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11 July 2017

By Fax (2543 9197) and email

Mr Anthony CHU
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr CHU,

Public Accounts Committee
Consideration of Chapter 1 of the Director of Audit's Report No. 68
Government's support and monitoring of charities

Thank you for your letter dated 28 June 2017. Our reply to the issues raised therein is as follows –

The possible non-compliance of Lease G

Lease G stipulates that the lot concerned should be used only “for the purposes of a nursery, training centre, dormitories, such staff quarters as the Director of Social Welfare (DSW) may approve in writing”. As regards whether there is non-compliance with the land lease requirements relating to the stipulated use of dormitories on the subject lot, we set out our reply below after examining the records available and liaising with the grantee of the subject lot.

According to the records held by the organisation, after the execution of the land lease concerned in 1966, the building on the subject lot was issued an occupation permit on 18 May 1968, in which it was set out that the dormitories were situated on the 9th to 12th floors. The organisation indicated that at the time, the dormitories were mainly to provide residential

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accommodation for students or young workers. The 1986/87 Annual Report of the organisation also shows that the dormitories had also offered accommodation to young people who needed to live away from home because of distance from work and where there were over-crowded home conditions, young workers who for one reason or another needed a protective environment, and problem youths who had been referred by social workers.

The organisation further indicated that in view of the upturn of the economy of Hong Kong in the 1980s followed by relocation of factories to the Mainland, the demand for dormitories shrank. After reviewing the service need arising from such change, the organisation set up the lodge service on the lot of Lease G with a view to providing on-the-job training for students of the adult education courses on hospitality services organised by the organisation, and to equipping these students with adequate working experience to prepare for employment. The change is also covered in the organisation's 1988/89 Annual Report.

We agree that the use of the facilities concerned to provide lodge service is not appropriate. In June 2014, the Lands Department (LandsD) wrote to Grantee M requesting the latter to cease the operation of the lodge on the subject lot. The Social Welfare Department (SWD) had kept monitoring of the development of the matter and the follow-up actions taken by the organisation. In June 2016, the organisation advised LandsD that the operation of the lodge on the subject lot had ceased in May 2016. Currently, the major service targets of the dormitories are the students of the adjacent universities and tertiary institutions with residential needs, including referrals made by the universities or institutes concerned. After discussion with SWD, apart from providing dormitories for these students, the organisation plans to make use of the dormitories to meet the welfare needs of the society. The service targets under consideration are those who require short-term residential needs for various reasons, e.g. those with family, marital or financial problems. SWD will continue following up with the organisation in ensuring that the use of the dormitories is compliant with the permitted uses under the land lease conditions and meanwhile help complement the contemporary welfare needs of the society.

There is no requirement for submission of audited accounts or the use of the surplus derived from the dormitories under the land lease concerned. Nevertheless, the Annual Reports of the organisation have been covering the income and expenditure as well as the financial position of the hospitality services under its purview (including the dormitories on the subject lot). The information is also available on the internet. As far as we understand, the organisation will transfer the surplus derived from the dormitories to a General



Fund to support the operation of the non-subvented social, educational and medical services or the daily operation of the organisation as well as its service/project development, or to meet the operating deficits of other service units. Part of the surplus will also be transferred to a Maintenance Reserve Fund to meet the expenditure on maintenance items as required by law and/or due to the obsolescence of the facilities.

Apart from dormitories, the Grantee operated SWD-subvented welfare facilities on the subject lot, e.g. school social work, community centre and family services (including clinical psychological service). SWD will monitor the operation of these services in accordance with the established mechanism, including requiring the organisation to submit audited accounts on these subvented services.

The possible non-compliance of Lease H

Lease H stipulates that the lot concerned should be used for “providing accommodation for a welfare centre including a Hostel (which centre is hereinafter referred to as ‘the said centre’), together with staff quarters as may be approved by DSW”. Besides, the organisation is required under the land lease conditions to submit to DSW annually a complete statement of the audited accounts of the said centre.

