

CHAPTER 5

**Environment and Ecology Bureau
Environmental Protection Department**

Recycling Fund

**Audit Commission
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This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 81 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



The Audit Commission website

Audit Commission
6th Floor, High Block
Queensway Government Offices
66 Queensway
Hong Kong

Tel : (852) 2867 3423
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

RECYCLING FUND

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RECYCLING FUND

Executive Summary

1. In support of the sustainable development of the recycling industry, the Chief Executive of the Hong Kong Special Administrative Region announced in his 2014 Policy Address that \$1 billion had been earmarked for setting up a Recycling Fund (RF). With the approval of funding by the Finance Committee of the Legislative Council (LegCo) in July 2015, the \$1 billion RF was launched in October 2015. The objective of RF is to promote the recovery and recycling of waste by facilitating the recycling industry to upgrade its operational capabilities and efficiency for the sustainable development of the recycling industry. Injection of an additional funding of \$1 billion to RF (to render continuous support to the recycling trade) was approved by LegCo in the context of the Appropriation Bill 2021 in April 2021. The Environmental Protection Department (EPD) is responsible for the administration of RF.

2. RF provides funding support under 2 standard funding programmes (i.e. Enterprise Support Programme (ESP) and Industry Support Programme (ISP)) and 4 small-scale standard project funding programmes (i.e. Standard Project — \$1M (SP1M), Relocation Rental Support Project (RRSP), Solicitation Theme on Projects from New and Start-up Enterprises (SUP), and Solicitation Theme on Supporting Residential Buildings in Adopting Smart Bins Technology in Food Waste Collection and Recycling (RSB)). In addition, RF had also launched 3 one-off support schemes to help the recycling industry cope with the difficult economic situation and the operational difficulties brought by the unfavourable social and economic environment due to the outbreak of coronavirus disease (COVID-19) (one-off support schemes against the outbreak of COVID-19 — their applications and related funding disbursements had been completed by November 2022). Since the launch of RF in October 2015 and up to March 2023, 3,865 applications had been received, of which 2,596 applications had been approved with approved grants of \$855 million.

3. EPD has engaged the Hong Kong Productivity Council (HKPC) as the implementation partner and the secretariat of RF (RF Secretariat) to assist in the development, promotion, management, operation and monitoring of RF activities with effect from September 2015. According to EPD, from September 2015 to March 2023, the implementation fee paid to HKPC amounted to \$132.7 million and

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the in-kind contribution provided by HKPC (in terms of professional manpower support, venue rentals and other ancillary technical and support services) amounted to \$33.2 million. An Advisory Committee on Recycling Fund (RFAC) was set up in August 2015 to advise and make recommendations to the Secretary for Environment and Ecology on matters relating to the administration and operation of RF. The Audit Commission (Audit) has recently conducted a review of RF.

Processing of applications

4. ***Timeframe for processing some RF applications not met.*** RF Secretariat's Standard Operating Procedure (SOP) sets out internal timeframes for processing RF applications. Audit noted that the timeframe for processing some RF applications was not met. For example, regarding the 6-month timeframe for submitting SP1M and RSB applications to RFAC for consideration (introduced since October 2022) which was applicable to 46 related applications received between October 2022 and March 2023, the processing of 2 applications did not meet the timeframe (paras. 2.7 and 2.8).

5. ***Long processing time for some RF applications.*** From October 2015 to March 2023, there were a total of 3,222 processed applications. Audit noted that the processing time of 506 (16%) applications was more than 180 days, ranging from 181 to 608 days. According to EPD, the long processing time for a number of cases was due to substantial time taken by applicants in providing sufficient supporting documents or fulfilling application requirements. In Audit's view, EPD needs to take measures to early complete the processing of RF applications (paras. 2.13 to 2.15).

6. ***High rejection rates for applications of some RF programmes.*** Audit noted that, of the 3,222 processed applications during the period from October 2015 to March 2023, 626 (19%) applications were rejected. Rejection rates were particularly high for applications of ESP, ISP, RRSP and SUP, ranging from 41% to 51%. According to EPD, RF Secretariat has been proactively facilitating potential applicants through various actions (e.g. holding regular briefing sessions) with the aim to assist applicants submitting applications with sufficient details. In view of the high rejection rates of above 40% for some programmes under RF, Audit considers that EPD needs to step up measures to assist applicants to better understand the application requirements and submit applications meeting the requirements (paras. 2.18 to 2.20).

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7. ***Low level of applications received for standard programmes of RF.*** Audit noted that quite a large number of companies engaged in recycling operations in Hong Kong had never submitted applications under standard programmes of RF, as follows: (a) from October 2015 to March 2023, the 1,232 applications received under standard programmes came from 668 applicants (about 35% of 1,900 companies engaged in recycling operations in Hong Kong); and (b) of the 1,299 grantees obtaining funding support under the one-off support schemes against the outbreak of COVID-19, 756 (58%) of them had never submitted applications for standard programmes (para. 2.27).

Funding disbursement for and monitoring of approved projects

8. In general, funding is disbursed to grantees of approved projects in stages upon due and punctual compliance with all the terms and conditions of RF (e.g. satisfactory submission of required deliverables). As of March 2023, of the total approved grant of \$607 million for 573 approved projects under 2 standard programmes, \$284 million (47%) had been disbursed to the grantees. Even for the 313 completed projects, only \$198 million (77%) of the total approved grants of \$258 million had been disbursed to the grantees (paras. 3.3 and 3.4).

9. ***Timeframe for disbursement of funding to some grantees not met.*** SOP sets out internal timeframes for processing of RF funding disbursements. Audit noted that from January 2020 (i.e. introduction of the 14-calendar-day timeframe for disbursing funding to the grantee upon completion of necessary verification procedures by RF Secretariat) to March 2023, RF Secretariat processed 289 funding disbursement requests. For 50 (17%) funding disbursement requests, funding was disbursed to grantees 15 to 60 days (averaging 26 days) after completing the verification procedures, not meeting the 14-calendar-day timeframe (paras. 3.6 and 3.7).

10. ***Need to ensure the timely submission of project deliverables.*** According to the funding agreement signed by the grantee (for ESP, ISP, SUP and RSB), the grantee of an approved project is required to submit various project deliverables during the course of project implementation. Audit noted that, as of March 2023: (a) of the 67 interim progress reports due for submission, 8 (12%) had not been submitted (which had been overdue for 0.5 to 14.3 months (averaging 6 months)) and

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44 (66%) were submitted 1 day to 27 months (averaging 4.1 months) after due date; (b) of the 51 final reports due for submission, 6 (12%) had not been submitted (which had been overdue for 1 to 9 months (averaging 4.5 months)) and 27 (53%) were submitted 4 days to 13 months (averaging 4.5 months) after due date; and (c) according to SOP, RF Secretariat should issue chaser to the grantee 1 month after the due date for submitting the related project deliverables. However, for 35 interim progress reports and 26 final reports which had been overdue for more than 1 month, RF Secretariat issued chasers late for 20 (57%) cases (with delay ranging from 1 day to 4.3 months) and 6 (23%) cases (with delay ranging from 1 day to 2.2 months) respectively. In this connection, Audit also noted that EPD did not compile regular management report on the status of project deliverables submitted by grantees of approved projects and the follow-up actions on overdue cases for monitoring purpose (paras. 3.9 and 3.11).

11. ***Scope for improvement in conducting site visits for approved projects.***

From October 2015 to March 2023, to verify the project progress and results for approved projects, RF Secretariat conducted 407 monitoring site visits, 13 surprise site visits and 46 post-completion site visits for 295 of the 313 completed projects (paras. 3.20 and 3.21). Audit noted the following issues:

- (a) ***Need to set target coverage and frequency of site visits.*** SOP did not stipulate the target coverage and frequency for each type of site visit conducted by RF Secretariat. From October 2015 to March 2023: (i) monitoring site visits and surprise site visits covered 94% and 4% of the 313 completed projects respectively; and (ii) for 160 completed projects meeting the requirements for conducting post-completion site visits, such site visits were only conducted for 21% of them (para. 3.21(a)); and
- (b) ***Management information on findings from RF Secretariat's site visits not compiled.*** RF Secretariat did not regularly compile management information on the nature and seriousness of irregularities found during site visits for approved projects for monitoring purpose (para. 3.21(b)).

Other related issues

12. ***Scope for enhancing documentation on vetting of implementation fee.***

According to EPD, it engaged HKPC as the implementation partner and the secretariat of RF to leverage on HKPC's mission, expertise and experience in waste management

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initiatives as well as relationship with the recycling sector. As of August 2023, EPD had entered into 3 formal agreements (the main agreement, and the first and second supplemental agreements) with HKPC. According to the second supplemental agreement between EPD and HKPC, the estimated implementation fee for the 16-year service term from 2015 to 2031 is \$259.5 million (paras. 4.2, 4.3 and 4.8). Audit noted that:

- (a) ***Estimated implementation fees under agreements with HKPC.*** While EPD could provide documentation on its vetting of the estimated implementation fee under the first supplemental agreement with HKPC, it could not locate the documentation on its vetting of the estimated implementation fees under the main agreement and the second supplemental agreement with HKPC (para. 4.9(a)); and
- (b) ***Budgeted implementation fee in annual implementation plan (AIP).*** According to the agreements between EPD and HKPC, HKPC was required to include the annual implementation fee in the budget in AIP for each financial year for RFAC's endorsement and EPD's approval. According to EPD, it had been actively liaising with HKPC in vetting each financial year's budgeted implementation fee. However, there was no documentation summarising EPD's work in vetting each financial year's budgeted implementation fee (e.g. a summary highlighting the reasonableness of the implementation fee) to facilitate senior management's review and approval (para. 4.9(b)).

13. ***Need to keep under review the manpower arrangement for RF.*** As of April 2023, the manpower arrangement for RF comprised 13 staff of RF Secretariat (9 full-time and 4 part-time staff) and 16 staff of EPD's RF team (8 civil servants (including 3 temporarily redeployed from other divisions of EPD) and 8 temporary staff (5 full-time and 3 part-time non-civil service contract staff)). Audit noted that the manpower arrangement for RF was fluctuating (the number of staff of EPD's RF team increased from 6 in 2015-16 to 20 in 2021-22 and then decreased to 16 as of April 2023 and the number of staff of RF Secretariat increased from 10 in 2015-16 to 13 in 2018-19 and remained between 13 and 14 since then). According to EPD: (a) it had been regularly reviewing and adjusting the manpower arrangement having regard to relevant factors; and (b) regarding the manpower of RF team, it would redeploy the 3 civil servants (who were temporarily redeployed to RF team) as and when necessary to other divisions of EPD in accordance with work priorities and review the need to renew the contracts of the 8 contract staff. In Audit's view, EPD

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needs to keep under review the manpower arrangement for RF and adjust the manpower arrangement as appropriate (paras. 4.14 to 4.17).

14. ***Delays in submission of reporting materials.*** According to the agreements between EPD and HKPC, RF Secretariat should submit reporting materials (AIP, operational report and annual report) to RFAC and EPD in accordance with the specified timeframes. For the reporting materials submitted by RF Secretariat to RFAC from January 2019 to June 2023, Audit noted that there were delays in submission of: (a) all of the 5 AIPs to RFAC, ranging from 69 to 84 days (averaging 77.8 days); (b) 10 (77%) of the 13 operational reports to RFAC, ranging from 5 to 48 days (averaging 19.3 days); and (c) 3 (60%) of the 5 annual reports to RFAC, ranging from 4 to 9 days (averaging 6.7 days) (paras. 4.18 and 4.19(a)).

15. ***Need to ensure that meeting materials are timely prepared and issued.*** Audit noted that some meeting materials were not issued within the target time. For example, of the 19 RFAC meetings held between January 2019 and June 2023, the draft meeting minutes of 15 (79%) meetings were issued 6.9 to 14.0 weeks after the meeting date (i.e. not issued within the target time of 6 weeks after the meeting date) (paras. 4.33(b) and 4.34(b)).

16. ***Need to keep under review the performance and achievements of RF.*** Audit noted the following issues:

- (a) ***Scope for setting targets.*** According to AIPs submitted by RF Secretariat to RFAC from January 2019 to June 2023, in evaluating the effectiveness of RF for the related financial year, a number of objective criteria would be taken as reference, including the number of participants attended the promotional activities, the number of applications processed, and the number of on-site visits and interviews to applicants and grantees conducted. However, Audit noted that no specific targets were set for RF (para. 4.39); and
- (b) ***Need to compile management reports based on final reports of projects.*** Audit noted that RF Secretariat did not compile management reports based on the final reports of projects (which contained project results) submitted by grantees (e.g. summarising the performance and achievements of completed projects) (paras. 4.41 and 4.42).

