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Panel on Environmental Affairs

Meeting on 26 May 2014

**Updated background brief on "Environment and Conservation Fund"
prepared by the Legislative Council Secretariat**

Purpose

This paper provides updated background information on the Environment and Conservation Fund ("ECF"), and gives a brief account of the views and concerns expressed by Members on the subject.

Background

2. ECF is a statutory trust fund established in 1994 under the Environment and Conservation Fund Ordinance (Cap. 450) to provide financial support for research, waste recovery and educational projects that promote environmental protection and nature conservation. The objective of ECF is to promote behavioural and lifestyle changes to protect the environment and achieve sustainable development. The Finance Committee ("FC") approved an injection of \$50 million each in 1994 and 1998, \$100 million in 2002, \$35 million in 2006, \$1,000 million in 2008, \$500 million in 2011 and \$5,000 million in 2013.

Operation of ECF

3. The ECF, since its establishment in 1994, has set up a robust mechanism of project vetting and monitoring. The terms of reference of the ECF Committee and its various vetting subcommittees are in **Appendix I**.

Criteria for vetting applications

4. In assessing funding applications, the following broad assessment criteria are adopted -

- (a) projects must contribute to the overall environment of Hong Kong, raise environmental awareness of the local community, or mobilize the community to take action to improve the environment;
- (b) the benefits must accrue to the local community as a whole, and not just to individuals, a single private organization or a consortium of private companies; and
- (c) projects must be non-profit-making in nature.

5. As at May 2013, ECF has supported over 3 900 projects totalling \$1,668 million. A list of the funding schemes operated under ECF with related funding commitment from 2007-2008 to 2012-2013 is set out in **Appendix II**.

Control and review mechanism

6. As the trustee of ECF, the Secretary for the Environment is required under the ECF Ordinance to provide a report on the administration of the fund, with a copy of audited statement of accounts together with the auditor's report, for tabling before the Legislative Council ("LegCo") on an annual basis. The latest trustee report of ECF is hyperlinked in **Appendix III**.

7. ECF has established a monitoring system to ensure that supported projects meet funding requirements as well as their planned objectives. Project proponents are required to set out targets and deliverables in the funding applications. For approved projects, proponents are required to submit regular progress reports to the Secretariat of the ECF Committee for review. Payments to the project proponents are made by instalments upon showing satisfactory progress of the projects. The ECF Committee and the Secretariat may carry out inspections and surprise checks to examine the progress of the projects. Completion inspections are also conducted for some projects depending on the nature of activities and works involved. Final disbursement to the project proponent will only be made after satisfactory completion of the project as supported by a completion report together with a duly certified statement of account.

Deliberations by Members

8. In May 2013, the Panel on Environmental Affairs ("the Panel") discussed the Administration's proposal to inject \$5,000 million into ECF with a view to generating investment income for long-term and sustained support for community green actions. Members were supportive of the funding proposal, but were concerned about the cost-effectiveness of ECF, management and investment of funds under ECF, particularly whether the annual investment returns would be sufficient to cover the grants for ECF projects. The funding proposal was approved by FC at its meeting on 14 June 2013. The major views and concerns raised by Members at the meetings of the Panel and FC are summarized in the ensuing paragraphs.

Achievements and benefits of ECF

9. Noting that ECF had supported over 3 900 projects totalling \$1,668 million since 1994, some Panel members enquired if a review had been conducted on the effectiveness of the projects funded by ECF. They considered that the experience gained from implementing ECF-funded projects should be applied on a wider scale in Hong Kong. For example, the trials on food waste recycling could be extended to all public rental housing estates. There were also concerns about the means to assess the effectiveness of ECF-funded projects and how ECF funding could support the implementation of the Blueprint for Sustainable Use of Resources.

Allocation of funding

10. Some other members requested the Administration to take measures to ensure that ECF funding would not be used by political parties to solicit support in election campaigns, and those organizations which were found to have misused the funds should be required to return the funding to ECF. For those ECF projects such as waste recycling operations which were found to be commercially viable, they should be handed over to the private sector for continued operation. The Administration advised that the ECF Secretariat had developed proper monitoring mechanisms to safeguard the funded projects from being used for purpose of political publicity. The Administration would consult the ECF Committee for further improvement of the application procedures as and when required.

