

*Environment and Conservation Fund*

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The Audit Commission ("Audit") conducted a review of the Environment and Conservation Fund ("ECF").

2. ECF is a statutory trust fund established under the Environment and Conservation Fund Ordinance (Cap. 450) to provide funding support to local non-profit-making organizations for educational, research and other projects and activities in relation to environmental and conservation matters. As of October 2018, six main types of ECF-funded projects<sup>1</sup> were funded under 11 ECF funding programmes. Secretary for the Environment is the trustee of ECF, and the Environment and Conservation Fund Committee ("ECFC")<sup>2</sup> is set up to advise the trustee on the use of funds. The Environment and Conservation Fund Investment Committee ("ECFIC") is also set up to set policies on investment and monitor the investment of ECF. The Environmental Protection Department ("EPD") is responsible for providing secretariat support to the above committees/subcommittees and support for ECF's administration (e.g. processing applications and monitoring the implementation of approved projects). From its establishment in August 1994 to March 2018, ECF had supported some 5 200 projects with approved grants of some \$2,800 million in total.

3. The Committee noted the following findings from the Director of Audit's Report ("Audit Report"):

- EPD's processing time (from date of receipt of application to date of approval) for 377 (27.6%) of the 1 364 ECF applications approved during 2013-2014 to 2017-2018 ranged from more than one year to four years. Audit examined four of the 377 approved applications and noted that:
  - (a) between the period when EPD informed Applicant A mentioned in Case 1 in paragraph 2.7 of the Audit Report to resubmit its

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<sup>1</sup> These main types of projects are: (a) waste reduction; (b) energy conservation; (c) environmental education and community action; (d) environmental research, technology demonstration and conference; (e) nature conservation management agreement; and (f) large-scale environmental education and awareness.

<sup>2</sup> ECFC is assisted by five subcommittees in vetting applications and overseeing the implementation of approved projects under ECF. These subcommittees are: (a) the Waste Reduction Projects Vetting Subcommittee; (b) the Environmental Education and Community Action Projects Vetting Subcommittee; (c) the Research Projects Vetting Subcommittee; (d) the Energy Conservation Projects Vetting Subcommittee (ceased receiving new applications in April 2012 and disbanded on 15 October 2018); and (e) the Nature Conservation Subcommittee.

application in June 2011 and Applicant A resubmitted its application in November 2012, EPD only sent out two reminders to Applicant A without taking other follow-up actions; and

- (b) Applicant B and its Qualified Service Provider<sup>3</sup> mentioned in Case 2 in paragraph 2.7 of the Audit Report took a long time from July 2011 to April 2013 to respond to the enquiries raised by the Electrical and Mechanical Services Trading Fund<sup>4</sup> regarding Applicant B's application;
- the rejection rates for applications increased from 20% (112 of 559 applications rejected) in 2013-2014 to 48% (217 of 451 applications rejected) in 2017-2018. The major reasons for rejection included: EPD had reservations about the possible value and effectiveness of the proposed projects or activities, the applicants' proposals were not practicable or technically not feasible, and there was insufficient information to support the applications etc.;
  - EPD submitted discussion papers/summaries to ECFC's subcommittees to facilitate their discussions and assessments on project applications. The discussion papers/summaries for 45 (47%) of a total of 95 meetings for four subcommittees were issued shortly to members one to five calendar days (averaging 3.7 calendar days) before the scheduled meetings. Only the procedural guidelines for the funding programme of environmental research, technology demonstration and conference projects had stipulated the time frame for issuing discussion papers but not stipulated in those for other funding programmes;
  - according to the procedural guidelines for ECF funding programmes:
    - (a) two different practices were adopted to handle applications involving information not provided by the applicants within the specified time period:

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<sup>3</sup> According to the guide to application for the funding programme known as "Energy Conservation Projects for Non-government Organisations", the applicants for energy improvement works should engage a Qualified Service Provider in certifying the detailed scope of the projects.

<sup>4</sup> EPD referred the application to the Electrical and Mechanical Services Trading Fund for vetting in view that the application involved installation works for lighting and air-conditioning items at multiple sites.

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- (i) for applications of waste reduction projects, environmental research, technology demonstration and conference projects and energy conservation projects, the processing work would be terminated; and
  - (ii) the applications of environmental education and community action projects would be considered on the basis of information previously provided; and
- (b) two different practices were adopted to check whether the applicants received double benefits on the same budget item from other funding schemes of the Government:
  - (i) for funding programmes of nature conservation management agreement projects, EPD only required the applicants to declare in the application forms regarding the details of other sources of funds; and
  - (ii) for funding programmes of waste reduction projects, environmental education and community action projects and energy conservation projects, in addition to declaration by the applicants in the application forms, EPD would send a list of applications which were selected on a random sampling basis to the pertinent secretariats of other funding schemes of the Government for checking;
- as of September 2018, 99 approved ECF-funded projects had not yet commenced, while 15% of them (15 projects) had been approved for more than one year. 607 approved ECF-funded projects had commenced but not yet been completed, while 47% of them (284 projects) had commenced for more than four years. 303 completed ECF-funded projects had not finalized their project accounts, with 61% (185 projects) of them had been completed for more than 1 year to 11 years;
- Audit examined five ECF-funded projects which had been approved for more than four years but not yet commenced as of September 2018, and noted that no follow-up actions had been taken by EPD on:
  - (a) the project in Case 3 in paragraph 3.4 of the Audit Report for a total of five years (comprising three periods of time) regarding its commencement; and

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- (b) the project in Case 4 in paragraph 3.7 of the Audit Report for a total of 6.4 years (comprising three periods of time) regarding its progress;
- the attendance rates of some members at meetings of ECFC, ECFC's subcommittees and ECFIC held in the past three completed terms of membership were below 50%, and eight members with low attendance rates (below 50%) at meetings in the preceding term were reappointed;
  - of the total 308 declaration forms required to be submitted by members of ECFC and its four vetting subcommittees for the past three completed terms of membership, 85 (28%) were submitted late with delays ranging from 1 to 256 days (averaging 31 days), and 83 (27%) were not available in EPD records;
  - as of January 2019, the minutes for 20 meetings of ECFC, ECFC's subcommittees and ECFIC held in the past three completed terms had not been endorsed by members in subsequent meetings;
  - differences were found in the terms of reference and code of conduct of ECFC and its three operating vetting subcommittees; and
  - deficiencies were found in the ECF database maintained by EPD for capturing the key information of all ECF applications/approved projects.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding measures to improve the administration of ECF applications and the monitoring of project implementation and accounts finalization; and the governance and administrative issues of ECF. The replies from **Director of Environmental Protection** are in *Appendix 12*.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.