

# **SUPPORT MEASURES FOR AGRICULTURAL INDUSTRY BY THE AGRICULTURE, FISHERIES AND CONSERVATION DEPARTMENT**

## **Executive Summary**

1. Most of the daily fresh food consumption by Hong Kong's population is imported, but Hong Kong's primary producers help satisfy some of the demand. According to the Government, the value of agricultural development lies not just in its contribution to the economy. It would help meet consumers' demand for quality local fresh produce as an alternative to imported food supply, facilitate better utilisation of farmland, and preserve the rural environment through improving the environmental hygiene conditions and better protection of rural areas. In 2022, the gross value of local agricultural production totalled \$1,350 million. Despite its small scale, the local production accounted for 1.9% of fresh vegetables, 13.8% of live pigs and 100% of live chickens consumed in the territory by weight in 2022. The Agriculture, Fisheries and Conservation Department (AFCD) is responsible for promoting adaptive new production method and helping the agricultural industry take advantage of new market opportunities.

2. As announced in the 2016 Policy Address, the Government would implement a New Agriculture Policy to promote the modernisation and sustainable development of local agriculture. Key measures under the New Agriculture Policy include setting up an Agricultural Park (Agri-Park), commissioning a consultancy study on identifying and designating Agricultural Priority Areas (APAs), setting up a Sustainable Agricultural Development Fund (SADF), exploring ways to facilitate establishment of hydroponics or other similar operations in industrial buildings/zones, facilitating leisure farming and enhancing food safety and marketing of local fresh produce. In December 2023, a Blueprint for the Sustainable Development of Agriculture and Fisheries to promote the upgrading and transformation, modernisation and sustainable development of the industries was issued.

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3. In 2022-23, the expenditure for the provision of support measures for agricultural industry by AFCD was about \$43.7 million. According to AFCD, during the period from 2018 to 2023, the provision of support measures/services was adversely affected by the coronavirus disease (COVID-19) epidemic (between end of 2019 and early 2023) and extreme weather conditions (including widespread flooding and typhoons in 2023). The Audit Commission (Audit) has recently conducted a review of the support measures for agricultural industry by AFCD.

### Planning and development of agricultural areas

4. *Delay in development of Agri-Park Phase 1.* The Agri-Park aims to help nurture agro-technology and knowledge on modern farm management through leasing farmland and providing associated agricultural facilities for farmers to conduct commercial farming. The Agri-Park is being developed in two phases. AFCD is responsible for managing the Agri-Park, the Civil Engineering and Development Department (CEDD) is responsible for the design and construction of the Agri-Park and the Lands Department (LandsD) is responsible for land resumption and clearance. In July 2020, the Finance Committee (FC) of the Legislative Council (LegCo) approved the funding for the establishment of the Agri-Park Phase 1 at an estimated cost of \$176.6 million (i.e. approved project estimate). In September 2020, CEDD awarded a works contract for the establishment of the Agri-Park Phase 1 to a contractor at a contract sum of about \$120 million. In May 2021, the Government informed LegCo that the construction works of the Agri-Park Phase 1 were expected to be completed in phases from end 2021 (i.e. first stage) to 2023 (paras. 2.2 to 2.5). Audit noted that there were delay and increase in construction cost in establishing the Agri-Park Phase 1, as follows:

- (a) the works for the areas covered in the first stage were only completed with the site (of about 3.85 hectares in area) handed over to AFCD in November 2022, which was about one year later than the original expected completion date of 2021. According to CEDD, as of January 2024, the anticipated completion date for the remaining works was mid-2024 (i.e. about 6 months later than the target completion date of 2023 as reported to LegCo in May 2021); and
- (b) as of October 2023, the actual construction cost for the establishment of the Agri-Park Phase 1 was about \$125 million, which was about \$5 million (or 4%) higher than the original contract sum of \$120 million. According to

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CEDD, as of March 2024, the estimated construction cost would be about \$167 million (para. 2.6).

5. ***Room for improvement in leasing out farmland.*** The site for the first stage of the Agri-Park Phase 1 was handed over to AFCD in November 2022, which included 3.11 hectares of farmland. According to AFCD, as of November 2023, the farmland was demarcated into 16 farms. Audit noted that:

- (a) as of November 2023, AFCD had entered into 15 lease agreements for 15 farms. For the 15 farms, the time lapse between the dates when the farms were ready for leasing and lease commencement ranged from about 1 month to 4 months (averaging about 2 months);
- (b) for one of the 15 farms, while the lease had commenced in December 2022, flooding problem was identified in May 2023. Although several flood mitigation measures had been carried out, the problem was not yet solved as of December 2023 (when the lease was early terminated); and
- (c) the remaining farm had not been rented out as of January 2024 (about 14 months after handover of the site to AFCD). According to AFCD, this was due to flooding problem (para. 2.9).

