

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 44 – ENVIRONMENTAL PROTECTION DEPARTMENT Subhead 700 General non-recurrent New item “Recycling Fund”**

Members are invited to approve the creation of a new commitment of \$1 billion for setting up the Recycling Fund.

#### **PROBLEM**

We need to promote the development of effective and sustainable recycling operations in order to increase the recovery and recycling of waste and to reduce disposal at landfills, as part of our overall strategy to tackling Hong Kong’s pressing waste problem.

#### **PROPOSAL**

2. The Secretary for Environment proposes to create a new non-recurrent commitment of \$1 billion for setting up a Recycling Fund (the Fund) to promote the recovery and recycling of waste by facilitating the recycling industry to upgrade its operational capabilities and efficiency for sustainable development.

#### **JUSTIFICATION**

3. In the past 30 years, our municipal solid waste (MSW) increased by nearly 80% while the daily per capita MSW rate rose from 0.97 kg to 1.33 kg. The increase in our waste load put tremendous pressure on the entire waste chain. In response to this imminent waste problem, the Government issued in May 2013 the

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“Hong Kong Blueprint for Sustainable Use of Resources 2013-2022” (the Blueprint), which sets out a comprehensive strategy to reduce waste at source through the reuse, recycling and recovery of resources before resorting to landfill disposal. Under the pillars of policy formulation, infrastructural developments and social mobilisation, we pledge to reduce per capita municipal solid waste disposal by 40% by 2022. The recycling industry plays a pivotal role in achieving this goal.

4. According to our latest survey, there are currently about 2 000 companies and organisations engaged in recycling operations in Hong Kong. Around 95% of the companies employ less than 50 employees. This shows that the recycling industry is mainly composed of small and medium enterprises. The majority of them are limited to a simple mode of collection, storage, sorting, baling then exporting, and around two thirds of recyclables by weight were exported to the Mainland, followed by other Southeast Asian jurisdictions such as Vietnam and Taiwan. With the tightening control on imports of recyclables in various markets, these small recyclers will need to strengthen their capacity and quality of recycling processes in order to remain as commercially viable players in the recycling industry. In the context of the waste management policy, Government sees benefits in facilitating the enhancement of the quality and competency of the recycling industry as a whole in order to help reduce waste at landfills and other disposal outlets.

5. The proposed Recycling Fund could facilitate the sustainable development of the recycling industry through upgrading their operational effectiveness and capacity in various areas, including –

- (a) enhancing the logistics system to improve recycling collection efficiency;
- (b) installation of new facilities to enhance separation and collection of recyclables;
- (c) expanding treatment capacity and adopting value-added recycling processes leading to better quality of recycled products;
- (d) promoting the viability and market competitiveness of recycled products through commercialization and related marketing efforts;
- (e) developing and offering training and certification programmes on occupational health and safety for frontline workers of the whole recycling industry;

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- (f) providing training or certification schemes for the industry to enhance overall operational standards and establish market confidence in the recycling industry; and
- (g) facilitating experience sharing with international and regional practitioners on the latest technologies and best practices of recycling industries.

6. Against the above backdrop, we propose that the objectives of the Fund should be to promote the recovery and recycling of waste by facilitating the upgrading of operational capabilities and efficiency of the recycling industry for sustainable development. Specifically, the Fund should aim to support projects which can –

- (a) raise the quantity and quality of recyclables recovered from the waste stream as well as those of recycled products from their treatment, thus reducing disposal at our landfills;
- (b) promote markets for recycled products, thus providing greater impetus to local landfill diversion; and
- (c) enhance the overall capability, capacity, efficiency and skills as well as market information of the recycling industry, thus facilitating its sustainable development.

### **Funding Scope and Principles**

7. The Fund will target at two main groups of applicants, namely, individual enterprises and non-profit distributing organisations<sup>Note</sup> (NPOs). The funding principles are elaborated in the ensuing paragraphs.

#### **(a) Funding for Individual Enterprises**

8. We propose that the Fund should provide project-based matching funds for enterprises to upgrade and expand their waste recycling operations in Hong Kong. Enterprises with business registration in Hong Kong and have

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<sup>Note</sup> Non-profit distributing organisations include those statutory organisations or organisations registered under the laws of Hong Kong which are non-profit distributing.

demonstrated a close connection with the recycling industry in Hong Kong are eligible to apply. Applicants could submit proposals for enhancing the source separation, collection and/or treatment of recyclables recovered from the waste stream to landfills, or commercialisation and marketing of recycled products made from these recyclables. They must demonstrate that the proposed project will remain as their business processes and be able to operate on their own resources without further funding support after the project period, which is set at two years maximum.

