

**Legislative Council Panel on Home Affairs
Special Meeting on 27 June 2006**

**Operation of National Sports Associations and
Sports Subvention Scheme**

Introduction

This paper briefs Members on the operation of the National Sports Associations (NSAs) and the related Sports Subvention Scheme. The existing mechanism to monitor the proper and accountable use of subvention by these sports organizations and the direction to further enhance monitoring of the subvention scheme are presented for Members' information.

Operation of National Sports Associations

2. The Sports Federation and Olympic Committee of Hong Kong, China (SF&OC) is the national olympic committee in Hong Kong with the responsibilities to co-ordinate all local sports organizations and promote interests of sports in Hong Kong. NSAs are local governing sports bodies in the respective sports disciplines established for the objectives to promote and develop local sports and to participate in international sports scene. They are normally affiliated to the concerned international federations and are recognized by the SF&OC as the sole official representatives in international sporting events. The Government provides funding support and works in partnership with the SF&OC and NSAs in the promotion and development of sports in Hong Kong.

3. NSAs are non-profit making bodies. They are registered independent legal entity with many as limited companies and the rest as societies under the Societies Ordinance. NSAs conduct their internal affairs with full autonomy in accordance with their Memorandum and Articles of Association. They are in close relations with the respective international federations in terms of participation in sporting events and universal application of sporting standards, and they abide by the governing spirit as enshrined in the Olympic Charter.

4. NSAs may generate income through own sources of donation, commercial sponsorship, membership fee and contribution from members. They also receive recurrent subvention from the Government through the Sports Subvention Scheme administered by the Leisure and Cultural Services Department (LCSD) and merits-based project funding through the Arts and Sports Development Fund under the Home Affairs Bureau. They are accountable to the public for activities supported by public funding.

Sports Subvention Scheme

5. With the dissolution of the Hong Kong Sports Development Board in April 2004, LCSD has since provided one-stop funding service to recognized sports bodies. At present, 57 NSAs and 28 other sports organizations are receiving funding support under the Sports Subvention Scheme (the Scheme) administered by LCSD. The subvention covers three main areas : personnel expenses, office expenses, and programme expenses. Personnel expenses refer to actual salary remunerations and provident fund contribution of 125 approved posts for NSAs. Office expenses is a token subsidy on general administrative costs in running NSA offices including rent and charges, annual audit fees and policy premium for public liability insurance. Programme expenses provide essential funding to NSAs and sports organizations for organizing various school sports and community sports programmes, conducting squad training programmes as well as organizing and participating in major local and overseas sporting events and competitions.

6. The size of the subvention varies significantly from one organization to another according to their individual organizational capability, their other sources of income, and the scale of the approved activities. For the year 2006-07, the subvention to individual organization ranges from the lowest of \$140,000 to the highest of \$8.8 million. The total subvention amounts to about \$147 million, of which administrative expenses of staff and office account for about 30% while the bulk of 70% goes to programmes. Over 9,000 sports programmes will be organized to benefit approximately 674,000 participants in the year.

Existing Monitoring Mechanism

7. When LCSD started providing one-stop funding service to NSAs in 2004, we have introduced the subvention agreement arrangement to formalize funding relationship with the subvented bodies and to stipulate clearly the funding terms and conditions. By entering into the subvention agreement, the NSAs undertake to organize specific sports activities for the promotion and development of sports based on the subvention received. The terms and conditions of the agreement stipulate that NSAs have to exercise proper internal controls to ensure the cost-effectiveness and accountability in the use of the subvention. Specifically, NSAs are required to report expenditure position and activity progress to LCSD at quarterly intervals, submit annual audit reports prepared by certified public accountants within six months after the close of financial year, seek prior approval for any use of subvention outside the scope of approved budget, etc. They should also inform LCSD on every election of office bearers and any changes of their Memorandum and Articles of Association. To facilitate Government's monitoring, they also allow unhindered access for the Government and the Audit Commission to enquire, examine and audit all records and accounts in respect of the subvention. In addition, the subvention agreement requires all NSAs to conduct their business in a lawful, fair and transparent manner. The NSAs are required to accept and act on any advice rendered by the Independent Commission Against Corruption (ICAC) and the Government to improve public transparency and accountability in their operation. Under the agreement, the NSAs have also consented to public disclosure of all information relevant to the subvention funding as and when necessary. LCSD has provided the NSAs with a reference handbook with procedural guides on staff and general administration, accounting and payment procedures, procurement practices, sponsorship and publicity, as well as distribution of complimentary tickets.