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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 Director of Environmental Protection should:**

Processing of applications

- (a) **take measures to ensure that the internal timeframes for processing RF applications are met (para. 2.24(a));**
- (b) **take measures to early complete the processing of RF applications, including closely monitoring the progress in processing RF applications and taking proactive actions to follow up with the applicants (para. 2.24(c));**
- (c) **step up measures to assist applicants to better understand the application requirements and submit applications meeting the requirements (para. 2.24(e));**
- (d) **ascertain the reasons for the low level of applications received for standard programmes of RF and step up efforts in promoting RF to eligible applicants (para. 2.33(a));**

Funding disbursement for and monitoring of approved projects

- (e) **take measures to ensure that funding is disbursed to grantees in accordance with the stipulated internal timeframes in SOP (para. 3.18(a));**
- (f) **strengthen measures to ensure that grantees submit project deliverables by the required due dates in accordance with the funding agreements (para. 3.18(b));**
- (g) **compile regular management report on the status of project deliverables submitted by grantees of approved projects and the follow-up actions on overdue cases for monitoring purpose (para. 3.18(d));**

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- (h) **take measures to ensure that target coverage and frequency are set for each type of site visit conducted for approved projects and management information are regularly compiled by RF Secretariat on the findings and observations noted during site visits of approved projects for monitoring purpose (para. 3.26(a)(i) and (ii));**

Other related issues

- (i) **take measures to enhance documentation on the vetting of estimated implementation fee under agreement with non-government party and budgeted implementation fee in AIP (para. 4.23(b));**
- (j) **keep under review the manpower arrangement for RF and adjust the manpower arrangement as appropriate (para. 4.23(d)(i));**
- (k) **strengthen measures to ensure the timely submission of reporting materials to RFAC (para. 4.23(e)(i));**
- (l) **take measures to ensure that meeting materials for RFAC meetings are timely prepared and issued (para. 4.45(a)); and**
- (m) **consider setting targets for RF and take measures to compile management reports based on the final reports of projects on a regular basis with a view to enhancing RF's performance measures and evaluating its performance (para. 4.45(d) and (e)).**

Response from the Government

18. The Director of Environmental Protection thanks Audit for conducting the audit review of RF and agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 According to the Environmental Protection Department (EPD), effective and sustainable recycling operations are an essential component in waste management system. In support of the sustainable development of the recycling industry, the Chief Executive of the Hong Kong Special Administrative Region announced in his 2014 Policy Address that \$1 billion had been earmarked for setting up a Recycling Fund (RF). With the approval of funding by the Finance Committee (FC) of the Legislative Council (LegCo) in July 2015, the \$1 billion RF was launched in October 2015. The objective of RF is to promote the recovery and recycling of waste by facilitating the recycling industry to upgrade its operational capabilities and efficiency for the sustainable development of the recycling industry (Note 1).

1.3 In February 2021, the Financial Secretary announced in his 2021-22 Budget Speech that the Government would inject an additional funding of \$1 billion to RF so as to render continuous support to the recycling trade, particularly the small and medium enterprises (SMEs), in enhancing its operational capabilities and efficiency as well as coping with the latest needs of both the local and non-local markets and achieving reindustrialisation. Such injection was approved by LegCo in the context of the Appropriation Bill 2021 in April 2021. EPD is responsible for the administration of RF (see para. 1.12).

Note 1: *According to the funding paper seeking approval of FC in June 2015 for the establishment of RF: (a) there were about 2,000 companies and organisations engaged in recycling operations in Hong Kong, about 95% of which employed less than 50 employees (i.e. the recycling industry was mainly composed of small and medium enterprises); and (b) the majority of these recyclers were limited to a simple mode of collection, storage, sorting, baling and exporting, and about two-thirds of recyclables by weight were exported to other markets. However, with the tightening control on imports of recyclables in various markets, these small recyclers will need to strengthen their capacity and quality of recycling processes in order to remain as commercially viable players in the recycling industry.*

Types of funding programmes and schemes

1.4 RF has been open for application since October 2015 (Note 2). Applications are accepted all year round and will be processed by batches for funding support under 2 standard programmes, namely standard funding programmes (see para. 1.5) and small-scale standard project funding programmes (see para. 1.6). In addition, RF had also launched one-off support schemes to help the recycling industry cope with the difficult economic situation and the operational difficulties brought by the unfavourable social and economic environment due to the outbreak of coronavirus disease (COVID-19) (see para. 1.7). As of March 2023, grants of \$855 million had been approved under these RF programmes and schemes.

1.5 *Standard funding programmes.* There are 2 standard funding programmes, namely Enterprise Support Programme (ESP) and Industry Support Programme (ISP), as follows:

- (a) ESP provides project-based matching funds to support individual enterprise to upgrade and expand their waste recycling operations (Note 3) and training of staff to run the enhanced operation (Note 4); and
- (b) ISP provides funding support for non-profit-distributing organisations (e.g. industrial support organisations, professional bodies and research

Note 2: *In seeking approval of FC in June 2015 for the establishment of RF, it was initially proposed that RF would be open for application for 5 years (i.e. from October 2015 to October 2020) and with an operational period of 7 years (i.e. from October 2015 to October 2022), and might be extended subject to funding balance and periodic review. According to EPD, the additional funding injection of \$1 billion to RF was approved in April 2021 to render continuous support to the recycling trade and the application period and operational period of RF were extended to 2027 and 2031 respectively.*

Note 3: *Projects may cover source separation, collection, transportation, processing, product improvement, commercialisation, marketing and sales of recycled products made from recyclables.*

Note 4: *Grants for individual projects are set at a maximum of 50% of the approved expenditure and each project should be completed within 4 years. Each applicant may submit more than 1 application, and obtain a cumulative funding capped at \$15 million to implement a maximum of 10 approved projects.*

institutes) to conduct non-profit-making projects to enhance the operational standards and productivity of the recycling industry (Note 5).

1.6 ***Small-scale standard project funding programmes.*** In order to provide targeted assistance to facilitate SMEs and better address the needs of the recycling industry and its sustainable development, funding programmes for 4 types of small-scale standard projects had been established under ESP and ISP to minimise the administrative workload of applicants in making applications, as follows:

- (a) ***Standard Project — \$1M (SP1M).*** SP1M is a streamlined programme established under ESP in November 2017 (Note 6) to provide funding support (on a matching basis (i.e. a maximum of 50%) with a funding ceiling of \$1 million and maximum implementation period of 1 year) to the applicants to implement simpler projects (e.g. procuring prescribed equipment or machinery (see Photograph 1 for an example of prescribed machinery)) with simplified procedures and requirements;

Note 5: *Projects which enhance the operational standards and productivity of the recycling industry include upgrading the skills and safety of incumbents and potential employees of the local recycling industry, expanding potential workforce as well as certification and accreditation of recycling operations. Funded projects should be for the benefit of the industry as a whole, and the project outcome needs to be open for sharing with members of the industry. Grants for individual projects may cover up to 100% of the approved expenditure (subject to a funding ceiling of \$15 million per project) and there is no limit of cumulative funding or number of projects for each applicant.*

Note 6: *Prior to the establishment of SP1M in November 2017, RF had 2 small-scale standard project funding programmes (each with a funding ceiling of \$150,000 and maximum implementation period of 1 year) established under ESP since the launch of RF in October 2015. They provided funding support for procuring prescribed and non-prescribed equipment/machinery and attending training courses. Since the establishment of SP1M in November 2017, they were subsumed under SP1M. For simplicity, small-scale standard projects under these 2 funding programmes are also referred to as SP1M in this Audit Report.*

Photograph 1

Baler for compressing recycled materials



Source: EPD records

- (b) ***Relocation Rental Support Project (RRSP).*** RRSP is a streamlined programme established under ESP in December 2018 to provide rental support (on a matching basis (i.e. a maximum of 50%) with a funding ceiling of \$15 million and maximum implementation period of 4 years) to the applicants to relocate from existing operation sites to appropriate operation sites which will enhance the operation of the recyclers;
- (c) ***Solicitation Theme on Projects from New and Start-up Enterprises (SUP).*** SUP is a programme established under ESP in January 2019 to provide funding support (on a matching basis (i.e. a maximum of 50%) with a funding ceiling of \$2 million and maximum implementation period of 2 years) to new and start-up enterprises in adopting innovative ideas to facilitate recycling operations (Note 7); and

Note 7: *Companies that are newly set up or have been established for not more than 5 years for conducting business in Hong Kong are eligible to apply for SUP.*

- (d) ***Solicitation Theme on Supporting Residential Buildings in Adopting Smart Bins Technology in Food Waste Collection and Recycling (RSB).*** RSB is a programme established under ISP in June 2020 to carry out projects which will enhance the source separation and collection of food waste in the domestic sector by adopting smart bins technology (Note 8) (see Photograph 2 for an example of project funded under RSB).

Photograph 2

Smart bins for collection of food waste



Source: EPD records

1.7 ***One-off support schemes to help the recycling industry ride out the difficult times and fight against the outbreak of COVID-19 (hereinafter referred to as one-off support schemes against the outbreak of COVID-19).*** To help the recycling industry cope with the difficult economic situation and the operational difficulties brought by the unfavourable social and economic environment due to the outbreak of COVID-19, 3 one-off support schemes were launched, as follows:

- (a) ***One-off Rental Support Scheme (ORSS).*** In December 2019, \$100 million was earmarked under RF (raised to \$200 million in March 2020 and

Note 8: *Smart bins technology refers to food waste collection bins equipped with intelligent designs (e.g. computer-controlled locking system, smart sensors to measure weight, disinfection device and odour abatement system). Such technology can enhance collection efficiency and collection quantities for recyclers while keeping the handling process in a hygienic manner.*

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\$250 million in April 2020) to launch ORSS for granting rental assistance to those recyclers who were unable to benefit from rental reduction concessions offered by the Government and other organisations. The rental assistance covered a 12-month period from October 2019 to September 2020, and the maximum amount of rental subsidy for each recycler is \$375,000;

- (b) ***One-off Recycling Industry Anti-epidemic Scheme (ORIAS).*** In March 2020, \$100 million was earmarked under RF to launch ORIAS for providing financial support on the operational costs of the recyclers for a 6-month period from January to June 2020. The maximum funding limit for each recycler is \$20,000 per month, corresponding to a maximum amount of subsidy of \$120,000; and
- (c) ***One-off Frontline Recycling Staff Support Scheme (OFRSS).*** In March 2022, \$100 million was earmarked under RF to launch OFRSS for providing financial support to frontline staff of the recycling business in recognition of their anti-epidemic efforts. The subsidy would be disbursed to the frontline recycling staff through the recycling companies, with a monthly allowance of \$2,000 for 5 months per person (i.e. a total of \$10,000). According to EPD, about 7,000 frontline workers would benefit from the scheme.

Approval and disbursement of grants under RF

1.8 Since the launch of RF in October 2015 and up to March 2023, 3,865 applications had been received, of which 2,596 applications had been approved with approved grants of \$855 million (see Table 1), as follows:

- (a) \$428 million (50%) had been granted to 93 applications under standard funding programmes (see para. 1.5);
- (b) \$179 million (21%) had been granted to 480 applications under various categories of small-scale standard project funding programmes (see para. 1.6); and

- (c) \$248 million (29%) had been granted to 2,023 applications under the 3 one-off support schemes against the outbreak of COVID-19 (see para. 1.7).

As of March 2023, of the cumulative approved grants of \$855 million, \$527 million (62%) had been disbursed to the successful applicants.

Table 1

**Approved and disbursed grants by
funding programmes and schemes under RF
(October 2015 to March 2023)**

Programme/scheme	Application		Grant amount	
	Received (No.)	Approved (No.)	Approved (\$ million)	Disbursed (\$ million)
<i>Standard funding programme</i>				
ESP	215	54	135	32
ISP	120	39	293	171
Sub-total (a)	335	93	428	203
<i>Small-scale standard project funding programme</i>				
SP1M	728	424	130	67
RRSP	39	8	12	5
SUP	70	20	10	5
RSB	60	28	27	4
Sub-total (b)	897	480	179	81
<i>One-off support scheme against the outbreak of COVID-19</i>				
ORSS	591	357	94	89
ORIAS	1,274	951	114	114
OFRSS	768	715	40	40
Sub-total (c)	2,633	2,023	248	243
Total (d) = (a) + (b) + (c)	3,865	2,596	855	527

Source: EPD records

1.9 ***Monitoring of approved projects and funding disbursement.*** For monitoring of approved projects and funding disbursement, RF adopts the following mechanism:

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- (a) successful applicants are required to enter into contractual agreements with the Government, which set out conditions for the grants;
- (b) grantees are required to submit interim progress reports, final reports and audited accounts;
- (c) site visits (including pre-vetting, monitoring, surprise and post-completion site visits) are conducted to verify project progress and records, and validate the deliverables and targets as reported by the grantees; and
- (d) disbursements are only made at designated stages of the projects on a milestone basis after review of satisfactory performance. The final payment will only be disbursed upon satisfactory completion of the project and checking of all reports submitted.

RF Secretariat

1.10 EPD has engaged the Hong Kong Productivity Council (HKPC — Note 9) as the implementation partner and the secretariat of RF (hereinafter referred to as RF Secretariat) to assist in the development, promotion, management, operation and monitoring of RF activities with effect from September 2015 (Note 10). An implementation fee would be paid to HKPC for implementing and administering RF. According to the FC paper of June 2015, as the implementation partner of RF, HKPC would provide in-kind contribution in terms of professional manpower support, venue rentals and other ancillary technical and support services. RF Secretariat's work includes:

- (a) working out annual implementation plans (AIPs) for prior approval by EPD;

Note 9: *HKPC is a statutory organisation established under the Hong Kong Productivity Council Ordinance (Cap. 1116) in January 1967. Its functions include to consider matters affecting productivity of industry in Hong Kong and to consult with, coordinate and assist the activities of persons or organisations, either in Hong Kong or elsewhere, engaged in the study, development or dissemination of programmes, methods or techniques designed to increase productivity in industry.*

Note 10: *EPD entered into an agreement with HKPC in September 2015 for implementing and administering RF with a service term of 7 years, which was subsequently extended to 11 years in November 2019 and 16 years in April 2022.*

- (b) submitting regular progress reports on the operation of RF and annual audited accounts; and
- (c) assessing all applications received, monitoring the progress of each approved project and conducting site visits to verify project progress and records and validate the deliverables and targets as reported by the grantees.

According to EPD, from the commencement of agreement with HKPC in September 2015 to March 2023, the implementation fee paid to HKPC amounted to \$132.7 million and the in-kind contribution provided by HKPC amounted to \$33.2 million. As of April 2023, RF Secretariat had 13 staff (9 full-time and 4 part-time staff).