9. Grants for individual recyclers will be set at 50% of supported expenditure items with a cap of at \$5 million per application subject to a cap of three applications and a maximum project period of two years. Eligible expenditure items include capital costs for purchase of equipment, installations and vehicles to enable the addition of value-adding processes and/or to expand the capacity of operations, or operating costs such as additional costs of manpower, training, transportation and equipment rental, cost of promotion and publicity associated with the enhanced operation, expenses on commercialisation of recycled products, etc. The funding limit of \$5 million has been drawn up with reference to a number of factors, including the estimated cost of machinery and equipment for value-adding recycling and related processes, manpower and logistics support to encourage source separation and collection of recyclables, etc. To cater for different operational circumstances of recyclers, individual enterprises will be eligible to making more than one application, subject to a cap of three applications and the cumulative funding cap of \$5 million.

#### **(b) Funding for Industry Support Projects**

10. We propose that the Fund should also provide funding for NPOs such as professional bodies, trade and industry organisations, research institutes and other industrial support organisations to undertake non-profit making projects for enhancing the operational standards and productivity of the industry, such as upgrading the skills and safety of incumbent and potential employees of the recycling industry and/or expanding its potential workforce, as well as developing certification schemes for recycling operations. Funded projects should be for the benefit of the industry as a whole rather than for individual enterprises, and the project outcome should be open for sharing with members of the industry.

11. Grants for NPOs to conduct programmes for the upgrading and development of the industry may cover up to 100% of approved expenditure items depending on the merits of the case. For example, training programmes on

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occupational safety for frontline workers could be considered for a 100% grant taking into account the nature and benefits of such training to the trade. Grants are proposed to be capped at \$15 million per project which may cover the costs of manpower and consumables, etc. The funding limit of \$15 million is considered appropriate having regard to the estimated cost of manpower training programmes, technical research and promotion activities.

12. The Fund is proposed to be open for application initially for five years, and may then be extended subject to the funding balance and periodic review.

13. To ensure that there is no duplication of public funding for any single project through different sources, the Fund will not consider any proposed project that has been funded or will be funded by other Government sources, or if there is/will be any duplication in terms of the work carried out by other institutions/applicants of Government funds. For completeness of information, the applicants will be required to declare whether their projects submitted to the Fund are being considered for other funding schemes supported by the Government or public bodies. Furthermore, to provide greater encouragement to individual enterprises and non-profit distributing organisations to invest in projects meeting the goals of the Fund, and that the basic tenet of the Fund is to help the recycling industry become sustainable through a funding support on a one-off basis, we do not recommend to recoup the Government's contribution from the net income generated from projects with commercial elements.

### **Expected Benefits**

14. The Fund is expected to bring about the following benefits –
- (a) increase the quantity and quality of recyclables recovered from the waste stream, thus reducing disposal at our landfills;
  - (b) drive investment in the standards and treatment capacity of recycling facilities, including, equipment and installations as well as development in technical capabilities, enabling recyclers to upgrade their operations and undertake value-adding processes;
  - (c) promote market viability of recycled products to increase outlets for locally processed recyclables, thus incentivising investments in the industry;

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- (d) facilitate sustainable development of the recycling industry by providing support to enhance the upgrading of the capacity and capabilities of recyclers as appropriate and where justified; and
- (e) a recycling industry with increased capabilities will enable more effective recovery and recycling of waste, thereby contributing to the Government's policy objective of waste reduction as pledged in the Blueprint.

### **Implementation Partner**

15. We plan to engage the Hong Kong Productivity Council (HKPC) to act as our implementation partner to the Fund to leverage on HKPC's mission, expertise and experience in waste management initiatives as well as relationship with the recycling sector.

16. HKPC is a statutory organisation specifically set up to provide technical support to Hong Kong industry. Its mission is in line with the objective of the Fund in respect of enhancing the capability of the industry to achieve sustainable development. HKPC has been working closely with Government, local industries/trades as well as green groups and academia to improve the environment of Hong Kong. Examples of relevant Government programmes it has helped develop and/or implement include the Cleaner Production Partnership Programme and consultancy studies associated with or related to the recycling trade.

