit Report, for similar funding schemes providing seed moneys for setting up SEs, other B/Ds had, in each case, created a non-recurrent commitment item in the Estimates to account for the expenditure. As the amount involved was more than \$10 million, approval of the FC was sought in each case. The Committee enquired about the reasons why the practice adopted by the HAD, i.e. charging the funding of the ESR Programme to a recurrent subhead thereby obviating the need of obtaining FC approval, was not consistent with the common practice adopted by other B/Ds.

71. **Director of Home Affairs** explained that:

- community building had all long been one of the HAD's major programme areas. Considering that the funding for the ESR Programme to strengthen district-based poverty alleviation work was to enhance the

HAD's work in this area, the HAD decided to put the funding under recurrent expenditure, as part and parcel of the HAD's on-going district-based community building work; and

- the HAD had kept the LegCo informed of the launch, extension and funding of the ESR Programme. In June 2006, an information paper was submitted to brief the LegCo Subcommittee to Study the Subject of Combating Poverty on the launching of the ESR Programme. In April 2011, the LegCo Panel on Welfare Services was informed of the extension of the ESR Programme and the increase in funding.

72. The Committee enquired about the details, including the authority, rationale and pros and cons, of the arrangement that time-limited programmes or projects within the core policy areas of B/Ds might be charged to a recurrent subhead or a non-recurrent subhead.

73. **Ms Elizabeth TSE Man-ye, Permanent Secretary for Financial Services and the Treasury (Treasury)**, advised that:

- as reflected in paragraph 3.12 of the Audit Report, expenditure items under the General Revenue Account ("GRA") could be charged to the following three categories of subheads:
  - (a) *Recurrent subheads* - mainly covered expenditure items which were recurrent in nature, such as remuneration for public servants and recurrent subventions for organizations;
  - (b) *Non-recurrent subheads* - mainly covered expenditure items which were one-off in nature and cost more than \$150,000 each but did not involve acquisition or construction of a physical asset, such as injection of funds and launching of major one-off projects/programmes; and
  - (c) *Capital Account subheads* - covered capital expenditure items such as minor capital works, acquisition of motor vehicles, dinghies and launches;
- expenditure items which sought to cover time-limited programmes or projects within the core policy areas of B/Ds might either be charged to

a recurrent subhead or a non-recurrent subhead. Controlling Officers were responsible and accountable for the charging of different expenditure items to the appropriate subheads having regard to the nature of the items;

- all GRA expenditure items, whether funded under a recurrent or non-recurrent subhead, were subject to a statutory approval process prescribed in the Public Finance Ordinance (Cap. 2) ("PFO"). Under section 6 of the PFO, expenditure items which formed part of the annual estimates of expenditure introduced concurrently with the Appropriation Bill every year were subject to LegCo approval. The Appropriation Bill sought funding, primarily recurrent funding, for the bulk of government services for the relevant financial year. It was one of the most important Bills for the Government each year and was subject to a rigorous vetting process;
- under section 8 of the PFO, changes to the approved estimates of expenditure were subject to the approval of FC upon a proposal of the Financial Secretary. These in-year changes might provide for the creation of new heads or subheads, supplementary provision in approved or new subheads, increases in the limit to non-recurrent commitments, etc.; and
- whether a funding proposal should be classified as a recurrent item or a non-recurrent item depended on the nature of the funding proposal, and how the proposal fit in with the established programme areas set out in the relevant Controlling Officer's Report. From the perspective of the FSTB, the overriding consideration was whether the charge to public funds for any time-limited programme was justified from value-for-money considerations and was properly authorized following internal due process and statutory requirements. Regardless of the accounting arrangement adopted, Controlling Officers should take measures to ensure accountability and transparency in the use of public funds.

## **E. Publicity and promotional work**

74. According to paragraph 4.25 of the Audit Report, the HAD agreed with the audit recommendation to make better use of the SE website to disseminate updated information of promotional activities of SEs. The Committee enquired about the improvement measures that had been/would be made.

75. **Director of Home Affairs** responded that:

- the HAD was in the course of reviewing the content of its SE website with a view to making it more informative. Resources permitting, enhancements to the design of the SE website would be made to make it more attractive; and
- the HAD aimed to expeditiously complete revamping its SE website. The timeframe was within six months.

76. In 2008, the HAD set up the Partnership Programme to enhance cross-sector collaboration to promote the development of SEs. The Partnership Programme comprises the Mentorship Scheme and the Matching Forum. The HAD's Social Enterprises Support Unit is responsible for implementing the Partnership Programme. The Committee enquired whether consideration would be given to extending the Mentorship Scheme under the Partnership Programme to the 3E Project and other government funding schemes supporting the setting up of SEs.

77. **Director of Home Affairs** responded that due to limited resources, the HAD considered that the Mentorship Scheme should give priority to the ESR SEs, especially newly formed ones. Furthermore, as SEs formed under various funding schemes had different operation mode and business nature, such as conservation, revitalization of historical buildings and assistance to people with disabilities etc, it would be more appropriate for the responsible B/Ds of the funding schemes to consider and start, if considered appropriate, their own mentorship schemes. The HAD stood ready to share its experience.

## **F. Conclusions and recommendations**

<b>Overall comments</b>
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78. The Committee:

Government policy on social enterprise ("SE")

- considers that:
  - (a) public money spent on SEs could and should have been more effective in addressing social problems had the Home Affairs



Bureau ("HAB") and its executive arm, the Home Affairs Department ("HAD"), looked at SEs not merely as welfare businesses or welfare undertakings; and

(b) it is high time for the HAB/HAD to adopt a sea change in promoting SEs as businesses with social or environmental missions, so that Hong Kong could reap the full benefits of SEs;

- notes:

(a) the HAB/HAD's commitment in promoting the development of SEs in that:

(i) the HAB/HAD will periodically take stock of the progress and outcome of the efforts made by relevant bureaux/departments ("B/Ds") that might contribute to the development of SEs, in particular their funding schemes for setting up SEs, with a view to promoting best practices, identifying service gaps as well as creating synergies; and

(ii) the HAB had commissioned an independent research study to provide up-to-date reference for considering the work required in the development of SEs. The HAB/HAD plan to report to the Panel on Welfare Services of the Legislative Council ("LegCo") as and when the research study is completed before the end of 2014; and

(b) the vision of the Secretary for Home Affairs for Hong Kong to become a place which is conducive to nurturing social entrepreneurship and social innovations as exemplified in the Secretary's article "由社會企業到社企金融" (in Appendix 36);

- awaits with keen interest the findings and recommendations of the research study and the follow-up actions that would be taken by the HAB/HAD to promote the development of SEs in a more effective and proactive manner;

The Enhancing Employment of People with Disabilities through Small Enterprise Project ("the 3E Project") and the Enhancing Self-Reliance Through District Partnership Programme ("the ESR Programme")

*Processing of applications*

- expresses concern about the long time taken for the Social Welfare Department ("SWD") and the HAD to complete processing the applications under the 3E Project (an average of 184 days) and the ESR Programme (an average of 239 days). The long time taken would dampen applicants' enthusiasm and their capability to seize opportunities in a fast changing economic environment;
- notes that:
  - (a) the SWD had since April 2012 directed that the two-month timeframe from receipt of applicants' relevant information to notification of assessment results had been strictly adhered to; and
  - (b) the HAD would continue to explore ways to further shorten the processing time through, for example, taking the steps involved in the process concurrently, instead of consequentially, whenever possible;
- urges the SWD and HAD to continue monitoring the processing of applications and take appropriate actions, where necessary, to prevent the processing time from becoming unduly long;

*Repeated seed funding to different non-governmental organizations for setting up SEs in the same venue*

- expresses serious concern that there was no co-ordination in the processing and vetting of applications under various funding schemes administered by different B/Ds for the setting up of SEs serving different social objectives, as a result of which repeated grants under different funding schemes for setting up SEs of similar businesses in the same venue had occurred (Case 2 referred to in paragraph 2.32 of the Director of Audit's Report ("Audit Report") refers);

- notes that the SWD and the HAD had taken improvement measures to prevent the occurrence of the provision of repeated grants under the 3E Project administered by the SWD and the ESR Programme administered by the HAD for setting up SEs of similar businesses in the same venue;

*Determination of capital and operating grants*

- in respect of the funding of the 3E Project which comprises a capital grant and an operating grant, expresses serious concern that:
  - (a) whilst the SWD had generally adopted the deficit basis for determining the operating grant to meet the operating loss during the funding period, in practice, it was not applied on a consistent basis. The Audit Commission ("Audit") estimated that if the deficit basis had been adopted for the projects, the total operating grants involved would have been reduced by some \$3 million;
  - (b) as the Guide to the 3E Project did not specify what items were eligible under the capital grant, there were occasions whereby refundable deposits were funded by the capital grant. Audit found that eight of the 29 approved projects examined included items of refundable deposits involving a total amount of \$0.53 million; and
  - (c) although cost of trading stock was an operating expenditure for calculating the operating loss which was funded by the operating grant, the cost of trading stock received double funding from both the capital grant and the operating grant in some of the 29 approved projects examined by Audit;
- notes that:
  - (a) with effect from April 2012, the gross deficit basis had been adopted in assessing all applications. Arrangements would be made to elaborate this calculation basis clearly in the Guide to the 3E Project;
  - (b) the SWD would set out in the Guide to the 3E Project that as a matter of principle, a refundable deposit would not be approved, but if a grant was approved for this purpose due to special need, a special provision would be included in the agreement signed between the SWD and the grantee to specify that the deposit should

be returned to the SWD immediately after the grantee had recovered the sum; and

- (c) at the Assessment Panel meeting held as early as May 2010, it was determined that trading stock should not be funded under the capital grant. As such, the SWD had not approved any capital grant for trading stock since August 2010;
- urges the SWD to expeditiously update its Guide to the 3E Project to ensure that operating grants would be determined consistently amongst the projects and no refundable deposits would be funded by capital grants as a matter of principle;
- in respect of the funding of the ESR Programme which comprises a capital grant and an operating grant, expresses serious concern that:
  - (a) there were inconsistencies in determining the provision of operating grants on a deficit basis or an expenditure basis to projects; and
  - (b) there were occasions whereby refundable deposits were funded by the capital grant and the cost of trading stock received double funding from both the capital grant and the operating grant;
- notes that:
  - (a) the HAD had already laid down guidelines for determining the operating grants since 2010. Henceforth, the inconsistencies had discontinued;
  - (b) the HAD would require the grantees to return the deposits to the Government when such deposits are no longer required by the landlords or the utility companies; and
  - (c) the HAD would revise its guidelines to make clear that capital grants should not be the funding source for trading stocks;
- urges the HAD to expeditiously update its guidelines to ensure the proper funding of the capital and operating grants;

Funding arrangements

- considers that there is merit for the HAD to create a commitment for the non-recurrent expenditure of the ESR Programme and seek the approval of the Finance Committee ("FC") of LegCo; and
- urges the HAD to consider creating a non-recurrent commitment for similar projects in future as far as possible and seek the FC's approval as appropriate.

<b>Specific comments</b>
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79. The Committee:

The 3E Project

- expresses serious concern that according to the Guide to the 3E Project, operating grants should be determined on a deficit basis. However, the deficit basis was not applied consistently among the projects;
- expresses concern that:
  - (a) SWD had taken a long time (184 days on average) to complete the processing of applications. The long time taken would delay the commencement of projects and thus the creation of jobs for PWDs;
  - (b) both the number of approved projects and the target number of PWD jobs to be created showed a decreasing trend in recent years;
  - (c) 24 of the 81 approved projects had ceased operation. Of the 45 projects operating beyond the funding period, 16 (36%) were still operating at a deficit;
  - (d) the actual number of PWD jobs created by projects had fallen short of the target number by 10%, with the shortfall particularly significant for projects operating beyond the monitoring period;
  - (e) the average grant per PWD job to be created varied widely from \$12,500 to \$368,800;

- (f) the SWD did not collect information about why PWDs left the jobs created by the projects to ascertain whether they had moved on to open employment or had reverted to other rehabilitation services;
  - (g) many grantees submitted progress reports and annual audited accounts late, which was not desirable for project monitoring; and
  - (h) the SWD had not taken adequate follow-up actions to recover unspent operating grants from grantees;
- notes that:
- (a) the SWD will provide detailed guidelines in the Guide to the 3E Project by mid-2014 to address the issues identified by Audit;
  - (b) the Director of Social Welfare has agreed to implement the audit recommendations mentioned in paragraphs 2.14, 2.23, 2.42, 2.43, and 2.53 of the Audit Report; and
  - (c) the Director of Home Affairs has also agreed to implement the audit recommendation mentioned in paragraph 2.43 of the Audit Report;

#### The ESR Programme

- notes that the HAD did not create a non-recurrent commitment for the expenditure of the ESR Programme and was not required to seek funding approval from the FC of LegCo;
- expresses serious concern that operating grants were generally determined on a deficit basis or an expenditure basis. However, there were inconsistencies in applying the bases. Moreover, the basis and the justifications for determining the operating grant of an approved project were not always clearly documented;
- expresses concern that:
  - (a) the HAD took a long time (239 days on average) to complete the processing of applications. The long time taken would dampen

- applicants' enthusiasm and their capability to seize opportunities in a fast changing economic environment;
- (b) 25 of the 145 approved projects had ceased operation. Of the 79 projects operating beyond the funding period, 39 (49%) were still operating at a deficit;
  - (c) the actual number of jobs created by projects had fallen short of the target number by 27%. The shortfall would call into question the effectiveness of the ESR Programme in creating employment opportunities for the socially disadvantaged;
  - (d) the average grant per job to be created varied widely from \$9,000 to \$360,000;
  - (e) the Guide to the ESR Programme did not clearly specify the types of socially disadvantaged groups for job creation under the Programme;
  - (f) grantees submitted progress reports late and the HAD took a long time to finalize progress reports, resulting in late payment of operating grants; and
  - (g) the HAD did not take adequate follow-up actions on grantees with unspent operating grants;
- notes that the Director of Home Affairs has agreed to implement the audit recommendations mentioned in paragraphs 3.16, 3.24, 3.33, 3.51 and 3.62 of the Audit Report;

#### Publicity and promotional work

- expresses concern that:
- (a) the SE website maintained by the HAD did not provide updated information of promotional activities of SEs;
  - (b) the recruitment of mentees of the Mentorship Scheme was confined to projects under the ESR Programme only, depriving other SEs of the opportunities to participate in the Mentorship Scheme; and

- (c) the activities of the Matching Forum were low. Only a few proposals of forming partnerships with SEs were received from the business sector;
- notes that:
  - (a) the HAB will continue to make good use of various means (online platforms and publications) to disseminate useful information on SEs for public consumption;
  - (b) the Secretary for Home Affairs has agreed to implement the audit recommendations mentioned in paragraph 4.22 of the Audit Report; and
  - (c) the Director of Home Affairs has agreed to implement the audit recommendations mentioned in paragraphs 4.23 and 4.40 of the Audit Report;

#### Way forward

- notes that:
  - (a) from its inception in January 2010 to September 2013, the Social Enterprise Advisory Committee ("SEAC") was mainly involved in implementing a number of initiatives (e.g. the SE Award Scheme). It is now timely for the SEAC to advise the Government on the necessary updates on the strategies, programmes and activities for promoting the development of SEs in Hong Kong;
  - (b) there is a need for the HAB and the HAD to take stock of how far the various government funding schemes providing start-up funds to set up SEs may have contributed to the development of SEs and to identify the challenges they are facing, with a view to promoting best practices, identifying service gaps, creating synergies and providing them with necessary assistance, if required; and
  - (c) there is merit for the Government to adopt a more refined definition of SEs for formulating support strategies and programmes, and for providing a clear identity to SEs to enhance public understanding and acceptance;



- expresses concern that:
  - (a) the pilot scheme for priority bidding of selected government service contracts by SEs was discontinued in July 2012, but the LegCo Panel on Welfare Services had not yet been informed of the latest development; and
  - (b) the implementation of the 3E Project has been affected since the launch of the ESR Programme in 2006, because of the overlapping of their target groups, and the more favourable terms of the ESR Programme; and
- notes that:
  - (a) the SWD will work with the HAD to identify synergistic effects between the 3E Project and the ESR Programme;
  - (b) the Secretary for Home Affairs has agreed to implement the audit recommendations mentioned in paragraphs 5.9, 5.15, 5.27, 5.38 and 5.42 of the Audit Report;
  - (c) the Director of Home Affairs has agreed to implement the audit recommendations mentioned in paragraphs 5.27, 5.28 and 5.42 of the Audit Report; and
  - (d) the Director of Social Welfare has agreed to implement the audit recommendation mentioned in paragraph 5.28 of the Audit Report.

<b>Follow-up action</b>
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80. The Committee wishes to be kept informed of progress made in implementing the various audit recommendations.

*Recruitment of staff*

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The Audit Commission ("Audit") conducted a review of the staff recruitment work of the Civil Service Bureau ("CSB") and four bureaux/departments ("B/Ds"), namely the Correctional Services Department ("CSD"), Education Bureau, Food and Environmental Hygiene Department and Leisure and Cultural Services Department.

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

- whereas the CSB was responsible for setting recruitment policies and recruiting staff for 14 general grades, B/Ds were responsible for the recruitment of staff for the other grades in the civil service. However, the CSB did not have an established mechanism to periodically collect information on recruitment exercises conducted by B/Ds and monitor their completion time. In 2010-2011 and 2011-2012, some 20% of the open recruitment exercises conducted by B/Ds took over eight months to complete;
- for 50 open recruitment exercises conducted between 2010-2011 and 2012-2013, email was not used in 43 exercises. 43% of the 258 000 applicants were found not meeting the stated entry requirements;
- due to heavy workload from large-scale recruitment exercises, the CSD took 356 to 714 days to complete 10 small-scale recruitment exercises. It had more recently commenced a comprehensive review of its overall recruitment process;
- there was room for improvement in the open recruitment processes, including vetting applications, shortlisting candidates and holding skill tests/examinations; and
- Workman I and Workman II were two of the controlled grades with open recruitment controlled by the CSB. Due to the reduced pool of candidates and high decline rates, nine in-service recruitment exercises conducted by three B/Ds failed to recruit sufficient officers to fill the vacancies. As at 31 March 2013, these three B/Ds had some 930 Workman I/Workman II vacancies. Such in-service recruitment generally did not reduce civil service vacancies service-wide, but resulted in competition among B/Ds for staff and high staff turnover. The operations of a B/D would also be adversely affected when a large number of its staff were transferred out to other B/Ds.

*Recruitment of staff*

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3. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding open recruitment of civil servants and recruitment of non-civil service staff. The replies from the **Secretary for the Civil Service, Commissioner of Correctional Services, Secretary for Education, Director of Food and Environmental Hygiene and Director of Leisure and Cultural Services** are in *Appendices 40, 41, 42, 43 and 44* respectively.

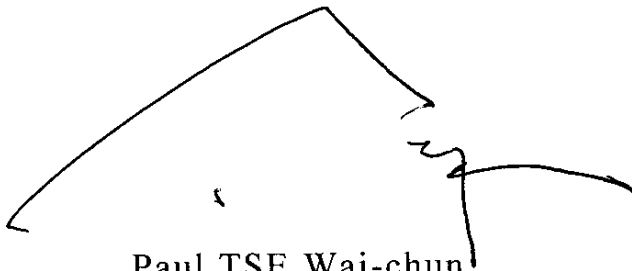
4. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.

SIGNATURES OF THE CHAIRMAN,  
DEPUTY CHAIRMAN AND MEMBERS OF THE COMMITTEE

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Abraham SHEK Lai-him  
(Chairman)



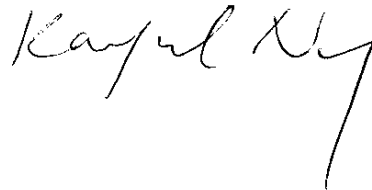
Paul TSE Wai-chun  
(Deputy Chairman)



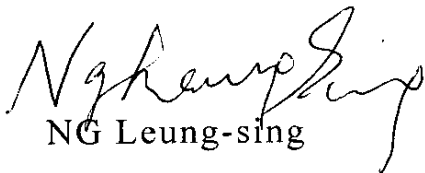
CHAN Hak-kan



Alan LEONG Kah-kit



WONG Yuk-man



NG Leung-sing



Kenneth LEUNG

23 June 2014

**CHAPTERS IN THE DIRECTOR OF AUDIT'S REPORT NO. 62  
DEALT WITH IN THE PUBLIC ACCOUNTS COMMITTEE'S REPORT**

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**Director of  
Audit's Report  
No. 62**

**P.A.C.  
Report No. 62**

<u>Chapter</u>	<u>Subject</u>	<u>Chapter</u>
2	Planning, construction and redevelopment of public rental housing flats	1
3	Mega Events Fund	2
6	CreateSmart Initiative	3
7	Promoting the development of social enterprises	4
8	Recruitment of staff	5

**RULES OF PROCEDURE OF  
THE LEGISLATIVE COUNCIL OF  
THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

**72. Public Accounts Committee**

(1) There shall be a standing committee, to be called the Public Accounts Committee, to consider reports of the Director of Audit –

- (a) on the accounts of the Government;
- (b) on such other accounts required to be laid before the Council as the committee may think fit; and
- (c) on any matter incidental to the performance of his duties or the exercise of his powers as the committee may think fit.

(2) The committee shall also consider any report of the Director of Audit laid on the Table of the Council which deals with examinations (value for money audit) carried out by the Director relating to the economy, efficiency and effectiveness of any Government department or public body or any organization to which his functions as Director of Audit extend by virtue of any Ordinance or which receives public moneys by way of subvention.

(3) The committee shall consist of a chairman, deputy chairman and 5 members who shall be Members appointed by the President in accordance with an election procedure determined by the House Committee. *(L.N. 214 of 2005)*

(3A) The chairman and 2 other members shall constitute a quorum of the committee. *(L.N. 214 of 2005)*

(3B) In the event of the temporary absence of the chairman and deputy chairman, the committee may elect a chairman to act during such absence. *(L.N. 214 of 2005)*

(3C) All matters before the committee shall be decided by a majority of the members voting. Neither the chairman nor any other member presiding shall vote, unless the votes of the other members are equally divided, in which case he shall give a casting vote. *(L.N. 214 of 2005)*

(4) A report mentioned in subrules (1) and (2) shall be deemed to have been referred by the Council to the committee when it is laid on the Table of the Council.

(5) Unless the chairman otherwise orders, members of the press and of the public shall be admitted as spectators at meetings of the committee attended by any person invited by the committee under subrule (8).

(6) The committee shall meet at the time and the place determined by the chairman. Written notice of every meeting shall be given to the members and to any person invited to attend a meeting at least 5 clear days before the day of the meeting but shorter notice may be given in any case where the chairman so directs.

(7) *(Repealed L.N. 214 of 2005)*

(8) The chairman or the committee may invite any public officer, or, in the case of a report on the accounts of or relating to a non-government body or organization, any member or employee of that body or organization, to give information or any explanation or to produce any records or documents which the committee may require in the performance of its duties; and the committee may also invite any other person to assist the committee in relation to any such information, explanation, records or documents.

(9) The committee shall make their report upon the report of the Director of Audit on the accounts of the Government within 3 months (or such longer period as may be determined under section 12 of the Audit Ordinance (Cap. 122)) of the date on which the Director's report is laid on the Table of the Council.

(10) The committee shall make their report upon the report of the Director of Audit mentioned in subrule (2) within 3 months (or such longer period as may be determined by the Council) of the date on which the Director's report is laid on the Table of the Council.

(11) Subject to these Rules of Procedure, the practice and procedure of the committee shall be determined by the committee.

**Paper presented to the Provisional Legislative Council  
by the Chairman of the Public Accounts Committee  
at the meeting on 11 February 1998 on  
Scope of Government Audit in the  
Hong Kong Special Administrative Region -  
'Value for Money Audits'**

**SCOPE OF WORK**

1. The Director of Audit may carry out examinations into the economy, efficiency and effectiveness with which any bureau, department, agency, other public body, public office, or audited organisation has discharged its functions.
  
2. The term "audited organisation" shall include -
  - (i) any person, body corporate or other body whose accounts the Director of Audit is empowered under any Ordinance to audit;
  - (ii) any organisation which receives more than half its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organisation which receives less than half its income from public moneys by virtue of an agreement made as a condition of subvention); and
  - (iii) any organisation the accounts and records of which the Director is authorised in writing by the Chief Executive to audit in the public interest under section 15 of the Audit Ordinance (Cap. 122).
  
3. This definition of scope of work shall not be construed as entitling the Director of Audit to question the merits of the policy objectives of any bureau, department, agency, other public body, public office, or audited organisation in respect of which an examination is being carried out or, subject to the following Guidelines, the methods by which such policy objectives have been sought, but he may question the economy, efficiency and effectiveness of the means used to achieve them.



## GUIDELINES

4. The Director of Audit should have great freedom in presenting his reports to the Legislative Council. He may draw attention to any circumstance which comes to his knowledge in the course of audit, and point out its financial implications. Subject to these Guidelines, he will not comment on policy decisions of the Executive Council and the Legislative Council, save from the point of view of their effect on the public purse.

5. In the event that the Director of Audit, during the course of carrying out an examination into the implementation of policy objectives, reasonably believes that at the time policy objectives were set and decisions made there may have been a lack of sufficient, relevant and reliable financial and other data available upon which to set such policy objectives or to make such decisions, and that critical underlying assumptions may not have been made explicit, he may carry out an investigation as to whether that belief is well founded. If it appears to be so, he should bring the matter to the attention of the Legislative Council with a view to further inquiry by the Public Accounts Committee. As such an investigation may involve consideration of the methods by which policy objectives have been sought, the Director should, in his report to the Legislative Council on the matter in question, not make any judgement on the issue, but rather present facts upon which the Public Accounts Committee may make inquiry.

6. The Director of Audit may also -

- (i) consider as to whether policy objectives have been determined, and policy decisions taken, with appropriate authority;
- (ii) consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options;
- (iii) consider as to whether established policy aims and objectives have been clearly set out; whether subsequent decisions on the implementation of policy are consistent with the approved aims and objectives, and have been taken with proper authority at the appropriate level; and whether the resultant instructions to staff accord with the approved policy aims and decisions and are clearly understood by those concerned;

- (iv) consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them;
- (v) consider how far, and how effectively, policy aims and objectives have been translated into operational targets and measures of performance and whether the costs of alternative levels of service and other relevant factors have been considered, and are reviewed as costs change; and
- (vi) be entitled to exercise the powers given to him under section 9 of the Audit Ordinance (Cap. 122).

## **PROCEDURES**

7. The Director of Audit shall report his findings on value for money audits in the Legislative Council twice each year. The first report shall be submitted to the President of the Legislative Council within seven months of the end of the financial year, or such longer period as the Chief Executive may determine. Within one month, or such longer period as the President may determine, copies shall be laid before the Legislative Council. The second report shall be submitted to the President of the Legislative Council by the 7th of April each year, or such date as the Chief Executive may determine. By the 30th April, or such date as the President may determine, copies shall be laid before the Legislative Council.

8. The Director's report shall be referred to the Public Accounts Committee for consideration when it is laid on the table of the Legislative Council. The Public Accounts Committee shall follow the rules governing the procedures of the Legislative Council in considering the Director's reports.

9. A Government minute commenting on the action Government proposes to take in respect of the Public Accounts Committee's report shall be laid on the table of the Legislative Council within three months of the laying of the report of the Committee to which it relates.

10. In this paper, reference to the Legislative Council shall, during the existence of the Provisional Legislative Council, be construed as the Provisional Legislative Council.

**Witnesses who appeared before the Committee  
(in order of appearance)**

Professor Anthony CHEUNG	Secretary for Transport and Housing
Mr Stanley YING Yiu-hong	Director of Housing
Miss Agnes WONG Tin-yu	Deputy Director (Strategy) Housing Department
Ms Ada FUNG Yin-suen	Deputy Director (Development & Construction) Housing Department
Mr Anson LAI Yat-ching	Assistant Director (Strategic Planning) Housing Department
Mr CHAN Siu-tack	Assistant Director (Estate Management) 2 Housing Department
Mr Lawrence CHUNG Kam-wing	Assistant Director (Project) 3 Housing Department
Mr Paul CHAN Mo-po	Secretary for Development
Mr Thomas CHOW Tat-ming	Permanent Secretary for Development (Planning and Lands)
Mr Thomas CHAN Chung-ching	Deputy Secretary for Development (Planning and Lands) 1
Mr LING Kar-kan	Director of Planning
Ms Christine TSE	Assistant Director of Planning (Special Duties)
Mr TSANG Tak-sing	Secretary for Home Affairs
Mrs Pamela TAN KAM Mi-wah	Director of Home Affairs
Ms Gracie FOO Siu-wai	Deputy Secretary for Home Affairs (1)

Mr Patrick LI Pak-chuen	Deputy Director of Home Affairs (1)
Mr Eric HUI Kwok-sun	Assistant Director of Home Affairs (2)
Ms Carol YIP	Director of Social Welfare
Mr FONG Kai-leung	Assistant Director (Rehabilitation & Medical Social Services)
Ms Elizabeth TSE Man-yee	Permanent Secretary for Financial Services & the Treasury (Treasury)
Mr Andrew WONG Ho-yuen	Permanent Secretary for Commerce & Economic Development (Commerce, Industry & Tourism)
Mr Philip YUNG Wai-hung	Commissioner for Tourism
Miss Rosanna LAW	Deputy Commissioner for Tourism
Ms Emily MO Yuen-ching	Assistant Commissioner for Tourism cum Secretary to the Mega Events Fund Assessment Committee
Hon Jeffrey LAM Kin-fung	Chairman, Mega Events Fund Assessment Committee
Hon CHAN Kam-lam	Convenor of the organizer of Events C1, C2, C3 & C4
Mr KO Chi-sum	Representative of the organizers of Event G
Mr Gregory SO Kam-leung	Secretary for Commerce & Economic Development

**Introductory Remarks by  
Chairman of the Public Accounts Committee,  
Hon Abraham SHEK Lai-him, GBS, JP  
at the First Public Hearing of the Committee  
in respect of the Director of Audit's Report No. 62  
on Monday, 5 May 2014**

Good morning, ladies and gentlemen. Welcome to the Public Accounts Committee's public hearing relating to Report No. 62 of the Director of Audit on the results of value for money audits, which was tabled in the Legislative Council on 16 April 2014.

2. The Public Accounts Committee is a standing committee of the Legislative Council. It plays the role of a watchdog over public expenditure through consideration of the reports of the Director of Audit laid before the Council on the Government's accounts and the results of value for money audits of the Government and those organisations which receive funding from the Government. The consideration by the Committee of the Director's reports involves gathering evidence relevant to the facts contained in the Director's reports, so that the Committee may draw conclusions and make recommendations in a constructive spirit and forward-looking manner. I also wish to stress that the objective of the whole exercise is such that the lessons learned from past experience and our comments on the performance of the public officers or other personnel concerned will enable the Government to improve its control over the expenditure of public funds, with due regard to economy, efficiency and effectiveness.

3. The consideration of the Director's reports follows an established process of public hearings where necessary, internal deliberations and publication of the Committee's report. The Committee has an established procedure for ensuring that the parties concerned have a reasonable opportunity to be heard. After the Committee is satisfied that it has ascertained the relevant facts, it will proceed to form its views on those facts, followed by a process of formulating its conclusions and recommendations to be included in its report. In accordance with Rule 72 of the Rules of Procedure of the Legislative Council, the Committee is required to make its report on the Director's report to the Legislative Council within three months of the date at which the Director's report is laid on the Table of the Council. Before then, we will not, as a committee or individually, be making any public comments.

4. Following a preliminary study of Report No. 62, the Committee has decided, in respect of three chapters in the Report, to invite the relevant public officers to appear before the Committee and answer our questions. We have, apart from this hearing, also set aside 12 May 2014 for public hearing on the other chapter.

5. The public hearing today is on Chapter 2 of Report No. 62 on the subject of "Planning, construction and redevelopment of public rental housing flats". The witnesses are:

- Professor Anthony CHEUNG (Secretary for Transport and Housing),
- Mr Stanley YING Yiu-hong (Director of Housing),
- Miss Agnes WONG Tin-yu (Deputy Director (Strategy) of Housing Department),
- Ms Ada FUNG Yin-suen (Deputy Director (Development & Construction) of Housing Department),
- Mr Anson LAI Yat-ching (Assistant Director (Strategic Planning) of Housing Department),
- Mr CHAN Siu-tack (Assistant Director (Estate Management)<sup>2</sup> of Housing Department),
- Mr Lawrence CHUNG Kam-wing (Assistant Director (Project)<sup>3</sup> of Housing Department),
- Mr Paul CHAN Mo-po (Secretary for Development),
- Mr Thomas CHOW Tat-ming (Permanent Secretary for Development (Planning and Lands)),
- Mr Thomas CHAN Chung-ching (Deputy Secretary for Development (Planning and Lands)<sup>1</sup>),
- Mr LING Kar-kan (Director of Planning), and
- Ms Christine TSE (Assistant Director of Planning (Special Duties)).

6. I will now invite members to declare their interests in relation to the subjects covered in this chapter. Does any member want to declare interests?

*(After members have declared their interests)*

7. The Secretary for Transport and Housing has requested to make an opening statement. Mr CHEUNG, please .....

*(After the Secretary for Transport and Housing  
has made his statement)*

8. The Secretary for Development has requested to make an opening statement. Mr CHAN, please .....

*(After the Secretary for Development  
has made his statement)*

9. I would like to invite Hon Kenneth LEUNG to ask the first question.

**Opening Remarks by Secretary for Transport and Housing at  
the Legislative Council Public Accounts Committee’s Public Hearing on  
“Planning, Construction and Redevelopment of  
Public Rental Housing Flats” (Chapter 2) of  
the Director of Audit’s Report No. 62**

Regarding Chapter 2 of the Director of Audit’s Report No. 62 (the Audit Report), as quoted in the Response of the Housing Department (HD) therein, we generally agree to the observations and accept the recommendations.

As Secretary for Transport and Housing, I would like to elaborate on some points concerning housing policies.

The three major parts discussed in the Audit Report touch upon key issues raised on other occasions in the past two years.

2. **First, public housing supply.** In the latter part of the last term Government (i.e. the 2011 Policy Address) the following supply targets for public rental housing (PRH) and Home Ownership Scheme (HOS) flats were formally announced:

- To provide about 75 000 PRH units in the next five years i.e. an average of 15 000 units per year;
- To plan to provide more than 17 000 HOS units over four years from 2016/17 onwards; and
- As more sites become available, the planning target would be set at an 5 000 HOS flats a year on average.

3. However, not all the required housing sites had been secured at that time. Since this term Government assumed office in July 2012, we have



continued our efforts in securing land. Up till 2013 when the Chief Executive delivered his first Policy Address, we had confirmed the land required for the original supply target in the first five years. We had also advanced the production of about 4 000 PRH units, which had originally been scheduled for completion in 2017/18, so that the total supply in the first five years would become 79 000 units. At the same time, the Chief Executive pledged the supply of 100 000 PRH units in the five years starting from 2018. This meant an average of 20 000 units in each year.

4. One of the missions of the LTHS Steering Committee was to estimate the overall public and private housing demand in the coming 10 years. Based on the net increase in the number of households, those who would be displaced by redevelopment and those who are inadequately housed, and taking into account other factors as well as the vacancy situation of private flats<sup>1</sup>, the LTHS Steering Committee came up with the total supply target of 470 000 flats. At the same time, the LTHS Steering Committee recommended that the public-private split should be 60:40 in order to convey a clear message to the community that the Government would take the lead in increasing public housing supply to avert the problem of housing supply-demand imbalance and to ensure the stable and healthy development of the private property market.

5. In his 2014 Policy Address, the Chief Executive adopted in advance the above total housing supply target as proposed by the LTHS Steering Committee. He also adopted the public housing target of 280 000 units, within which there would be 200 000 PRH units and 80 000 HOS units. This public housing supply exceeds the Government's previous pledge by 36%.

6. We mentioned at the meeting of the LegCo Panel on Housing on 28 January 2014 and at the joint meeting of the Panel on Housing and Panel on Development on 29 January 2014 that we had secured the land required for the total of 179 000 PRH units as pledged last year, and the relevant preparation work was also underway. As for the 21 000 additional PRH units in the new PRH supply target as announced this year, the Government was in the processing of identifying the land required. Paragraph 2.27 of the Audit Report notes the difference between the above and the target of 200 000 PRH units. Therefore, while it is true that we are still looking for land, we have

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<sup>1</sup> Based on the number of vacant flats in the private market at the beginning of the projection period and the average vacancy rate of private property market

made this fact apparent. Various problems including the tight land supply, planning issues and the need to solicit support of local communities are well-known to the public. The Government will adopt a pragmatic approach and endeavor to secure land expeditiously.

7. **Second, waiting time for PRH.** When we attended the public hearing of the Public Accounts Committee at the end of last year (November) in relation to Chapter 3 of the Director of Audit's Report No. 61, we explained in detail how we calculated the average waiting time (AWT) of about three years in respect of general applicants (i.e. family and elderly applicants). Waiting time refers to the time taken between registration as a general applicant and first flat offer, excluding any frozen period<sup>2</sup>. The AWT for general applicants refers to the average of the waiting times for the first offer of general applicants housed to PRH in the past 12 months. The HD reviews the implementation situation on a regular basis.

8. The AWT target of an average of three years has been the policy target adopted by the Government since 1997<sup>3</sup>. The actual AWT progressively dropped from 6.6 years as at end-March 1998 to 2.9 years as at end-June 2002.

9. The number of applicants for PRH has continued to increase in recent years. The change in the number of new "family and elderly applicants" varied more substantially : it increased by 22% from 25 800 in 2010/11 to 31 600 in 2011/12; and then dropped 11% from 30 600 in 2012/13 to 27 300 in 2013/14. However, the AWT has continued to increase, from 2.0 years as at end-March 2011 to 2.6 years as at end-March 2012, and then to 2.7 years as at end-March 2013. As at end-March of this year, there were about 121 900 general applicants and about 126 200 non-elderly one-person

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<sup>2</sup> For example, when the applicant has not yet fulfilled the residence requirement; the applicant has requested to put his/her application on hold pending arrival of family members for family reunion; the applicant is imprisoned, etc.

<sup>3</sup> In his speech at the Ceremony to Celebrate the Establishment of the Hong Kong Special Administrative Region of the People's Republic of China on 1st July 1997, the former Chief Executive pledged to reduce the AWT for PRH to three years. The 1997 Policy Address also stated that "We will reduce the waiting time for PRH from the present average of six and a half years to under five years by 2001, to four years by 2003 and to no more than three years on average by 2005." The LTHS White Paper issued in February 1998 also mentioned one of the pledges of the then Chief Executive, i.e. to reduce the AWT for PRH to three years by the end of 2005. The actual AWT progressively reduced from 6.6 years as at end-March 1998 to less than three years: it decreased from 3.2 years as at end- March 2002, to 2.9 years as at end-June 2002.

applicants under the Quota and Points System. The AWTs for general applicants was 3.0 years, and that for elderly one-person applicants was 1.6 years.

10. We fully understand that it has become increasingly challenging to uphold the target of maintaining the AWT for general applicants at around three years. This has indeed been pointed out time and again by the former Director of Housing and me to the Panel on Housing<sup>4</sup>. The LTHS Steering Committee also stated in its Consultation Document (Paragraph 6.5) issued last September that despite the possibility of occasional departure, the Government should strive to maintain the AWT target.

11. The Audit Report mentioned an internal assessment made in 2012, which indicated that the AWT would rise to five years in 2020. I would like to point out that first, the HD has indeed conducted such internal assessments. However, any long term projection is subject to its limitations. Due to the limitations of the method, a projection made in 2012 to project what would happen eight years later is likely to be inaccurate. Therefore, these assessments were only meant to be a tool for internal reference tool and alert.

12. Besides, after the assessment in 2012, we have made various changes in terms of policies and actual work, including increasing long-term supply. The objective of these changes is precisely to prevent that five years' AWT from becoming a reality.

13. **Third, I would like to highlight the redevelopment of public housing estates.** Under the current redevelopment policy, apart from structural safety of buildings and economic repair, we have to consider the build-back potential of individual estates and the availability of suitable rehousing resources. As we have to take into account whether suitable PRH flats are available for rehousing the clearerees, as well as its impact on applicants for PRH, manpower and other constraints, we have to strike a balance, thus rendering it impossible for us to launch many major redevelopment programmes at the same time. The Audit Report shares the same concerns, which can be seen in Paragraph 4.31.

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<sup>4</sup> For instance, the former Director of Housing mentioned at a meeting of the Panel on Housing last November that "...while the HA is still able to maintain the AWT within the target of around three years, it is increasingly challenging to do so given the increasing number of WL applicants. There is a real prospect that the AWT will lengthen in future."

14. Lastly, the Audit Report recommends (in Paragraphs 2.68 to 2.69) that the HD should consolidate experiences from the previous cases of return of PRH sites in order to minimise delays in PRH construction programmes. I must stress that it was on account of the then demand and supply situation of both public and private housing, as well as the prevailing policies and reality, that we came up with the said return arrangements. In view of the current circumstances and future prospect, as Secretary for Transport and Housing, I have made it clear in the LegCo on many occasions that sites vacated by the demolition of aged public housing estates for redevelopment will be retained for development of PRH.

15. Chairman, I would like to thank the Director of Audit for recognising the future challenges of the Housing Authority in the conclusion of his Audit Report, in particular the shortage of land supply for public housing development, the long lead time for planning and land development process, the need to meet the target of maintaining the AWT at around three years, and the challenges of securing financial support for the 10-year PRH development programme. We will take full account of the audit observations and recommendations when formulating the Government's LTHS. Moreover, we will follow up on the views and comments of the Public Accounts Committee.

**Audit Report on Planning, Construction and Redevelopment of Public Rental Housing Flats**

**Opening Remarks by Secretary for Development at the Public Accounts Committee on 5 May 2014**

(Translation)

It is the Government's top priority to provide sufficient land to achieve the new housing supply target, especially to facilitate the grassroots to move into public rental housing (PRH). This is a challenge for us and the community as a whole. As explained at the Legislative Council and on other occasions, the Government is taking forward various land use planning and developments, including the Kwu Tong North and Fanling North New Development Areas, Hung Shui Kiu New Development Area, Tung Chung New Town Extension, reclamations outside Victoria Harbour, development of the New Territories North and Lantau, to name a few. These medium to long term measures however require time to materialise, and there are not many easy options to increase and expedite housing land supply in the short to medium run. The fastest and most effective way is to make optimal use of the developed areas in the existing urban areas and new towns, as well as the nearby land in the vicinity of existing infrastructures.

2. As already mentioned by the Secretary for Transport and Housing in his opening speech just now, with the joint efforts by the Planning Department (PlanD), Housing Department and other relevant departments, the Government has already identified sufficient land to construct the 179 000 PRH and 17 000 Home Ownership Scheme flats as previously pledged. We are working closely with the Transport and Housing Bureau to identify more sites suitable for housing development so as to achieve the new housing supply target, namely, to provide 470 000 housing units in ten years' time, with subsidised housing accounting for 60%. Various on-going land use reviews of the Government have begun to bear fruits, and the Government has reported so in the Policy Address this year. We estimate that some 150 sites could be made available in the coming five years (i.e. from 2014/15 to 2018/19) for providing over 210 000 public and private housing units, subject to timely completion of town planning procedures to convert their land use and/or increase the development intensity as well as completion of such works as infrastructure and land clearance to be expeditiously carried out by various departments. Our preliminary estimate shows that among these 150 or so sites, about 60% are for public housing development, and in terms of flat number to be constructed thereat, over 70% are public housing units.

3. We have commenced our consultation with District Councils (DCs) on the said housing sites. The Government appreciates that it is not an easy task for each and every one in our society to accept the proposed housing developments. For example, when we earlier consulted a few DCs and local communities, some DC members and residents were worried that the proposals would have adverse traffic, infrastructure, environment and visual impacts, or community facilities and open space would not be sufficient to cater for additional population intake.

4. We fully understand the concerns of the local residents about the impacts brought by the proposed housing developments. Nevertheless, as reiterated on various occasions, before making the relevant proposals, PlanD and other professional departments have already assessed all aspects in accordance with our well-established mechanism and criteria, e.g., whether the relevant infrastructure and community facilities are capable of meeting the needs of the proposed developments and the local community nearby. This effectively ensures that the proposals will not cause unacceptable impacts. If necessary, departments will conduct detailed technical assessments and propose and implement appropriate mitigation measures. The Government will endeavour to minimise any impacts brought about while converting sites for housing development, but in reality some impacts are inevitable and I hope the DCs and local communities will show their understanding.

5. In face of the urgent housing needs of Hong Kong people, especially the pressing needs of the grassroots waiting to move into PRH or to improve their living environment, the community as a whole would need to put the overall housing needs of Hong Kong above interests of individuals. Thinking of the tens of thousands of families who are living in “sub-divided units” and waiting for allocation of a PRH flat as a decent place to live, I could not accept procrastination in our rezoning work. All relevant Government departments will continue to work closely to secure community support and complete the necessary assessments and procedures in a timely manner, so that we could further increase our land supply and achieve the new housing target.

**Development Bureau**  
**Updated June 2014**

**Legislative Council Public Accounts Committee**  
**Public Hearing on Report No. 62 of the Director of Audit's Report**  
**Chapter 2 – Planning, construction and redevelopment**  
**of public rental housing flats**

**Purpose**

This paper provides supplementary information on some of the issues raised by Members during the first public hearing held on 5 May 2014 on Report No. 62 of the Director of Audit, Chapter 2 – Planning, construction and redevelopment of public rental housing (PRH) flats (hereinafter referred to as the “Report”).

**Background**

2. At the public hearing held on 5 May 2014, Members requested the Government to provide information on various issues. In the time available we have managed to prepare such information on some of the issues, which is presented in this paper. We are working on the other information which we will submit as soon as it is ready.

**Supplementary Information**

*Fluctuation in PRH production (Paragraph 2.11 and Figure 1 of the Report refer)*

3. In respect of the query as to why there were fluctuations in PRH production in the past 10 years as shown on Figure 1 of the Report, we reckon from our experience that implementation of public housing development depends on various factors such as planning, construction and resource allocation, etc. In addition, each individual project varies in scale, site specific characteristics/constraints and construction progress. Thus, PRH production for every year may vary.

4. The peak in 2004-05 with a PRH production of 24,682 units was mainly due to the transfer of some HOS projects to PRH as a result of the ceasing of sale and production of HOS in 2002, resulting in an increase of PRH production in 2004-05.

5. The low PRH production in 2006-07 was mainly because of the delay of around 12,600 PRH production from the South East Kowloon Development Area, which were originally scheduled for completion in 2006-07 and 2007-08, due to the Government's review of the reclamation proposal at the South East Kowloon Development.

*Tender Price Trends (Figure 1 of the Report refers)*

6. In respect of the request for information on the construction price levels for the respective years in Figure 1 of the Report, **Annex 1** presents this information by integrating the Housing Authority Tender Price Indices (TPI) with the PRH production in Figure 1 for easy reference of Members. It is noted that the TPI was relatively low when we embarked upon the works programme for completion in 2004-05. Nevertheless, this observation is for information only since we have already clarified at the public hearing on 5 May 2014 that the level of tender price is not a determining factor in planning the public housing development programme.

*Financial Information for construction expenditure (Paragraph 1.5 of the Report refers)*

7. In respect of the query on construction expenditure as stated in paragraph 1.5 of the Report, the operating income and expenditure for PRH in 2013-14 are estimated at \$11.9 Billion (B) and \$12.7 B respectively (i.e. an operating deficit at about \$0.8B). The construction expenditure for 2013-14 is budgeted at \$9.9 B. The HA maintains recurrent operating account and capital account separately. The annual operating expenditure under the operating account of PRH includes personal emoluments, cleansing and security, maintenance and improvements, and depreciation of completed buildings, etc. It does not include construction expenditure incurred in the year which is under the capital account. In accordance with the HA's approved accounting policy, capital expenditure incurred during the construction period is accounted for as construction in progress asset. The total construction costs of a building will be transferred and classified as fixed asset of the HA upon its completion. Depreciation is then recorded as an annual operating expenditure by allocating the total construction costs of the building over the estimated useful life of the building of 50 years on a straight-line basis.

8. The related financial information of HA for the last five years is attached at **Annex 2** for Members' information. As shown in the Annex,



the HA has annual consolidated surpluses for the last five years, after offsetting the PRH's operating deficit from the surplus of other operations and investment. With the fund generated from the annual operation and over \$60B balance carried forward in the period, the HA has been able to meet the funding requirement of its operation and the construction programmes.

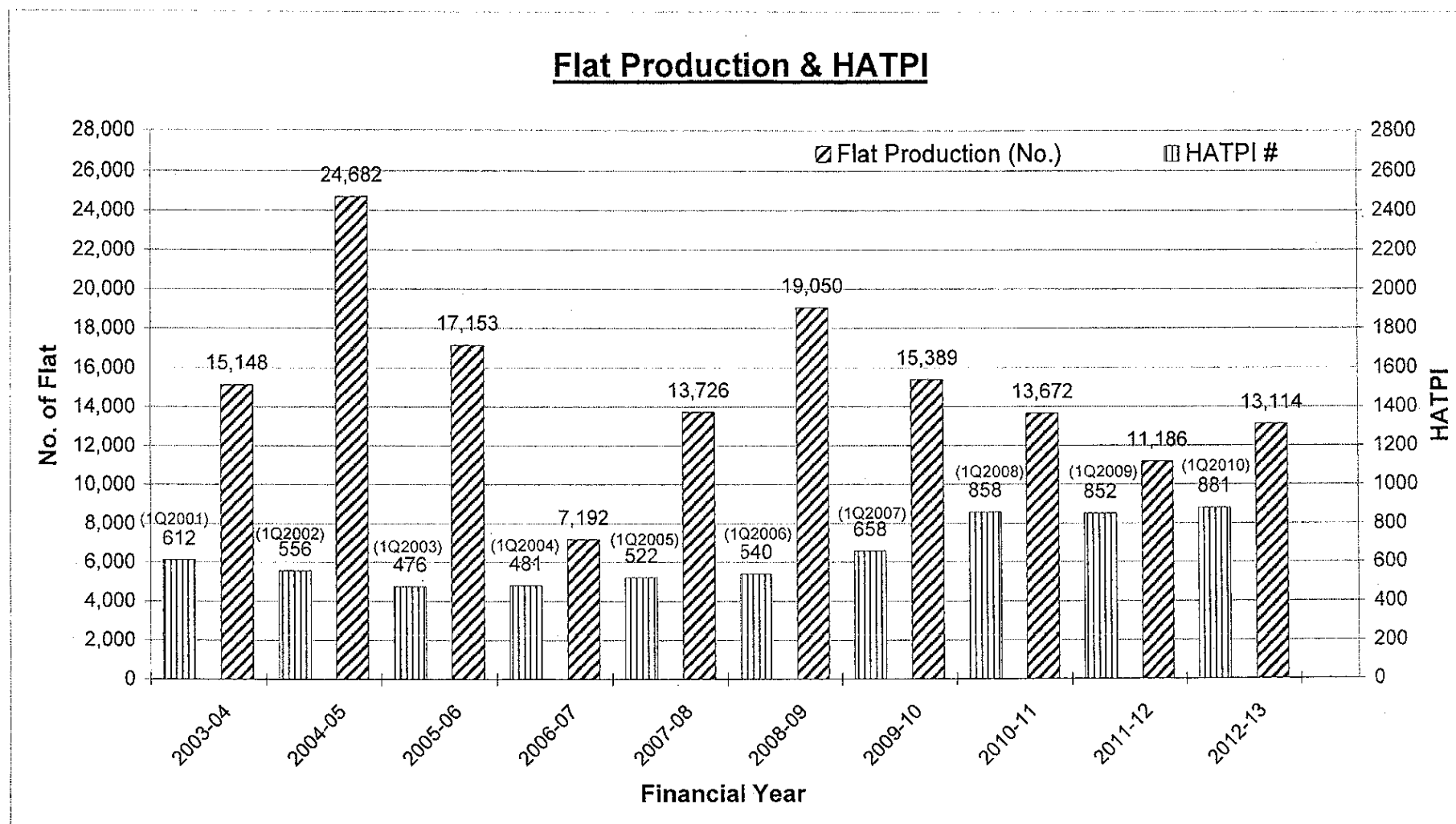
*Long Term Housing Demand Projection*

9. In respect of the request for information on how we plan to take forward the long term housing demand projection under the Long Term Housing Strategy review and its annual updating, we have compiled a note attached at **Annex 3** for Members' reference.

**Advice Sought**

10. Members are invited to note the content of this paper.

**Transport and Housing Bureau**  
**9 May 2014**



# As the normal building contract period is approximately 30 months (i.e. 2.5 years), the corresponding Housing Authority Tender Price Index (HATPI) for the building contract commencement date is set at 2.5 years before the middle of the Financial Year.

**Financial information of the Hong Kong Housing Authority (HA)  
for the financial years from 2009-10 to 2013-14**

1. The HA's annual consolidated surplus comes from the operating accounts of Rental Housing, Commercial, and Home Ownership Assistance, as well as Funds Management Account. The Financial Statements are prepared in accordance with the Housing Ordinance and accounting policies approved by the HA.
2. As stated in paragraph 1.5 of the Report No. 62 (Chapter 2) of the Director of Audit, the operating income and expenditure for public rental housing (PRH) in 2013-14 are estimated at \$11.9 billion (B) and \$12.7B respectively (i.e. an operating deficit at about \$0.8B). The construction expenditure for 2013-14 is budgeted at \$9.9B.

The corresponding figures for the past five years are summarised as follows:

<b>(i) Rental Housing Operating Account</b>	<b>2009-10 Actual</b>	<b>2010-11 Actual</b>	<b>2011-12 Actual</b>	<b>2012-13 Actual</b>	<b>2013-14 Revised Budget</b>
	(\$B)	(\$B)	(\$B)	(\$B)	(\$B)
Total Income	9.9	9.5	10.6	10.4	11.9
Total Expenditure	(11.4)	(10.4)	(11.2)	(11.6)	(12.7)
Operating deficit	(1.5)	(0.9)	(0.6)	(1.2)	(0.8)

The operating income under Rental Housing Operating Account mainly comes from PRH rental income, while the operating expenditure includes personal emoluments, cleansing & security, maintenance & improvements, and depreciation of buildings, etc.

