

Recycling Fund

The Audit Commission (“Audit”) conducted a review of the Recycling Fund (“RF”).

2. In October 2015, the Environmental Protection Department (“EPD”) launched RF to promote the recovery and recycling of waste by facilitating the recycling industry to upgrade operational capabilities and efficiency for its sustainable development. RF provided funding support under two standard funding programmes (i.e. Enterprise Support Programme and Industry Support Programme) and four small-scale standard project funding programmes. Up to March 2023, the total approved funding of RF was \$2 billion and 2 596 applications (with grants of \$855 million) had been approved.

3. EPD had engaged the Hong Kong Productivity Council (“HKPC”) as the implementation partner and the secretariat of RF (“RF Secretariat”). An Advisory Committee on RF (“RFAC”) was set up in August 2015 to advise and make recommendations on matters relating to the administration and operation of RF.

4. The Committee noted the following findings from the Director of Audit’s Report No. 81:

Processing of applications

- RF Secretariat’s Standard Operating Procedure set out internal timeframes for processing RF applications. Audit noted that:
 - (a) the processing of 2 of 46 related applications (received between October 2022 and March 2023) did not meet the internal timeframe introduced since October 2022 for submitting applications of two of the small-scale standard project funding programmes to RFAC for consideration;
 - (b) internal timeframes were introduced since April 2023 for issuing first email to applicants for seeking further information (if any) and submitting applications of the two standard funding programmes and the two other small-scale standard project funding programmes to RFAC for consideration; and

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- (c) internal timeframe relating to notifying the applicants of the application results after the Secretary for Environment and Ecology's decision had not been set;
- from October 2015 to March 2023, there were a total of 3 222 processed RF applications. Audit noted that:
 - (a) the processing time of 506 (16%) applications was more than 180 days, ranging from 181 to 608 days. EPD should closely monitor the progress in processing RF applications and take proactive actions to follow up with the applicants with a view to facilitating them to better understand the submission requirements; and
 - (b) 626 (19%) applications were rejected. Rejection rates were particularly high for applications of some RF programmes, ranging from 41% to 51%;
- applications under the two standard funding programmes received from October 2015 to March 2023 only came from about 35% of 1 900 companies engaged in recycling operations in Hong Kong;

Funding disbursement and monitoring of approved projects

- for 50 (17%) of 289 funding disbursement requests processed from January 2020 to March 2023, funding was disbursed to grantees 15 to 60 days (averaging 26 days) after completing the verification procedures (i.e. not meeting the 14-calendar-day timeframe introduced since January 2020);
- according to the funding agreement signed by the grantee (for the two standard funding programmes and two of the small-scale standard project funding programmes), the grantee of an approved project was required to submit various project deliverables during the course of project implementation. As of March 2023:
 - (a) of the 67 interim progress reports due for submission, 8 (12%) had not been submitted and 44 (66%) were submitted 1 day to 27 months after due date; and

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- (b) of the 51 final reports due for submission, 6 (12%) had not been submitted and 27 (53%) were submitted 4 days to 13 months after due date;
- to verify the project progress and results for approved projects, RF Secretariat conducted site visits for approved projects. Audit noted that:
 - (a) no target coverage and frequency was set for each type of site visit; and
 - (b) management information was not regularly compiled on the nature and seriousness of irregularities found during site visits for monitoring purpose;

Other related issues

- as of August 2023, EPD had entered into three formal agreements with HKPC. Regarding the implementation fees to HKPC, Audit noted that:
 - (a) EPD could not locate the documentation on its vetting of the estimated implementation fees under the main agreement and the second supplemental agreement with HKPC; and
 - (b) there was no documentation summarizing EPD's work in vetting each financial year's budgeted implementation fee in annual implementation plan to facilitate senior management's review and approval;
- there were delays in submission of reporting materials (annual implementation plan, operational report and annual report) from RF Secretariat to RFAC from January 2019 to June 2023;
- no specific targets were set by EPD to keep under review the performance and achievements of RF; and
- RF Secretariat did not compile management reports submitted to RFAC and EPD based on the final reports of projects (which contained project results) submitted by grantees.

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5. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the processing of applications and funding disbursement of RF. The replies from the **Director of Environmental Protection** are in *Appendix 20*.

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