

ENVIRONMENT AND CONSERVATION FUND

Executive Summary

1. The Environment and Conservation Fund (ECF), which came into operation in August 1994, is a statutory trust fund established under the Environment and Conservation Fund Ordinance (Cap. 450 — ECF Ordinance) to provide funding support to local non-profit-making organisations for educational, research and other projects and activities in relation to environmental and conservation matters. The Secretary for the Environment, head of the Environment Bureau (ENB), is the trustee of ECF.
2. The Environment and Conservation Fund Committee (ECFC) is set up under ECF Ordinance to advise the trustee on the use of funds. It is assisted by five subcommittees in vetting applications and overseeing the implementation of approved projects under ECF. These subcommittees are the Waste Reduction Projects Vetting Subcommittee (WRPVSC), the Environmental Education and Community Action Projects Vetting Subcommittee (EE&CAPVSC), the Research Projects Vetting Subcommittee (RPVSC), the Energy Conservation Projects Vetting Subcommittee (ECPVSC) and the Nature Conservation Subcommittee (NCSC). The Environment and Conservation Fund Investment Committee (ECFIC) is set up to set policies on investment and monitor the investment of ECF. The Environmental Protection Department (EPD) provides secretariat support to the committees/subcommittees and support for the administration (including processing applications and monitoring the implementation of approved projects) of ECF.
3. Since June 1994 and up to December 2018, the Finance Committee of the Legislative Council had approved seven funding injections into ECF totalling \$6,735 million. For the first six rounds of injection (\$1,735 million in total), both the funding injected and the bank interest accruing from unspent balance were used to support projects funded by ECF. The seventh round of injection of \$5,000 million served as seed capital to generate investment returns to provide ECF with a long-term and sustainable funding source for supporting community green actions.

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4. As of October 2018, there were six main types of ECF-funded projects, namely (a) waste reduction projects, (b) energy conservation projects, (c) environmental education and community action projects, (d) environmental research, technology demonstration and conference projects, (e) nature conservation management agreement projects and (f) large-scale environmental education and awareness projects/programmes. These projects were funded under 11 ECF funding programmes (5 for waste reduction projects, 2 for energy conservation projects and 4 for the remaining 4 project types). Since its establishment in 1994 and up to March 2018, ECF had supported some 5,200 projects with approved grants of some \$2,800 million in total. The Audit Commission (Audit) has recently conducted a review of ECF.

Administration of applications

5. *Need to keep in view the processing time for ECF applications.* EPD is responsible for processing ECF applications before submitting them to the subcommittee concerned and/or ECFC for vetting and approval. Audit noted that the processing time (from date of receipt of application to date of approval) for 377 (27.6%) of the 1,364 ECF applications approved during 2013-14 to 2017-18 was more than one year. According to EPD, 99% of the 377 applications were those approved in 2013-14 and 2014-15 and significant improvement had been made in recent years (91% to 97% of the ECF applications during the period from 2015-16 to 2017-18 were approved within 6 months). Audit examination found that there was a need for ENB and EPD to strengthen measures to help complete the processing of one long-outstanding application (apart from issuing reminders, EPD had not taken other follow-up actions with the applicant) and consider providing further assistance to the applicant of another application. As of December 2018, there were 215 ECF applications under processing by EPD and, according to EPD, all these applications, except two, had been received for less than 6 months. Audit considers that ENB and EPD need to keep in view the processing time of ECF applications, strengthen measures to help complete the processing as soon as practicable and provide assistance to the applicants where necessary and appropriate (paras. 2.3 and 2.5 to 2.8).

6. *Increasing rejection rate for ECF applications.* During the period from 2013-14 to 2017-18, the rejection rates for ECF applications increased from 20% (112 of 559 applications rejected) in 2013-14 to 48% (217 of 451 applications rejected) in 2017-18. Audit noted that EPD had provided reasons for rejection (e.g. reservations about the possible value and effectiveness) to unsuccessful

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applicants and organised briefing/experience sharing sessions for potential applicants, in which the points to note in applying for funding support from ECF, the main reasons for supporting or not supporting the past applications, and past meritorious projects were discussed/shared. In Audit's view, ENB and EPD need to explore further measures to encourage and facilitate potential applicants to submit meritorious applications to ECF (paras. 2.9 and 2.10).