<b>(ii) Construction Expenditure</b>	<b>2009-10 Actual</b>	<b>2010-11 Actual</b>	<b>2011-12 Actual</b>	<b>2012-13 Actual</b>	<b>2013-14 Revised Budget</b>
	(\$B)	(\$B)	(\$B)	(\$B)	(\$B)
Total Construction Expenditure	<b>5.8</b>	<b>6.4</b>	<b>7.6</b>	<b>8.9</b>	<b>9.9</b>

In accordance with the HA's approved accounting policy, capital expenditure incurred during the construction period is accounted for as construction in progress asset. The total construction costs of a building would be transferred and classified as fixed asset of the HA upon its completion. Then depreciation is recorded as an annual operating expenditure by allocating the total construction costs of the building over the estimated useful life of the building of 50 years on a straight-line basis.

3. The HA's annual surplus incorporating the above operating deficit from Rental Housing Operating Account and surplus from other accounts for the past five years are summarised below:

	<b>2009-10 Actual</b>	<b>2010-11 Actual</b>	<b>2011-12 Actual</b>	<b>2012-13 Actual</b>	<b>2013-14 Revised Budget</b>
	(\$B)	(\$B)	(\$B)	(\$B)	(\$B)
<b>Surplus for the year</b>	<b>7.7</b>	<b>8.2</b>	<b>4.4</b>	<b>5.8</b>	<b>5.6</b>

4. With the fund generated from the annual operation and over \$60B balance carried forward in the period, the HA has been able to meet the funding requirement of its operation and the construction programmes, as summarised in the following cash flow movement:

	2009-10 Actual	2010-11 Actual	2011-12 Actual	2012-13 Actual	2013-14 Revised Budget
	(\$B)	(\$B)	(\$B)	(\$B)	(\$B)
Cash & Investment Balance at beginning of year	56.5	62.4	69.7	69.4	69.2
Surplus for the year	<b>7.7</b>	<b>8.2</b>	<b>4.4</b>	<b>5.8</b>	<b>5.6</b>
Add: Adjustments on non-cash items (mainly Depreciation) and others	4.5	6.1	3.8	3.8	4.2
Less: Payment of capital expenditure					
(a) Construction works	<b>5.8</b>	<b>6.4</b>	<b>7.6</b>	<b>8.9</b>	<b>9.9</b>
(b) Other improvement works and computer assets	0.5	0.6	0.9	0.9	1.0
<b>Cash &amp; Investment Balance at end of year</b>	<b>62.4</b>	<b>69.7</b>	<b>69.4</b>	<b>69.2</b>	<b>68.1</b>

## Long Term Housing Demand Projection

The Government set up the Long Term Housing Strategy (LTHS) Steering Committee in September 2012 to make recommendations on Hong Kong's LTHS for the next ten years. An important task of the LTHS review was to project the long term housing demand. To support the work of the LTHS Steering Committee, the Housing Department (HD), in collaboration with relevant Government bureaux/departments, developed a proposal for a new methodology for the projection of long term housing demand and submitted the proposal for consideration by the LTHS Steering Committee. Since a new methodology was being developed after the setting up of the LTHS Steering Committee, the HD has not used its old long-term housing demand assessment method since 2012. Based on the proposal submitted by HD, the LTHS Steering Committee adopted a new method. We briefed the Subcommittee on the Long Term Housing Strategy under the Panel of Housing of the Legislative Council (LegCo) on this new methodology vide LegCo Paper No. CB(1)194-13-14(02) on 11 November 2013.

2. Under the new method, the LTHS Steering Committee considers that every household in Hong Kong should be adequately housed, irrespective of whether they live in public or private housing; or in owned or rented accommodation. For the purpose of projecting long term housing demand, housing demand is defined as the total number of new housing units required to be built if each and every household is to be accommodated in adequate housing over the long term. When projecting the number of new housing units required, the LTHS Steering Committee considered the following major components -

- (a) net increase in the number of households;
- (b) those who would be displaced by redevelopment; and
- (c) those who were inadequately housed.

In addition, the new method adds a "miscellaneous" factor, which included private permanent living quarters occupied by "mobile residents only" households, non-local students who might take up accommodation in Hong Kong, and the demand of non-local buyers who may take up flats but without channelling them back to the

market. This is one of the major areas where the LTHS method is different from HD's old method. Another major difference under the new method is the use of an econometric modeling exercise to produce a range of projections to take into account the impact of different economic and property situations, thereby obtaining a more comprehensive gauge of the estimated housing demand under different economic and property market situations.

3. Using the new method, the LTHS Steering Committee projected that the total housing supply in the next ten years should range between 440 000 and 500 000 units, with a proposed supply target of 470 000 units (mid-point). The Government will use this new methodology to project long term housing demand in future and will review it on an annual basis as recommended by the LTHS Steering Committee.

4. As for the way forward, we have been working on operational details of the annual updating of the demand forecast. Such details include establishing processes for the preparation of the various data inputs, internal process for validating data and projections, and timing and method for the promulgation of the updated forecasts, etc. While not all such details need to be featured in the text of the Government's Long Term Housing Strategy, we aim to have them sorted out before we present our Long Term Housing Strategy before the end of this year.



Your Ref.: CB(4)/PAC/R62  
Our Ref.: HD (AU) AC

Tel No.: 2761 5009  
Fax No.: 2762 1110

Date: 30 May 2014

Clerk  
Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong.  
(Attn.: Ms. Mary SO)

Dear Mary,

**Public Accounts Committee**

**Consideration of Chapter 2 of the Director of Audit's Report No. 62  
Planning, Construction and Redevelopment of Public Rental Housing Flats**

With reference to your letter dated 9 May 2014 addressed to the Secretary for Transport and Housing on the subject issue and our reply dated 16 May 2014, I set out the Administration's bilingual response for questions no. d, e, i, j, k, o, p, q, r, s, t and u at the **Annex** for your reference, please.

Yours sincerely,



(Ms. Ada Y.S. FUNG)

for Secretary for Transport and Housing

**Encl.**

- c.c. Secretary for Transport and Housing (fax no. 2523 9187)
- Secretary for Development (fax no. 2151 5303)
- Secretary for Financial Services and the Treasury (fax no. 2147 5239)
- Director of Audit (fax no. 2583 9063)



Supply of new PRH flats

- (d) *what measures would be taken by the Government to ensure that the setting of the new PRH production target at 200 000 flats in the coming 10 years from 2013-2014 to 2022-2023 as pledged in the 2014 Policy Address would not contravene Article 5 of the Basic Law;*

As Members noted at the hearings, Basic Law Article 5 stipulates among other things, that the previous capitalist system “shall remain unchanged for 50 years”. In considering this provision in relation to our current target of supplying 200 000 Public Rental Housing (PRH) units in 10 years, the following facts may be relevant.

Currently, PRH accounts for around 30% of total stock of permanent residential flats in Hong Kong. If the future develops in accordance with our current targets, after 10 years PRH units will increase from 766 000 to 966 000. But under our plan other flats will also increase from 1 850 000 to 2 120 000. PRH units will then account for 31%. It may also be relevant that in 1990, when the Basic Law was adopted, PRH units accounted for 40% of total stock of permanent residential flats.

- (e) *what is the estimated construction expenditure for the 200 000 flats in the 10-year period from 2013-2014 to 2022-2023, and how will such cost be financed;*

The HA's practice is to prepare budget and forecast covering rolling 5-year periods. Therefore, we have not prepared estimates showing expenditure for 10 years.

To assess the additional financial implication of the plan to produce 200 000 PRH flats in 10 years, a very rough approach could focus on the extra supply of 50 000 flats on top of the previous production level of 150 000 flats, and the cost of each such extra unit. Currently, a PRH unit costs on average around \$0.7M, but this may not be the cost for all units throughout 10 years, as it will be affected by factors like the site condition, the scale of development, the specific building design to overcome site constraint, price level changes, etc. Also, if one looks at the overall financial situation of the HA, the revenue from Commercial and Home Ownership Assistance Operations needs to be taken into account.

The 2014 Budget Speech says that “apart from adequate supply of land and manpower resources, we have to ensure that there will be sufficient funding for the HA as well. .... The HA must keep enhancing cost-effectiveness and sustainability of modus operandi in the long run.” The Budget Speech expects the HA to do an assessment on “additional financial resources needed for the next ten years after consolidating revenue increases and cost savings” so as to facilitate discussions with Government on a feasible long-term financial arrangement. We are proceeding accordingly.

PRH supply and demand forecast

- (i) *how is the 10-year baseline planned PRH production of 150 000 PRH flats from 2008-2009 to 2011-2012 (referred to in Table 4 in paragraph 2.16 of the Audit Report) arrived at;*
- (j) *what are the reasons for maintaining the 10-year baseline planned PRH production at 150 000 PRH flats from 2008-2009 to 2011-2012 despite the rising PRH demand forecasted during the same period (Table 4 in paragraph 2.16 of the Audit Report refers);*
- (k) *what are the wide range of factors referred to in paragraph 2.18(a) of the Audit Report;*

[Combined response to (i), (j) & (k)]

We do not have “ten-year baseline planned PRH production”. We regularly issue a five-year rolling Public Housing Construction Programme. In parallel, as an internal working tool, we keep track of production in the second five years. Production beyond the first five years is subject to a wide range of factors such as the planning process, consultations, land matters, funding procedures, infrastructures and site formation works, etc. Our internal programmes are therefore snapshots that are prone to changes as and when they are affected by circumstances not anticipated in the programmes. Before the Policy Addresses in the past two years which announced targets for ten-year PRH production, for a time we did not have fixed targets for PRH. The future PRH production was determined taking into account factors such as:

- (a) demand assessment for PRH;
- (b) availability of land, including whether the sites identified are suitable for PRH developments and whether they will be available in time;
- (c) competing uses of land, including land for private housing, other community uses, conservation, etc.; and

- (d) measures to manage PRH resources, such as well-off tenants policies.

In the 2013 Policy Address, the Chief Executive (CE) committed to build 75 000 PRH flats for the five-year period from 2012-13 to 2016-17, and that the production target should be at least 100 000 PRH flats for the five-year period from 2018 onwards. The HD has since strived to advance the production of about 4 000 PRH flats to 2016-17, increasing the total PRH production target for the first five-year period from 2012-13 to 79 000 flats. In his 2014 Policy Address, the CE further announced that the housing supply target of a total of 470 000 units in the coming ten years would be adopted, with public housing accounting for 60%. To meet this new target, the Government aims to provide an average of about 20 000 PRH units and about 8 000 Home Ownership Scheme (HOS) units per year.

Meeting the pledged production targets

- (o) *what are the roles and responsibilities of the Committee on Housing Development, Steering Committee on Land Supply, and Committee on Planning and Land Development in meeting the pledged PRH production target as stated in the 2014 Policy Address;*

In order to achieve the then housing production target of 85,000 flats a year, the Steering Committee on Land Supply for Housing (HOUSCOM) chaired by the Financial Secretary was set up in 1997. It had a mandate of “making more land available for residential development to meet the housing needs of the community”. At the same time, to underpin HOUSCOM, the Housing Project Action Team (HPAT) chaired by the then Secretary for Housing was set up for the same purpose. The HOUSCOM and HPAT ceased operation in 2002 when the Government repositioned its housing policy. The Committee on Housing Policy (CHP)<sup>1</sup> and Committee on Housing Development (CHD) were then set up to monitor timely provision of residential land for both public and private housing.

Under the existing mechanism, the CHD chaired by the Permanent Secretary for Transport and Housing (Housing) cum Director of Housing, is responsible for assessing the housing demand, monitoring the timely supply of suitable land for public housing development to meet the anticipated demand, as well as the implementation of the public housing development programme to meet the housing supply targets set by the Government subject to timely availability of land.

The Committee on Planning and Land Development (CPLD), chaired by the Secretary for Development, coordinates land use planning and land development matters, including planning and allocation of land for various uses including residential uses, and makes decisions on development proposals and development parameters of individual sites.

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<sup>1</sup> Since July 2007, following the reorganization of the Government Secretariat, housing issues and planning and land issues have been overseen separately and respectively under Secretary for Transport and Housing and Secretary for Development. Under the new set up, the CHP ceased to operate and the long-term housing demand (both public and private) was subsequently monitored and endorsed by the new CHD which also monitored the land supply for public housing.

In 2010, on top of CHD and CPLD, the then Steering Committee on Housing Land Supply (SCHLS) was set up to coordinate the efforts of the various policy bureaux and government departments concerned on increasing housing land supply. SCHLS has been re-organised into the Steering Committee on Land Supply (SCLS) since February 2013, with its scope of work expanded to coordinate the overall plans for development and supply of land for different types of land uses including housing as well as commercial uses.

With the announcement of the new housing supply target in 2014 Policy Address, SCLS will continue to co-ordinate the efforts of B/Ds to increase land supply for housing with a view to meeting the target. With the involvement of relevant policy secretaries and heads of departments, SCLS provides a forum for resolving inter-bureau and inter-departmental issues affecting the availability of individual housing sites, such as infrastructure provision, and has been coordinating the overall land supply.

Land supply and site production for development

- (p) why 38 hectares of land are needed for the PRH production target of about 200 000 PRH flats for the next 10 years, whereas only 16 hectares of land are needed for the production target of 180 000 PRH flats (paragraph 2.46 of the Audit Report refers);***

On Audit's figure of 16 hectares, we suspect Audit might have got it from our internal paper in October 2013 which indicated an additional 16 hectares of land was required to meet the production target of 180 000 PRH flats. We had no document showing that 38 hectares of land was required to meet the production target of 200 000 PRH flats. We suspect that Audit might have seen our usual assumption used for planning purpose that one hectare would produce around 1 000 PRH flats and estimated that the additional land required to increase the production target by 20 000 flats (from 180 000 to 200 000 PRH flats) would require an additional 22 hectares of land. Adding 22 to 16 would give 38 hectares.

The shortfall in land requirement for the 200 000 PRH units was reported to the Legislative Council Panel on Development and Panel on Housing Joint Meeting on Increasing Housing Land Supply (Paper Number: CB(1) 781/13-14(01)) in January 2014. As reported in the paper, the Government had identified land to produce 179 000 PRH flats for the 10-year period from 2012/13 to 2021/22. To meet the new target of 200 000 PRH flats, work was underway to identify additional land. Some 150 potential housing sites had been identified and assessed to have potential for rezoning and made available for housing development in the coming five years (from 2014-15 to 2018-19) to provide over 210 000 flats.

- (q) what measures had been/would be taken by the relevant B/Ds to expedite the inclusion of the sites earmarked for public housing in the HD's Public Housing Construction Programme/Public Housing Development Forecast referred to in paragraph 2.47 of the Audit Report;***

Please refer to Development Bureau's response to question (b) of Public Accounts Committee's letter ref. CB(4)/PAC/R62 dated 9 May 2014 to Development Bureau.



Public housing sites returned to the Government

- (r) *what are the policies on the return of PRH redevelopment sites to the Government; and what is the mechanism for returning such sites to the Government;*

In view of the new production target, the Government is working very hard to secure adequate land supply for public housing. Under such circumstances, we have no plan to return PRH redevelopment sites to the Government.

There is an internal coordinating mechanism in the Government which operates through the Steering Committee on Land Supply, the Committee on Planning and Land Development and the Committee on Housing Development that together co-ordinate plans for development and supply of land for different types of land use.

- (s) *what are the reasons for returning the three PRH redevelopment sites to the Government during the current-term Government; and what are the location, size and intended use of the sites involved;*

We understand the question is about the Ex-Homantin redevelopment sites.

Ex-Homantin redevelopment sites (mentioned in Case 4 of the Audit Report) Phases 2, 3, 5, 6 and 7 were grouped into 3 sites: Phases 2 and 7 as Site I (Net Site Area being 20,810 sq.m.), Phase 6 and part of Phase 3 as Site II (7,191sq.m.), and Phase 5 and part of Phase 3 as Site III (5,960 sq.m.).

These three sites were agreed to be returned to the Government in 2005 after the announcement of the Housing Policy Statement in 2002 subject to the availability of replacement sites. Since then they have been in the Government's total stock of sites, and considered together with all other sites against the many demands for land that the Government has to meet. Sites I and II were considered suitable for private residential use. As a matter of fact, there has always been a need to provide the market with steady land supply for private housing to ensure healthy development of the property market. Sites I and II were included in the 2011-12 Land Sale Programme in February 2011 pursuant to the 2010/11 Policy Address. They were made available for sale by application in November 2011 after the Lands Department had finalized the sale conditions, and successfully tendered in March 2013 and June 2013 respectively through government-initiated sale. Site III was earmarked for Government, Institution or Community use. The current-term Government similarly has to determine how to use each site in the best way to meet demands for community uses, conservation, private housing, public housing etc. While the three sites have been used for other purposes, the Government has allocated many sites to the HA for public housing development, including for example major sites such as Queen's Hill, Tai Po Area 9, Shek Mun, Lai Chi Kok Road-Tonkin Street and Kai Lung Wan in Pokfulam, etc.

- (t) whether the Government had conducted any impact assessments before the return decision was made; if not, why not; and*

Please refer to the Development Bureau's reply to question (d) of Public Accounts Committee's letter ref. CB(4)/PAC/R62 dated 9 May 2014 to Development Bureau.

Development costs written off

- (u) why the development costs for the sites returned to the Government referred to in paragraph 2.62 of the Audit Report were not borne by the Government.***

The Government usually allocates sites to HA under two types of agreements - Vesting Order (VO) or Short Term Tenancy (STT). For ex-Homantin Estate, HA was vested the control and management of the relevant premises under a VO. For Inverness Road, HA was allocated the site under a STT to carry out site formation and road works. Under both types of agreement, there are no provisions for compensation to be paid to HA upon their revocation.

For the remaining four sites, namely Welfare Road Aberdeen, Wong Tai Sin Police Quarters, Tseung Kwan O Area 74 South Phases 1 & 2, and Sha Tau Kok Road Fanling, the Government had not allocated the sites to HA for public housing construction. They had been earmarked for HA to carry out preliminary studies or other preparations. As there was no agreement between Government and HA, HA had no basis to seek reimbursement of development costs.

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By Fax 2840 0716 & E-mail  
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29 May 2014

Clerk to the Public Accounts Committee  
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Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong  
(Attn: Ms Mary So)

Dear Ms So,

**Consideration of Chapter 2 of the Director of Audit's Report No. 62  
Planning, construction and redevelopment of public rental housing flats**

Thank you for your letters of 9 and 16 May 2014 to the Secretary for Development requesting for more information to facilitate the further consideration by the Public Accounts Committee (PAC) on the captioned Chapter. After consultation with the Transport and Housing Bureau (THB) and Planning Department (PlanD), our reply to questions (a) and (b) in the letter dated 9 May 2014 and question (b) in the letter dated 16 May 2014 raised by PAC is as below: -

*Question (a) (letter dated 9 May 2014): what measures had been/would be taken by the relevant bureaux/departments (B/Ds) to expedite the provision of formed land and supporting infrastructure for the implementation of the approved public housing development according to the Supplemental Agreement between the Government and the Hong Kong Housing Authority referred to in paragraph 2.33 of the Director of Audit Report (Audit Report);*

Question (b) (letter dated 9 May 2014): what measures had been/would be taken by the relevant B/Ds to expedite the inclusion of the sites earmarked for public housing in the Housing Department's Public Housing Construction Programme/Public Housing Development Forecast referred to in paragraph 2.47 of the Audit Report; and

Question (b) (letter dated 16 May 2014): whether there are any policy and/or measure(s) to ensure a steady and sufficient supply of land for constructing 200 000 public rental housing flats in the coming 10 years as pledged in the 2014 Policy Address.

As reported to the Legislative Council Panel on Development and Panel on Housing Joint Meeting on "Increasing Housing Land Supply" (Paper Number: CB(1)781/13-14(01)) in January 2014, the Government has already identified sufficient land to construct 179 000 Public Rental Housing (PRH) and 17 000 Home Ownership Scheme (HOS) flats. The Development Bureau has been working and will continue to work closely with THB to identify more sites suitable for housing development so as to achieve the new housing supply target, namely, to provide 470 000 housing units in ten years' time, with public housing accounting for 60%.

In this connection, as announced in the Policy Address 2014, the Government has identified additional sites in various districts with potential to be rezoned for residential use. Including the sites identified earlier from various land use reviews, we estimate that some 150 sites could be made available in the coming five years (i.e. from 2014/15 to 2018/19) for providing over 210 000 housing units, with over 70% of them to be public housing (PRH and HOS), subject to timely completion of town planning procedures to convert their land use and/or increase the development intensity, as well as completion of such works as infrastructure, land resumption/clearance, reprovisioning of existing/planning facilities, etc. We understand that some of these sites have already been included in the Housing Department's (HD's) Public Housing Construction Programme/ Public Housing Development Forecast.

The Government has already commenced the consultation with District Councils so as to proceed with the proposed rezoning as soon as practicable. The relevant B/Ds have also been working closely to carry out the necessary assessments and/or resolve the technical issues involved, with a view to expediting the land formation, infrastructure construction and other required procedures for the timely delivery of public housing units. For instance, the Lands Department (LandsD) will continue to work closely with

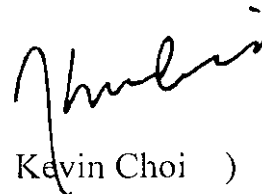
HD to shorten the clearance/resumption process, where practicable, taking into account the necessary statutory procedures, and the scale and complications of the land resumption/clearance involved. PlanD will also expedite the amendments to the concerned Outline Zoning Plans subject to the availability of relevant information and broad assessments on the housing projects. Furthermore, PlanD and LandsD will conduct site search for permanent and temporary reprovisioning of affected facilities respectively.

Besides, to enhance the capability in land supply and development, a new team will soon be established in DEVB, subject to the Finance Committee's approval, to oversee the site production process and enhance inter-bureau and inter-departmental co-ordination in site tracking and land production. All the above efforts will help facilitate the provision of formed land and supporting infrastructure for public housing development.

We will continue to liaise closely with THB/HD to secure sufficient number of suitable sites and discuss how best to streamline the procedures to fast-track the site delivery for meeting the new PRH production target.

As more time is needed for obtaining and compiling the information as requested by PAC in respect of the remaining questions, we shall provide PAC with a written response as soon as possible.

Yours sincerely,



( Kevin Choi )  
for Secretary for Development

**c.c.**

Secretary for Transport and Housing (Fax No.: 2523 9187)

Director of Housing (Fax No.: 2762 1110)

Secretary for Financial Services and the Treasury (Fax No.: 2147 5239)

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來函檔號 Your Ref. CB(4)/PAC/R62

9 June 2014

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Clerk to the Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
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(Attn: Ms Mary So)

Dear Ms So,

**Consideration of Chapter 2 of the Director of Audit's Report No. 62  
Planning, construction and redevelopment of public rental housing flats**

Thank you for your letters of 9 and 16 May 2014 to the Secretary for Development requesting for additional information to facilitate the further consideration by the Public Accounts Committee (PAC) of the above Chapter. Further to our reply of 29 May 2014 and after consultation with the Transport and Housing Bureau and Planning Department (PlanD), we set out in the ensuing paragraphs our replies to Questions (c), (d) and (e) in PAC's letter dated 9 May 2014 and Questions (a), (c) and (d) in its letter dated 16 May 2014. We understand that the Housing Department (HD) have already replied to the other questions in the letters.



Question (c) (letter dated 9 May 2014): What are the reasons for returning the three public rental housing (PRH) redevelopment sites to the Government during the current-term Government; and what are the location, size and intended use of the sites involved?

Please refer to HD's response to question (s) in PAC's letter (ref. CB(4)/PAC/R62) dated 9 May 2014 addressed to the Secretary for Transport and Housing (STH).

Question (d) (letter dated 9 May 2014): Whether the Government had conducted any impact assessments before the return decision was made; if not, why not?

The Government, when making the decisions regarding sites returned from the Housing Authority (HA) for other uses, would take into consideration a host of factors including the local context, planning parameters, technical feasibility, housing mix, provision of government, institution or community and open space facilities, other social needs, the prevailing policy, etc. More importantly, while certain PRH sites were returned to the Government, the Government has pledged to provide sufficient land to HA for PRH production so as to meet the set production target.

To this end, PlanD and HD have been and are in close liaison to identify sufficient sites for development of public housing. For instance, a number of sites including those in Fanling Area 49, Tung Chung Area 39, Mok Cheong Street, Wah Fu North, San Hing Tsuen, Sau Mau Ping, and the Fanling North and Kwu Tung North New Development Areas have been identified as additional/replacement sites for PRH development over the years. The Government will continue to strive to provide sufficient land for public housing development for meeting the set production target, with PlanD and HD working closely on this front.

Question (e) (letter dated 9 May 2014): Why the development costs for the sites returned to the Government referred to in paragraph 2.62 of the Audit Report were not borne by the Government?

Please refer to HD's response to Question (u) of PAC's letter (ref. CB(4)/PAC/R62) dated 9 May 2014 addressed to STH.

Question (a) (letter dated 16 May 2014): What are the principles in identifying sites for PRH production?

In reserving sites for public housing, the Government will adopt a prudent approach to maintain a healthy balance between public and private housing, taking into account various considerations such as location, site area, local character, accessibility and housing mix. In general, sites which are considered suitable for PRH include: (i) those located within or in close proximity to the existing PRH or Home Ownership Scheme estates as they are suitable for extension of the existing estates or for redevelopment purpose; (ii) preferably sizable sites that will facilitate comprehensive planning of mass housing with supporting community facilities and achieve cost-effectiveness of housing projects; (iii) those located in areas that are considered suitable for high-rise, high-density developments; and (iv) sites that are/will be conveniently accessible and/or well-served by public transport. To build a balanced community, it is also necessary to maintain an appropriate mix of public and private housing in a district.

Question (c) (letter dated 16 May 2014): Notwithstanding the need to adhere to the Hong Kong Planning Standards and Guidelines, what are the other considerations in assessing the redevelopment of aged PRH estates with a plot ratio lower than the maximum permissible?

In assessing the development potential of redeveloping aged PRH estates, apart from making reference to the Hong Kong Planning Standards and Guidelines, the Government will consider a host of factors including the development restrictions on the statutory plans (such as the maximum plot

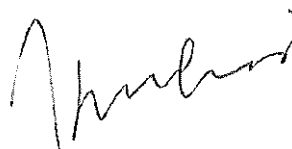
ratio/total gross floor area, building height and site coverage), development constraints, local context, environmental, traffic, air ventilation and visual impacts of the redevelopment on the surrounding area, infrastructure capacity, the concerns from the locals, provision of government/community facilities required by relevant departments/District Council, etc.

However, we need to reiterate that the development potential of aged estates is just one of the factors to be taken into account in considering redevelopment. According to HA's current policy, there are four basic principles. Apart from development potential, the structural conditions of the housing blocks, their economic repair and the availability of suitable rehousing resources nearby will also be taken into account. Please refer to the answers of HD to the relevant questions issued on 30 May 2014.

Question (d) (letter dated 16 May 2014): What steps would be taken to ensure that the development and redevelopment of PRH sites would not adversely impact on the surrounding living environment?

HA will conduct various technical studies on traffic, environment, ventilation, visual impacts, supporting facilities, etc., and consult the relevant government departments to ensure that the public housing development would be compatible with the development of the district concerned.

Yours sincerely,



( Kevin Choi )

for Secretary for Development

**c.c.**

Secretary for Transport and Housing (Fax No.: 2523 9187)

Director of Housing (Fax No.: 2762 1110)

Secretary for Financial Services and the Treasury (Fax No.: 2147 5239)

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Your Ref.: CB(4)/PAC/R62  
Our Ref.: HD (AU) AC

Tel No.: 2761 5009  
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Date: 30 May 2014

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1 Legislative Council Road  
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(Attn.: Ms. Mary SO)

Dear Mary,

**Public Accounts Committee**

**Consideration of Chapter 2 of the Director of Audit's Report No. 62  
Planning, Construction and Redevelopment of Public Rental Housing Flats**

With reference to your letter dated 16 May 2014 addressed to the Secretary for Transport and Housing on the subject issue, I set out the Administration's bilingual response at the **Annex** for your reference, please.

Yours sincerely,

(Ms. Ada Y.S. FUNG)  
for Secretary for Transport and Housing

**Encl.**

c.c. Secretary for Transport and Housing (fax no. 2523 9187)  
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Public rental housing ("PRH") supply and demand forecast

- (a) *whether there will be a mechanism under the new methodology to review/update long-term housing demand to determine the quantum of PRH production required to maintain the Average Waiting Time ("AWT") at three years as pledged by the Government;*

We continue to strive at maintaining the AWT target at around three years for general applicants. Fluctuations in demand and supply may lead to occasional departure from this target, and the increasing demand in recent years presents a mounting challenge.

The previous housing demand projection model included a long term projection of PRH demand. We do not intend to resume this method for reasons we explained at the hearings.

Instead, the Long Term Housing Strategy Steering Committee suggested that we move on to a new method of projecting long term housing demand, which includes PRH demand. We are working on this new method, in the course of formulating our Long Term Housing Strategy. Our current thinking is that instead of trying to guess the AWT in the next 10 years, we will keep in view the number of new general applications in a year (which can serve as a medium term reference for the number of flats required to satisfy the needs of these PRH applicants after three years) and the changes in the actual AWTs (which capture the latest changes in the past 12 months). These will be more reliable references. We will also maintain the interchangeability of production between PRH and Home Ownership Scheme flats so that the supply of PRH flats can be adjusted wherever necessary and feasible to meet the evolving needs of the community in a timely manner. In addition, we will continue our existing practice of publishing the actual AWTs on a quarterly basis for public's reference.

PRH sites returned to the Government

- (b) why the Transport and Housing Bureau did not refuse to return the three PRH sites (which were agreed to during the previous term Government) to the Government in 2013;***

Please refer to our response to question (s) of Public Accounts Committee's letter ref. CB(4)/PAC/R62 dated 9 May 2014.

Construction works management

- (c) *whether consideration could be given to setting the life cycle of a PRH construction project at five years, provided that the site is properly zoned, resumed, cleared and formed with adequate provisions of infrastructure, and early support from the District Council concerned and the local communities secured (paragraph 3.4 of the Director of Audit's Report ("Audit Report") refers); if not, why not;*

We have been striving to expedite the whole construction process without compromising quality and site safety.

The five-year duration is achievable only under fast-tracked programme for completion of a 40-storey public housing block on “spade ready” sites. (i.e. sites which are flat and have been properly zoned for residential use, and sites which are resumed, cleared and formed, with adequate provisions of infrastructure).

The five-year programme includes one year for the fast-tracked planning and design stage, half a year for tendering, and three and a half years for foundation and construction works. That implies making the best effort to fast-track the preparatory work by compressing the programme for various feasibility studies, consultations with District Councils and local communities, planning and design works from three years for a normal project to one year for a fast-tracked project.

However, the key to prompt delivery of public housing hinges essentially on securing “spade ready” sites. In addition, early support of District Councils and the local communities as well as having all the other resources including adequate manpower in place are essential.

We cannot take “spade ready” sites and early community support for granted, but even assuming we can, construction itself sometimes takes longer than three and a half years. This happens in cases such as building sitting on podium with deep and difficult foundation, or

building exceeding 40 storeys and hilly site with extensive site formation work.

The five-year duration is achievable only under very favorable conditions. Therefore it is not advisable to rigidly set the life cycle of a PRH construction project at five years. We have to examine the nature and relevant features of particular project sites.



*(d) what steps have been/will be taken to enhance the works at various stages of a PRH construction project, so that the project can be completed in a timely manner or earlier than the planned completion date;*

We will closely monitor the project progress at all stages so that the programme can be completed in timely manner.

As for the construction works, we will conduct a series of upfront measures to avoid risk. These include implementation of more ground investigation works to assess ground condition to avoid delay for foundation, advanced trial pit for underground utilities to ensure no underground obstruction, advanced hoarding work and off site drainage and plumbing work to facilitate the building construction.

We have been extending adoption of precast elements to roof and external works including precast parapet wall, water tank and manhole.

Since precast elements are cast independent of the in-situ construction works, the construction sequence can be smoothed on site and also relieve the labour strength in the local construction industry.

We report the project progress to the HA's Building Committee (BC) on a monthly basis for programme monitoring.

Planned timeframe for PRH production

- (e) *what lessons have been learnt from the project delay of PRH construction at Tuen Mun Area 18, and what steps have been/will be taken to avoid similar incidents from recurring;*

PRH construction project delays

- (f) *what is the period of delay of the whole contract in the Tuen Mun Area 18 project referred to in Table 9 in paragraph 3.9 of the Audit Report;*

[Combined response to (e) & (f)]

The domestic portion was completed on time. Table 9 indicates that there was no delay to the domestic portion and Building Contract because there was no planned completion date for the Community Hall as stated in the Building Committee Paper.

There were objections to the Tuen Mun Area 18 project from the local communities, on the ground of high concentration of public developments and inadequate community facilities in the district. The Project Team had taken steps actively to address the issue of the provision of a Community Hall, and to liaise with all concerned government bureaux and departments for funding and technical approvals.

The case shows that consultations may take a long time, and that sometimes it may be difficult to complete consultations within a pre-determined schedule. We have been conducting consultations as early as possible to deal with concerns and objections from the local communities or other stakeholders, in order to ensure that both the domestic portion and the community facilities are delivered in a timely manner.

- (g) *what are some of the other legitimate or genuine grounds for extension of time, which were not contained in the contract, that the contractors were entitled to;*

These legitimate or genuine grounds for extension of time were delays which were beyond the control of the contractors or the HA, such as exceptional inclement weather, late possession of site, delay by other parties such as the utility companies, delayed utilities connections due to congested underground conditions and complex ground conditions.

- (h) what measures would be taken by the HD to monitor the performance of contractors and progress of the construction works, and minimize construction programme slippage;***

During the construction period, the Contract Manager, his representatives and site staff closely monitor the construction progress, hold regular site visits, site meetings and perform site supervision and inspection in order to assure that the contractor's performance meeting the quality standard and adhering to the works programme.

The HD has a systematic performance monitoring and reporting system underpinned by an objective Performance Assessment Scoring System (PASS) such that any non- performance is identified and mitigation measures would be implemented promptly.

For construction contracts, there is Liquidated Damages provision for delay for various sections of the works. In case there is delay to the construction works which the contractor is responsible for, the Contract Manager will impose Liquidated Damages which will be deducted from the payment due to the contractor.

Monitoring costs of construction projects

- (i) *when were the original and revised budgets for the three PRH projects, i.e. Kai Tak Development Site 1A (Phases 1 & 2), Ex-Cheung Sha Wan Police Quarters, and Heung Fan Liu Street, Shatin Area 4C, compiled, what were the construction cost yardsticks used during the time period concerned, and what caused the budgets for the three projects to be revised up and then down;*

The dates of approval for the original and revised budgets of the three PRH projects, and the bases and reasons of budget revisions were as follows -

**Kai Tak Development Site 1A (Phases 1 and 2)**

- **Original budget** (\$3,188.05M) approved by the Building Committee (BC) on 21 November 2008 - based on June 2008 Construction Cost Yardsticks (CCY) at Housing Authority Tender Price Index (HATPI) of 960 for 2Q/2008 and contract price fluctuation (CPF) allowance at 6% per annum
- **Revised budget 1** (\$3,199.22M) approved by the BC on 20 March 2009 - based on June 2008 CCY for addition of gatesets to flat entrance due to the change of HA policy
- **Revised budget 2** (\$2,373.62M) approved by the BC on 20 October 2009 - following approval of the June 2009 CCY at HATPI of 852 for 2Q/2009 and CPF allowance at 2% per annum after the financial tsunami in late 2008
- **Revised budget 3** (\$2,230.89M) approved by the BC on 6 September 2010 - after Tender Committee's (TC) approval of the award of building contract

- **Revised budget 4** (\$2,343.07M) approved by the BC on 9 October 2012 - due to increase in CPF mainly caused by the sharp increase in the costs of construction labour and some construction materials since the second half of 2011

### **Ex-Cheung Sha Wan Police Quarters**

- **Original budget** (\$861.38M) approved by the BC on 17 October 2008 - based on June 2008 CCY at HATPI of 960 for 2Q/2008 and CPF allowance at 6% per annum
- **Revised budget 1** (\$864.37M) approved by the BC on 20 March 2009 - based on June 2008 CCY for addition of gatesets to flat entrance due to the change of HA policy
- **Revised budget 2** (\$578.75M) approved by the BC on 20 October 2009 - following approval of the June 2009 CCY at HATPI of 852 for 2Q/2009 and CPF allowance at 2% per annum after the financial tsunami in late 2008
- **Revised budget 3** (\$564.46M) approved by the BC on 21 July 2010 - after TC approval of the award of building contract
- **Revised budget 4** (\$584.37M) approved by the BC on 9 October 2012 - due to increase in CPF mainly caused by the sharp increase in the costs of construction labour and some construction materials since the second half of 2011

### **Heung Fan Liu Street, Shatin Area 4C**

- **Original budget** (\$809.32M) approved by the BC on 19 September 2008 - based on June 2008 CCY at HATPI of 960 for 2Q/2008 and CPF allowance at 6% per annum
- **Revised budget 1** (\$811.90M) approved by the BC on 20 March 2009 - based on June 2008 CCY for addition of gatesets to flat entrance due to the change of HA policy
- **Revised budget 2** (\$581.79M) approved by the BC on 20 October 2009 - following approval of the June 2009 CCY at HATPI of 852 for 2Q/2009 and CPF allowance at 2% per annum after the financial tsunami in late 2008
- **Revised budget 3** (\$482.26M) approved by the BC on 21 July 2010 - after TC approval of the award of building contract
- **Revised budget 4** (\$491.31M) approved by the BC on 7 September 2011 - due to additional street shops and footbridge
- **Revised budget 5** (\$523.87M) approved by the BC on 9 October 2012 - due to increase in CPF mainly caused by the sharp increase in the costs of construction labour and some construction materials since the second half of 2011

- (j) *what measures would be taken to enhance the HD's system of budgeting and monitoring of project costs with a view to further improving the accuracy of budgeting for PRH construction projects;*

HA already has in place a proper budget preparation and approval process, and an effective budgetary control system. We have been enhancing the following aspects with a view to further improving the accuracy of budgeting for PRH construction projects-

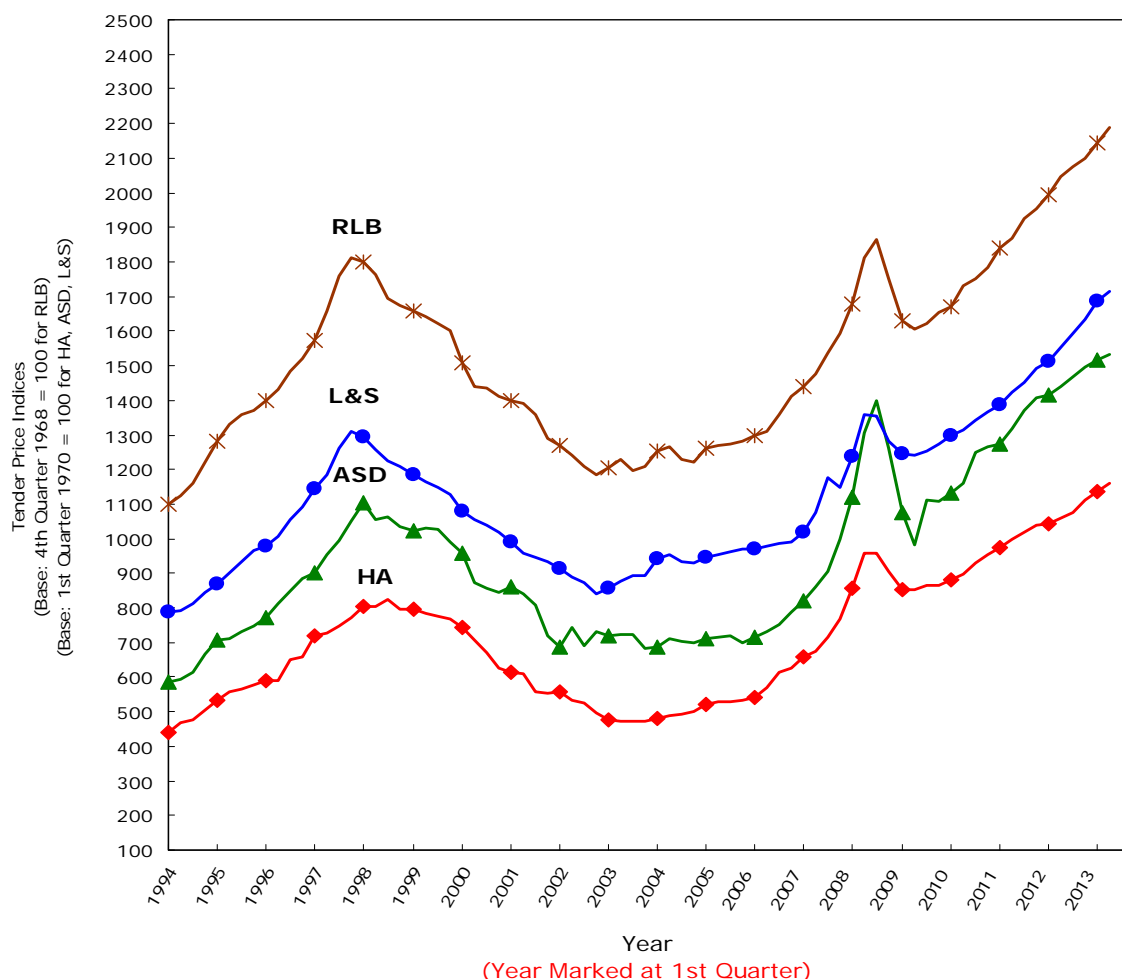
- (i) closer monitoring of construction market cost trend in particular the cost movements of construction labour and materials;
- (ii) closer monitoring of construction cost at detailed design and tender stages against approved budget; and
- (iii) closer monitoring of design variations at construction stage against approved budget.



(k) *how are the Hong Kong Housing Authority's Tender Price Indices ("HATPI") compiled and how are the HATPI compared with similar indices used by other Government departments and the private sector;*

Housing Authority Tender Price Index (HATPI) is compiled for each quarter to provide an indication of the price level of tenders for new works building contracts returned in that quarter and accepted by HA.

Comparison of HATPI and the tender price indices of Architectural Services Department (ArchSD) and two major private quantity surveying consultant firms are as follows-



Remarks : HA = Housing Authority; ASD = Architectural Services Department; L&S = Langdon & Seah; RLB = Rider Levett Bucknall

## Annex (P.14 of 22)

Year	1968	1970	2003				2004				2005				2006				2007			
Quarter	4	1	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
HA		100	476	474	474	474	481	488	494	501	522	531	531	532	540	570	615	627	658	675	717	766
ASD		100	720	723	722	681	685	712	704	701	711	716	718	697	714	730	751	789	821	859	906	998
L&S		100	855	878	895	895	940	952	933	930	945	955	963	970	970	980	985	990	1020	1074	1175	1150
RLB	100	160	1205	1230	1195	1210	1255	1265	1230	1220	1260	1270	1275	1280	1300	1310	1360	1410	1440	1475	1535	1595

Year	1968	1970	2008				2009				2010				2011				2012			
Quarter	4	1	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
HA		100	858	960	960	904	852	852	864	864	881	899	929	952	976	997	1018	1039	1043	1059	1076	1110
ASD		100	1118	1305	1401	1262	1074	983	1111	1107	1134	1161	1249	1266	1273	1320	1369	1408	1414	1438	1467	1496
L&S		100	1239	1360	1355	1281	1245	1242	1253	1273	1297	1315	1342	1367	1385	1425	1452	1491	1511	1552	1595	1632
RLB	100	160	1680	1810	1865	1750	1630	1605	1620	1655	1670	1730	1750	1785	1840	1870	1925	1955	1995	2045	2075	2100

Year	1968	1970	2013																			
Quarter	4	1	1	2	3	4																
HA		100	1135	1161																		
ASD		100	1516	1532																		
L&S		100	1688	1713																		
RLB	100	160	2145	2190																		

Remarks : HA = Housing Authority; ASD = Architectural Services Department; L&S = Langdon & Seah; RLB = Rider Levett Bucknall

The above comparison reveals that HA's tender price trend for building works is similar to those of ArchSD and the private sector.

Further planning needed for the Comprehensive Structural Investigation ("CSI") Programme

- (l) how many HD staff are currently involved in the CSI Programme, and whether additional resources are required for the rest of the CSI Programme from 2005 to 2018 and for the next CSI Programme beyond 2018; if so, how much additional resources are required;*

A total of 38 staff is currently involved in the CSI Programme.

No additional resources are required for the rest of the CSI Programme from 2005 to 2018. We will keep in view the next CSI Programme beyond 2018 and assess the resource requirements in due course.

Build-back potential for the old estates

***(m) what is the way forward recommended for the 16 of the 26 estates with the CSI completed (paragraph 4.20 of the Audit Report refers);***

Of the 16 estates with the redevelopment potential assessment completed before the Refined Policy effective in November 2011, two estates (So Uk Estate and Tung Tau Estate Block 22) have been announced for clearance based on the earlier set of redevelopment criteria, i.e. structural conditions and beyond economic repair. And as set out in the 2014 Policy Address, Government decided to partially lift the development moratorium at Pok Fu Lam South to facilitate the use of the five government sites for public housing development as well as the redevelopment of Wah Fu Estate.

As for the remaining 13 retained estates, their preliminary review on redevelopment potential have also been completed in early 2014 as a starting point for detailed studies of selected aged estates in future. Please also see our answer in (n).

***(n) what is the timeframe to conduct a detailed review on the build-back potential of the 22 aged PRH estates with the CSI completed;***

Our policy on redevelopment is detailed in the Audit Report paragraphs 4.17 to 4.19.

We will not be redeveloping all 22 aged PRH estates in one go, nor have we decided to redevelop these estates in accordance with a firm timetable. We will consider redevelopment on an estate-by-estate basis.

We will be constrained by established policies and considerations in deciding how many estates we can redevelop at one time, and in considering whether an individual estate should be redeveloped. The determining factors such as availability of rehousing resources, development constraints and opportunities, etc. may change over time. We can only decide whether and when to redevelop estate-by-estate, taking into account the changing circumstances.

- (o) *whether consideration would be given to not carrying out repair/strengthening works required to sustain aged PRH blocks/estates under the CSI for at least another 15 years across the board, so that the works required to sustain aged PRH blocks/estates under the CSI could be less than 15 years, and hence less costly, if these PRH blocks/estates had been identified for redevelopment in the next few years;*

For those blocks/estates identified for redevelopment in the next few years, repair and maintenance works including those concerning statutory compliance, safety and hygiene will be carried out to maintain them in satisfactory conditions until their clearance, instead of works for at least another 15 years.

- (p) what measures would be put in place to avoid the wastage of resources due to the completion of major improvement works shortly before the launching of redevelopment plan as illustrated in the case of Pak Tin Estate (paragraph 4.22 of the Audit Report refers);*

Since HA adopted the Refined Redevelopment Policy in 2011, there has been an established mechanism to enhance coordination within HD regarding the redevelopment programme of the aged estates and various maintenance and improvement programmes.

Better utilization of vacant sites and PRH Interim Housing ("IH") blocks

- (q) *what actions had been taken by the HD after demolition works were completed in the sites of Phases 3, 6 and 7 of Shek Kip Mei Estate (Appendix Q of the Audit Report refers);*

Although the demolition work of Phases 7 and 3 were completed in 2000 and 2008 respectively, building work has yet to start. Phases 3 and 7 are adjacent sites and were subject to a number of constraints. They were small in size, subject to a stringent height limit of only +30mPD under the Outline Zoning Plan (OZP) (maximum of only 5 to 6 storeys could be built), and were earmarked for cultural and heritage development. It was therefore considered that development as PRH should only proceed if these two sites were combined together and with the height limit restriction being relaxed. The HD then liaised with the PlanD to review the possibility of increasing the height limit and arrived at a proposal of relaxing the height limit to around +50mPD to +60mPD. The HD also liaised with other concerned government departments and local concerned groups trying to resolve all potential problems. In 2013, the HD put forward the public housing proposal of Phases 3 and 7 to the Sham Shui Po District Council and obtained their general agreement. At present, the HD is in active liaison with the PlanD on the amendment to the OZP.

For Phase 6, the demolition works were completed in 2008. In 2009, the HD put forward a proposal for PRH development to the Sham Shui Po District Council. DC members objected to the proposal and counter-proposed the HD to liaise with the Food and Health Bureau (FHB) to include the adjacent old existing Shek Kip Mei clinic building together with the PRH development. The HD then liaised with the FHB about this counter-proposal and co-ordinated the redevelopment plan of the clinic such that the PRH development could cope with the clinic redevelopment. Both parties worked together closely to resolve interface issues. In 2013, the HD put forward the proposal of Phase 6 to the Sham Shui Po District Council and obtained their general agreement. Planning application will be submitted to the Town Planning Board for minor relaxation



of building height to allow the development proposal to proceed.

- (r) *whether consideration would be given to making better use of the IH blocks and the Transit Centres referred to in paragraph 4.29 of the Audit Report; if not, why not.*

It is the Government policy that no one will be rendered homeless as a result of disaster or clearance operations. Persons affected by disasters and emergencies will be provided temporary accommodation at transit centres (TC) and thenceforth IH for those with genuine housing needs but not immediately eligible for allocation of PRH flats. We must therefore have sufficient vacant IH and TC units, at any time, and in assessing how many vacant units are sufficient, we believe we should err on the safe side.

Having said that, HD regularly reviews the provision of IH and TC, and will continue to do so. After the reviews in 2011 and 2013, we decided to retain Shek Lei IH and clear Long Bin IH in January 2016. The overall supply of IH has decreased substantially by 840 units with Long Bin IH frozen for letting to pave way for the clearance.

From an operational perspective, we need to maintain Shek Lei IH, the only IH in Extended-urban, to accommodate affected households of various emergencies occurred in Urban/Extended-urban areas despite the fact that our established policy is to rehouse them to TC and IH in New Territories. Over the years, Shek Lei IH has been used as temporary accommodation for affected households of various natural disasters and emergencies.



Your Ref.: CB(4)/PAC/R62  
Our Ref.: HD (AU) AC

Tel No.: 2761 5009  
Fax No.: 2762 1110

Date: 16 May 2014

Clerk  
Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong.  
(Attn.: Ms. Mary SO)

Dear Mary,

**Public Accounts Committee**

**Consideration of Chapter 2 of the Director of Audit's Report No. 62  
Planning, Construction and Redevelopment of Public Rental Housing Flats**

With reference to your letter dated 9 May 2014 addressed to the Secretary for Transport and Housing on the subject issue, I set out the Administration's bilingual response for questions no. a, b, c, f, g, h, l, m, and n at the **Annex** for your reference, please.

I will set out the Administration's bilingual response for the remaining questions to you by early next week. Thank you.

Yours sincerely,

(Ms. Ada Y.S. FUNG)

for Secretary for Transport and Housing

**Encl.**

- c.c. Secretary for Transport and Housing (fax no. 2523 9187)
- Secretary for Development (fax no. 2151 5303)
- Secretary for Financial Services and the Treasury (fax no. 2147 5239)
- Director of Audit (fax no. 2583 9063)

Demand for public rental housing ("PRH") flats

- (a) *what is the number of general applications on the Waiting List ("WL") for PRH from 1 April 2013 to 31 March 2014 and the years of residence of these applicants in Hong Kong;*

As at end-March 2014, there were 121 900 general applications for PRH. In the period from 1 April 2013 to 31 March 2014, there were 27 300 new registrations of general applicants.

At the time of allocation, at least half of the family members included in the general application must have lived in Hong Kong for seven years and all family members must be still living in Hong Kong. For children under the age of 18, they are deemed to have fulfilled the seven-year residence requirement under the following circumstances -

- (a) one of the parents, regardless of the children's place of birth, has lived in Hong Kong for seven years; or
- (b) the children were born in Hong Kong with established permanent resident status.

Applications which have not fulfilled the residence requirement will be frozen from allocation. Among the 121 900 general applications as at end-March 2014, about 6 600 applications were frozen on grounds that they have not yet fulfilled the seven-year residence requirement.

Although each household member included in an application is requested to provide their date of entry if they were not born in Hong Kong, we will only input into our computer system information in respect of individual household members who fail to meet the seven-year residence requirement for frozen cases. The objective is to enable us to follow up these frozen cases in future in a timely manner. Therefore, we are unable to provide the years of residence in Hong Kong for all the general applicants.

- (b) whether consideration would be given to modifying the calculation method of the Average Waiting Time ("AWT") for general applicants as the period between registration on the WL and the date the housing offer was accepted by the applicant; if not, why not;***

The AWT for general applicants refers to the average of the waiting time of general applicants housed to PRH in the past 12 months. Waiting time refers to the time taken between registration and first flat offer, excluding any frozen period during the application period (e.g. when the applicant has not yet fulfilled the residence requirement; the applicant has requested to put his/her application on hold pending arrival of family members for family reunion; the applicant is imprisoned, etc). This definition has been in place for a long time, and the continued use of the same definition will ensure consistency and provide a better reference to keep track of the extent to which we are able to achieve the AWT target.

In calculating the AWT, Housing Department (HD) can only include factors which are within HD's control. The waiting time is counted up to the first offer because while eligible applicants are given three flat offers, the applicants are provided with a housing opportunity at the first offer. In other words, an applicant will be housed if he accepts the first offer. It is a matter of personal decision if the applicant declines the first flat offer to wait for subsequent offers. The decision as to whether or not to accept the first, second or third offer rests entirely with the applicant and is NOT under the control of the HD. There are also circumstances where the applications have to be frozen due to various reasons not within the control of the HD (e.g. applicants have to await fulfillment of the residence requirement; applicants request to put the application on hold pending arrival of family members, etc.). However, since we have allowed these general applications to remain notwithstanding the fact that their applications are actually being frozen, individual applicants may tend to count their waiting time starting from the date of registration and pay no regard to the period whereby their applications are frozen. In the light of the recommendations of the Audit Report No. 61 and PAC's recommendations, we have already stated clearly the definition and method of calculating the AWT in the "Information for Applicants" for PRH applicants. The information is also available in the Housing Authority/HD's website.

- (c) *which bureaux/departments ("B/Ds") determine the quota and actual allocation of the quota for each of the other demands referred to in Table 3 in paragraph 2.4 of the Director of Audit's Report ("Audit Report"), and whether consideration would be given to publicizing the actual allocation of such quota;*

Every year, the PRH allocation plan is submitted to the Subsidised Housing Committee (SHC) of the Housing Authority (HA) for endorsement. The relevant paper on the allocation plan includes the figures of the actual PRH allocation for different categories in the previous year as well as the planned allocation figures for the coming year. Our normal practice is to upload the relevant SHC paper onto the HA/HD website for public information upon endorsement of the allocation plan by SHC. A press release on the planned allocation as endorsed by SHC will also be issued.

