

For discussion on
8 December 2006

Legislative Council Panel on Home Affairs

**Proposed Injection of Funds into
the Arts and Sport Development Fund and
the Arts Development Fund**

Purpose

This paper seeks Members' views on our proposal to inject \$80 million (\$40 million for the arts and \$40 million for sport) into the Arts and Sport Development Fund (ASDF) and \$20 million into the Arts Development Fund (ADF) respectively.

Proposal

2. We propose to inject a sum of \$80 million into the ASDF to continue to support worthwhile initiatives on the arts and sport, and to inject a sum of \$20 million into the ADF to continue to support outbound cultural exchange activities.

Justification

(A) Arts and Sport Development Fund (ASDF)

Background

3. With the approval of the Finance Committee of the Legislative Council in January 1997, the Arts and Sport Development Fund (ASDF) was set up as a sub-fund under the Sir David Trench Fund for Recreation¹ to provide funding for key initiatives of the Hong Kong Arts Development Council (HKADC) and the then Hong Kong Sports Development Board (HKSDB) in their respective five-year strategic plans. A sum of \$300 million was voted to support the proposed activities. The

¹ Sir David Trench Fund for Recreation is a statutory fund established under the Sir David Trench Fund for Recreation Ordinance (Cap. 1128) for the purpose of providing facilities for recreational, sporting, cultural and social activities and other objects ancillary or incidental to this purpose. It is held in trust by the Incorporation of Director of Accounting Services and administered by the Secretary for Home Affairs.

allocations between the arts and sport were \$160 million and \$140 million respectively.

- **Arts Portion of ASDF**

Operation of the Arts Portion of ASDF

4. Established in June 1995, the Hong Kong Arts Development Council is a statutory body set up under the Hong Kong Arts Development Council Ordinance (Cap.472) to promote and develop culture and the arts in Hong Kong. It receives an annual recurrent subvention of around \$100 million from the Government for meeting their staff, administrative and programme expenses. With this recurrent subvention, the HKADC has been supporting the development of local artists and arts groups mainly through its Three-Year Grant, One-Year Grant, Devolved Grant and Project Grant schemes. Apart from the annual recurrent subvention of \$100 million, the HKADC has also been making use of funding from the arts portion of the ASDF ever since it was set up in 1997 to enable completion of its high priority programmes covered in its strategic plans and to support other projects which will make a significant contribution to the further development of the arts in the community.

5. From 1997 to 2000, 1 033 funding applications proposed either directly by the HKADC as pro-active projects under its 1995 five-year plan, or by the arts sector and considered worthy of support by HKADC were approved, with a total grant of \$103 million. As the majority of the projects undertaken during this period was small in scale and considered inadequate in achieving the desired outcome, a modified scheme which tightened the eligibility criteria was put in place by the HKADC in April 2000.

Eligibility Criteria for the Arts Portion of ASDF

6. The criteria adopted since April 2000 are –
- (a) grants to be disbursed should cover projects which enhance Hong Kong's position as an international cultural centre and/or contribute to the strategic development of the local arts scene;
 - (b) individual projects should have a budget of \$400,000 or more (with the exception of projects initiated by HKADC itself) ; and
 - (c) subsidy level must not exceed 75% of project estimate, up to a ceiling of \$2 million (with the exception of projects initiated by HKADC itself).

Approval and Disbursement of Funds for Applications

7. The Secretary for Home Affairs considers and approves applications for the arts portion of ASDF submitted by the HKADC. Funding for projects lasting for more than one year will be disbursed in two or more installments.

Monitoring of Approved Projects

8. HKADC is required to set out targets/deliverables in putting forward the funding applications. After funding is approved, HKADC is required to submit interim progress reports for review if the projects last for more than one year. Reports showing satisfactory progress of projects are necessary before the next installments are disbursed. A project report must be submitted by HKADC to the Home Affairs Bureau within eight months upon completion of the project. In case of substantial changes to the scope of the project or to the project estimate, the Secretary for Home Affairs must be consulted in advance. SHA has the authority to withdraw the grants due to project changes.

Statement of accounts

9. For projects costing over \$100,000, audited statements of accounts together with a project report have to be submitted by HKADC to the Home Affairs Bureau. To strengthen budgetary control of the projects and to ensure proper use of public funds, the auditors are required to confirm in the statements of accounts whether the conditions of the grant have been met.

10. For projects costing \$100,000 or less, a complete statement of accounts, together with the invoices and receipts must be submitted by the HKADC to the Home Affairs Bureau for checking.

Financial Position of the Arts Portion of ASDF

11. Since 1997, a total of 1 146 applications have been approved under the earlier scheme and the modified scheme with a total grant of \$225.3 million. A breakdown of the project types supported is appended below. The original sum of \$160 million injected into the Fund for the purpose was exhausted in July 2003. The excess of the grants made was met through investment income generated from the initial injection. Similarly, funding for applications is currently covered by investment income accrued. As at November 2006, the remaining balance of the arts portion of the Fund is \$6.5 million.