7. ***Room for improvement in procedures for processing applications for ECF-funded projects.*** Audit examination of the procedural guidelines for funding programmes under ECF revealed that there was room for improvement in procedures for processing applications (para. 2.13), as follows:

- (a) ***Issue of some discussion papers/summaries of project applications to subcommittees shortly before the meetings.*** EPD submits to subcommittees discussion papers/summaries of project applications to facilitate their discussions and assessments on whether the applications should be approved for funding support. Audit noted that: (i) except for RPPVSC, it was not uncommon that the discussion papers/summaries of project applications were only issued to members shortly before the scheduled meetings from 2013-14 to 2017-18. For example, the discussion papers/summaries of project applications for 45 (47%) of a total of 95 meetings for four subcommittees (i.e. WRPVSC, EE&CAPVSC, ECPVSC and NCSC) were issued to members 1 to 5 calendar days (averaging 3.7 calendar days) before the scheduled meetings; and (ii) only the procedural guidelines for the funding programme of one project type (environmental research, technology demonstration and conference projects) had stipulated the time frame for issuing discussion papers/summaries of project applications but not stipulated in those for other funding programmes (paras. 2.14, 2.16 and 2.17); and
- (b) ***Different practices adopted in checking for double benefits.*** There were two different practices adopted to check whether the applicants receive double benefits on the same budget item from other funding schemes of the Government: (i) for four project types (see para. 4(a) to (d)), in addition to declarations by the applicants, EPD conducted full checking or random checking with the pertinent secretariats of other funding schemes of the Government; and (ii) for nature conservation management agreement projects, other than declarations by the applicants, no checking for double benefits was conducted by EPD while there were fewer projects as

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compared with the four project types in (i) above, and the grant for each project was higher (para. 2.21).

Monitoring of project implementation and accounts finalisation

8. ECF's guides to application and EPD's procedural guidelines set out EPD's monitoring work for on-going and completed projects, including requirements for checking of progress and completion reports, statement of accounts and supporting documents submitted by the grantees, and conducting site inspections (para. 3.2).

9. *ECF-funded projects not commenced long after approval.* According to EPD: (a) as of September 2018, 99 approved ECF-funded projects had not yet commenced; (b) of the 99 projects, 15 (15%) had been approved for more than one year; and (c) all the 15 projects were environmental education and community action projects with facilities/installations (e.g. green roofs, solar panels and energy efficient devices), which usually took a longer time to complete as they had to follow established procedures (e.g. undertaking feasibility studies). Audit examination found inadequacies in follow-up actions by EPD on a project which had not commenced long after approval. In this case, EPD had not followed up with the grantee for a total of five years (comprising three periods of time) regarding the commencement of an approved project. As a result of the inadequacies in follow-up actions by EPD, the funding had been unnecessarily tied up for a long time (paras. 3.3, 3.4 and 3.8).

10. *Long time taken for completing ECF-funded projects.* According to EPD: (a) it is not suitable for ECF-funded projects to last for a long duration (more than three years) given the need for ECF to adjust its priority funding areas to support initiatives and activities which complement the Government's policy priorities; and (b) as of September 2018, 607 approved ECF-funded projects had commenced but not yet been completed. Of the 607 projects, 284 (47%) had commenced for more than four years. All the 284 projects were environmental education and community action projects with facilities/installations. Audit examination of long-outstanding on-going projects found inadequacies in follow-up actions by EPD on the progress of projects. For example, in a case, EPD had not followed up with the grantee for a total of 6.4 years (comprising three periods of time) regarding the progress of the project. As a result, the progress of the project was not known despite significant

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project slippage (5.5 years behind the scheduled completion date) as of January 2019 (paras. 3.6 and 3.7).