#### Supply of new PRH flats

- (f) *what is the construction expenditure for PRH each year in the past 10 years and the annual construction price index over the same period;*

The construction expenditure (i.e. the project costs paid to contractors) for PRH (including associated facilities of car parks and commercial centres, etc.) each year in the past 10 years and the construction price indices (i.e. HATPI) over the same period are as follows –

#### PRH Construction Expenditure vs HATPI

Financial Year	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
PRH Construction Expenditure (\$M)	5,814.7	4,124.3	2,158.9	2,749.6	3,950.8	4,576.9	4,390.2	4,948.5	5,968.2	7,109.3
HATPI (Quarter/Year)	474	488	531	570	675	960	852	899	997	1059
	(2Q/2003)	(2Q/2004)	(2Q/2005)	(2Q/2006)	(2Q/2007)	(2Q/2008)	(2Q/2009)	(2Q/2010)	(2Q/2011)	(2Q/2012)
	474	494	531	615	717	960	864	929	1018	1076
	(3Q/2003)	(3Q/2004)	(3Q/2005)	(3Q/2006)	(3Q/2007)	(3Q/2008)	(3Q/2009)	(3Q/2010)	(3Q/2011)	(3Q/2012)
	474	501	532	627	766	904	864	952	1039	1110
	(4Q/2003)	(4Q/2004)	(4Q/2005)	(4Q/2006)	(4Q/2007)	(4Q/2008)	(4Q/2009)	(4Q/2010)	(4Q/2011)	(4Q/2012)
	481	522	540	658	858	852	881	976	1043	1135
	(1Q/2004)	(1Q/2005)	(1Q/2006)	(1Q/2007)	(1Q/2008)	(1Q/2009)	(1Q/2010)	(1Q/2011)	(1Q/2012)	(1Q/2013)

Housing Authority Tender Price Index (HATPI) is compiled for each quarter to provide an indication of the price level of tenders for new building works returned in that quarter and accepted by HA. The construction expenditure is mainly spread over the building contract period of 30 months in general.

- (g) *how are the construction expenditures for PRH recognized and depreciated in the Financial Statements of the Hong Kong Housing Authority according to the Government's accounting policy on fixed assets;*

Our reply to this question is already set out in paragraphs 7 and 8 of Paper R62/2/GEN3 issued to Members on 9 May 2014.

PRH supply and demand forecast

- (h) *what are the reasons for the fluctuations in the PRH production from 2003-2004 to 2012-2013 as shown in Figure 1 in paragraph 2.11 of the Audit Report, and what measures had been taken to stabilize the PRH production;*

Our reply for the fluctuations in the PRH production is already set out in paragraphs 3, 4 and 5 of Paper R62/2/GEN3 issued to Members on 9 May 2014.

We will closely monitor the programme of the projects in the Public Housing Construction Programme and report the progress of the projects to the Housing Authority's Building Committee on a monthly basis.



- (l) why no assessment of long-term PRH demand was made by the Housing Department ("HD") since 2012-2013;***
- (m) what is the methodology to be adopted by the HD for assessing long-term PRH demand, and when will such methodology be adopted;***

Our replies to the above two questions are already set out in Annex 3 of Paper R62/2/GEN3 issued to Members on 9 May 2014.

Meeting the pledged production targets

- (n) what steps will be taken by the Government to meet the PRH demand within the context of the long-term housing demand assessment as adopted by the Long-term Housing Strategy Steering Committee ("LTHS Steering Committee");***

The Government has identified sufficient land to provide about 179 000 public rental housing (PRH) units in ten years (i.e. from 2012/13 to 2021/22), and to build about 17 000 Home Ownership Scheme (HOS) units from 2016/17 to 2019/20.

The Government has adopted the Steering Committee's recommendation to provide 470 000 units as the new public and private housing total supply target for the coming ten years, with public housing accounting for 60% of the new production. With the new supply target (i.e. an annual average of about 20 000 PRH flats and 8 000 HOS flats), the supply of public housing in the coming ten years will increase by 36% when compared to the Government's previous pledge. Action is already underway by the Government to identify additional land required to achieve the new supply target. In addition to resolving technical issues, the key to prompt delivery of PRH also hinges on securing the community support as well as having all the other resources including adequate manpower in place timely.

It is a big challenge to the Government to achieve the new housing supply target recommended by the Long Term Housing Strategy Steering Committee. Nevertheless, the Government will adopt a

multi-pronged approach to increase land supply through optimizing the use of the developed land, actively developing new land and allocating land suitable for public and private housing in order to meet the new housing target.

The Government has been carrying out various land use reviews with a view to identifying more suitable sites for conversion to residential use. These reviews have started to bear fruits. It is estimated that there will be around 150 sites that could be made available for residential development in different districts throughout the territory in the coming five years (i.e. from 2014-15 to 2018-19) providing over 210,000 public and private units subject to approval from TPB for amendments to their respective statutory plans, including land use rezoning and/or increasing development intensity of the residential sites, and the carrying out of the necessary works (infrastructures, clearance of land, etc.).

We will also actively explore all feasible ways to increase the land for public housing development including:

- (i) liaising closely with the concerned bureaux, government departments, district councils and local communities to identify suitable sites for public housing development in different parts of the territory;
- (ii) optimising the development potentials of public housing sites having regard to the principles of cost effectiveness and sustainability. We will strive to achieve relaxation in plot ratios and height restrictions where planning and infrastructure capacity permit as well as without compromising the environmental quality; and
- (iii) examining the build-back potential of aged estates so as to increase the supply of PRH.

**Mega Events Fund Assessment Committee**  
**Terms of Reference**

(as at June 2009)

1. To advise the Secretary for Commerce and Economic Development (SCED) on the use of the Mega Events Fund (the Fund).
2. To make recommendations to the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) as the Controlling Officer of the Fund on the following matters relating to the administration of the Fund :
  - a. the procedures, guidelines and criteria for assessing applications;
  - b. the merits of individual applications, and upon selection of successful applicants, the terms, amount and forms of funding support;
  - c. any subsequent need to change the terms, amount and forms of support to a funded event in view of any material variation of or modification to the implementation of the event;
  - d. compliance of funded events with the terms of support and their effectiveness in achieving stated objectives; and
  - e. follow-up actions in respect of any non-compliance, non-performance or default in meeting pre-determined performance indicators in relation to a funded event.
3. To advise on any other matters related to the Fund as referred by SCED or PSCIT.

**Mega Events Fund Assessment Committee**  
**Terms of Reference**

(since June 2012)

1. To advise the Secretary for Commerce and Economic Development (SCED) on the use of the Mega Events Fund (the Fund).
  
2. To make recommendations to the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) as the Controlling Officer of the Fund on the following matters relating to the administration of the Fund :
  - a. the procedures, guidelines and criteria for assessing applications;
  - b. the merits of individual applications, and upon selection of successful applicants, the terms, amount and forms of funding support;
  - c. for applications under Tier-1, the additional procedures and requirements which should be set in the selection and assessment process;
  - d. any subsequent need to change the terms, amount and forms of support to a funded event in view of any material variation of or modification to the implementation of the event;
  - e. compliance of funded events with the terms of support and their effectiveness in achieving stated objectives; and
  - f. follow-up actions in respect of any non-compliance, non-performance or default in meeting pre-determined performance indicators in relation to a funded event.
  
3. To advise on any other matters related to the Fund as referred by SCED or PSCIT.

## Assessment Criteria for Mega Events Fund Tier-2 Applications

Criterion	Brief Description	Maximum Marks <sup>Note</sup>
1. Economic benefits	<ul style="list-style-type: none"> <li>• The events' ability to attract visitors and participants from Mainland and overseas? Is it able to increase visitors' length of stay in Hong Kong?</li> <li>• The number, nature and duration of jobs to be directly created?</li> <li>• The economic impact on related trades and services, such as hotel, airline, food and beverage, retail, etc.?</li> <li>• Can other local bodies, chambers or businesses leverage on the event to create business opportunities, conventions, exhibitions or other related events?</li> </ul>	30
2. Public relations and other benefits	<ul style="list-style-type: none"> <li>• Does the event contain international elements?</li> <li>• To what extent can the event raise Hong Kong's international profile?</li> <li>• To what extent can the event create a positive branding impact for Hong Kong?</li> <li>• Will the event be able to enhance/reinforce Hong Kong's position as the events capital of Asia?</li> <li>• What level of publicity will be generated in local and non-local media?</li> </ul>	20
3. Scale of the event	<ul style="list-style-type: none"> <li>• Over 10 000 participants? Number and coverage of venues? Duration of the event?</li> </ul>	10

<b>Criterion</b>	<b>Brief Description</b>	<b>Maximum Marks</b> <small>Note</small>
4. Technical feasibility	<ul style="list-style-type: none"> <li>• Is the event manageable?               <ul style="list-style-type: none"> <li>- Is the event's implementation schedule practicable and reasonable?</li> <li>- Is the workplan reasonable?</li> <li>- Is there sufficient expertise to manage the event?</li> </ul> </li> <li>• What are the technical and project management capabilities of the applicant(s)?</li> <li>• What are the past performances of the applicant(s)?</li> </ul>	20
5. Financial viability	<ul style="list-style-type: none"> <li>• Is the event financially sound?               <ul style="list-style-type: none"> <li>- Is the budget prudent and realistic, with sound justifications for the proposed income and expenditure items?</li> <li>- Are there sufficient alternative sources of funding for the event? What are the nature, amount and sources of the alternative funding?</li> <li>- Are the manpower, marketing and promotional plans reasonable?</li> <li>- What are the proposed performance indicators, deliverables and key milestones of the event? Are they appropriate and acceptable?</li> </ul> </li> </ul>	20
	Total :	100

Note: The passing mark for each individual criterion is 60% of their respective maximum mark.

To : Secretariat, Mega Events Fund Assessment Committee  
 Tourism Commission,  
 22/F, West Wing, Central Government Offices,  
 2 Tim Mei Avenue, Tamar, Hong Kong

(Official Use Only)

Date of Receipt : \_\_\_\_\_

Reference No. : \_\_\_\_\_

Email : [mefsecretariat@cedb.gov.hk](mailto:mefsecretariat@cedb.gov.hk)

Fax : (852) 2121 8791

**Application Form for  
 Mega Events Fund (MEF)  
 (for Funding Support under Tier-2)**

**(3rd Round Application: September 2013)**

1. Please read and comply with the provisions therein the **Guide to Application for MEF (for Funding Support under Tier-2)** available at the Tourism Commission's website at <http://www.tourism.gov.hk/english/mef/mef.html> carefully before completing this application form.
2. Applicants must be the organizer of the proposed mega arts, cultural, sports or entertainment event. If the proposed event will be organized by two or more organizations, the principal or lead organization should fill in this form, and a joint application should be submitted.
3. Please attach supplementary sheet(s) if more space is required.
4. Applicants wishing to apply for the MEF for more than one event should complete a separate application form for each individual event.
5. The personal data provided in the applications and related supporting documents and supplementary information will be used by Government and the MEF Assessment Committee for the following purposes:
  - (a) processing and assessing the applications, conducting relevant checks, and authenticate the applications for the MEF;
  - (b) payment of the MEF funding;
  - (c) preparing statistics and research;
  - (d) arranging public announcement and publicity;
  - (e) meeting any disclosure requirements;
  - (f) monitoring the performance of the agreement(s) and evaluating the funded events;
  - (g) taking any remedial or follow-up action on the funded events; and
  - (h) purposes relating to the above.
6. Your provision of all the personal data requested in the applications is obligatory. Your applications may not be considered if you fail to provide all information as requested. Subject to exemptions under the Personal Data (Privacy) Ordinance (Cap. 486), you have the right of access and correction with respect to your personal data. If you wish to exercise such a right, please contact the Secretariat, MEF Assessment Committee.
7. Wherever possible applicants should endeavour to provide all information requested in this form and attach relevant supporting documents to facilitate assessment of the applications.
8. Applicants should notify the Secretariat immediately in respect of any material variation or modification to the proposed event including change of implementation timetable, event scope, contents or nature, or change to the approved budget, cash-flow projection, or change of the key personnel of the event team.

Event Title	(Eng)	
	(Chi)	
Applicant(s)	(Eng)	
	(Chi)	

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 Please put a tick in the appropriate box(es)

# Please delete as appropriate

<b>Section A – The Proposed Event<sup>1</sup></b>	
<b>1. Event Title</b>	
(Eng)	
(Chi)	
<b>2. Event Nature</b>	
<input type="checkbox"/> Arts event <input type="checkbox"/> Cultural event <input type="checkbox"/> Sports event <input type="checkbox"/> Entertainment event	
<b>3. Event Date and Venue</b>	
<b>(a) Event Date</b> <i>(day/month/year)</i>	
From	/    /    To      /    / <input type="checkbox"/> Proposed <input type="checkbox"/> Confirmed
<b>(b) Commencement Date for the organization of the event</b> <i>(day/month/year)</i> /    /	
<b>(c) Event Venue(s)</b>	
Venue Name	
Venue Address	
Has the venue(s) been confirmed?	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>4. Event Summary</b> <i>(Please state the scale, nature, status and significance of the event, as well as whether the content of the event contains an international element.)</i>	
<b>5. Event Objective(s)</b> <i>(Please state concisely, preferably in point form, the objectives that the event aims to achieve.)</i>	

<sup>1</sup> Only mega arts, cultural, sports or entertainment events proposed to be organized in Hong Kong on or before 31 March 2017 will be considered by the MEF for funding support under Tier-2. Examples of entertainment events are street parade, beer festival, pop concert, fashion show, etc.

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- Please put a tick in the appropriate box(es)
- # Please delete as appropriate



**6. Operational and Business Plan – Implementation Plan**

(a) Please provide the implementation plan in detail.

(b) Key Implementation Stages

<b>Stage</b> <i>(please name or number the stage(s))</i>	<b>Period</b> <i>(day/month/year)</i>	<b>Key Milestones / Key Deliverables</b>
	/ / to / /	

**7. Marketing and Promotion Strategy of the Event**

(a) Please describe the channels / means for promotion, both locally and outside Hong Kong.

(b) Sales and ticketing methods.

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

(c) Others (if applicable).

**8. Description of Event Deliverables**

*(Please provide details for event deliverables e.g. total number of visitors / Mainland and overseas participants to be attracted to the event, their expected length of stay, economic and tourism benefits to be generated for Hong Kong, promotion plan (both locally and outside Hong Kong), number of non-local reporters, frequency of local and non-local media coverage etc.)*

Number of people involved	Local	Visitors	Total
<i>Participants</i> <i>(e.g. players/ coaches/agents)</i>			
<i>Spectators/Audience</i>			
<i>Reporters</i>			
<b>Total</b>			
<b>Expected length of stay of visitors</b>			
<i>Participants</i>			
<i>Spectators/Audience</i>			
<i>Reporters</i>			
Economic and tourism benefits to be generated by the event			
Estimated job opportunities directly created by the event and details <i>(number, nature and duration of the jobs)</i>			

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

<p>(a) Please state in clear and specific terms, the justifications for the event including the tangible and intangible benefits and contributions of the event to Hong Kong including the following areas:</p>
<p>(1) How can the event generate economic benefits to Hong Kong, particularly on the promotion of tourism?</p>
<p>(2) How can the event attract Mainland and overseas participants?</p>
<p>(3) How can the event attract visitors and extend their length of stay in Hong Kong?</p>
<p>(4) How can the event raise the profile of Hong Kong internationally?</p>
<p>(5) How can the event help in Hong Kong's city branding work?</p>
<p>(6) How can the event attract local and non-local media coverage?</p>
<p>(7) Other justifications:</p>

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

(b) If there are similar events in the community or you have organized similar events in the past, please illustrate the edges of the proposed event.

**9. Evaluation Method(s)**

(a) Please state (a minimum of 3) proposed performance indicators of the event.

(b) Please state the evaluation methods (e.g. scoring of feedback survey(s), number of media reports etc.) to be used for assessing the effectiveness of the event. Evaluation in relation to each performance indicator, deliverable/target and/or key milestone is preferred.

**10. Risk Assessment**

(a) Please list the most probable risks to which the event may be subject.

(b) Please state the proposed risk control / contingency plan.

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

**11. Staffing / Key personnel for organizing and implementing the event**

Please give details on the key personnel for organizing and implementing the event.

(A) Event Co-ordinator		(B) Deputy Event Co-ordinator	
Name (Eng) (Mr/Ms/Prof/Dr)#		Name (Eng) (Mr/Ms/Prof/Dr)#	
Name (Chi)		Name (Chi)	
Post Title		Post Title	
Organization		Organization	
Address		Address	
Tel No.		Tel No.	
Fax No.		Fax No.	
Email Address		Email Address	
Website		Website	

Please describe the experience, expertise and track record of the Event Co-ordinator and Deputy Co-ordinator in the organization and implementation of events.

Please provide a brief description of other supporting staff including their responsibilities.

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

**Section B – Financial Viability of the Event**

**1. Budget of the Event**

(a) Income / Contribution from Applicant(s) and Sponsorship from other sources<sup>2</sup> (Value in HK\$)

Item(s) <sup>3</sup> (Please itemize, as appropriate)	Form of Contribution (Cash/Manpower/ Sponsorship in kind)	First 12 months	Remaining period	Total	Remarks
		/ to / (mm/yy)	/ to / (mm/yy)		
(A) Box Office					
(B) Sponsorships / Donations <sup>4</sup>					
(C) Others (Please specify, e.g. advertisements, TV broadcasting fees, etc.)					
<b>Applicant's Contribution (A) + (B) + (C)</b>					
(D) Other public funding					
(E) Amount of MEF money required					
<b>Total Income (A)+(B)+(C)+(D)+(E)</b>					

**Detailed Explanation**

(Please provide details for each income item, including how would you raise income from the events.)

**(A) Box Office**

<sup>2</sup> Applicants are required to provide funding from their own sources and/or from other sources (such as contributions or sponsorships from third-parties) to meet at least **50%** of the total actual event cost. Applicants should also explain whether and how they would raise income such as charging admission fees from the events. Please provide documentary proof of contribution from the Applicant(s) and secured sponsorship (in cash and in kind) from other sources. Please note that the Government's total contribution (including MEF's support) must not exceed 50% of the total cost of the event.

<sup>3</sup> Revenues generated from the event should be itemized and show calculation.

<sup>4</sup> Applicants should submit documentary proof on the secured sponsorship (in cash and in kind). For in kind sponsorship, please also provide proof to demonstrate that the claimed values of the sponsored items or services are comparable with the market prices.

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

**(B) Sponsorships / Donations** *(Please list out the items separately with details. e.g. are they in cash or in kind? What are the categories (services, food and beverages, accommodation, transportation, manpower, consumable items etc.)? Please also provide appropriate documents to demonstrate that the claimed values of the sponsored items or services are comparable with market prices.)*

**(C) Others** *(Please list out items separately, such as funding from your own sources, advertisements, TV broadcasting income, etc.)*

**(D) Other Public Funding** *(Please provide the sources and whether they have been secured / approved)*

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

(b) Expenditure <sup>5</sup>				(Value in HK\$)
Item(s) <i>(Please itemize, as appropriate)</i>	First 12 months	Remaining period	Total	Remarks
	<i>/ to / (mm/yy)</i>	<i>/ to / (mm/yy)</i>		
<b>(A) Manpower<sup>6</sup></b>				
<b>Subtotal (A)</b>				
<b>(B) Equipment<sup>7</sup></b> <i>(Please indicate whether each equipment item is procured or leased)</i>				
<b>Subtotal (B)</b>				
<b>(C) Other Direct Cost<sup>8</sup></b> <i>(Please list out items separately, including insurance and audit cost)</i>				
<b>Subtotal (C)</b>				
<b>Total Event Cost (A) + (B) + (C)</b>				

<sup>5</sup> Please state the total expenditure actually and directly required for organizing the event. All expenditure items must be incurred between the proposed commencement and completion dates of organizing the event. Costs for maintaining the applicant/joint applicants organizations' own operation or administration and other expenditure items not directly related to the proposed event should not be included in the event's budget. Please use supplementary sheets if the space provided is insufficient.

<sup>6</sup> Only the salary (including the employer's contributions to the Mandatory Provident Fund, other allowances, fringe benefits, gratuity, year-end double-payment, etc.) of the additional manpower directly incurred for the event should be included. Please state clearly the number of persons to be recruited in organizing the event, and the number of man-hours/man-months to be contributed by each of them, their respective positions and hourly rates/monthly salary, as well as the total salary cost.

<sup>7</sup> Only the cost of procuring or leasing of additional equipment for implementing the event should be included in the budget. Please list the additional equipment required. If more than one unit of the same equipment is required, please set out its unit cost, quantity required and the relevant total cost.

<sup>8</sup> This includes all other costs, directly incurred in organizing the event.

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Please put a tick in the appropriate box(es)

# Please delete as appropriate



<b>Detailed Explanation</b> (Please provide justifications and breakdown for each expenditure item.)								
<b>(A) Manpower</b>								
<b>(B) Equipment</b> (Please also specify whether the Applicant(s) possesses similar equipment and, if so, the reason why the existing equipment cannot be deployed for this event.)								
<b>(C) Other Direct Costs</b> (Please list out items separately)								
<b>(c) Cash flow projection</b> <sup>9</sup> <span style="float: right;">(Value in HK\$)</span>								
	<b>First 12 months</b>				<b>Remaining Period</b>			
	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr
Period (mm/yy)	/ to /	/ to /	/ to /	/ to /	/ to /	/ to /	/ to /	/ to /
<b>Receipts</b>								
MEF funds applied								
Other income								
Sub-total (A)								
<b>Payments</b>								
Expenses								
Sub-total (B)								
<b>Net cash flow requirement</b> (A) – (B)								
<b>(d) Will you still proceed with organizing the proposed event without MEF funding support?</b> <input type="checkbox"/> Yes <span style="margin-left: 200px;"><input type="checkbox"/> No</span>								

<sup>9</sup> Please state the cash flow projection assuming that the total amount of the Funds applied for was approved.

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

**2. Other Funding Information** <sup>10 and 11</sup>

Is the event a new event or an existing event?

New event

Existing event

If it is a **new** event, has public funding been earmarked under other HKSAR Government funding sources / schemes for the event, or have you sought / going to apply for funding / financial support from other Government department(s) or public funding source(s)/schemes?

Yes

No

If Yes, please provide the details.

If it is an **existing** event, was it financially self-sufficient in the past?

Yes

No

If Yes, please provide the details.

*(Please provide evidence on separate sheets, including an attachment of audited financial statements / management accounts of the event in the last 3 years (if any).)*

If it is an **existing** event receiving government funding or has normally been earmarked with public funding, please provide the details, and elaborate what are the details of the additional activities you are going to organize. How would you plan to significantly enlarge the scale of the upcoming event or significantly raise its international profile vis-à-vis the past event(s)?

*(Please provide full justification and evidence on separate sheets, including a comparison with the past event(s) in terms of budget involved, deliverables and scale.)*

If it is an **existing** event which has been financially self-sufficient, what are the details of the additional activities you are going to organize? How would you plan to significantly enlarge the scale of the upcoming event or significantly raise its international profile vis-à-vis the past event(s)?

*(Please provide full justification and evidence on separate sheets, including a comparison with the past event(s) in terms of budget involved, deliverables and scale.)*

<sup>10</sup> An event for which public funding will normally be earmarked under other HKSAR Government funding sources/schemes will **NOT** be considered under the MEF **UNLESS** full justification is given to the satisfaction of the Assessment Committee and the Controlling Officer of the MEF that the additional funds sought will be deployed strictly to organize additional activities to significantly enlarge the scale of the event or significantly raise its international profile.

<sup>11</sup> An existing event which is financially self-sufficient will **NOT** be considered under the MEF **UNLESS** full justification is given to satisfaction of the Assessment Committee and the Controlling Officer of the MEF that the additional funds sought will be deployed strictly to organize additional activities to significantly enlarge the scale of the event or significantly raise its international profile.

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

**3. Control**

Please list out measures of cost/budget control of the event. *(Please also state who will be responsible for carrying out the cost control measures of the event and his/her qualifications, experience and track records.)*

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- Please put a tick in the appropriate box(es)
- # Please delete as appropriate

**Section C – Particulars of the Applicant<sup>12</sup>**

In case of a joint application, the principal applicant should fill in this form and supply all necessary information with the consent of the joint applicant(s).

<b>1. Information of the Organization</b>			
Name	(Eng)		
	(Chi)		
Address	(Eng)		
	(Chi)		
Tel No.		Fax No.	
Email Address			
Website			
<b>2. Name and Details of the Contact Person</b>			
Name	(Eng)		
	(Mr/Ms/Prof/Dr)* (Chi)		
Post Title	(Eng)		
	(Chi)		
Address	(Eng)		
	(Chi)		
Tel No.		Fax No.	
Email Address			
<b>3. Registration Information</b>			
The status under which the Applicant is registered :			
<i>(Please attach the related documentary proof, and provide photocopy of relevant registration certificates and the Constitution of Society / Company's Memorandum and Articles of Association, whichever is applicable.)</i>			
<i>(Please provide documentary evidence on the non-profit-making status and bona fide nature of the organization, including an attachment of audited financial statements / management accounts of the organization in the last 3 years (if any).)</i>			
<input type="checkbox"/> Charitable institution or trust of a public character under section 88 of the Inland Revenue Ordinance (Cap. 112)			
<input type="checkbox"/> The Societies Ordinance (Cap. 151)			
<input type="checkbox"/> The Companies Ordinance (Cap. 32)			
<input type="checkbox"/> Other Ordinances <i>(Please specify)</i> :			
Date of establishment		Number of Members	

<sup>12</sup> Only registered local bona-fide non-profit-making organizations, such as sports organizations, non-governmental organizations, arts associations / arts festivals, chambers of commerce, etc., are eligible to apply:-

(a) Applicant(s) should be registered in Hong Kong under the Societies Ordinance (Cap. 151), or incorporated under the Companies Ordinance (Cap. 32), or formed by statute in Hong Kong, or registered on the list of approved charitable institutions or trusts of a public character under the Inland Revenue Ordinance (Cap. 112); and

(b) Applicant(s) are required to provide documentary evidence on their non-profit-making status and bona fide nature to the satisfaction of the MEF Assessment Committee.

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

<p>History and background of the organization</p>	
<p>Aims / Objectives of the organization</p>	
<p>Core services and activities of the organization</p>	

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- Please put a tick in the appropriate box(es)
- # Please delete as appropriate

<p>Governance structure of the organization (with names of Board Members and Senior Management, and an organization chart)</p>			
<p>Experience(s) in running events of similar scale (if any), and elaborate how to support these events in human resources, financial and technical aspects.</p>			
<p><b>4. Other applications submitted by the applicant in this round of application or in the last 12 months</b></p>			
<p><input type="checkbox"/> No  <input type="checkbox"/> Yes (please specify the event title and application date) :</p>			
<p><b>Please fill in the following sections if this is a joint application and use a separate sheet for each of the joint applicant.</b></p>			
<p><b>5. Information of the joint applicant(s)</b></p>			
<p>Name (Eng)</p>			
<p>(Chi)</p>			
<p>Address (Eng)</p>			
<p>(Chi)</p>			
<p>Tel No.</p>		<p>Fax No.</p>	
<p>Email Address</p>			
<p>Website</p>			

MEF 09/2013

- Please put a tick in the appropriate box(es)
- # Please delete as appropriate

<b>6. Contact Person of the joint applicant(s)</b>			
Name	(Eng)		
(Mr/Ms/Prof/Dr)*	(Chi)		
Post Title	(Eng)		
	(Chi)		
Address	(Eng)		
	(Chi)		
Tel No.		Fax No.	
Email Address			
<b>7. Registration Information of the joint applicant(s)</b>			
The status under which the joint applicant(s) is registered :			
<i>(Please attach the related documentary proof, and provide photocopy of relevant registration certificates and the Constitution of Society / Company's Memorandum and Articles of Association, whichever is applicable.)</i>			
<i>(Please provide documentary evidence on the non-profit-making status and bona fide nature of the organization, including an attachment of audited financial statements / management accounts of the organization in the last 3 years (if any).)</i>			
<input type="checkbox"/> Charitable institution or trust of a public character under section 88 of the Inland Revenue Ordinance (Cap. 112)			
<input type="checkbox"/> The Societies Ordinance (Cap. 151)			
<input type="checkbox"/> The Companies Ordinance (Cap. 32)			
<input type="checkbox"/> Other Ordinances <i>(Please specify):</i>			
Date of establishment		Number of Members	
History and background of the organization			

MEF 09/2013

Please put a tick in the appropriate box(es)

# Please delete as appropriate

<p><b>Aims / Objectives of the organization</b></p>	
<p><b>Core services and activities of the organization</b></p>	
<p><b>Governance structure of the organization (with names of Board Members and Senior Management, and an organization chart)</b></p>	

MEF 09/2013

Please put a tick in the appropriate box(es)

# Please delete as appropriate



<p>Experience(s) in running events of similar scale (if any), and elaborate how to support these events in human resources, financial and technical aspects.</p>	
<p>Nature and details of collaboration with the principal applicant</p>	
<p>Responsibility of the joint applicant(s)</p>	
<p><b>8. Other applications submitted by the joint applicant(s) in this round of application or in the last 12 months</b></p>	
<p><input type="checkbox"/> No  <input type="checkbox"/> Yes (please specify the event title and application date) :</p>	

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

Please fill in the following sections if a company / person (whether profit-making or not) is / will be engaged as an agent of the applicant(s) to implement the event and / or handle public relations matters. If there are more than one agent handling different aspects of the event, please use a separate sheet for each of the agents.

<b>9. Information of the Agent</b>			
Name	(Eng)		
	(Chi)		
Address	(Eng)		
	(Chi)		
Tel No.		Fax No.	
Email Address			
Website			
<b>10. Name and Details of Contact Person of the Agent</b>			
Name	(Eng)		
	(Mr/Ms/Prof/Dr)* (Chi)		
Post Title	(Eng)		
	(Chi)		
Address	(Eng)		
	(Chi)		
Tel No.		Fax No.	
Email Address			
Background and management structure of the Agent			

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Please put a tick in the appropriate box(es)

# Please delete as appropriate

<p>Track records of the Agent in event's implementation and/or handing publicity matters</p>	
<p>Nature and details of services / expertise provided to the event</p>	

**Section D – Other Considerations**

1. Please state the major source(s) of income of your organization.

2. Please illustrate your capability to deliver the proposed event by detailing your organization's human, financial and technical resources.

3. Please mention other relevant information in support of this application.

MEF 09/2013

Please put a tick in the appropriate box(es)

# Please delete as appropriate

**Section E – Declaration**

- (a) We certify that all information provided in this application, the accompanying information, and the information provided in the future (including all annexes, attachments, supplementary information and revisions) are true and accurate. We understand that giving any false or inaccurate information or withholding any material information will render the application null and void. We undertake to inform the Secretariat immediately if there are any subsequent changes to the above information.
- (b) We declare that if the application is approved, utmost dedication and determination will be given to complete and monitor the event according to the proposal stated in this application.
- (c) We certify that the organization and implementation of the proposed event, and the use or possession by the Government and its authorised users, assigns and successors-in-title of any materials provided by us does not and will not infringe any intellectual property rights of any party.
- (d) We agree that information provided in this application will be used by the Government to process this application and related purposes. We authorize the MEF Assessment Committee Secretariat to handle the personal data/information provided in this application for these purposes.
- (e) We agree that information contained in this application and subsequent submissions (including all its appendices, attachments, supplements and revisions) may be used or disclosed for public announcement and publicity.
- (f) We have read the Guide to Application for MEF (for Funding Support under Tier-2) and will comply with the provisions therein.
- (g) We understand that any false declaration in this application form would lead to termination of funding agreement under the MEF, refund of any funds given, and the possibility of being prosecuted.

\_\_\_\_\_  
Authorised signature with organization chop  
(For and on behalf of the Applicant Organization)

\_\_\_\_\_  
Name of signatory  
(in block letter)

\_\_\_\_\_  
Name of Applicant Organization

\_\_\_\_\_  
Position / Post Title

\_\_\_\_\_  
Date

**If this is a joint application, the joint applicants should complete the following part.**

\_\_\_\_\_  
Authorised signature with organization chop  
(For and on behalf of the Joint Applicant  
Organization)

\_\_\_\_\_  
Name of signatory  
(in block letter)

\_\_\_\_\_  
Name of Joint Applicant Organization

\_\_\_\_\_  
Position / Post Title

\_\_\_\_\_  
Date

MI:F 09/2013

Please put a tick in the appropriate box(es)

# Please delete as appropriate

### Checklist for Submission of Application

- The original application form has been completed and duly signed by the applicant and (if applicable) the joint applicant(s).
- Provision of documentary proof of the registration information of the applicant (with relevant registration certificates and related documents, including the Constitution of Society / Company's Memorandum and Articles of Association, whichever is applicable) and that of the joint applicant(s) (if applicable).
- Provision of documentary proof on the non-profit-making status and bona fide nature of the applicant and that of the joint applicant(s) (if applicable).
- Provision of the list of the board of directors and Senior Management, and organization chart of the applicant and that of the joint applicant(s) (if applicable).
- Provision of documentary proof of contribution from the applicant(s) and sponsorship from other sources towards the event's budget.
- Provision of documentary proof of the secured sponsorship (in cash and in kind).
- For in kind sponsorship, provision of proof to demonstrate that the claimed values of the sponsored items or services are comparable with the market prices.
- Provision of justification and documentary evidence on other funding information of the event as requested in Section B2 (page 12) of the application form (if applicable).
- 2 copies of the completed application form plus 2 copies each of the above supporting documents / information are attached.
- 1 disk copy of the completed application form (together with supporting documents / information) is attached.

### Methods of Submission of Application

The original completed application form together with the above documents, copies and disk copy should reach the Secretariat, MEF Assessment Committee by post or in person at *Tourism Commission, 22/F, West Wing, Central Government Offices, 2 Tim Mei Avenue, Tamar, Hong Kong* **by 12 noon of 4 October 2013.**

- END -

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- Please put a tick in the appropriate box(es)
- # Please delete as appropriate

**Mega Events Fund**  
**Guide to Application**  
***(for Funding Support under Tier-2)***

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**Annex** – Personal Information Collection Statement

**Note :**

This Guide should be read in conjunction with the Tier-2 Events Application Form.

The content of this Guide may be reviewed and updated from time to time. Up-to-date version of this Guide is available at the Tourism Commission (TC)'s website (<http://www.tourism.gov.hk/english/mef/mef.html>).



**Mega Events Fund**  
**Guide to Application**  
**(for Funding Support under Tier-2)**

(Note : This Guide should be read in conjunction with the Tier-2 Events Application Form.)

**I. Introduction**

**1.1 Background**

1.1.1 In his 2012-13 Budget, the Financial Secretary proposed to allocate \$150 million to the Mega Events Fund (the Fund / MEF) and extend its operation for five years under a two-tier scheme. Funding approval has subsequently been obtained from the Legislative Council in April 2012.

1.1.2 Under the two-tier scheme, Tier-1 is a mechanism to attract internationally-acclaimed mega events to Hong Kong, and Tier-2 aims to provide funding support to local non-profit-making organizations to host events which are of potential to become mega events in Hong Kong.

1.1.3 This Guide is to provide information to applications for funding support under Tier-2. In this Guide, unless the context otherwise requires, terms defined and expressions used in this Guide shall bear the meanings set out in the Tier-2 Events Application Form. Information on Tier-1 should refer to the TC's website (<http://www.tourism.gov.hk/english/mef/mef.html>).

**1.2 Objectives of the Fund**

The Fund aims to promote tourism, raise the profile of Hong Kong internationally and promote Hong Kong as an Events Capital of Asia.

## **II. Application for Funding Support under Tier-2**

### **2.1 Eligibility Criteria**

- 2.1.1 Subject to paragraph 2.1.3, the applicant must be a registered<sup>1</sup> non-profit-making organization (i.e. a local bona-fide non-profit-making organization, such as sports organization, non-governmental organization, arts association / arts festival, chamber of commerce, etc.) that will host mega arts, cultural, sports or entertainment events<sup>2</sup> in Hong Kong for the period up to 31 March 2017.
- 2.1.2 Subject to paragraph 2.1.3, the applicant must be the organizer of the proposed mega event, and will be required to provide documentary evidence on its non-profit-making status and bona fide nature to the satisfaction of the MEF Assessment Committee (“the AC”).
- 2.1.3 Joint application (i.e. application jointly made by two or more local non-profit-making organizations) is allowed, but a principal or lead organization must be identified and be responsible for the application. Paragraphs 2.1.1 and 2.1.2 above are also applicable to joint applicants. All applicants should state clearly their respective responsibilities in the Application Form.
- 2.1.4 The proposed arts, cultural, sports or entertainment event in the application should :
- (a) raise the profile of Hong Kong internationally, create a branding impact, attract visitors to come to Hong Kong specifically for the event and/or lengthen their stay in Hong Kong and generate media coverage (both local and non-local);

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<sup>1</sup> The applicant should be registered in Hong Kong under the Societies Ordinance (Cap. 151), or incorporated under the Companies Ordinance (Cap. 32), or formed by statute in Hong Kong, or registered on the list of approved charitable institutions or trusts of a public character under the Inland Revenue Ordinance (Cap. 112).

<sup>2</sup> Examples of entertainment events include street parade, beer festival, pop concert, fashion show, etc.

- (b) be of a considerable scale. The total number of people involved (including participants, spectators and reporters) in the proposed mega arts, cultural, sports or entertainment event should be 10 000 or more;
- (c) contain a non-local element and include participants / spectators from the Mainland and overseas; and
- (d) allow participation by the local public of Hong Kong.

2.1.5 An event for which public funding will normally be earmarked under other Government funding sources / schemes will not be considered unless full justification is given to the satisfaction of the AC and the Controlling Officer<sup>3</sup> that the additional funds sought will be deployed strictly for organizing additional activities to significantly enlarge the scale of the event or significantly raise its international profile.

2.1.6 Existing events which are financially “self-sufficient” will not be considered unless full justification is given to the satisfaction of the AC and the Controlling Officer that the additional funds sought will be deployed strictly to organize additional activities to significantly enlarge the scale of the event or significantly raise its international profile.

2.1.7 The proposed event should have no additional recurrent cost implication for the HKSAR Government.

## **2.2 Application Procedures**

2.2.1 When applications for the MEF under Tier-2 are invited, it will be announced through the media and the TC’s website (<http://www.tourism.gov.hk/english/mef/mef.html>).

2.2.2 Applications should be made on the MEF’s Application Form (for funding support under Tier-2) of the appropriate round.

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<sup>3</sup> The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) is the Controlling Officer of the Fund.

- 2.2.3 The up-to-date Application Form can be downloaded from the TC's website (<http://www.tourism.gov.hk/english/mef/mef.html>).
- 2.2.4 This Guide to Application and some frequently-asked questions can be downloaded from the TC's website (<http://www.tourism.gov.hk/english/mef/mef.html>).
- 2.2.5 Applicants wishing to apply for the Fund for more than one event should complete a separate application form for each individual event.
- 2.2.6 Not more than 3 applications may be submitted by each applicant during a 12-month period.
- 2.2.7 Applicants may write to the MEF AC Secretariat to withdraw an application before the agreement (see section 4.3 below) is signed. Such withdrawal is irrevocable.

### **2.3 Deadline for Submission**

- 2.3.1 Deadline for each round of invitation for application under Tier-2 will be set separately. Please refer to the TC's website (<http://www.tourism.gov.hk/english/mef/mef.html>).
- 2.3.2 The deadline for the third round of application under Tier-2 will be **12 noon on 4 October 2013**. Late application or application with incomplete details will not be considered.

### **2.4 Methods of Submission of Application**

- 2.4.1 To make an application, the following documents should reach the MEF AC Secretariat at the following address : *Tourism Commission, 22/F, West Wing, Central Government Offices, 2 Tim Mei Avenue, Tamar, Hong Kong*, during ordinary business hours (9:00 a.m. to 5:30 p.m.) from Monday to Friday (other than a general holiday) on or before the application deadline :

- (a) original completed Application Form plus two copies of the completed form;

- (b) a disk copy of the completed Application Form (together with supporting documents / information);
- (c) documentary proof of eligibility to apply (please refer to paragraphs 2.1.1 and 2.1.2 above);
- (d) three copies of relevant registration documents;
- (e) three copies of other supporting documents / information as required in the Application Form; and
- (f) any other additional information relevant to the application.

2.4.2 Applicants may be required to submit additional or supplementary information to support their application. They should provide the MEF AC Secretariat with the requested clarification, information and documents from time to time.

## **2.5 Enquiries during the Application Period**

2.5.1 Applicants may contact the MEF AC Secretariat at telephone no. 2810 2500, fax no. 2121 8791 or email address : [mefsecretariat@cedb.gov.hk](mailto:mefsecretariat@cedb.gov.hk) for enquiries and assistance.

2.5.2 Information provided in response to enquiries received by the MEF AC Secretariat may be shared without notice to the applicants with other individuals or organizations as the MEF AC Secretariat considers necessary.

## **III. Assessment of Applications**

### **3.1 Assessment Committee**

3.1.1 The AC, comprising representatives from Government bureaux / departments and non-official members with experience in relevant fields, has been appointed to consider the applications and related matters.

- 3.1.2 To avoid conflict of interest, all members of the AC need to comply with the Guidelines of declaration of interests and related conduct drawn up under the advice of the Independent Commission Against Corruption (ICAC) of Hong Kong.
- 3.1.3 For the purpose of considering and assessing applications, applicants may be invited to present their proposals to the AC, arrange necessary site visits and/or meetings for members of the AC or their representatives, as appropriate.
- 3.1.4 The offer of an advantage to any government officers or members of the AC with a view to influencing the outcome of an application is an offence under the Prevention of Bribery Ordinance (Cap. 201). Any such offer by an applicant or his employee(s) or agent(s) will also render the application null and void.

## **3.2 Assessment Procedures**

- 3.2.1 All Application Forms together with the information and supporting documents submitted with them will be acknowledged by the MEF AC Secretariat.
- 3.2.2 The MEF AC Secretariat will screen an application to ascertain whether it meets all eligibility criteria. Applicants may be requested to provide clarification and/or supplementary information on the application.
- 3.2.3 In assessing an application, particularly with regard to the technical and financial feasibility, operational plan and budget of the proposed event, the AC may invite assistance from independent experts of relevant fields. Such experts will be required to disclose any actual, potential or perceived conflict of interest in relation to the application to the Government. An offer of advantage to the experts with a view to influencing the outcome of the applicants is an offence under the Prevention of Bribery Ordinance (Cap. 201). The AC will also seek comments from relevant Government bureaux / departments or

relevant organizations, such as the Hong Kong Tourism Board (HKTB) on the application. The applicant may be required to provide all relevant financial and related information of the event to the AC, and if the AC considers necessary for the purpose of assessing the application, such information may be disclosed to third party experts, the relevant Government bureaux / departments or relevant organizations without notice to the applicants.

3.2.4 In considering an application, the AC will take into account the following :

- (a) economic benefits of the proposal, such as the number of Mainland and overseas visitors to be brought to the event, their likely length of stay, and the number of jobs to be created;
- (b) public relations and other benefits of the proposal, such as the event's ability to raise Hong Kong's international profile and the number of media reports / coverage that will be generated within and outside Hong Kong, and their publicity value;
- (c) technical and project management capability of the applicant (including human, financial and technical resources), background and governance structure of the applicant, track record and past performance of the applicant, including the effectiveness of past projects;
- (d) whether the proposed schedule of implementation is practicable and reasonable;
- (e) whether the proposed operational plan and budget are prudent and realistic, with justifications for the proposed income and expenditure items;
- (f) the proposed performance indicators of the event;
- (g) the alternative sources of funding for the event; and
- (h) other factors which the AC considers relevant.

- 3.2.5 Taking into account the recommendations of the AC, the Controlling Officer may, in his absolute discretion, decide whether or not to approve an application; the appropriate amount of MEF funding to be approved; and the appropriate terms and conditions to apply to individual events.
- 3.2.6 The Controlling Officer may decide, on the recommendations of the AC, to impose additional terms and conditions in the agreement(s). The Controlling Officer may also stipulate specific terms and conditions on the use of the allocated MEF funding.

### **3.3 Notification of Results and Offer Letter**

- 3.3.1 Under normal circumstances, applicants will be notified of the results of the application in writing within 3 to 4 months after the closure of application.
- 3.3.2 If an application is rejected, the decision is final and absolute. There is no appeal mechanism, but an applicant that failed in the selection may submit a fresh application for another round of selection later on.
- 3.3.3 A letter will be sent to the successful applicant (“The Letter”). The Letter will set out the maximum amount of MEF funding to be offered and the major terms and conditions of the proposed funding.
- 3.3.4 The successful applicant will be required to sign and return a reply slip attached to the Letter to the MEF AC Secretariat within the specified period of time if it accepts the proposed MEF funding on the major terms and conditions set out in the Letter.
- 3.3.5 Once the reply slip is signed by the successful applicant and received by the Government, subject to the satisfaction of the conditions set out in the Letter, the Government may, in its sole discretion and without prior notice to the successful applicant, announce the details of the funded Tier-2 event and the identity



of the successful applicant publicly and prepare the agreement(s) for execution by the relevant parties.

- 3.3.6 In the event that the proposed event requires compliance with certain statutory requirements under the Laws of Hong Kong or other permission, approvals or requirements of the relevant bodies or authorities, it is the responsibility of the relevant applicant to submit the necessary application and obtain the required approval from the relevant bodies or authorities.
- 3.3.7 Under the above circumstances or any other circumstances the AC and the Controlling Officer consider appropriate, the Letter issued to a successful applicant may be conditional, subject to the completion of the additional required formalities within a specified period of time, or approval-in-principle may be given to the application subject to completion of additional procedures within a specified period of time.
- 3.3.8 If an applicant subsequently failed to complete the procedures, the AC and the Controlling Officer reserves the right to withdraw the Letter.
- 3.3.9 Under no circumstances will the Government or the AC accept liabilities for compensation to the applicant.
- 3.3.10 Neither the Government nor the AC is bound to accept or support any application submitted.

#### **IV. Funding Support**

##### **4.1 Funding Support for Tier-2 Events**

- 4.1.1 The MEF funding provided should solely be used to support the selected Tier-2 event.

- 4.1.2 The Government's total financial contribution (including the MEF funding) to a Tier-2 event shall be capped at 50% of the event's total cost.
- 4.1.3 Applicants will be required to provide funding from their own sources and / or other sources (such as box office or sponsorships from third-parties) which will amount to at least 50% of the event's total cost.
- 4.1.4 Applicants should explain whether and how they would raise income (such as charging admission fees or soliciting sponsorships). Applicants should set out clearly in the Application Form the amount of funding to be provided by them and their sources (including secured sponsorship, in cash or in kind, from the commercial sector).
- 4.1.5 Applicants will be required to submit documentary proof on the secured sponsorship, in cash or in kind. For in-kind sponsorships, applicants should also submit proof to demonstrate that the claimed values of the sponsored items or services are comparable with the market prices.
- 4.1.6 Subject to the written approval of the Government, applicants must not seek and/or accept any non-Government financing / donations / sponsorships which may jeopardize the image or reputation of the Government, the AC or the event.
- 4.1.7 In general, the MEF funding provided may be used to meet the expenses incurred directly in the event. The AC may specify that funding approved should be used for purposes such as to secure exposure, publicity and third party endorsement for Hong Kong, enrich the content of the event and facilitate tourist attendance.
- 4.1.8 Generally speaking, cost of additional manpower directly incurred for the event, cost of procuring or leasing of equipment for implementing the event, venue rental cost directly incurred for hosting of the event, as well as other one-off non-recurrent direct

expenditure, such as expenses for consumables, marketing and tourism promotion cost for the purpose of the event may be funded. Costs for maintaining the applicant's own operation or administration (including cost for setting up or refurbishing an administration office of the applicant's organization, decoration cost, utility charges, entertainment expenses incurred by administrative staff of the applicant's organization, general administrative expenses, legal costs and insurance fee), prize money of the event, as well as other expenditure not directly related to the event, will normally not be funded.

- 4.1.9 The amount of funding support sought should be justified by a prudent, realistic and detailed operational plan, as well as a budget with justifications for the proposed expenditure items.

## **4.2 Acknowledgement of the Funding Support**

- 4.2.1 The successful applicant will be required to prominently feature the following items on all publicity materials for the event (including, but not limited to, printed materials, backdrops, programme booklets, TV commercials, posters, website, banners, advertisements, prizes and souvenirs) :

- (a) The Brand Hong Kong (“BrandHK”) Signature (i.e. the flying dragon) and/or brandline (i.e. “Hong Kong Asia’s World City 香港·亞洲國際都會”);
- (b) TC’s logo plus the wordings “**Sponsored by Mega Events Fund 盛事基金贊助**”; and
- (c) any other logos / slogans that the Government thinks fit.

The BrandHK Signature and/or the brandline shall be prominently featured as the location identifier for Hong Kong and set apart from sponsor’s logos and shall be no smaller or less prominent than those logos of the applicant and any other sponsor. The applicant shall also ensure that all of the aforementioned items shall have dominant presence at the venues of the event and other related locations, to the satisfaction of the Information Services Department (ISD) and the AC.

- 4.2.2 The applicant should seek prior written consent from the BrandHK Management Unit of the ISD on presentation of the BrandHK Signature and the TC's logo on all publicity materials for the event. Information on all advertising, publicity and sponsor(s) displays at event venues, including but not limited to banners, boards, signs and stands, should be submitted by the applicant to the BrandHK Management Unit of the ISD and the MEF AC Secretariat for written approval prior to finalization. Such information shall include the dimensions, locations, quantity and other relevant details of the displays. To ensure proper application, the applicant shall comply with all requirements and guidelines set out in the brand manual accessible at <http://www.brandhk.gov.hk/en/#/en/about/guidelines.html>.
- 4.2.3 The following disclaimer should be included in all print advertisements, programme booklets, website and any other publicity materials for the events as may be required by the AC or the Government –
- “Any opinions or recommendations expressed in this material / any activities organized under this event do not reflect the views of the Government of the Hong Kong Special Administrative Region or the Mega Events Fund Assessment Committee.”*

### **4.3 Contractual Requirements**

- 4.3.1 The terms and conditions approved by the Controlling Officer for the Tier-2 event (see paragraphs 3.2.5 and 3.2.6 above), together with other appropriate financial control measures, will be set out in the agreement(s) (which will be prepared and approved by the Government) to be signed by the Government with the successful applicant and other relevant parties as appropriate. The agreement(s) will prescribe in detail the rights and obligations of the successful applicant.
- 4.3.2 The successful applicant must obtain the AC's prior written approval of any changes to the financing arrangements of the event (including change of the contributors and the amount of

contributions, the event's operational plan and budget, sales estimates, cash-flow schedule etc). The successful applicant must not transfer the ownership and/or rights of the Tier-2 event in question to third party without the Government's prior approval and consent.

- 4.3.3 The successful applicant should immediately notify and seek approval from the AC if there are other material variation or modification to the Tier-2 event, for example, the applicant has secured other sponsorships or donation particularly where such sponsorships or donation may bring the image of the AC and the event into disrepute; change of implementation timetable of the event, size or scope of the event, content or nature of the event; or change of the objects, registration status, nature, ownership, management or control of the applicant's company/organization, and in particular where there is change of Directors or shareholders or other key personnel of the applicant's company / organization or the project team.
- 4.3.4 The agreement(s) may contain such terms and conditions and matters referred to in this Guide, and other matters including but not limited to the governing laws, indemnity, warranty and confidentiality. The successful applicant will be required to comply with confidentiality clauses as the Government thinks fit as provided for in the agreement(s) on using and protection of confidential information and other data (including any personal particulars, records and personal data (as defined in the Personal Data (Privacy) Ordinance (Cap. 486)) and materials of any nature (in or on whatever media)) accessible by the applicant under the agreement(s) or which the Government has disclosed, supplied, made available or communicated to the successful applicant.
- 4.3.5 The Controlling Officer reserves the right to impose appropriate sanctions on the successful applicant if the applicant is unable to deliver or carry out the event (whether or not outside the control of the applicant); the performance of the applicant in organizing the event is considered by the AC as not satisfactory; or if it fails to achieve the pledged targets and deliverables of the event.

These sanctions may include without limitation to terminate the funding agreement, reduce the level of funding, not to disburse the outstanding fund or suspend the applicant from future MEF application, etc.

- 4.3.6 The Controlling Officer also reserves the right to cancel or reduce the MEF funding support if the approved MEF funding or any parts of it were abused, used for purposes other than the specified or approved purposes or other than the specified event.
- 4.3.7 If the agreement(s) is terminated, the successful applicant may be required to immediately repay all or part of the MEF funding provided, all sale proceeds from the equipment disposed of, together with all administrative, legal and other costs and interest accrued up to the date of repayment, to the Government. The Government also reserves the right to claim back all or part of the MEF funding that have been expended.
- 4.3.8 The applicant shall indemnify the Government against all loss, claims, demands, damages, costs, expenses and liabilities suffered or incurred by the Government or which may be brought or established against the Government arising out of the breach of any of the terms and conditions of the agreement(s) by the applicant. Such indemnity should cover claims relating to intellectual property rights infringement. The applicant, whether successful in its application or otherwise, or any employee, agent, servant or associate of the applicant, shall not seek or claim any compensation, reimbursement, damages, indemnity or waiver from the Government in relation to the preparation and submission of the application.
- 4.3.9 Nothing in this Guide shall constitute a contract. No binding agreement will be made between the Government and the applicant unless and until the project agreement(s) is duly executed by all parties.

## **4.4 Payment Arrangements**

- 4.4.1 The Government will only disburse the MEF funding after the agreement(s) have been duly executed by all parties. The MEF funding may be paid by installments on the satisfactory performance of appropriate milestones by the successful applicant, and in accordance with the terms and conditions of the agreement(s).
- 4.4.2 Where payment by installments is provided, the successful applicant may be required to submit progress reports and statements of accounts of the event to the MEF AC Secretariat at a frequency to be specified in the agreement(s). The successful applicant will also be required to maintain the certified invoices or bills for a period of seven years after completion of the Tier-2 event and produce them for inspection as and when required by authorized representatives of the AC, the Government or the Director of Audit.
- 4.4.3 The final payment may be effected upon (i) satisfactory completion of the Tier-2 event before the due date in accordance with the agreement(s); (ii) submission of the event's final audited accounts (produced by an independent registered Certified Public Accountant who is not connected in anyway with the Tier-2 event in question and the successful applicant), the event's evaluation report, media / publicity report, and the survey report<sup>4</sup> to the satisfaction of the AC and the Controlling Officer; and (iii) the applicant's full compliance with all its obligations and duties under the agreement(s).

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<sup>4</sup> Successful applicant will normally be required under the agreement to conduct a survey on feedback obtained from participants and spectators of the event, and from key stakeholders including the participating players/performers and organizations, the HKTB, tourism and travel trade operators, etc. The feedback survey should cover issues such as increase in visitor arrivals and business volume as a result of the event, non-local visitors' overall satisfaction level towards the event and attendance, revisit intention for similar event and whether they would recommend the event to others, etc. A report on the survey findings should be submitted by the successful applicant together with the post-event evaluation report, audited accounts and publicity report to the Fund's Secretariat for consideration by the AC and Controlling Officer.