Advisory Committee on Recycling Fund (RFAC)

1.11 RFAC was set up by the Environment and Ecology Bureau (EEB — Note 11) in August 2015 to advise and make recommendations to the Secretary for Environment and Ecology (SEE) on matters relating to the administration and operation of RF (Note 12). It comprises experts, academics and people with experience in business management and community service, as well as representatives from various business and industry associations. Representatives from relevant government bureaux and departments will also be invited to attend meetings for discussion as and when required. Except for applications under ORIAS and

Note 11: *In July 2022, EEB was formed to take over the policy responsibility for environmental matters. From July 2007 to June 2022, the policy responsibility rested with the then Environment Bureau, which is referred to as EEB in this Audit Report for simplicity.*

Note 12: *According to the terms of reference of RFAC, RFAC is to advise SEE on: (a) the overall administration of RF, including publicity and promotion, consultation and engagement of stakeholders, application and assessment arrangements, monitoring mechanism, consideration of plans, budgets and reports prepared by RF Secretariat, and evaluation of the effectiveness of RF; (b) the operation of RF (e.g. assessment of applications, terms and conditions to be imposed for each application recommended for approval, and monitoring on progress of approved projects, project results and disbursement of funds); and (c) any other matters related to RF.*

Introduction

OFRSS (one-off support schemes against the outbreak of COVID-19 — Note 13), all other RF applications are considered by RFAC with reference to a set of published vetting criteria. RFAC will review the case details and deliberate at its meetings before making recommendations on approval (and conditions to be imposed) and rejection (with reasons) of RF applications. EPD will review RFAC's recommendations and formulate advice for SEE to consider the funding applications. RFAC chairperson and members are non-officials appointed by SEE for a term of 3 years. The current term is from 1 August 2021 to 31 July 2024. As of August 2023, RFAC comprised a chairperson and 18 members.

Administration of RF by EPD

1.12 The Facilities Management Group Section (2) of EPD (an extract of EPD's organisation chart as at 30 April 2023 is at Appendix A) is responsible for the administration of RF, with responsibilities as follows:

- (a) developing overall policy and strategic plans in relation to RF and conducting review on the enhancement of RF operation to establish facilitating measures (e.g. one-off support schemes against the outbreak of COVID-19) through continuous engagement with relevant stakeholders (including recycling trade associations, educational and professional institutes, public organisations and other private sector organisations);
- (b) overseeing RF applications and agreements under different programmes, checking RF Secretariat's assessments of applications received, and monitoring RF Secretariat's performance (including reviewing and approving AIPs and the regular progress reports submitted by RF Secretariat);
- (c) supervising RF Secretariat to conduct site visits with applicants of RF as necessary; and

Note 13: *According to EPD, for applications under ORIAS and OFRSS, a simplified approval procedure (under which the applications would be directly passed to SEE for consideration after assessment by EPD and RF Secretariat without running pass RFAC) was adopted in order to provide timely assistance to recyclers and frontline recycling staff.*

- (d) reviewing and vetting RFAC papers and relevant documents prepared by RF Secretariat.

As of April 2023, the Facilities Management Group Section (2) had 16 staff (8 civil servants (5 from this Section and 3 temporarily redeployed from other divisions of EPD) and 8 temporary staff (5 full-time and 3 part-time non-civil service contract staff)), and their related staff costs for 2022-23 was about \$9.2 million.

Audit review

1.13 In April 2023, the Audit Commission (Audit) commenced a review of RF. The audit review has focused on the following areas:

- (a) processing of applications (PART 2);
- (b) funding disbursement for and monitoring of approved projects (PART 3); and
- (c) other related issues (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

General response from the Government

1.14 The Director of Environmental Protection thanks Audit for conducting the audit review of RF and agrees with the audit recommendations. He has said that EPD will work closely with RF Secretariat to take follow-up actions and improvement measures as appropriate.

Acknowledgement

1.15 Audit would like to acknowledge with gratitude the full cooperation of the staff of EPD and HKPC during the course of the audit review.

PART 2: PROCESSING OF APPLICATIONS

2.1 This PART examines the processing of RF applications, focusing on:

- (a) vetting of applications (paras. 2.2 to 2.25); and
- (b) level of applications received and pre-vetting site visits (paras. 2.26 to 2.34).

Vetting of applications

2.2 The “Guide to Application” published by RF Secretariat sets out the application and vetting procedures for applications for funding support from RF. Applications for funding support under 2 standard programmes (i.e. standard funding programmes (see para. 1.5) and small-scale standard project funding programmes (see para. 1.6)) are accepted all year round and will be processed by batches. For one-off support schemes against the outbreak of COVID-19 (see para. 1.7), their application periods have been closed in April 2022.

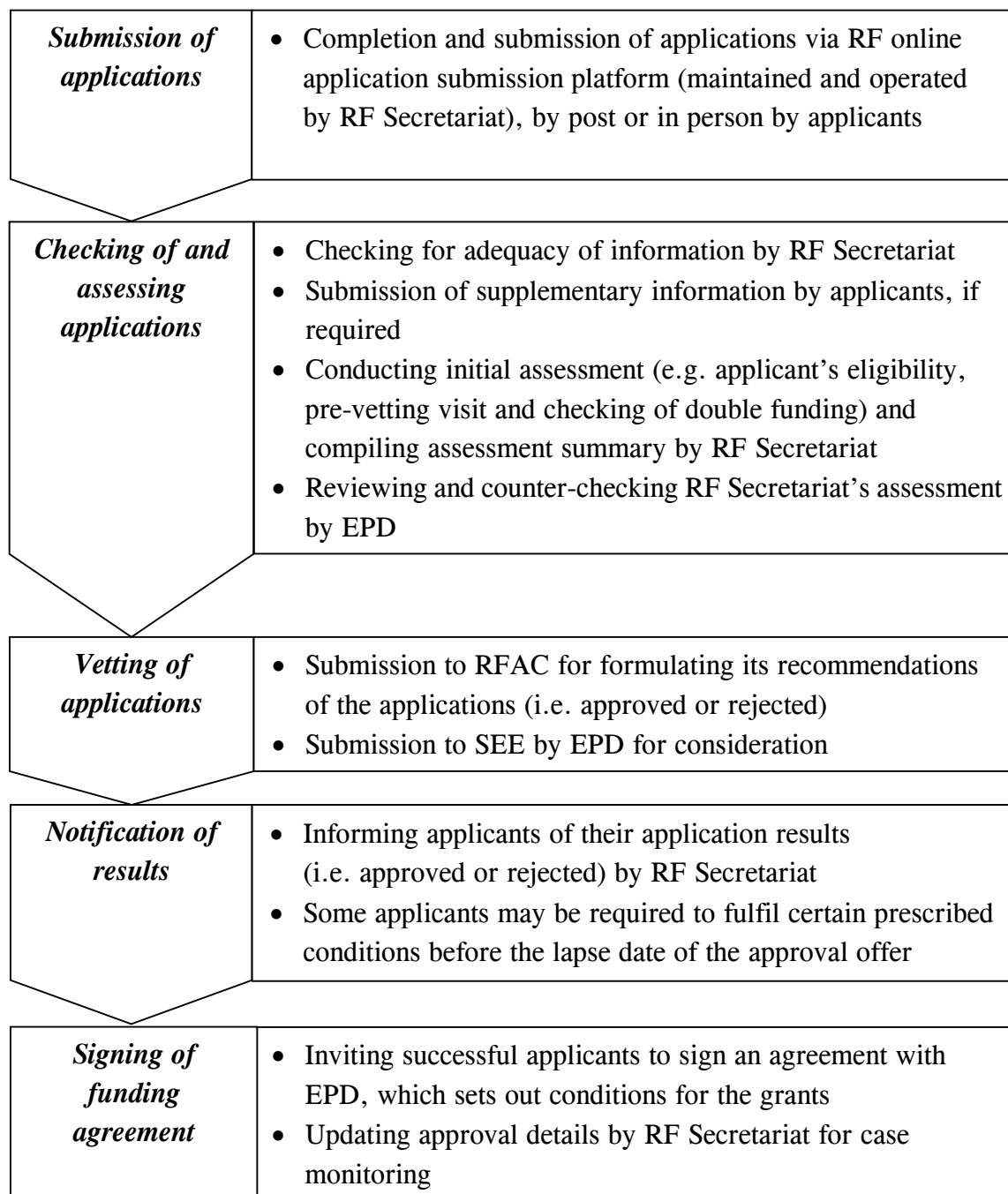
2.3 ***General procedures for processing RF applications.*** Upon receipt of RF applications (including those for one-off support schemes against the outbreak of COVID-19), RF Secretariat will send acknowledgement of receipt to the applicants, and then check and assess the applications for adequacy of information required. The applicants may be requested to provide supplementary information to facilitate the vetting process. After initial assessment by RF Secretariat, the applications will be submitted to RFAC for formulating its recommendations of the applications (i.e. approved or rejected), grant amount, and related terms and conditions of approval. EPD will review RFAC’s recommendations and formulate advice for SEE’s consideration (Note 14). SEE will then consider the funding applications based

Note 14: *According to EPD, after RFAC has made its recommendations in regular meetings, RF Secretariat is required to take follow-up actions on the relevant recommendations with the applicants, and the time taken to complete follow-up actions largely depends on the response time of the applicants. After addressing the recommendations and updating the relevant application materials, the revised application package will need to be provided to RFAC again for review and further comment before the recommendations can be put forward for SEE’s consideration.*

on RFAC's recommendations and EPD's advice. RF Secretariat will then inform the applicants of their application results (see Figure 1).

Figure 1

General procedures for processing RF applications



Source: EPD records

Processing of applications

2.4 ***Safeguarding National Security.*** The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (National Security Law) was implemented on 30 June 2020. In September 2022, EPD revised the terms and conditions of RF to incorporate guidelines and requirements relating to the safeguarding of national security to all applications, agreements and projects under RF, including, among others:

- (a) the right for the Government to disqualify an application on the grounds that the applicant organisation has engaged in acts or activities that are likely to cause or constitute the occurrence of offences endangering national security or otherwise the exclusion is necessary in the interest of national security, or is necessary to protect the public interest of Hong Kong, public morals, public order or public safety; and
- (b) the Government may immediately terminate the agreement signed with the applicant organisation if:
 - (i) the recipient organisation has engaged in acts or activities that are likely to constitute or cause the occurrence of offences endangering national security or which would otherwise be contrary to the interest of national security; or
 - (ii) the continued engagement of the applicant organisation or the continued implementation of the project is contrary to the interest of national security.

2.5 ***Vetting criteria.*** According to EPD, all RF applications received under the 2 standard programmes will be vetted based on individual merits of the applications, and the guiding principles (Note 15) include, among others, whether the proposed project:

Note 15: *According to EPD, for one-off support schemes against the outbreak of COVID-19 (i.e. ORSS, ORIAS and OFRSS): (a) they were launched to provide financial support to recyclers (e.g. rental assistance and operational costs) and frontline staff of the recycling business, which were not for financing proposed projects; and (b) the guiding principle for vetting was the provision of proper documents and proof by applicants that fulfilled the scope and requirements of respective schemes.*

- (a) has the potential to raise the quantity, quality or expand the types or coverage of recyclables recovered;
- (b) can enhance the competitiveness of recyclables, thus reducing the amount of waste disposed of at landfills;
- (c) can enhance the overall capability, efficiency and skills for the applicant; and
- (d) can be cost-effective, self-sustainable and feasible.

2.6 Since the launch of RF in October 2015 and up to March 2023, RF Secretariat received a total of 3,865 RF applications (see Table 1 in para. 1.8). As of March 2023, of these 3,865 RF applications received:

- (a) 2,596 (67%) applications were approved;
- (b) 626 (16%) applications were rejected;
- (c) 567 (15%) applications were withdrawn by the applicants prior to SEE's consideration; and
- (d) 76 (2%) applications were being processed.

Timeframe for processing some RF applications not met

2.7 RF Secretariat's Standard Operating Procedure (SOP) sets out the following internal timeframes for processing RF applications:

Internal timeframe introduced since September 2017

- (a) acknowledgement of receipt would be issued to applicants within 7 calendar days after the application period of each batch of application under all RF programmes and schemes (i.e. 2 standard programmes and one-off support schemes against the outbreak of COVID-19);

Processing of applications

Internal timeframe introduced since October 2022

- (b) applications were required to be submitted to RFAC for consideration within 6 months from the date of receipt of applications for SP1M and RSB;

Internal timeframes introduced since April 2023

- (c) first email for seeking further information (if any) should be issued to applicants within:
 - (i) 30 calendar days from issuance of acknowledgement of receipt (see (a) above) for ESP, ISP, RRSP and SUP; and
 - (ii) 20 calendar days from issuance of acknowledgement of receipt for SP1M and RSB; and
- (d) applications were required to be submitted to RFAC for consideration within:
 - (i) 6 months after the applicant had resolved all land related issues for RRSP; and
 - (ii) 10 months from the date of receipt of applications for ESP, ISP and SUP.

2.8 According to EPD records:

- (a) the 7-calendar-day timeframe for issuing acknowledgement of receipt introduced since September 2017 (see para. 2.7(a)) was applicable to 3,544 applications which were received between September 2017 and March 2023. Audit noted that the timeframe was not met for 13 applications (i.e. acknowledgement of receipt was not issued to applicants within 7 calendar days after the application period of the respective batch of application (Note 16)); and
- (b) the 6-month timeframe for submitting SP1M and RSB applications to RFAC for consideration introduced since October 2022 (see para. 2.7(b)) was applicable to 46 related applications which were received between October 2022 and March 2023. Audit noted that the timeframe was not met for 2 applications, which were submitted to RFAC after 6 months (201 and 206 days respectively) from the date of receipt of applications.

2.9 In Audit's view, EPD needs to take measures to ensure that the internal timeframes for processing RF applications are met (including those newly introduced timeframes since April 2023).