11. ***Scope for improvement in monitoring ECF-funded projects.*** During the implementation of an approved project by the grantee, EPD observed certain irregularities in the publicity materials and considered such materials to have breached ECF funding conditions on publicity (i.e. the photograph and name of a District Councillor, who was also the senior consultant of the grantee and one of the co-organisers of the project, were displayed prominently on the poster publicising the project, and there was no mentioning of the project title or ECF's funding support for the project on the souvenir shopping bags). In view of the irregularities, EPD had taken follow-up actions (e.g. requesting the grantee to submit a sample of all future publicity materials for prior approval before production) and requested an explanation from the grantee. In response, the grantee said that the posters in question were designed, produced and distributed with funding from the District Councillor and it would take rectification actions on the souvenir shopping bags. According to EPD, the final project expenditure did not include expenditure for publicity materials found not complying with ECF funding conditions, and the grantee had taken rectification actions on the bags. In Audit's view, there is a need for ENB and EPD to continue to remind the grantees to comply with ECF funding conditions on publicity. Audit also noted deficiencies in monitoring implementation of this project: (a) the grantee submitted the completion report with audited statement of accounts nearly three years after the due date despite repeated reminders from EPD; and (b) there was no record available showing the conduct of site inspection by EPD as required by EPD's procedural guidelines (para. 3.10).

12. ***Project accounts not finalised long after project completion.*** According to EPD: (a) as of September 2018, there were 303 completed ECF-funded projects with project accounts not yet finalised for various reasons and circumstances (e.g. the grantees had not provided complete and clear documentary proofs in support of their expenditures and satisfactory implementation of the projects); and (b) of the 303 projects, 185 (61%) had been completed for more than one year. Audit examination found room for improvement in follow-up actions by EPD on a project regarding its account finalisation. In this case, despite the grantee's repeated enquiries about the progress of project account finalisation, it was not until 2.8 years after the receipt of completion report from the grantee that EPD requested the grantee to make clarifications and provide additional information for further processing the account finalisation work of the project. In the event, the project was endorsed for completion and the final disbursement was released to the grantee about 4 years after the receipt

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of completion report. As a result, the unspent commitment (about \$87,000) had been tied up for about 4 years and could not be released to fund other projects (paras. 3.14 and 3.15).

Governance and administrative issues

13. *Low attendance of some members at meetings.* For the seven committees/subcommittees (i.e. ECFC, ECFIC, WRPVSC, EE&CAPVSC, RPVSC, ECPVSC (disbanded on 15 October 2018) and NCSC — see para. 2), the number of members (including the chairman) of each committee/subcommittee as of December 2018 ranged from 9 to 15. Audit examined the attendance records of members at meetings of the seven committees/subcommittees held in the past three completed terms (two years for each term) of membership (hereinafter referred to as Terms 1 to 3). Audit noted that: (a) the average attendance rates for meetings held in each term of the committees/subcommittees were in general satisfactory (ranging from 62% to 96%). However, the average attendance rates for meetings of RPVSC (from 79% in Term 1 to 69% in Term 3) and EE&CAPVSC (from 84% in Term 1 to 67% in Term 3) were on a decreasing trend; and (b) the attendance rates of some members at meetings held in Terms 1 to 3 were below 50% (paras. 4.2 to 4.7).

14. *Reappointment of members with low attendance at meetings.* For the current-term members of ECFC, ECFIC, WRPVSC, EE&CAPVSC and RPVSC, Audit noted that, in total, eight members with low attendance rates (below 50%) at meetings in the preceding term (i.e. Term 3) were reappointed. According to EPD, it had considered the attendance rates of members at meetings in the preceding term in the submissions to the approving authorities for recommendations on the reappointments. However, the justifications for reappointments of members with low attendance rates were not documented (paras. 4.10 and 4.11).