- 4.4.4 Payment is subject to final adjustment upon the submission of the final audited accounts, evaluation report, publicity report and survey report on the completion of the event to the satisfaction of the AC and the Controlling Officer.
- 4.4.5 The Controlling Officer reserves the right not to disburse the outstanding funds to the successful applicant or reduce the amount of outstanding funds to be paid, if its performance in organizing the events are not satisfactory, or if the event fails to achieve the pre-determined deliverables / targets, or if it breaches any funding terms and condition as stated in the agreement. The applicant may also be suspended from future application.

#### **4.5 Project Account**

- 4.5.1 The successful applicant must open under its name and maintain a separate interest-bearing Hong Kong Dollar account (“Project Account”) in one of a licensed bank in Hong Kong within the meaning of the Banking Ordinance (Cap. 155) for the sole and exclusive purpose of keeping the MEF funding and processing and transacting all other financial transactions of the Tier-2 event in question. Payments from that bank account shall be made by at least two authorized representatives of the applicant approved by the MEF AC Secretariat. Prior agreement must be obtained from the MEF AC Secretariat on any changes of the approved representatives.
- 4.5.2 The applicant shall pay the MEF funding and all other receipts relating to the event, including without limitation, contributions from the applicant itself, contributions from the sponsors, all income and sale proceeds from the equipment disposed of, plus the Reserved Fund (see paragraphs 4.6.1 and 4.6.2 below), into the Project Account. All interest shall be kept in the Project Account and shall not be taken out or used for any purpose. All record of the Project Account will be subject to inspection as and when required by the AC or any authorized Government representatives or Director of Audit or his representatives.



4.5.3 The Government reserves the right to claim the applicant against any loss or damages incurred in connection with or as a result of the applicant's failure to comply with the requirement to maintain a separate bank account for the event or to plough back all interests generated from that bank account into the event.

#### **4.6 Surplus or Deficits and Application for Retention of Operating Surplus**

4.6.1 Without prejudice to paragraph 4.6.2 below, the successful applicant will be required to return any residual funds and operating surplus generated from the event ("Reserved Fund") to the Government (the amount of which will be determined by the Government in its sole discretion according to information available), including all interests and the sale proceeds from any equipment disposed of, up to the amount of the approved funding for the events plus the interest generated or which should have been accrued to the Project Account, within one month after submission of the final audited accounts of the event. The Government may seek legal remedy in case of unreasonable delay in the return of the surplus funds.

4.6.2 The successful applicant may apply to the AC for retaining the Reserved Fund generated from the Tier-2 event for the sole purpose of organizing the same event in the following year in Hong Kong, on the conditions (including without limitation) that –

- (a) the successful applicant has confirmed in writing to the AC that they will endeavour to organize the same event again in Hong Kong in the following year;
- (b) the event in question is considered by the AC worthy of support under the MEF Tier-2 scheme for hosting in Hong Kong on a recurrent basis so as to enlarge the pool of local mega events with tourism appeal in the long run; and
- (c) the past performances of the applicant and the event have been considered satisfactory.

The applicant will need to submit a fresh application for the same event to be held in the following year. Such application will be subject to the consideration of the AC and the approval of the Controlling Officer on the recommendations of the AC. The Government's total financial contribution (including the MEF funding) to the same Tier-2 event in the following year shall continue to be capped at 50% of the event's total cost, and the amount of operating surplus approved to be retained in the Project Account (i.e. the Reserved Fund, plus any interest generated) will form part of the total financial contribution.

- 4.6.3 The applicant will be required to give an undertaking in writing to the Government, containing the terms and conditions reasonably impose, on the applicant's willingness to immediately return the Reserved Fund in full, plus any interest generated in the Project Account, to the Government if –
- (a) the applicant decides to discontinue the event in the following year for whatever reason; or
  - (b) the applicant decides not to apply for MEF support again or declines to receive any MEF funding under Tier-2 for the purpose of organizing the same event in the following year; or the applicant decides not to apply to use the Reserved Fund or declines to use the Reserved Fund to organize the same event in the following year; or
  - (c) the Reserved Fund has been left idle for more than 24 months;
- whichever is earlier.

4.6.4 Subject to the approval of the Controlling Officer on the recommendations of the AC under paragraph 4.6.2 above and the undertaking made in paragraph 4.6.3 above, the maximum approved period for which the applicant may retain the Reserved Fund in the Project Account is **31 March 2017**.

4.6.5 When the Reserved Fund is used to organize the same event in the following year, the applicant should, following completion of

the event, submit a final audited accounts of the completed event (showing separately the position of the Reserved Fund) to the MEF AC Secretariat as required under section 5.1 below. Where appropriate, the applicant may also be required to submit to the MEF AC Secretariat such certified statement of the Project Account at the end of each accounting period, or at a frequency to be determined by the MEF AC Secretariat.

- 4.6.6 Under no circumstances will the Government and the AC accept liabilities for any deficits arising from the Tier-2 event. The successful applicant will be required to accept liabilities for all deficits arising from the event. If it is foreseen that the total expenditure will exceed the original budgeted expenditure by whatever amount, the applicant should inform the MEF AC Secretariat immediately. In addition, the applicant will be responsible for the shortfall in order to complete the event.
- 4.6.7 If for any reason (whether or not outside the control of the successful applicant) the event failed to be completed by the due date as specified in the agreement(s), or is suspended by the organizations, the Government or the AC may require the successful applicant to repay in full the MEF funding advanced and unexpended, and to indemnify the Government against any loss or expenses incurred as a result of the above.
- 4.6.8 The Government reserves the right to suspend or terminate the funding support for an event if there is a breach of the terms, conditions, warranties or undertakings in the agreement(s); including but not limited to, from the Government's view, the applicant is unlikely to be able to deliver or carry out the Project or the applicant has failed to perform satisfactorily in the progress of implementing the event. The applicant may be required to immediately return all or part of the funds provided, all sale proceeds from all equipment disposed of, all Reserved Fund maintained in the Project Account, together with all administrative, legal and other costs and interest accrued up to the date of repayment, to the Government. The Government

reserves the right to claim back all or part of the funds that have been expended.

#### **4.7 Books of Accounts and Records**

4.7.1 The successful applicant should maintain proper and separate books of accounts in accordance with prevailing accounting standards and practice in Hong Kong, as well as all relevant records of the event. The books and records should include any electronic record.

4.7.2 The books of accounts and records of the event should be kept for inspection as and when required by authorized Government representatives, Director of Audit or his representatives and should only be destroyed seven years after the expiry or termination of the agreement. The applicant should also maintain the original invoices and bills in respect of the Tier-2 event for a period of seven years following completion of the event and shall produce them for inspection as and when required by authorized Government representatives.

4.7.3 Where approval has been given to the successful applicant to retain the operating surplus for organizing the same event in the following year, the applicant should keep all books of accounts, statements and records of the Project Account for inspection as and when required by the authorized Government representatives or Director of Audit or his representatives. Such records should only be destroyed seven years after the Project Account has completely been used up or has been returned in full to the Government.

#### **4.8 Equipment**

4.8.1 Where the whole or part of the MEF funding provided for the Tier-2 event are expected to be expended on procuring equipment in connection with the implementation of the event, or the MEF funding are provided for the purchase of specific equipment

expenditure items, the following requirement shall apply to the successful applicant and its agents.

- 4.8.2 The successful applicant is required to properly maintain the equipment items and ensure that they are in good conditions at all times. A register shall be maintained to account for all equipment purchased with individual cost of HK\$5,000 or above.
- 4.8.3 The successful applicant must seek prior written approval from the MEF AC Secretariat before they may transfer, sale or disposal of the equipment.
- 4.8.4 After completion of the Tier-2 event, the Government will require the successful applicant to dispose of the equipment items at the prevailing market price by way of sales by public auctions. The successful applicant will then be required to furnish the Government with detailed specifications and photographs of all the equipment items for the purposes of arranging public auctions. They must comply with the Government's procedure and instruction. Any sale proceeds of the equipment items disposed of then belong to Government revenue.
- 4.8.5 If for any reasons (whether or not outside the control of the organizers) the event failed to be completed by the due date as specified in the agreement(s), or is suspended by the organizations, the Government reserves the right for prior claim to any sales proceeds of the equipment purchased by the MEF funding provided.

#### **4.9 Use of Information**

- 4.9.1 The Government and the AC have the right to make use of information, disclose or transfer information provided in the applications for the purposes of assessment of the applications, conducting research, arranging publicity of the MEF funding or the funded event, monitoring and evaluating the funded event, administration of the MEF, or any other directly related purposes, etc.

## **4.10 Procurement of Equipment, Services and Staff Employment**

4.10.1 Procurement of services includes engagement of or awarding a contract to another profit-making company as an agent of the successful applicant to implement the Tier-2 event.

4.10.2 The successful applicant or its agents should exercise utmost prudence in procuring equipment, goods or services in relation to the funded event. The successful applicant shall procure that the Project Co-ordinator, Deputy Project Co-ordinator, its Directors, employees, agents, contractors, sub-contractors and other personnels who are in any way involved in the event shall exercise the utmost prudence in procurement of goods, services and equipment, ensure that all purchases of all goods, services and equipment of any value in relation to or for the purposes of the event are made on an open, fair and competitive basis, and only from suppliers who are not associates or associated persons of the successful applicant.

4.10.3 The successful applicant is responsible for the setting up and operation of a proper procurement / tendering and stores management system for the event with sufficient checks and control and in accordance with the following principles :

- (a) Public accountability and value for money – the MEF funding provided under the MEF are public money. The successful applicant is accountable to the public for the use of the funding support under the MEF and should be prepared to account for any of their procurement decisions publicly. They are obliged to achieve the best value for money for their procurement.
- (b) Transparency, openness and fair competition – all requirements and specifications of intended procurement should be clearly made known to potential suppliers and contractors. It is essential to uphold the principles of fairness and competitiveness and maintain a level playing field in all procurement / tendering process. All tenderers

and suppliers should be treated, and must be seen to be treated, on equal footing. The successful applicant should ensure that proper safeguards are put in place to avoid any actual, potential or perceived conflict of interest situations arising in the procurement / tendering process, for example, their staff or agents should be required to declare any conflict of interest in relation to procurement / tendering and staff recruitment, and set up a mechanism to mitigate any such declared conflicts.

4.10.4 All procurement documents (including any electronic record) should be kept for inspection as and when required by authorized Government representatives or the Director of Audit or his representatives, and should be maintained for seven years after the completion of the event.

4.10.5 The successful applicant or its agents who recruit staff directly for the event should observe the principles of openness, fairness and competitiveness during the recruitment process. It is the responsibility of the successful applicant or its agents to ensure compliance with the employment and equal opportunities and data protection requirements under the Laws of Hong Kong.

4.10.6 The successful applicant shall obtain from the ICAC a copy of the following : “Strengthening Integrity and Accountability – Grantee’s Guidebook”. The Guidebook can be downloaded from the ICAC’s website below -

English version :

<[http://www.icac.org.hk/en/prevention\\_and\\_education/pt/index.html](http://www.icac.org.hk/en/prevention_and_education/pt/index.html)>

Chinese version :

<[http://www.icac.org.hk/tc/prevention\\_and\\_education/pt/index.html](http://www.icac.org.hk/tc/prevention_and_education/pt/index.html)>

The successful applicant is advised to seek the ICAC Corruption Prevention Department’s assistance in adopting the best practices stated in the Guidebook, drawing up a Code of Conduct for compliance by its Directors and employees, and ensuring proper corruption prevention safeguards are incorporated into its

procurement and staff recruitment procedures. The successful applicant shall permit the ICAC to examine his management and control procedures to provide corruption prevention advice.

- 4.10.7 The successful applicant will be required to establish a two-tier approval scheme, under the advice of the ICAC, for the recruitment of key personnel and the award of major goods, service and equipment contracts in the implementation of the funded event.
- 4.10.8 It is the responsibility of the successful applicant or its agents and the staff responsible for the planning and implementation of the event to ensure that they conform with the requirements of the Prevention of Bribery Ordinance (Cap. 201). The successful applicant shall notify in writing and procure that the Project Co-ordinator, Deputy Project Co-ordinator, all their Directors, employees, contractors, sub-contractors, agents and other personnels who are in any way involved in the event that they shall not offer to or solicit or accept from any person any money, gifts or advantages (as defined in the Prevention of Bribery Ordinance (Cap. 201)) in relation to the performance of the agreement or the event.
- 4.10.9 In the event that the successful applicant, the Project Co-ordinator, Deputy Project Co-ordinator, any of their Directors, employees, contractors, sub-contractors, agents or other personnels who are in any way involved in the event commit an offence under the Prevention of Bribery Ordinance (Cap. 201) (including offering of any advantages to AC members or the Government), the Government may suspend or terminate the agreement and hold the successful applicant liable for any loss or damages so caused.

#### **4.11 Insurance**

- 4.11.1 The successful applicant will be required in the agreement(s) to procure appropriate insurance policies, including employee compensation, an all-risks insurance in respect of equipment purchased by the MEF funding and public liability including



coverage of occupier's liability, to meet any claim which may arise as a result of the Tier-2 event.

- 4.11.2 Under no circumstances should the Government or the AC be held liable for any third-party claims for loss or damages arising from the Tier-2 event.

## **V. Monitoring Mechanism**

### **5.1 Progress Reports and Evaluation Reports**

- 5.1.1 The successful applicant will be required to submit the following reports on the Tier-2 event to the AC –

- (a) where appropriate, progress reports (together with certified statements of account and updated budget forecast) at a frequency to be specified in the agreement(s);
- (b) final evaluation report (with the final audited accounts) to be submitted within 4 months following the completion of the event or the termination of the event;
- (c) publicity report which keeps all the publicity materials and media coverage summary, both local and overseas, in relation to and arising from the event, to be submitted within 4 months following completion of the event; and
- (d) survey report on the feedback towards the completed event to be submitted within 4 months following completion of the event.

- 5.1.2 The audited accounts should cover all receipts and receivables including contributions (whether in cash or any other forms of contribution) from the applicant, the sponsor and/or other sources, all income, and sale proceeds from any equipment disposed of, the Reserved Fund (if any), and all payments made in respect of the event. It shall include a Statement of Income and Expenditure, a Balance Sheet, Cash-flow Statement, Notes to the Accounts and an Auditor's Report which shall include the

auditor's opinion on whether the successful applicant and the Project Account has complied with the terms and conditions of the agreement(s), and includes an assurance that the MEF funding were spent in accordance with the terms and conditions of the agreement(s). The audited accounts should be audited by an independent registered Certified Public Accountant who is not in anyway connected with the successful applicant and the event in question.

- 5.1.3 The Government reserves the right to claim the applicant against any loss or damages incurred in connection with or as a result of the applicant's failure (including failure of the Project Co-ordinator, Deputy Project Co-ordinator, any of the Directors, employees, contractors, sub-contractors or agents of the applicant) to handle public funds properly.
- 5.1.4 To facilitate evaluation of the event, the applicant will be required to state the event's deliverables, key milestones, targets, and methods for measuring its performance when they submit the proposals in the Application for consideration by the AC.
- 5.1.5 The final evaluation report should contain an evaluation of the results of the completed event using the agreed methods of evaluation, and the results should be measured against the agreed deliverables / targets and any additional funding conditions applicable to the successful applicant / event. In the case that the agreed deliverables / targets and/or additional funding conditions cannot be achieved, the successful applicant may be required to provide explanations to the satisfaction of the AC and the Controlling Officer. The successful applicant may also be invited to attend the AC meeting to present and account for the event's results.
- 5.1.6 The Controlling Officer reserves the right not to disburse the outstanding MEF funding to the successful applicant or reduce the amount of outstanding MEF funding to be paid, if its performance in organizing the event is not satisfactory; if the event fails to achieve the pre-determined deliverables / targets; or

if the funding terms and conditions as stated in the agreement(s) have been breached.

## **5.2 Monitoring Visits and Meetings**

- 5.2.1 AC Members or its authorized representatives, or authorized representatives of the relevant Government bureaux / departments, may participate in progress review or organizing committee meetings of the event or any related activities of the event to monitor the progress of the event. They may also conduct visits to the relevant venues before and during the event is held.
- 5.2.2 The successful applicant will be required to assist in arranging such visits and meetings, and to comply with any formal advice or instructions issued by the AC or the Government from time to time in respect of the event or any related matters.
- 5.2.3 When conducting the monitoring visits or meetings, the successful applicant may be required by the AC or the Government's authorized representatives to assist in verifying the number of staff employed for the event and/or checking the number and market prices of the equipment items procured and used in the event. The successful applicant must comply with the instruction, and produce all the required information on the spot.
- 5.2.4 On site monitoring visits or meetings of the funded event may be recorded. Such observations will be taken into account by the AC and the Controlling Officer in determining whether there are any breaches of the funding terms and conditions, whether the successful applicant's performance in organizing the event is satisfactory or not, and whether the event fails to achieve the pre-determined deliverables / targets as stated in the agreement(s).
- 5.2.5 The Government or the AC may also authorize representatives from other organizations to assist them in carrying out the monitoring work. The successful applicant should supply the

required information to enable them to carry out their work effectively.

## **VI. Intellectual Property Rights<sup>5</sup> and Personal Data**

- 6.1.1 It is the responsibility of the successful applicants to ensure that they comply with the provisions of the intellectual property laws of Hong Kong. Under no circumstances should the Government or the AC be held liable for any breaches of Intellectual Property Rights caused by the implementation of the Tier-2 event.
- 6.1.2 The Government and the AC shall be entitled to use the Project Materials of the Tier-2 event, free of charge, for the purposes of tourism promotion, public education, arts / sports / cultural development or other non-profit-making purposes. The successful applicant will be required to grant for the benefit of the Government, its authorized users, assigns and successors-in-title an unconditional, irrevocable, non-exclusive, perpetual, royalty-free and world-wide licence to use the Project Materials of the Tier-2 event for the benefit of the Government, its authorized users, assigns and successors-in-title, for the above purposes and by any means and in any manner.
- 6.1.3 The “Personal Information Collection Statement” (“PICS”) (Annex) will apply to the personal data provided by the applicants in connection with the applications. Before the applicants supply any personal data to the AC in connection with their applications, they must ensure that the relevant data subjects have read the PICS.

- End -

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<sup>5</sup> Intellectual Property Rights (IPRs) means “patents, trademarks, service marks, trade names, design rights, copyright, domain names, database rights, rights in know-how, new inventions, designs or processes and other intellectual property rights (of whatever nature and wheresoever arising, whether now known or hereafter created) and in each case whether registered or unregistered and including applications for the grant of any such rights.”

**Application for the Mega Events Fund (MEF)  
Personal Information Collection Statement**

**Purpose of Collection**

1. The personal data provided in the applications and related supporting documents and supplementary information will be used by the Government and the Assessment Committee for the following purposes :

- (a) processing and assessing the applications, conducting related checks, and authentication of the applications for the MEF;
- (b) payment of the MEF funding;
- (c) preparing statistics and research;
- (d) arranging public announcement and publicity;
- (e) meeting any disclosure requirements;
- (f) monitoring the performance of the agreement(s) and evaluating the funded events;
- (g) taking any remedial or follow-up action on the funded events;  
and
- (h) purposes relating to the above.

2. Your provision of all the personal data requested in the applications is obligatory. Your applications may not be considered if you fail to provide all information as requested.

**Classes of Transferees**

3. The personal data provided in the applications may be transferred or disclosed to other Government bureaux / departments or other relevant persons or organizations or agencies authorized to process the information for purposes relating to paragraph 1 above, or to make any disclosure which is required or authorized by law.

### Access to Personal Data

4. Subject to the exemptions under the Personal Data (Privacy) Ordinance (Cap. 486), you have the right of access and correction with respect to your personal data as provided for in Sections 18 and 22 and Data Protection Principle 6 of Schedule 1 thereof. A fee may be imposed for complying with a data access request.

### Enquiries

5. For correction of or access to personal data after submission of the applications, please contact :

Secretariat, Mega Events Fund Assessment Committee  
Tourism Commission, 22/F, West Wing, Central Government Offices,  
2 Tim Mei Avenue, Tamar, Hong Kong

Email : [mefsecretariat@cedb.gov.hk](mailto:mefsecretariat@cedb.gov.hk)  
Phone : 2810 2500  
Fax : 2121 8791

**Mega Events Fund Agreement**  
**(For events supported under Tier-two of the funding scheme)**

THIS AGREEMENT is made on *[Date]* between:

- (1) The GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION as represented by the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (“**Government**”); and
- (2) The bodies whose names and other details are set out in paragraph 1 of **Schedule 1** (“**Grantee**”).

**WHEREAS**

- (a) The Government has set up a Mega Events Fund (“**MEF**”) in 2009. In April 2012, the Government has obtained funding approval from the Finance Committee of the Legislative Council for a new allocation of HK\$150 million to extend the operation of the MEF for five years under a two-tier scheme. Tier-two of the MEF scheme aims to provide funding support to assist local non-profit-making organizations to host attractive arts, cultural, sports and entertainment events in Hong Kong for the period up to 31 March 2017 to further promote Hong Kong as the “Events Capital of Asia”.
- (b) On *[Date]*, the Grantee submitted an application form in respect of the Project (including all its appendices, attachments and supplements) to the Assessment Committee and Government. On *[Date(s)]*, the Grantee submitted revisions and supplements to the Assessment Committee and Government. A copy of such application form (including all the appendices, attachments, supplements and revisions in relation to the application submitted by the Grantee on or after *[Date]* to the Assessment Committee and Government) approved and accepted by the Government) is annexed at the **Appendix** (as may be further modified, revised, amended or supplemented by the Government from time to time) (“**Application Form**”).

Subject to the terms and conditions contained in this Agreement:-

- (i) the proposal set out in the Application Form is approved and accepted by the Government (“**Approved Project Proposal**”);
- (ii) and in particular, subject to all the conditions stipulated in **Schedules 1 and 2**, and in the payment arrangement set out in **Schedule 3**, the Government has approved the provision of a maximum sum of Hong Kong Dollars (**HK\$**)[*MEF maximum amount*] only under Tier-two of the MEF scheme to the Grantee for carrying out and completion of the Approved Project Proposal to the satisfaction of the Assessment Committee, PSCIT and Government. All the expenditure items of the Approved Project Proposal are budgeted in the Application Form (“**Approved Budget**”); and
- (iii) the Government has agreed to grant, and the Grantee has agreed to accept the Funds upon the following terms and conditions.

IT IS AGREED as follows:

## **1. Definitions**

1.1 In this Agreement, unless the context requires otherwise or expressly provides otherwise, the following expressions shall have the following meanings respectively:

“Agreement” means this agreement, including all schedules and the appendix hereto and MEF Application Guide (for funding support under Tier-two), all of which shall form and be read as an integral part of this agreement.

“Approved Date of Completion of the Project” means the date set out in paragraph 4 of **Schedule 1** or such other date as the parties may agree in writing.



“Assessment Committee”	means the MEF Assessment Committee.
“Associate”	of any person means: <ul style="list-style-type: none"> <li>(a) a Relative or partner of that person; or</li> <li>(b) any body of persons (corporate or unincorporate) one or more of whose Directors is in common with one or more of the Directors of that person.</li> </ul>
“Associated Person”	in relation to another person means: <ul style="list-style-type: none"> <li>(a) any person who has Control, directly or indirectly, over the other; or</li> <li>(b) any person who is Controlled, directly or indirectly, by the other; or</li> <li>(c) any person who is Controlled by, or has Control over, a person at (a) or (b) above.</li> </ul>
“Audited Account”	means any statement of account in respect of the Project containing an income and expenditure account and a balance sheet, prepared in accordance with the relevant laws of Hong Kong and the accounting standards as in effect from time to time and consistently applied in Hong Kong (including the Accounting Standards and Accounting Guidelines as the Hong Kong Institute of Certified Public Accountants may issue and update from time to time) and duly audited, dated, signed and certified as being accurate and complete by an independent Certified Public Accountant (Practising) registered under the Professional Accountants Ordinance (Cap. 50) who is not in any way connected with the Project and the Grantee.

“Commencement Date”	means the date of this agreement.
“Completion of the Project”	means completion of the Project to the satisfaction of the Assessment Committee, PSCIT and Government.
“Control”	<p>in relation to another person means the power to secure:</p> <p>(a) by means of the holding of shares or interests or the possession of voting power in or in relation to that or any other person; or</p> <p>(b) by virtue of any powers conferred by any constitution, memorandum or articles of association, partnership, agreement or arrangement (whether legally enforceable or not) affecting that or any other person; or</p> <p>(c) by virtue of holding office as a Director in that or any other person;</p> <p>that the affairs of the first-mentioned person are conducted in accordance with the wishes of that other person.</p>
“Deputy Project Co-ordinator”	means the deputy project co-ordinator employed or engaged by the Grantee to carry out the Project including as of the date hereof the individual named in paragraph 2 of <b>Schedule 5</b> .
“Director”	means any person occupying the position of director by whatever name called, including a de facto or shadow director and any person in charge of the day-to-day management or operation of a body of persons (corporate or unincorporate).

- “Director of Audit” means the Director of Audit appointed pursuant to the Audit Ordinance (Cap. 122).
- “Equipment” means the equipment, instrument or machinery listed as Equipment stated in the Application Form and approved by the Government to be procured with the Funds.
- “Evaluation Report” means the final post-event evaluation report which details the Project Result (in such form as the Government may prescribe) to be submitted by the Grantee pursuant to this Agreement.
- “Event of Default” means any event described in Clauses 19.1(a) to 19.1(q).
- “Force Majeure” means:
- (a) any supervening outbreak of war affecting Hong Kong (whether war be declared or not), hostilities, invasion, acts of foreign enemies, rebellion, terrorism, revolution, military or usurped power, overthrow (whether by external or internal means) of the Government, civil war, riot, civil disturbances, fire, civil commotion and acts of God; or
  - (b) influenza pandemic or Severe Acute Respiratory Syndrome affecting Hong Kong; or
  - (c) any supervening catastrophic event which is similar to the foregoing;
- and which (1) is not caused or contributed to by the Grantee, its Associates or Associated Persons or any employee or agent or ex-employee or ex-agent thereof and (2) prevents the performance of the Grantee’s duties and obligations under this Agreement.

“Funds”	means the approved grant under MEF, up to the maximum sum stated in paragraph (ii) of the recitals on page 2 of this Agreement, provided to the Grantee, on and subject to the terms and conditions of this Agreement.
“HK” or “Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China.
“HK\$” or “Hong Kong Dollars”	means Hong Kong Dollars, the lawful currency of Hong Kong.
“ICAC”	means the Independent Commission Against Corruption.
“Income”	means all income generated from the Project, including Interest and funding from the Grantee and from other sources (such as contributions or sponsorships from third parties).
“Insurance Policy”	means any or all insurance policies referred to in Clause 17.
“Interest”	means all interest accrues or shall accrue to the Project Account.
“IPRs”	means patents, trademarks, service marks, trade names, design rights, copyright, domain names, database rights, rights in know-how, new inventions, designs or processes and other intellectual property rights (of whatever nature and wheresoever arising, whether now known or hereafter created) and in each case whether registered or unregistered and including applications for the grant of any such rights.

“MEF Application Guide”	means the publication “Mega Events Fund Guide to Application (for Funding Support under Tier-two)” published at the Tourism Commission’s website <a href="http://www.tourism.gov.hk">http://www.tourism.gov.hk</a> (including all its subsequent amendments and supplements as the Government may make from time to time).
“New Project”	has the meaning ascribed to it in Clause 14.3.
“Operating Surplus”	means the surplus of the Project described in Clause 14.2.
“OSO”	means the Official Secrets Ordinance (Cap. 521).
“PBO”	means the Prevention of Bribery Ordinance (Cap. 201).
“PDPO”	means the Personal Data (Privacy) Ordinance (Cap. 486).
“Potential Event of Default”	means any event which would become (with the passage of time or the giving of notice or both) an Event of Default.
“Progress Report”	means all or any progress reports (in such form as the Government may prescribe) to be submitted by the Grantee pursuant to this Agreement.
“Project”	means the project in respect of organizing the [ <i>description of the event</i> ] and performing and providing all tasks, services and duties, as detailed in the Approved Project Proposal.
“Project Account”	means the account referred to in Clause 11.1.
“Project Co-ordinator”	means the project co-ordinator employed or engaged by the Grantee to carry out the Project including as of the date hereof the individual named in paragraph 1 of <b>Schedule 5</b> .

- “Project Cost” means the total actual expenses (in Hong Kong Dollars) incurred by the Grantee to carry out and complete the Approved Project Proposal to the satisfaction of the Assessment Committee, PSCIT and Government in accordance with the expenditure items in the Approved Budget.
- “Project Materials” means all deliverables, reports, works of authorship, training manuals, equipment, summaries, briefings, presentations, diagrams, drawings, charts, tables, graphs, pictures, photographs, plans, models, analyses, studies, technical notes, information papers, opinions, comments, specifications, formulae, works of authorship, scripts, screenplay, music, lyrics, songs, soundtracks, sound recordings, diagrams, drawings, animated drawings, storyboards, pictures, films, images, set and costume designs and other designs, artworks, expression of ideas or information, themes, plots, stories, characterizations, dialogue, writings, rewrites, changes, additions, deletions, titles, subtitles, translation, synchronizations, doubling, dubbing, performance, models, documents, and other things and materials collected, compiled, developed, written, prepared, produced, created or supplied by the Grantee, the Project Co-ordinator, the Deputy Project Co-ordinator, the Directors, employees, agents, contractors or sub-contractors (whether individually or jointly with the Government) in relation to the Project or in the course of carrying out the Project or for the purpose of this Agreement, including all pre-contractual and contractual documents thereof, which are recorded or stored by whatever means in whatever form or media and the drafts of any of the above.

“Project Result”	means the outcome of the Project as evaluated and measured against the Project’s Key Performance Indicators, approved performance deliverables, objectives, targets and key milestones of the Project and any other additional conditions of the above as specified in <b>Schedule 2</b> .
“Project Team”	means the team of officers, agents or employees of, or the consultants to, the Grantee and/or its contractors and sub-contractors employed or engaged to carry out the Project.
“PSCIT”	means the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) of the Government, or any public officer authorized by him to act on his behalf in relation to this Agreement.
“Publicity Report”	means the publicity report which keeps all the publicity materials and media coverage summary, both local and non-local in relation to and arising from the Project (in such form as the Government may prescribe) to be submitted by the Grantee pursuant to this Agreement.
“Relative”	means the spouse, parent, child, brother or sister of the relevant person, and, in deducing such a relationship, an adopted child shall be deemed to be a child both of the natural parents and the adopting parent and a step child to be a child of both the natural parents and of any step parent.
“Reserved Fund”	means the Operating Surplus approved for retaining in the Project Account in accordance with Clause 14.
“Secretariat”	means the MEF Assessment Committee Secretariat.

“Sponsor”	means the third party sponsors or donors who have agreed to support the Project by making contribution thereto in the manner as provided in the Application Form, or in the manner as secured by the Grantee.
“Sub-contractors”	includes sub-contractors at all tiers of sub-contracting.
“Survey Report”	means the survey report which contains the feedback for the Project as obtained from participants and spectators of the Project and from key stakeholders including the participating players or performers and organizations, the Hong Kong Tourism Board (HKTB), tourism and travel trade operators and other related operators, through an independent survey arranged to be conducted by the Grantee during the term of this Agreement, such report shall be in such form as the Government may prescribe and submitted by the Grantee pursuant to this Agreement.
“Third Party Materials”	means any Project Materials in respect of which any IPRs therein are vested in a third party.
“Use”	means to use or exploit in whatever manner, including doing the “acts restricted by the copyright” within the meaning of sections 22 to 29 of the Copyright Ordinance (Cap. 528).

1.2 In this Agreement, except where the context otherwise requires:

- (a) headings to Clauses are for reference only and do not affect the interpretation of this Agreement;
- (b) a reference to any statute, order, regulation or other similar instrument shall be construed as a reference to the same as it may have been, or may from time to time be, amended, modified, substituted, re-enacted or replaced (whether before or after the date of this Agreement) and including all subsidiary legislation from time to time made under it;



- (c) any act, default, neglect or omission of any Director, employee, licensee, agent, contractor or sub-contractor of either party hereto shall be deemed to be the act, default, neglect or omission of that party;
- (d) words denoting the singular shall include the plural and vice versa; words denoting any gender shall include the other genders; references to any person shall include references to an individual, firm, body corporate or unincorporate (wherever established or incorporated);
- (e) words importing the whole shall be treated as including a reference to any part of the whole;
- (f) the words “include” and “including” shall be construed without limitation to the words following; and
- (g) all references to “any” shall be construed to mean “any and all”.

1.3 Any agreement, consent or approval to be given by the Assessment Committee, PSCIT or Government may be given or withheld in its discretion, and subject to any conditions as the Assessment Committee, PSCIT or Government may consider appropriate, must be given before the act or matter or thing for which agreement, consent or approval is required to be effective. Failure by the Assessment Committee, PSCIT or Government to give any agreement, consent or approval shall be deemed a denial or refusal.

1.4 Except as expressly provided otherwise, all obligations to be performed by the Grantee under this Agreement shall be performed at the cost and expense of the Grantee.

1.5 If there is any conflict, inconsistency, ambiguity or repugnance between Clauses 1 to 30, the Schedules and Appendix of this Agreement and the MEF Application Guide, Clauses 1 to 30, the Schedules and Appendix of this Agreement shall prevail.

1.6 Notwithstanding any other provisions of this Agreement, each representation and warranty by the Grantee and each declaration, agreement, undertaking and covenant by and the obligation of the Grantee under this Agreement:

- (a) shall be joint and several;
- (b) is deemed to have been given by the Grantee jointly and severally; and
- (c) shall be binding on the Grantee jointly and severally.

## **2. Commencement and Completion of the Project**

2.1 This Agreement shall commence on the Commencement Date and shall expire on the Completion of the Project unless this Agreement is earlier determined or extended pursuant to the provisions of this Agreement, or the Government agrees otherwise.

2.2 The Grantee shall carry out the Project on or before the Approved Date of Completion of the Project, of which time shall be of the essence, unless the Government agrees otherwise.

## **3. Grantee's Obligations, Warranties, Undertakings and Indemnity**

3.1 In consideration of the Government agreeing to grant the Funds, the Grantee shall:

- (a) carry out and complete the Project and deliver the Project Result to the satisfaction of the Assessment Committee, PSCIT and the Government in accordance with the terms and conditions of this Agreement and any directive, advice and opinion relating to the Project as may from time to time be given by the Assessment Committee, PSCIT or the Government in writing;
- (b) deliver and make available the Audited Accounts, Progress Report, Evaluation Report, Publicity Report, Survey Report and Project Result to the satisfaction of the Assessment Committee, PSCIT and the Government in accordance with the terms and conditions of this Agreement;

- (c) secure and make available evidence of contribution and deliver the secured contribution from the Grantee and/or from Sponsor and/or from other sources, which shall amount to not less than 50% of the Project Cost, and that the Grantee shall apply all Income to offset the expenditures of the Project, to the satisfaction of the Assessment Committee, PSCIT and the Government; and
- (d) grant a licence in respect of the IPRs relating to and arising from the Project Materials (including Third Party Materials) to the Government and/or any other persons in accordance with the terms and conditions of this Agreement, and the Grantee shall deliver the Project Materials to the Government.

3.2 The Grantee hereby warrants and undertakes and with continuing effect that:

- (a) the Project shall be carried out and completed in an impartial, timely and diligent manner and the Grantee, the Project Co-ordinator, the Deputy Project Co-ordinator, the Grantee's Directors, employees, agents, contractors and sub-contractors who are engaged to carry out or otherwise involved in the Project have all the necessary experience, skill and expertise to carry out the Project on the terms and conditions set out in this Agreement;
- (b) all information supplied, and statements and representations made by or on behalf of the Grantee in relation to the Project, the Approved Project Proposal, the Approved Budget or this Agreement are true, accurate and complete in all respects;
- (c) it shall forthwith notify and seek the prior written consent of the Assessment Committee and PSCIT in writing if there is any material change to any information provided in the Approved Project Proposal or any matters in relation to this Agreement subsequent to the signing of this Agreement, including whether the Grantee has secured any source of Income for the Project (other than those set out in the Application Form) or commits to any sponsorship or donation particularly where such sponsorship or donation may bring the image of the Assessment Committee and the Project into disrepute; any changes to the financing arrangements of the Project (including change of the major sponsors and the amount of contributions, the Project's operational plan and budget, sales estimates, cash-flow schedule);

change of implementation timetable, size or scope of the Project, content or nature of the Project, or change to the Approved Budget, cash-flow projection; or change of the objects, not-for-profit operation, registration status, business, nature, ownership, management or control of the Grantee and in particular there is any change of Directors or shareholders or other key personnels of the Grantee or the Project Team;

- (d) subject to the additional funding conditions (items (c) and (d) in **Schedule 2**), it shall not charge any expenses of the Project incurred prior to the Commencement Date to the Funds without prior written approval of the Secretariat;
- (e) it shall not charge any expenses of maintaining the Grantee's own operation or administration, including the cost for setting up or refurbishing an administration office, water and electricity bills, entertainment fees incurred by any members or staff of the Grantee, general administrative cost, legal and insurance fees to the Funds;
- (f) it shall carry out its obligations in accordance with the terms and conditions of this Agreement (including the Approved Project Proposal) and any directive, advice or opinion relating to the Project as may from time to time be prescribed by the Assessment Committee, PSCIT or the Government in writing;
- (g) it shall apply the Funds directly, solely and exclusively for the purpose of carrying out the Project and in accordance with the terms and conditions of this Agreement (including all additional conditions imposed in **Schedules 1 and 2**);
- (h) it shall account for all Income and apply all such Income to offset the expenditures in respect of the Project in accordance with this Agreement and any directive, advice and opinion as the Assessment Committee, PSCIT or Government may issue from time to time;
- (i) it shall, upon request, permit members of the Assessment Committee, Secretariat, Director of Audit, PSCIT and any of their authorized representatives to enter at all reasonable times into and upon any premises of or controlled by the Grantee (including its Directors, employees, agents or

any persons acting on its behalf) where any documents or records (including electronic records) pertaining to the Project is kept or any item arising out of the Project is experimented, manufactured, produced, displayed or stored by the Grantee, for the purpose of inspection or copying or for verifying the accuracy of any information given by the Grantee or otherwise verifying that the Grantee has complied with its obligations under this Agreement;

- (j) it shall maintain the original invoices and bills in respect of the Project and shall produce them for inspection as and when required by the Assessment Committee, Secretariat, Director of Audit, PSCIT and any of their authorized representatives;
- (k) it shall permit members of the Assessment Committee, Secretariat and Government or their authorized representatives to participate in progress review or organizing committee meetings relating to the Project, to attend the events organized under the Project and/ or any related activities to examine the progress of the Project, and to conduct visits to all relevant venues in respect of the Project; and that it shall permit and assist the Assessment Committee, Secretariat and Government or their authorized representatives to verify the number of staff employed for the Project and the number and market prices of the Equipment deployed for the Project or for the events and activities of the Project being visited;
- (l) it shall permit members of the Assessment Committee, Secretariat and Government or their authorized representatives to record their observations during the visits to any events and activities of the Project; and it shall further accept and agree that such observations will be taken into account by the Government in determining whether or not to exercise its rights under Clause 15.3 of this Agreement;
- (m) it shall use the Equipment purchased by the Funds solely and exclusively for the purpose of carrying out the Project; hold, operate and use the Equipment in a proper way; and keep and maintain the same at all times in good repair and condition, fair wear and tear excepted;
- (n) it shall promptly pay the Funds and all other receipts relating to the Project (including the contributions from the Grantee and/or from all Sponsor and/or from any other sources, the Income and all sale proceeds from all Equipment

disposed of) into the Project Account, cause all payments relating to the Project to be paid out of the Project Account and ensure that all receipts and payments in respect of the Project are properly and timely recorded;

- (o) it shall return to the Government any Operating Surplus and residual Funds of the Project (as the Government may determine in its sole discretion) in accordance with the provisions of this Agreement;
- (p) it shall accept liabilities for all deficits arising from the Project. It shall immediately inform the Secretariat if it foresees that the expenditures of the Project will exceed the Approved Budget by whatever amount;
- (q) it shall not mortgage, charge or otherwise encumber its interests, rights or benefits to receive the Funds or the Equipment or part with possession, transfer or dispose of the Equipment without PSCIT's prior written consent;
- (r) it shall comply in all respects, including the giving of all notices, the paying of all fees and the obtaining of all consents and approvals, with the provisions of all legislation, regulations and by-laws affecting or in any way relating to the Project;
- (s) the Project and all advertising, marketing, promotional and publicity materials relating thereto shall not contravene any legislation, regulations or by-laws or undermine public health or moral;
- (t) the obligations expressed to be assumed by the Grantee in this Agreement are legal and valid obligations binding on it and enforceable against it in accordance with the terms thereof;
- (u) the execution of this Agreement and the exercise of its rights and performance of its obligations under this Agreement do not and shall not (i) contravene any agreement, mortgage, bond or other instrument or treaty to which it is a party or which is binding upon it or any of its assets; (ii) conflict with any judicial order or any applicable law. It has the power to enter into this Agreement and all action required to authorize the execution of this Agreement and the performance of its obligations under this Agreement has been duly taken;

- (v) it is able to pay its debts as they fall due and has not commenced negotiations with any one or more of its creditors with a view to the general readjustment or rescheduling of its indebtedness or made a general assignment for the benefit of or a composition with its creditors;
- (w) no actions or steps have been taken or legal proceedings have been started or threatened against the Grantee for its winding up, dissolution, insolvency, administration, reorganization or reconstruction (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of the Grantee or of any or all of the Grantee's assets or revenues; and
- (x) it shall notify the Secretariat immediately upon any of its Director becoming aware of the occurrence of any Event of Default or Potential Event of Default.

#### **4. Grantee Indemnity**

4.1 The Grantee shall indemnify and keep indemnified each of the Government, its employees and authorized persons fully and effectively against (a) all actions, claims (whether or not successful, compromised, settled, withdrawn or discontinued) and demands threatened, brought or established against the Government and (b) all costs (including all legal fees and other awards, costs, payments, charges and expenses), losses, damage and liabilities suffered or incurred by the Government, which in any case arise directly or indirectly in connection with, out of or in relation to:

- (i) a breach of Clause 18 or a breach of the duty of confidence under general law by the Grantee, or any of its employees, contractors, sub-contractors and agents (or any person acting on its or their behalf) (each a “**Relevant Person**”);
- (ii) the use by the Grantee or any Relevant Person of any personal data in contravention of PDPO;
- (iii) the performance or breach of this Agreement by the Grantee;

- (iv) the negligence, recklessness, wilful misconduct, unauthorized act or omission of the Grantee or a Relevant Person;
- (v) death, injury or property damages arising from or in connection with the carrying out of the Project; or
- (vi) any allegation or claim that the Use, operation or possession of the Project Materials or the exercise of any rights granted under this Agreement infringes any IPRs of any persons.

4.2 The provisions of Clause 4 shall survive the termination of this Agreement (howsoever occasioned) and shall continue in full force and effect notwithstanding such termination.

## **5. Project Co-ordinator and Deputy Project Co-ordinator**

5.1 The Grantee shall appoint a Project Co-ordinator and a Deputy Project Co-ordinator for the Project.

5.2 The responsibilities of the Project Co-ordinator and Deputy Project Co-ordinator are as follows:

- (a) oversee the carrying out of the Project in accordance with the terms and conditions of this Agreement;
- (b) monitor the use of the Funds to ensure that the Funds are properly expended;
- (c) ensure the accuracy and completeness of the information provided in the Progress Reports, Evaluation Report, Publicity Report, Survey Report and other information submitted to the Assessment Committee, Secretariat and Government;
- (d) liaise with the Assessment Committee, Secretariat and Government on matters relating to the Project; and



(e) attend progress meetings and visits as may be convened by the Assessment Committee, Secretariat or Government from time to time and the events and activities organized under the Project; and assist the Assessment Committee, Secretariat and Government or their authorized representatives in verifying the number of staff employed for the Project and the number and market prices of the Equipment deployed for the Project or for the events and activities of the Project being visited.

5.3 In the event of the death, incapacity or termination of employment of the Project Co-ordinator or Deputy Project Co-ordinator before the Completion of the Project, the Grantee shall immediately or within such period as may be approved by the Government, arrange to substitute or replace the outgoing individual, provided that such substitute or replacement is (a) no less qualified in terms of relevant experience and qualifications than the out-going individual; and (b) available at the relevant time to act as such substitute or replacement. The Grantee shall without delay forward a curriculum vitae of the proposed substitute or replacement to the Government and shall warrant that it is complete and accurate in all material respects. The deployment of such substitute or replacement shall be subject to the Government's prior consent. The Grantee shall be solely responsible for all direct, indirect and consequential costs or losses that may arise from the substitution or replacement of the Project Co-ordinator or Deputy Project Co-ordinator.

5.4 The appointment or replacement of the Project Co-ordinator or Deputy Project Co-ordinator to undertake any part of the Project shall not relieve the Grantee from any liabilities or obligations under this Agreement.

## **6. Payment of Funds**

6.1 In consideration of and subject to the Grantee carrying out the Project, and performing all its duties and obligations in accordance with this Agreement to the satisfaction of the Assessment Committee, PSCIT and Government, and subject to all the conditions as specified in **Schedules 1 and 2**, Government shall make available the Funds to the Grantee in accordance with the payment arrangement set out in **Schedule 3** hereto.

6.2 All the Funds, Income and sale proceeds from all Equipment disposed of shall be paid into the Project Account established by the Grantee, who shall, until such

Funds are spent by the Grantee in accordance with the terms of this Agreement, hold the same as trustee for the Government. The Grantee acknowledges that all Interests generated from amounts standing in the Project Account (including those other than the Funds), belong to the Government at the time they accrue.

- 6.3 For the avoidance of doubt, the Grantee shall not be entitled to charge any interests or claim any compensation or relief of whatever nature against the Government in the event of any late or withholding of payment of the Funds by the Government for any reason whatsoever.

## **7. Acknowledgment of Government's Support**

- 7.1 The Grantee shall prominently feature the Brand Hong Kong (“BrandHK”) signature and Tourism Commission’s logo as specified in **Schedule 4** plus the wordings “**Sponsored by Mega Events Fund 盛事基金贊助**” on all publicity materials for the Project (including, but not limited to, printed materials, backdrops, programme booklets, TV commercials, posters, website, banners, advertisements, prizes and souvenirs). The Grantee shall ensure that the BrandHK signature shall be prominently featured as the location identifier for Hong Kong and set apart from Sponsor’s logos and shall be no smaller or less prominent than those logos of the Grantee and any other Sponsor. The Grantee shall ensure that the BrandHK signature shall have dominant presence at the venues of the events organized under the Project and other related locations, to the satisfaction of the Information Services Department and the Assessment Committee.
- 7.2 The Grantee shall seek prior written consent from the BrandHK Management Unit of the Information Services Department on presentation of the BrandHK signature and the Tourism Commission’s logo on all publicity materials for the Project. The Grantee shall submit information on all advertising, publicity and sponsor(s) displays at event venues, including but not limited to banners, boards, signs and stands, to the BrandHK Management Unit of the Information Services Department and the Secretariat for written approval prior to finalization. Such information shall include the dimensions, locations, quantity and other relevant details of the displays. To ensure proper application, the Grantee shall comply with all requirements and guidelines set out in the brand manual accessible at <http://www.brandhk.gov.hk/en/#/en/about/guidelines.html>.

- 7.3 If required by the Government, the Grantee shall distribute promotional materials produced by the Government to target participants or audiences in respect of the events organized under the Project.
- 7.4 The Grantee shall not accept any donation and/or sponsorship which, in the reasonable opinion of the Government, may jeopardize the image or reputation of the Government, Assessment Committee or the Project.
- 7.5 The Grantee shall include the following disclaimer in all print advertisements, programme booklets, website and any other publicity materials, for the events organized under the Project as may be required by the Assessment Committee or the Government -

*“Any opinions or recommendations expressed in this material / any activities organized under this event do not reflect the views of the Government of the Hong Kong Special Administrative Region or the Mega Events Fund Assessment Committee.”*

## **8. Prevention of Bribery and Conflict of Interest**

- 8.1 The Grantee shall observe the relevant provisions of the PBO. Further, the Grantee shall not, and shall notify in writing and procure that the Project Co-ordinator, Deputy Project Co-ordinator, all its Directors, employees, contractors, sub-contractors, agents and other personnels who are in any way involved in the Project that they shall not offer to or solicit or accept from any person any money, gifts or advantages (as defined in the PBO) in relation to the performance of this Agreement or the Project.
- 8.2 If the Grantee, the Project Co-ordinator, Deputy Project Co-ordinator, any of its Directors, employees, contractors, sub-contractors, agents or other personnels who are in any way involved in the Project commit any offence under the PBO or under any law of a similar nature in relation to this Agreement or any other Government contracts, the Government shall be entitled to terminate this Agreement pursuant to Clause 19.

**9. Conflict of Interests**

9.1 The Grantee shall, during the continuation of this Agreement and for six (6) months thereafter:

- (a) ensure that it (including its Associates and Associated Persons, each of the Project Co-ordinator and Deputy Project Co-ordinator and each of the Grantee's Directors, employees, agents, contractors and sub-contractors and their respective Associates and Associated Persons) shall not undertake any service, task or sub-contract job or do anything whatsoever for or on behalf of the Grantee or any third party (other than in the performance of this Agreement) which conflicts, or which may be seen to conflict, with the Grantee's duties to the Government under this Agreement unless and to the extent the Government permits otherwise and before giving such permission, the Government has been fully informed by the Grantee in a timely fashion of all the circumstances in which the permission is sought; and
- (b) immediately notify the Government in writing of all or any facts which may reasonably be considered to give rise to a situation where the financial, professional, commercial, personal or other interests of the Grantee or any of the Project Co-ordinator or Deputy Project Co-ordinator or any of the Grantee's Directors, employees, agents, contractors and sub-contractors, or any of their respective Associates or Associated Persons, conflict or compete, or may conflict or compete, with the Grantee's duties to the Government under this Agreement.

9.2 The Grantee shall notify the Government in writing immediately upon knowing of any financial, professional, commercial, personal or other interest (whether actual or potential, direct or indirect) that the Grantee or any of the Project Co-ordinator or Deputy Project Co-ordinator or any of the Grantee's Directors, employees, agents, contractors and sub-contractors, or any of their Associates or Associated Persons may have in, or of any association or connection which the Grantee or the aforesaid persons may have with, any person, product, service or Equipment proposed or recommended or to be acquired or procured by the Grantee under this Agreement.

9.3 The Grantee shall ensure that each of its Associates and Associated Persons, each of the Project Co-ordinator and Deputy Project Co-ordinator and each of its Directors, employees, agents, contractors and sub-contractors and their respective Associates and Associated Persons shall keep themselves informed and shall inform the Grantee and keep it informed regularly of all facts which may reasonably be considered to give rise to a situation where the financial, professional, commercial, personal or other interests of such persons, conflict or compete, or may conflict or compete, with the Grantee's duties to the Government under this Agreement.

9.4 When required by the Government, the Grantee shall procure its Associates and Associated Persons, each of the Project Co-ordinator and Deputy Project Co-ordinator and each of its Directors, employees, agents, contractors and sub-contractors and their respective Associates and Associated Persons who are involved in the Project to execute a legally binding written undertaking in favour of the Grantee and the Government jointly and severally in a form prescribed by the Government agreeing to observe Clauses 9.1 to 9.3 above and the Grantee shall provide the original or certified true copies of all such undertakings to the Government as may be required by the Government. The Grantee further agrees that, if so required by the Government, it shall take all such steps as are lawful and necessary to enforce such undertakings or to co-operate with the Government in their enforcement.

## **10. Procurement of Equipment, Services etc.**

10.1 With the objectives of ensuring openness, fairness and value for money, the Grantee shall, and shall procure that the Project Co-ordinator, Deputy Project Co-ordinator, the Grantee's Directors, employees, agents, contractors, sub-contractors and other personnels who are in any way involved in the Project shall, exercise the utmost prudence in procurement of goods, services and Equipment, ensure that all purchases of all goods, services and Equipment of any value in relation to or for the purposes of the Project are made on an open, unbiased, fair and competitive basis, and only from suppliers who are not Associates or Associated Persons of the Grantee, unless the Government agrees otherwise.

- 10.2 With the objectives of ensuring openness, fairness and value for money, the Grantee shall, and shall procure that the Project Co-ordinator, Deputy Project Co-ordinator, the Grantee's Directors, employees, contractors, sub-contractors, agents and other personnels who are in any way involved in the Project, shall exercise the utmost prudence in procurement of staff and shall ensure that the recruitment of staff for the purpose of the Project are carried out in an open, unbiased, fair and competitive manner.
- 10.3 The Grantee shall set up and operate a proper procurement/tendering and stores management system for the Project with sufficient checks and control and in accordance with the following principles:
- (a) Public accountability and value for money – the Funds provided under the MEF are public money. The Grantee shall be accountable to the public for the use of the Funds and shall, upon the Government request, account for any of their procurement decisions publicly. The Grantee is obliged to achieve the best value for money for its procurement; and
  - (b) Transparency, openness and fair competition – the Grantee shall make known all requirements and specifications of intended procurement to potential suppliers and contractors. It is essential to uphold the principles of fairness and competitiveness and maintain a level playing field in all procurement/tendering process. All tenderers and suppliers shall be treated, and shall be seen to be treated, on equal footing. The Grantee shall ensure that proper safeguards are put in place to avoid any actual, potential or perceived conflict of interest situations arising in the procurement/tendering process.
- 10.4 The Grantee shall obtain from the ICAC a copy of the ICAC's "**Strengthening Integrity and Accountability – Grantee's Guidebook**", accessible at [http://www.icac.org.hk/en/prevention\\_and\\_education/pt/index.html](http://www.icac.org.hk/en/prevention_and_education/pt/index.html). The Grantee shall seek ICAC Corruption Prevention Department's assistance in adopting the best practices stated in the Guidebook, draw up a Code of Conduct for compliance by its Directors and employees, and to ensure proper corruption prevention safeguards are incorporated into its procurement and staff recruitment procedures. The Grantee shall permit ICAC to examine his management and control procedures to provide corruption prevention advice.