17. We have been discussing with HKPC in drawing up a mode of operation, which will include tasks relating to promoting and publicising the Fund, conducting periodic market development and technological studies on matters relating to recycling industries, and promoting the industry's knowledge on the latest developments, providing general advice on the application procedures to applicants, receiving and processing of applications, monitoring the progress of the approved projects and checking on compliance with the terms of grants, etc. HKPC will provide an in-kind contribution in terms of professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services, while other necessary expenses incurred by HKPC in implementing the Fund will be met by the Fund. In this connection, HKPC will be required to work out annual implementation plans and budgets for prior approval by the Environmental Protection Department. The manpower arrangements and activities in relation to publicity and/or promotion, market development and technological studies will be reviewed and suitably adjusted as necessary having regard to the workload, status of the Fund and prevailing market conditions.

18. Funding from the Government will be disbursed to the HKPC annually, and the disbursement will be contingent upon HKPC's submission and acceptance of the annual implementation plan and budget. HKPC will also be required to submit regular progress reports and evaluation on the operation of the Fund, as well as annual audited accounts.

19. To avoid conflict of interests, HKPC will not seek funding support from the Fund as an applicant and will not take part in the provision of consultancy service or the implementation of any approved project under the Fund.

### **Administration and Operation**

20. An Advisory Committee on Recycling Fund (Advisory Committee) will be set up to advise and make recommendations to the Secretary for the Environment on matters relating to the overall administration and operation of the Fund. Membership of the Advisory Committee will include persons with experience in different sectors relevant to the promotion of waste reduction and recycling, including management of housing estates and commercial venues, academics, representatives of trade and industry associations, relevant bureaux/departments, etc. The Advisory Committee will be chaired by a non-official while HKPC will be serving as the secretariat. The Government will consider and approve applications based on the advice of the Advisory Committee. The proposed terms of reference of the Advisory Committee are set out in Enclosure 1.

Encl. 1

21. The guiding principles and major criteria in the assessment of individual applications are at Enclosure 2. We are seeking the advice of Independent Commission Against Corruption in working out the details of the criteria and procedures to be adopted, as well as requirements relating to declaration of interests and other matters related to the operation of the Fund as appropriate.

Encl. 2

### **Review and Monitoring Mechanism**

22. A robust monitoring mechanism will be put in place to ensure that applicants of funded projects are accountable for the proper and prudent use of public funds. For example, applicants will be required to go into contractual agreements with the Government which will lay down detailed conditions for the grants, terms for purchases and disposal of capital assets, as well as recall of payments and/or assets in the event of unsatisfactory project performance, etc. Periodic progress reports and audited accounts prepared by independent auditors will be required, as well as project completion reports and final audited reports.

23. As we anticipate that procurement of capital assets and employment of manpower may be required in some projects, Government procurement procedures and open recruitment need to be adopted in all applicable cases. Applicants will be required to disclose their procurement and staff recruitment mechanisms during the application stage and to report the operation of the mechanisms with supporting documents in the progress and final reports to facilitate inspection checks. Failure to comply with the mechanisms may lead to recall of all or part of the grant. Additional conditions specific to each project may be imposed as appropriate.

24. To facilitate the assessment of benefits brought about by the approved projects in achieving the Government's policy objectives, applicants will also be required to report on a regular basis relevant benchmarks such as the increase in tonnage of recyclables treated that would otherwise be sent to landfills, extra types of waste processed enhanced market outlets and added value for recycled products and/or improvement to the manpower situation as a result of training courses offered, etc.

25. To complement the above monitoring efforts, on-site spot checks and random inspections will be conducted by HKPC to verify records and validate the deliverables and targets as reported by the successful applicants on a case-by-case basis. Disbursements to successful applicants will only be made at designated stages of the projects on a milestone basis after review of periodic reports and satisfactory performance during on-site inspections. The final payment will only be disbursed upon satisfactory completion of the project and checking of all reports submitted.

26. For the sake of transparency, application procedures and assessment criteria of the Fund and information on funded projects will be uploaded onto the Internet and made available to the public. The Legislative Council Panel on Environmental Affairs will be also regularly briefed on the progress of the Fund.

## **FINANCIAL IMPLICATIONS**

27. The establishment of the Fund will involve a total commitment of \$1 billion, which will cover both grants for the applications as well as the necessary administrative and monitoring costs incurred in operating the Fund.