Note 16: *According to EPD: (a) one of the staff from RF Secretariat was not familiarised with the 7-calendar-day timeframe upon its introduction in September 2017 and misinterpreted the 7-calendar-day timeframe to be working day instead of calendar day, which led to a slight delay (i.e. 1 day) in the issuance of the acknowledgements of receipt for 9 of the 13 applications; and (b) for the remaining 4 applications (with delays of 16 to 31 days), their application forms were submitted to RF Secretariat by mail, and it took longer time for the applications to be routed to RF Secretariat due to insufficient information presented on the application envelope. In this regard, an online application submission platform had been launched in late 2021 (see para. 4.36(a)) to minimise such incident.*

Scope for enhancing the timeframe for processing RF applications

2.10 RF has been open for application since October 2015. However, the internal timeframe relating to issuing acknowledgement of receipt (see para. 2.7 (a)) was introduced 2 years later in September 2017, and further internal timeframes relating to processing RF applications (see para. 2.7(b) to (d)) were introduced about 7 and 7.5 years later, in October 2022 and April 2023 respectively. Audit noted that all these internal timeframes were not published.

2.11 Furthermore, RF has not set internal timeframe relating to notifying the applicants of the application results after SEE's decision. In this connection, Audit noted that, from October 2015 to March 2023, there were a total of 3,222 processed applications (i.e. 2,596 approved and 626 rejected applications — see para. 2.6(a) and (b)). For 470 approved applications (Note 17), it took more than 7 days to notify the applicants of the application results after SEE's decision (ranging from 8 to 73 days).

2.12 In Audit's view, there is merit for EPD to consider setting further internal timeframes relating to processing RF applications (e.g. notifying the applicants of the application results after SEE's decision) and publishing the timeframes for processing RF applications as appropriate on RF's website with a view to enhancing the monitoring work, transparency and accountability.

Long processing time for some RF applications

2.13 From October 2015 to March 2023, there were a total of 3,222 processed applications (i.e. 2,596 approved and 626 rejected applications — see para. 2.6(a)

Note 17: *EPD only maintained the dates of notifying the successful applicants of the approval results, but not for the rejected applications.*

and (b)). Audit noted that, the processing time (Note 18) of 506 (16%) applications was more than 180 days (Note 19), as follows:

- (a) for 33 (19%) of 176 applications under standard funding programmes, the processing time ranged from 195 to 608 days (Note 20);
- (b) for 145 (26%) of 558 applications under small-scale standard project funding programmes, the processing time ranged from 181 to 602 days; and
- (c) for 328 (13%) of 2,488 applications under one-off support schemes against the outbreak of COVID-19, the processing time ranged from 181 to 486 days. In this connection, Audit noted that, the processing time pledges for funding assistance schemes under Anti-epidemic Fund (Note 21) ranged from 2 weeks to 2 months for notifying the applicants of the application results after receipt of applications, which were much shorter than 180 days.

Note 18: *The processing time of all applications is counted from the date of receipt of application to the date of submitting to RFAC, except for applications under ORIAS and OFRSS. As applications under ORIAS (closed in June 2020) and OFRSS (closed in April 2022) were directly passed to SEE for consideration after assessment by EPD and RF Secretariat without running pass RFAC (see Note 13 to para. 1.11), the processing time of ORIAS and OFRSS is counted from the date of receipt of application to the date of submitting to SEE.*

Note 19: *The internal timeframes for submitting RF applications to RFAC for consideration were only recently introduced since October 2022 for SPIM and RSB (see para. 2.7(b)) and since April 2023 for RRSP, ESP, ISP and SUP (see para. 2.7(d)). The compliance with the timeframe introduced since October 2022 was reported in paragraph 2.8(b). Regarding the newly introduced timeframe since April 2023, it is yet too early to analyse its compliance.*

Note 20: *According to EPD: (a) the long processing time of 608 days was associated with an application under ISP under which the applicant took substantial time in providing sufficient supporting documents; and (b) the second longest case involved a processing time of 300 days.*

Note 21: *In view of the outbreak of COVID-19, the Government has launched 6 rounds of injection into Anti-epidemic Fund (set up in February 2020) with a total approved funding of \$228.5 billion as of February 2022 to relieve financial burdens of individuals and businesses and to keep workers in employment.*

Processing of applications

2.14 In September 2023, EPD informed Audit that:

- (a) the long processing time for a number of cases was due to substantial time taken by applicants in providing sufficient supporting documents or fulfilling application requirements (e.g. settling land related issues); and
- (b) for processing applications which involved complicated projects (e.g. ESP, ISP, RRSP and SUP), there was a need to allocate more time for a thorough deliberation of individual application and to seek adequate information from applicants for consideration, with a view to ensuring prudent use of public money and providing necessary advice to support the smooth implementation of the projects.

2.15 In Audit's view, EPD needs to take measures to early complete the processing of RF applications, including:

- (a) closely monitoring the progress in processing RF applications; and
- (b) taking proactive actions to follow up with the applicants with a view to facilitating them to better understand the submission requirements.

Regular management reports not compiled for monitoring the processing of RF applications

2.16 According to EPD, to monitor the compliance of internal timeframes (see para. 2.7), RF Secretariat has maintained a database of information on relevant processing dates (e.g. date of receipt of application, issuance date of first email to applicants for seeking further information, submission date of RF applications to RFAC for consideration, and date of notifying the applicants of the application results). However, Audit noted that RF Secretariat did not compile regular management reports for monitoring the processing of RF applications (e.g. the achievement of internal timeframes as stipulated in SOP — see para. 2.7).

2.17 In Audit's view, EPD needs to take measures to ensure that regular management reports (e.g. the achievement of internal timeframes as stipulated in SOP) are compiled for monitoring the processing of RF applications.

High rejection rates for applications of some RF programmes

2.18 Audit noted that, during the period from October 2015 to March 2023, 626 applications were rejected, representing 19% of the 3,222 applications with processing completed by RF Secretariat and considered by SEE (i.e. 2,596 approved and 626 rejected applications — see para. 2.6 (a) and (b)). The rejection rates for different programmes and schemes under RF varied from 4% to 51%. Rejection rates were particularly high for applications of ESP, ISP, RRSP and SUP, ranging from 41% to 51%.

2.19 According to EPD:

- (a) EPD and RF Secretariat have been reviewing the operation of RF to ensure that it could address the need of the trade and to better safeguard public money. They have established a set of criteria for assessment of applications in order to ensure that the approved applications meet the core objectives of RF;
- (b) in light of the relatively more complex characteristics and financial commitment required under standard funding programmes (i.e. ESP and ISP — see para. 1.5), and in response to the views expressed by applicants and stakeholders, streamlined application procedures and requirements were implemented to facilitate SMEs to upgrade their operation efficiency and enhance their capacity through SP1M (see para. 1.6(a));
- (c) RF Secretariat has been proactively facilitating potential applicants through holding regular briefing sessions, providing case-by-case question and answer services, and seeking further clarification during pre-vetting site visits with the aim to assist applicants submitting applications with sufficient details; and
- (d) the major reasons for rejection of applications under different programmes and schemes under RF included the following:
 - (i) applicants failed to provide sufficient information for assessment despite repeated requests;
 - (ii) proposed projects were outside the scope of RF;

Processing of applications

- (iii) applicants failed to demonstrate that the targeted waste could be diverted from the landfills;
- (iv) applicants were not eligible for applying for RF;
- (v) proposed projects were infeasible or not cost-effective; and
- (vi) proposed projects under ISP could not benefit the recycling industry as a whole.

2.20 While noting that various actions have been taken by EPD and RF Secretariat to assist applicants in submitting applications (see para. 2.19), in view of the high rejection rates of above 40% for some programmes under RF, Audit considers that EPD needs to step up measures to assist applicants to better understand the application requirements and submit applications meeting the requirements.

High withdrawal rates for applications of some RF programmes

2.21 From October 2015 to March 2023, of the 3,865 RF applications received, 567 (15%) applications were withdrawn by the applicants prior to SEE's consideration. The withdrawal rates for different programmes and schemes under RF varied from 3% to 52%. Withdrawal rates were particularly high for applications of ESP (52%), ISP (32%), RRSP (46%) and SUP (34%).

2.22 In July 2023, EPD informed Audit that, of these 567 RF applications withdrawn prior to SEE's consideration:

- (a) for 227 RF applications withdrawn between October 2015 and December 2019, the withdrawal was mainly due to change of applicant's strategy, applicant's internal finance or other company issues, and that the applicant was unable to provide sufficient project details or information; and
- (b) for 340 RF applications withdrawn since January 2020, RF Secretariat ceased keeping track of the withdrawal reasons.

2.23 Audit noted that since RF Secretariat ceased keeping track of the withdrawal reasons from January 2020 onwards, the withdrawal rates for some funding programmes had increased to a higher level. For example, the withdrawal rates for ESP and RRSP were 44% and 30% for the period of October 2015 to December 2019, and had increased to about 70% and 52% respectively for the period of January 2020 to March 2023. In Audit's view, EPD needs to resume keeping track of the reasons for RF applications withdrawn prior to SEE's consideration and take follow-up actions as needed with a view to better facilitating applicants in making applications.

Audit recommendations

2.24 **Audit has *recommended* that the Director of Environmental Protection should:**

- (a) **take measures to ensure that the internal timeframes for processing RF applications are met (including those newly introduced timeframes since April 2023);**
- (b) **consider setting further internal timeframes relating to processing RF applications (e.g. notifying the applicants of the application results after SEE's decision) and publishing the timeframes for processing RF applications as appropriate on RF's website with a view to enhancing the monitoring work, transparency and accountability;**
- (c) **take measures to early complete the processing of RF applications, including:**
 - (i) **closely monitoring the progress in processing RF applications; and**
 - (ii) **taking proactive actions to follow up with the applicants with a view to facilitating them to better understand the submission requirements;**
- (d) **take measures to ensure that regular management reports (e.g. the achievement of internal timeframes as stipulated in SOP) are compiled for monitoring the processing of RF applications;**

Processing of applications

- (e) **step up measures to assist applicants to better understand the application requirements and submit applications meeting the requirements; and**
- (f) **resume keeping track of the reasons for RF applications withdrawn prior to SEE's consideration and take follow-up actions as needed with a view to better facilitating applicants in making applications.**

Response from the Government

2.25 The Director of Environmental Protection agrees with the audit recommendations. He has said that:

- (a) EPD and RF Secretariat will:
 - (i) continue to monitor the achievement of the established internal timeframes and consider setting suitable further internal timeframes; and
 - (ii) publish the timeframes as appropriate on RF's website;
- (b) to better monitor the processing of RF applications, EPD has requested RF Secretariat to compile management reports (covering the period starting from 1 April 2023) on their achievement of internal timeframes. The first management report will be submitted to EPD in October 2023; and
- (c) EPD and RF Secretariat will step up efforts to assist applicants during the application process and will resume keeping track of the reasons for applications withdrawn for follow-up actions as appropriate.

Level of applications received and pre-vetting site visits

Low level of applications received for standard programmes of RF

2.26 According to 2014 Policy Address and 2021-22 Budget Speech, RF is to render continuous support to the recycling trade, particularly SMEs, in enhancing its operational capabilities and efficiency as well as coping with the latest needs of both the local and non-local markets and achieving reindustrialisation (see paras. 1.2 and 1.3).

2.27 Audit noted that quite a large number of companies engaged in recycling operations in Hong Kong had never submitted applications under standard programmes of RF, as follows:

- (a) according to EPD, as of February 2020, there were about 1,900 companies engaged in recycling operations in Hong Kong (Note 22). From October 2015 to March 2023, RF Secretariat had received a total of 1,232 applications under standard programmes. These 1,232 applications came from 668 applicants (about 35% of 1,900 companies engaged in recycling operations in Hong Kong); and
- (b) of the 1,299 grantees obtaining funding support under the one-off support schemes against the outbreak of COVID-19, 756 (58%) of them had never submitted applications for standard programmes.

2.28 In Audit's view, EPD needs to ascertain the reasons for the low level of applications received for standard programmes of RF and step up efforts in promoting RF to eligible applicants with a view to encouraging more applicants to submit applications under RF, particularly those who have not applied before.

Note 22: *The number of companies was compiled from annual applicant lists of RF, Hong Kong Collector/Recycler Directory available at Hong Kong Waste Reduction Website, Census and Statistics Department's database, RF Secretariat's in-house database, and a list of waste collectors and recyclers, charity organisations and recycling programme operators from Internet search.*

Scope for improvement in conducting pre-vetting site visits

2.29 The objectives of a pre-vetting site visit are to verify the information provided in the application (e.g. location of the project's operation, nature of the recycling business and types of recyclables handled) and detect irregularities. According to SOP, in general, pre-vetting site visit would be conducted by RF Secretariat for all applications received under ESP, SP1M, RRSP and SUP, except the following:

- (a) applications received under SP1M which involve training courses only;
- (b) applications received under SP1M with site visits conducted in the past 4 months or the immediate last batch of application, and there is no substantial change in operation situation for the same applicant; or
- (c) if the applicant is confirmed to be not eligible, pre-vetting site visit may not be conducted.

2.30 According to EPD's Procedural Guidelines for Monitoring of RF Secretariat's Implementation of RF promulgated since October 2019, EPD would randomly select not less than 50% of the total number of pre-vetting site visits conducted by RF Secretariat (see para. 2.29) to join. Furthermore, it would further select a small number of pre-vetting site visits conducted by RF Secretariat for ad hoc checking where necessary.