- 10.5 The Grantee shall establish a two-tier approval system, as the ICAC may require or specify, for the recruitment of key personnel/staff and the award of major goods, services and Equipment contracts in procurement/tendering exercises conducted for the Project.
- 10.6 All quotations, tender documents, proposals and all procurement agreements with tenderers and/or suppliers in relation to or for the purposes of the Project, shall be kept by the Grantee during the continuance of this Agreement and a period of seven (7) years after the expiry or termination of this Agreement, and shall be made available without delay for inspection upon request by the Government, the Director of Audit or his representative(s).
- 10.7 The risk in the Equipment shall be borne by and remain with the Grantee as and when it passes upon procurement and/or leasing of the Equipment by the Grantee.
- 10.8 The title of the Equipment purchased by the Funds for the Project shall be held by the Grantee. The Grantee shall maintain a register to account for all Equipment with individual cost of HK\$5,000 or above whose purchase is funded by the Funds, and the Grantee shall seek prior written approval from the Government for the transfer, sale or disposal of the Equipment.
- 10.9 Notwithstanding anything provided in this Agreement, the Government may require the Grantee to dispose of the Equipment at any time at the prevailing market price by way of sales by public auction in accordance with such procedures as the Government may specify. The Grantee must comply with the Government's requirement and specification. The Grantee must also refrain from participating in the Government's public auction for the disposal of the Equipment directly by itself or indirectly through any of the Grantee's Associates or Associated Persons, or any of the Grantee's Directors, employees, agents, contractors or sub-contractors or any of their respective Associates or Associated Persons. The sale proceeds of the Equipment disposed of shall belong to Government and be paid to the Government in such manner and by such time as the Government may specify.

## **11. Project Account**

- 11.1 The Grantee shall open under its name and maintain an interest-bearing Hong Kong Dollar account with a licensed bank in Hong Kong within the meaning of the Banking Ordinance (Cap. 155) for the sole and exclusive purpose of keeping the Funds and the Reserved Fund (if any), processing and transacting all receipts and payments relating to the Project. Payments from that bank account shall be made by at least two authorized representatives of the Grantee approved by the Secretariat. The Grantee must obtain written consent from the Secretariat before any change to the authorized representatives of the Project Account takes effect.
- 11.2 The Grantee shall pay the Funds and all other receipts relating to the Project, including without limitation, contributions from the Grantee, contributions from the Sponsor, all Income and sale proceeds from the Equipment disposed of and the Reserved Fund into the Project Account.
- 11.3 All Interest shall be kept in the Project Account and shall not be taken out or used for any purpose. The Grantee is fully accountable to the Government for and make good any Interest which has accrued or should have accrued to the Project Account but has not been paid into or kept in the Project Account in accordance with the provisions of this Agreement. Such Interest will be calculated of a rate equivalent to the interest rate offered by the HSBC for savings account during the material time. Government reserves the right to claim the Grantee against any loss or damages incurred in connection with or as a result of the Grantee's failure to comply with the requirement under Clause 11.
- 11.4 All Interest shall be reflected in the financial statements and audited accounts of the Project referred to under Clauses 12.2 of this Agreement.
- 11.5 The Grantee shall make available without delay and produce all or any records in respect of the Project Account for inspection as and when required by the Assessment Committee, Secretariat, Director of Audit, PSCIT or any of their authorized representatives.



## 12. Books and Records

- 12.1 The Grantee shall maintain, during the continuance of this Agreement and for a minimum period of seven (7) years after the expiry or termination of this Agreement, full and proper books of accounts and records in respect of the Project (including all matters in respect of the receipt, expenditure and custody of the Funds and any other public funds which may be provided for any purposes relating to the Project and all income (of whatsoever description) derived therefrom (“**Public Funds**” collectively). The Grantee shall procure that its Associates and Associated Persons to whom any Public Funds are passed or diverted, directly or indirectly (“**Relevant Third Parties**”) shall keep full and proper books of accounts and records in respect of such Public Funds. The Grantee shall ensure that the Government, PSCIT, the Director of Audit and any of their respective authorized representatives shall be allowed access to all or any of the aforesaid books and records for conducting audit (including value for money audit), inspection, verification and copying from time to time upon reasonable notice during the continuance of this Agreement and the seven-year period mentioned above. In this connection, the Grantee shall, and shall procure that each Relevant Third Parties, and each of the Relevant Third Parties’ and the Grantee’s respective employees and agents shall, explain to the Government, the Director of Audit and their respective authorized representatives any matters relating to the receipt, expenditure and custody of the Public Funds upon request.
- 12.2 The Grantee shall submit the following Audited Accounts to the Assessment Committee and PSCIT in the following manner:
- (a) if the Project is scheduled under the Approved Project Proposal to be completed in less than one year from the Commencement Date, within four (4) months after the Approved Date of Completion in respect of the Project or termination of this Agreement, an Audited Account which covers the period from the Commencement Date to the date of expiry or termination of this Agreement, and an account of the residual Funds covering the same period, including Interest and sale proceeds of the Equipment.
  - (b) if the Project is scheduled under the Approved Project Proposal to be completed in one year’s time or more from the Commencement Date:

- (i) within three (3) months for every 12-month period from the Commencement Date to date of expiry or termination of this Agreement, an Audited Account of the Project which covers each aforesaid 12-month period;
- (ii) in the event that the last audited period covers less than 12-month, the final Audited Account shall cover the period from the end of the preceding audited period to the date of expiry or termination of this Agreement; and
- (iii) the final Audited Account and an account of the residual Funds covering the same period, including Interest and sale proceeds of the Equipment, shall be submitted by the Grantee to the Assessment Committee and PSCIT within four (4) months after the Approved Date of Completion of the Project or termination of this Agreement.

12.3 The Audited Accounts shall cover all receipts and receivables including the Funds, all Income, and sale proceeds from any Equipment disposed of, and all payments made in respect of the Project. It shall include a Statement of Income and Expenditure, a Balance Sheet, Cash-flow Statement, Notes to the Accounts and an Auditor's Report.

12.4 The Auditor's Report shall include the auditor's opinion on whether the Grantee and the Project Account have complied with the terms and conditions of this Agreement, and includes an assurance that the Funds were spent in accordance with the terms and conditions of this Agreement, and that the Audited Accounts is prepared in accordance with the Accounting Standards, Accounting Guidelines and Statements of Auditing Standards issued and updated from time to time by the Hong Kong Institute of Certified Public Accountants as well as the requirements relating to the Project as may from time to time be prescribed by the Assessment Committee or the Government. The Grantee shall also instruct the auditor to make full disclosure of any non-compliance by the Grantee of any terms and conditions of this Agreement in the Auditor's Report.

12.5 The Government reserves the right to claim against the Grantee for any loss, damages, costs and expenses and liabilities suffered or incurred by the Government in connection with or by reason of the Grantee's failure (including failure of the Project Co-ordinator, Deputy Project Co-ordinator, any of the

Directors, employees, contractors, sub-contractors or agents of the Grantee) to handle and account for the Funds, Income, Equipment or the sale proceeds from the Equipment disposed of properly and in accordance with this Agreement.

**13. Assignment and sub-contracting**

13.1 Save as provided in Clause 13.2 below, the Grantee shall not assign, transfer, sub-contract or otherwise dispose of any or all of its interests, rights, benefits or obligations under this Agreement or the ownership and/or rights of the Project to a third party without the written approval of the Assessment Committee and PSCIT.

13.2 The Grantee may, subject to the approval of the Secretariat, engage the services of independent contractors or agents of its own to assist it with its duties under this Agreement, provided that the Grantee:

- (a) shall not be relieved from any of its obligations and duties under this Agreement by engaging any such independent contractor or agent and shall remain fully liable to the Government for the performance of such obligations and duties;
- (b) shall remain liable for any act or omission of any such independent contractor or agent as if such act or omission were its own; and
- (c) shall secure binding obligations from all such independent contractors or agents so as to ensure that the Grantee can comply with its obligations under this Agreement.

**14. Return of Surplus to the Government and the Reserved Fund**

14.1 The Grantee shall account for all Income and apply all such Income to offset the actual expenses of the Project.

14.2 Subject to Clauses 14.3 to 14.4 below, the Grantee shall, within one (1) month following submission of the final Audited Account under Clause 12.2, return to the Government all or any Operating Surplus and residual Funds in respect of the Project (as the Government may determine in its sole discretion according to

information required to be provided by the Grantee under this Agreement and available information related to this Project) (including Interest and the sale proceeds from all or any Equipment disposed of), up to the maximum amount specified in **Schedule 1** plus Interest generated or which should have been accrued thereon. Failing which, the Government reserves the right to seek legal remedy in case of unreasonable delay in the return of the Operating Surplus and residual Funds by the Grantee.

14.3 When the Grantee submit the final Audited Account under Clause 12.2, the Grantee may submit an application to the Assessment Committee for approval for retaining the Operating Surplus as “Reserved Fund” in the Project Account for the sole purpose of organizing the same Project in the following year in Hong Kong (“New Project”), subject to the following conditions –

- (a) the Grantee shall undertake in writing to the Assessment Committee that it shall organize the New Project in Hong Kong in the following year and that the Reserved Fund shall not be used for any other purposes;
- (b) the Project in question is considered by the Assessment Committee worthy of support under the MEF Tier-two scheme for hosting in Hong Kong on a recurrent basis so as to enlarge the pool of local mega events with tourism appeal in the long run;
- (c) the past performances of the Grantee and the Project are considered satisfactory by the Assessment Committee and PSCIT; and
- (d) any other conditions as may be imposed by the Assessment Committee and PSCIT.

The Grantee shall submit a fresh MEF application for organizing the New Project. The approval for retaining the Reserved Fund in the Project Account and the approval for organizing the New Project are subject to the Government’s total contribution for the New Project (including the MEF Funds payable by the Government and any Reserved Fund from the MEF approved to be used for the New Project or from other government funding sources, plus Interest) shall not exceed 50% of the cost of the New Project. Where the amount of the Reserved Fund exceeds 50% of the New Project’s Cost, the Grantee may be required to return part of the Reserved Fund to the Government immediately.

14.4 Where approval is granted to the application under Clause 14.3, the Grantee:

(a) shall warrant and undertake in writing to the Government that it shall immediately return the Reserved Fund in full, plus all Interest generated in the Project Account, to the Government if –

(i) the Grantee discontinues with organizing the New Project in the following year for whatever reason (whether or not beyond the control of the Grantee); or

(ii) the Grantee does not apply for the MEF for the New Project or decline to receive any fund from the MEF for the purpose of organizing the New Project; or the Grantee does not apply to use the Reserved Fund or decline to use the Reserved Fund to organize the New Project; or

(iii) the Reserved Fund has been left idle in the Project Account for more than 24 months;

whichever is earlier; and

(b) shall, upon the Government's request, enter into an agreement with the Government to the effect that the Grantee shall be bound by terms and conditions as may be imposed by the Assessment Committee and PSCIT in its performance of the New Project.

14.5 When the Reserved Fund is used to organize the New Project, the Grantee shall, following completion of the New Project, submit a Final Audited Accounts of the completed Project (showing separately the position of the Reserved Fund in the Project Account) to the Secretariat and Government within the time period specified by the Government. The Grantee shall also submit to the Secretariat and Government a certified statement of the Project Account (showing separately the position of the Reserved Fund) at the end of each accounting period as and when required by the Government, or at a frequency to be determined by the Secretariat.

14.6 Under no circumstances shall the Government and the Assessment Committee accept liabilities for any deficits arising from the New Project. The Grantee shall

accept the full liabilities for all deficits arising from the New Project and for meeting the shortfall to complete the New Project. The Grantee shall immediately notify the Secretariat if it is foreseen that the total New Project's cost will exceed the Approved Budget of the New Project by whatever amount.

- 14.7 Without prejudice to Clause 14.4(b), where approval has been given under Clause 14.3 for the Grantee to retain the Operating Surplus as Reserved Fund, the Grantee shall keep all books of accounts, statements and records in respect of the Project Account (in which the Reserved Fund shall be kept) in accordance with Clause 12.1 above, and produce such books of accounts for inspection without delay as and when required by the Assessment Committee, Secretariat, Director of Audit, PSCIT and any of their authorized representatives. The Grantee may only dispose of such books of accounts and records seven years after the completion or termination of the New Project.
- 14.8 Clauses 14.2 to 14.7 shall survive the termination of this Agreement (howsoever occasioned) and shall continue in full force and effect notwithstanding such termination.

## **15. Reports**

- 15.1 Unless otherwise agreed by the Government, the Grantee shall submit the following reports (in such form as the Government may specify from time to time) in respect of the Project to the Assessment Committee and PSCIT:
- (a) within one (1) month for every 6-month period from the Commencement Date to the date of expiry or termination of this Agreement, a Progress Report which content is to be determined by the Secretariat (together with updated budget forecast) which covers each aforementioned 6-month period;
  - (b) in the event that the last Progress report covers less than 6 months, the last Progress Report shall cover the period from the end of the preceding reporting period to the date of expiry or termination of this Agreement;
  - (c) at least one (1) month before any applicable due date of instalment payment as specified in **Schedule 3**, an updated Progress Report in respect of the Project, together with certified statements of account and updated budget forecast of the Project;

(d) within four (4) months after the Approved Date of Completion of the Project or termination of this Agreement, an Evaluation Report, a Publicity Report and a Survey Report.

15.2 The Grantee shall account for the Project Result as reported in the aforementioned reports and provide clarification and/or additional information on the contents of the aforementioned reports upon request by the Assessment Committee, Secretariat, PSCIT or the Government, and shall make available for inspection by the Government all documents and records relating to the Project.

15.3 The Government reserves the right not to pay all or any outstanding Funds to the Grantee or the right to adjust or reduce the amount of outstanding Funds to be paid or the right not to consider any other applications by the Grantee for MEF, if the Grantee fails to deliver or carry out the Project (unless the failure is attributable to an event of Force Majeure), or the Project Result is unsatisfactory, or the Grantee fails to comply with any terms and condition under this Agreement, or that the Grantee fails to achieve any of the approved and/or additional funding conditions and approved and/or additional key performance indicators, deliverables, targets and key milestones of the Project as specified in **Schedules 1 and 2** to the satisfaction of the Assessment Committee, PSCIT and the Government.

## **16. IPRs**

16.1 The Grantee shall ensure that it is, or shall become upon creation, and shall remain for any purposes contemplated by this Agreement the absolute legal and beneficial owner of all IPRs in the Project Materials (other than the Third Party Materials). To that end, the Grantee shall make it a condition of its contracts with the Project Co-ordinator, the Deputy Project Co-ordinator, the Sponsor, any of the Grantee's Directors, employees, contractors, sub-contractors, agents or other personnels who have in any way contributed towards or are in any way involved in the Project that the Grantee shall be, or shall become upon creation, and shall remain the absolute legal and beneficial owner of all IPRs created as aforesaid for any purposes contemplated by this Agreement to the exclusion of such Project Co-ordinator, Deputy Project Co-ordinator, Sponsor, Directors, employees, contractors, sub-contractors, agents or other personnels.

- 16.2 The Grantee hereby grants for the benefit of the Government, its authorized users, assigns and successors-in-title an unconditional, irrevocable, non-exclusive, perpetual, royalty-free and world-wide licence to Use the Project Materials (and in relation to any Third Party Materials in respect of which the Grantee is not empowered to grant licence(s), the Grantee hereby undertakes to procure the grant of such licence(s) (on similar terms as those being granted by the Grantee under this Clause 16.2) for the benefit of the Government, its authorized users, assigns and successors-in-title in respect of such Third Party Materials prior to their Use by the Grantee) for any purposes and by any means and in any manner. The Grantee shall deliver the Project Materials to the Government.
- 16.3 The Grantee shall keep the Government informed in writing of any Third Party Materials which the Grantee is not empowered to grant any licence(s) pursuant to Clause 16.2 above and any restrictions whatsoever affecting the Use thereof. The Grantee shall produce to the Government for inspection within two (2) days upon the Government's request all proper licences in writing obtained or procured pursuant to Clause 16.2 in respect of the Third Party Materials.
- 16.4 The Grantee hereby irrevocably waives, and undertakes to procure all relevant authors of the Project Materials to irrevocably waive all moral rights (whether past, present or future) in the Project Materials. Such waiver shall operate in favour of the Government, its authorized users, assigns and successors-in-title as from the date the relevant licence takes effect.
- 16.5 The Grantee shall at all times during the validity of this Agreement exercise due diligence in software asset management and, as and when required by the Government, furnish to the Government satisfactory evidence that this sub-clause has been complied with.
- 16.6 (a) The Grantee shall, at its own cost and expense and before the fixation and/or recording of any [competitions / performance(s)] in relation to the Project, obtain all the consent and clearance from the [sportsmen / performer(s)] as may be necessary for such fixation and/or recording of the [competitions/ performance(s)] and for any Uses and exploitation of such fixation or recording, or copies thereof, as contemplated by this Agreement. For the purpose of this Clause, the terms "performance", "performer" and "fixation" shall have the same meanings as those assigned to them in section 200 of the Copyright Ordinance (Cap. 528).



- (b) The Grantee shall procure the [sportsmen / performers] referred to in Clause 16.6(a) to waive their moral rights over their [competitions / performances] in relation to the Project, such waiver to operate in favour of the Government, its licensees, assigns and successors-in-title and to have effect immediately upon each of the relevant [competitions / performance] is given.

16.7 The Grantee further warrants and undertakes to the Government that:

- (a) it is or shall become upon creation and shall remain for any purposes contemplated by this Agreement the absolute legal and beneficial owner of all IPRs in the Project Materials (other than the Third Party Materials);
- (b) it has or shall have the full capacity, power and authority to grant the licences referred to in Clauses 16.2 upon the terms and conditions of, and for any purposes contemplated by, this Agreement;
- (c) the provision of the Project Materials (including the Third Party Materials) or any of the services by the Grantee under this Agreement, the Use, operation or possession by the Government, its authorized users, assigns and successors-in-title of the Project Materials (including the Third Party Materials) pursuant to this Agreement do not and shall not infringe any IPRs of any persons;
- (d) the Use of any software by the Grantee for the purpose of or otherwise in connection with the performance of this Agreement does not and shall not infringe any IPRs of any persons;
- (e) the exercise of any of the rights granted under or pursuant to this Agreement by the Government, its authorized users, assigns and successors-in-title shall not infringe any IPRs of any persons;
- (f) in respect of any Third Party Materials:
  - (i) the Grantee has or shall have a valid and continuing licence under which it is entitled to sub-license the relevant Third Party Materials and the third party IPRs for itself and for the benefit of Government,

its authorized users, assigns and successors-in-title to Use such Third Party Materials for any purposes contemplated by this Agreement; or

(ii) prior to the Use and incorporation of such Third Party Materials in performing this Agreement, the Grantee shall have obtained the grant of all necessary clearances for itself and for the benefit of Government, its authorized users, assigns and successors-in-title authorizing the Use of such Third Party Materials for any purposes contemplated by this Agreement; and

(g) it shall take all reasonable steps to recognize and protect all IPRs in the Project Materials and all other works created in respect of or during the course of the Project and shall promptly inform the Government of all allegations, claims, actions and proceedings in respect of infringement of any such IPRs and any progress thereof from time to time.

16.8 The provisions of Clause 16.7 shall survive the termination of this Agreement (howsoever occasioned) and shall continue in full force and effect notwithstanding such termination.

## **17. Insurance**

17.1 The Grantee shall take out and maintain and, renew upon expiry, insurance policies in accordance with relevant Ordinances in respect of the following during the continuance of this Agreement and subject to such terms and conditions to the satisfaction of the Government, and any other insurance policies as deemed necessary by the Grantee:

(a) **Public Liability:** an indemnity amount of a minimum of HK\$[amount] million per incident and unlimited indemnity amount in respect of all claims (including any claims which may be made by any spectators, players, participants, reporters, guests or officials in respect of any events organized under the Project) arising during the continuance of this Agreement. The coverage shall be extended to cover occupier's liability.

(b) **Employee Compensation:** in accordance with Employees' Compensation Ordinance (Cap. 282) to cover all Grantee's employees hired for the Project.

- (c) Insurance for Equipment: an all-risks insurance in respect of each Equipment purchased by the Funds with an individual cost of HK\$5,000 or above to its total value at replacement cost.
- 17.2 The Public Liability referred to in Clause 17.1(a) shall be for the benefit and in the joint names of the Grantee and the Government, and contain a cross liability clause indemnifying the Grantee and the Government (as if a separate policy had been issued to each of them) against legal liabilities for accidental injury to persons or accidental loss of or damage to property arising out of or in consequence of the Project.
- 17.3 All Insurance Policies shall be issued by one or more insurance companies authorized to carry on the relevant insurance business under the Insurance Companies Ordinance (Cap. 41). All Insurance Policies shall contain a clause whereby the insurer shall irrevocably and unconditionally waive any right of subrogation or any other right or claim against the Government.
- 17.4 Upon expiry of any of the Insurance Policies during the continuance of this Agreement, the Grantee shall renew the same on and subject to the original terms and conditions or otherwise such revised terms and conditions as the Government may stipulate. The Grantee shall produce to the Government receipts issued by the relevant insurer evidencing payment of the premium payable under the Insurance Policy to be renewed no later than 14 days prior to the expiry of the Insurance Policy; and upon issuance of the renewed Insurance Policy, the Grantee shall forthwith furnish a copy of the same to the Government.
- 17.5 Under no circumstances whatsoever shall the Government be responsible for the premium payable under the Insurance Policies or the premium payable for the renewal thereof.
- 17.6 The Grantee shall conform to the terms and conditions of all Insurance Policies and all reasonable requirements of the insurers in connection with the settlement of claims, the recovery of losses and the prevention of accident. The Grantee shall not do or permit or suffer to be done any act or omission whereby any of the Insurance Policies shall be rendered void or voidable, or which would otherwise amount to a breach of any of the Policies. The Grantee shall bear the

consequences of, and indemnify the Government in full from and against any loss and liability which may arise from, any failure of the Grantee to do so.

- 17.7 The Grantee shall when required, deposit with the Government for safe keeping during the continuance of this Agreement such policy of insurance together with the receipt of payment of the current premium.
- 17.8 Under no circumstances shall the Government or the Assessment Committee be held liable for any third-party claims for loss or damages arising from the Project.

**18. Confidentiality**

- 18.1 The Grantee shall treat as confidential all information, drawings, specifications, documents, contracts, design materials and all other data (including any personal particulars, records and personal data (as defined in the PDPO) and materials of any nature (in or on whatever media)) accessible by the Grantee under this Agreement or which the Government has for the purposes of or in the course of performing this Agreement disclosed, supplied, made available or communicated to the Grantee, provided that this Clause 18.1 shall not extend to any information which was rightfully in the possession of the Grantee prior to the commencement of the negotiations leading to this Agreement or which is already in the public knowledge or becomes so at a future date (otherwise than as a result of a breach of this Clause).
- 18.2 The Grantee hereby agrees that it shall use the confidential information described in Clause 18.1 solely for carrying out the Project in accordance with this Agreement, and that it shall not, at any time whether during or after the completion, expiry or termination of this Agreement, use or allow to be used the same for any other purposes without the Government's prior written consent.
- 18.3 The Grantee undertakes to take all necessary security measures to protect the information, documentation and materials which it is obliged by Clause 18.1 to treat as confidential.
- 18.4 The Grantee shall ensure that each of its Associates and Associated Persons, each of the Project Co-ordinator and Deputy Project Co-ordinator and each of the Grantee's Directors, employees, agents, contractors, sub-contractors, consultants and their respective Associates and Associated Persons, and any other persons

engaged in any work in connection with this Agreement are aware of and comply with the provisions of this Clause 18 and the OSO.

- 18.5 The Grantee shall ensure that each of its Associates and Associated Persons, each of the Project Co-ordinator and Deputy Project Co-ordinator and each of the Grantee's Directors, employees, agents, contractors, sub-contractors, consultants and their respective Associates and Associated Persons and any other person engaged in any work in connection with this Agreement to whom any confidential information is to be disclosed will sign without delay a separate, legally binding, confidentiality agreement (in a form prescribed by the Government) if so requested by the Government.
- 18.6 The Grantee shall promptly notify the Government in writing of any breach of confidence, the PDPO or the OSO by any of the persons referred to in this Clause 18 and give the Government all reasonable assistance in connection with any proceedings which the Government may institute against any such person for any such breach.

**19. Termination of Agreement and Late interest**

- 19.1 Without prejudice to any other rights or remedies which the Government may have, the Government may at any time on the occurrence of any of the following events terminate immediately this Agreement by giving written notice to the Grantee with immediate effect:
- (a) the Grantee is in breach of any terms, conditions, warranties or undertakings in this Agreement and (in the case of a breach capable of being remedied) the Grantee fails to remedy the breach to the satisfaction of the Government within seven (7) days after receipt of a notice in writing from the Government requiring it to do so or within such period as the Government may in its sole discretion allow;
  - (b) without reasonable explanation acceptable to the Assessment Committee, PSCIT and Government, the Grantee persistently or flagrantly fails to fully and punctually comply with its obligations under this Agreement;
  - (c) the Grantee has abandoned this Agreement;

- (d) without prior notification to and agreement of the Government, the Grantee assigns or transfers any interest, right, benefit or obligation under this Agreement to any third party;
- (e) without prior notification to and agreement of the Government, the Grantee fails to carry out the Project on or before the Approved Date of Completion of the Project as specified in **Schedule 1** or suspend the Project for any reasons whatsoever unless in accordance with Clause 20;
- (f) in the opinion of the Government, the Funds or any parts thereof were abused, used for any purpose other than the specified or approved purposes of the Project or other than the Project generally;
- (g) in the opinion of the Government, the Grantee is unlikely to be able to deliver or carry out the Project in accordance with any terms or conditions of this Agreement;
- (h) in the opinion of the Government, the Grantee has failed to perform satisfactorily in the progress of implementing the Project;
- (i) in the opinion of the Government, it is in the public interest to cease to support the Project;
- (j) the Grantee fails to provide any reports, financial accounts or other documents in accordance with this Agreement, or any of the data, facts or information represented or provided by the Grantee in relation to the Project (including information relating to the Grantee's registration status or not-for-profit nature) or any information contained or attached to the Application Form to the Assessment Committee, PSCIT or the Government is incomplete, incorrect, untrue, inaccurate or misleading, or the Grantee withholds any material data, facts or information in relation to the Project;
- (k) the Government becomes entitled to terminate this Agreement pursuant to Clause 8;
- (l) a Director or shareholder of the Grantee has petitioned for bankruptcy or a bankruptcy petition is filed against a Director or shareholder of the Grantee;

- (m) the passing of any resolutions, the initiation of any proceedings, or the making of any order which may result in the winding up, dissolution, insolvency, administration, reorganization or reconstruction of the Grantee (otherwise than a solvent reorganization or reconstruction which the Government has approved in advance prior to its implementation) or the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of the Grantee or of any or all of the Grantee's assets or revenues or the Grantee makes an assignment for the benefit of or composition with its creditors generally or threatens to do any of the above or any event occurs under the laws of any jurisdiction that has a similar or analogous effect;
- (n) there shall be any material change of the objects, registration status, not-for-profit operation, business, nature, ownership, management or control of the Grantee or change of Directors or shareholders or other key personnels of the Grantee or the Project Team which, in the opinion of the Government, substantially prejudices any of the Government's rights or powers under this Agreement or the Grantee's ability to carry out the Project or its obligations under this Agreement;
- (o) the Grantee fails to secure and deliver contribution from the Grantee itself and/or from Sponsor and/or other sources which shall amount to not less than 50% of the Project Cost or fails to apply any such contribution to offset the expenditures of the Project, or fails to produce documentary evidence in respect of securing, or payment of, any such contribution to the satisfaction of the Assessment Committee, PSCIT and Government;
- (p) the Grantee, Project Co-ordinator, Deputy Project Co-ordinator, a Sponsor, Director, employee, contractor, sub-contractor, agent or other personnels of the Grantee who is in any way involved in the Project engages in any conduct which is reasonably considered by the Government to be prejudicial to the Project; or
- (q) the Grantee's Use of any IPRs for the purpose of or otherwise in connection with the performance of this Agreement is held by a court to constitute an infringement of a third party's IPRs.

19.2 On the expiry or termination of this Agreement:

- (a) this Agreement shall be of no further force and effect (but without prejudice to all accrued rights, liabilities and remedies and any provisions of this Agreement which expressly or by implication are intended to come into or continue in force on or after such expiry or termination);
- (b) all outstanding Funds under this Agreement shall immediately cease to be payable by the Government to the Grantee;
- (c) the Grantee shall, within four (4) months from the expiry or termination of this Agreement, deliver to the Government the Audited Accounts and an account of residual amount in accordance with Clause 12.2, and the Progress and other Reports as required under Clause 15.1;
- (d) the Grantee shall immediately return to the Government all amount paid by the Government in respect of such part of the Project which has not been performed by the Grantee at the date of expiry or termination of this Agreement, all sale proceeds from all Equipment disposed of, all Operating Surplus and/or Reserved Fund maintained in the Project Account and all Interest, together with all administrative, legal and other costs and interest accrued up to the date of repayment; and the Government reserves the right to claim back all or part of the Funds that have been expended; and
- (e) the Grantee shall, upon the Government's request, immediately assemble or compile (as the case may be) in an intelligible and orderly manner and deliver all or any materials relating to the Project Materials to the Government.

19.3 If this Agreement is terminated by the Government pursuant to Clause 19.1, without prejudice to any of the Government's other rights and remedies, the Government may require the Grantee:

- (a) to repay immediately all or any sums provided by the Government pursuant to this Agreement together with all administrative, legal and other costs and Interest accrued up to the date of repayment;



- (b) to, upon the Government's request, (i) provide the Government with information relating to all or any contracts entered into by the Grantee in relation to the Project so as to enable the Government (or its nominees) to take over the Project; (ii) assign to, or as the case may be, procure the assignment to, the Government (or its nominees) of the rights of the Grantee in all or any such contracts entered into by the Grantee in relation to the Project; and (iii) do and execute any further things and documents (or procure that the same be done or executed) as may be required by the Government to give full effect to sub-clause (ii) and provide all such documents and materials to the Government within the timeframe as the Government may specify; and
- (c) to, at the Government election, dispose of the Equipment at the prevailing market price by way of sales by public auction in accordance with such procedures as the Government may specify or make other arrangements for disposal in accordance with the direction of the Government. The Grantee must comply with the Government's requirement and specification. The sale proceeds of the Equipment disposed of shall belong to the Government and be paid to the Government in such manner and such time as the Government may specify.

19.4 If the Grantee fails to pay any sum pursuant to any provision of this Agreement when due (whether legally or formally demanded or not and both before and after judgment), the Grantee shall, without prejudice to any rights or remedies of the Government under this Agreement or otherwise, pay interest at the rate as the Government may specify to accrue on a daily basis in a year of 365 days from the date immediately following the due date until the date of actual payment in full.

## **20. Force Majeure**

20.1 A party prevented by an event of Force Majeure may be excused from performance of the obligations under this Agreement for so long as such event shall continue. The party so prevented shall as soon as possible give notice in writing to the other party of the occurrence of the event of Force Majeure.

20.2 Should the performance by the Grantee of its obligations under this Agreement be prevented by Force Majeure for 14 days (either consecutive or in the aggregate) or longer, the Government shall be entitled, at the expiration of such period, to

terminate this Agreement by not less than seven (7) days' notice in writing to the Grantee and in which case, Clause 19 shall apply.

- 20.3 Subject to Clause 20.2, in the event that performance of obligations under this Agreement is delayed by Force Majeure, the parties shall diligently endeavour to achieve expeditiously the normal pursuit of this Agreement and to make up for the time lost.

**21. No Double Emoluments**

21.1 Unless otherwise agreed by the Government:-

- (a) no additional emoluments shall be paid out of the Funds to any person working on or otherwise involved in the Project who is or becomes remunerated or rewarded on a full-time basis by the Government or any person who receives any grant, subvention or financial subsidy, assistance or support from the Government; and
- (b) the Grantee shall not be entitled to make any claims against the Funds in respect of remuneration or reward payable to any person other than remuneration or reward wholly, exclusively and necessarily attributable to that person's service or services in carrying out the Project.

**22. Notice**

22.1 Each notice, demand or other communication given or made under this Agreement shall be in writing and delivered or sent to the relevant party at its address or facsimile number or email address set out below:

To the Government: Assistant Commissioner for Tourism cum  
Secretary, Mega Events Fund Assessment Committee  
c/o Tourism Commission  
22/F, West Wing, Central Government Offices  
2 Tim Mei Avenue, Tamar, Hong Kong  
Email: [mefsecretariat@cedb.gov.hk](mailto:mefsecretariat@cedb.gov.hk)  
Facsimile Number: 2121 8791

To the Grantee:            *[Full Name,*  
                                  *Post, Name of Grantee,*  
                                  *Address*  
                                  Email : *Email address*  
                                  Facsimile Number: *Fax no*    ]

22.2 Such notices, demands or other communications shall be addressed as provided in Clause 22.1 and, if so addressed, shall be deemed to have been duly given or made as follows, whichever is earlier:

- (a) if sent by personal delivery, upon delivery at the address of the relevant party;
- (b) if sent by post, two (2) business days for local post and five (5) business days for overseas post after the date of posting; and
- (c) if sent by facsimile or email, when dispatched with confirmed receipt as evidenced by the transmission report generated at the end of the transmission of such facsimile or email by the facsimile machine or the computer used for such transmission.

**23. Relationship of the Parties**

23.1 Nothing contained or implied in this Agreement or in the arrangements contemplated by it is intended or shall create a partnership, joint venture or association of any kind between the parties hereto and, save as expressly provided in this Agreement, neither party shall enter into or have authority to enter into any engagement or make any representation or warranty on behalf of, or pledge the credit of or otherwise bind or oblige the other party hereto. Nothing contained or implied in this Agreement shall be so construed as to constitute either party to be the agent of the other.

**24. Time of Essence and Waiver**

24.1 Time shall be of the essence for the purpose of performance of the Grantee's obligations under this Agreement, but no waiver failure by either party to exercise and no delay by either party in exercising any right or remedy available to it under

this Agreement or in law or in equity shall operate as a waiver of such right or remedy, nor shall any single or partial exercises of any such right or remedy preclude any other or further exercise thereof nor shall any such failure to exercise, or delay in exercising, or single or partial exercise of, any such right or remedy preclude the exercise of any other right or remedy. The rights and remedies of each party herein contained shall be cumulative and not exclusive of any other rights or remedies provided by law or in equity.

**25. Modifications**

25.1 Subject to the provisions of this Agreement, no modification, amendment or addition to this Agreement shall be valid unless it is made in writing and with prior agreement by the Government.

**26. Entire Agreement**

26.1 This Agreement constitutes the entire agreement between the parties in relation to the provision of the Funds by the Government to the Grantee and supersedes all prior agreements (whether oral or in writing), letters and other documents in whatever form concerning the same. The parties confirm that they have not entered into this Agreement upon the basis of any statements, undertakings, warranties or representations that are not expressly stated in this Agreement.

**27. Severability**

27.1 If any provision of this Agreement or its application to any circumstances shall, to any extent, be invalid, illegal or unenforceable, the remainder of this Agreement and the application of that provision to other circumstances shall not be affected thereby, and each provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

**28. Execution of Further Documents**

28.1 The Grantee shall do and execute any further things and documents (or procure that the same be done or executed) as may be required by the Government to give full

effect to Clauses 16 and 18 and shall provide all such documents and materials to the Government within the timeframe as stipulated by the Government.

**29. Governing Law and Jurisdiction**

29.1 This Agreement shall be governed by and construed in accordance with the laws of Hong Kong and each party agrees to submit to the exclusive jurisdiction of Hong Kong courts.

**30. Saving**

30.1 Nothing in this Agreement shall be taken to restrict, derogate from or otherwise interfere with any powers, discretions or duties, or the exercise or performance of any powers, discretions or duties, conferred or imposed by or under any law upon the Government, any Government bureau or department or any public officer or other person in the employ of the Government.





## SCHEDULE 1

1. **Grantee's Name:** [Name of Grantee]

**Address of Grantee's Registered Office / principal place of business:**

[Address

Registration's description of the Grantee]

2. **Date of Submission of Application (including all its appendices, attachments and supplements):** On [Date], the Grantee submitted an application form in respect of the Project (including all its appendices, attachments and supplements) to the Assessment Committee and Government. On [Date(s)], the Grantee submitted revisions and supplements to the Assessment Committee and Government. A copy of such application form (including all the appendices, attachments, supplements and revisions in relation to the application submitted by the Grantee on or after [Date] to the Assessment Committee and Government) approved and accepted by the Government is annexed at the **Appendix**.

3. **Approved Funds:**

A maximum sum of Hong Kong Dollars (HK\$)[MEF maximum amount] only;

Provided that:

- (a) the total Government's contribution (including the Funds payable by the Government) shall not exceed **50%** of the Project's Cost; and
  - (b) the Funds payable by the Government is subject to the additional funding conditions stipulated in **Schedule 2**, and that the Grantee shall deliver the Project Result under this Agreement in accordance with and achieve the approved deliverables, targets and key performance indicators of the Project as stipulated in **Schedule 2**.
4. **Approved Date of Completion of the Project:** [Date]
  5. **Commencement Date of this Agreement:** [Date]



## SCHEDULE 2

### **Additional Funding Conditions and Approved Deliverables, Targets and Key Performance Indicators of the Project**

#### Additional Funding Conditions

(a) ...

#### Deliverables and Targets of the Project

The Grantee agrees, undertakes and warrants to –

(a) ...

#### Key Performance Indicators of the Project

(a) ...

### **SCHEDULE 3**

#### **Payment of Funds**

##### **Payment Schedule:**

- (a) **50%** of the Approved Funds payable (**HK\$[Amount]** only) will be provided upon the entering into an Agreement between the Grantee and the Government in relation to the provision of the Funds by the Government for the Project.
  
- (b) The Government will only release the remaining Funds to the Grantee in accordance with the terms and conditions of the Agreement and after the Project has been satisfactorily completed and that the Assessment Committee, PSCIT and Government have received and accepted the final Audited Accounts, Evaluation Report, Publicity Report and Survey Report from the Grantee referred to in Clauses 12 and 15 of this Agreement, and is further subject to the Grantee's full compliance with all its obligations under this Agreement.

## SCHEDULE 4

### Brand Hong Kong Signature and Tourism Commission's Logo

#### *Brand HongKong Signature (English and Chinese):*

English Version



Chinese Version



#### *Tourism Commission's Logo:*

**Sponsored by Mega Events Fund**  
**盛事基金贊助**



## **SCHEDULE 5**

### **Project Co-ordinator and Deputy Project Co-ordinator**

1. Project Co-ordinator: [*Name, Post, Name of Grantee*]
2. Deputy Project Co-ordinator: [*Name, Post, Name of Grantee*]

**LegCo Public Accounts Committee**

**Report No. 62 of the Director of Audit – Mega Events Fund**

**Opening Statement for PSCIT**

Chairman and members,

My colleagues and I would like to take the opportunity of today's PAC Hearing to explain the Government's view on the observations, comments and recommendations in respect of the Mega Events Fund (the MEF) as set out in Chapter 3 of Report No. 62 of the Director of Audit.

Before we answer members' questions, I wish to briefly set out the Government's position. First of all, as the Controlling Officer of the MEF, I welcome the Director of Audit's Report. The MEF was set up in 2009 when Hong Kong's economy, including the tourism industry, was hard-hit by the global financial tsunami and the swine flu epidemic. New impetus from the Government and the community to revitalize the economy, amongst them measures to attract visitors to return to Hong Kong, was badly needed. It was with this in mind that the Government sought the support of the Finance Committee to set up the MEF for supporting local non-profit-making organizations to host mega events in the arts, culture and sports fields. It was hoped that these mega events would help preserve the attractiveness of Hong Kong as a premier tourism destination and the Events Capital of Asia, and inject vibrancy to our economy through the creation of short-term employment. The MEF was set up initially for three years as we did not expect the economic downturn to persist on a long term basis.

During the initial period of the MEF's operation, both the Tourism Commission, which provided the secretariat for the Fund, and the Mega Events Fund Assessment Committee (MEFAC) were hoping to support mega events of different varieties organised by local non-profit-making bodies in different fields. This would enrich our events calendar, and increase Hong Kong's exposure in overseas and the Mainland through broadcasting of and reports on such events by the media. Both the MEF Secretariat and the MEFAC recognized that non-profit-making organisations possessed comparatively fewer resources, and might have limited experience and capacity in respect of hosting mega events. The focus of the Secretariat and the MEFAC when considering an MEF application and supervising an event's implementation was the

organizer's ability to successfully stage the event, the attendance level of the event, feedback from participants, and whether media reports had been satisfactory.

Staff of the MEF Secretariat supervised the implementation of MEF-supported events through attending relevant meetings with the organizers during the preparatory stage, conducting first-hand and on-site observation during event periods, as well as scrutinizing and cross-checking documents submitted by the organizers and audited accounts prepared by independent auditors. In the past, the Secretariat had identified issues that might be questionable or unclear, and had accordingly demanded rectification of the situations. There were also cases where it was established that the events concerned were unable to reach the pre-set targets or had drawn negative feedback. The Secretariat had therefore recommended imposing sanctions to the relevant organizers for the MEFAC and the Controlling Officer's consideration. The Audit Commission also pointed out in its Report that nine (41%) of the 22 completed MEF events as of February 2014 had been subject to financial sanctions. This was done on the recommendations of the Secretariat and the MEFAC to the Controlling Officer, having examined the outcome of the relevant events.

As regards procurement activities and engagement of event agents, which are areas of greater concern recently, the MEFAC and the Secretariat have been given to understand, through information provided or the briefing to the MEFAC by the organizers, that some members of the organizing committees of certain events would be providing the key performing elements or acting as agents for those events. Notwithstanding this, we agree with the Audit Commission's observation that the Secretariat's work in the area of requiring proper declaration of interest by organizers, supervising event implementation, scrutinizing relevant documents and invoices with a view to ascertaining whether an event has reached its pre-set targets is insufficient. This was particularly so during the initial period of the MEF's operation, when the system for supervision was less than perfect due to lack of experience. We have made it clear that we accept the recommendations in Part 5 of Chapter 3 of the Audit Report, which aim at improving the supervision work.

The Audit Commission's specific recommendations include revising the guidelines for MEF Tier 2 system and the documents provided to applicants and recipients of the MEF. For example, organizers should be required to disclose in their applications and assessment reports their management teams and the related organisations that may take an active

part in staging the events. On this, we will insert a specific entry in the relevant documents to mandate the declaration of potential and possible conflict of interests by applicants. We will also remind applicants to submit all relevant supporting documents. We will implement these measures at once. We will also add as soon as possible staff with accounting knowledge to the MEF Secretariat to enhance the effectiveness and professionalism of the supervision and scrutiny work. Moreover, the MEF Secretariat will more frequently and proactively consult and adopt relevant departments' views and suggestions in respect of MEF events, with a view to perfecting the operation of the MEF.

The Government has also noted the Audit Commission's query on the effectiveness of the MEF. In fact, the Tourism Commission has reviewed the objective, effectiveness and operation of the MEF in 2011. The conclusion was that as Hong Kong gradually recovered from the economic downturn, the MEF as a means to preserve economic vitality and create short-term employment had fulfilled its mission. However, Hong Kong was faced increasingly with challenges caused by the zealous effort of competitor cities such as Singapore, Seoul, Macau and Shanghai in attracting mega events and entertainment projects through providing financial and other incentives. The Government has therefore decided to revamp the MEF by introducing a new Tier 1 system that aims at attracting new or renowned international mega events to Hong Kong, and revising the previous system to form a more flexible Tier 2 system with a view to supporting local non-profit-making bodies to hold events that have the potential of developing into mega events, especially those that could showcase Chinese or local cultural features. We are grateful to the work and recommendations of the Audit Commission. Indeed, taking into account that the MEF has operated for 4 years and that it has been actively identifying suitable Tier 1 events to bring to Hong Kong, the MEFAC has held a brainstorming session in the first quarter of this year to consider how the operation of the MEF could be further improved. The Tourism Commission will follow up the recommendations of both the Audit Commission and the MEFAC in earnest.

Looking ahead, we believe that through the Audit Commission's work, the Government, the MEFAC, as well as the applicants and recipients of the MEF, will have a much clearer and more thorough understanding of the public and the Legislative Council's expectation on the implementation and supervision of MEF-supported events. We will add new staff with accounting knowledge to the Secretariat, and will inject new blood into the MEFAC to enhance the effectiveness of its assessment and supervision work. Meanwhile, we will continue to seek the staging

of more mega events in Hong Kong. In doing so, we will assess with even greater care whether an event is worth supporting, and will supervise the implementation of MEF-supported events in a more detailed manner, particularly for the Tier 1 events. We appreciate that LegCo Members and the media do take some interest on whether Tier 1 events may be introduced in the near future. We will work hard on this, and in the meantime ensure the proper use of public funds.

As regards the future of the MEFAC, given that the allocation for the MEF will run until March 2017, we will conduct a comprehensive review before this date. The Audit Commission's Report will undoubtedly provide fresh perspectives for, and be conducive to, the completion of the review.

Mr Chairman, at the request of the PAC Secretariat, we provided some supplementary information on 25 April for members' reference. The Commissioner for Tourism, his colleagues and myself would be pleased to answer members' questions.



**Implementation of the CPD/ICAC's Recommendations  
on the Mega Events Fund (MEF)**

<b>Recommendations/Views</b>	<b>Implementation Status</b>
<ul style="list-style-type: none"> <li>The assessment should take into account the applicants' background and governance structure, track record, and their human, financial and technical resources to ensure that successful applicants are capable of hosting the events satisfactorily.</li> </ul>	<ul style="list-style-type: none"> <li>Accepted and implemented.</li> <li>The MEF Application Form, Guide to Application and the Assessment Criteria cum Marking Scheme have been suitably amended to reflect on the requirement, and the need to provide more detailed information of the background, governance structure, track record/past experience and capabilities/resources of the applicant, joint applicants and the Project Co-ordinator and Deputy Project Co-ordinator for consideration by the MEF Assessment Committee.</li> <li>The marking scheme has also highlighted that the assessment will take these aspects into account.</li> </ul>
<ul style="list-style-type: none"> <li>Sponsorships in kind as claimed in the applications should be verified against their market prices, as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Accepted and implemented.</li> <li>The MEF Application Form and Guide to Application have been suitably amended to require that for in kind sponsorship, MEF applicants should provide proof to demonstrate that the claimed values of the sponsored items or services are comparable with the market prices, so as to facilitate checking by Secretariat staff as well as for consideration by the MEF Assessment Committee, as appropriate.</li> </ul>

<b>Recommendations/Views</b>	<b>Implementation Status</b>
<ul style="list-style-type: none"><li>• Successful applicants should be provided with a copy of the ICAC's Best Practice Checklists on procurement and staff recruitment. They should be encouraged to seek ICAC's assistance in adopting the best practices.</li></ul>	<ul style="list-style-type: none"><li>• Accepted and implemented.</li><li>• The MEF Agreement and Guide to Application have already been amended to require that successful MEF applicants shall obtain a copy of the ICAC's Best Practice Checklists on procurement and staff recruitment, and that they shall seek ICAC Corruption Prevention Department's assistance in adopting the best practices, draw up a Code of Conduct for compliance by its Directors and employees, and to ensure proper corruption prevention safeguards are incorporated into its procurement and staff recruitment procedures.</li><li>• MEF successful applicants will be reminded of the above before the signing of the Agreement.</li></ul>
<ul style="list-style-type: none"><li>• Successful applicants should be required to establish a two-tier approval system for hiring key personnel or awarding major procurement contracts in implementing the funded events.</li></ul>	<ul style="list-style-type: none"><li>• Accepted and implemented.</li><li>• The MEF Agreement and Guide to Application have already been amended to provide that successful MEF applicants shall establish a two-tier approval system for the recruitment of key personnel/staff and the award of major goods, services and equipment contracts in procurement/tendering exercises conducted for the MEF project.</li><li>• MEF successful applicants will be reminded of the above before the signing of the Agreement.</li></ul>

<b>Recommendations/Views</b>	<b>Implementation Status</b>
<ul style="list-style-type: none"><li>• Successful applicants should be given detailed guidelines on the disposal of equipment acquired with MEF.</li></ul>	<ul style="list-style-type: none"><li>• Accepted and implemented.</li><li>• The MEF Agreement and Guide to Application have been amended to clearly spell out the requirement that Government may require the successful MEF applicants to dispose of the Equipment at any time at the prevailing market price by way of sales by public auction in accordance with such procedures as the Government may specify. The Grantee must comply with the Government's requirement and specification. The sale proceeds of the Equipment disposed of shall belong to Government and be paid to the Government in such manner and by such time as the Government may specify.</li><li>• MEF successful applicants will be reminded of the above after completion of the project.</li></ul>
<ul style="list-style-type: none"><li>• A standard monitoring report form (for recording personal observations) should be devised for completion by staff of the Secretariat or AC members who conducted site visits of funded events.</li></ul>	<ul style="list-style-type: none"><li>• Accepted and implemented.</li><li>• A standard form has been developed and endorsed by the MEF Assessment Committee.</li><li>• The MEF Guide to Application has been amended to clearly spell out that observations of the monitoring visits or meetings of the funded event may be recorded, and that such observations will be taken into account by the MEF Assessment Committee in considering and/or evaluating the performance of the successful applicants under the MEF Agreement.</li></ul>

Recommendations/Views	Implementation Status
<ul style="list-style-type: none"> <li>The number of staff employed by the successful applicants and the number and price of the equipment purchased should be randomly verified during site visits of the events.</li> </ul>	<ul style="list-style-type: none"> <li>Accepted and implemented.</li> <li>The MEF Agreement and Guide to Application have been amended to require that successful applicants shall permit and assist the MEF Assessment Committee, Secretariat and Government or their authorised representatives to verify the number of staff employed for the project and the number and market prices of the Equipment deployed for the project or for the events and activities of the project being visited.</li> <li>A report will be compiled by Secretariat staff after the checking on site.</li> </ul>
<ul style="list-style-type: none"> <li>A set of internal guidelines should be developed on different levels of sanction to be imposed on successful applicants who are unable to comply with funding conditions in the MEF Agreement.</li> <li>Some CPAC Members also opined that more stringent guidelines should be set for evaluating the MEF events; and that any unused MEF should be returned to Government upon the lapse of the funding scheme.</li> </ul>	<ul style="list-style-type: none"> <li>Accepted and implemented.</li> <li>A set of internal Guidelines on the Level of Sanction has been devised and endorsed by the MEF Assessment Committee.</li> <li>The MEF Agreement has been amended to clearly provide that Government reserves the right not to pay all or any outstanding MEF to the successful MEF applicant or the right to adjust or reduce the amount of outstanding MEF to be paid or the right not to consider any applications by the successful applicant for MEF, if the Project result is unsatisfactory or the successful applicant fails to comply with the terms and condition under the MEF Agreement.</li> <li>The Administration will examine the way forward of the MEF in mid 2011.</li> </ul>

**Secretariat**  
**Mega Events Fund Assessment Committee**  
**Tourism Commission**  
**January 2011**



廉政公署

INDEPENDENT COMMISSION AGAINST CORRUPTION

防止貪污處 Corruption Prevention Department

香港北角渣甸道303號 303 Java Road, North Point, Hong Kong

傳真 Fax: (852) 2521 8478 電郵 Email: cpd@icac.org.hk 網址 Website: http://www.icac.org.hk

Our Ref. : CPD/ASM/TOC/2010/036

Tel. No. : 2826 3227

15 November 2010

Mr. Philip Yung, JP  
 Commissioner for Tourism  
 2nd Floor, East Wing  
 Central Government Offices  
 Lower Albert Road  
 Central, Hong Kong

Dear Philip,

**Assignment Report No. 36/2010  
 Tourism Commission (TC)  
 Administration of Mega Events Fund**

I am pleased to enclose four copies of the above Assignment Report which was endorsed by the Corruption Prevention Advisory Committee (CPAC) at its meeting on 30 September 2010.

In endorsing the report, CPAC Members recommended that TC should issue more stringent guidelines for staff in evaluating events that involved substantial grants and carried a commercial name. Members also doubted the need for continuing the Scheme which was set up at the time of financial difficulties, and, in view of the changed economic situation, suggested that TC should consider returning the unused funds to the Government.

I should be grateful if you would let us have your comments on the report's recommendations and those of the CPAC. To facilitate your implementation of these recommendations, we would be happy to give a presentation on the major corruption risks identified and the key recommendations to your staff, if necessary.

We would like to express our gratitude for the assistance and support rendered by your staff in the course of this study. Please feel free to contact me or Mr. Kenneth Wong at 2826 3180 if you have any questions.

Yours sincerely,

(Nelson Chan)

for Director of Corruption Prevention  
 Independent Commission Against Corruption

Encl.

Restricted (Administration) 内部文件 (行政)

**Assignment No. 36/2010**

**Assignment Report**

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**Tourism Commission  
Administration of Mega Events Fund**

# Corruption Prevention Department

防止貪污處

30 September 2010

**Group : G**  
**Head : Mr. Nelson Chan**  
**Officer : Mr. Kenneth Wong**



Restricted (Administration) 内部文件 (行政)

**RESTRICTED (ADMINISTRATION) 內部文件(行政)**

*Ref. : CPD/ASM/TOC/2010/036*

**Assignment No. 36/2010**

**Assignment Report**

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**Tourism Commission**

**Administration of Mega Events Fund**

**30 September 2010**

<b>Group</b>	<b>:</b>	<b>G</b>
<b>Head</b>	<b>:</b>	<b>Mr. Nelson Chan</b>
<b>Officer</b>	<b>:</b>	<b>Mr. Kenneth Wong</b>

*Reading members are welcome to contact the CPD officers to discuss the report prior to the meeting. All members are requested to bring their copies of the report to the meeting, or, if unable to attend, to return them to the Secretary in due course.*

# **RESTRICTED (ADMINISTRATION) 内部文件(行政)**

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1. List of Approved Applications for Mega Events Fund
2. Implementation Status of CPD Recommendations Made on the Mega Events Fund Previously
3. Marking Scheme for the Assessment of Mega Events Fund Applications

**ABBREVIATIONS**

AC	Assessment Committee
B/D	Bureaux/Departments
CPD	Corruption Prevention Department
MEF	Mega Events Fund
PS/CIT	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)
TC	Tourism Commission

**LIST OF PERSONS CONSULTED**

Miss Rosanna Law	Deputy Commissioner for Tourism
Mr. Vicent Fung	Assistant Commissioner for Tourism
Ms. Jane Tong	Manager (Tourism)
Ms. Judith Lau	Assistant Manager (Tourism)
Mr. Gabriel Li	Assistant Manager (Tourism)

## **Part I – Executive Summary**

### **Origin**

In May 2009, the Government earmarked a sum of \$100 million to set up the Mega Events Fund (MEF, 盛事基金), for a period of three years, to assist non-profit-making organizations to host mega arts, cultural or sports events. Since the inception of the MEF, the Corruption Prevention Department (CPD) has been offering advice on the funding procedures to the Tourism Commission (TC) which is responsible for managing the fund. In view of the risk of abuse, such as unfairness, in fund approval and enforcement of funding conditions, TC and CPD agreed that a follow-up study should be conducted to review the adequacy of the safeguards built in TC's procedures.