Nature of Projects	Number of Projects	Amount Approved
Research	95	\$32,393,896
Arts Education	164	\$25,412,354
Arts Promotion	825	\$131,216,588
Cultural Exchange ²	62	\$36,315,672
Total	1146	\$225,338,510

² mainly prior to 2001 before the Arts Development Fund was re-activated to support outbound cultural exchanges

Proposed Injection of \$40 million into the Arts Portion of ASDF

12. In 2006-07, HKADC receives \$97.4 million in recurrent subvention³ from Government. In the HKADC budget of 2006-07, \$17.5 million is earmarked for administrative expenses, \$41.1 million for support to three-year grantees, \$15.9 million for support to one-year grantees, \$18.9 million for support to proactive projects of a recurrent nature/ to support recurrent project grants⁴ and \$7.2 million for support to the Hong Kong International Film Festival. For historical reasons, the majority part of HKADC's recurrent subvention has been used to support the relatively more established arts groups and artists. HKADC has been relying on the additional funding from ASDF to carry out special projects with significant contribution to culture and the arts, including those for supporting small and medium size arts organizations, as well as new and budding artists.

13. In June 2006, the Committee on Performing Arts, set up to advise the Government on the provision of performing arts services, recommended in its Recommendation Report (I) that there should be a single funding body to advise on the funding for the ten major performing companies currently funded by the Leisure and Cultural Services Department (four) and HKADC (six) respectively. The Government accepted the Committee's recommendations and a Funding Committee for Performing Arts had been set up in November 2006 to advise on the disbursement and monitoring of funds made by the Home Affairs Bureau under the single funding mechanism. As a result of this transfer of funding responsibility for the six major performing companies from HKADC to the new arrangement, HKADC will be consolidating its focus of work on the new and budding artists and arts groups, as well as the small to medium sized arts organizations. This re-focus should be a welcoming response to those in the arts and cultural sector who feel that HKADC

³ The HKADC operates on a deficit budget in 2006-07. However, experience shows that for various reasons, the actual spending of the grantees by year end will usually fall short of the original estimate. Moreover, as at 31 March, 2006, HKADC has \$1.8 million in reserve.

⁴ Apart from funding one-off projects from ASDF, HKADC operates three types of standing grants from its recurrent subvention, namely three-year grants, one-year grants and project grants. Three-year grants and one-year grants are provided to established arts groups with long track records. Competition is keen and fresh applications from both existing grantees and new applicants are invited on a triennial or annual basis and applications are subject to a system of artistic and impact assessment by the HKADC. Applications to project grants under the different art forms are invited twice a year and vetted and assessed by the various art form panels. The ceilings for project grants vary from art form to art form but they are much lower than the thresholds under ASDF.

should provide more opportunities for young and budding artists to obtain financial support.

14. In line with its new work focus, it is HKADC's plan that the proposed \$40 million injection will be earmarked to support the following new schemes or initiatives –

(a) Budding Grant Scheme

A new budding grant scheme will be set up to support new artists or art groups (including recent graduates of the relevant disciplines). The objective is to provide them with a performance opportunity, an exhibition opportunity, or an opportunity to participate in open competitions through subsidy on production costs, venue charges or related expenses. HKADC will also endeavour to explore new and different types of performance and exhibition venues for this category of new artists and art groups who may otherwise not be able to compete with the more established art groups for use of the centrally located purpose-built public venues. This is to complement the existing one-year grant scheme and the project grant scheme operated by HKADC which aims to support those artists or art groups with established track record. HKADC will develop new application and funding criteria for this new grant scheme to facilitate these new artists or art groups.

(b) Enhanced Support Scheme for Budding Artists

For those budding artists with recognized potential, a new, enhanced support scheme will be introduced. The scheme seeks to provide budding artists with recognized potential opportunities for internship with established arts institutions or performing companies, or residence programmes with renowned local or overseas institutions, through matching them with the appropriate and interested mentors/mentoring organizations and funding them on the relevant internships.

(c) Support for Small and Medium Sized Performing Arts Groups

It is a recommendation in the Committee on Performing Arts' Recommendation Report (I) that HKADC will, in conjunction with the new Funding Committee for Performing Arts, work out a referral mechanism to allow meritorious small and medium sized performing arts groups funded by HKADC to progress and join the league of major groups. This is to give effect to the 'entry and exit' mechanism envisaged in the new funding assessment arrangement to be developed by the Funding Committee for Performing Arts and to ensure a healthy progression ladder for maturing small and medium sized groups.