6. ***Need to ensure timely commencement of crop production.*** According to the lease agreement of the Agri-Park, the lessee shall from the lease commencement date commence and thereafter continue to use and/or operate the premises for the purpose of crop production. For the 15 farms under lease agreements as of November 2023 (see para. 5(a)), Audit examined the inspection reports (December 2022 to November 2023) and noted that 13 farms had commenced crop production, with the time lapse between the commencement of lease and commencement of crop production ranging from 0 to about 7 months (averaging about 2 months). Of the 13 farms, according to AFCD's inspection reports of November 2023, 3 farms were in full production and 10 farms only had crop production in part of the leased areas with the remaining areas laid fallow (ranging from about 14% to 93% of the total leased area, averaging about 66%). The remaining 2 farms had been laid fallow for about 8 and 9 months since lease commencement and up to 24 November 2023 (para. 2.12).

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7. ***Room for improvement in monitoring farm operation.*** The Agri-Park is intended for commercial crop farming, and the inspection report includes a marketing section for providing information such as sales channel and price. Audit noted that no information was provided in the marketing section of all inspection reports (December 2022 to November 2023) for the 13 farms with crop production as of November 2023 (see para. 6), and the documentation on sales records of the farms was also not available. Besides, in December 2023, AFCD conducted annual review on farm production for the 10 farms with the first anniversary of the lease agreements falling in the period from 21 December 2023 to 31 January 2024. Audit noted that 9 (90%) of the 10 farms did not meet the target production volume, with shortfall ranging from 15% to 97% (averaging 65%) (para. 2.18).

8. ***Need to make continued efforts to ensure that Agri-Park serves its intended purposes.*** Audit examined the annual production plans and monthly inspection reports (December 2022 to November 2023) and noted that:

- (a) ***Open application.*** According to AFCD, as of January 2024, all pieces of farmland in the Agri-Park Phase 1 (except the two farms with flooding problems — see para. 5(b) and (c)) had been catered for the farmers affected by the development of the Agri-Park Phase 1 and other government development projects. Hence, open application was not available in Phase 1;
- (b) ***Farm modernisation.*** The Agri-Park aims to encourage the adoption of modern farming practices and development of new agricultural technology. Audit noted that farm machines were only used in 4 (31%) of the 13 farms with crop production as stated in the inspection reports (December 2022 to November 2023). According to AFCD, it actively provided technical training to the farmers on farm mechanisation and technical skills and knowledge, and 12 of 15 lessees had borrowed farm machinery from AFCD to ease cultivating the land in 2023; and
- (c) ***Farming operations.*** While the Agri-Park was intended to accommodate different types of farming operations (including conventional, organic and modern technological farming), all 15 lessees had indicated in the production plans that they would adopt conventional farming. According to AFCD, upon completion of works in the remaining part of the Agri-Park Phase 1, the farmland would be leased to two lessees practising organic

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farming and one lessee practising modernised greenhouse crop production (para. 2.19).

9. ***Delay in completion of consultancy study on APAs.*** In 2018, to revitalise fallow agricultural land and apply farming practices successfully developed or tested in the Agri-Park on a larger scale, the Government commissioned a consultancy study on APAs to identify relatively large areas of quality agricultural land and explore the feasibility of designating them as APAs. A Steering Committee, co-chaired by the Environment and Ecology Bureau and the Development Bureau and with members including AFCD, the Planning Department and LandsD, has been set up for overseeing the consultancy study on APAs. The progress of the study is also monitored through progress meetings (chaired by AFCD) between the relevant government bureaux/departments and the consultant. According to the consultancy agreement, the consultancy services must be completed within 46 months from commencement date of the agreement (i.e. August 2022). According to AFCD, as of January 2024, the consultancy study was expected to be completed in 2024 (i.e. a delay of about two years) (paras. 2.30, 2.32 to 2.34).