### **Scope**

2. The study covers TC's procedures and practices for processing funding applications, monitoring the grantees' performance and enforcing the funding conditions.

### **System Overview**

3. A designated team headed by an Assistant Commissioner of TC is responsible for the administration of the MEF (para. 12), from screening applications for funding (against specified assessment criteria, para. 18) and making recommendations for approval of funds, to monitoring deliverables by the grantees. An Assessment Committee (AC) comprising non-official members from the arts, sports, cultural and tourism sectors and senior government officials assesses the screened-in applications based on the laid down criteria using a marking scheme. All funding proposals are approved by the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (para. 23).

4. While no maximum amount has been set on the level of funding for individual events, the grantees are required to meet at least 50% of the total actual cost of their events (e.g. sponsorship or donation in cash or in kind, or event admission fees). The value of sponsorship or donation in kind is assessed for the purpose of calculating the amount of grants for approval. Any surplus fund should be returned to the Government (para. 10). So far, 46 applications were received, 34 rejected and 10 approved, involving a total grant of \$45 million (para. 11).

5. The grantees are required to sign a funding agreement which sets out the event details (e.g. deliverables) and the funding conditions (e.g. payment methods,

## RESTRICTED (ADMINISTRATION) 內部文件(行政)

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ethical commitment, procurement by competitive means, and reporting and auditing requirements) (paras. 26 & 27). Grants for the approved events are normally paid by two installments, i.e. an upfront payment of up to 50% of the approved grant and the balance upon event completion (para. 28). TC monitors compliance with the approved objectives and deliverables of the funded events mainly by conducting progress meetings with the grantees, making site visits (para. 33), and reviewing the audit reports and event reports from the grantees (para. 35). In case of breaches of the funding conditions or failure to meet the performance targets or deliverable, TC may cut the approved funds or even terminate the agreement (para. 29).

### Key Findings

6. The main concerns in the system under study are possible perception of unfairness or favouritism in the approval of grants, and connivance at shortfalls in meeting the pledged deliverables. There is also the risk of abuse by the staff of grantees when they make procurement or recruit temporary staff for the approved events. With CPD's input at the development stage of the system, TC has built in a number of safeguards, e.g. the AC members are subject to probity requirements (para. 15); the application procedures and selection criteria are publicized (para. 14); and the grantees are contractually committed to probity requirements (para. 16), including the obligation to adopt open and competitive procedures in procurement and staff recruitment (para. 27).

7. The study has identified a few areas for further improvement to prevent corrupt practices and abuse. The major issues are highlighted below:

- (a) **Scrutiny of the Applicants' Competence in Organizing Mega Events** - The success of the mega events hinges largely on the capability and experience of the organizers. TC does not include in the marking scheme the applicants' organization structure and experience in organizing similar events to ensure that only competent and bona fide non-profit-making organizations are selected for the scheme (para. 20).
- (b) **Monitoring of Deliverables of Approved Events** - Despite the pledges made in the funding agreement, some grantees have failed to meet the deliverables (e.g. failing to spend the approved funds on the pledged activities). TC has yet to establish a system to check the deliverables and take action against non-compliance in a consistent manner (paras. 35 & 36).
- (c) **Safeguards Against Payment Fraud** - There are also inadequate measures to prevent the grantees from using falsified purchasing and payroll records to deceive payments (para. 34).

## **Summary of Recommendations**

8. CPD's recommendations given to TC are summarized at *Appendix 2*, the majority of them have been implemented. The following recommendations are made to further enhance the application procedures and to establish an effective framework for monitoring of events after approval. TC should:

### **Application Procedures**

- (a) include the applicants' background and governance structure, track records, and human, financial and technical resources in the marking scheme to ensure that the successful applicants are capable of operating the events to the Government's satisfaction (para. 20);
- (b) verify the values of sponsorships in kind included in the proposed budgets against the market prices of the sponsored items as appropriate (para. 25);

### **Monitoring and Enforcement Procedures**

- (c) provide a copy of the Best Practice Checklists on procurement and staff recruitment issued by CPD to the grantees and advise them to seek CPD's assistance in adopting the best practices (para. 31(a));
- (d) require the grantees to establish a two-tier approval system for the hiring of key personnel or award of major procurement contracts to enhance checks and balances (para. 31(b));
- (e) issue guidelines on the disposal of the equipment acquired with the MEF funds, requiring the grantees either to sell the equipment and return the proceeds to the Government or, if the grantees are allowed to keep the equipment, to properly record it for audit checks (para. 32);
- (f) design a standard monitoring report form for recording the observations made in site visits by TC's staff and the AC members (para. 33);
- (g) require the staff concerned to randomly verify the number of staff employed by the grantees when making site visits, and the number and price of the equipment purchased (para. 34); and
- (h) issue guidelines on different levels of enforcement action for non-compliance with the funding conditions, taking into account the nature of the breaches (para. 36).

## Part II – Background

### Mega Events Fund

9. To promote Hong Kong as the events capital of Asia and to attract tourists, the Mega Events Fund (MEF, 盛事基金) of \$100-million was set up in May 2009 to fund local non-profit-making organizations (para. 18) in hosting mega arts, cultural or sports events for a period of three years.

10. Under the MEF scheme, there is no upper limit on the financial support for individual events and successful applicants (i.e. the grantees) may be awarded up to 50% of the budgeted expenditure of their proposed events. The remaining expenses are to be met by the grantees' internal resources or other sources of income (e.g. sponsorship, donation, or admission fees) (para. 25). Any surplus of the event must be returned to the Government. Existing events that normally receive public funding or are self-sufficient financially will be approved only if the MEF grant will be used solely for organizing additional activities which can significantly enlarge the scale of the event or raise its international profile.

11. So far, three rounds of applications have been processed, and a total of \$45 million has been committed for 10 successful applications (a list of which is at *Appendix I*), with the approved funds for individual events ranging from about \$800,000 to \$10 million. Seven of the ten approved events were completed, one was withdrawn<sup>1</sup>, and the remaining two will be held in January and April 2011 respectively. The table below shows a breakdown of the applications processed in the three rounds of application.

Date	Received	Approved	Rejected	Withdrawn
July 2009	17	6	11	0
November 2009	11	1	10	0
April 2010	18	3	13	2
<b>Total</b>	<b>46</b>	<b>10</b>	<b>34</b>	<b>2</b>

### Organization

#### Tourism Commission

12. The Tourism Commission (TC) under the Commerce and Economic Development Bureau is responsible for managing the MEF scheme. Headed by

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<sup>1</sup> The Royal Hong Kong Yacht Club, organizer of the "Louis Vuitton Hong Kong Trophy" scheduled to be held in January 2011, has withdrawn its application.

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an Assistant Commissioner for Tourism, a secretariat staffed by a Manager and two Assistant Managers provides administrative support for the scheme.

### **Assessment Committee**

13. The Assessment Committee (AC), appointed by the Secretary for Commerce and Economic Development, assesses applications and makes recommendations to the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PS/CIT) on the selection of successful applications, the funding amount, and the grant terms and conditions. The AC consists of six non-official members (including the chairman) from the arts, sports, cultural, event management and tourism sectors and three officials at the Deputy Secretary level from the Home Affairs Bureau, the Information Services Department and the Tourism Commission.

### **Guidelines and Instructions**

14. TC has publicized an MEF Guide to Applications on its website, setting out the eligibility criteria, the application and assessment procedures, the rules on the administration and financial management of the funded events, and the monitoring and evaluation arrangements. It has also issued internal guidelines on the assessment of applications and monitoring of approved events.

### **Probity Requirements**

#### **Assessment Committee**

15. Upon CPD's advice (para. 17), TC has issued a set of probity guidelines for the AC members, covering acceptance of advantage and entertainment, declaration of conflict of interest, handling of confidential and privileged information and misuse of one's official capacity. The AC members are also required to declare their interests, including employment in public and other services, which are open for public inspection upon request.

#### **Grantees**

16. As advised by CPD (para. 17), the MEF funding agreement subject the grantees and their directors, employees and related parties to anti-bribery clauses and the requirement to declare conflict of interest. Any breach of these conditions may lead to termination of the funding agreement.

### **CPD Advice Given**

17. Between May and November 2009, CPD offered advice to TC on the MEF application procedures, probity requirements for the AC members as well as applicants, and the funding agreement conditions. The majority of the

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recommendations have been accepted and implemented. A summary of the recommendations and their implementation status is at *Appendix 2*.



## Part III – System Under Study

### Eligibility Criteria

18. The MEF is open for application by bona fide<sup>2</sup> non-profit-making organizations, such as sports organizations, non-governmental organizations, art associations etc. To be qualified for the MEF, the proposed events should meet the following criteria:

- (a) ability to raise the profile of Hong Kong internationally, create a branding impact, attract visitors to Hong Kong specifically for the event, and generate local and overseas media coverage;
- (b) events of a considerable scale, with at least 10,000 people involved (including participants, spectators and reporters);
- (c) a non-local element, including participants from the Mainland and overseas; and
- (d) participation by the local public.

19. TC has drawn up a marking scheme (*Appendix 3*) for the assessment of applications against the laid down selection criteria, including the financial and technical viability of the proposed events. Applications have to attain over 60% in each of the five assessment criteria to be qualified for funding. The marking scheme and the weightings of individual criteria are announced in the Guide to Application (para. 14).

20. *Previous CPD studies on the governance structure of non-profit-making organizations observed that some of them lack the relevant expertise and resources to manage government funded projects. Although TC requires the applicants to submit, together with their applications, information on their background and organization structure for verification of their bona fide status (para. 21), these elements are not specifically included in the marking scheme (para. 19). As the grants dished out under the MEF are substantial (para. 11), there is the concern that the grantees may not have the expertise and resources to properly manage mega arts, cultural and sports events, hence increasing the risk of misuse or abuse of funds by unscrupulous staff of the grantees.*

**Recommendation:** To address the concern, TC should include in the marking scheme the background and governance structure of the applicants' organization, their track records in organizing similar events, and their human, financial and

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<sup>2</sup> Applicants should be non-profit-making organisations registered under the Societies Ordinance, or incorporated under the Companies Ordinance, or formed by statute in Hong Kong, or on the list of approved charitable institutions or trusts of a public character under the Inland Revenue Ordinance.

technical resources to ensure that the successful applicants have the capacity to implement and operate the events to the satisfaction of the AC and the Government.

### **Invitation and Receipt of Applications**

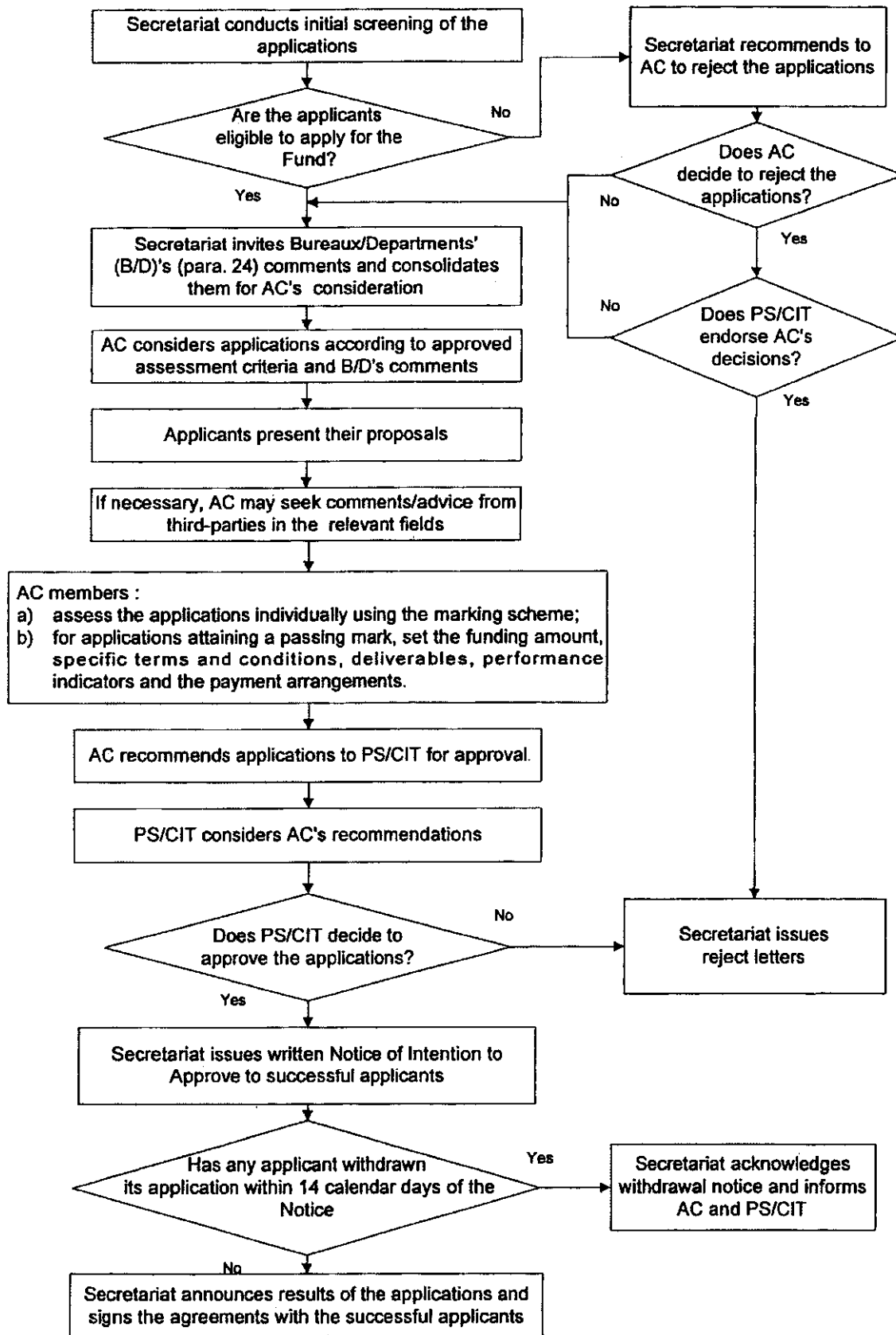
21. Applications are invited twice a year through the mass media and TC's website. Applicants are required to complete a standard application form, providing information about their organization and objectives, plans for implementation and promotion of the proposed events, deliverables, performance indicators, staffing, and financial proposals (including sources of income such as sponsorship and admission fees), together with documentary proof of the applicants' non-profit making status (e.g. constitution or Memorandum and Articles of Association and organization structure). Apart from the Guide to Application (para. 14), TC has also posted a set of frequently asked questions on its website and has set up a hotline for enquiry about the scheme.

22. The Manager, with the support of an Assistant Manager (para. 12), is responsible for the receipt of applications. All applications received are date-chopped and acknowledged in writing.

### **Assessment and Approval of Applications**

23. The assessment and approval procedures for the MEF applications are illustrated in the flowchart below:

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### Observations

24. TC has incorporated measures in the assessment and approval process to prevent abuse, including consultation with other bureaux/departments<sup>3</sup> (and third-party experts if necessary), independent scoring by the AC members and final approval by the PS/CIT. Deliberations are also fully documented.

### Assessment of Sponsorship in Kind

25. TC requires the applicants to source other resources, including sponsorship in cash or in kind, to meet the expenses of the proposed events not covered by the MEF grant. As the MEF grant is capped at 50% of the event's total expenses (para. 10), the estimated value of sponsorships in kind (e.g. souvenirs and free beverage for participants/spectators) would impact on the amount of MEF grant to be approved. *However, there are no guidelines on the evaluation of sponsorships in kind to ensure that all incomes are accurately reflected in the budget of a proposed event. Any over or under valuation of such sponsorships may give rise to perception of unfairness in the assessment of proposals.*

**Recommendation:** TC should issue guidelines requiring the staff, when assessing the proposed budgets of applications, to verify the values of sponsorships in kind against the market prices of the sponsored items, as appropriate.

## Funding Agreements

### Performance Targets and Deliverables

26. TC signs with the successful applicants a funding agreement which sets out in detail the approved event, restrictions on fund usage (e.g. only for overseas publicity or, in the case of an existing event, only for additional activities), payment arrangements, and project deliverables, targets and milestones which usually covers the following key aspects:

- (a) number of participating teams or individuals, spectators and reporters;
- (b) number of overseas visitors coming to Hong Kong specifically for the event;
- (c) number and nature of paid jobs created by the event;
- (d) special tourist packages developed and promoted in specified countries or regions; and
- (e) publicity campaigns carried out locally and outside Hong Kong.

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<sup>3</sup> These include the Home Affairs Bureau (supported by the Leisure and Cultural Services Department), Information Services Department, Government Economist, and the Hong Kong Tourism Board (as TC's executive arm).

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### **Funding Conditions**

27. The grantees are also required to comply with, among others, the following major funding terms and conditions:

- (a) prohibit all directors, employees and agents from offering, soliciting or accepting advantage in relation to the event and require them to declare any conflict of interest;
- (b) abide by open, fair and competitive principles in the procurement of goods and services and recruitment of staff for the event;
- (c) keep a register of the equipment procured costing \$5,000 or more and follow TC's instructions on their disposal after the event;
- (d) submit progress reports as and when required by TC and the following final reports within three months after the event completion:
  - an evaluation report detailing the achievement and actual incomes and expenditures as against the pledged deliverables and approved budget;
  - a publicity report containing a summary of all publicity materials and local and overseas media coverage; and
  - audited accounts, with the auditor's certification of compliance with the funding terms and condition.
- (e) maintain all books of accounts and records of the event for seven years and allow access by the Government for audit or inspection purposes.

### **Disbursement of Funds**

28. The AC and PS/CIT decide the payment arrangement upon approving an application. For all 10 events approved so far, the funds are to be paid in two instalments. The first installment (usually 50%<sup>4</sup> of the approved funds) is to be paid upon signing of the funding agreement and the second installment after satisfactory completion of the event and submission of the required reports and audited accounts (para. 35).

### **Sanctions Against Breaches**

29. Should the grantees, without reasonable explanation, fail to meet the project deliverables and targets or breach any funding terms and conditions, TC could stop payment of any outstanding funds or even terminate the agreement. Upon termination of an agreement, the grantee is required to return all unspent

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funds and may have to, upon TC's instruction, repay the total amount of the funds to Government.

### **Observations**

30. With CPD's input (para. 17), the funding agreement has incorporated provisions to ensure the proper use and management of funds by the grantees. However, areas for further improvement are proposed in the following paragraphs.

### ***Procurement and Staff Recruitment Procedures***

31. The grantees are required under the funding agreement to commit to open, fair and competitive principles in procurement and staff recruitment, and to comply with the probity requirements (para. 27 (a)&(b)). *As some new or small-scale non-profit-making organizations may not have in place a proper governance structure or established procedures for the said activities, some grantees may have difficulties in meeting the said requirements. There is also the concern that the lack of good governance or proper procedures would give rise to loopholes for corrupt practices.*

**Recommendations:** To assist the grantees to comply with the requirements in respect of procurement and staff recruitment, TC should:

- (a) provide the grantees with the Best Practice Checklists on procurement and staff recruitment issued by CPD upon approval of funds and advise them to seek CPD's assistance in adopting the best practices to suit their operations;
- (b) require the grantees to establish a two-tier vetting and approval system so that recruitment of key personnel or award of major goods or service contracts (e.g. those exceeding a specified value or percentage of the approved fund) are subjected to enhanced checks and balances (e.g. to be recommended by a senior officer and approved by the Chief Executive or the Board of the grantee).

### ***Disposal of Equipment***

32. While TC has stipulated in the agreement with the grantees that, if so required by TC, they have to dispose of the equipment procured for their events with the MEF funds and return the sale proceeds if any to the Government, *there are no guidelines on the handling of equipment held by the grantees after completion of the events (e.g. by sale or retention). The lack of guidelines may lead to inconsistent disposal practices and the risk of misappropriation by the staff of the grantees.*

**Recommendations:** To prevent abuse, TC should issue guidelines setting out the general requirement for the grantees to sell the equipment of value and return the proceeds to the Government. In the special circumstances that the grantees are allowed to keep the equipment or dispose of them as waste, it should be properly

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certified by a responsible staff member of the grantee and recorded in inventory books to facilitate audit checks.

### Monitoring of Approved Events

#### Monitoring Visits

33. The funded events are subject to continuous monitoring by TC and the AC. TC arranges a few progress review meetings with the grantees and pays monitoring visits before and during the events to ensure their smooth planning and implementation. As TC's staff and the AC members may also be invited to perform the role of officiating guests of the events, they could take the opportunity to monitor the events in progress. *However, no records are kept on the observations made. As any breaches of the funding conditions observed may lead to reduction of the funding amount (para. 29), the absence of monitoring records may affect the fair enforcement of the funding conditions, giving rise to perception of connivance at breaches.*

**Recommendation:** To address the concern, TC should require the responsible officers and AC members to record their observations of the events and design a report form for use by them.

#### Documentary or Physical Checks

34. *During the on-site monitoring, TC's staff rarely conduct documentary or physical checks on the equipment procured for the events and the payroll records of the temporary staff employed, etc. [REDACTED] there are loopholes inherent in the administration of funding schemes, particularly when matching grants are involved, such as falsifying purchase and payroll records to deceive the monitoring body for payments.*

**Recommendation:** To reduce the risk of abuse, TC should require the staff concerned to randomly verify the number of staff employed by the grantees when performing on-site monitoring, and check the number and price of the equipment purchased for the events. Any irregularities should be reported to the AC for follow up action.

#### Examination of Reports

35. The grantees are required to submit evaluation reports, publicity reports and the audited accounts within three months after completion of the events (para. 27(d)). TC's staff examine these reports and all incomes and expenditures. Special attention is paid to any failure in achieving the pledged performance targets and deliverables, and any expenditure items which have deviated substantially from the approved budgets. Taking into account any breaches and deduction of any unbudgeted items, TC's staff will recommend a final funding amount to the AC, and then PS/CIT, for approval. [REDACTED]

### Enforcement of Funding Conditions

36. At the time of fact-finding for this study, only two events had been completed with the grantees submitted their final reports, one of them [REDACTED] was found unable to comply with a major funding condition, resulting in a reduction of the final payment [REDACTED]. File research also revealed that other events had failed to complete one or more pledged deliverables [REDACTED].

[REDACTED] According to TC, enforcement action would be taken in future although TC has yet to draw up any enforcement guidelines. The absence of objectivity and consistent guidelines in taking enforcement action may give rise to perception of unfairness and favouritism.

**Recommendation:** TC should draw up guidelines on the different levels of enforcement action for non-compliance with the funding conditions, taking into account the nature of the breaches (e.g. failure to meet the project deliverables (para. 26) or non-compliance with rules on procurement and staff recruitment (para. 27)). Possible sanctions may include termination of agreement (para. 29), reduction of funding amount and blacklisting the grantees from future application.



List of Approved Applications for Mega Events Fund

Applicant/ Organization	Project Title and Nature	Event Date(s)	Funds Sought	Approved Amount (Max.)	
Hong Kong Philharmonic Orchestra	"Symphony Under the Stars" (「港樂·星夜·交響曲」)- Large-scale outdoor classical concert	13 November 2009	\$2,000,000	\$1,400,000	
Hong Kong Tennis Patrons' Association	Hong Kong Tennis Classic 2010 (香港網球精英賽 2010)- International tennis tournament	6-9 January 2010	\$5,500,000	\$9,000,000	
Hung Shing Festival Preparatory Committee Limited (洪聖誕籌備委員 會有限公司)	Mui Wo Water Lantern and Sky Lantern Festival (梅窩水燈及天燈節)- Traditional cultural activity	26-29 March 2010	<del>\$3,075,000</del>	\$1,500,000	
The Hong Kong Federation of Youth Groups (香港青年協會)	Hong Kong 2010 International <i>a</i> <i>cappella</i> Festival (香港 2010 國際無伴奏合唱節)- Large-scale musical festival	27 March - 22 April 2010	\$1,323,130	\$800,000	

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Applicant/ Organization	Project Title and Nature	Event Date(s)	Funds Sought	Approved Amount (Max.)
Springtime Experimental Theatre (春天實驗劇團), Perry Chiu Experimental Theatre (魚媛實驗劇團), Lo's Productions (阿盧製作), and Chung Ying Theatre Company (中英劇團)	Hong Kong Musical Festival (香港音樂劇展演) – Large-scale musical opera festival	29 March -21 April 2010	\$3,506,250	\$2,500,000
The Birch Foundation	"Hope and Glory" multi-media arts exhibition (「Hope and Glory」多媒體藝術展) – Large-scale multimedia arts exhibition	8 April – 30 May 2010	\$3,401,000	\$2,000,000
Hong Kong Dragon Boat Association (香港龍舟協會); and Hong Kong Tourism Board (香港旅遊發展局)	Hong Kong Dragon Boat Carnival (香港龍舟嘉年華)	23 – 25 July 2010	\$5,000,000	\$5,000,000

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Applicant/ Organization	Project Title and Nature	Event Date(s)	Funds Sought	Approved Amount (Max.)	
Royal Hong Kong Yacht Club  <i>(Withdrawn by the organiser in August 2010)</i>	Louis Vuitton Hong Kong Trophy (Louis Vuitton 盃帆船大賽 - 香港站) - International yacht racing competition	9 - 23 January 2011	\$10,000,000	\$10,000,000	
Hong Kong Tennis Patrons' Association Ltd. (香港網球贊助人協會有限公司)	Hong Kong Tennis Classic 2011 "World Team Challenge" (香港網球精英賽 2011)	5 - 8 January 2011	\$8,500,000	\$5,000,000	
Hong Kong Golf Association Limited (香港高爾夫球總會有限公司)	The Hong Kong Women's Open (香港女子高爾夫球公開賽)	25 April - 1 May 2011	\$14,630,000	\$8,000,000	

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### Implementation Status of CPD Recommendations Made on the Mega Events Fund Previously

Recommendations	Acceptance/Implementation Status
<ul style="list-style-type: none"> <li>• While TC may provide either a one-off grant or an interest-free loan for the selected projects, it is not clear whether an applicant would be asked to indicate his option. TC may wish to clarify this and if necessary, draw up different sets of assessment criteria for each type of funding support.</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable. The idea of offering an interest-free loan to the selected events has been given up.</li> <li>• The MEF scheme now only provides direct grants.</li> </ul>
<ul style="list-style-type: none"> <li>• TC should specify the maximum amount of grant or loan for each project type.</li> </ul>	<ul style="list-style-type: none"> <li>• As the nature and scale of individual event vary significantly, the AC has decided not to set a funding ceiling for individual events other than the Finance Committee's requirement that the actual funding for an individual event should not exceed 50% of its total actual cost.</li> </ul>
<ul style="list-style-type: none"> <li>• TC should require the fund recipient and his agents/staff to declare any conflict of interest in relation to procurement and staff recruitment.</li> </ul>	<ul style="list-style-type: none"> <li>• Agreed and implemented.</li> </ul>
<ul style="list-style-type: none"> <li>• TC should include a clause in the funding agreement to prohibit the fund recipient and his agents, employees &amp; associates from solicitation and acceptance of advantage under the Prevention of Bribery Ordinance in relation to the approved projects, specifying that in the event that an offence is committed under the Ordinance, the Government may terminate the funding agreement and hold the fund recipient liable for any loss or damage caused.</li> </ul>	<ul style="list-style-type: none"> <li>• Agreed and implemented.</li> </ul>
<ul style="list-style-type: none"> <li>• TC should draw up a comprehensive Code of Conduct instead of general guidelines on conflict of interest to enhance the ethical standards of AC members.</li> </ul>	<ul style="list-style-type: none"> <li>• Agreed and implemented.</li> </ul>

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Recommendations	Acceptance/Implementation Status
<ul style="list-style-type: none"> <li>● To deter applicants from abusing the payment arrangements, TC may wish to :               <ul style="list-style-type: none"> <li>(a) where appropriate, consider tightening up the payment procedures by only releasing payments to the recipient organizations after their own contributions have been used up;</li> <li>(b) carefully assess the applications to prevent inflated budgets and review the budgets regularly to adjust any over-budgeted amounts to prevent over-payment; and</li> <li>(c) determine the possibility of only releasing payments to the recipient organizations upon achievement of clearly defined milestones and tangible deliverables to encourage good performance of the recipient organizations.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● Advice taken.               <ul style="list-style-type: none"> <li>(a) In practice for some of the selected events, MEF payment was only released to the applicant well after or close to the event's completion.</li> <li>(b) The project budget was carefully scrutinized by TC, with strong input by relevant bureaux/departments. If necessary, TC may consult outside parties for independent views.</li> <li>(c) The final payment (at least 50% of the approved funds) was paid to the applicant only after the event was completed to PSCIT and AC's satisfaction and subject to full compliance with the funding conditions.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>● TC should lay down the application screening criteria for compliance of the staff.</li> </ul>	<ul style="list-style-type: none"> <li>● Agreed and implemented</li> </ul>
<ul style="list-style-type: none"> <li>● The Secretariat should conduct random checks to verify the bona fide of supporting documents provided.</li> </ul>	<ul style="list-style-type: none"> <li>● Agreed and implemented. If the bona fide of an applicant is doubtful, the Secretariat will require it to clarify and give supplementary supporting evidence.</li> </ul>
<ul style="list-style-type: none"> <li>● To enhance objectivity, a marking scheme should be drawn up to set out the weightings and the passing marks to be attached to each assessment criterion.</li> </ul>	<ul style="list-style-type: none"> <li>● Agreed and implemented.</li> </ul>
<ul style="list-style-type: none"> <li>● Members of the AC should carry out the assessment individually based on objective marking guidelines and should not discuss the markings before Committee meetings.</li> </ul>	<ul style="list-style-type: none"> <li>● Agreed and implemented.</li> </ul>
<ul style="list-style-type: none"> <li>● The marks given, the changes made during the Committee meetings, if any, and the reasons, and any dissenting views should be fully documented.</li> </ul>	<ul style="list-style-type: none"> <li>● Agreed and implemented.</li> </ul>

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Recommendations	Acceptance/Implementation Status
<ul style="list-style-type: none"> <li>The criteria for making decisions on the level of funding, the terms and conditions to be imposed and the payment arrangement, etc. should be laid down.</li> </ul>	<ul style="list-style-type: none"> <li>Agreed and implemented. The deliberations of the AC and subsequent decisions made by PS/CIT having regard to the circumstances of individual applications were properly documented.</li> </ul>
<ul style="list-style-type: none"> <li>The assessment criteria should cover if the proposed deliverables, performance indicators, key milestones and evaluation methods are appropriate and acceptable.</li> </ul>	<ul style="list-style-type: none"> <li>Agreed and implemented.</li> </ul>
<ul style="list-style-type: none"> <li>The assessment criteria in broad terms and the associated weightings and passing markings should be made known to the applicants on the application form.</li> </ul>	<ul style="list-style-type: none"> <li>Agreed and implemented.</li> </ul>
<ul style="list-style-type: none"> <li>TC should specify whether unsuccessful applicants are allowed to re-submit applications and if so, the conditions for re-submission.</li> </ul>	<ul style="list-style-type: none"> <li>Agreed and implemented. Unsuccessful applicants are informed in the reject letter that they may re-submit their application in the next round of applications.</li> </ul>
<ul style="list-style-type: none"> <li>The application or any application guidelines should include a warning prohibiting applicants from offering any advantage to any member of the AC or the Government with a view to influencing the award of fund.</li> </ul>	<ul style="list-style-type: none"> <li>Agreed and implemented.</li> </ul>
<ul style="list-style-type: none"> <li>The minimum percentage of tickets to be offered for sale to the public should be specified. This requirement should also be stated in the Guide to Application and the funding agreement.</li> </ul>	<ul style="list-style-type: none"> <li>The Guide to Application states that the proposed events should allow participation by the local public.</li> <li>The admission or ticketing arrangements are required to be stated in the applications. All selected events so far were either free to the public or sold large quantity of tickets to the public.</li> </ul>
<ul style="list-style-type: none"> <li>TC should make known to the applicants whether sponsorships in kind should be accepted.</li> </ul>	<ul style="list-style-type: none"> <li>Agreed and implemented. Applicants are required to state in the Application Form the form of sponsorship obtained, i.e. cash, manpower or consumable.</li> </ul>

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Recommendations	Acceptance/Implementation Status
<ul style="list-style-type: none"> <li>• TC should review the probity clause in the draft funding agreement by make reference to the attached sample clause</li> <li>• To prevent the applicant from making illicit financial gain in the course of organizing the Event (e.g. accepting rebates from suppliers/service providers), TC may consider extending the probity clause to also cover the Applicant.</li> </ul>	<ul style="list-style-type: none"> <li>• Agreed and implemented. DOJ revised the probity clause taking into consideration ICAC's comments.</li> </ul>
<ul style="list-style-type: none"> <li>• Government does not intend to create any relationship of agency with the applicants. CPD is concerned about the impact that this clause may have on the application of Section 9 of the Prevention of Bribery Ordinance (POBO) in cases where the applicant offers, solicits or accepts advantage in relation to the Event without the Government's consent. TC may therefore wish to seek legal advice to clarify the implication of this clause in relation to the POBO.</li> </ul>	<ul style="list-style-type: none"> <li>• Agreed and implemented. DOJ revised the funding agreement to address ICAC's concern.</li> </ul>
<p>To revise the funding agreement to ensure that the Government is entitled to require the grantee to draw up a proper Code of Conduct where necessary.</p>	<ul style="list-style-type: none"> <li>• Agreed and implemented.</li> </ul>

## Mega Events Fund : Assessment Criteria for Applications

Criterion	Brief Description	Maximum Marks <small>Note</small>
1. Economic benefits	<ul style="list-style-type: none"> <li>• The events' ability to attract visitors and participants from Mainland and overseas? Is it able to increase visitors' length of stay in Hong Kong?</li> <li>• The number, nature and duration of jobs to be directly created?</li> <li>• The economic impact on related trades and services, such as hotel, airline, food and beverage, retail, etc.?</li> <li>• Can other local bodies, chambers or businesses leverage on the event to create business opportunities, conventions, exhibitions or other related events?</li> </ul>	30
2. Public relations and other benefits	<ul style="list-style-type: none"> <li>• Does the event contain international elements?</li> <li>• To what extent can the event raise Hong Kong's international profile?</li> <li>• To what extent can the event create a positive branding impact for Hong Kong?</li> <li>• Will the event be able to enhance/reinforce Hong Kong's position as the events capital of Asia?</li> <li>• What level of publicity will be generated in local and non-local media?</li> </ul>	20
3. Scale of the event	<ul style="list-style-type: none"> <li>• Over 10 000 participants? Number and coverage of venues? Duration of the event?</li> </ul>	10

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Appendix 3



Criterion	Brief Description	Maximum Marks <sup>Note</sup>
4. Technical feasibility	<ul style="list-style-type: none"> <li>• Is the event manageable?               <ul style="list-style-type: none"> <li>- Is the event's implementation schedule practicable and reasonable?</li> <li>- Is the workplan reasonable?</li> <li>- Is there sufficient expertise to manage the event?</li> <li>- What are the technical and project management capabilities of the applicant(s)?</li> <li>- What are the past performances of the applicant(s)?</li> </ul> </li> </ul>	20
5. Financial viability	<ul style="list-style-type: none"> <li>• Is the event financially sound?               <ul style="list-style-type: none"> <li>- Is the budget prudent and realistic, with sound justifications for the proposed income and expenditure items?</li> <li>- Are there sufficient alternative sources of funding for the event? What are the nature, amount and sources of the alternative funding?</li> <li>- Are the manpower, marketing and promotional plans reasonable?</li> <li>- What are the proposed performance indicators, deliverables and key milestones of the event? Are they appropriate and acceptable?</li> </ul> </li> </ul>	20
	Total :	100

Note: The passing mark for each individual criterion is 60% of their respective maximum mark.



廉政公署

INDEPENDENT COMMISSION AGAINST CORRUPTION

廉政專員

Commissioner, ICAC

Our Ref : CPD/ASM/TOC/2010/036

Your Ref : CB(4)/PAC/R62

20 May 2014

Miss Mary So  
 Clerk  
 Public Accounts Committee  
 Legislative Council  
 Legislative Council Complex  
 1 Legislative Council Road, Central  
 Hong Kong

Dear Miss So,

**Public Accounts Committee**  
**Consideration of Chapter 3 of the Director of Audit's Report No. 62**  
**Mega Events Fund**

I refer to your letter of 19 May 2014.

Our suggested changes to paragraph 1.11 of the draft Chapter 3 of the captioned report are as follows :

"After presenting the assignment report to its Corruption Prevention Advisory Committee, the ICAC further recommended that the TC should issue more stringent guidelines for its staff in evaluating events that involved substantial grants and carried a commercial name. Furthermore, the ICAC also raised the concern with the need for continuing the MEF which .... "

----- The draft version of the Audit Report is attached for your easy reference.

The reason for our suggestions is that it is not the ICAC usual practice to quote whether and which individual recommendations of our assignment reports are made by CPAC members when making the issue known publicly. As the advice from CPAC on the draft report is an integral process of completing and endorsing our assignment studies, it is unnecessary to differentiate recommendations made by CPAC members from other recommendations in the report.

Yours sincerely,

( Simon YL Peh )

Commissioner

Independent Commission Against Corruption

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**40<sup>th</sup>** Anniversary  
 四十周年

為下一代 共建廉潔將來

A clean future for our next generation

1.1 1 After conducting the 2010 review, the ICAC also drew the TC's attention to the comments made by members of its Corruption Prevention Advisory Committee. Members of the ICAC Advisory Committee recommended that the TC should issue more stringent guidelines for its staff in evaluating events that involved substantial grants and carried a commercial name. Furthermore, the members were concerned with the need for continuing the MEF which was set up at a time of financial difficulties and, in view of the changed economic situation, suggested that the TC should consider returning the unused funds (i.e. the balance of the time-limited MEF of \$100 million — see para. 1.2) to the Government. As it transpired, the MEF had continued to operate and in April 2012, the TC/CEDB introduced a modified two-tier MEF which comprised a new category called Tier 1 with Tier 2 which is essentially a revised version of the original scheme operated by the MEF (see paras. 1.3 and 2.4).



廉政公署

INDEPENDENT COMMISSION AGAINST CORRUPTION

防止貪污處

Corruption Prevention Department

Our Ref : CPD/ASM/TOC/2010/036

Your Ref : CB(4)/PAC/R62

20 May 2014

Miss Mary So  
Clerk  
Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
1 Legislative Council Road, Central  
Hong Kong

Dear Miss So,

**Public Accounts Committee**  
**Consideration of Chapter 3 of the Director of Audit's Report No. 62**  
**Mega Events Fund**

I refer to your letter of 20 May 2014.

When the assignment report No. 36/2010 - Tourism Commission (TC): Administration of Mega Event Funds was submitted to CPAC for endorsement, a Member, among other things, said that some of the funds were one-off schemes like the Mega Event Fund which was set up during the time of financial difficulties with the objective to attract tourists to Hong Kong. As the economic situation had changed, the Member doubted the need for such funds. Echoing this Member's view, another Member added that TC staff might try to dish out the funds loosely in order to use up the funds within the period of three years. The Member suggested that TC should consider returning the unused funds to the Government.

All our assignment reports have to be endorsed by CPAC before issue. The said report was endorsed by CPAC, subject to the comments made by Members at the meeting on 30 September 2010. CPD then advised TC accordingly through the letter dated 15 November 2010.

Yours sincerely,

( TSE Man-shing )

Director of Corruption Prevention  
Independent Commission Against Corruption



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**For discussion  
on 2 August 2011**

*MEF Paper 5/2011*

**Mega Events Fund  
Assessment Committee**

**An Overall Review of the Mega Events Fund**

**Issue**

The Mega Events Fund (MEF) will expire on 31 March 2012. In the 2011-12 Budget, it is mentioned that the Administration will “consider giving incentives through the MEF or in other forms for organisers to host major events with Hong Kong characteristics”. In response to the Budget, there is a need to have a review of the MEF and consider its way forward.

**Background**

2. The \$100 million MEF was proposed in the 2009-10 Budget to “assist organisers to host more attractive events in the areas of arts, culture and sports over the next three years to further promote Hong Kong as an events capital of Asia”. The MEF was established in May 2009 following funding approval by the Finance Committee of the LegCo.

**The Outcomes of MEF so far and the Need for Continuity**

3. In considering the way forward of the MEF, we have to first evaluate whether the MEF has achieved its purposes, especially whether it has successfully promoted the development of events tourism in Hong Kong.

4. As at 1 July 2011, 69 applications had been received in the five rounds of applications. 18 proposals have been approved, involving a maximum funding of \$71 million<sup>(Note 1)</sup>.

5. To maximise the tourism benefits of these events, the Tourism Commission has requested the Hong Kong Tourism Board (HKTB) to carry out publicity work for these MEF-supported events. In addition, the MEF Secretariat convenes meetings between the successful applicants, HKTB and ISD to discuss how to leverage on the events for enhancing Hong Kong's tourism appeal and branding.

6. The approved events have brought about substantial economic and publicity benefits to Hong Kong. In respect of economic benefits, these events have stimulated local economic activities, increased visitor spending and created job opportunities, thereby benefiting the tourism, hotel, airline, catering, retail and other related sectors. In total, these events are expected to attract over 757 000 participants (including 144 000 tourists) and create some 9 100 jobs, which far exceeds the original target of generating 2 800 employment opportunities.

7. On the publicity side, events sponsored by the MEF have added colour and vibrancy to our city and enhanced Hong Kong's brand image as an events capital. Events such as Hong Kong Dragon Boat Carnival received wide exposure in Mainland and overseas media. "Hope and Glory" multimedia art exhibition also made headlines in regional and global arts media, an area not viewed as Hong Kong's traditional strength. Increased media coverage, by way of written articles and TV/radio/internet portals coverage made possible through the MEF-supported events, has helped impress upon our external audience the diversity and dynamism of Hong Kong.

---

<sup>(Note 1)</sup> Two successful cases, namely LV Hong Kong Trophy 2011 (yacht race) and the Hong Kong Women's Open 2012 (golf tournament) subsequently withdrew their applications. Hence as at 1 July 2011, only 16 cases have been completed or being organised, with a total funding of \$53 million.

## Views from the Legislative Council

8. The Legislative Council Panel on Economic Development (the Panel) examined the progress of the MEF in November 2010. In general, Panel members agreed that more genuine mega events of different nature should be held in Hong Kong. They further suggested that -

- (a) MEF should support events that can attract coverage by international media, so as to promote Hong Kong globally;
- (b) MEF should give more consideration to events with strong traditional Chinese and local cultural characteristics, innovative elements, potential to be held in Hong Kong year after year, as well as musical performances featuring famous performing groups and/or international pop-stars;
- (c) successful applicants should strengthen co-operation with the travel trade in order to better promote the funded events and utilize the events' tourism potential more fully;
- (d) MEF should provide further funding to support to small event organizers to facilitate the administration of their events; and
- (e) it would be useful to know whether there were, and if so how many, visitors had come to Hong Kong specifically for the supported events.

9. In response, the Commissioner for Tourism expressed to the Panel that the Administration would take into account the views of the Panel in future assessment work. He explained that the nature of the events and the choice of venues depended very much on the plan of the applicants. The Administration would consider how to further publicise MEF and attract organizers to host more events with local cultural elements. The Administration would also assist the successful MEF

applicants to work with HKTB and the travel trade to explore the possibility of further co-operation in overseas promotion work.

10. The Panel advised, and the Administration agreed, that there should be a review on the way forward of the MEF in 2011.

**11. Considering that the MEF is conducive to the promotion of events tourism, and the \$100 million funding has not yet been exhausted, we suggest extending the MEF after its expiry in March 2012.**

### **Fine Tuning of the Modus Operandi**

#### Timeframe of the MEF

12. Experiences reveal that the organisation of a successful mega event needs considerable lead time. In order to encourage more organisations to consider the feasibility of certain events and allow for the need to allow sufficient time to plan for them, the extension period of the scheme should not be too short.

**13. We suggest extending the MEF for five years, i.e. from April 2012 to March 2017.** This can demonstrate the Government's continuous commitment to the staging of more mega events in Hong Kong, and allow more time for newborn events to leverage on the scheme to grow over time. Drawing from past experience, most events supported by the MEF were held once a year. Extending the scheme for five years will send out the message to relevant organisations our continuous commitment to encourage more mega events and facilitate applicants make better plans in organising such events.



## Additional Funding

14. At the moment, 54% of the \$100 million funding has already been committed and we expect there would be further commitments in the remaining period. Hence we need to consider whether additional funds should be injected if the MEF is to be extended.

15. At the current rate of fund utilisation, about \$20-25 million is used every financial year. We project that some \$35-40 million will remain unspent when the tenure of MEF ends by 31 March 2012. If we intend to extend the scheme for five years, **we suggest injecting an additional \$100 million into the Fund.** If funding appears insufficient during the course of the five-year extension, we may consider injecting more funds, as appropriate. Another review could be carried out by 2016 on whether the MEF should be further extended.

## Scope of the MEF and Assessment Criteria

16. The MEF currently supports local non-profit-making organisations to host arts, cultural and sports events held in Hong Kong. **The condition that only local non-profit-making organisations can submit applications is in order** because the public would react strongly if government money were to be used to sponsor profit-making business entities. Requiring eligible applicants to possess local registration is also necessary as it is very difficult, if not impossible, to monitor applicants registered outside Hong Kong.

17. As for the funding scope, **we are of the view that it is generally in order as it is already very broad and these are also areas that Hong Kong should be further highlighted for visitors' consideration.** What we can give further thought is **whether events with more "entertainment" elements could be considered** e.g. beer festival organised by a chamber of commerce, pop-concerts organised by a

statutory body or NGO, non-sport competitions such as magic shows or mardi gras events, parade with high entertainment elements etc. In considering whether MEF should cover these activities, we need to be mindful that many, if not most, of these activities are profit making by nature or with a very strong commercial element. Supporting such activities may lead to controversies on whether public funds should be used in such a way, and the AC will have to exercise more discretion when considering applications of this nature. On the positive side, such flexibility would allow the MEF to act as a “catalyst” to some attractive events which could bring tourism impact to Hong Kong and become financially self-sufficient in the long run.

18. Regarding existing assessment criteria, an event must have at least 10 000 participants; contain significant international elements; be able to generate significant economic and publicity benefits; and the event proposal must be workable and financially viable. Furthermore, the event organisers must have sufficient capability and a sound track record. Existing events must have additional activities which will significantly enlarge the scale or raise its international profile in order to be eligible for MEF funding. **These funding criteria are most relevant and should remain in place as they are crucial in determining whether a proposed mega event can draw tourists’ and media attention, and hence whether it is worthwhile for MEF support.**

#### Ways to Attract More Quality Applications

19. In order to attract more quality applications, we could consider the following on top of the possibility to relax the scope of MEF mentioned in para. 17 above -

- (a) **send information about the MEF to various international professional event management firms** and encourage them to partner with local non-profit-making organisations to apply

for the fund. It appears that many local arts, culture and sports organisations are inexperienced in planning and organising mega events, and the support from professional event management firms would be most relevant to “make things happen”. In return, these firms can earn a management fee in organising the events together with the applicants, hence not breaching existing rules; and

- (b) **allow the organisations to retain the surplus** generated by the event, on the condition that the money will be carried forward for hosting the same event next year and with the approval of the AC. This, to certain extent, could also help MEF to save some money in supporting “renewed applications”.

Other views on ways to attract more applications are welcome.

### Assessment Mechanism

20. Currently, all MEF applications are assessed by the MEF Assessment Committee (AC) which comprises of nine members from relevant sectors and government departments. They are appointed by the Secretary for Commerce and Economic Development.

21. During assessment, all eligible applications are first screened by the Secretariat and passed to relevant government departments for expert comments before submission to the AC. An AC meeting is then convened during each round of applications. Eligible applicants are invited to do a short presentation on their event proposals at the meeting and answer questions raised by AC Members. AC Members then deliberate on each case and give marks in accordance with the proposed event’s economic benefits; public relations and other benefits; scale of the event; technical feasibility; and financial viability. Each application has

to score 60% of the respective maximum mark of each of these five criteria in order to obtain MEF's support. The AC then recommends an appropriate level of funding for each selected event proposal, and additional funding conditions if appropriate, for the Permanent Secretary (Commerce, Industry and Tourism)'s (PSCIT) final decision.

22. We are grateful to the dedicated work of the AC members and the valuable advice given. To ensure continuity, **we suggest the current assessment mechanism and the current composition of the AC shall remain while extending the MEF.**

### Funding Conditions

23. As regards funding conditions, presently the MEF can only sponsor up to 50% of an event's total expenditure. In practice, the percentage of approved funds in total expenditure of approved events ranges from 13% to 44%. **The funding condition of subsidising up to half of the event's total expenditure is in order as it gives a clear signal to event organisers that it is their own responsibility to secure sufficient funding for the events.**

24. In some cases, the AC will impose certain funding conditions to individual events (e.g. MEF funds can only be used for promotional work, tourism-related purpose, and/or inviting renowned players or celebrities to attend the event). **This approach is also in order as the objective of the MEF is to attract more tourists through the events, so it is not unreasonable to impose certain conditions to maximise the impact of the events.**

25. Entering the second year of the MEF, several "renewed applications" (i.e. applications which had received funding in the previous year and would wish to receive MEF support again) emerged. After careful deliberation, the AC agreed that for renewed applications they will

only receive up to 80% of the funding amount which the AC has approved last time for the event, unless the AC is convinced that there are very exceptional circumstances. The prime purpose of this rule is to encourage renewed applicants to gradually reduce reliance on public funding, thereby making the events more sustainable in the long run.

26. This sliding scale funding arrangement is adopted on the understanding that the MEF will only operate for three years. However, if the MEF is to be extended for another five years, such an arrangement will possibly make some projects which need considerable public funding support no longer financially viable.

27. For instance, our experience shows that events with ticket income, sports events in particular, are more successful in soliciting commercial sponsorship. However, they still require certain amount of public subsidy. On the other hand, free-of-charge events, especially those featuring traditional Chinese culture, are much less successful on this front. These events have a greater reliance on public funding but are equally successful in highlighting Hong Kong's unique characteristics and attracting tourists and media coverage. If government funding dwindles year after year, these events would either shrink in scale or could not be held at all. This may run against MEF's objective of encouraging more mega events to be staged in Hong Kong. In fact, some LegCo Members have requested the Administration to support more traditional Chinese cultural events through the MEF.

28. In view of the above, we **suggest lifting the 80% rule for renewed applications if the MEF is to be extended and allowing the AC decide the appropriate funding level of renewed applications based on the content of the event proposal submitted each time.** This might also encourage event organisers to introduce innovative elements in future events in order to obtain more funding support from the Government, and allow sufficient time for mega events to grow and become more mature in its modus operandi and fund-raising ability.

29. In any event, the AC has been entrusted with the responsibility of assessing all applications and recommending an appropriate level of funding for the PSCIT's consideration. The AC can also always impose funding conditions onto the approved renewed applications, such as conducting more publicity or overseas promotion and raising the quality of the performers, as appropriate. If the applicants refuse to accept these conditions, it can to some extent reveal that they are unable to be developed further, which is not in line with our underlying principles.

### Monitoring and Evaluation Mechanism

30. In respect of monitoring, successful applicants are required, under the existing arrangements, to sign a contract with the Government which sets out all the funding conditions and requirements. Normally speaking, the Government will allocate up to 50% of the total funding as the first instalment to the event organisers to ease their cash flow requirement. The rest of the funding will be issued only after the event organisers have submitted post-event evaluation reports and audited accounts, and the Government and the AC have expressed satisfaction to these reports. If an event has a surplus, the organiser has to return it to the Government up to the amount of funding granted by MEF. If the event organiser fails to fulfil certain funding conditions, the total funding amount will be reduced as a penalty.

31. In the assessment for final payment to the organiser, there is a very comprehensive evaluation process. The organiser, within 3 months after the completion of the event, is required to submit the post-event evaluation report, publicity report and audited accounts for scrutiny. Apart from that, staff of the MEF Secretariat also conducts periodical checks on the preparatory progress of the approved events. In addition, the AC Members and staff of the MEF Secretariat actively take part in and monitor the approved events so as to assess the implementation and

outcomes.

32. We have studied other similar funding schemes and found out that their evaluation mechanism is largely the same as the MEF, i.e. a combination of self-evaluation in the form of report submission plus external regularity checks. In all cases it is considered that hiring an independent “watchdog” to thoroughly monitor the implementation of approved events would be too costly and not effective.

33. In late 2010 and early 2011, the ICAC has conducted a study on the modus operandi of the MEF. The study concluded that the operation of the MEF was generally in order. The ICAC has also made some improvement recommendations, which are duly implemented. A summary of ICAC’s recommendations and the implementation status is at Annex.

Annex

**34. The current monitoring and evaluation mechanism is working well and we suggest maintaining it after the MEF has been extended.**

#### Sanctioning Mechanism

35. In the evaluation process of some cases, it appears that a sanctioning mechanism has to be introduced in order to differentiate those events which are successful and those which could not honour their pledges in their application.

36. In most cases, event organisers have fulfilled most funding conditions but also breached some of them. The MEF Secretariat, having monitored the implementation of the approved events, scrutinising the reports submitted by event organisers and considered all relevant factors, then exercises prudent judgement on the magnitude of breaching conditions and recommends an appropriate level of penalty for

consideration by the AC. With the latter's endorsement, the case will be submitted to PSCIT for final decision.

37. At present, a set of principles have been developed to handle cases of non-compliance. There are also several levels of sanctions, as follows –

- (a) written warning;
- (b) suspension from future applications;
- (c) financial sanction (i.e. reduction of MEF payment); and/or
- (d) termination of Agreement.

Having regard to the seriousness of the non-compliance in individual cases, and on the recommendation of the MEF Assessment Committee, the Government may impose one or more types of sanction to the organiser.

38. It seems not realistic to develop very detailed guidelines, instead of broad principles, for the sanctioning mechanism, as such guidelines would have to be very elaborate and set out different levels of penalty for breaching each individual funding condition. Since both funding conditions and the nature/scale of each event varies, each event would need a detailed and tailored-made penalty system if we wish to reduce subjective discretion power of the AC to a minimum. Apart from the conceivable immense administrative workload, it is also questionable whether such quantified penalty level could be objectively determined for qualitative funding conditions included in the contracts.