According to the organisation, the service targets of the hostel currently include its co-operating partners, organisations and groups of the church body, students, visitors from overseas for conference purposes and tourists. As there is no explicit restriction about the users of the hostel facilities in the land lease, we consider that there is no non-compliant use of the hostel.

Apart from the hostel facilities, the lot of Lease H is also used for the operation of a hostel for moderately mentally handicapped persons and a sheltered workshop under SWD’s subvention, as well as a community college providing day-time and night-time vocational training courses on a self-financing basis. Such uses are compliant with the land lease requirements and have met the needs of the society for such services.

On the requirement to submit audited accounts, although Grantee H has not submitted the audited statements of accounts for the said centre according to the land lease requirement, SWD has exercised its monitoring of the SWD-subvented welfare facilities on the subject lot in accordance with the Funding and Services Agreement (FSA) as executed with the organisation. The organisation has also, pursuant to the requirements under the FSA, submitted the requisite financial reports to SWD for vetting. After the issue of



the Director of Audit's Report, LandsD wrote to the organisation requesting the latter to submit, as required under the land lease, the audited accounts covering the said centre to DSW by 1 June 2017. The organisation responded earlier to LandsD, indicating that as they needed time to prepare for the audited accounts, they would like to apply for extension of the deadline for submission of the accounts until 30 July 2017. SWD will scrutinise the audited accounts to be received from the organisation and will, where necessary, further follow up with the organisation how the surplus derived from the facilities operated on the subject lot should be used.

Income generated from the operation of dormitories/hostels and the arrangements for reduction of subvention

In respect of the sites with the provision of dormitories/hostels as included in Table 5 of the Director of Audit's Report, except for Lease N, the other land leases are not subject to the requirement for reduction of subvention based on the surplus derived from the income-generating facilities (including dormitories/hostels) operated on the sites concerned. Therefore, for the land leases in Table 5 which are under SWD's monitoring (i.e. Leases F, G, H, I, J, K and L), SWD has no plan to consider reducing the subventions provided to these organisations for their operation of welfare facilities on the basis of the surplus generated from the dormitories/hostels which they are operating on the sites concerned, unless there is such requirement in the land leases concerned in future.

Nevertheless, SWD is aware that the organisations concerned would use the surplus derived from the dormitories/hostels towards supporting other charitable services in accordance with the non-profit-making principle, for example, supporting the non-subsided social, educational, medical services, etc., or meeting the operating deficits of other service units or the expenditure on repair and maintenance of facilities under their purview. In fact, these organisations will publish their audited statements (covering those relating to dormitories/hostels) in their annual reports or on their own websites.

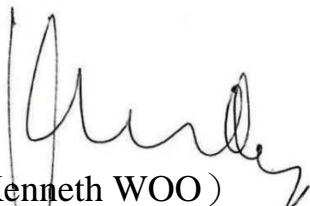
As what we have indicated at the hearing of the Public Accounts Committee earlier, there might have been unclear distribution of work among departments on the monitoring of dormitories/hostels operated by the organisations concerned in the past. However, after the issue of the Director of Audit's Report, SWD has already liaised with the organisations concerned with a view to understanding the operation and surplus arrangements of the facilities concerned, and understood that the surplus derived from the dormitories/hostels has been used for non-profit-making purposes and would not be used for distribution of profits. The land leases under SWD's



monitoring (i.e. Leases F to L) are not subject to the requirement of submission of audited accounts, except for Leases H and J. On this, SWD will strictly enforce the land lease requirements for Grantees H and J to submit audited accounts. As for other leases, we will continue our liaison with the organisations concerned and will, where considered necessary, ask them to submit audited accounts for the dormitories/hostels to ensure that the use of the surplus derived is non-profit-making in nature.

If you have any enquiries, please feel free to contact the undersigned.

Your sincerely,



(Kenneth WOO)
for Director of Social Welfare

c.c.

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