### Financial support measures

10. ***Need to keep under review measures in encouraging applications for SADF.*** SADF was launched in December 2016 with a commitment of \$500 million to provide financial support for the modernisation and sustainable development of local agriculture. In December 2022, a further \$500 million was injected into SADF (i.e. total approved commitment amounted to \$1 billion). The coverage of the fund has also been expanded and a series of enhancement measures (e.g. increasing the Government's maximum funding ratio for commercial projects which are innovative and pilot in nature) have been implemented with effect from 28 February 2023. Under SADF, as of October 2023, there were three types of applications, namely general application, Farm Improvement Scheme (FIS) and Pilot Scheme (paras. 3.2 and 3.3). Audit noted the following issues:

- (a) ***Approved grant less than estimates.*** Over the nearly 7-year period since the launch of SADF in December 2016 and up to October 2023, the total amount of approved grant was about \$187 million and the average amount of approved grant was about \$27 million each year. The average amount of approved grant was about 46% to 73% less than the original estimated

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cash flow of \$50 million to \$100 million each year (as reported to FC of LegCo in April 2016); and

- (b) ***Decrease in numbers of applications and low approval rates for general application.*** Of the 59 general applications received from December 2016 and up to October 2023, a total of 27 (46%) applications was received in 2016-17 and 2017-18. From 2018-19 to 2022-23, the annual number of applications received was only 3 to 7. Since the implementation of the enhancement measures on 28 February 2023 and up to 31 October 2023, 6 general applications were received. Besides, of the 55 processed applications, 18 (33%) applications were approved, 23 (42%) applications were rejected and 14 (25%) applications were withdrawn (paras. 3.4 and 3.6).

11. ***Long processing time for some general applications.*** According to SADF application guidelines, the processing of a general application with all necessary information provided would be completed within 6 months. For the 9 general applications received and approved in the period from 2018-19 to 2023-24 (up to October 2023), Audit analysed the time lapse between receipt of applications (as the date of receiving all necessary information was not readily available) and the approval, and noted that for 7 applications approved before the implementation of the enhancement measures (i.e. from 1 April 2018 to 27 February 2023), the time lapse for 5 (71%) applications was more than 6 months and up to about 18 months (averaging about 13.7 months). For 2 applications approved after the implementation of the enhancement measures (i.e. from 28 February to 31 October 2023), the time lapse for 1 (50%) application was about 12.3 months. Besides, as of October 2023, 4 applications were under processing, of which 3 applications had been received for more than 6 months and up to about 14 months (averaging about 11.8 months) (paras. 3.10 and 3.11).

12. ***Scope for improving timeliness in submitting and processing of reports.*** Upon approval of a project under general application for SADF, the grantee is required to submit various reports (including progress reports and annual reports) within specified timeframes. According to AFCD guidelines (effective since 19 July 2021), the processing of reports submitted by grantees should generally be completed within 24 weeks. For the 8 projects with expected completion dates in 2022 and 2023, 21 reports were submitted by grantees on or after 19 July 2021 (i.e. after the timeframe for processing of reports was effective). Audit noted that

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14 (67%) reports were not submitted within the specified timeframes, with delay ranging from 7 to 107 days (averaging about 50.4 days). Besides, for the 8 processed reports, the processing time for all reports was longer than 24 weeks, ranging from about 26 weeks to about 69 weeks (averaging about 41.8 weeks or 9.8 months). For the 13 reports under processing, as of October 2023, 11 (85%) reports had been submitted for more than 24 weeks and up to 100 weeks (averaging about 49.4 weeks or 11.5 months) (paras. 3.14 and 3.15).

13. ***Need to improve timeliness in conducting farm inspections and processing applications for FIS.*** FIS aims to provide direct grants to local farmers for acquisition of farming equipment and materials for improving their productivity. According to AFCD guidelines, upon receiving an application for FIS with all necessary information, AFCD officers will normally conduct a farm inspection within 28 working days to assess the eligibility of the applicant. According to AFCD website, the processing of an application with all necessary information provided would be completed within 8 weeks. For the 98 applications received in the period from 2022-23 to 2023-24 (up to October 2023) and approved as at 4 January 2024, Audit analysed the time lapse between receipt of FIS applications (as the date of receiving all necessary information was not readily available) and conduct of farm inspections/dates of approval, and noted that: (a) for 23 (23%) applications, the farm inspections were conducted more than 28 working days and up to 95 working days (averaging about 57 working days) after receipt of the applications; and (b) the processing time for 65 (66%) applications was more than 8 weeks and up to about 23 weeks (averaging about 14.2 weeks or 3.3 months) (paras. 3.2, 3.21 and 3.22).