2.31 From October 2015 to March 2023, there were a total of 614 processed applications (i.e. approved and rejected) under ESP, SP1M, RRSP and SUP. Audit noted that, as of March 2023:

- (a) RF Secretariat had conducted 504 pre-vetting site visits for 480 (78%) processed applications. For the remaining 134 (22%) processed applications, according to EPD, the reasons for not conducting pre-vetting site visits were mainly due to the exceptions stated in SOP (see para. 2.29) and there was an adjustment on site visit arrangement with due consideration on health concerns and social distancing during the COVID-19 pandemic; and

- (b) while EPD had maintained site visit checklist in individual case files, it did not regularly compile management information on its participation in RF Secretariat's pre-vetting site visits for ensuring compliance with the requirements in the procedural guidelines (see para. 2.30).

2.32 In Audit's view, EPD needs to:

- (a) take measures to ensure that RF Secretariat conducts pre-vetting site visits for applications received in accordance with the requirements in SOP; and
- (b) compile regular management information on its participation in RF Secretariat's pre-vetting site visits to ensure compliance with the requirements in the procedural guidelines.

Audit recommendations

2.33 **Audit has *recommended* that the Director of Environmental Protection should:**

- (a) **ascertain the reasons for the low level of applications received for standard programmes of RF and step up efforts in promoting RF to eligible applicants with a view to encouraging more applicants to submit applications under RF, particularly those who have not applied before;**
- (b) **take measures to ensure that RF Secretariat conducts pre-vetting site visits for applications received in accordance with the requirements in SOP; and**
- (c) **compile regular management information on EPD's participation in RF Secretariat's pre-vetting site visits to ensure compliance with the requirements in the procedural guidelines.**

Response from the Government

2.34 The Director of Environmental Protection agrees with the audit recommendations. He has said that:

- (a) EPD and RF Secretariat will make continued efforts and explore further measures to outreach to and encourage more potential applicants to submit applications under RF; and
- (b) new management reports will be compiled to better monitor the performance of pre-vetting site visits conducted respectively by RF Secretariat and EPD.

PART 3: FUNDING DISBURSEMENT FOR AND MONITORING OF APPROVED PROJECTS

3.1 This PART examines RF's funding disbursement for and monitoring of approved projects under standard programmes (Note 23), focusing on:

- (a) funding disbursements and project deliverables (paras. 3.2 to 3.19); and
- (b) site visits and withdrawal of approved projects (paras. 3.20 to 3.27).

Funding disbursements and project deliverables

3.2 *Projects under standard programmes.* As of March 2023, there were 573 approved applications under the 2 standard programmes (i.e. standard funding programmes (see para. 1.5) and small-scale standard project funding programmes (see para. 1.6)) with approved grants of \$607 million. According to EPD, as of March 2023, for the projects under these 573 approved applications:

- (a) 30 (5%) projects were pending the applicants to sign an agreement with the Government;
- (b) 94 (16%) projects had commenced and were in progress;
- (c) 313 (55%) projects had been completed;
- (d) 135 (23%) projects were subsequently withdrawn by the applicants; and

Note 23: *For one-off support schemes against the outbreak of COVID-19, funding disbursement procedure is simpler. Funding is generally disbursed by instalments upon satisfactory submission of claim form and supporting documents (e.g. copies of rental receipts). As of March 2023, there were 2,023 approved applications for the 3 one-off support schemes with approved grants of \$248 million (see para. 1.8(c)). Except for 7 applications subsequently withdrawn, the remaining 2,016 applications and their actual funding disbursements of \$243 million had been completed by November 2022.*

Funding disbursement for and monitoring of approved projects

- (e) 1 (1%) project was subsequently terminated by EPD (Note 24).

3.3 **Funding disbursement procedures.** In general, funding is disbursed to grantees of approved projects in stages upon due and punctual compliance with all the terms and conditions of RF (e.g. satisfactory submission of required deliverables) (Note 25). Table 2 shows the funding disbursement arrangements for approved projects.

Table 2

Funding disbursement arrangements for approved projects

Payment stage	Standard funding programme		Small-scale standard project funding programme			
	ISP	ESP	SUP	RSB	SP1M	RRSP
Upfront payment	Up to 30 %				—	
Interim payments	Up to 65 %	All aggregate upfront and interim payments up to 75 %		Up to 65 %	Up to 75 %	Funding is disbursed every 6 or 12 months (Note)
Final payment	Remainder					

Source: EPD records

Note: No maximum percentage was set for RRSP interim payments. The grantees have the option to apply for funding disbursement every 6 or 12 months.

Note 24: According to EPD, this approved project was subsequently terminated because the grantee failed to provide necessary documents for the project (e.g. latest business registration to demonstrate that the company was still in operation) after repeated requests as well as issuance of warning letters by RF Secretariat.

Note 25: To receive funding disbursement, the grantee has to comply with prescribed terms and conditions, including, for example, opening of designated bank account, achievement of performance targets, satisfactory submission of required deliverables and provision of documentary evidence of payments.

Funding disbursement for and monitoring of approved projects

3.4 As of March 2023, of the total approved grant of \$607 million for 573 approved projects under 2 standard programmes, \$284 million (47%) had been disbursed to the grantees. Even for the 313 completed projects (see para. 3.2(c)), only \$198 million (77%) of the total approved grants of \$258 million had been disbursed to the grantees (see Table 3). In particular:

- (a) for 36 (12%) completed projects, funding disbursed was lower than 50% (ranging from 1% to 49%) of their respective approved grant amount; and
- (b) for 16 (5%) completed projects, no funding had been disbursed.

Table 3

Disbursement of funding for completed projects (March 2023)

Programme		Completed project		Grant amount	
		Total (No.)	With disbursement (No.)	Approved (\$ million)	Disbursed (\$ million)
Standard funding programmes	ESP	18	18 (100%)	37.6	25.0 (66%)
	ISP	17	17 (100%)	133.9	104.1 (78%)
Sub-total (a)		35	35 (100%)	171.5	129.1 (75%)
Small-scale standard project funding programmes	SP1M	268	252 (94%)	82.1	64.8 (79%)
	RRSP	—	— (—)	—	— (—)
	SUP	10	10 (100%)	4.8	3.9 (81%)
	RSB	—	— (—)	—	— (—)
Sub-total (b)		278	262 (94%)	86.9	68.7 (79%)
Total (c) = (a) + (b)		313	297 (95%)	258.4	197.8 (77%)

Source: EPD records

3.5 According to EPD:

- (a) to safeguard public money and to ensure that the funding approved under various programmes and schemes of RF will only be paid to projects which are properly managed by the grantees and with the expected outcomes achieved as committed in their applications, there are 7 existing guidelines

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for different programmes and schemes under RF governing funding disbursement and submission of required deliverables (e.g. final report, claim form and supporting documents) by grantees;

- (b) in general, interim payments would be made every 12 months and final payment would be made upon project completion, subject to the grantee's satisfactory submission of required deliverables and achievement of performance targets by the end of the project. The grantee is deemed to request for funding disbursement upon the submission of required deliverables (hereinafter referred to as funding disbursement requests); and
- (c) low disbursement rate for some completed projects was mainly due to the following:
 - (i) some grantees had not submitted sufficient information for fund disbursement (i.e. required deliverables) after due date (see paras. 3.9 to 3.13 for related issues);
 - (ii) deductions of funding for some completed projects were needed after checking as they could not meet the approved performance targets by the end of the projects or some of the expenditures should not be charged to the approved funding; and
 - (iii) the actual spending on some approved projects was less than the approved grant as planned (e.g. the grantee eventually purchased less equipment or incurred less labour costs than planned).

Timeframe for disbursement of funding to some grantees not met

3.6 According to SOP, internal timeframes for processing of RF funding disbursements are stipulated as follows:

Internal timeframe introduced since January 2020

- (a) funding should be disbursed to the grantee within 14 calendar days upon completion of necessary verification procedures by RF Secretariat;

Internal timeframes introduced since April 2023

- (b) first email seeking further information or acknowledging receipt should be sent to the grantee within 30 calendar days from receiving initial funding disbursement request; and
- (c) verification result should be submitted to EPD by RF Secretariat within 30 calendar days upon receipt of complete and satisfactory submission of information from the grantee.

3.7 Audit noted that:

- (a) from January 2020 (i.e. introduction of the 14-calendar-day timeframe mentioned in para. 3.6(a)) to March 2023, RF Secretariat processed 289 funding disbursement requests (for 230 approved projects involving \$205 million). For 50 (17%) funding disbursement requests, 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). According to EPD, the longer-than-expected processing time of funding disbursement requests was mainly due to the manpower shortage during the outbreak of COVID-19; and
- (b) from April 2023 (i.e. introduction of the 30-calendar-day timeframe mentioned in para. 3.6(b)) to August 2023, RF Secretariat processed 20 funding disbursement requests for 20 approved projects. For 1 funding disbursement request, the first email seeking further information was only sent to the grantee 56 calendar days after receiving initial funding disbursement request (i.e. 26 calendar days later than the 30-calendar-day timeframe).

3.8 In Audit's view, EPD needs to take measures to ensure that funding is disbursed to grantees in accordance with the stipulated internal timeframes in SOP.

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Need to ensure the timely submission of project deliverables

3.9 According to the funding agreement signed by the grantee (for ESP, ISP, SUP and RSB), the grantee of an approved project is required to submit various project deliverables during the course of project implementation (Note 26), as follows:

- (a) ***Interim progress report and annual audited accounts.*** For projects with duration exceeding 18 months, grantees are required to submit interim progress report together with annual audited accounts every 12 months (Note 27), and such deliverables are required to be submitted within 1 month after the relevant 12-month period; and
- (b) ***Final report and final audited accounts.*** For all approved projects, grantees are required to submit a final report (Note 28) together with final audited accounts within 3 months upon project completion.

Based on the project deliverables, RF Secretariat would assess the project progress, and evaluate the project outcome against the performance targets and milestones proposed by the grantee. Late submission of interim progress report, final report or audited accounts may lead to suspension or delay in interim payment or final payment, or termination of the project.

3.10 According to SOP, RF Secretariat would:

Note 26: *According to the “Guide to Application” published by RF Secretariat, for SPIM and RRSP, the grantee is only required to submit claim form with supporting documents to RF Secretariat for processing of funding disbursement.*

Note 27: *The grantee could also choose to submit interim progress report every 6 months in order to receive more frequent funding disbursement.*

Note 28: *For ESP, the grantee is also required to submit a certified report together with the final report. Certified report is a report certified by a certified public accountant or certifying body qualified and approved by RF Secretariat on: (a) the quantity or quality or types of recyclables collected or processed or recycled and sales price chargeable by the grantee for the recyclables collected or processed or recycled within the entire project duration; and (b) provision of a statement to confirm whether or not the performance targets have been met by the grantee as at the actual date of completion of the project.*

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- (a) issue reminder to the grantee at least 1 month before the due date of the project deliverable;
- (b) issue chaser to the grantee 1 month after the due date; and
- (c) issue warning letter to the grantee 6 months after the due date.

3.11 From October 2015 to March 2023, there were 67 interim progress reports (together with annual audited accounts) and 51 final reports (together with final audited accounts) due for submission for approved projects under ESP, ISP, SUP and RSB (see para. 3.9). Audit noted that, as of March 2023:

- (a) ***Interim progress report (together with annual audited accounts).*** Of these 67 interim progress reports (together with annual audited accounts) due for submission:
 - (i) 8 (12%) had not been submitted, which had been overdue for 0.5 to 14.3 months (averaging 6 months);
 - (ii) 44 (66%) were submitted 1 day to 27 months (averaging 4.1 months) after due date; and
 - (iii) 15 (22%) were submitted timely;
- (b) ***Final report (together with final audited accounts).*** Of these 51 final reports (together with final audited accounts) due for submission:
 - (i) 6 (12%) had not been submitted, which had been overdue for 1 to 9 months (averaging 4.5 months);
 - (ii) 27 (53%) were submitted 4 days to 13 months (averaging 4.5 months) after due date; and
 - (iii) 18 (35%) were submitted timely; and

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- (c) *Chasers issued to grantees.* According to SOP, RF Secretariat should issue chaser to the grantee 1 month after the due date for submitting the related project deliverables (see para. 3.10(b)). However, there were delays in issuing chasers to some grantees, as follows:
 - (i) of the 52 interim progress reports (i.e. 8 + 44 — see (a)(i) and (ii) above) which had not been submitted or submitted after due date, 35 had been overdue for more than 1 month. However, RF Secretariat issued chasers late for 20 (57%) cases, with delay ranging from 1 day to 4.3 months; and
 - (ii) of the 33 final reports (i.e. 6 + 27 — see (b)(i) and (ii) above) which had not been submitted or submitted after due date, 26 had been overdue for more than 1 month. However, RF Secretariat issued chasers late for 6 (23%) cases, with delay ranging from 1 day to 2.2 months.

In this connection, Audit also noted that EPD did not compile regular management report on the status of project deliverables submitted by grantees of approved projects (e.g. highlighting overdue cases) and the follow-up actions on overdue cases (e.g. issuing warning letters) for monitoring purpose.

3.12 According to EPD:

- (a) EPD and RF Secretariat have been closely monitoring the submission of project deliverables;
- (b) interim payments and final payment to the grantee will not be made until the acceptance of project deliverables by RF Secretariat, consideration by RFAC and endorsement by EPD;
- (c) grantees, in particular SMEs, may have difficulties in submitting project deliverables that contain all necessary supporting information and fully fulfil the relevant reporting requirements; and
- (d) RF Secretariat has taken extra steps to provide guidance and advice to grantees in relation to submission of project deliverables by close

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communications with them, with a view to speeding up the funding disbursement process and enhancing the quality of project deliverables.

3.13 In Audit's view, EPD needs to:

- (a) strengthen measures (e.g. issuing reminders, chasers and warning letters in accordance with the timeframes in SOP) to ensure that grantees submit project deliverables by the required due dates in accordance with the funding agreements;
- (b) step up measures to provide guidance and advice to grantees (in particular SMEs) in relation to submission of project deliverables; and
- (c) compile regular management report on the status of project deliverables submitted by grantees of approved projects (e.g. highlighting overdue cases) and the follow-up actions on overdue cases (e.g. issuing warning letters) for monitoring purpose.

