

ITEM FOR FINANCE COMMITTEE

Head 44 – ENVIRONMENTAL PROTECTION DEPARTMENT
Subhead 700 General non-recurrent
New Item “Capital Injection into the Environment and Conservation Fund”

Members are invited to approve a new commitment of \$35 million for capital injection into the Environment and Conservation Fund.

PROBLEM

We need to maintain a sufficient level of funding in the Environment and Conservation Fund (ECF) to support environmental and conservation projects.

PROPOSAL

2. We propose to inject a sum of \$35 million into the ECF in 2005-06.

JUSTIFICATION

Need for capital injection

3. Established in 1994 under the ECF Ordinance (Cap. 450), the ECF provides financial support for environment- and conservation-related education and research projects and activities. The ECF Committee¹ is established under the Ordinance to advise the Secretary for the Environment, Transport and Works (SETW) on the use of funds. With the approval of the Finance Committee (FC), the Government has so far injected a total of \$200 million into the ECF². The uncommitted balance of the Fund (including the capital injections and the interest income) was \$32.2 million as at the end of January 2006.

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¹ Under the ECF Ordinance, SETW is the trustee responsible for the administration of the ECF. The ECF Committee, which comprises mainly non-officials, is set up under the Ordinance to advise SETW on the use of funds and to vet funding applications.

² FC approved an injection of \$50 million each in 1994 and 1998, and \$100 million in 2002 into the ECF.

4. With the growing concern of the community about environmental issues, we are receiving more requests for large-scale environmental projects. We envisage that the ECF Committee will need to commit another \$15 million in the remaining months of 2005-06. The uncommitted balance of the ECF would then be reduced to \$17.2 million. In the past years, the ECF annual funding requirement ranged from \$16 million to \$26 million. Hence, if there is no timely capital injection into the ECF, its uncommitted funding balance may not be able to fund all worth-supporting applications received in 2006-07. The ECF Committee will need to stop processing new funding applications and the community's participation in environmental protection activities will be adversely affected.

5. The proposed injection of \$35 million will be used to fund the following three categories of projects -

- (a) educational projects (expected to take up about 60% of the ECF);
- (b) waste recovery projects (expected to take up about 30% of the ECF);
and
- (c) research projects (expected to take up about 10% of the ECF).

6. The above projected percentages of funding allocation are 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.

7. After the injection of \$35 million into the ECF, the uncommitted balance of the ECF at the beginning of 2006-07 will be more than \$50 million which should be sufficient to fund ECF projects in the next three years. The proposed capital injection will enable the ECF to maintain a sufficient level of funding for continuous support of environmental and conservation projects.

Operation of the ECF

Vetting of funding applications

8. Depending on the nature and scale of a funding proposal, the vetting mechanism is as follows –

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- (a) the ECF Committee is responsible for vetting large-scale projects, viz. research and technology demonstration projects costing over \$150,000, waste recovery projects costing over \$500,000, and educational and community involvement projects costing over \$150,000;
- (b) the ECF Vetting Sub-committee vets research and technology demonstration projects that cost \$150,000 or less;
- (c) the Waste Recovery Projects Vetting Sub-committee vets community waste recovery projects costing \$500,000 or less; and
- (d) the Environmental Campaign Committee (ECC) vets educational and community involvement projects costing \$150,000 or less.

The ECC is also responsible for organising territory-wide environmental campaigns. Secretariat support to the ECF Committee and its Vetting Sub-committees is provided by the Environmental Protection Department.

Assessment criteria

9. The following criteria, which have been adopted and progressively refined by the ECF Committee over the past 11 years, form the basis for assessing funding applications -

- (a) projects must contribute to the overall environment of Hong Kong, raise environmental awareness of the local community, or mobilise the community to take action to improve the environment;
- (b) the benefits must accrue to the district/local community as a whole, and not just to individuals, a single private organisation or a consortium of private companies;
- (c) projects must be non-profit making in nature; and
- (d) in considering a project proposal, due consideration is given to –
 - (i) the benefits that it will bring to Hong Kong's environment, ecology, flora and fauna, etc., or the extent to which it will enhance the environmental awareness of local community;
 - (ii) whether there is a demonstrable need for the proposed project;

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- (iii) whether the programmes of the project proposal can bring about positive impacts in the longer run;
- (iv) the technical and project management capability of the applicant, as well as the past performance of the applicant, including the effectiveness of past projects, and the applicant's ability to comply with the funding conditions;
- (v) whether the proposed schedule of implementation is well-planned and practicable, and the duration is reasonable;
- (vi) whether the proposed budget is prudent, realistic and cost-effective, with full justification for every expenditure item;
- (vii) whether the proposed project has alternative sources of funding support;
- (viii) whether the proposed project should more appropriately be funded by other sources;
- (ix) whether there is or likely to be a duplication of the work already or currently carried out by other groups; and
- (x) if recurrent expenditure is incurred, whether the proposed project has the potential to become self-sufficient after a certain period of time.

Monitoring of approved projects

10. Project proponents are required to set out targets/deliverables in their funding applications. After funding has been approved, project proponents are required to submit regular progress reports to the Secretariat of the ECF Committee (the Secretariat) for review. Project proponents must submit reports proving satisfactory progress of the projects before instalments are disbursed. During the course of the projects, any substantial changes to the projects, such as changes in completion date or usage of funds, will have to be approved by the ECF Committee or the relevant Vetting Sub-committees. The ECF Committee, Vetting Sub-committees or the Secretariat may carry out inspections to examine the progress of the projects.

