

ITEM FOR FINANCE COMMITTEE

HEAD 106 - MISCELLANEOUS SERVICES New Capital Account Subhead “Capital Injection into Environment and Conservation Fund”

Members are invited to approve a capital injection of \$100 million into the Environment and Conservation Fund.

PROBLEM

The Environment and Conservation Fund (the Fund) has already fully committed all available funds. It requires capital injection to enable it to continue to support environment- and conservation-related research and educational projects, as well as community waste recovery projects.

PROPOSAL

2. We propose to make a grant of \$100 million to the Fund.

JUSTIFICATION

3. Established in 1994 under the Environment and Conservation Fund Ordinance (Cap. 450), the Fund provides financial support for environment- and conservation-related education and research projects and activities. Under the Ordinance, the Secretary for the Environment and Food (SEF) is the trustee responsible for the administration of the Fund. A statutory body – the Environment and Conservation Fund Committee (the ECF Committee) which comprises mainly non-officials – was set up under the Ordinance to advise SEF on the use of funds.

4. The Finance Committee approved an injection of \$50 million into the Fund twice, in 1994 and 1998 respectively. The Fund has been relying on this \$100 million and its total interest income of around \$21 million over the past eight years to finance worthwhile projects. It has now fully committed all its money.

5. The proposed injection of \$100 million will be used to fund the following three categories of projects -

- (a) community waste recovery projects (expected to take up about 60% of the Fund);
- (b) other educational, promotional and community involvement projects (expected to take up about 30% of the Fund); and
- (c) research and technology demonstration projects (expected to take up about 10% of the Fund).

6. The above projected percentages of funds allocation are meant to be indicative only. The ECF Committee will regularly review the allocation of funds to each category and make adjustments as and when necessary to ensure that each application will be vetted and funded based on its own merits. Based on the number and scale of approved projects in the past years, we consider that \$100 million should be sufficient to fund applications in the next few years.

Vetting of Funding Applications

7. The ECF Committee will retain overall authority in vetting funding applications and advising SEF on the use of funds. It will vet proposals from the Environmental Campaign Committee (ECC)¹ to carry out large-scale territory-wide campaigns. As for other funding applications, the vetting mechanism will be as follows -

- (a) The ECF Vetting Sub-committee vets research and technology demonstration projects that cost \$150,000 or less. Projects costing over \$150,000 will have to be approved by the ECF Committee;
- /(b)

¹ The ECC, which comprises mainly non-officials, was set up in 1990 to promote awareness of environmental issues so as to mobilize the public to contribute actively towards a better environment. In addition to vetting funding applications on educational / promotional projects for the ECF Committee, it organises large-scale territory-wide environmental campaigns.

- (b) the ECC vets educational and promotional projects that cost \$150,000 or less. Projects costing over \$150,000 will have to be approved by the ECF Committee; and
- (c) a new “Waste Recovery Projects Vetting Sub-committee” will be set up to vet community waste recovery project proposals that cost \$500,000 or less. This Sub-committee will be chaired by a non-official and comprise representatives of the ECF Committee, Waste Reduction Committee (WRC)² and ECC. Projects costing over \$500,000 will have to be approved by the ECF Committee.

Assessment Criteria

8. The criteria for assessing the merits of individual funding applications are as follows -

- (i) Projects must contribute to promoting environmental protection and conservation in Hong Kong. For community waste recovery projects, project proponents must specifically demonstrate their capability to mobilize the local community to take action in waste separation and recovery;
- (ii) the benefits must be accrued to the community or to a district or local community, and not to individuals, a single private organization or a consortium of private companies;
- (iii) projects should be non-profit making in nature;
- (iv) there should be a demonstrable need for the proposed project. For instance, a research proposal aiming to develop a technology or device that is already widely available in the market is unlikely to meet this criterion;
- (v) the project team should have good technical and project management capability. Past performance of the team, including the effectiveness of past projects supported by the Fund, and the applicant’s ability to comply with funding conditions, will be taken into account;

/(vi)

² The WRC, which comprises mainly non-officials, was established in 1999 to promote public and private sector action to reduce waste, recover and reuse resources, and to advise SEF on local and international developments in waste reduction / materials recovery.

- (vi) the proposed project's schedule of implementation should be well-planned and practicable;
- (vii) the proposed budget should be prudent, realistic and cost-effective, with full justifications for every expenditure item.

A detailed Guide to Application will be uploaded onto the Homepages of the Fund and ECC, and made available to prospective applicants and interested parties.

9. To ensure that funded projects would achieve the planned objectives and deliverables, and that funds would be used in accordance with the approved purpose, we have worked out some administrative measures and the proposed vetting and monitoring mechanism are set out below. These measures have taken into consideration the Fund's operational experience in the past eight years, as well as experience of other Government funding schemes.