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28. On the assumption that HKPC will be engaged to administer the Fund for seven years (five years for managing the Fund and two years for monitoring of funded projects), it is estimated that a total of \$99.9 million will be required. It comprises –

- (a) \$84.1 million being administrative and monitoring costs of for setting up a dedicated team for programme management, technical evaluation and project monitoring; and
- (b) \$15.8 million being expenses for publicity and promotion activities, briefings for applicants and seminars for experience sharing, as well as conducting periodic market development and technological studies on matters relating to recycling industries.

HKPC will provide an in-kind contribution of \$18.9 million in terms of professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services. The estimated cost breakdown of the Fund and HKPC's in-kind contribution is set out at Enclosure 3.

Encl. 3

29. The actual annual funding allocation and the operating tenure of the Fund will depend on the actual number of applications and amounts of grants approved, subject to periodic review by the Advisory Committee taking into account prevailing market conditions and industry needs. The estimated cash flow is as follows –

<b>Year</b>	<b>(\$ million)</b>
2015-16	30
2016-17	100
2017-18	200
2018-19	220
2019-20	220
2020-21	150
2021-22	60
2022-23	20
<b>Total</b>	<b>1,000</b>

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**IMPLEMENTATION TIMETABLE**

30. Subject to Members' approval of the proposed Fund and completion of necessary preparatory work, we intend to launch the Fund in the second half of 2015.

**PUBLIC CONSULATION**

31. We have held meetings with representatives from different sub-sectors of the recycling industry to gather views on the proposed scope and operational framework of the Fund. The trade representatives are supportive and have expressed their wish for the early establishment of the Fund. We also briefed the Legislative Council Panel on Environmental Affairs about the Fund on 23 July 2014. Members generally supported the proposal, and their views have been taken into account in devising the current proposal.

**BACKGROUND**

32. Over the years, the Government has implemented a host of support measures to encourage waste reduction and promote the healthy development of the recycling industry in Hong Kong, such as providing infrastructural support, driving community mobilisation and introducing relevant legislation and funding schemes, etc. In August 2013, the Steering Committee to Promote the Sustainable Development of the Recycling Industry was set up under the chairmanship of the Chief Secretary for Administration to study policies and measures to reduce waste at source and promote the sustainable development of the recycling industry. The Chief Executive announced in his 2014 Policy Address that \$1 billion had been earmarked for setting up the Fund.

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**Proposed Terms of Reference for  
Advisory Committee on Recycling Fund**

To advise the Secretary for the Environment on –

- (a) matters relating to the overall administration of the Recycling Fund (the Fund), including publicity and promotion, consultation and engagement of stakeholders, application and assessment arrangements, monitoring mechanism, consideration of plans, budgets and reports prepared by the Secretariat of the Recycling Fund, and evaluation of the effectiveness of the Fund;
- (b) matters relating to the operation of the Fund –
  - (i) application guidelines and procedures, assessment and funding criteria, safeguard and control mechanisms;
  - (ii) assessment of applications, terms and conditions to be imposed for each application recommended for approval by the Government and the amount of fund to be granted;
  - (iii) monitoring on progress of approved projects, project results and disbursement of funds; and
  - (iv) advising appropriate actions to be taken against non-compliance of approved projects; and
- (c) any other matters related to the Fund.

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**Guiding principles and major criteria in the assessment of applications for the Recycling Fund**

**A. Guiding principles**

To provide funding to projects which demonstrate potentials to –

- (i) raise the quantity and quality of recyclables recovered from the waste stream as well as those of recycled products from their treatment, thus reducing disposal at our landfills;
- (ii) promote markets for recycled products, thus providing greater impetus to local landfill diversion; and
- (iii) enhance the overall capability, capacity, efficiency and skills as well as market information of the recycling industry, thus facilitating its sustainable development.

**B. Major assessment criteria**

*For Enterprises*

- (i) Potential extra quantity and quality of recyclables recovered.
- (ii) Potential increase in the competitiveness of recycled products.
- (iii) Potential enhancement of overall capability, capacity, efficiency and skills.
- (iv) Need, viability and cost-effectiveness of the project with reference to prevailing markets conditions and contribution to increasing waste recovery.
- (v) Sustainability of project which can be maintained without further funding support after the project period.