11. Some members also expressed concern on the role of the Government in the allocation of funds under ECF. They considered the Government should play an active role in making sure that there would be projects funded under all the six major areas.

Management and investment of ECF

12. Some members were also concerned whether the investment return from the \$5,000 million injection would be sufficient for providing funding for ECF projects each year. The Administration had responded that on the basis of the current return rate of about 5% per annum, the expected investment return would be about \$200 million per annum. As ECF had an average funding payout of about \$154 million per annum, the investment return of \$200 million per annum should be sufficient for funding projects and operating expenses.

13. Members noted that the 5% return on investment was the Administration's target rather than a guaranteed return from the Hong Kong Monetary Authority. They were concerned whether ECF operation would be adversely affected and whether the Administration would apply for additional injection to make up for the deficiency, if the actual return on investment in a year fell short of 5% or less than \$200 million. The Administration had advised that under such circumstances, it would have to examine alternative options, including seeking additional injection from FC.

Need for monitoring mechanism

14. While members generally supported the funding proposal as ECF had been effective in promoting environment awareness, they agreed that proper monitoring mechanism should be instituted to ensure that the ECF projects were cost-effective and could achieve the objectives of ECF.

15. Whilst noting that warning letters had been issued by the Administration to the organizations that were found to have carried out political publicity while implementing ECF-funded projects, some members requested the Administration to consider compiling a "blacklist" of those organizations which had breached ECF funding conditions. Members also called on the Administration to submit annual reports to LegCo about the ECF spending, and to demonstrate how far ECF had achieved its objectives through the projects.

Latest development

16. The Administration will brief the Panel on the operations and monitoring arrangements of ECF at the Panel meeting on 26 May 2014.

Relevant papers

17. A list of relevant papers is set out in **Appendix III**.

Council Business Division 1
Legislative Council Secretariat
21 May 2014

Environment and Conservation Fund Committee

Terms of Reference

- (a) To vet applications seeking funding support^{Note} for over \$2,000,000 from local non-profit making organizations to undertake educational, research and technology demonstration projects and activities in relation to environmental and conservation matters, as well as applications for community waste recovery projects and to advise on their relative priorities for funding support; and
- (b) To advise the trustee on the exact amount of fund to be allocated^{Note} for each project supported.

Note: Under the existing arrangements, the Environment and Conservation Fund ("ECF") Committee has delegated the responsibility of and authority for vetting applications seeking funding support of not exceeding \$2 million, and advising on the exact amount of fund to be allocated for each of these supported projects to its various vetting subcommittees.

Environment and Conservation Fund Committee
Research Projects Vetting Subcommittee

Terms of Reference

- (a) To vet applications seeking funding support from local non-profit making organizations (and for technology demonstration projects on waste recycling and minimization, from local companies incorporated under the Companies Ordinance) to undertake environmental research, technology demonstration and conference projects and advise on their relative priorities for funding support;
- (b) To make recommendations to the ECF Committee on the exact amount of fund to be allocated for each project supported where the grant is over \$2,000,000; and
- (c) To advise the trustee on the exact amount of fund to be allocated for each project supported where the grant is \$2,000,000 or below, and report back to the ECF Committee.

Environment and Conservation Fund Committee
Waste Recovery Projects Vetting Subcommittee

Terms of Reference

- (a) To vet applications seeking funding support from local non-profit making organizations to undertake community waste recovery projects, on-site meal portioning in schools, food waste recycling projects in housing estates and projects under the Source Separation of Waste Programme, and advise on their relative priorities for funding support;
- (b) To make recommendations to the ECF Committee on the exact amount of fund to be allocated for each project supported if the grant is over \$2,000,000; and
- (c) To advise the trustee on the exact amount of fund to be allocated for each project supported if the grant is less than or equal to \$2,000,000 and report back to the ECF Committee.

Environment and Conservation Fund Committee
Energy Conservation Projects Vetting Subcommittee

Terms of Reference

- (a) To vet applications seeking funding support from local non-profit making organizations to undertake projects to promote energy efficiency and conservation, and advise on their relative priorities for funding support;
- (b) To make recommendations to the ECF Committee on the exact amount of fund to be allocated for each project supported if the grant is over \$2,000,000; and
- (c) To advise the trustee on the exact amount of fund to be allocated for each project supported if the grant is \$2,000,000 or below and report back to the ECF Committee.