Measurement of the Effectiveness of Projects

10. Project proponents will be required to set out targets in their funding applications. In particular, proponents of community waste recovery projects will be required to set quantifiable targets, such as the projected amount of recyclables to be collected and the target population to be covered by the project. The ECF Committee and the relevant vetting body will evaluate the success or effectiveness of the projects based on the agreed targets.

11. Project proponents will be required to submit a report upon completion of the projects. Under the revised arrangement, a project proponent will need to provide in the report an overall evaluation of the completed project, such as whether it has achieved the expected benefits, the difficulties experienced during the project period, measures taken to address the problems, and their effectiveness. Project proponents will also be required to suggest areas for improvement in pursuing similar projects in future. To allow other organizations to share the experiences and information arising from the funded projects, completion reports would be made available for public inspection. Also, project proponents are encouraged to publicize the projects through publications, seminars, workshops, conferences, exhibitions, etc. Information on the projects will be uploaded on the homepages of the Fund and the ECC.

Monitoring Mechanism for the Funded Projects

12. Funded projects will be monitored by the relevant vetting body to ensure that they are run in a satisfactory manner and that public funds are used properly. The vetting body or its secretariat may carry out visits or surprise checks to examine the progress of the projects.

13. Project proponents will be required to submit regular progress reports to the secretariat of the vetting body. In the progress reports, project proponents will have to provide information such as implementation progress, problems encountered, remedial measures taken to tackle problems encountered, and interim findings of the project.

14. Project proponents will be required to adhere to the approved budget and will not be allowed to change the usage of funds without prior approval of the relevant vetting body. We consider that this step is necessary to ensure that the public funds allocated to the proponents would be used as approved by the vetting body. Project proponents will also have to report the financial position of projects in their regular progress reports.

15. To monitor the use of funds, we will disburse the approved amount by instalments rather than in one go, having taken into account the cashflow of the projects. Except for the first disbursement, all disbursements will only be released upon satisfactory progress or completion of the projects.

16. In the event of unsatisfactory performance, the project proponent will be asked to give an explanation to the satisfaction of the relevant vetting body. Failure to do so may lead to suspension or termination of the project. In the former case, the suspension may be lifted if the relevant vetting body considers that the problems causing the lack of progress have been tackled. In the latter case, the project proponent will be asked to return the unspent balance to the Fund. Any suspension or termination of a project will affect the organization's future chance of getting financial support from the Fund, and the organization's management will be informed.

/Other

Other Key Issues

Project income

17. All income arising from the project during the project duration, including sales of output and fees generated from activities, should be ploughed back into the project account for running the project. In addition, we consider that the cash in hand should be placed in interest-bearing bank accounts, and the interest income should also be ploughed back into the project account. Such a requirement would ensure the best use of public funds. We also propose that no negative interest should be charged to the project.

Statement of accounts

18. For projects costing over \$150,000, audited statements of account will have to be prepared once a year and within two months of the completion of the project. The final payment will only be disbursed upon provision of accounts. In addition, we will require the auditors to confirm in the statements of accounts whether the conditions of grant and approved budget items have been complied with. We believe this will help strengthen the budgetary control and would further ensure proper use of public funds.

19. For smaller projects costing \$150,000 or less, a complete statement of accounts, together with the original copy of invoices and receipts, will be required. Auditing however will not be required.

FINANCIAL IMPLICATIONS

20. The proposed grant of \$100 million to the Fund is one-off in nature. There are no other additional financial or staffing implications. If Members approve the creation of the new Capital Account commitment, we will offset the supplementary provision of \$100 million required in 2002-03 by deleting an equivalent amount under Head 106 Miscellaneous Services Subhead 789 Additional commitments under delegated authority.

INVESTMENT CRITERIA

21. The Environment and Conservation Fund Ordinance empowers SEF to invest the Fund's money. Unless there are compelling reasons for doing otherwise, money not required for immediate disbursement is invested in the form of fixed bank deposits to secure safe and steady returns.

BACKGROUND INFORMATION

22. As at 31 March 2002, the Fund has received 900 funding applications. Of these, 647 were given funding support while 253 were withdrawn or rejected. The approved projects include 68 research projects, 570 educational projects, and nine pilot community waste recovery projects with a total funding commitment of \$121 million.

23. In September 2001, the Administration announced a series of new initiatives to further promote the prevention and recovery of domestic waste in Hong Kong. One of these new initiatives is to provide financial support, through the Fund, for green groups, community organizations and others to organise community waste recovery projects and mobilize the public to take part in recycling. The Fund has already funded nine pilot projects of this nature. The average funding for each pilot project is \$509,000, and the average duration is 18 months. So far, six projects have commenced and their preliminary results have been encouraging with very enthusiastic response from participating households. Both the Administration and the ECF Committee consider that the pilot programme should be further expanded to promote further waste prevention and recovery.

24. We have consulted the Legislative Council Panel on Environmental Affairs on 22 April 2002 and Members supported this proposal.

Environment and Food Bureau
April 2002