11. To allow other organisations to share the experience and information arising from the ECF funded projects, project proponents are encouraged to publicise the projects through publications, seminars, workshops, conferences and exhibitions, etc. Information on the approved projects is also uploaded to the homepages of the ECF Committee and ECC accordingly.

12. 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. Any suspension or termination of a project will affect the organisation's future chance of getting financial support from the ECF.

Project income

13. To ensure the best use of public fund, all income arising from an approved 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, cash in hand should be placed in interest-bearing bank accounts, and the interest income should also be ploughed back into the project account.

Statement of accounts

14. For projects costing over \$150,000, audited statements of account have to be prepared once a year and within two months of the completion of the project. The final instalment is only disbursed to a project proponent upon provision of the accounts. To strengthen the budgetary control of the project and further ensure proper use of public funds, the auditors are required to confirm in the statements of accounts whether the conditions of grant and approved budget items have been complied with.

15. For projects costing \$150,000 or less, project proponents are required to submit to the Secretariat a complete statement of accounts, together with the original copy of invoices and receipts.

16. In addition, the accounts of the ECF are audited by the Director of Audit on an annual basis. A copy of the statement of accounts and the auditor's report, together with a report by SETW on the administration of the ECF, are tabled to the Legislative Council annually.

Investment criteria

17. The ECF Ordinance empowers SETW to invest moneys of the ECF. Moneys that are not required for immediate disbursement are invested in the form of fixed bank deposits for secure and steady returns. Up to the end of January 2006, interest income from bank deposits of the ECF amounted to \$24.9 million.

FINANCIAL IMPLICATIONS

18. The proposed injection of \$35 million into the ECF is one-off in nature and there are no recurrent implications arising from the proposal.

19. Subject to Members' approval, we will offset the sum of \$35 million to be injected into the ECF by deleting an equivalent amount under Head 44 Environmental Protection Department *Subhead 297 Fees for operation of waste facilities* in 2005-06.

BACKGROUND INFORMATION**Consultation with Legislative Council Panel**

20. We consulted the Legislative Council Panel on Environmental Affairs on 23 January 2006. While Members in general supported the proposed capital injection, some Members asked about the policy governing the use of unspent funds and whether the use of unspent funds for injection into the ECF, as in the present case, was an exceptional arrangement. Some Members would also like to have more information about the ECF projects.

21. Directors of Bureaux are given flexibility as envelope holders to determine how resources are to be allocated within their annual operating expenditure envelopes. Once the provisions are allocated and approved by the Legislative Council through the relevant Appropriation Bill, however, the Directors and their Controlling Officers would need to adhere to the spending ceilings in the approved Estimates of Expenditure. All variations to the Estimates must be properly justified and prior approval has to be sought in line with established mechanism (from FC as in this case).

22. As regards ECF projects, as at end of January 2006, the ECF has received a total of 1 645 funding applications since its establishment in 1994. Of these, 1 037 were approved while 584 were withdrawn/rejected. The remaining 24 are being processed. Since its establishment, the ECF has funded 104 research projects, 853 educational projects and 80 waste recovery projects, with a total commitment of \$192.7 million. 291 of these projects were organised by schools/tertiary institutes, 174 by green groups, 127 by the ECC, and 445 by other Non-government Organisations (NGOs). Some examples of projects

Encl. funded by the ECF are set out at the Enclosure.

Environmental Protection Department
February 2006

**Examples of Projects Funded by
the Environment and Conservation Fund**

Student Environmental Protection Ambassadors Scheme

The Student Environmental Protection Ambassadors, funded by the ECF, was first launched in 1995. Under the Scheme, training is provided to students to enable them to promote environmental protection messages in their schools. The Scheme has become increasingly popular. The number of primary and secondary school students trained and registered as environmental protection ambassadors increased from about 1 700 in 1995-96 to more than 12 000 in 2004-05. In 2004-05, 750 schools participated in the Scheme where student ambassadors organised various environmental activities for about 400 000 students. The Scheme has so far received a total of \$20 million from the ECF.

Pilot Conservation Management Agreement Projects

2. The Government announced a new nature conservation policy in November 2004 to better achieve the nature conservation objectives. Under the new policy, 12 priority sites have been identified for enhanced protection and a pilot Management Agreement (MA) Scheme was launched as one of the measures to enhance the ecological value of these sites. NGOs may apply for funding from the ECF for entering into MA with the landowners. The NGOs will provide the landowners with financial incentives in exchange for management rights over their land and their co-operation in enhancing conservation of the sites concerned. On 6 October 2005, the ECF Committee approved an allocation of \$4.6 million for the implementation of the three pilot MA projects in Fung Yuen and Long Valley.

Source Separation Programmes of Domestic Waste in Residential Buildings

3. On 8 July 2005, the ECF approved an allocation of \$5 million to support a territory-wide programme to implement source separation of domestic waste in residential buildings. Under the programme, owners' committees and residents' organisations of private housing estates may apply for seed money for implementing source separation of domestic waste in their estates. It is estimated that around 170 private housing estates would benefit from the programme.
