

Report No. 54 of the Director of Audit — Chapter 5

DEVELOPMENT OF ECOPARK

Summary

1. In September 2001, the Environment Bureau (ENB) announced that the Government would build EcoPark in Tuen Mun Area 38. EcoPark would provide an outlet for locally recovered materials and alleviate the heavy reliance on the export of recyclable waste. It would also encourage the development of value-added and higher-end environmental and recycling technologies that help minimise waste generation. According to the 2005 Policy Framework for the Management of Municipal Solid Waste (the 2005 Policy Framework), the 20-hectare EcoPark would provide land for recycling industries at affordable rents and to jump-start a circular economy.

2. In March 2006, the Finance Committee (FC) of the Legislative Council (LegCo) approved funding of \$319 million for the development of EcoPark (the EcoPark project). In July 2006, construction works commenced. In November 2006, the Environmental Protection Department (EPD) employed a management company (the Operator) to manage, maintain and market EcoPark.

3. EcoPark would be developed by two phases. According to the EPD, Phase 1 (with an area of 8 hectares) was planned to be commissioned by the end of 2006 (i.e. the lots would be made available for leasing to tenants) and Phase 2 (with an area of 12 hectares) by the end of 2009. The Audit Commission (Audit) has recently conducted a review to examine the EPD's planning and administration of EcoPark.

Planning of EcoPark

4. In November 2001, the EPD employed an engineering consultant to conduct a preliminary study of EcoPark. In November 2002, the EcoPark project was upgraded to Category B of the Public Works Programme, and the capital works were scheduled for completion by the end of 2004. In the same month, the ENB informed the EPD that: (a) the operation of EcoPark should be self-financing; (b) additional funding would not be available for meeting the recurrent cost of EcoPark; and (c) the EPD had to explore the feasibility of involving the private sector in the development and operation of EcoPark.

5. In March 2003, the EPD engaged a financial consultant to examine the financial arrangement and explore different contract options with private-sector participation. In September 2005, in the light of the views of the LegCo's Panel on Environmental Affairs (EA Panel) and of the Financial Services and the Treasury Bureau (FSTB), and the lack of interest from private investors to invest in the project, the EPD decided to adopt a conventional management contract approach (the Adopted Option). Under the Adopted Option: (a) the Operator would receive a monthly operation fee from the EPD; (b) the rent received from tenants would be credited to the General Revenue; and (c) the EPD would absorb the recurrent cost of EcoPark.

6. *Need to resolve financial arrangement on recurrent expenditure.* Audit noted that, while the ENB decided in November 2002 that the EcoPark project should be self-financing, the financial arrangements on recurrent cost and the contract option to be adopted were only resolved in September 2005. In the event, the target commissioning date of Phase 1 of EcoPark was revised from the end of 2004 to late 2006. *Audit has recommended that, in planning environmental projects in future, the Secretary for the Environment and the Director of Environmental Protection should take action to resolve the contract and financial arrangements early during the planning stage, and consult the FSTB where necessary.*

7. *Need to explore alternative contract arrangements to bring in private-sector expertise.* Audit noted that, under the Adopted Option, private-sector expertise had not been fully employed in the development of EcoPark as the Operator would only act as a management and maintenance agent. *Audit has recommended that, in planning environmental projects in future, the Secretary for the Environment and the Director of Environmental Protection should critically examine the need for involving the private sector in project development and operation, and, if necessary, explore alternative contract arrangements with a view to: (a) bringing in the private-sector expertise to help improve the service quality; and (b) allowing flexibility to meet market changes.*

8. *Need to take into account landfill cost in project evaluation.* One of the objectives of EcoPark was to promote waste recycling and thereby reduce the reliance on landfills for waste disposal. Based on the EPD's estimate that each tonne of waste disposed of at landfills would cost \$125, the saving of recycling 58,600 tonnes of waste in EcoPark instead of disposing of it at landfills would amount to \$7.3 million a year. However, information about the landfill cost saving was not provided in the FC's Public Works Subcommittee (PWSC) paper for EcoPark. *Audit has recommended that the Secretary for the Environment and the Director of Environmental Protection should, in the financial evaluation of environmental projects in future, take into account the full costs and benefits, including the cost savings, and consider providing such information in the PWSC/FC papers where appropriate.*

Phase 1 development

9. EcoPark Phase 1 comprised six lots of land available for leasing to recycling traders. As at December 2009, the EPD had awarded tenancies for all Phase 1 lots. While Phase 1 was planned to be commissioned by 2006, up to February 2010, none of the recycling traders had commenced recycling operation.

10. ***Need to step up efforts in expediting Phase 1 development.*** Audit noted that the delay was mainly attributable to the need for re-tendering the tenancy for three of the six lots, and the time required for tenants to obtain approval for building plans and to complete the building works. *Audit has recommended that the Director of Environmental Protection should keep in view the progress of Phase 1 and step up efforts in expediting its development.*

11. ***Need to critically assess the demand for land from recycling traders.*** Audit noted that re-tendering of the tenancies for three of the six lots was required and the types of recycling materials for two lots had to be revised to meet the market demand. *Audit has recommended that the Director of Environmental Protection should critically assess the demand for land from recycling traders, including conducting more market research and extensive consultations with the traders, before inviting tenders.*

12. ***Need to take action to enforce tenancy requirements.*** Audit noted that four existing Phase 1 tenants had not complied with the tenancy requirement to commence recycling operations within 12 months from the date of site possession. Some tenants had expressed their difficulties to the EPD in complying with this requirement. These included cash flow problems, market volatility and lack of knowledge about government regulations on building and fire-services requirements. *Audit has recommended that the Director of Environmental Protection should: (a) take measures to enforce tenancy conditions on EcoPark tenants who have failed to comply with the requirements; and (b) explore measures which can help tenants tackle their operational difficulties.*