39. **Based on the above, we consider that the current sanctioning mechanism, which allows the MEF Secretariat and the AC with the necessary freedom to exercise their professional judgment in determining the appropriate level of penalty having regard to the specific circumstances of each individual case, should continue.** In any event, PSCIT, being the Controlling Officer of MEF,



will perform a “gate-keeping” role. That said, to enhance transparency, **we suggest giving more details on the sanctioning mechanism in the application guidelines and provide some examples whereby breaching funding conditions would face sanctioning.**

### **Way Forward**

40. Members are invited to give views to the above, particularly on the proposed extension of the MEF. Views of the AC on the above will be an important reference for the Government to consider the policy direction of the Fund.

**MEF Secretariat  
July 2011**

**Implementation of the CPD/ICAC's Recommendations  
on the Mega Events Fund (MEF)**

<b>ICAC's Recommendations/Views</b>	<b>Implementation Status</b>
<ul style="list-style-type: none"><li>The assessment should take into account the applicants' background and governance structure, track record, and their human, financial and technical resources to ensure that successful applicants are capable of hosting the events satisfactorily.</li></ul>	<ul style="list-style-type: none"><li>Accepted and implemented.</li><li>The MEF Application Form, Guide to Application and the Assessment Criteria cum Marking Scheme have been suitably amended to reflect on the requirement, and the need to provide more detailed information of the background, governance structure, track record/past experience and capabilities/resources of the applicant, joint applicants and the Project Co-ordinator and Deputy Project Co-ordinator for consideration by the MEF Assessment Committee.</li><li>The marking scheme has also highlighted that the assessment will take these aspects into account.</li></ul>
<ul style="list-style-type: none"><li>Sponsorships in kind as claimed in the applications should be verified against their market prices, as appropriate.</li></ul>	<ul style="list-style-type: none"><li>Accepted and implemented.</li><li>The MEF Application Form and Guide to Application have been suitably amended to require that for in kind sponsorship, MEF applicants should provide proof to demonstrate that the claimed values of the sponsored items or services are comparable with the market prices, so as to facilitate checking by Secretariat staff as well as for consideration by the MEF Assessment Committee, as appropriate.</li></ul>

<p><b>ICAC's Recommendations/Views</b></p>	<p><b>Implementation Status</b></p>
<ul style="list-style-type: none"> <li>• Successful applicants should be provided with a copy of the ICAC's Best Practice Checklists on procurement and staff recruitment. They should be encouraged to seek ICAC's assistance in adopting the best practices.</li> </ul>	<ul style="list-style-type: none"> <li>• Accepted and implemented.</li> <li>• The MEF Agreement and Guide to Application have already been amended to require that successful MEF applicants shall obtain a copy of the ICAC's Best Practice Checklists on procurement and staff recruitment, and that they shall seek ICAC Corruption Prevention Department's assistance in adopting the best practices, draw up a Code of Conduct for compliance by its Directors and employees, and to ensure proper corruption prevention safeguards are incorporated into its procurement and staff recruitment procedures.</li> <li>• MEF successful applicants are reminded of the above before signing of the Agreement.</li> </ul>
<ul style="list-style-type: none"> <li>• Successful applicants should be required to establish a two-tier approval system for hiring key personnel or awarding major procurement contracts in implementing the funded events.</li> </ul>	<ul style="list-style-type: none"> <li>• Accepted and implemented.</li> <li>• The MEF Agreement and Guide to Application have already been amended to provide that successful MEF applicants shall establish a two-tier approval system for the recruitment of key personnel/staff and the award of major goods, services and equipment contracts in procurement/tendering exercises conducted for the MEF project.</li> <li>• MEF successful applicants are reminded of the above before signing of the Agreement.</li> </ul>

<p align="center"><b>ICAC's Recommendations/Views</b></p>	<p align="center"><b>Implementation Status</b></p>
<ul style="list-style-type: none"> <li>• Successful applicants should be given detailed guidelines on the disposal of equipment acquired with MEF.</li> </ul>	<ul style="list-style-type: none"> <li>• Accepted and implemented.</li> <li>• The MEF Agreement and Guide to Application have been amended to clearly spell out the requirement that Government may require the successful MEF applicants to dispose of the equipment at any time at the prevailing market price by way of sales by public auction in accordance with such procedures as the Government may specify. The Grantee must comply with the Government's requirement and specification. The sale proceeds of the equipment disposed of shall belong to Government and be paid to the Government in such manner and by such time as the Government may specify.</li> <li>• MEF successful applicants are reminded of the above both before the project and afterwards.</li> <li>• Equipment items were disposed of through public auction as arranged by the GLD after completion of the MEF supported events. The revenue was returned to Government.</li> </ul>
<ul style="list-style-type: none"> <li>• A standard monitoring report form (for recording personal observations) should be devised for completion by staff of the Secretariat or AC members who conducted site visits of funded events.</li> </ul>	<ul style="list-style-type: none"> <li>• Accepted and implemented.</li> <li>• A standard form has been developed and endorsed by the MEF Assessment Committee.</li> <li>• The MEF Guide to Application has been amended to clearly spell out that observations as obtained during the monitoring visits or meetings of the funded event may be recorded, and that such observations will be taken into account by the MEF Assessment Committee in considering and/or evaluating the performance of the successful applicants under the</li> </ul>

ICAC's Recommendations/Views	Implementation Status
	<p>MEF Agreement.</p> <ul style="list-style-type: none"> <li>Both the Secretariat staff and AC members who attended the MEF supported events were required to complete the standard form. Their comments were taken into account when the Secretariat processed the relevant post-event evaluation reports.</li> </ul>
<ul style="list-style-type: none"> <li>The number of staff employed by the successful applicants and the number and price of the equipment purchased should be randomly verified during site visits of the events.</li> </ul>	<ul style="list-style-type: none"> <li>Accepted and implemented.</li> <li>The MEF Agreement and Guide to Application have been amended to require that successful applicants shall permit and assist the MEF Assessment Committee, Secretariat and Government or their authorised representatives to verify the number of staff employed for the project and the number and market prices of the Equipment deployed for the project or for the events and activities of the project being visited.</li> <li>Secretariat staff made special site visits to MEF supported events. They inspected the equipment and counted the staff deployed on site. They were also required to submit a report on the findings afterwards.</li> </ul>
<ul style="list-style-type: none"> <li>A set of internal guidelines should be developed on different levels of sanction to be imposed on successful applicants who are unable to comply with funding conditions in the MEF Agreement.</li> <li>Some CPAC Members also opined that more stringent guidelines should be set for evaluating the MEF events; and that any</li> </ul>	<ul style="list-style-type: none"> <li>Accepted and implemented.</li> <li>A set of internal "Guidelines on the Level of Sanction" has been devised and endorsed by the MEF Assessment Committee.</li> <li>The MEF Agreement has been amended to clearly provide that Government reserves the right not to pay all or any outstanding MEF to the successful MEF applicant or the right to adjust or reduce the amount of outstanding MEF to be paid or the right not to consider any</li> </ul>

<b>ICAC's Recommendations/Views</b>	<b>Implementation Status</b>
<p>unused MEF should be returned to Government upon the lapse of the funding scheme.</p>	<p>applications by the successful applicant for MEF, if the project result is unsatisfactory or the successful applicant fails to comply with the terms and condition under the MEF Agreement.</p> <ul style="list-style-type: none"> <li>• Appropriate sanction (mainly in the form of reduction of MEF grant) had been imposed on several MEF grantees in accordance with the sanctioning guidelines.</li> <li>• The Administration is currently reviewing the MEF and examining its way forward.</li> </ul>

**Secretariat,  
Mega Events Fund Assessment Committee  
1 July 2011**

## **Guidelines on Level of Sanction**

### Principles

1. The level of sanction to be imposed on MEF grantees in the case of non-compliance with the terms and conditions in the Funding Agreement must be fair and proportionate to the seriousness of the non-compliance.
2. The level of sanction should also be appropriate if it is intended to deter bad conduct.
3. The MEF Assessment Committee should consider all circumstances leading to the non-compliance, as some of them may be beyond the control of the applicant.
4. Having taken into account the nature, seriousness and circumstances of the non-compliance and the overall outcome of the event, the MEF Assessment Committee could make a recommendation on the level of sanction to be imposed.

### Levels of Sanction

5. There could be several types of sanction –
  - (a) written warning;
  - (b) suspension from future applications;
  - (c) financial sanction (i.e. reduction of MEF payment); and/or
  - (d) termination of Agreement.

Having regard to the seriousness of the non-compliance in individual cases, and on the recommendation of the MEF Assessment Committee, the Government may impose one or more types of sanction to the MEF grantee.

### Actual Implementation Examples

6. In the case of late submission of evaluation report and audited accounts without obtaining prior consent from the Government, it may be appropriate to give a written warning. When the late submission is found to be repeated and intentional without reasonable explanation, the Government may reduce the amount of MEF payment to the grantee and/or blacklist this organisation in future rounds.

7. In the case the grantee failed to attain the deliverable(s) and target(s) in respect of the funded event as stipulated in the Agreement, the MEF Assessment Committee could recommend one or more sanctions after taking into consideration the following –
- (a) the number and significance of the funding conditions and deliverables/targets being breached (e.g. could not meet the actual number of participants, bad publicity);
  - (b) the nature and circumstances of the non-compliance (e.g. whether there are factors beyond the control of the grantee);
  - (c) whether the non-compliance is persistently or flagrantly committed without reasonable explanations; and
  - (d) whether the event has achieved outstanding results in other aspects which could partially offset the undesirable outcome arising from the non-compliance.



**MEF-supported Events subject to Financial Sanctions due to  
Failure to Achieve Target of Number of  
People Involved in the Event**

<b>Case</b>	<b>MEF Funding Ceiling (\$)</b>	<b>Actual MEF Payment (\$)</b>	<b>Sanction Imposed (\$)</b>	<b>Reason(s) for Sanction</b>
1	2.5 million	2 million	0.5 million (20% deduction of approved funding)	<ul style="list-style-type: none"> <li>● failed to meet the original target of number of people involved in the event, in particular number of visitors</li> </ul>
2	2 million	1.3 million	0.7 million (35% deduction of approved funding) and disqualified for future MEF application	<ul style="list-style-type: none"> <li>● the reported attendance figures are highly questionable</li> <li>● failed to develop special tourist packages for visitors</li> <li>● failed to appoint an independent auditor in the first place</li> <li>● inexperience of organizer in proper cost estimation and budget control as well as failed to properly maintain all procured equipment in good conditions</li> <li>● discrepancies identified in the accounts resulting in late submission of reports, etc.</li> </ul>
3	5 million	4.75 million	0.25 million (5% deduction of approved funding)	<ul style="list-style-type: none"> <li>● failed to meet the original target of number of people involved in the event, though the number of visitors was higher than the target</li> </ul>

<b>Case</b>	<b>MEF Funding Ceiling (\$)</b>	<b>Actual MEF Payment (\$)</b>	<b>Sanction Imposed (\$)</b>	<b>Reason(s) for Sanction</b>
4	1.8 million	1.71 million	0.09 million (5% deduction of approved funding)	<ul style="list-style-type: none"> <li>● overall attendance was better than expected but the number of visitors fell short of the target</li> </ul>
5	3 million	1.67 million	1.11 million (40% deduction of approved funding) and disqualified for future MEF application	<ul style="list-style-type: none"> <li>● much negative publicity was generated</li> <li>● failed to develop special tourist packages for visitors</li> <li>● failed to carry out publicity work to cover Mainland and overseas markets</li> <li>● failed to submit satisfactory financial reports</li> <li>● the reported attendance figure was grossly exaggerated</li> <li>● media coverage of the event in the region was minimal and failed to elevate Hong Kong's international status, etc.</li> </ul>

### Timetable for the repeated shows of Performance A

Date	Particulars
17 – 27 Jun 2009	11 shows held in Hong Kong
<b>30 Jul 2009</b>	<b>Organisers' submission of MEF application</b>
13 – 16 Aug 2009	6 shows held in Hong Kong (held in the same venue as Event G)
28 – 29 Aug 2009	2 shows held in Guangdong Province, Mainland
4 – 5 Sept 2009	2 shows held in Guangdong Province, Mainland
<b>8 Oct 2009</b>	<b>Issue of MEF letter of offer to the organisers</b>
<b>5 Feb 2010</b>	<b>MEF funding agreement signed</b>
6 Feb 2010	One show held in Macau
<b>15 to 21 Apr 2010 (Note)</b>	<b>10 shows held in Hong Kong under Event G</b>
23 Apr and 1 May 2010	3 shows held in Canada

*Source: TC records and Audit research*

*Note: Performance A was scheduled in the funding agreement to be staged on 8 to 14 April 2010, but the organisers had rescheduled the time schedule without informing the TC or seeking its approval.*



Mega Events Fund - Repost no 62 of the Director of Audit's Report  
candy to: vnmyuen

15/05/2014 18:08

1 attachment



Promotion Expense\_MEF\_140515.xls

Dear Ms. So,

(a) i. Performance A decided to go the staged in Macau on 6 Feb 2010 was 2 Dec 2009.

我們是在2009年12月2日決定2010年2月6日澳門一場之演出.

ii. Performance A decided to go the staged in Canada on 23 April 2010 was 11 Mar 2010.

我們是在2010年3月11日決定2010年4月23日加拿大多倫多一場之演出.

iii. Performance A decided to go the staged in Canada on 1 May 2010 was 8 Apr 2010.

我們是在2010年4月8日決定2010年5月1日加拿大溫哥華二場之演出.

(b) Attached pls find the details of the advertising and promotion expenses for Event G.

附件是詳細的廣告及宣傳費用.

Thanks!

Regards,  
Ko Chi Sum

**\*Note by Clerk, PAC: Item (b) not attached.**

**Mega Events Fund (MEF) Supported Event  
Observation Form**

<b>Name of the Event:</b>			
<b>Date of Observation:</b>			
<b>Venue:</b>		<b>Time:</b>	

Assessment Aspects	Observations and Remarks
<b>1. <u>Organisation and Arrangement</u></b>	
<ul style="list-style-type: none"> <li>Overall organisation and co-ordination work</li> </ul>	
<ul style="list-style-type: none"> <li>Manpower arrangement (No. of staff deployed, nature of work, and division of responsibility)</li> </ul>	
<ul style="list-style-type: none"> <li>Technical and logistical arrangement</li> </ul>	
<ul style="list-style-type: none"> <li>Venue arrangement, crowd control and safety measures</li> </ul>	
<ul style="list-style-type: none"> <li>Ceremonial arrangement (<i>if applicable</i>)</li> </ul>	
<b>2. <u>Participants and Visitors/tourists</u></b>	
<ul style="list-style-type: none"> <li>Is the event well attended?</li> </ul>	
<ul style="list-style-type: none"> <li>Is the event popular to tourists?</li> </ul>	
<ul style="list-style-type: none"> <li>Participants' response and feedback (if any)</li> </ul>	
<b>3. <u>Players/Performers</u></b>	
<ul style="list-style-type: none"> <li>Standard and quality</li> </ul>	

Assessment Aspects	Observations and Remarks
<ul style="list-style-type: none"> <li>Programme rundown, timing and ambience</li> </ul>	
<b>4. <u>Publicity and Branding Impact</u></b>	
<ul style="list-style-type: none"> <li>Acknowledgement of Government and MEF support</li> </ul>	
<ul style="list-style-type: none"> <li>Media coverage (no. of reporters, type of media present etc.)</li> </ul>	

**Overall Comments**

(a) Do you consider that the event has generally achieved the targets and deliverables undertaken by the organiser in the MEF funding agreement?

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(b) Other comments (e.g. anything commendable? Areas for improvement? ) :

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Signature: \_\_\_\_\_ Name: \_\_\_\_\_

Position \_\_\_\_\_ Date: \_\_\_\_\_

**MEF-supported events seeking extension of deadline  
for submitting the evaluation report, publicity report, survey report  
and final audited accounts  
(collectively known as post-event reports)**

	<b>Event Name</b>	<b>Reason(s) for seeking extension of submission deadline</b>
1	Hong Kong Tennis Classic 2010	<ul style="list-style-type: none"> <li>● Additional time was required for the audit work.</li> </ul>
2	Mui Wo Water and Sky Lantern Festival 2010	<ul style="list-style-type: none"> <li>● Additional time was required to sort out the receipts/invoices for the event.</li> </ul>
3	Hong Kong 2010 International a cappella Festival	<ul style="list-style-type: none"> <li>● Additional time was required for the audit work.</li> </ul>
4	Hong Kong Musical Festival	<ul style="list-style-type: none"> <li>● Additional time was required for the audit work.</li> <li>● Resignation of relevant staff handling the internal accounting work.</li> </ul>
5	Hong Kong Tennis Classic 2011	<ul style="list-style-type: none"> <li>● Urgent family matters relating to a key staff of the organizer.</li> </ul>
6	Hong Kong International Jazz Festival 2011	<ul style="list-style-type: none"> <li>● Consolidation of documents from various temporary staff and volunteers, as well as resignation of relevant staff handling the internal accounting work.</li> <li>● Additional time was required for the audit work.</li> </ul>
7	2011 UBS Hong Kong Open	<ul style="list-style-type: none"> <li>● The audit work pertaining to the event could only commence when the audited accounts of the event's overseas agent were available.</li> </ul>

	<b>Event Name</b>	<b>Reason(s) for seeking extension of submission deadline</b>
8	Hong Kong Well-wishing Festival 2012	● Additional time was required for the audit work.
9	Hong Kong Dragon Boat Carnival 2012	● Additional time was required for the audit work.
10	2012 UBS Hong Kong Open	● The audit work pertaining to the event could only commence when the audited accounts of the event's overseas agent were available.
11	Manchester United Asia Tour 2013 (Hong Kong Leg)	● The audit work pertaining to the event could only commence when the necessary information were provided by the participating overseas football club.
12	Dragon and Lion Dance Extravaganza 2014	● Additional time was required for the audit work.



**Events C1 to C4 –**  
**Expenditure items falling within the scope of expenditure that may**  
**be covered by the Mega Events Fund (MEF)**

**Event C1**

MEF-funded item	Actual Expenditure
Show production	\$310,620
Advertising	\$490,270
Promotion	\$312,060
Make-up and costume	\$26,537
Uniform	\$34,100
Venue set up and souvenirs	\$34,884
<b>Total actual expenditure of the above items</b>	<b>\$1,208,471</b>
<b>Actual amount of the MEF funding granted</b>	<b>\$1,000,000</b>

**Event C2**

MEF-funded item	Actual Expenditure
Music and Stage (As being part of “Show production and venue set up”)	\$261,320
Advertising (including bus body advertisement, MTR billboard advertisement, in-flight magazine advertisement, travel magazine advertisement, internet promotion, newspaper notices and special television programme)	\$985,556
Promotion (including promotional items, i.e. flags, banners, posters, flyers, wish cards, etc.; souvenirs (baggage tags and hand drums) bearing the Brand Hong Kong Flying Dragon logo and costume for participants)	\$374,108
Production of “Golden Days Dragon” (As being part of “Show production and venue set up”)	\$240,000
<b>Total actual expenditure of the above items</b>	<b>\$1,860,984</b>
<b>Actual amount of the MEF funding granted</b>	<b>\$1,400,000</b>

**Event C3**

<b>MEF-funded item</b>	<b>Actual Expenditure</b>
Sound system and Stage (As being part of "Show production and venue set up")	\$226,050
Advertising (including bus body advertisement, in-flight magazine advertisement, travel magazine advertisement, internet promotion, newspaper notices, radio promotion, television advertisement and special programme)	\$850,356
Promotion (including publicity materials, i.e. flags, banners, posters, leaflets, etc.)	\$146,225
Uniforms for all performers and volunteers (As being part of "Promotion")	\$223,400
Souvenirs	\$35,000
<b>Total actual expenditure of the above items</b>	<b>\$1,481,031</b>
<b>Actual amount of the MEF funding granted</b>	<b>\$1,400,000</b>

**Event C4**

<b>MEF-funded item</b>	<b>Actual Expenditure</b>
Advertising (including bus body advertisement, in-flight magazine advertisement, travel magazine advertisement, internet promotion, newspaper notices, radio promotion, TV live broadcast or additional programme and advertisement, etc.)	\$832,556
Promotion (including promotional items, i.e. flags, banners, posters, leaflets, etc.)	\$181,097
Production of "Big Head Buddha" performance costume (As being part of "Promotion")	\$316,000
Costume for participants and guests (As being part of "Promotion")	\$216,200
<b>Total actual expenditure of the above items</b>	<b>\$1,545,853</b>
<b>Actual amount of the MEF funding granted</b>	<b>\$1,337,428.81</b>
	(7% financial sanction imposed)



To: "vnmyuen@legco.gov.hk" <vnmyuen@legco.gov.hk>  
 Cc:  
 Bcc:  
 Subject: Responses from Mr Ko Chi Sum  
 From: Tang Sai Wah <briantang1981@gmail.com> - Saturday 14/06/2014 10:56

History: This message has been forwarded.

由於因為我方近日搬遷至新的辦公地址，傳真機在過去數天未能成功駁通，所以在6月12日的晚上7時，本人才收悉貴會在6月9日發給本人的信件。

首先，我方盡力遵從我方和盛事基金所簽訂之合約，把單據存檔。但因為現在審計署認為我方欠缺的單據，在當年經專業核數師及盛事基金研究過我們提交的核數報告後，並未提出要補交該單據，而盛事基金亦在當年仔細研究及考慮後，接受了我們的報告，及支付予我們資助費用的餘額。本公司同事在獲悉貴會的查詢後，曾嘗試盡力找當年的單據，但遺憾我們未能提供比當年提交時更多的單據。

我方亦在最近嘗試過聯繫曾協助我方當年在加拿大宣傳的聯絡人，但因相隔太長時間，亦因我們不是他們的長期活躍的客戶，他們亦沒有為我們保留當年的資料；然而，在印象中加拿大的宣傳廣告是在與盛事基金簽約後立即啟動的。

由於當年我方在溫哥華及多倫多的演出，屬於半慈善，半文化推廣性質，演出費只屬象徵性，僅夠支付當年的製作成本，所以恕我不能在此公開，以免影響藝人身價，及扼殺劇團及該劇日後的發展及商業接洽的空間。

Since our company has recently been relocated to a new office premises, our fax machine was not able to be connected during the past few days. Hence, we only able to received your letter dated 9 June 2014 by fax at 7:00 p.m. on 12 June 2014.

Firstly, our company had tried our best to keep our agreement between with the MEF by keeping all the receipts. However, now that the Audit department feels that some records are missing. In those days, Professional auditor and MEF have carefully studied our audit report, they has not required us to provide further additional receipts. With their then careful consideration, MEF had already accepted our report, and paid the balance of sponsor funding . Our colleagues after being informed of your query, we tried to find the old records, but unfortunately we cannot provide any more documents which had already been submitted before.

We have also tried to contact our contact person in Canada recently, but due to long lapse of time and due to the fact that we are not their long term and active customers, then they did not retain these old records for us. Furthermore, according to our memory, the advertisement were done immediately upon the signing of the Contract with the MEF.

Since our performances in Vancouver and Toronto was of a semi-charitable and semi-cultural promotion nature, only a nominal amount of performance fee were set which would barely enough to pay off the then production costs. So we are afraid that we cannot disclosed these information, so as not to affect the artists, and hinder the future development of the musical operation and its business.

**List of measures / actions that will be taken to enhance the control  
and monitoring mechanism of the Mega Events Fund**

**Measures / actions already taken**

1. The Secretariat of the Mega Events Fund (“MEF”) Assessment Committee (“AC”) has started the practice of holding “kick-off meetings” with the organizers of MEF-supported events upon approval of their MEF applications and receipt of their acceptance of the conditional offers to inform the organizers of the expectations of the Government and the MEFAC, as well as the obligation to facilitate the MEFAC Secretariat’s monitoring work.
2. The Tourism Commission has redeployed staff with accounting background to assist with the verification and cross-checking of the post-event reports and audited accounts submitted by organizers of MEF-supported events.
3. The Tourism Commission has started discussion with the Labour Department on the way to define the meaning of “paid jobs” in the funding agreement.
4. The MEFAC Secretariat has started documenting the checking and/or clarifications made with the organizers of MEF-supported events during the verification and cross-checking of the post-event evaluation reports and audited accounts submitted by the organizers.
5. Bearing in mind that the continuity of the MEFAC is important in ensuring the consistency of assessment, the Government has reappointed the Chairman and members of the MEFAC for a new term of two years, and has appointed a new member from the accounting profession and with rich knowledge on the tourism sector to the MEFAC.

6. The MEFAC has started arranging to use tele-conference facilities to enable MEFAC members who are out of town during AC meetings to take part in the meetings.
7. Organizers of MEF-supported events have been asked to develop more scientific methods in counting participants.

### **Measures / actions to be taken in the near future**

1. The MEFAC Secretariat will put a specific requirement in the Guidelines to MEF Application, application form, funding agreement and evaluation form, such that organizers of MEF-supported events must declare any potential conflict of interest, in particular those involving monetary transactions. Such declarations must either be done in writing or be recorded properly in writing.
2. The MEFAC Secretariat will put a specific requirement in the application form and evaluation form, such that organizers of MEF-supported events must disclose their management team and any related-parties who will be actively involved in organizing the events. Such disclosure and the Government's agreement thereto must either be done in writing or be recorded properly in writing.
3. The MEFAC Secretariat will put a specific requirement in the application form and evaluation form, such that organizers of MEF-supported events must disclose any intention on their part to organize in Hong Kong or overseas any kind of activities/events of similar contents and nature to the MEF-supported events. The Secretariat will also develop a standard clause in the funding agreement on such requirement and the need for the organizers to seek the Government's consent.
4. The MEFAC Secretariat will state explicitly in the funding agreement that charges relating to commercial sponsors should not be covered by MEF funding, and that the organizers of MEF-support events must notify the Government in writing and seek the Government's consent should there be any special arrangement for returning sponsorship to

commercial sponsors.

5. The MEFAC Secretariat will record the scores awarded to each MEF application under each individual assessment criteria in the minutes of the corresponding MEFAC meetings.
6. The MEFAC Secretariat will step up monitoring of the declaration of interests in relation to the procurement of services and recruitment of key personnel by the organizers of MEF-supported events.
7. The MEFAC Secretariat will step up random verification on the deliverables and targets as reported by the organizers and request the organizers to ensure that all event expenditure items should be supported by official invoices/receipts. The MEFAC Secretariat will check whether the organizers have fulfilled these requirements when conducting the random document checks.

#### **Measures / actions to be taken in the longer term**

1. The Tourism Commission will seek resources for recruiting/deploying on a longer term basis staff members with accounting/auditing knowledge to the MEFAC Secretariat to enhance the effectiveness of its monitoring work.
2. The Tourism Commission will consider whether, and if so how, the assessment criteria for MEF applications and the key performance indicators for MEF-supported events should be updated and revised.
3. The Government will conduct a comprehensive review on the future of the MEF before its expiry in March 2017.

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通訊及科技科

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COMMERCE AND ECONOMIC  
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來函檔號 Your Ref.: CB(4)PAC/R62

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Fax No.: 2519 9780

19 June 2014

Miss Mary So  
Clerk to the Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong.

Dear Miss So,

**Public Accounts Committee  
Consideration of Chapter 6 of the Director of Audit's Report No. 62  
CreateSmart Initiative**

I refer to your letter dated 20 May 2014. I set out our response to the queries raised in relation to Chapter 6 of the Director of Audit's Report No. 62 (Audit Report).

CreateSmart Initiative ("CSI") projects

- (a) 22 out of the 165 projects approved under CSI (as at 30 November 2013) are study missions or delegations by nature. Details of such projects are at **Annex 1**.

## Control of use of funds

- (b) As of today, Create Hong Kong (CreateHK) has a total of 69 posts, which consist of 53 civil service and 16 non-civil service posts. A detailed breakdown of the establishment of CreateHK is at **Annex 2**.

There is no auditor in the establishment of CreateHK. Nor has CreateHK engaged an outside auditor from June 2009 to 30 November 2013 to inspect the books and records of the grantees of CSI funding. For every approved CSI project, the grantee is required under the CSI Guide and project agreement to appoint an independent auditor to prepare a report on the audited accounts for the project, which is required to be submitted as part of the completion report. CSI funding of up to \$20,000 is provided in respect of each project for this purpose. As at 30 November 2013, 85 projects approved under CSI with total approved funding of \$158 million had been audited by independent auditors prior to submission of completion reports to CreateHK. The requirement to prepare audited accounts was set out in the Government's submission to the Finance Committee in 2009 for setting up the CSI (i.e. FCR(2009-10)15).

- (c) Under the traditional funding approach, the CSI funding support covers only the net approved project cost after deducting the budgeted income, which may include sponsorship and/or funding from other sources for the project (collectively known as "non-CSI funding"). Grantees are encouraged to seek non-CSI funding for a CSI project so as to reduce the reliance on government funding and to draw on resources available in the community.

Under the alternative funding approach referred to in paragraph 3.14(a) of the Audit Report (hereinafter referred to as "alternative funding approach"), the CSI funding would be used to cover certain designated expenditure items of the project while some other expenditure items of the project would be covered by non-CSI funding. As such, the grantee does not need to apply the non-CSI funding to offset the designated expenditure items.



Such arrangement is intended to allow the overall project to expand in scope through deployment of non-CSI funding, develop into a larger platform to benefit more participants and in turn reduce the share of public funding in the total cost of the overall project.

- (d) The CSI Vetting Committee adopts the same assessment criteria to evaluate all applications for CSI funding, be it under the traditional funding approach or the alternative funding approach.
- (e) The traditional funding approach mentioned in (c) above is the default arrangement for CSI projects. The alternative funding approach is in effect an arrangement to make exception/variation to the traditional funding approach. Requests raised by grantees for making such exceptions or variations are considered by the relevant CSI Assessment Panel and the Government having regard to the circumstances of the projects concerned. In the case of Project M as well as its previous and subsequent editions (hereinafter referred to as the “Project M series”), the grantee proposed in submitting its funding application a funding approach which is different from the traditional one. The Assessment Panel and the Government were aware of the different funding approach as proposed by the grantee and did not object to such with the intention to allow the overall project to expand in scope, to develop into a larger platform to benefit more participants and to reduce the share of public funding in the total cost of the overall project.

If a project proponent proposes a funding approach other than the traditional one, the Assessment Panel and the Government will duly consider the request. There is no question of the grantee of Project M being given preferential treatment. However, we agree with the Director of Audit’s recommendation that we should review the alternative funding approach. In particular, we will consider the extent to which, and if so how, CreateHK should continue to encourage more private sponsorship to plough back into CSI projects.

(f)&(h) The Project M series, consisting of four projects in total, adopt the alternative funding approach. They are the only CSI-supported projects which adopt the alternative funding approach stipulated above. Please refer to the response to question (e) above for the rationale of applying the alternative funding approach to the Project M series.

(g) As in the case of commercial establishments and other Government funding schemes, independent audits on the financial statements are well accepted professional means for compliance checking. CreateHK has relied on independent auditors to check the financial statements of the CSI projects and confirm compliance. Project M as a CSI project is no exception.

In the case of Project M, the grantee advised that it had expended all the CSI funding on the designated CSI-funded expenditure items. The grantee also confirmed that the “unspent fund balance” in question originated from the non-CSI funding. The same was reflected in the audited accounts submitted by the grantee. In accordance with the alternative funding arrangement, such “unspent fund balance” arising out of non-CSI funding is not required to be returned to the Government. Nevertheless, for the sake of prudence and protection of Government’s interests, and as we set out in the response to the Audit Report, we plan to engage another independent auditor to conduct a second audit on Project M.

(i) According to the information provided by the Audit Commission, the Commission identified examples of failures to comply with the procurement requirements in all the 15 projects examined. The information in respect of these 15 cases as provided by the Audit Commission is set out at **Annex 3**.

## Monitoring and evaluating projects

- (j) At the project implementation stage, CreateHK monitors the progress of the CSI projects by conducting site visits, seeking information from the grantee to ascertain whether the project is carried out in accordance with the approved project proposal, and reviewing progress reports submitted by the grantee.

It is set out in the CSI Guide, which is incorporated into and forms part of the CSI project agreement, that the Government reserves the right to suspend or terminate the funding support to a project and the project agreement for reasons including, but not limited to:

- (i) non-compliance with all or any of the terms and conditions as set out in the project agreement;
- (ii) lack of progress of the project in a material way;
- (iii) slim chance of completion of the project in accordance with the project proposal;
- (iv) the original objectives of project are no longer relevant to the needs of the creative industry as a result of material change in the circumstances;
- (v) objectives and relevance of the project have been overtaken by events; or
- (vi) the Controlling Officer sees a need to suspend or terminate the project in public interest.

There are also provisions in the project agreement between the Government and the grantee which allow the Government to terminate the project agreement and demand from the grantee full or partial repayment of the CSI funding provided.

We are mindful of the need to observe the proportionality principle and reckon that terminating the project agreement is an extreme form of sanction. As part of the review of the CSI which we will commence this year, we will consider whether and how other forms of sanction, including financial sanctions, should be included in the project agreements for lack of progress of the project and/or other reasons.

- (k) We have evaluated all completed projects, including those which are study missions or delegations by nature, against the objectives, deliverables, milestones and budget set out in the approved project proposals. Apart from the project information, press clippings, feedbacks from participants/attendees/visitors, photographs and/or videos provided by the grantees in the completion report, we also conducted evaluation based on the audited account reports prepared by independent auditors and the observation we made during our site visits (if applicable).

Yours sincerely,



( Miss Susie Ho )

Permanent Secretary for Commerce and Economic Development  
(Communications and Technology)

c.c. Secretary for Commerce and Economic Development  
Secretary for Financial Services and the Treasury  
Director of Audit  
Head of Create Hong Kong

**Details of the projects approved under the CreateSmart Initiative (CSI)  
the nature of which are study mission and delegation**

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
1.	Hong Kong Pavilion at MIPCOM 2009	Exploring markets	\$556,400	\$556,400	<ul style="list-style-type: none"> <li>- Staffing for the project;</li> <li>- flight and accommodation;</li> <li>- exhibition production;</li> <li>- public relations and marketing materials;</li> <li>- participation fees in the exhibitions;</li> <li>- audit fee, etc.</li> </ul>	19	Digital Entertainment	Cannes, France	A Hong Kong Pavilion was set up at MIPCOM 2009 to showcase the strengths and products of the digital entertainment industry of Hong Kong. Delegate companies participated in MIPCOM 2009 and MIPJUNIOR 2009 for acquiring market intelligence, business matching, exposure and networking.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
2.	Hong Kong Digital Entertainment Industry Study Mission and Pavilion at SIGGRAPH Asia 2009	Exploring markets	\$4,274,000	\$742,774	<ul style="list-style-type: none"> <li>- Staffing for the project;</li> <li>- flight and accommodation;</li> <li>- exhibition production;</li> <li>- public relations and marketing materials;</li> <li>- sponsorship for admission fees charged to the participants;</li> <li>- organisation of networking events;</li> <li>- audit fee, etc.</li> </ul>	40	Digital Entertainment	Yokohama, Japan	<p>A Hong Kong Pavilion was set up at SIGGRAPH Asia 2009 to showcase the latest developments of the Hong Kong animation and visual effects industries and computer graphic products, including award winning works.</p> <p>Industry practitioners and tertiary students participated in lectures and panels on computer graphics development and the networking activities, obtained exposure, and exchanged views with their overseas counterparts.</p>

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
3.	HK4As Kam Fan Awards Winners Participation in International Awards (2009 edition)	Nurturing talents and facilitating start-ups	\$253,400	\$253,400	- Flight and accommodation; - entry costs and registration fees for international awards/competitions; - audit fee, etc.	14	Advertising	London, United Kingdom; Cannes, France; Singapore; and Bangkok, Thailand	Representatives from the advertising industry participated in the award presentation ceremonies, workshops, seminars, and networking activities of the D&AD Awards 2010, Cannes Lions 2010, Spikes Asia 2010, Young Spikes 2010, and ADFEST Young Lotus Creative Workshop 2010.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
4.	Promoting Hong Kong to be the Host City of SIGGRAPH Asia 2011	Exploring markets	\$9,133,124	\$7,365,824	<ul style="list-style-type: none"> <li>- Staffing for the project;</li> <li>- flight and accommodation;</li> <li>- exhibition production;</li> <li>- public relations and marketing materials;</li> <li>- sponsorship for admission fees charged to the participants;</li> <li>- organisation of networking events;</li> <li>- audit fee, etc.</li> </ul>	135 (Seoul:40; Vancouver:30; Hangzhou:35; Beijing:30)	Digital Entertainment	Seoul, Korea; Vancouver, Canada; Hangzhou, Zhejiang ; and Beijing	<p>A Hong Kong Pavilion was set up at SIGGRAPH Asia 2010 in Korea, SIGGRAPH 2011 in Canada, China International Cartoon &amp; Animation Festival 2011, and Beijing International Radio, TV and Film Equipment Exhibition 2011.</p> <p>A study mission comprising industry practitioners and tertiary students was sent to attend these international events.</p>



No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
5.	Knowledge Update and Market Promotion for Hong Kong's Animation Industry via "Annecy 2010" International Animation Film Festival	Exploring markets	\$951,775	\$738,365	<ul style="list-style-type: none"> <li>- Staffing for the project;</li> <li>- flight and accommodation;</li> <li>- exhibition production;</li> <li>- marketing;</li> <li>- admission fees;</li> <li>- organisation of networking events;</li> <li>- audit fee, etc.</li> </ul>	30	Digital Entertainment	Annecy, France	<p>A Hong Kong Pavilion was set up in Annecy 2010 to promote the animation industry of Hong Kong. Industry practitioners and tertiary students participated in screenings, conference, exhibition and networking events. They also obtained international exposure.</p>

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
6.	Hong Kong Pavilion at MIPCOM 2010	Exploring markets	\$771,000	\$555,700	<ul style="list-style-type: none"> <li>- Staffing for the project;</li> <li>- flight and accommodation;</li> <li>- exhibition production;</li> <li>- public relations and marketing materials;</li> <li>- participation fees in the exhibitions;</li> <li>- audit fee, etc.</li> </ul>	13	Digital Entertainment	Cannes, France	A Hong Kong Pavilion was set up at MIPCOM 2010 to showcase the strength and excellence of Hong Kong digital entertainment industry. Delegate companies participated in MIPCOM 2010 and MIPJUNIOR 2010 for acquiring market intelligence, business matching, exposure and networking.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
7.	HK4As Representatives to Participate in International Awards (2010 edition)	Nurturing talents and facilitating start-ups	\$826,650	\$603,400	<ul style="list-style-type: none"> <li>- Flight and accommodation;</li> <li>- entry costs and registration fees for the international awards/competitions;</li> <li>- audit fee, etc.</li> </ul>	20	Advertising	Bangkok, Thailand; Cannes, France; and Singapore	Representatives from advertising industry participated in the award presentation ceremonies, workshops, seminars and exhibitions of ADFEST 2011, Cannes Lions 2011, Young Lions Competition 2011, Spikes Asia 2011, and Young Spikes Creative Competition 2011.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
8.	HK4As Representatives to Participate in International Awards and Creative Sharing by International Awards' Representatives (2011 edition)	Nurturing talents and facilitating start-ups	\$1,090,460	\$664,470	<ul style="list-style-type: none"> <li>- Flight and accommodation;</li> <li>- entry costs and registration fees for the international awards/competitions;</li> <li>- organisation of a sharing session;</li> <li>- audit fee, etc.</li> </ul>	13	Advertising	Pattaya, Thailand; Cannes, France; and Singapore	Representatives from the advertising industry participated in the award presentation ceremonies, workshops, seminars and exhibitions of ADFEST 2012, ADFEST Young Lotus Creative Workshop 2012, Cannes Lions 2012, Young Lions Competition 2012, Spikes Asia 2012, and Young Spikes Creative Competition 2012.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
9.	International Design Summer Camp Programme <sup>1</sup>	Nurturing Talents	\$2,705,940	\$1,915,890	- Staffing for the project; - flight and accommodation; - organisation of a study tour, including admission fees for the places visited; - audit fee, etc.	50 participants for the study tour to Milan;  210 participants for the summer camp	Design	Milan, Italy	Participating local design students visited exhibitions in the Milan Design Week, design studios and designer stores.  As for the summer camp, students attended master talks, conducted local site visits and a 2-day study tour to the Pearl River Delta, completed a design project, and presented their creative works at the closing ceremony.

<sup>1</sup> This project consists of a Milan Design Study Tour and an International Design Summer Camp held in Hong Kong. A separate breakdown of the costs into the two components is not available.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
10.	“Creativity in Business ” Seminar Series For Promoting Hong Kong ’s Design and Marketing Services On the Chinese Mainland (2012)	Exploring markets	\$2,089,000	\$1,767,150	<ul style="list-style-type: none"> <li>- Staffing for the project;</li> <li>- flight and accommodation;</li> <li>- exhibition production;</li> <li>- marketing;</li> <li>- organisation of networking activities;</li> <li>- audit fee, etc.</li> </ul>	81	Advertising	Quanzhou, Fujian; Dongguan, Guangdong; and Chengdu, Sichuan	Participating industry players took part in seminars, mini-exhibitions, business matching sessions, market briefings and visits.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
11.	SmartHK, Hangzhou (2012 edition)	Exploring markets	\$2,718,000	\$2,123,000	<ul style="list-style-type: none"> <li>- Flight and accommodation;</li> <li>- exhibition production;</li> <li>- public relations and marketing materials;</li> <li>- sponsorship for the participation fees charged to the participants;</li> <li>- audit fee, etc.</li> </ul>	60	Advertising, architecture, design, printing and digital entertainment	Hangzhou, Zhejiang	<p>A pavilion was set up to showcase successful cases and award-winning projects of creative industries of Hong Kong.</p> <p>Participating industry players took part in a series of exhibitions, conferences, seminars and networking events for promoting Hong Kong's creative industries to the potential clients in the Mainland.</p>

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
12.	2012 Hong Kong Berlin Designers Exchange	Nurturing Talents	\$531,674	\$506,067	<ul style="list-style-type: none"> <li>- Flight and accommodation;</li> <li>- exhibition production;</li> <li>- transportation expenses in Berlin;</li> <li>- admission fees for the places visited;</li> <li>- audit fee, etc.</li> </ul>	10	Design	Berlin, Germany	Participating young designers showcased their creative works in DMY International Design Festival 2012, held presentation at the DMY open talks, joined the reception organised by the Hong Kong Economic and Trade Office in Berlin, conducted media interview, and visited design studios and museums.



No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
13.	2012 Hong Kong Denmark Designers Exchange	Nurturing Talents	\$280,081	\$260,892	- Flight and accommodation; - exhibition production; - transportation expenses in Copenhagen; - admission fees for the places visited; - audit fee, etc.	10	Design	Copenhagen, Denmark	Participating young designers showcased their creative works in Roskilde Festival 2012, attended workshops, and visited design studios.
14.	Fashion Guerilla - Paris	Exploring Markets	\$998,000	\$998,000	- Staffing for the project; - exhibition production; - venue rental for setting up a pop-up showroom; - flight and accommodation; - public relations and marketing materials; - documentation; - audit fee, etc.	13	Design	Paris, France	Participating local emerging fashion designers set up a pop-up showroom during the Paris Fashion Week 2013.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
15.	HK4As Representatives to Participate in International Awards and Creative Sharing by International Awards' Representatives (2012 edition)	Nurturing talents and facilitating start-ups	\$590,300	\$420,600	<ul style="list-style-type: none"> <li>- Flight and accommodation;</li> <li>- entry costs and registration fees for the international awards/competitions;</li> <li>- organisation of a sharing session;</li> <li>- audit fee, etc.</li> </ul>	17	Advertising	Pattaya, Thailand; Cannes, France; and Singapore	Representatives from the advertising industry participated in the award presentation ceremonies, workshops, seminars and exhibitions of ADFEST 2013, ADFEST Young Lotus Creative Workshop 2013, Cannes Lions 2013, Young Lions Competition 2013, Spikes Asia 2013, and Young Spikes Creative Competition 2013.
16.	“Creativity in Business” Seminar Series For Promoting Hong Kong’s Design and Marketing Services (2013/14)	Exploring markets	\$3,011,800	\$1,914,085	<ul style="list-style-type: none"> <li>- Staffing for the project;</li> <li>- flight and accommodation;</li> <li>- exhibition production;</li> <li>- marketing;</li> <li>- organisation of networking activities;</li> <li>- audit fee, etc.</li> </ul>	83	Advertising	Taipei, Taiwan; Shaoxing, Zhejiang; Qingdao, Shandong	Participating industry players took part in seminars, mini-exhibitions, business matching sessions, market briefings and visits.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
17.	Hong Kong Berlin Designers Exchange 2013 (HKDX)	Nurturing Talents	\$506,054	\$506,054	<ul style="list-style-type: none"> <li>- Flight and accommodation;</li> <li>- exhibition production;</li> <li>- transportation expenses in Berlin;</li> <li>- admission fees for the places visited;</li> <li>- audit fee, etc.</li> </ul>	10	Design	Berlin, Germany	Participating young designers showcased their creative works in DMY International Design Festival 2013; conducted workshops and demonstration sessions, attended DMY open talks; joined the reception organised by the Hong Kong Economic and Trade Office in Berlin; conducted media interviews; and visited design studios, specialty design stores, museums, etc.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
18.	SmartHK, Guangzhou (2013 edition)	Exploring markets	\$2,367,000	\$1,809,250	<ul style="list-style-type: none"> <li>- Accommodation;</li> <li>- exhibition production;</li> <li>- public relations and marketing materials;</li> <li>- sponsorship for the participation fees charged to the participants;</li> <li>- audit fee, etc.</li> </ul>	61	Advertising, architecture, design, printing and digital entertainment	Guangzhou, Guangdong	<p>A pavilion was set up to successful cases and award-winning projects of creative industries of Hong Kong.</p> <p>Industry players took part in a series of exhibitions, conferences, seminars and networking events for promoting Hong Kong's capability to the potential clients in the Mainland.</p>
19.	Hong Kong Brussels Design September 2013	Nurturing Talents	\$582,610	\$582,610	<ul style="list-style-type: none"> <li>- Flight and accommodation;</li> <li>- exhibition production;</li> <li>- transportation expenses in Brussels;</li> <li>- admission fees for the places visited;</li> <li>- audit fee, etc.</li> </ul>	11	Design	Brussels, Belgium	<p>Participating young designers showcased their creative works in Brussels Design September 2013; staged a fashion presentation; attended open talks, presentations and workshops; and visited design studios.</p>

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
20.	Fashion Guerilla - Tokyo	Exploring Markets	\$1,010,000	\$1,010,000	<ul style="list-style-type: none"> <li>- Staffing for the project;</li> <li>- exhibition production;</li> <li>- venue rental for setting up a pop-up showroom</li> <li>- flight and accommodation;</li> <li>- public relations and marketing materials;</li> <li>- documentation;</li> <li>- audit fee, etc.</li> </ul>	10	Design	Tokyo, Japan	Participating local emerging fashion designers set up a pop-up showroom during the Tokyo Fashion Week 2013.

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
21.	Break the Cocoon, Sparkling Hong Kong!	Exploring Markets	\$1,285,000	\$1,285,000	<ul style="list-style-type: none"> <li>- Staffing for the project;</li> <li>- exhibition production;</li> <li>- flight and accommodation;</li> <li>- transportation expenses in Frankfurt;</li> <li>- admission fees for the places visited;</li> <li>- public relations and marketing materials;</li> <li>- documentation;</li> <li>- audit fees, etc.</li> </ul>	10	Design	Frankfurt, Germany	<p>An exhibition booth was set up in Ambiente 2014 to showcase the winning designs of the Smart Gift Design Awards.</p> <p>Winning designers presented their designs to trade fair visitors; attended seminars; visited Ambiente 2014, design associations, trade associations, museums and retail outlets; and met retail group operators.</p>

No.	Title of the project	Objectives of the project	Funding requested	Funding approved	Major types of expenditures set out in the approved budget	No. of participants	Sector to which the participants belonged	Destinations of places visited	Major activities undertaken
22.	2014 HK4As representatives to participate in International Awards and Creative Sharing by International Awards' representatives	Nurturing talents and facilitating start-ups	\$613,450	\$426,480	- Flight and accommodation; - entry costs and registration fees for the international awards/competitions; - organisation of a sharing session; - audit fee, etc.	5 so far (The project has not yet been completed.)	Advertising	Pattaya, Thailand; Cannes, France; and Singapore	It is intended that representatives from the advertising industry will participate in the award presentation ceremonies, workshops, seminars and exhibitions of ADFEST 2014, ADFEST Young Lotus Creative Workshop 2014, Cannes Lions 2014, Young Lions Competition 2014, Spikes Asia 2014, and Young Spikes Creative Competition 2014.

**Remark**

The table covers those CSI projects approved before 30 November 2013, the nature of which are classified as “study mission and delegation” and at least 50% of the approved project costs of which are directly attributable to study missions or delegations. For those projects with activities conducted in and outside Hong Kong respectively, a separate breakdown for the cost of the activities conducted outside Hong Kong is not available.

**Establishment of Create Hong Kong (CreateHK)  
(as at 30 April 2014)**

**Civil Service Posts**

<b><u>Rank</u></b>	<b><u>Number</u></b>
Head of Create Hong Kong (D3)	1
Senior Principal Executive Officer (D2)	1
Secretary-General of the Film Development Council (D2)	1
Chief Executive Officer	1
Principal Trade Officer	1
Senior Geotechnical Engineer	1
Principal Entertainment Standards Control Officer	2
Senior Executive Officer	2
Trade Officer	2
Systems Manager	1
Chief Entertainment Standards Control Officer	2
Senior Explosives Officer	1
Executive Officer I	2
Analyst/Programmer I	1
Explosives Officer I	2
Entertainment Standards Control Officer	5
Executive Officer II	2
Assistant Trade Officer II	6
Explosives Officer II	2
Personal Secretary I	3
Personal Secretary II	1
Assistant Clerical Officer	6
Typist	1
Clerical Assistant	6
<b>Sub-total</b>	<b>53</b>



## **Non-Civil Service Contract (NCSC) Posts**

<b><u>Post Title</u></b>	<b><u>Number</u></b>
Senior Manger	2
Manager	4
Film Production Executive	1
Office Executive	1
Assistant Film Production Executive	1
Executive Assistant	3
Coordinator (Project and Administration)	1
Assistant Manager	1
Clerical Assistant	1
General Assistant	1
<hr/>	
<b>Sub-total</b>	<b>16</b>

**Total number of civil service and NCSC posts: 69**

### **Remarks**

The above posts are responsible for a whole range of duties required of CreateHK, with processing CreateSmart Initiative (CSI) funding applications and monitoring approved CSI projects being one of those.

**Examples of the failure to fulfil procurement requirements  
identified by the Audit Commission**

<b>Project</b>	<b>Example (Note)</b>
1	No quotation was obtained for an expense item. (Accommodation: \$19,045).
2	Insufficient quotations were obtained for an expense item. (Exhibition production cost: \$200,000).
3	Insufficient quotations were obtained for an expense item. (Exhibition production cost: \$15,075)
4	Insufficient quotations were obtained for an expense item. (Transportation cost: \$93,823)
5	No quotation was obtained for an expense item. (Insurance: \$36,080)
6	No quotation was obtained for an expense item. (Flight: \$129,430; accommodation: \$82,529)
7	Insufficient quotations were obtained for an expense item. (Consultancy fee: \$320,000)
8	No quotation was obtained for an expense item. (Flight: \$130,504; accommodation: \$33,806)
9	Insufficient quotations were obtained for an expense item. (Hire of services: \$60,135)
10	A supplier which did not submit the lowest bid was selected without full justifications given by the grantee. (Video production: \$129,000)
11	Insufficient quotations were obtained for an expense item. (Translation services: \$6,800)
12	Insufficient quotations were obtained for an expense item. (Audit fee: \$10,000)
13	Insufficient quotations were obtained for an expense item. (Publicity: \$39,000)
14	Insufficient quotations were obtained for an expense item. (Marketing: \$15,800)
15	Insufficient quotations were obtained for an expense item. (Audit fee: \$11,650)

**Note :** The Audit Commission had conducted sample tests but had not examined all the procurement activities of the 15 projects. As stipulated in the CreateSmart Initiative Guide, at least two to five written quotations (subject to the actual procurement amount) are required for every procurement the aggregate value of which exceeds \$5,000.

Following is an English translation of the opening remarks by the Secretary for Home Affairs, Mr TSANG Tak-sing, at the public hearing of the Legislative Council (LegCo) Public Accounts Committee (PAC) on Promoting the development of social enterprises (Chapter 7) of the Director of Audit's Report No. 62 today (May 5):

Chairman,

I would like to thank the Audit Commission for undertaking a study on the Government's supportive measures for social enterprises (SEs) and the Public Accounts Committee for conducting this follow-up hearing. We welcome more interest from various sectors in the community in the development of SEs in Hong Kong.

The Audit Report outlined the Government's policy initiatives and actual progress in promoting the development of SEs in recent years. For example, the statistics compiled by the "SE Business Centre" indicated that the number of SEs has been increasing steadily from 222 in 2007-08 to 406 in 2012-13 (and 450 in 2013-14).

Over the past years, the Home Affairs Bureau (HAB) has put much effort in encouraging various sectors to set up supporting platforms for SEs to provide various kinds of support. We are pleased to see that several such organisations have been established which have done a lot of work through joint efforts with various sectors. These organisations include the SE Business Centre under the Hong Kong Council of Social Service (HKCSS), Hong Kong General Chamber of Social Enterprises, and SE Summit, etc. Through the cross-sectoral collaboration among the business sector, the community, government departments and academics, we are pleased to see that the services and clients of SEs have become more diversified. Apart from creating employment for the underprivileged, the sector has achieved various social objectives in many aspects, such as provision of elderly/youth services catering to specific needs, development of distinguishing businesses of creative and tourist industries, environmental protection and recycling business, etc. In addition to realizing innovative and caring spirit, it has also encouraged many young people to participate in this meaningful cause. At the same time, the operation model and sources of capital of SEs are becoming more diversified. According to HKCSS, of the total SEs in Hong Kong, the percentage of the number of SEs not operated by registered charitable bodies has increased from 16% six years ago to 34% last year. The SE concept has become more popular and it has gained better public understanding and acceptance.

As a matter of fact, SE development is still in the preliminary stage in Hong Kong. There is still room for improvement in our work. We agree with Audit's recommendation on further support for the SEs as they are generally in line with the work directions of the HAB and the Home Affairs Department (HAD).

(a) We agreed to the recommendation in the Report that we should continue to take stock of the initiatives that are conducive to SE development, both within and outside the Government, in order to create synergy. In the past few years, the Government's strategy has always been to provide support to SEs by promoting cooperation with all sectors through various SE support platforms, including –

- \* to foster a better public understanding of SEs;
- \* to provide funding support to specific SE projects; and
- \* to provide support in terms of training courses and mentorship schemes in order to enhance the capacity of SEs.