15. *Need to improve first-tier declarations.* Except for ECFIC and NCSC which adopt a one-tier reporting system, ECFC and the four vetting subcommittees (i.e. WRPVSC, EE&CAPVSC, RPVSC and ECPVSC) adopt a two-tier reporting system for declaration of interests. The one-tier reporting system includes the procedures for declaration of interests at meetings. The two-tier reporting system includes the requirement for registering members' interests upon appointment and annually thereafter in a prescribed declaration form (first-tier declaration) and the procedures for declaration of interests at meetings (second-tier declaration). Audit

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reviewed the records of submission of declaration forms by members of ECFC and the four vetting subcommittees for Terms 1 to 3 and noted that, of the total 308 declaration forms required to be submitted by members: (a) 140 (45%) were submitted on time; (b) 85 (28%) were submitted late with delays ranging from 1 to 256 days, averaging 31 days; and (c) 83 (27%) were not available in EPD records. According to EPD, this was due to the fact that some members had not submitted the declaration forms as required (paras. 4.22, 4.23 and 4.25).

16. *Scope for making better use of information technology in monitoring the processing of applications and progress of approved projects.* EPD maintains an ECF database, which is a computerised database capturing the key information of all ECF applications/approved projects. According to EPD, despite some recent enhancements, ECF database was not found to be very user-friendly and, as such, records in it might not be updated in a timely manner by all supporting teams for the vetting subcommittees. The various supporting teams had maintained their own comprehensive registers with updated information which they worked on. In Audit's view, there is scope for making better use of information technology in monitoring the processing of applications and progress of approved projects in view of the fact that: (a) ECF database is a centralised database while the individual registers maintained by the various supporting teams provide the information they work on; and (b) the input of information of ECF applications/approved projects in both ECF database and the registers requires double efforts from the supporting teams (paras. 4.32, 4.36 and 4.37).

Audit recommendations

17. **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 Secretary for the Environment and the Director of Environmental Protection should:**

Administration of applications

- (a) **keep in view the processing time of ECF applications, strengthen measures to help complete the processing as soon as practicable and provide assistance to the applicants where necessary and appropriate (para. 2.11(a) and (b));**

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- (b) explore further measures to encourage and facilitate potential applicants to submit meritorious applications to ECF (para. 2.11(c));**
- (c) issue discussion papers/summaries of project applications to members of the subcommittees as early as possible (para. 2.26(a));**
- (d) consider stipulating the time frame for issuing discussion papers/summaries of project applications to members of the subcommittees in the procedural guidelines for all ECF funding programmes (para. 2.26(b));**
- (e) carry out random checking of applications under the funding programme of nature conservation management agreement projects regarding the receipt of double benefits from other funding schemes of the Government (para. 2.26(d));**

Monitoring of project implementation and accounts finalisation

- (f) closely monitor the commencement and progress of ECF-funded projects and take measures to ensure that there is no undue delay in commencement and completion (para. 3.11(a));**
- (g) strengthen measures to ensure the timely submission of required documents by the grantees (para. 3.11(b));**
- (h) continue to remind the grantees to comply with ECF funding conditions on publicity (para. 3.11(c));**
- (i) take measures to ensure that site inspection is conducted in the course of each project (para. 3.11(d));**
- (j) take prompt actions to process project accounts finalisation (para. 3.18);**

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- (k) **keep in view members' attendance at meetings and continue to explore effective measures to encourage members with low attendance to attend meetings as far as possible (para. 4.30(a));**
- (l) **properly document the justifications for recommending members with low attendance records to the approving authorities for reappointments (para. 4.30(b));**
- (m) **take measures to ensure that declaration forms for registering members' interests are submitted by members in a timely manner and are properly maintained (para. 4.30(f)); and**
- (n) **make better use of information technology in monitoring the processing of applications and progress of approved projects (para. 4.38).**

Response from the Government

18. The Secretary for the Environment and the Director of Environmental Protection agree with the audit recommendations.