13. ***Need to consider other arrangements in letting lots in future.*** According to the EPD, there was scope to adjust certain existing tenancy requirements for new tenancies to facilitate the tenants' commencement of operation. In order to increase the attractiveness of EcoPark, the approach in selecting operator would need to be reviewed. *Audit has recommended that the Director of Environmental Protection should, in consultation with the Secretary for Financial Services and the Treasury, consider whether, apart from open tendering, there are other appropriate arrangements for letting the lots in EcoPark in future.*

14. ***Need to review the achievement of waste-management objectives of EcoPark.*** At an EA Panel meeting held in June 2008, the following comments were made: (a) the modus operandi of EcoPark could not attract potential tenants; (b) there were concerns about the viability of EcoPark under its present modus operandi; and (c) suitable measures should be adopted to facilitate recycling operations if the waste-management strategy was aimed at encouraging the development of recycling industries. *Audit has recommended that the Director of Environmental Protection should review the extent of achievement of the waste-management objectives of EcoPark, in particular whether the objectives of establishing value-added and higher-end operations can be sustained.*

Phase 2 development

15. Phase 2 of EcoPark comprised three zones, namely: (a) Zone A for government funded projects (two lots totalling 1 hectare); (b) Zone B for recycling-related environmental industries (7 lots totalling 4.2 hectares); and (c) Zone C for other short-term uses (4.9 hectares).

16. ***Zone A.*** In October 2009, the EPD set aside two lots (each of 0.5 hectare) for setting up a plastic waste processing centre and a waste electrical and electronic equipment (WEEE) processing centre to be operated by non-governmental organisations (NGOs). The capital cost of \$40.6 million was met by the Capital Works Reserve Fund, and the recurrent operating cost of not more than \$20 million over three years would be met by the Environment and Conservation Fund.

17. ***Zone B.*** The EPD planned to invite interested traders to bid for lots in mid-2010 for a wider scope of land use, including manufacturing green products and conducting researches for waste-management technologies.

18. ***Zone C.*** In March 2009, in response to the request of the Development Bureau, the EPD set aside Zone C for the storage of empty containers. In October 2009, the Lands Department let out a one-year short-term tenancy to a container operator for the open storage of containers.

19. ***Need to expedite action in developing EcoPark Phase 2.*** EcoPark Phase 2 was planned to be available for leasing by the end of 2009. As at February 2010, infrastructure works for Phase 2 were still in progress. Apart from the lots designated for setting up waste processing centres (see para. 16), tenders for other Phase 2 lots had not yet been invited. *Audit has recommended that the Director of Environmental Protection should keep in view the progress of Phase 2 and step up efforts in expediting its development.*

20. ***Need to keep in view land use in EcoPark Phase 2.*** Of the 12 hectares of land formed under Phase 2, only 5.2 hectares (including the 1 hectare of land designated for the two waste processing centres) would be available for allocation to recycling traders. Audit notes that: (a) there is constant demand by the recycling industries for more land for recycling; and (b) the area used for storage of containers (4.9 hectares or 41% of Phase 2 land) is substantial, and such use is not compatible with the planning intention of EcoPark for operating recycling activities. *Audit has recommended that the Director of Environmental Protection should: (a) closely monitor the use of EcoPark lots with a view to ensuring that sufficient land is made available for use by the recycling industries; and (b) liaise with the Secretary for Development and the Director of Lands regarding the time-frame for handing back the Phase 2 lot temporarily allocated for container storage.*

21. ***Need to evaluate the operation of two pilot waste processing centres.*** The NGOs are engaged as operators for running the processing centres for plastic waste and WEEE. According to the EPD, the operation of the two pilot waste processing centres has been designed to meet the objectives of value-added and higher-end activities. *Audit has recommended that the Director of Environmental Protection should review the operation of the two pilot waste processing centres, in particular their effectiveness in enhancing waste recycling, having regard to the objectives of EcoPark in establishing value-added and higher-end activities.*

Administration of management contract

22. In November 2006, the EPD awarded a seven-year contract to the Operator to provide management and maintenance services at an estimated sum of \$98.5 million. According to the contract, the Operator is required to provide service for the marketing of EcoPark, in addition to the provision of management and maintenance services.

23. ***Need to match payment with management service requirement.*** As a result of the low activity level on site and delayed possession of some lots, the management and maintenance services required of the Operator had been substantially reduced. However, there was no adjustment clause in the contract to allow for a reduction of operation fees to take account of the lower activity level. Notwithstanding the fact that Phase 1 had not yet commenced operation, up to December 2009, the EPD had paid the Operator operation fees of \$32 million. *Audit has recommended that the Director of Environmental Protection should, in administering management contracts for environmental projects in future, take measures to ensure that the payments made are commensurate with the services required.*

24. ***Need to strengthen the Operator's marketing role.*** The management contract was not just a simple service contract as the Operator was also expected to provide marketing services for promoting EcoPark. Audit noted that, from November 2006 to November 2009, the EPD had not instructed the Operator to provide any marketing services, and there were little marketing activities during the period. *Audit has recommended that the Director of Environmental Protection should consider making better use of the Operator's private-sector expertise in marketing activities for promoting EcoPark to the recycling traders.*

25. ***Monitoring the Operator's performance.*** The management contract for EcoPark specifies a number of service performance requirements for the Operator. Audit noted that the EPD had not compiled assessment reports on the Operator's performance. *Audit has recommended that the Director of Environmental Protection should closely monitor the Operator's performance with reference to the service requirements included in the management contract, and compile assessment reports on the Operator's performance.*

Response from the Administration

26. The Administration agrees with the audit recommendations.

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