Delay in commencement and completion of projects contributing to actual funding disbursement significantly lower than the budgeted amount

3.14 According to EPD:

- (a) RF Secretariat would estimate in each year's AIP the amount of funding disbursement required for the ensuing year, taking into account the estimated number of RF applications to be approved, and the funding requirements for both existing and newly approved projects; and
- (b) the estimated funding disbursement would be paid by EPD to RF Secretariat in advance for the ensuing year. Any unspent balance of estimated funding disbursement amount would be carried forward to the following financial year and offset with the payment of estimated funding disbursement amount of the following financial year.

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3.15 Audit noted that, from 2015-16 to 2022-23, the actual funding disbursement was significantly lower than the budgeted amount in AIP, with variances ranging from \$5.4 million to \$207.8 million.

3.16 According to EPD, the significant variances were mainly ascribed to:

- (a) the unprecedented one-off support schemes launched urgently due to the outbreak of COVID-19, with substantial amount being budgeted from 2019-20 to 2022-23 to ensure sufficient fund for the industry;
- (b) the delay in project commencement and project implementation; and
- (c) the difference between the approved grant amount and actual grant amount of the projects (e.g. the grantee eventually purchased less equipment than planned).

3.17 In Audit's view, EPD needs to take measures to ensure that (see also audit findings on a related issue in paras. 4.21(a) and 4.22(a)):

- (a) the approved projects are timely commenced and completed (see para. 3.16(b)); and
- (b) the disbursement amount in AIP is estimated as accurately as possible.

Audit recommendations

3.18 Audit has *recommended* that the Director of Environmental Protection should:

- (a) **take measures to ensure that funding is disbursed to grantees in accordance with the stipulated internal timeframes in SOP;**
- (b) **strengthen measures (e.g. issuing reminders, chasers and warning letters in accordance with the timeframes in SOP) to ensure that**

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grantees submit project deliverables by the required due dates in accordance with the funding agreements;

- (c) step up measures to provide guidance and advice to grantees (in particular SMEs) in relation to submission of project deliverables;**
- (d) compile regular management report on the status of project deliverables submitted by grantees of approved projects (e.g. highlighting overdue cases) and the follow-up actions on overdue cases (e.g. issuing warning letters) for monitoring purpose; and**
- (e) take measures to ensure that:**
 - (i) the approved projects are timely commenced and completed; and**
 - (ii) the disbursement amount in AIP is estimated as accurately as possible.**

Response from the Government

3.19 The Director of Environmental Protection agrees with the audit recommendations. He has said that:

- (a) new management reports will be compiled on the compliance with the internal timeframes related to funding disbursement and project deliverables in SOP; and**
- (b) EPD and RF Secretariat will provide better guidance and advice (including timely reminders and chasers) to grantees, in particular SMEs, to facilitate the timely commencement and completion of projects, and submission of project deliverables such that the funding could be released timely and the budgeted disbursement amount in AIP could be more accurately estimated.**

Site visits and withdrawal of approved projects

Scope for improvement in conducting site visits for approved projects

3.20 According to EPD, in order to verify the project progress and results for approved projects, site visits may be conducted by RF Secretariat which are sometimes joined by EPD staff. According to SOP and EPD's Procedural Guidelines for Monitoring of RF Secretariat's Implementation of RF, types of site visits include:

- (a) ***Monitoring site visit.*** For all types of approved projects, after project commencement, monitoring site visits would be conducted by RF Secretariat in due course (e.g. for main events, after submission of interim progress report and delay in submission of project deliverables after issuance of chaser). EPD would randomly select at least 50% of the total number of monitoring site visits to join for monitoring purpose and select a small number of additional cases for ad hoc checking where necessary;
- (b) ***Surprise site visit.*** Surprise site visits would be conducted by RF Secretariat on approved projects selected based on management decision, taking into consideration various factors (e.g. total project sum, nature of project and project progress); and
- (c) ***Post-completion site visit.*** As stated in the funding agreement for all types of approved projects (except RRSP), the grantee shall not sell, mortgage, transfer or dispose of the equipment procured under approved projects for a period of 2 years for ESP and 3 years for ISP after project completion. Post-completion site visits would be conducted by RF Secretariat on selected projects to verify the existence of the equipment within the prescribed period. EPD would join the arranged post-completion site visit having regard to the availability of staffing resources.

According to EPD, findings and observations noted during RF Secretariat's site visits and site visits participated by EPD staff are recorded on inspection checklists prepared by RF Secretariat's staff and EPD staff respectively.

Funding disbursement for and monitoring of approved projects

3.21 From October 2015 to March 2023, RF Secretariat conducted 407 monitoring site visits, 13 surprise site visits and 46 post-completion site visits for 295 of the 313 completed projects (see para. 3.2(c)). Audit noted that:

- (a) ***Need to set target coverage and frequency of site visits.*** SOP did not stipulate the target coverage and frequency for each type of site visit conducted by RF Secretariat. The site visits' actual coverage was as follows:
 - (i) monitoring site visits and surprise site visits covered 94 % and 4 % of the 313 completed projects respectively; and
 - (ii) for 160 completed projects meeting the requirements for conducting post-completion site visits (see para. 3.20(c)), such site visits were only conducted for 21 % of them;
- (b) ***Management information on findings from RF Secretariat's site visits not compiled.*** While findings and observations noted during RF Secretariat's site visits were recorded on inspection checklists, RF Secretariat did not regularly compile management information on the nature and seriousness of irregularities found during site visits for approved projects for monitoring purpose; and
- (c) ***Management information on EPD's participation in RF Secretariat's site visits not compiled.*** While EPD had maintained site visit checklist in individual case files, it did not regularly compile management information on its participation in RF Secretariat's site visits for monitoring compliance with the requirements in the procedural guidelines (e.g. participation in at least 50 % of monitoring site visits).

3.22 In Audit's view, EPD needs to take measures to ensure that:

- (a) target coverage and frequency are set for each type of site visit conducted for approved projects;
- (b) management information are regularly compiled by RF Secretariat on the findings and observations noted during site visits of approved projects for monitoring purpose; and

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- (c) management information on its participation in RF Secretariat's site visits are regularly compiled for monitoring compliance with the requirements in the procedural guidelines.

High withdrawal rate for approved projects

3.23 There were 573 approved projects from October 2015 to March 2023. As of March 2023, 135 (23 %) of these approved projects were subsequently withdrawn by the applicants (see para. 3.2(d)). In particular, 24 (44 %) of the total 54 approved projects under ESP were subsequently withdrawn.

3.24 According to EPD:

- (a) the reason for withdrawal is mainly associated with applicants' change of company strategy or internal issues (e.g. change of business model and investment decision);
- (b) for withdrawn projects with reasons other than applicants' internal issues (e.g. land related issue and validity lapse — Note 29), RF Secretariat has been providing professional advice and support to applicants where appropriate; and
- (c) RF Secretariat has been keeping close communication with applicants to provide timely advice (e.g. early advice on provision of essential supplementary information) to facilitate project implementation where possible. The validity period is also closely monitored and would be extended if considered appropriate (e.g. when the applicant has been actively resolving outstanding issues related to land and opening of designated bank account).

3.25 In Audit's view, EPD needs to keep under review the withdrawal situation of approved RF projects and make continued efforts to provide advice and support to applicants as appropriate in implementing the projects.

Note 29: *Validity period for successful applications was 1 year for projects that might need longer time to prepare land issue related documents or 4 months for other cases.*

Audit recommendations

3.26 Audit has *recommended* that the Director of Environmental Protection should:

- (a) take measures to ensure that:**
 - (i) target coverage and frequency are set for each type of site visit conducted for approved projects;**
 - (ii) management information are regularly compiled by RF Secretariat on the findings and observations noted during site visits of approved projects for monitoring purpose; and**
 - (iii) management information on EPD's participation in RF Secretariat's site visits are regularly compiled for monitoring compliance with the requirements in the procedural guidelines; and**
- (b) keep under review the withdrawal situation of approved RF projects and make continued efforts to provide advice and support to applicants as appropriate in implementing the projects.**

Response from the Government

3.27 The Director of Environmental Protection agrees with the audit recommendations. He has said that:

- (a) to better monitor the status of site visits, EPD and RF Secretariat will review and set target coverage and frequency for each type of site visit. New management reports on findings and observations of site visits of approved projects, and EPD's participation in RF Secretariat's site visits will be compiled for monitoring purpose; and**
- (b) EPD and RF Secretariat will keep under review RF projects that are withdrawn after approval and provide advice and support to the applicant concerned as appropriate.**

PART 4: OTHER RELATED ISSUES

4.1 This PART examines other issues related to RF, focusing on:

- (a) engagement and monitoring of RF Secretariat (paras. 4.2 to 4.24);
- (b) publicity and promotion programmes (paras. 4.25 to 4.31); and
- (c) other administrative issues (paras. 4.32 to 4.46).

Engagement and monitoring of RF Secretariat

Background

4.2 According to EPD, it engaged HKPC as the implementation partner and the secretariat of RF to leverage on HKPC's mission, expertise and experience in waste management initiatives as well as relationship with the recycling sector (Note 30).

4.3 As of August 2023, EPD had entered into 3 formal agreements (see Table 4) with HKPC, as follows:

- (a) ***Main agreement.*** In September 2015, EPD entered into a formal agreement with HKPC for implementing and administering RF (hereinafter referred to as the main agreement) with a service term of 7 years;
- (b) ***First supplemental agreement.*** In view of the proposed enhancement measures arising from the mid-term review of RF (see para. 4.43(a)) conducted in 2018, EPD planned to extend the operational period of RF from 7 years to 11 years. EEB and EPD briefed LegCo Panel on Environmental Affairs in April 2019 and issued an information note to FC in October 2019 on the results of the mid-term review, the proposed enhancement measures (including the extension of operational period of

Note 30: *The arrangement of directly engaging HKPC as the implementation partner was included in the funding paper seeking approval of FC in June 2015 for the establishment of RF.*

RF) and the proposed continuous engagement of HKPC as the implementation partner and RF Secretariat. In April 2020, EPD signed the first supplemental agreement with HKPC for the extension of services (a service term of 11 years); and

- (c) ***Second supplemental agreement.*** Following the injection of an additional funding of \$1 billion to RF in the context of the Appropriation Bill 2021 in April 2021 (see para. 1.3), EPD further extended the operational period of RF from 11 years to 16 years. In March 2022, EPD signed the second supplemental agreement with HKPC for the extension of services (a service term of 16 years).

Table 4

**Formal agreements with HKPC
(August 2023)**

Agreement	Date	Service term (Note)	Estimated implementation fee to HKPC (a) (\$ million)	Estimated in-kind contribution provided by HKPC (b) (\$ million)	Total (c) = (a) + (b) (\$ million)
Main agreement	30.9.2015	7 years (from 2015 to 2022)	99.9	18.9	118.8
First supplemental agreement	23.4.2020	11 years (from 2015 to 2026)	149.8	28.1	177.9
Second supplemental agreement	10.3.2022	16 years (from 2015 to 2031)	259.5	36.9	296.4

Source: EPD records

Note: For the main agreement, and the first and second supplemental agreements, the service terms comprise 5, 7 and 12 years of application periods and 2, 4 and 4 years of monitoring periods respectively.

Delays in entering into formal agreements with HKPC

4.4 Audit noted that there were delays in entering into formal agreements with HKPC, as follows:

- (a) the main agreement was signed on 30 September 2015, about 1 month after its effective date of 1 September 2015; and
- (b) the first supplemental agreement was signed on 23 April 2020, nearly 6 months after its effective date of 1 November 2019.

4.5 In September 2023, EPD informed Audit that:

- (a) for the main agreement, there were some minor issues to agree with HKPC in the 1-month period (i.e. from 1 September to 30 September 2015); and
- (b) for the first supplemental agreement, it took a longer-than-expected time to undergo the legal vetting process of the agreement.

4.6 In Audit's view, EPD needs to take measures to ensure that formal agreement between the Government and the non-government party is signed before its effective date.

Scope for improvement in administration of implementation fee under agreements with HKPC

4.7 According to Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government of March 2017 (Note 31), to facilitate financial control, the Controlling Officer should:

Note 31: *Financial Circular No. 2/2017 replaced Financial Circular No. 2/2015 on the same subject of February 2015. It also replaced Financial Circulars No. 5/91 and No. 12/2003 which had set out guidelines on the charging of administrative overheads.*

- (a) formulate a policy on whether (and under what circumstances) administrative overheads may be included in the project cost and charged to the grant, and whether there should be a ceiling (say, 15% of the project cost) for such. Exceptions are to be properly justified, recorded and accounted for; and
- (b) ensure that the administrative charges are reasonable and proportionate to the purpose, scale, nature and circumstances of a particular fund or project. For funds of mega scale, a small percentage (i.e. less than 15%) of administrative charges may already suffice.

4.8 According to the second supplemental agreement between EPD and HKPC, the estimated implementation fee of \$259.5 million for the 16-year service term from 2015 to 2031 (see Table 4 in para. 4.3) comprises administrative and monitoring costs of \$224.5 million (87%) and publicity and promotion expenses of \$35 million (13%). According to EPD, the implementation fee is based on a full-cost recovery basis and includes administrative overheads.