(b) We also agreed to the Report's recommendation that the Government must keep in view the development need of SEs and update its support strategies and programmes accordingly. Members of the Social Enterprise Advisory Committee (SEAC) which is under my chairmanship include representatives from many SE organisations and other sectors like the business, education and social welfare who proactively provide their views. SEAC has commissioned a consultancy team to conduct a study and examine the current landscape of SEs in Hong Kong and their future needs. The findings of the study will assist the Government, SE organisations and other stakeholders to formulate future strategy in support of further development of SEs.

Regarding the Enhancing Self-Reliance Through District Partnership Programme of the HAD, more than 150 SE projects have been funded with a total amount that exceeds \$170 million since 2006. Among the 150 funded projects, more than 80 SEs (i.e. close to 80%) continue to operate after the end of the funding period. The HAD will follow up on individual recommendations relating to the Programme in the Audit's Report.

Moreover, I would like to point out that the development of SEs should not be assessed solely by the amount of government funding and the number of job posts created. Although the SEs are operated in the form of a business, their value lies in

their capability to create social benefits and serve the community. Therefore we should get a more holistic and comprehensive understanding of their functions in Hong Kong.

Now, my colleagues and I are prepared to listen to your views and answer questions from the members. Thank you, Mr Chairman.

Ends/Monday, May 5, 2014

Issued at HKT 15:56

**Awardees of Social Enterprise Award Scheme 2011**

**1. CookEasy**

CookEasy provides fresh, healthy and convenient food pack delivery service for busy city dwellers so that they can relish wholesome home dishes. In order to reduce operating cost, orders are placed online and delivered directly to the hands of customers. Some major building management companies offer to help in receiving food packs delivered for their residents. Most of the employees of CookEasy are mentally handicapped or those recovered from mental illness. Working for CookEasy enables them to learn relevant work skills such as social and communication skills through interacting with customers, which in turn helps rebuild their self-confidence.

**2. Dialogue in the Dark (HK) Limited**

Dialogue in the Dark is an SE that has its roots in Germany. Its business has been expanded to over 26 countries and 150 cities worldwide. It provides professional training to the visually impaired to groom them as tour guides of the specially constructed pitch-black exhibition to lead the sighted participants to experience the world without light. Through role reversal, the visually impaired can show their capabilities to navigate in the dark and the sighted can sample the life of the visually impaired, which will help enhance people's empathy towards the visually impaired.

**3. Easy Home Services**

Founded in 2009 in response to increasing demand for home services in Hong Kong, Easy Home Services aims at easing problems such as job insecurity, low pay and lack of labour and social protection faced by domestic helpers. It has a team of over 1 300 part-time domestic helpers providing one-stop quality housekeeping service. Easy Home Services provides its domestic helpers with stable income and on the job training to enhance their professionalism and employability.

#### **4. Fullness Christian Social Enterprise Limited**

Fullness Christian Social Enterprise Limited (Fullness) was founded with the mission to help the youth at risk such as ex-offenders, ex-drug addicts and non-engaged teenagers to reintegrate into society through vocational training in the hair salon business. Hairstylists in Fullness do not only provide hairstyling vocational training to the youth at risk but also serve as mentors to instill positive values in them so that they may improve their work attitudes and interpersonal skills. Fullness also maintains close contact with the mass media and schools. It set up the Fullness Social Enterprises Society two years ago to provide a platform for SE supporters to share their views on SEs with other SE practitioners and the general public.

#### **5. Gingko House**

Gingko House is a restaurant operated by the elderly. It provides the elderly, especially those who are poverty-stricken or those who aspire to lead a fruitful life after retirement, with job opportunities in an appropriate work environment so that they can make good use of their time and gain self-confidence and respect from others. Gingko House also donates part of its revenue to a charity fund to help the disadvantaged in the community. It collaborates with and provides catering service for other SEs in a bid to promote cooperation among SEs.

#### **6. iBakery**

iBakery is a bakery, a café and a training centre which offers a variety of training and job opportunities to the disabled in operations such as baking, packaging and operating the cash register. This not only enables them to be self-reliant and self-sufficient but also fosters their self-confidence and job satisfaction. Apart from providing training opportunities to the disabled, iBakery also attaches great importance to food quality and safety.

**7. Personal Emergency Link Service**

Senior Citizen Home Safety Association (SCHSA) started offering the 24-hour Personal Emergency Link Service (PE Link Service) for the elderly and people in need of emergency support or emotion counseling services in 1996. Users only need to press a button to connect to the 24-hour service centre to require for an ambulance or help from the police or firefighters. Staff can also provide further emotion counseling and follow-up health services based on users' conditions. In addition, PE Link Service collaborates with organizations in different sectors such as arranging with the Hospital Authority in transferring electronic patient records to Accident and Emergency ward to boost the efficiency in providing aid and treatment.

**8. Tai Kok Tsui Mrs Mc**

Tai Kok Tsui Mrs Mc (Mrs Mc) capitalized on the opportunities arising from Tai Kok Tsui's redevelopment where both the old and new communities are found. It started a dessert shop as its primary operation with home beauty services as a sideline, utilising the workforce in the old district to meet the demand of a new market. Besides, Mrs Mc has been actively forming partnerships with the residential communities and corporations in the neighbourhood to expand its operations. Mrs Mc employs mainly low-paid women and youngsters of low education level to help them acquire more skills and gain self-confidence in work, which promotes harmony in the community.



## **Awardees of Social Enterprise Award Scheme 2013**

### **1. Happy Veggies**

Hong Kong Movie Star Sports Association Charities Limited [“HKMSSAC Elderly Charity Fund”] has participated in the “Enhancing Self-Reliance (ESR) Through District Partnership Programme” of the Home Affairs Department and applied for setting up a Happy Veggies vegetarian restaurant to promote a healthy and eco-friendly dining culture to Hong Kong citizen. Elderly people who are looking for work and hearing impaired people are employed. The on job training encourages their self-reliance and to become part of the society.

### **2. My Concept Event Management**

My Concept Event Management was established in 2007. It is a pioneering social enterprise to integrate performance and event management with the needs of young people in the mission. My Concept provides sustainable work opportunity for deprived youth and functions as a platform for youth to realize their dreams. My Concept also provides customers with performance full of creative ideas and surprise.

### **3. Hong Kong TransLingual Services (HKTS)**

Hong Kong TransLingual Services (HKTS) is a social enterprise which provides translation and interpretation services for ethnic minorities. HKTS aims at creating language barrier-free environment so that ethnic minorities can overcome language barriers in their first foray of integration in the mainstream society. HKTS serves all the public hospitals and clinics, as well as different kinds of institutions in Hong Kong. The services cover 20 languages and there are telephone interpretation, on-site interpretation, videoconferencing interpretation and written translation. Also, through service monitoring system and the establishment of a cooperative platform, HKTS provides training and job opportunities for ethnic minorities so as to create a professional career path for them.

#### **4. Salvation Army Family Stores**

Family Stores is the retail arm of The Salvation Army. It operates as a fully functioning retail business and the supply of goods relies heavily on the generosity of the public. All profit from the sale of goods at Family Stores contributes to invaluable community programmes operated by The Salvation Army.

#### **5. “Cheers Gallery” Rehab Shop**

“Cheers Gallery” is dedicated to providing convenient and caring retail services for patients, visitors and hospital staff. Collaborating with over 200 suppliers, a broad selection of more than 4,200 rehabilitation products is provided. The Shop also acts as a leading retail network in offering the most comprehensive products. With the provision of comprehensive rehabilitation products and professional advice from medical staff, patients can embark on a journey to recovery. The shops are operated and managed by the disadvantaged. They are given opportunities to help and care for patients and to foster the spirit of mutual help.

#### **6. iBakery Gallery Café**

iBakery Gallery Café, the second branch of iBakery social enterprise operated by Tung Wah Group of Hospitals, is a green gallery bakery café conveniently located at Tamar Park Admiralty serving light meals, quality coffee and homemade bakery products, and providing catering service and venue rental for private events. Employees earn their living, dignity as well as satisfaction in iBakery. A total of 50 employees are employed and over 50% of them are people with disabilities who take part in bakery production and daily operation of the 4 branches, including iBakery, iBakery Gallery Café, iBakery Express HKU and iBakery Express Tamar.

#### **7. Hong Kong Kitchen**

Hong Kong Kitchen is set up with a threefold service - catering service, canteen service and food products manufacturing. Situated at Fo Tan, Hong Kong Kitchen is fully equipped with professional-grade appliances and an outstanding management team to ensure the consistency of superior quality and the smooth operation of the business. There are certain core values that are constantly withheld in Hong Kong Kitchen: rigorously maintaining the superior quality often associated with such labeling as, “Made in HK” ; empowering senior

citizens in finding suitable jobs in the work force; lending on traditional recipes solely using organic produce; advocating the cooking of food without MSG; promoting an all-rounded healthier and greener lifestyle. There have been three business models set forth to support the employment of senior citizens. Home Treasures Home is a division of bakeries in Hong Kong that involve senior citizens in the process of hand making bread and pastries. Grandmother B is another division that has successfully created a brand new job opportunity for the elderly in assisting with the selling of a traditional Chinese dietary supplement for the mother-to-be. The O Agent is the newest concept being implemented, which involves a work placement agency for the elderly.

## 8. **Friends**

Friends Italian Restaurant is an Italian eatery devoted to sharing with and teaching the general public the culture of the hearing-impaired community, promoting a melting pot for both the hearing-impaired and those with fine hearing. Friends aims at providing high-quality dishes, and helping the hearing-impaired community fuse into the mainstream society by offering jobs and the same salary as those with fine hearing.

## 9. **Dialogue Experience Silence**

"Dialogue Experience Silence" is one of the brands under DID Hong Kong Ltd. Participants experience a silent journey that will change their perception towards sounds, and their definition on communication. Deaf people in this platform demonstrate their unique strengths in body language and facial expression, so participants rethink their ideas about 'disability'. A wide range of experiences is available, namely the 'Dialogue in Silence' corporate workshop, impactainment activity 'Silence le Cabaret', 'Silence Yum Cha' as well as 'Silent Motion 360'.

## 10. **Light Home Scheme**

Light Home Scheme of Light Be (Social Realty) aims at helping landlords to help the needy single-mother-families at affordable rents. The units of Light Home are located in various districts of Hong Kong Island, Kowloon and the New Territories. It comprises domestic units in both old buildings and modern housing estates with two or more exclusive bedrooms, as well as shared living room, kitchen and toilet. The scheme provides tenants reasonable decent home at rent which is set according to individual affordability instead of market rate.

Besides, Light Be makes an environment for poverty relief through a support network of neighbors, social workers, volunteers and business sector.

#### **11. TWGHs Take a Break Catering Service (TBCS)**

TWGHs Take a Break Catering Service (TBCS) is the first catering social enterprise of Tung Wah Group of Hospitals setting up in 2005 with funding support from the “3E Project” of SWD with an aim to provide job training and employment opportunities for people with disabilities. Take a Break Cafe located at Aberdeen with 70 seating places, to provide customers with simple western cuisine and fast food. TBCS has rapid business expansion the former years, other than the café in Aberdeen, TBCS has also operated a wide range of catering services including student and staff canteen, lunch box and outside catering service. The social mission of community inclusion as well as self-reliance for people with disabilities can be achieved through these catering services platform.

#### **12. TWGHs Enterprise Vegetable & Fruit Processing and Supply Service (JCES)**

TWGHs Enterprise Vegetable & Fruit Processing and Supply Service(JCES) is the first social enterprise of Tung Wah Group of Hospitals set up in 2002 funded by the “3E Project “ of SWD. This model of mixing disabled and non-disabled staff works well for the vegetable processing business. JCES has good business expansion and sustainability the former 10 years. Since the commencement of business, JCES has employed more than 80 people of disabilities. In October 2012, JCES was awarded the “Social Enterprise Award” under the “Best Start-up Awards 2012” by the Next Magazine in recognition of its contribution and commitment towards creating employment opportunities for people with disabilities as well its operational excellency.

#### **13. Bonham Strand Hong Kong Limited**

Bonham Strand is Hong Kong’s only social enterprise bespoke tailor striving to revive the custom apparel tradition in the city. With skill, warmth and care Bonham Strand seek to uplift local men and women from struggling communities. The Social Enterprise offers 100% genuine “Made in Hong Kong” unconditionally guaranteed suits, coats and ties without any “Charity” or “Guilt” price premium. Bonham Strand’s social mission is dedicated to ensuring that Hong Kong’s bespoke tradition flourishes again. It actively reaches out to

disenfranchised master tailors, discarded garment workers and at-risk youth, especially those struggling with drug addiction, and offer the potential for skilled, salaried living wage career opportunities in a clean, indoor, comfortable and friendly work environment. Working with leading organizations such as Caritas and the Christian Family Services Center, it offers an avenue of development to the community while also helping to transfer skills and knowledge from one generation to the next.

**14. farmfresh330**

farmfresh330 provides one-stop service for the sale of organic veggies harvested fresh from our farm and diversified range of organic & health products. It aims at bringing people health food and messages of holistic health, as well as providing work opportunities for people in recovery of mental illness.

香港特別行政區政府  
民政事務局

GovHK 香港政府一站通

繁體純文字 簡體版

搜尋 輸入查詢字串

網頁指南



A A A

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首頁

最新消息

關於我們

政策職務

政策措施

刊物及新聞公佈

公開資料

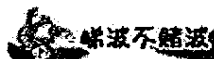
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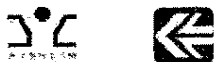
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聯絡我們

局長隨筆

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簡許計劃為無律師代表訴訟人  
提供法律意見  
的兩年期試驗計劃香港青年服務團  
YOUTH SERVICE GROUP

youth

Cultural Policy  
文化政策公共事務論壇  
PUBLIC AFFAIRS FORUM

## 局長隨筆

## 由社會企業到社企金融

2013年4月21日

「社聯一匯豐社會企業商務中心」不久前發表調查統計，計漸四是一出香港至2012-13年度，在406間社企單位中，60%為非牟利團體，39%是註冊公司，另有1%是合作社。

營服要也容的利標利把等發體或必然至大年線牟須不定團品付雖甚最非界非，這一利貨支，求由的助內但就牟售除限追否企資間。者非銷潤發規以是社款時展或然透的業式不，是，段務企仍需取的模般東業劃一業社數，賺企作一股企計的的非多時但社運企給個「後企並企標，到體社紅一強立社就社目運放團但分定自成回的港會營投善，否界倡在投助香社持再慈東是非伴企數資，其支會利股實並伙社全府見求以分牟給其，「的，政可追潤部非派。作過助潤受字在利大受分標運通資利有。數企取，不潤目體府受的沒好。上社賺外企利為團政，到，不以，支社把潤善。企取說得由運務開有許利慈準社賺於展

訂勵的虧金效制鼓大盈個些們去最支是某它度企收者者為態社了前後求的，除，尋放解即線現不開理：底表今量般線的其至盡一底益見我們取按雙效可我採。調會晰，化所社清樣義樣有現上各定多具實目式律式都有帳類格模於還運。門嚴社，外從量生意的讓處之，難生性，之線碼較企他與通底數則社排參共的錢益

一般應企楚一調社清面強地更方士本民益人為市收企：讓營社議可經以提，在且指，並指「業，統線企量系底的衡的雙潤正益及求出會顧追作社要純面量都單方衡對於上個套企由不兩一社企比從立解社會該訂了

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賑」總值為 2.46 元，效益十分正面。

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作為亞太地區的國際金融中心，香港也會逐步發展出「社企金融」嗎？

*\*Note by Clerk, PAC: Chinese version only.*

Our Ref.: SWD 1/103/980/87  
Your ref. : CB(4)/PAC/R62  
Tel. No.: 2892 5100  
Fax. No.: 2893 6903

2 May 2014

Clerk to Public Accounts Committee  
(Attn.: Ms Mary SO)  
Legislative Council Complex  
1 Legislative Council Road  
Central  
Hong Kong

Dear Ms SO,

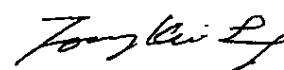
**The Director of Audit's Report on the  
Results of value for money audits (Report No. 62)**

**Promoting the development of social enterprise  
(Chapter 7)**

Thank you for your letter of 30 April 2014 on the captioned subject.

The required information as stated in your letter and our response is attached at **Annex**. Please feel free to contact the undersigned or LAM Bing-chun, Chief Social Work Officer (Rehabilitation and Medical Social Services)1, at 2892 5131 if further information is required.

Yours sincerely,



(FONG Kai-leung)  
for Director of Social Welfare

c.c. Secretary for Labour and Welfare	(fax no. 2543 0486)
Secretary for Home Affairs	(fax no. 2537 6319)
Director for Home Affairs	(fax no. 2574 8638)
Permanent Secretary for Financial Services & the Treasury(Treasury)	(fax no. 2596 0729)
Secretary for Financial Services and the Treasury	(fax no. 2147 5239)
Director of Audit	(fax no. 2583 9063)



The Director of Audit's Report on the  
Results of Value for Money Audits (Report No.62)

Promoting the development of social enterprises  
(Chapter 7)

(a) Criteria adopted by Advisory Committee on the “Enhancing Employment of People with Disabilities through Small Enterprise” project (3E Project)

Reply : The following will primarily be considered in the vetting of applications received under the 3E Project:

- (a) viability of the business plan;
- (b) management capability of the agency including experience, qualification, past performance in business, track records of other business(es) funded under the Project; and
- (c) the extent of benefit to persons with disabilities, e.g., the number of persons with disabilities to be employed, the salary payable to the persons with disabilities against the total operating cost.

(b) (i) : approved application for a project which had the highest average grant per persons with disabilities.

Reply :

	Key Stage	Average Time (days)
(a)	From submission of application to submission of all relevant information requested by SWD (14/9/2012-28/9/2012)	14
(b)	From submission of all relevant information to notification of assessment result (28/9/2012-25/10/2012)	27

(c)	From notification of assessment result to signing of agreement (25/10/2012-12/3/2013) Note <sup>1</sup> :	138
Total		179

(b) (ii) : approved application for a project which had ceased operation

Reply :

	Key Stage	Average Time (days)
(a)	From submission of application to submission of all relevant information requested by SWD (1/2/2008-1/2/2008)	0
(b)	From submission of all relevant information to notification of assessment result (1/2/2008-25/3/2008)	53
(c)	From notification of assessment result to signing of agreement (25/3/2008-10/4/2008)	16
Total		69

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<sup>1</sup> As a normal practice, agreement will only be signed upon confirmation of the date of project commencement. Project Secretariat sent email on 29 October 2012 to request necessary information, such as actual commencement date and name of the shop, to be included in the drafting of the Agreement. The grantee only replied on 3 December 2012. Moreover, the grantee had to rectify an error identified by the Project Secretariat in profit and loss projection of business plan. The grantee only rectified the error on 6 February 2013. The Agreement was subsequently signed on 12 March 2013

(b) (iii) : approved application for a project which is still operating

Reply :

	Key Stage	Average Time (days)
(a)	From submission of application to submission of all relevant information requested by SWD (10/3/2008-5/6/2008)	87
(b)	From submission of all relevant information to notification of assessment result (5/6/2008-25/7/2008)	50
(c)	From notification of assessment result to signing of agreement (25/7/2008-12/8/2008)	18
Total		155

(b) (iv) : rejected application

Reply :

	Key Stage	Average Time (days)
(a)	From submission of application to submission of all relevant information requested by SWD (27/4/2009 - 16/10/2009) Note <sup>2</sup>	172
(b)	From submission of all relevant information to notification of assessment result	N.A.
(c)	From notification of assessment result to	N.A.

<sup>2</sup> The Assessment Panel Meeting was held on 23 June 2009. As requested, the applicant had to revisit the business plan with major areas of concern, including staff training, work safety, job duties of the disabled employees, etc. After three months, the applicant did not provide further information or re-submit the application. On 16 October 2009, Project Secretariat informed the applicant vide a letter that the application will not be considered by the Assessment Panel. The applicant can resubmit the application which will be subject to the same assessment procedures.

	signing of agreement	
	Total	172

(c) Reasons for approving and rejecting applications in (b) above

Reply : Applications not satisfying the criteria in (a) above would not be supported by the Assessment Panel.

民政事務總署  
香港灣仔軒尼詩道一百三十號  
修頓中心二十九及三十樓



HOME AFFAIRS DEPARTMENT  
29th and 30th Floors,  
Southorn Centre,  
130 Hennessy Road,  
Wan Chai, Hong Kong.

本署檔號 Our Ref.

來函檔號 Your Ref.

電話 Tel.: 2835 1239

傳真 Fax: 2834 5103

2 May 2014  
(Urgent by Fax : 2840 0716)

Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong  
(Attn : Ms Mary SO)

Dear Ms SO,

**Public Accounts Committee**  
**Consideration of Chapter 7 of the Director of Audit's Report No. 62**  
**Promoting the development of social enterprises**

I refer to your letter of 30 April 2014 to the Secretary for the Home Affairs and have been authorized to reply on his behalf. Our response to the questions raised in your letter is set out below.

**(a) Criteria adopted by the Advisory Committee on Enhancing Self-Reliance Through District Partnership Programme for examining and recommending applications under the Enhancing Self-Reliance Through District Partnership Programme.**

In examining applications for funding under the Enhancing Self-Reliance Through District Partnership Programme (ESR Programme), the Advisory Committee (AC) on ESR Programme would, among others, consider the social enterprise (SE) projects' business viability, the job opportunities to be created by and the sustainability of the proposed SEs, the technical and management capability of the applicants, and the collaboration with other sectors under the SE projects.

**(b) Time taken to process the following four types of applications under the ESR Programme in a format similar to Table 1 or Table 6 of Chapter 7 of the Audit Report;**

- (i) approved application for a project which had the highest average grant per job to be created (paragraph 3.44 of the Audit Report refers);
- (ii) approved application for a project which had ceased operation sampled from the ESR Programme;
- (iii) approved application for a project which is still operating sampled from the ESR Programme;
- (iv) a rejected application sampled from the ESR Programme.

Details are as follows -

Processing stage	Time taken (No. of days)			
	(i) Project with highest average grant per job to be created	(ii) Project already ceased operation	(iii) Project still in operation	(iv) Rejected application
From application submission to endorsement by the Advisory Committee of ESR Programme (Note 1)	89	81	92	124
From endorsement by the Advisory Committee of ESR Programme to approval by the Permanent Secretary for Home Affairs (Note 1)	15	19	21	Not applicable
<b>First two stages</b>	<b>104</b>	<b>100</b>	<b>113</b>	<b>124</b>
From approval to signing the funding agreement (Note2)	142	117	86	Not applicable
<b>Overall</b>	<b>246</b>	<b>217</b>	<b>199</b>	<b>124</b>

*Note 1: Under the batch processing mode (see para. 3.4 of Chapter 7 of the Director of Audit's Report No. 62), all applications received in*

*the same phase will be processed together for the first two stages. Signing of the funding agreement will take place separately for individual projects. For the sampled rejected application, it was the time taken from the application submission to the notification of the applicant of the result after the endorsement of the Advisory Committee on ESR Programme.*

*Note 2: Some time-consuming preparatory work needs to be done before starting a business (e.g. identifying a suitable business venue and applying for the requisite licences).*

**(c) Reasons for approving and rejecting the applications in (b) above.**

The reasons for approving/ rejecting the four applications in (b) above are as follows -

**(i) Project with highest average grant per job to be created**

The application proposed to set up a SE to provide massage services. It provided comprehensive information on the proposed business operation and reasonable financial projections illustrating the business viability of the project. Apart from the three jobs under direct employment, the project proposed to provide 20 indirect job positions for the socially disadvantaged. The applicant already had a pool of trained socially disadvantaged for the jobs. Taking into account these indirect job positions, the average grant per job would be \$46,500, instead of \$360,000. To enhance the viability of the project, the applicant had teamed up with some experts from the industry for their technical support to the future operation of the SE. The application was supported on the ground of the above.

**(ii) Project already ceased operation**

The sampled application proposed to set up a salon. It provided detailed information on the proposed business and market analysis as well as reasonable financial projections illustrating the business viability of the proposal. It targeted to create 12 jobs with 11 for the socially disadvantaged. To enhance the viability of the project, the applicant had teamed up with an association of the industry for its technical support and advice to the future operation of the SE. The application was supported on the ground of the above.

**(iii) Project still in operation**

The sampled project proposed to set up a café. At the time of application, the applicant had already identified a suitable operating

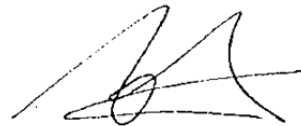
venue with good development opportunity. The application provided comprehensive information on the proposed business operation and reasonable financial projections illustrating the business viability of the proposal. The project targeted to create 12 jobs with 11 for the

socially disadvantaged. With proven past experience in running SE of similar nature, the applicant demonstrated its ability in implementing the project. The application was supported on the ground of the above.

**(iv) Rejected application**

The sampled application proposed to set up a SE to provide domestic services, personal care services to the elderly, the infants and the pregnant at home, escort services to clinics and tutorial service to students. The application could not provide sufficient information to support the financial projections in the proposal and the applicant had no relevant experience, expertise or business partner in the proposed services. The application was rejected on the ground of the above.

Yours sincerely,



( Ms Ella HO )  
for Director of Home Affairs

c.c. Secretary for Home Affairs (fax no. : 2537 6319)  
Director of Social Welfare (fax no. : 2891 7219)  
Permanent Secretary for Financial Services & the Treasury (Treasury)  
(fax no. 2596 0729)  
Secretary for Financial Services and the Treasury (fax no. 2147 5239)  
Director of Audit (fax no. 2583 9063)



## Social Return on Investment (SROI) of Enhancing Self-Reliance (ESR) through District Partnership projects

### Summary

- In 2012, Professor Filipe Santos of INSEAD proposed a positive theory on social entrepreneurship: “The distinctive domain of action of social entrepreneurship is addressing neglected problems in society involving positive externalities that benefit a powerless segment of the population.”
- The US benchmark data shows that only 50% commercial firms can survive by the end of the fourth year, and only 18% can survive by the end of tenth year. The former number means the median life of commercial enterprise is 4 years.
- Social enterprises funded by Enhancing Self-Reliance through District Partnership scheme have a survival rate of 77% by the end of fifth year. The median life of social enterprises is from 6.4 years to 7.2 years with the former assuming all cease by tenth year and the latter assuming there is still 18% survive by tenth year. That is 60% to 80% longer than the commercial firms.
- There are two possible reasons on the higher survival rates of social enterprises run by NGOs. First, the primary concern of NGOs is the “benefit of the powerless segment of the population” instead of the businesspeople whose primary concern is the self benefits. Second, social enterprises have a larger social capital base due to its selflessness, as compared to the limited selfish of commercial firms which may have a strong corporate social responsibilities.
- The social return on investment (SROI) of ESR scheme shows that the public money is well spent. For each ESR dollar granted out, the socially disadvantaged people can earn 41 cents per year, for a median of 6.4 years that make a total of 2.6 dollars benefit generated on each dollar.
- There are 2,064 socially disadvantaged people and their families benefited for 6.4 years from the HKD156 million ESR funding. In other words, each socially disadvantaged enjoyed the benefits of workfare resulted from a government grant which is equivalent to HKD993 per month if spread over 6.4 years. This costs less as compared to CSSA.

## Introduction

Professor Filipe Santos (2012)<sup>1</sup> of INSEAD University explains that:

*“The distinctive domain of action of social entrepreneurship is addressing neglected problems in society involving positive externalities that benefit a powerless segment of the population.”*

According to Stephen Fisher<sup>2</sup> (Chan, Chen, and Young 2010: 11-12), the then Secretary to the Commission on Poverty explained that the intention of the government is to have social enterprises to solve “problems that the market fails to resolve or the government cannot resolve satisfactorily.”

He recalled that back in 2007 there were 32% of the households who were on Comprehensive Social Security Assistance (CSSA) but whose adults in the households are employable, including single parents who have small children; people with low incomes; and people unemployed. They suffered from structural unemployment which resulted from Hong Kong’s transformation of the manufacturing economy to service economy that usually required highly educated staff.

Fisher further explained that while the social enterprise can help alleviate the poverty problem, the government’s consideration is more than just social cost saving or reduction of wastage of human resource, but helping the disadvantaged to have a dignified way of living because work is an important element in the core value of Hong Kong (Chan, Chen, and Young 2010: 15). From a broader perspective, social enterprise can also bring other positive outcomes including social capital and tripartite partnership among government, business, and civil sectors.

*SE is more than social cost savings, but helping the disadvantaged to have a dignified way of living because work is an important element in core value of HK*

In 2010, the Centre for Third Sector Studies of Hong Kong Polytechnic University found that 93.3% of the 44 social enterprises surveyed focus on job creation for the disadvantaged (Chan, Kuan, Ho, and Wang 2010: 16)<sup>3</sup>. Based on the annual sales revenue, the median of the annual sales volume of the respondents was around HKD1.7 million (2010: 36).

In 2013, Hong Kong Council of Social Service published that there were 406

<sup>1</sup> Filipe M. Santos (2012) *Journal of Business Ethics*, 111: 335–351

<sup>2</sup> Stephen Fisher, was the former Director of Social Welfare Department of Hong Kong government before retirement. Before that, he was the Deputy Secretary of Home Affairs Bureau, and Secretary to the Commission on Poverty.

<sup>3</sup> Chan, Kam-Tong; Kuan, Yu-Yuan; Ho, Po-Ying; and Wang, Shu-Twu (2010), *Comparative Analysis of Social Enterprises in Hong Kong and Taiwan: Scope and Dynamic*, Hong Kong Polytechnic University

social enterprises registered in its Social Enterprises Directory.

### Research Question

Since the inception of the Commission on Poverty in 2006 on the promotion of social enterprises in Hong Kong, there has been worry that social enterprises operated by NGOs may have great challenges in the business part of the social return on investment.

In 2008, the Central Policy Unit<sup>4</sup> (Tang et al 2008: xiv-xv) reported constraints faced by NGOs in running the social enterprises:

- a) "Some SE managers pointed out the indecisiveness in NGOs – social workers from NGOs do not always follow decisions, particularly relating to the discipline of workers.
- b) There is some difficulty in changing the mentality of NGOs that pay too much attention to social mission.
- c) Social workers working for SEs lack the business knowledge and related mindset, and they may not be able to survive in open-market competition after the first two years of using all the seed money.
- d) The specific abilities these NGOs lack include: expertise in running a business, managing skills and knowledge in formulating market strategies."

Chan (2008:19)<sup>5</sup>, elaborated that

"As afore-stated, it is essential for the social entrepreneurs to strike a balance between social goals and economic goals in the social enterprises. The mindset in need was almost claimed to be the biggest challenge to social enterprises. Even if the top management has the right mindset, lots of efforts have to be made to convince the middle management or front-line staff of such beliefs."

Therefore, the research question is whether social enterprises funded by the government scheme, Enhancing Self-Reliance through District Partnership (ESR) have achieved its double bottom-lines in economic valuation creation and social value creation?

---

<sup>4</sup> Tang, Kwong-Leung; Fung, Ho-Lup; Au, Y.F. Kevin; Lee, Kin-ching James; and Ko, S.F. Lisanne (2008), *Social Enterprise in Hong Kong: Toward a Conceptual Model*, Central Policy Unit of The Government of the Hong Kong Special Administration Region of the People's Republic of China

<sup>5</sup> Chan, Kam-tong (2008), *Creative Philanthropy: Development of Social Enterprise in Hong Kong*

## Data Collection

The secretariat of ESR in Home Affair Department conducted annual surveys on its grantees to collect the performance of these funded projects. In 2013, there have been 144 projects funded with HKD156 million. Half of them had responded to the survey.

## Economic Performance

After aligning the data of the responded projects so that all data are counted from the starting year, the survival rate at the fifth year of projects is 77%, of which 24% is at loss and 53% is either breakeven or profitable (which is marked as projects not at loss in the table below).

Table 1: Survival rates and self-sustainability rate of ESR projects

	End of Funding <sup>6</sup>	1 year after	2 year after	3 year after
Projects ceased	0%	13%	20%	23%
Projects at loss	81%	51%	30%	24%
Projects not at loss	19%	36%	50%	53%

This percentage data is very different from most previous studies in that it uses the number of all projects, including those still survive and those ceased, as the denominator; while most reports only use the survived projects as the denominator.

In the US, 70% of new commercial firms survives by end of second year, 50% survives by end of fourth years<sup>7</sup>. Hence the median on the life expectancy of commercial firms is 4 years. In another survey, only 40% of commercial firms can survive after 6 years, and only 18% after 10 years<sup>8</sup>.

Based on these comparisons on survival rates, the survival rate of ESR projects

<sup>6</sup> In year 2011, the Funding Period of ESR has been changed from 2 years to 3 years. Hence the data in the column "End of Funding" include both projects with 2 years of Funding Periods and projects with 3 years of Funding Period. However, since the survey was in 2013, the data in the column "2 year after [Funding]" were all at their 4 fourth years, and the last column were all at their fifth years of even longer.

<sup>7</sup> Barringer, Bruce; and Ireland, Duane (2010, 3rd edition), *Entrepreneurship: Successfully Launching New Ventures*, New Jersey: Prentice Hall

<sup>8</sup> Marcum, Dave; and Smith, Steve (2002), *businessThink: Rules for Getting It Right - Now and No Matter What!*, New York: Wiley

is much better than that of the commercial projects in the US. Since the survival rate is 77% by fifth year, median life expectancy of social enterprise is longer than 5 years, from 6.4 years by assuming conservatively that all cease by the end of tenth year, to 7.2 years by assuming most likely there is still 18% surviving by end of the tenth year.

*Higher survival rate of SEs is the result of perseverance of NGO's objective to help the disadvantaged, while commercial firms will cut loss as their primary concern is profitability.*

An explanation on the higher survival rate of ESR projects is the perseverance of the NGOs because their primary missions are to help the disadvantaged, prescribed by Santos' definition of social entrepreneurship. But commercial firms will cut loss as their primary concern is profitability, though they may have a corporate social responsibility (CSR) as their secondary concern.

Another factor influencing the financial performance of the social enterprises is the social capital. While most entrepreneurship requires resources beyond its control, social entrepreneurship is able to mobilize additional resources because of its primary mission is "social". It means "addressing neglected problems in society involving positive externalities that benefit a powerless segment of the population". This selfless noble intent attracts venture philanthropists, knowledge volunteers, ethical consumers, media, and business corporations looking for creative CSR programs.

## Performance in Social Value Creation

One of the criteria on funding projects in ESR is the employment created for the socially disadvantaged (SD). Hence all these projects are Work-Integration Social Enterprise (WISE). The 144 ESR projects employ 2,370 people, of which 604 employees are full time and the remaining 1,766 are part-time. This numbers include 2,064 SDs, of which 368 are full time and 1,696 are part-time.

*A way to measure the social impact is the wage earned by the socially disadvantaged.*

A way to measure the social impact of the WISE is the wage earned by the SDs. It is called Workfare, or Work-as-Welfare. Though we use the wage as a proxy, the actual values received by the SD are more than money, but "a dignified way of living" as recalled by Fisher.

At present the total annual workfare to the 2,064 SDs is HKD64 million. The accumulated ESR grant is HKD156 million. That means each ESR grant dollar leads to 41 cents of SD wage. In 6.4 years, the total workfare generated is 2.6 dollars<sup>9</sup>. Based on the previous research, each social enterprise investment dollar leads to annual revenue of about 3 dollars<sup>10</sup>.

*Each dollar of ESR granted will lead to annual revenue of 3 dollars, of which 41 cents go to the wages of the socially disadvantaged.*

<sup>9</sup> Calculated by  $\$0.41 \times 6.4 \text{ years} = \$2.6$ .

<sup>10</sup> This is based on the research document the article Kee, Chi Hing; and Kwan, Ted (2011) "Profitable or Valuable", *FSES Newsletter*, 2011 July

In terms of real dollar, a SD (average out between the full time and part time employees) gets HKD2,584 per month through workfare, which cost government HKD76,246<sup>11</sup> as a lump sum ESR grant, or HKD993 per month if spread over the 6.4 years.

## Conclusion

In the perspective of the social value created by public money, the ESR fund is well spent. It beats the survival rate of commercial enterprises with a median of life expectancy at least 60% longer, and creates 2.6 times of social return on investment on workfare, which is “a dignified way of living because work is an important element in the core value of Hong Kong”.

*ESR fund is well spent, it creates 2.6 times of social return in workfare, which is dignified way of living for the socially disadvantaged.*

## Recommendation

Fullness Social Enterprises Society (FSES) advocates that government should use the perspective of Social-Return-On-Investment (SROI) to design the data to be collected upfront, then collect data, quantify the impact with meaningful benchmark, and fund initiatives communicating the SROI to the public.

While ESR scheme is chartered to fund projects which create employment for the socially disadvantaged, government should also fund projects which can benefit the socially disadvantaged with products or services which are priced lower than the market rate, especially on the daily necessities like housing, food, transportation, and daily goods. The price discounted is the “positive externalities that benefits a powerless segment of the population of the society.” A good example of such project is the Twilight Market in Tin Shui Wai by Community Development Association in 2008 to 2012. The residents there had enjoyed foods and goods which were about 12% less as compared to the market prices in that area.

- END -

---

<sup>11</sup> Calculated by HKD156 million divided by 2,046 people.

## Our Research Team

### Kee Chi Hing

Kee is a member of the Social Enterprise Advisory Committee in Home Affairs Bureau, and a member of the Community Investment and Inclusion Fund in Labor and Welfare Bureau; a co-opted member of the Social Innovation and Entrepreneurship Development Fund Task Force in the Commission on Poverty, and a co-opted member of the Digital Inclusion Task Force of Office in the Government Chief Information Officer.

He is a part-time lecturer of the MBA program in Baptist University, and MSW program in City University. His publications include “營商能耐可以改變社會”, “20 Business Strategies for Social Enterprises”, “Fullness Way”, “Social Enterprise and Spirituality” and “使命商道”.

Before retirement, he was a Corporate Vice President and Hong Kong Managing Director of Hewlett-Packard (HP) responsible for the P&L of HK\$4B business. Out of his 26 years in HP, 9 years was in Beijing and 1 year in Shanghai.

### About FSES

Fullness Social Enterprises Society (FSES) is non-profit organization aiming to be the opinion leader in the social enterprises movement in Hong Kong. Through applied research, publication, and dedicated training, FSES provides insight and intelligence to social enterprises practitioners in Hong Kong.

The Society can be traced back to Fullness Christian Vocation Training Centre (FCVTC), which was the Hong Kong pioneer of social enterprise setup in 1987. After applying business skill to turnaround the profitability in 2007, it was the first social enterprise to raise capital through issuing stocks in 2008 to set up Fullness Christian Social Enterprise (FCSE). The latter promoted ethical consumption in 2009, and knowledge volunteering in 2010. It then set up FSES in 2011. FSES continues the pioneering and promoted social return on investment in 2011, and social marketing in 2012.

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HONG KONG

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5 June 2014

Clerk to Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
1 Legislative Council Road  
Central  
Hong Kong  
(Attn: Ms Mary SO)

Dear Ms SO,

**Public Accounts Committee**  
**Consideration of Chapter 8 of the Director of Audit's Report No. 62**  
**Recruitment of Staff**

Thank you for your letter of 23 May 2014 concerning the captioned subject. Our response to the questions raised in your letter is as follows –

- (a) The information on applications found not meeting the entry requirements stated in the recruitment advertisements for the 10 open recruitment exercises conducted by the Civil Service Bureau (CSB) between 2010-11 and 2012-13 is set out in the table below. It is noted that for some recruiting ranks which had relatively higher percentage of unqualified applications, most of them were considered unqualified as the applicants were unable to meet the requirements concerning the years of relevant post-qualification experience.



<b>Recruiting rank</b>	<b>Date of placing advertisement</b>	<b>Percentage of applications found not meeting the entry requirements</b>
Assistant Clerical Officer	10 December 2010	15.4%
Simultaneous Interpreter	18 February 2011	55.5%
Training Officer I	25 February 2011	84.2%
Administrative Officer	3 September 2011	16.7%
Executive Officer II	3 September 2011	17.5%
Official Languages Officer II	16 December 2011	6.5%
Simultaneous Interpreter	29 June 2012	55.6%
Administrative Officer	8 September 2012	14.0%
Executive Officer II	8 September 2012	15.1%
Training Officer I	25 January 2013	76.0%

- (b) To reduce the number of unqualified applications, CSB has implemented improvement measures since 2013 by revising the standard application form for civil service jobs and enhancing the online job application system to add built-in reminders for applicants to confirm that they meet the entry requirements of the jobs selected. We will continue to monitor the situation and work with bureaux/departments (B/Ds) on further improvement measures as appropriate.
- (c) CSB has put in place an online job application system for use by all B/Ds since 2002 and the current system has been in place since 2010 after a major revamp. Since the aforementioned revamp covered the online job application system and various other computerised

systems managed by CSB, we are unable to provide a breakdown of the development costs concerning the online job application system. The maintenance cost of the online job application system and related services, which include the functions of online posting of recruitment advertisements and submission of job applications, was \$812,000 in 2013-14.

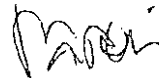
- (d) As far as we know, in some cases, the recruitment exercises were of small scale involving only a handful of non-civil service contract (NCSC) vacancies, and it was considered that application by such means as post would suffice for the purpose of netting sufficient candidates. In some other cases, B/D concerned did not make use of the online job application system in the recruitment of non-skilled positions, such as Worker, as it was expected that the prospective applicants would be less prepared to apply online. Going forward, CSB will encourage B/Ds to make more use of the online job application system in conducting recruitment exercises of NCSC staff and where appropriate, consider suitable measures to facilitate B/Ds in using the system.
- (e) The information concerning recruitment exercises for civil service and/or NCSC jobs conducted by CSB and the four B/Ds covered by the audit study with recruitment advertisements placed in 2013-14 which have accepted online submission of job applications is as follows:

B/D	No. of recruitment exercises that have accepted online submission of job applications	
	Civil Service	NCSC
CSB	5	0 <sup>Note</sup>
Correctional Services Department	17	3
Education Bureau	6	0
Food and Environmental Hygiene Department	4	0

B/D	No. of recruitment exercises that have accepted online submission of job applications	
	Civil Service	NCSC
Leisure and Cultural Services Department	6	4

Note: No recruitment exercise for NCSC staff was conducted by CSB during the period in question.

Yours sincerely,



(Miss Natalie LI)

for Secretary for the Civil Service

c.c. Secretary for Education  
 Commissioner of Correctional Services  
 Director of Food and Environmental Hygiene  
 Director of Leisure and Cultural Services  
 Secretary for Financial Services and the Treasury  
 Director of Audit

香港懲教署



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30 May 2014

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By Fax: 2840 0716

Miss Mary So  
Clerk, Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong

Dear Miss So,

**Public Accounts Committee**

**Consideration of Chapter 8 of the Director of Audit's Report No. 62**

**Recruitment of Staff**

Thank you for your letter dated 23 May 2014 to the Commissioner of Correctional Services. I am authorised to respond to the questions raised in your letter as follows:

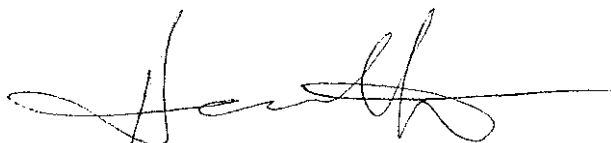
- (a) **what is the percentage of applications found not meeting the entry requirement stated in the recruitment advertisements in each of the 18 open recruitment exercises conducted by the Correctional Services Department ("CSD") between 2010-2011 and 2012-2013.**

The relevant information is at **Annex**.

- (b) **whether the CSD has worked with the Civil Service Bureau or otherwise to come up with effective measures to reduce the number of unqualified applicants in open recruitment exercises, if so, what these measures are and when they will be implemented.**

It has been the practice for all recruiting offices to spell out clearly the entry requirements in the recruitment advertisements. To reduce the number of unqualified applications, we note that the Civil Service Bureau has implemented an improvement measure since 2013 by revising the standard application form for civil service jobs and enhancing the online job application system to add built-in reminders for applicants to confirm that they meet the entry requirements of the jobs selected. We will continue to monitor the situation and work with the Civil Service Bureau on further improvement measures as appropriate.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Herman CHO', with a long horizontal flourish extending to the right.

(Herman CHO)

for Commissioner of Correctional Services

c.c. Secretary for the Civil Service (fax no. 2689 1801)  
Secretary for Education (fax no. 2810 7235)  
Secretary for Financial Services and the Treasury (fax no. 2147 5239)  
Director of Food and Environmental Hygiene (fax no. 2868 3943)  
Director of Leisure and Cultural Services (fax no. 2691 4661)  
Director of Audit (fax no. 2583 9063)

**Percentage of applications found not meeting the entry requirements**

No.	Advertisement Date	Recruiting Rank	% of Applications Not Meeting Entry Requirements
1	25.06.2010	Officer*	77
2	30.07.2010	Dispenser	62
3	06.08.2010	Technical Instructor (Printing)	56
4	06.08.2010	Technical Instructor (Sign Making)	66
5	10.09.2010	Technical Instructor (Construction and Maintenance )	62
6	17.09.2010	Assistant Officer II*	84
7	17.12.2010	Instructor (Carpentry)	63
8	28.01.2011	Workman II	9
9	24.06.2011	Assistant Lecturer (Food and Beverage Services)	89
10	29.07.2011	Assistant Education Officer	69
11	19.08.2011	Assistant Officer II*	78
12	09.09.2011	Technical Instructor (Building Renovation)	82
13	09.09.2011	Technical Instructor (Building Services)	82
14	28.10.2011	Officer*	69
15	15.06.2012	Instructor (Construction and Maintenance)	59
16	15.06.2012	Instructor (Garment)	30
17	03.08.2012	Works Supervisor II	42
18	30.11.2012	Officer*	79

Remark:

- \* Applicants for the posts of Officer and Assistant Officer II were required to pass a physical fitness test.



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30 May 2014

Miss Mary So  
Clerk,  
Public Accounts Committee  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong

Dear Miss So,

**Public Accounts Committee**  
**Consideration of Chapter 8 of the Director of Audit's Report No.62**  
**Recruitment of Staff**

Thank you for your letter of 23 May 2014.

On your paragraph 1(a), the required information of the seven open recruitment exercises conducted by the Education Bureau (EDB) between 2010-11 and 2012-13 is appended in the following table –

<b>Recruitment exercise</b>	<b>No. of applications received</b>	<b>Percentage of applications <u>not</u> meeting the entry requirements</b>
S(ES) II <sup>1</sup> (2010)	129	96.90%
AEO(A) <sup>2</sup> (2010)	2 134	56.23%
AI(G) <sup>3</sup> (2010)	4 394	81.13%
S(ES) I <sup>4</sup> (2011)	29	75.86%
AEO <sup>5</sup> (2011)	3 620	35.33%

<sup>1</sup> Specialist (Education Services) II

<sup>2</sup> Assistant Education Officer (Administration)

<sup>3</sup> Assistant Inspector (Graduate)

<sup>4</sup> Specialist (Education Services) I

<sup>5</sup> Assistant Education Officer

<b>Recruitment exercise</b>	<b>No. of applications received</b>	<b>Percentage of applications <u>not</u> meeting the entry requirements</b>
S(ES) I (2012)	30	66.67%
AEO(A) (2012)	2 271	53.28%

As regards your paragraph 1(b), it has been the practice of EDB to spell out clearly the entry requirements in the recruitment advertisements. To reduce the number of unqualified applications, we note that the Civil Service Bureau (CSB) has implemented an improvement measure since 2013 by revising the standard application form for civil service jobs and enhancing the online job application system to add built-in reminders for applicants to confirm that they meet the entry requirements of the jobs selected. In this regard, we notice that in three recent recruitments, namely AEO in 2013 and AI(G) and AEO(A) in 2014, the percentages of unqualified applications decreased to 19.2%, 55.3% and 38.9% respectively, representing a significant drop when compared to similar exercises in paragraph 2 above. We will continue to monitor the situation and work with the CSB on further improvement measures as appropriate.

Yours sincerely



( Ms Kitty AU-YEUNG )  
for Secretary for Education

- c.c. Secretary for the Civil Service (fax no. 2689 1801)  
 Commissioner of Correctional Services (fax no. 2583 9307)  
 Director of Food and Environmental Hygiene (fax no. 2868 3943)  
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Ms Mary SO  
Clerk  
Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
1 Legislative Council Road  
Central  
Hong Kong

30 May 2014

Dear Ms SO,

**Public Accounts Committee**  
**Consideration of Chapter 8 of the Director of Audit's Report No 62**  
**Recruitment of Staff**

I refer to your letter dated 23 May 2014 to the Director of Food and Environmental Hygiene and provide information below, as requested :

- (a) The percentage of applications found not meeting the entry requirements stated in the recruitment advertisements in each of the eight open recruitment exercises conducted by the FEHD and referred to in the above Director of Audit's Report are shown at **Annex A**.
- (b) It has been the practice for all recruiting offices to spell out clearly the entry requirements in the recruitment advertisements. To reduce the number of unqualified applications, the Civil Service Bureau has implemented an improvement measure since 2013 by revising the standard application form for civil service jobs. Specifically, the online job application system has been enhanced to

add built-in reminders for applicants to confirm that they meet the entry requirements of the jobs concerned. In subsequent recruitment exercises conducted by this department since then, in respect of Assistant Pest Control Officer, Student Pest Control Assistant and Assistant Hawker Control Officer, the percentage of unqualified applications has dropped by a varying degree. Please see **Annex B** for details. We will continue to monitor the situation and work with the Civil Service Bureau on further improvement measures as appropriate.

Yours sincerely,



( David S V CHOI )

for Director of Food and Environmental Hygiene

with encl.

**Annex A**

**The percentage of applications found not meeting the entry requirements  
in the eight open recruitment exercises conducted by  
the Food and Environmental Hygiene Department (FEHD)  
between 2010-11 and 2012-13**

<b>Rank</b>	<b>Date of placing advertisement</b>	<b>No. of applications received</b>	<b>Percentage of applications found not meeting the entry requirements</b>
Laboratory Attendant	30/4/2010	1,951	81.1
Assistant Pest Control Officer	17/9/2010	1,277	81.4
Pest Control Assistant II	17/9/2010	1,850	99.7
Health Inspector II	24/9/2010	5,131	71.5
Student Pest Control Assistant	21/1/2011	1,176	59.3
Workman II	23/3/2012	6,600	53.2
Assistant Hawker Control Officer	13/4/2012	6,206	35.9
Health Inspector II	25/5/2012	5,051	69.3

**Comparison of the percentage of applications  
found not meeting the entry requirements in recruitment exercises for  
Assistant Pest Control Officer  
Student Pest Control Assistant  
Assistant Hawker Control Officer  
2010-11 to 2012-13 and since April 2013**

<b>Rank</b>	<b>Percentage of applications found not meeting entry requirements</b>	
	<b>Between 2010-11 and 2012-13</b>	<b>Since April 2013</b>
Assistant Pest Control Officer	81.4%	67.7%
Student Pest Control Assistant	59.3%	58.4%
Assistant Hawker Control Officer	35.9%	31.3%



康樂及文化事務署  
Leisure and Cultural Services Department

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30 May 2014

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1 Legislative Council Road  
Central, Hong Kong

Dear Ms SO,

**Public Accounts Committee**  
**Consideration of Chapter 8 of the Director of Audit's Report No. 62**  
**Recruitment of Staff**


Thank you for your letter of 23 May 2014. We would like to provide the information as follows –

- a) The percentage of applicants found not meeting the entry requirements in each of the seven open recruitment exercises in question is given below –

<u>Recruitment exercise</u>	<u>Total number of applicants</u>	<u>Percentage of unqualified applicants</u>
Assistant Curator II (History)	1 253	12%
Assistant Manager, Cultural Services	10 332	3%
Amenities Assistant III	11 460	49%
Assistant Leisure Services Manager II	2 873	62%
Cultural Services Assistant II	18 100	17%
Assistant Librarian (conducted in 2011)	7 926	17%
Assistant Librarian (conducted in 2012)	11 523	20%

- b) It has been the practice for all recruiting offices to spell out clearly the entry requirements in the recruitment advertisements and provide enquiry services for potential applicants. We note that the Civil Service Bureau has implemented an improvement measure since 2013 by revising the standard application form for civil service jobs and enhancing the online job application system to add built-in reminders for applicants to confirm that they meet the entry requirements of the jobs selected. We will continue to monitor the situation and work with the Civil Service Bureau on further improvement measures as appropriate.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Phyllis LEUNG', written over a faint rectangular box.

(Ms Phyllis LEUNG)  
for Director of Leisure and Cultural Services

## ACRONYMS AND ABBREVIATIONS

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3E Project	Enhancing Employment of People with Disabilities through Small Enterprise Project
Audit	Audit Commission
AWT	Average Waiting Time
B/Ds	bureaux/departments
BC	Building Committee
CEDB	Commerce and Economic Development Bureau
CHD	Committee on Housing Development
CIC	Community Interest Company
CPA	Certified Public Accountant
CPAC	Corruption Prevention Advisory Committee
CPD	Corruption Prevention Department
CPLD	Committee on Planning and Land Development
CreateHK	Create Hong Kong
CSB	Civil Service Bureau
CSD	Correctional Services Department
CSI	Comprehensive Structural Investigation
DC	District Council
DevB	Development Bureau
ESR Programme	Enhancing Self-Reliance Through District Partnership Programme
FC	Finance Committee
FSTB	Financial Services and the Treasury Bureau
GRA	General Revenue Account
HA	Hong Kong Housing Authority
HAB	Home Affairs Bureau
HAD	Home Affairs Department

## ACRONYMS AND ABBREVIATIONS

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HATPI	Housing Authority Tender Price Index
HD	Housing Department
HKTB	Hong Kong Tourism Board
HOS	Home Ownership Scheme
ICAC	Independent Commission Against Corruption
IH	Interim Housing
LandsD	Lands Department
LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council
LTHS	Long-term Housing Strategy
LWB	Labour and Welfare Bureau
MEF	Mega Events Fund
MEF Assessment Committee	Mega Events Fund Assessment Committee
NGOs	Non-governmental organizations
PFO	Public Finance Ordinance (Cap. 2)
PHCP	Public Housing Construction Programme
PHDF	Public Housing Development Forecast
PlanD	Planning Department
PRH	Public rental housing
PWDs	Persons with disabilities
SCHLS	Steering Committee on Housing Land Supply
SCLS	Steering Committee on Land Supply
SE	Social enterprise
SEAC	Social Enterprise Advisory Committee
SHC	Subsidized Housing Committee



## ACRONYMS AND ABBREVIATIONS

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SMEs	Small and medium enterprises
SPC	Strategic Planning Committee
sq. m.	Square metre
STT	Short term tenancy
SWD	Social Welfare Department
TC	Tourism Commission
UK	United Kingdom
VO	Vesting Order
WL	Waiting List