*For NPOs, professional bodies and industrial support organisations*

- (i) Potential enhancement of the overall capability, knowledge and skills of participants in the recycling industry.
- (ii) Potential enhancement of the operational standards and productivity of the recycling industry.
- (iii) Benefits of the project to the recycling industry in general.
- (iv) Need, viability and cost-effectiveness of the project.
- (v) Usefulness of the project for sharing with members of the industry.

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**Enclosure 3 to FCR(2015-16)25**

**Estimated Cost Breakdown of the Recycling Fund  
and HKPC's in-kind contribution <sup>(Note 1)</sup>**

	<b>Funding by Government 5+2 years (\$'000)</b>	<b>Contribution by HKPC 5+2 years (\$'000)</b>	<b>Total Cost 5+2 years (\$'000)</b>
<b>1. Funding Provided for Approved Projects <sup>(Note 2)</sup></b>	<b>900,120</b>	<b>N/A</b>	<b>900,120</b>
<b>2. Program Management &amp; Technical Assessment</b>			
• Programme Director and Deputy Programme Director <sup>(Note 3)</sup>	--	9,520	9,520
• Programme Manager <sup>(Note 4)</sup>	13,380	--	13,380
• Programme Management & Administration <sup>(Note 5)</sup>	29,210	1,650	30,860
• Technical Evaluation and Monitoring <sup>(Note 5)</sup>	38,340	7,770	46,110
• Others <sup>(Note 6)</sup>	3,150	--	3,150
<b>Sub-total</b>	<b>84,080</b>	<b>18,940</b>	<b>103,020</b>
<b>3. Education, Publicity &amp; Promotion <sup>(Note 7)</sup></b>			
• Website development and maintenance	710	--	710
• Design and Printing Promotional Materials	280	--	280
• Launching Ceremony	210	--	210
• Briefing Sessions	890	--	890
• Technical Visits to Showcases	540	--	540
• Newspaper and Radio Supplements	1,290	--	1,290
• Video Production for Showcases	1,120	--	1,120
• Eco Expo and Annual Seminar	1,880	--	1,880
• Periodic Market and Technological Studies	8,880	--	8,880
<b>Sub-total</b>	<b>15,800</b>	<b>--</b>	<b>15,800</b>
<b>TOTAL (1)+(2)+(3)</b>	<b>1,000,000</b>	<b>18,940</b>	<b>1,018,940</b>

**Notes:**

- Note 1: For cost estimation purpose, assuming that the Recycling Fund will be implemented in Q3 2015 and taking into account the disbursement of funds to approved projects in a phased approach, the actual disbursement funds may continue up to 2022-23 for meeting the requirements of projects approved in the latter phase of the five-year application period.
- Note 2: After deducting \$99.88 million to be disbursed to HKPC for acting as the Fund's implementation partner, the remainder of the \$1 billion will cover grants for successful applicants and other contingency uses. The actual funding allocation between individual enterprises and NPOs will depend on the number of applications and amounts of grants approved, subject to the advice of the Advisory Committee taking into account prevailing market conditions and industry needs.
- Note 3: HKPC plans to assign one Programme Director, who is a Director of HKPC, and one Deputy Programme Director, who is a General Manager of HKPC, to work on a part-time basis to oversee and supervise the implementation of the Recycling Fund, as the HKPC's in-kind contribution to the Recycling Fund. The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.
- Note 4: HKPC plans to assign one Programme Manager, who is a Principal Consultant of HKPC, to oversee the overall planning and management of the various initiatives proposed for the Recycling Fund and to serve as the Secretary of the Recycling Fund Advisory Committee. The Programme Manager will spend 70% of his time for the Recycling Fund Programme in the first 5 years and will gradually reduce to spending 35% of his time in Years 6-7. The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.
- Note 5: For Programme Management and Administration, HKPC plans to engage three Programme Officers and two Programme Assistants. For Technical Evaluation and Monitoring, HKPC plans to engage one Technical Team Leader, two Programme Officers and Two Programme Assistants. As part of its in-kind contribution, HKPC will sponsor the manpower services of 1.2 Programme Officers to work full-time to assist in the work of the Programme Manager. The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.
- Note 6: Other costs include fee for programme auditing, transportation, mailing, printing, part-time helpers, etc. These will be absorbed by the Recycling Fund.
- Note 7: All activities and expenditure in relation to education, publicity and/or promotion will be reviewed and suitably adjusted as necessary having regard to the progress of the Recycling Fund and prevailing industry circumstances.

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