

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

Executive Summary

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).

Executive Summary

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

Executive Summary

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

Executive Summary

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

Executive Summary

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).

Executive Summary

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));**

Executive Summary

- (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.