14. ***Scope for improving processing of applications for Emergency Relief Fund (ERF).*** AFCD is responsible for approving and paying primary producer grants under ERF for loss of crops, livestock or cultured fish as a result of fire, flooding, tempest, landslide, typhoon or other natural disasters. According to AFCD guidelines, upon receiving an application for ERF, site investigation would be arranged as soon as possible and in any case should not be longer than 7 working days. Audit noted that for 766 (39%) of the 1,967 applications approved in 2023, site investigations were conducted more than 7 working days after receipt of applications, with delay ranging from 1 to 21 working days (averaging about 5.2 working days). Besides, according to the performance standard published on AFCD website, processing of an ERF application would normally be completed within 30 working days upon receipt of an application with all necessary information and supporting documents provided. Audit noted that, as of January 2024, for the 1,967 applications, the dates of receiving the applications with all necessary

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information and the completion dates of application process (i.e. the approval dates) were not readily available, and management information on achievement of the performance standard was not regularly compiled for monitoring purpose (paras. 3.26 to 3.28).

### Other support measures

15. ***Room for improvement in conducting farm visit under Accredited Farm Scheme.*** The Accredited Farm Scheme aims at promoting the adoption of good horticultural practice and environmental friendly production. Accredited farms are strictly monitored and supervised on uses of pesticides and produce is further checked for pesticide residues before selling at accredited retail outlets. According to AFCD guidelines, farm visit (with samples taken) for extending the accredited status should be conducted half-yearly for local farms and once/twice a year for farms in the Mainland. For the 312 accredited farms as of October 2023, Audit examination of the farm visit records (from 2022 to 2023 (up to October)) revealed that for 190 (66%) of the 287 accredited local farms and 8 (32%) of the 25 accredited farms operated by Hong Kong farmers in the Mainland, the number of visits (with samples taken) to farms did not meet the required frequency and the minimum required frequency respectively (paras. 4.6 and 4.7).

16. ***Room for improvement in conducting farm inspections for Organic Farming Support Service (OFSS).*** Under OFSS, the services provided to participating farmers include technical advice and suggestions as well as assistance in marketing of organic produce. As of October 2023, 353 farms joined OFSS. According to AFCD guidelines, AFCD officers inspect each farm joining OFSS once every year for regular farm monitoring. As of October 2023, for 324 farms (which had joined OFSS for more than a year), inspection to 68 (21%) farms did not meet the requirement, with no farm inspection conducted for more than 1 year and up to about 2.3 years (averaging about 1.2 years) (paras. 1.11 and 4.11).

17. ***Scope for enhancing support for hydroponic farms.*** Hydroponic production may be deployed for factory-like mass production in a completely controlled indoor environment in multi-storey buildings. The Controlled Environment Hydroponic Research and Development Centre is set up to study and demonstrate the advanced techniques and facility involved for reference of the trade and other interested investors. The Centre also arranges regular visits to different hydroponic farms to provide them with technical support. Audit noted that while the



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number of hydroponic farms increased by about 13% from 40 farms in 2018 to 45 farms in 2022, the total output and total value of production of hydroponic farms decreased by about 53% and 68% respectively from 2018 to 2022. From 2018 to 2022, the number of visits to hydroponic farms ranged from 8 to 26 visits each year. While the number of visits in 2023 (up to October) increased to 16 visits, it did not cover all hydroponic farms (paras. 1.11 and 4.17).

18. ***Scope for improving Agricultural Land Rehabilitation Scheme (ALRS).*** AFCD operates ALRS through bringing owners of agricultural land and interested farmers together to work out leasing agreements for the agricultural land. There are two types of arrangements, including matching farmland with landowners and potential tenants on the waiting list by AFCD, and the landowners/tenants having found their own potential tenants/landowners with AFCD providing contract signing services as a witness. In the period from 2018 to 2023 (up to October), there were 156 successful matching cases under ALRS, including 21 (13%) and 135 (87%) cases with matching carried out by AFCD, and landowners and tenants respectively (paras. 4.25 and 4.26). Audit noted the following issues:

- (a) ***Long time taken to match landowners with tenants.*** For the 21 successful cases arranged by AFCD, the average waiting time ranged from 2.8 years to 5.6 years. As of October 2023, there were 507 applications on the waiting list, with average waiting time of about 4.4 years (the longest waiting time was about 18.8 years). According to AFCD, in order to keep the waiting list updated, the applicants on the list would be contacted by phone regularly. Audit examined the contact records (in 2022 and 2023) for 10 applicants on the waiting list as of October 2023, and noted that 3 (30%) applicants were not contacted every year as required (paras. 4.26 and 4.28); and
- (b) ***Need to enhance guidelines for processing ALRS applications.*** For cases arranged by AFCD under ALRS, the land leasing application would be declined if the ownership of the land was uncertain. However, such requirement was not clearly specified in AFCD guidelines for cases arranged by landowners/tenants. For the 135 successful cases arranged by landowners and tenants, the application forms for witness service for 77 (57%) cases were not available, and the proof of land ownership for 105 (78%) cases was not available (paras. 4.30 and 4.31).

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### **Audit recommendations**

19. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director of Agriculture, Fisheries and Conservation should:**

#### *Planning and development of agricultural areas*

- (a) **strengthen measures to ensure the timely leasing of farmland in the Agri-Park (para. 2.26(a));**
- (b) **strengthen measures to ensure that lessees of the Agri-Park timely commence and fully utilise the farms for crop production (para. 2.26(b));**
- (c) **take measures to ensure that lessees of the Agri-Park maintain proper sales records and AFCD officers record sales information in inspection reports for monitoring purpose (para. 2.26(e));**
- (d) **continue to closely monitor the achievement of target production volume by lessees of the Agri-Park and provide assistance as appropriate (para. 2.26(f));**
- (e) **keep under review the operation of the Agri-Park and make continued efforts to ensure that the Agri-Park serves its intended purposes (para. 2.26(i));**

#### *Financial support measures*

- (f) **keep under review the measures in encouraging applications for SADF and take follow-up actions as appropriate (para. 3.24(a));**
- (g) **strengthen measures to ensure that SADF general and FIS applications are processed and farm inspections of FIS applications are conducted within the specified timeframes, and enhance monitoring of the compliance with the timeframes (para. 3.24(c));**

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- (h) **take measures to ensure that reports for SADF projects are submitted and processed within the specified timeframes and enhance monitoring of the compliance with the timeframes (para. 3.24(d));**
- (i) **take measures to ensure that site investigations for ERF applications are conducted within the specified timeframe, and monitor the achievement of the performance standard on processing ERF applications (para. 3.33(a) and (b));**

### *Other support measures*

- (j) **take measures to ensure that visits to farms for extending their accredited status under the Accredited Farm Scheme and inspections to farms under OFSS are conducted in accordance with the timeframes and frequencies specified in AFCD guidelines, and enhance monitoring of the compliance with the requirements (para. 4.23(b));**
  - (k) **enhance support for hydroponic farms as appropriate, including conducting more farm visits (para. 4.23(e));**
  - (l) **keep under review the measures for shortening the waiting time of applications under ALRS and strengthen actions as appropriate, including ensuring compliance with the requirement of contacting applicants on the waiting list (para. 4.32(a)); and**
  - (m) **enhance AFCD guidelines to clearly specify the documents required for supporting the application under ALRS, and take measures to ensure compliance with the requirements (para. 4.32(b)).**
20. **Audit has also *recommended* that the Director of Agriculture, Fisheries and Conservation and the Director of Civil Engineering and Development should:**
- (a) **closely monitor the works progress and cost for the establishment of the Agri-Park Phase 1, and ensure the completion of works according to schedule and within the approved project estimate (para. 2.27(a)); and**

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- (b) **closely monitor the drainage conditions of the farms in the Agri-Park Phase 1 with flooding problem and take further measures to address the problem as appropriate with a view to leasing out the farms as soon as practicable (para. 2.27(b)).**
21. **Audit has also *recommended* that the Secretary for Environment and Ecology and the Director of Agriculture, Fisheries and Conservation, as assisted by the Secretary for Development and the departments under DEVB's purview, should:**
- (a) **closely monitor the progress of the consultancy study on APAs through various appropriate means, including the Steering Committee and the progress meetings, to ensure its timely completion (para. 2.41(a)); and**
  - (b) **draw on the experience gained in the consultancy study on APAs in planning similar studies related to agriculture in future (para. 2.41(b)).**

## Response from the Government

22. The Secretary for Environment and Ecology, the Secretary for Development, the Director of Agriculture, Fisheries and Conservation and the Director of Civil Engineering and Development agree with the audit recommendations.