8. In 2004, LCSD joined hands with the ICAC to organize a seminar for the NSAs on themes of graft prevention and avoidance of conflict of interest. A sample code of conduct on aspects of acceptance of advantages and the principles of declaration to avoid conflict of interest was provided to the NSAs to facilitate them to draw up ethical code applicable to their organizations. All the NSAs have drawn up

internal code of conduct accordingly and have deposited the ethical code with LCSD.

9. LCSD has all along monitored the performance of the NSAs and will initiate enquiry into any irregularities found and seek rectification as appropriate. In addition to careful studying of the quarterly progress reports and the year-end annual report on audited accounts, LCSD keeps in close liaison with the NSAs in programme planning and carries out site inspections on the subvented activities for progress monitoring and assessments of the results achieved. Starting from 2005, LCSD has also conducted quality assurance checks to ensure that proper accounting procedures are adopted by the NSAs and the terms of the subvention agreement are complied with. The random checks that have been conducted so far have not revealed any significant non-compliance or issues that require intervention.

Direction to Further Enhance Monitoring

10. We are mindful of the community's expectation of a high level of ethics and accountability in NSAs' conduct of business. LCSD attaches great importance to this and keeps the subvention agreement under regular review. With the implementation of the one-stop funding service for a period of two years since 2004, it is an appropriate time to consolidate experience and seek for further improvement to meet increasing community aspirations.

11. In consultation with the NSAs and the SF&OC, LCSD is actively working on possible areas for enhancement. The code of conduct will be revisited and updated for renewing emphasis on proper declaration of interest and avoidance of conflict of interest. More elaborated and specific procedural guidelines on proper procurement practices will be introduced for NSAs' adoption. The quality assurance inspection will be conducted in a more systematic manner to ensure that all NSAs under subvention will be covered within a three-year cycle. On the other hand, NSAs will be encouraged to promote greater transparency and impartiality in decision-making process by co-opting independent and professional third parties to take part in their work, e.g. procurement. We will also facilitate better communication between the NSAs and local organizations including the District Councils and local sports bodies to

encourage greater community involvement in NSAs' programme development.

12. On 23 June 2006, LCSD will again jointly organise a seminar with the ICAC to refresh NSAs and sports organizations on topics of conflict of interest and proper procurement practices for enhancing their conduct of business in a more transparent manner. Over 150 representatives from NSAs and sports organizations are expected to participate in the seminar. Elaborated advice and detailed ICAC's 'best practices' modules booklets would be distributed to the participants. The reference materials will be uploaded on LCSD website for convenient access by NSAs. LCSD will seek to update the information and conduct similar refresher seminars for the NSAs on a more regular basis. Apart from the ICAC, LCSD will continue to involve more professional bodies such as the Hong Kong Institute of Directors and the Hong Kong Management Association, etc. to share good practices with the NSAs on improving corporate governance and public transparency.

Way Forward

13. We will continue to work closely with the NSAs and the SF&OC in the implementation of the enhanced monitoring measures to ensure fair and accountable use of public funding as well as proper and lawful conduct of NSA business. While respecting the autonomy and independence of the NSAs, we will continue to encourage the NSAs to adopt practices and procedures of enhanced transparency and accountability in their sports promotion and development work.