4.9 *Scope for enhancing documentation on vetting of implementation fee.*
Audit noted that:

- (a) ***Estimated implementation fees under agreements with HKPC.*** While EPD could provide documentation on its vetting of the estimated implementation fee of \$149.8 million (see Table 4 in para. 4.3) under the first supplemental agreement with HKPC (Note 32), it 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) ***Budgeted implementation fee in AIP.*** According to the agreements between EPD and HKPC, HKPC was required to include the annual implementation fee in the budget in AIP for each financial year for RFAC's endorsement and EPD's approval (see para. 4.18(a)). According to EPD, it had been actively liaising with HKPC in vetting each financial year's

Note 32: *While EPD had compared the cost of engaging HKPC with other options (i.e. under government setting or employing other consultant) and found that HKPC's cost was the lowest, there was no documentation showing whether there should be a ceiling for the implementation fee (see para. 4.7(a)).*

Other related issues

budgeted implementation fee through different channels, including emails, telephone conversations and pre-meetings before submission of the draft AIP for discussion at RFAC meeting (normally at the meeting scheduled for March each year) (Note 33). However, there was no documentation summarising EPD's work in vetting each financial year's budgeted implementation fee (e.g. a summary highlighting the reasonableness of the implementation fee) to facilitate senior management's review and approval.

4.10 Regarding the vetting of implementation fee under agreements with HKPC, in September 2023, EPD informed Audit that:

- (a) for the vetting of the estimated implementation fees under the 3 agreements with HKPC (the main agreement, and the first and second supplemental agreements), analysis and assessment had been carried out to ensure that the estimated implementation fees were reasonable and proportionate to the purpose, scale and nature of RF;
- (b) given the scale of RF, it considered that the implementation fee of not more than 15% of the fund was reasonable. The implementation fees under the 3 agreements had been kept below this level; and
- (c) there were discussions and negotiations between EPD and HKPC on the overall level of charge (i.e. implementation fee). While detailed cost analysis for the estimated implementation fee under the first supplemental agreement could be located, the relevant documents for the main agreement and the second supplemental agreement could not be located.

Note 33: *According to EPD, for 2023-24 AIP, it had arranged a meeting with HKPC on 14 March 2023 to go through the draft RFAC paper on AIP, including the work details and the budget (including the amount of annual implementation fee). At the meeting, EPD requested some fine tunings of the work items and adjustment of the budget to ensure the cost-effectiveness of the work of RF Secretariat, before the standalone RFAC paper on AIP (which set out, among others, the manpower requirements, detailed work tasks, and the estimated implementation fee for the coming 12 months) was submitted for discussion at RFAC meeting. The revised RFAC paper was then discussed at the meeting, and if needed, further changes would be incorporated, taking into account RFAC's suggestions and views of HKPC and EPD at the meeting.*

4.11 In Audit's view, EPD needs to take measures to enhance documentation on the vetting of:

- (a) estimated implementation fee under agreement with non-government party with a view to ensuring that the fee is reasonable and proportionate to the purpose, scale and nature of the fund; and
- (b) budgeted implementation fee in AIP (e.g. preparing a summary highlighting the reasonableness of the implementation fee).

4.12 *Need to make continued effort to monitor the actual implementation fee.*
Regarding the monitoring of the actual implementation fee for RF, according to EPD:

- (a) the estimated implementation fee of \$259.5 million (as stipulated in the second supplemental agreement — see Table 4 in para. 4.3) for the 16-year service term from 2015 to 2031 serves as a cap on the implementation fee. It has been exercising due diligence and proper control to ensure that the cap will not be exceeded prior to the end of the 16-year service term when vetting AIPs;
- (b) among other things, it would continue to, based on an annual implementation fee schedule prepared by HKPC, check against each year's implementation fee proposed by HKPC to ensure that it is within the original estimate. This would also help ensure that the cumulative implementation fee would fall within the estimated fee as stipulated in the second supplemental agreement; and
- (c) it would check the actual spending on implementation fee each year before the end of the financial year. It would also review the actual annual implementation fee based on the audited accounts, quarterly operational reports and annual reports submitted by HKPC (see para. 4.18). The actual amount would depend on the actual amount of work carried out.

4.13 In Audit's view, EPD needs to make continued effort to monitor the actual implementation fee for RF and ensure that it is within the estimated fee as stipulated in the agreement with HKPC.

Scope for improvement in manpower arrangement for RF

4.14 The manpower arrangement for RF is as follows:

- (a) ***RF Secretariat.*** According to the agreements between EPD and HKPC:
 - (i) HKPC shall deploy a service team to perform the services. The service team comprises two teams, namely key management team (including Programme Director, Deputy Programme Director and Programme Manager) and programme management and technical evaluation and monitoring team (including Team Leader, Programme Officers and Programme Assistants);
 - (ii) the manpower arrangement of the programme management and technical evaluation and monitoring team shall be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors with the prior consent from EPD through the written acceptance of AIP for each financial year; and
 - (iii) HKPC shall obtain EPD's prior written approval for any addition to or change or replacement of members of the service team.

As of April 2023, RF Secretariat had 13 staff (9 full-time and 4 part-time staff) (Note 34); and

Note 34: *According to EPD, from 2020-21 to 2022-23, the total cost of the service team (i.e. including administrative overheads) amounted to \$64.1 million, comprising \$54.0 million funded by the Government and \$10.1 million contributed by HKPC.*

- (b) **EPD.** EPD's Facilities Management Group Section (2) (i.e. RF team) is responsible for the administration of RF (see para. 1.12). As of April 2023, RF team had 16 staff comprising 8 civil servants (5 from this Section and 3 temporarily redeployed from other divisions of EPD) and 8 temporary staff (5 full-time and 3 part-time non-civil service contract staff) (Note 35).

4.15 Audit noted that:

- (a) ***Need to keep under review the manpower arrangement for RF.*** The manpower arrangement for RF was fluctuating, as follows:
- (i) the number of EPD staff dedicated for RF increased from 6 in 2015-16 to 20 in 2021-22 and then decreased to 16 as of April 2023; and
- (ii) the number of HKPC staff deployed for RF increased from 10 in 2015-16 to 13 in 2018-19 and remained between 13 and 14 since then; and
- (b) ***No documentation on approval for changes to the service team.*** For each of the eight financial years from 2015-16 to 2022-23, there were changes in the service team members holding the posts of Programme Officer and Programme Assistant. However, there was no documentation on EPD's prior written approval for such changes (i.e. not meeting the requirement in para. 4.14(a)(iii)).

Note 35: According to EPD: (a) RF team had an establishment of 5 civil service posts; (b) 3 civil servants were temporarily redeployed from other divisions of EPD to RF team and 8 temporary staff (non-civil service contract staff) were employed (as of April 2023) for the purpose of mainly handling the 3 one-off support schemes to support the Government's anti-epidemic work during the COVID-19 period and other initiatives under RF as necessary; and (c) from 2020-21 to 2022-23, the total staff cost of EPD's RF team amounted to \$27.9 million.

Other related issues

4.16 In September 2023, EPD informed Audit that:

- (a) RF team performed a range of duties in administering RF (see para. 1.12);
- (b) it had been regularly reviewing and adjusting the manpower arrangement having regard to relevant factors, such as number of applications, review of procedures and enhancement of schemes, and special industry related circumstances (e.g. the economic situation and operational difficulties arising from the outbreak of COVID-19); and
- (c) regarding the manpower of RF team, it would redeploy the 3 civil servants (who were temporarily redeployed to RF team) as and when necessary to other divisions of EPD in accordance with work priorities and review the need to renew the contracts of the 8 contract staff (see Note 35 to para. 4.14(b)).

4.17 In Audit's view, EPD needs to:

- (a) keep under review the manpower arrangement for RF and adjust the manpower arrangement as appropriate; and
- (b) take measures to ensure that any change of members of RF's service team is properly approved and recorded in accordance with the requirements stipulated in the agreements.

Need to timely submit and approve reporting materials

4.18 According to the agreements between EPD and HKPC, RF Secretariat should submit the following reporting materials containing the specified contents to RFAC and EPD in accordance with the specified timeframes:

- (a) **AIP.** It should be submitted at least 3 months prior to the financial year (i.e. the period from 1 April to 31 March) to which it relates;

- (b) **Operational report.** It should be submitted on a quarterly basis within 2 months (revised to 3 months with effect from 1 April 2022) after the end of each quarter; and
- (c) **Annual report (including the audited accounts).** It should be submitted within 2.5 months (revised to 3 months with effect from 1 April 2022) after the end of the financial year to which it relates.

After RFAC's endorsement, AIPs, operational reports and annual reports (including the audited accounts) should be subject to the written approvals of EPD.

4.19 For the reporting materials submitted by RF Secretariat to RFAC from January 2019 to June 2023, Audit noted that:

- (a) **Delays in submission of reporting materials.** There were delays in submission of the following documents:
 - (i) **AIP.** All of the 5 AIPs were not submitted to RFAC within the required timeframe, with delays ranging from 69 to 84 days (averaging 77.8 days);
 - (ii) **Operational report.** Of the 13 operational reports, 10 (77%) were not submitted to RFAC within the required timeframe, with delays ranging from 5 to 48 days (averaging 19.3 days); and
 - (iii) **Annual report (including the audited accounts).** Of the 5 annual reports (including the audited accounts), 3 (60%) were not submitted to RFAC within the required timeframe, with delays ranging from 4 to 9 days (averaging 6.7 days);
- (b) **Reporting materials not containing the specified contents.** The agreements between EPD and HKPC require that operational report should include the planned number of on-site checking in the next planning quarter. However, of the 13 operational reports, 6 (46%) did not include such information; and

Other related issues

- (c) ***No time pledge for granting written approvals for reporting materials by EPD.*** EPD has no time pledge for granting written approvals for the reporting materials. For 2 AIPs and 4 annual reports (including the audited accounts), on average, EPD's approvals were granted 110 days after the date of endorsement by RFAC (ranging from 49 to 158 days). As of September 2023, EPD had yet to grant approvals for the AIP and the annual report endorsed by RFAC in March and June 2023 respectively.

4.20 In Audit's view, EPD needs to:

- (a) strengthen measures to ensure the timely submission of reporting materials containing the specified contents to RFAC; and
- (b) take measures to complete the processing of reporting materials endorsed by RFAC as early as possible and consider setting time pledge for granting written approvals on such reporting materials.

Need to enhance the vetting of AIPs and monitoring their implementation

4.21 Audit noted that there was scope for enhancing the vetting of AIPs and monitoring their implementation, as follows:

- (a) ***Surplus funds arising from actual funding disbursement significantly lower than budgeted amount.*** From 2015-16 to 2022-23, the actual funding disbursement was significantly lower than the budgeted amount in AIP, with variances ranging from \$5.4 million to \$207.8 million (see paras. 3.14 and 3.15). As the payment to HKPC for a financial year was based on the budget in AIP offsetting by the unspent balance brought forward from last financial year, this resulted in surplus funds at the bank account of HKPC kept for RF as at financial year end (i.e. 31 March), ranging from \$12.0 million to \$214.4 million; and
- (b) ***Inconsistent practices in the endorsements of amendments to budgets.*** For the 6 amendments to budgets in AIPs from 2015-16 to 2022-23:

- (i) 2 amendments (involving reductions in funding disbursement for projects) were not reported to RFAC;
- (ii) 3 amendments (involving virements of funds between budgeted expenditure items, additional funding disbursement for projects and additional implementation fee for ORIAS and ORSS) were circulated to RFAC for endorsements, with 2 of them recorded in subsequent RFAC meeting minutes. In addition, the agreements between EPD and HKPC require that operational report should include any virement of funds made with the underlying reasons. However, the relevant operational reports did not include the abovementioned virements of funds; and
- (iii) 1 amendment (involving additional implementation fee for ORSS) was discussed and endorsed in RFAC meeting.

4.22 In Audit's view, EPD needs to:

- (a) consider measures for avoiding the keeping of surplus funds in the bank account for RF (see also audit findings on a related issue in para. 3.17(b)); and
- (b) set out guidelines on endorsements of amendments to budgets in AIPs and take measures to ensure that virements of funds are reported in the relevant operational report in accordance with the agreements between EPD and HKPC.

Audit recommendations

4.23 **Audit has *recommended* that the Director of Environmental Protection should:**

- (a) **take measures to ensure that formal agreement between the Government and the non-government party is signed before its effective date;**
- (b) **take measures to enhance documentation on the vetting of:**

Other related issues

- (i) **estimated implementation fee under agreement with non-government party with a view to ensuring that the fee is reasonable and proportionate to the purpose, scale and nature of the fund; and**
 - (ii) **budgeted implementation fee in AIP (e.g. preparing a summary highlighting the reasonableness of the implementation fee);**
- (c) **make continued effort to monitor the actual implementation fee for RF and ensure that it is within the estimated fee as stipulated in the agreement with HKPC;**
- (d) **regarding the manpower arrangement for RF:**
 - (i) **keep under review the manpower arrangement for RF and adjust the manpower arrangement as appropriate; and**
 - (ii) **take measures to ensure that any change of members of RF's service team is properly approved and recorded in accordance with the requirements stipulated in the agreements;**
- (e) **regarding the submission and approval of reporting materials:**
 - (i) **strengthen measures to ensure the timely submission of reporting materials containing the specified contents to RFAC; and**
 - (ii) **take measures to complete the processing of reporting materials endorsed by RFAC as early as possible and consider setting time pledge for granting written approvals on such reporting materials;**
- (f) **consider measures for avoiding the keeping of surplus funds in the bank account for RF; and**
- (g) **set out guidelines on endorsements of amendments to budgets in AIPs and take measures to ensure that virements of funds are reported in**

the relevant operational report in accordance with the agreements between EPD and HKPC.

Response from the Government

4.24 The Director of Environmental Protection agrees with the audit recommendations. He has said that:

- (a) EPD would take on board the audit recommendations;
- (b) EPD has taken measure to ensure that the latest supplemental agreement with RF Secretariat was signed before the effective date. EPD will make continued efforts to ensure that this arrangement is adhered to;
- (c) EPD will take measures to enhance documentation on the vetting of implementation fee, and make continued effort to closely monitor the actual implementation in accordance with the agreement with HKPC; and
- (d) EPD will keep the manpower arrangement for RF under review and take measures to improve the relevant operational arrangements of RF, including the submission and approval of reporting materials, surplus funds in the bank accounts and endorsements of amendments to budgets in AIPs.

