

## **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.