Environmental Campaign Committee
Environmental Education and Community Action ("EE&CA") Projects
Vetting Subcommittee^{Note}

Terms of Reference

- (a) To vet applications seeking funding support from local non-profit making organizations to undertake environmental education and community action projects and advise on their relative priorities for funding support;
- (b) To make recommendations to the ECF Committee on the exact amount of fund to be allocated for each project supported if the grant is over \$2,000,000; and
- (c) To advise the trustee on the exact amount of fund to be allocated for each project supported if the grant is less than or equal to \$2,000,000 and report back to the ECF Committee.

Note: The ECF Committee has delegated the authority to process applications to the EE&CA Projects Vetting Subcommittee under the Environmental Campaign Committee.

Funding Schemes Operated under the Environment and Conservation Fund

(As at 14 June 2013)

ECF-funded initiatives/funding schemes	Amount committed (\$ million)					
	2007-08#	2008-09	2009-10	2010-11	2011-12#	2012-13
Environmental Campaign Committee Programmes	18.96	20.59	38.47	25.35	22.72	25.24
Environmental Education and Community Action - General Projects	0.68	1.42	7.34	6.11	23.21	5.49
Environmental Education and Community Action - Minor Works Projects	-	52.04	84.86	78.48	52.93	49.66
Nature Conservation Management Agreement Projects	6.82	0	9.63	0	14.79	19.36
Research, Technology Demonstration and Conference Projects	3.24	4.41	29.38	10.41	10.90	9.22
Waste Reduction and Recycling Projects	2.38	1.69	54.29	61.84	65.59	47.06
Energy Conservation Projects	-	-	84.09	232.70	132.31	152.06
Others (e.g. Public Education Programme under the "Policy Framework for the Management of Municipal Waste (2005-14), etc.)	2.95	3.63	42.25	13.24	13.45	20.83
Total:	35.03	83.78	350.31	428.13	335.9	329.12

Notes

Injections of \$1 billion and \$500 million were made to ECF in January 2008 and May 2011 respectively.

Appendix III

List of relevant papers

Council/ Committee	Date of meeting	Paper
Panel on Environmental Affairs	28 March 2011	<p>Administration's paper on "Proposed Capital Injection into the Environment and Conservation Fund" (LC Paper No. CB(1)1673/10-11(04)) http://www.legco.gov.hk/yr10-11/english/panels/ea/papers/ea0328cb1-1673-4-e.pdf</p> <p>Updated background brief on "Environment and Conservation Fund" prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1673/10-11(05)) http://www.legco.gov.hk/yr10-11/english/panels/ea/papers/ea0328cb1-1673-5-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)2191/10-11) http://www.legco.gov.hk/yr10-11/english/panels/ea/minutes/ea20110328.pdf</p>

Council/ Committee	Date of meeting	Paper
Panel on Environmental Affairs	27 May 2013	<p>Administration's paper on "Proposed injection into the Environment and Conservation Fund" (LC Paper No. CB(1)1067/12-13(03)) http://www.legco.gov.hk/yr12-13/english/panels/ea/papers/ea0527cb1-1067-3-e.pdf</p> <p>Updated background brief on "Environment and Conservation Fund" prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1067/12-13(04)) http://www.legco.gov.hk/yr12-13/english/panels/ea/papers/ea0527cb1-1067-4-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)1536/12-13) http://www.legco.gov.hk/yr12-13/english/panels/ea/minutes/ea20130527.pdf</p>
Finance Committee	14 June 2013	<p>Funding proposal on Head 44 – Environmental Protection Department Subhead 700 General non-recurrent New Item "Capital Injection into the Environment and Conservation Fund" (LC Paper No. FCR(2013-14)15) http://www.legco.gov.hk/yr12-13/english/fc/fc/papers/f13-15e.pdf</p> <p>Minutes of meeting (LC Paper No. FC8/13-14) http://www.legco.gov.hk/yr12-13/english/fc/fc/minutes/fc20130614.pdf</p>
Legislative Council	30 October 2013	<p>"Environmental and Conservation Fund Trustee Report 2012-2013" presented by Secretary for the Environment http://www.legco.gov.hk/yr13-14/english/counmtg/papers/cm1030-sp015-e.pdf</p>