Publicity and promotion programmes

4.25 According to the main agreement, RF Secretariat is responsible for planning and organising awareness promotion activities to publicise RF, as well as disseminating the results of the grantees' projects and sharing of experience and information among industries through various means as directed by RFAC and EPD, such as organisation of briefing sessions for potential applicants, participation in major environmental exhibitions and seminars, and establishment and operation of a dedicated website (RF's website) to enhance information dissemination.

Need to step up efforts in publicising RF

4.26 Audit noted that:

- (a) ***Publicity and promotion activities.*** From 2015-16 to 2022-23, the number of participants and stakeholders reached out by RF Secretariat's publicity and promotion activities each year increased from 985 in 2015-16 to the peak at 1,261 in 2016-17 and then was fluctuating between 297 and 819 during the period from 2017-18 to 2022-23; and
- (b) ***Online video sharing platform.*** Since the launch of RF in October 2015 and up to August 2023, RF Secretariat had produced 10 promotional videos related to RF targeting at the general public, the recycling industry and potential applicants. These promotional videos were uploaded onto an online video sharing platform. As of August 2023, the cumulative number of views of the promotional videos on the online video sharing platform ranged from 58 to 1,231 (averaging 185 views per year for each video).

4.27 As quite a number of companies and organisations in the recycling industry had not applied for any funding support under RF's standard programmes (see para. 2.27(b)), Audit considers that EPD needs to take measures to step up efforts in publicising RF.

Scope for enhancing the dissemination of information on RF's website

4.28 According to AIPs, RF Secretariat updates RF's website from time to time to disseminate the latest information on the planned activities of RF and the updated guides and materials. Audit noted that there was scope for enhancing the dissemination of information on RF's website, as follows:

- (a) some information on RF's website was not up-to-date as at 4 July 2023, as follows:
 - (i) the list of approved SP1M projects as at 22 March 2023 shown on RF's website included 5 applications which had been withdrawn 14 to 135 days before 22 March 2023;

- (ii) while 2 ISP projects and 2 SUP projects were approved in February 2023, the lists of approved projects under ISP and SUP shown on RF's website were up to August 2022 only; and
 - (iii) the frequently asked questions for ISP and ESP on RF's website contained outdated information on the operational period of RF as they had not been updated since July 2018 and October 2019 respectively; and
- (b) there were no frequently asked questions for some small-scale standard project funding programmes (i.e. RRSP, SUP and RSB) on RF's website as at 31 August 2023.

4.29 In Audit's view, EPD needs to take measures to enhance the dissemination of information on RF's website, including providing up-to-date information and enriching the contents of information, with a view to facilitating the potential applicants and stakeholders to understand different funding programmes and activities of RF.

Audit recommendations

4.30 Audit has *recommended* that the Director of Environmental Protection should take measures to:

- (a) step up efforts in publicising RF; and
- (b) enhance the dissemination of information on RF's website, including providing up-to-date information and enriching the contents of information, with a view to facilitating the potential applicants and stakeholders to understand different funding programmes and activities of RF.

Response from the Government

4.31 The Director of Environmental Protection agrees with the audit recommendations. He has said that:

Other related issues

- (a) the information on RF's website as mentioned in paragraph 4.28 had been updated; and
- (b) RF Secretariat will take measures to enhance the dissemination of information on RF's website and step up efforts in publicising RF.

Other administrative issues

Need to ensure that meeting materials are timely prepared and issued

4.32 According to the Guide to Corporate Governance for Subvented Organisations published by the Efficiency Office in June 2015 to provide good practice in corporate governance, the agenda (together with papers) for each board meeting should be distributed to all board members sufficiently in advance (e.g. two weeks before the meeting). The draft minutes of meetings should be produced quickly and circulated to board members for comment as soon as possible.

4.33 RF Secretariat is responsible for preparing and issuing meeting materials for RFAC meetings, such as discussion papers and documents, and meeting minutes. According to EPD, RF Secretariat targets to issue to RFAC members:

- (a) discussion papers and documents 3 calendar days before the meeting date (hereinafter referred to as the 3-calendar-day target); and
- (b) draft meeting minutes within 6 weeks after the meeting date (hereinafter referred to as the 6-week target).

4.34 For the meeting materials related to the 19 RFAC meetings held between January 2019 and June 2023, Audit noted that:

- (a) for 7 (37%) meetings, some discussion papers and documents were provided to members 1 to 2 calendar days before the meeting dates (i.e. not meeting the 3-calendar-day target); and
- (b) for 15 (79%) meetings, the draft meeting minutes were issued 6.9 to 14.0 weeks after the meeting date (i.e. not meeting the 6-week target).

4.35 In Audit's view, EPD needs to take measures to ensure that meeting materials for RFAC meetings are timely prepared and issued. In this connection, Audit noted that the 3-calendar-day target for issuing discussion papers and documents to RFAC members fell short of the good practice as stipulated in the Guide to Corporate Governance for Subvented Organisations (see para. 4.32). There is merit for EPD to consider reviewing the timeframe for issuing discussion papers and documents to RFAC members with a view to allowing sufficient time for them to study the discussion papers and documents.

Need to make better use of information technology in administering RF

4.36 Audit noted that there was scope for making better use of information technology in administering RF, as follows:

- (a) ***Low level of applications submitted via online application submission platform.*** Since the launch of the online application submission platform on RF's website for receiving applications on 31 December 2021 and up to March 2023, only 16% of the applications were submitted via the platform. In addition, details of online submissions still need to be manually input into the RF electronic database which had no interface with the online application submission platform; and
- (b) ***No online platform for submission of required deliverables by grantees.*** During the course of implementation of approved projects, grantees are required to submit various deliverables (e.g. interim progress report, final report, audited accounts, and claim form) to RF Secretariat from time to time by email, by post or in person. There was no information system for online submission of these deliverables by grantees.

4.37 In Audit's view, EPD needs to take measures to make better use of information technology in administering RF, including:

- (a) encouraging and promoting the use of the online application submission platform;

Other related issues

- (b) exploring the feasibility of interfacing the online application submission platform with the RF electronic database to obviate the need for manual input of details submitted via online application submission platform; and
- (c) exploring the feasibility of developing an online platform for submission of required deliverables by grantees.

Need to keep under review the performance and achievements of RF

4.38 ***Scope for setting targets.*** According to the Guide to Corporate Governance for Subvented Organisations (see para. 4.32), for performance monitoring, an effective performance management system involves, among others, developing performance indicators and setting targets, and measuring and reporting actual performance against targets.

4.39 According to AIPs submitted by RF Secretariat to RFAC from January 2019 to June 2023, in evaluating the effectiveness of RF for the related financial year, a number of objective criteria would be taken as reference, including the number of participants attended the promotional activities, the number of applications processed, and the number of on-site visits and interviews to applicants and grantees conducted. However, Audit noted that no specific targets were set for RF.

4.40 In Audit's view, EPD needs to consider setting targets for RF with a view to enhancing RF's performance measures.

4.41 ***Need to compile management reports based on final reports of projects.*** According to the funding agreements between the Government and grantees, for each approved project under ESP, ISP, SUP or RSB, the grantees are required to submit a final report (see para. 3.9(b)) which contains project results such as whether the key measures planned to be undertaken as set out in the "Key Measures/Implementation Plan" in the application form for the project were completed, and reasons if not.

4.42 According to EPD, RF Secretariat submitted reporting materials to RFAC and EPD regularly (see para. 4.18) (including number of applications, funding amount approved and target additional quantities of recyclables to be processed). However, Audit noted that RF Secretariat did not compile management reports based on the final reports of projects (e.g. summarising the performance and achievements of completed projects). In Audit's view, there is merit in compiling such information on a regular basis with a view to evaluating the performance of RF.

Need to keep under review the implementation of RF

4.43 According to EPD:

- (a) in January 2019, a mid-term review of RF was completed. Enhancement measures arising from the mid-term review were rolled out in January and November 2019;
- (b) EPD and RF Secretariat have been continuously monitoring the operation of RF and implementing enhancement measures (e.g. launch of a new funding scheme (i.e. RSB) in June 2020) on a regular basis. The scope and directions of enhancement measures would be brought to RFAC for consideration; and
- (c) EPD and RF Secretariat conducted two engagement sessions with the trade in September and November 2022 respectively to gather views from various stakeholders and identify room for improvement. When details of the proposed directions of the enhancement measures had been thoroughly reviewed and formulated, RF Secretariat would bring forward to RFAC for consideration.

4.44 In Audit's view, EPD needs to keep under review the implementation of RF and early introduce enhancement measures for improving operation of RF for the sustainable development of the recycling industry.

Audit recommendations

4.45 Audit has *recommended* that the Director of Environmental Protection should:

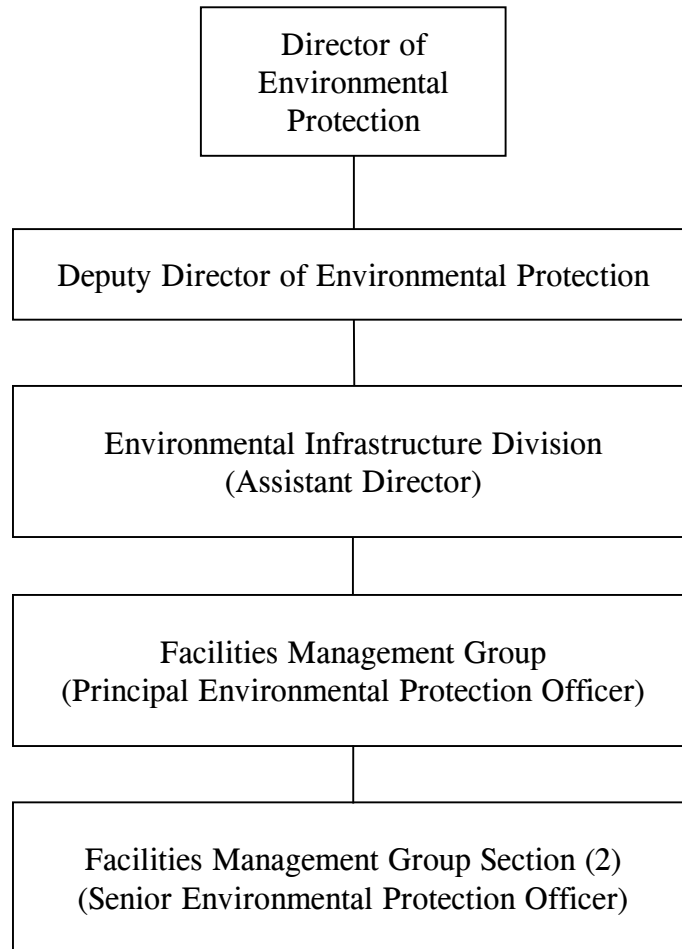
- (a) take measures to ensure that meeting materials for RFAC meetings are timely prepared and issued;**
- (b) consider reviewing the timeframe for issuing discussion papers and documents to RFAC members with a view to allowing sufficient time for them to study the discussion papers and documents;**
- (c) take measures to make better use of information technology in administering RF, including:**
 - (i) encouraging and promoting the use of the online application submission platform;**
 - (ii) exploring the feasibility of interfacing the online application submission platform with the RF electronic database to obviate the need for manual input of details submitted via online application submission platform; and**
 - (iii) exploring the feasibility of developing an online platform for submission of required deliverables by grantees;**
- (d) consider setting targets for RF with a view to enhancing RF's performance measures;**
- (e) take measures to compile management reports based on the final reports of projects on a regular basis with a view to evaluating the performance of RF; and**
- (f) keep under review the implementation of RF and early introduce enhancement measures for improving operation of RF for the sustainable development of the recycling industry.**

Response from the Government

4.46 The Director of Environmental Protection agrees with the audit recommendations. He has said that:

- (a) EPD and RF Secretariat will consider reviewing the timeframe for issuing meeting materials to RFAC members and take measures to ensure timely issuance of the materials;
- (b) RF Secretariat will continue to encourage and promote the use of online application submission platform and explore further enhancement measures to make better use of information technology in administering RF; and
- (c) EPD will keep under review the operation of RF and has already requested for new management reports to better monitor and evaluate the performance of RF Secretariat and operation of RF (see paras. 2.25(b), 2.34(b), 3.19(a) and 3.27(a)). EPD will consider together with RF Secretariat new targets and enhancement measures as appropriate to keep in line with the development of the recycling industry.

**Environmental Protection Department:
Organisation chart (extract)
(30 April 2023)**



Source: EPD records

Acronyms and abbreviations

AIPs	Annual implementation plans
Audit	Audit Commission
EEB	Environment and Ecology Bureau
EPD	Environmental Protection Department
ESP	Enterprise Support Programme
FC	Finance Committee
HKPC	Hong Kong Productivity Council
ISP	Industry Support Programme
LegCo	Legislative Council
OFRSS	One-off Frontline Recycling Staff Support Scheme
ORIAS	One-off Recycling Industry Anti-epidemic Scheme
ORSS	One-off Rental Support Scheme
RF	Recycling Fund
RFAC	Advisory Committee on Recycling Fund
RRSP	Relocation Rental Support Project
RSB	Solicitation Theme on Supporting Residential Buildings in Adopting Smart Bins Technology in Food Waste Collection and Recycling
SEE	Secretary for Environment and Ecology
SMEs	Small and medium enterprises
SOP	Standard Operating Procedure
SP1M	Standard Project — \$1M
SUP	Solicitation Theme on Projects from New and Start-up Enterprises