To follow up on this recommendation, HKADC proposes to make use of the proposed injection from ASDF to strengthen its existing support for small and medium sized performing arts groups to help them attain a higher level of excellence through subsidy on artistic training, research, production costs of performance programmes and venue charges.

(d) Arts Education, Arts Promotion and Community Participation

Arts education, arts promotion and community participation are essential to the sustainable development of the arts and cultural scene in Hong Kong. HKADC will deploy resources available under the new injection to step up efforts in partnering with the District Councils, non-governmental organizations and business corporations to bring culture and the arts closer to the community and into all walks of life. Examples of such projects include partnering with district youth organizations to work on drama projects for district youths, presenting arts exhibitions in district community centres with meet-the-artist sessions in collaboration with the District Councils, and setting up "Street Billboards" with the support of District Councils in promoting arts programmes.

15. As the proposed new schemes will be launched within 2007-2008, it is expected that up to \$20 million will be committed in the first year (i.e. 2007-08) and the remaining \$20 million in the second year (i.e. 2008-09). At a steady rate, the proposed injection is expected to be exhausted by 2008-09. HKADC and the Home Affairs Bureau will continue to monitor the effectiveness of the approved projects and the use of ASDF in general, on the basis of the required project deliverables including project reports and accounting statements.

- **Sports Portion of ASDF**

Operation of the Sports Portion of ASDF

16. The sports portion of ASDF is used mainly to support our athletes' preparation for and participation in major sports games and the hosting of major international sports events in Hong Kong. It may also be used to support other "one-off" activities which are of significant importance to the development and promotion of sports in Hong Kong. Both the capital and income generated from ASDF can be used. Over the years and up to 21 November 2006, over \$192 million from ASDF (as compared to the initial injection of \$140 million) has been used to support 107 sports projects. As at 1 November 2006, the uncommitted balance of the sports portion of ASDF was \$58.5 million.

Applications for the Sports Portion of ASDF

17. At present, the sports portion of ADSF is used to support projects of the following categories:

(a) Preparation for Major Games

ASDF provides funding support to elite athletes as well as athletes of development sports and sports for the disabled to prepare for the major sports games/competitions including Olympic Games, Asian Games, All China Games, Paralympic Games, Far East and South Pacific Games for the Disabled (FESPIC Games) etc. Funding from ASDF can be used to cover

expenses relating to the additional local training and overseas training/competitions, purchase of additional equipment, provision of on-field support and hire of additional coaches.

(b) Participation in Major Games

ASDF is also used to support Hong Kong Delegation to participate in major games, such as the Olympic Games, Paralympics Games, Asian Games and All China Games and FESPIC Games. Funds granted under this category can cover expenses for the delegation's accommodation and meal, local transportation, uniform and other related expenses such as medical tests and purchase of souvenirs etc.

(c) Hosting of Major International Events

In line with our objective to make Hong Kong a major location for international sports events, the sports portion of ASDF also supports National Sports Associations and other sports organisations to host major international events of different nature and size in Hong Kong. In particular, funding from ASDF has been earmarked to support the "M" Mark System⁵ which was launched in November 2004. Funds granted are generally used to cover venue charges, costs for accommodation and meal of the participants, allowance for officials and some miscellaneous items such as prize and trophy etc. For the "M" Mark System, funding, if approved, is provided in form of interest-free loan, matching fund and/or direct grant.

(d) Other "one-off" Activities

The sports portion of ASDF may also be used to support other "one-off" activities which are of significant importance to the development and promotion of sports in Hong Kong.

⁵ \$30 million from the ASDF has been earmarked as the seed fund to support "M" Mark events. During the first, second and third year of the event upon successful application, matching funds for up to \$3 million, \$2 million and \$1 million would be provided in the respective year.

Approval and Disbursement of Fund for Applications

18. Applications for the sports portion of ASDF are considered and approved by the Secretary for Home Affairs. The Director of Accounting Services, as the trustees of the ASDF is responsible for the disbursement of the grant to the grantees.

Monitoring of Approved Projects

19. For approved grants, the grantees are required to comply with a list of conditions including the submission of evaluation report and statement of accounts/audited statement upon completion of the projects, and the return of unspent balance within three months after the completion of the projects.

Financial Position of the Sports Portion of ASDF

20. As at 21 November 2006, the sports portion of ASDF has supported 107 sports projects for a total of over \$192 million. A breakdown by project type is as follows: -

Nature of Projects	Number of Projects	Amount Approved
Preparation for Major Games	26	\$76,910,809
Participation in Major Games	26	\$41,762,431
Hosting of Major International Events	29	\$23,316,309
Other "one-off" Activities	26	\$50,300,655
Total	107	\$192,290,204

21. The principal of the original \$140 million was exhausted in February 2005. Funding for sports portion of ASDF is currently covered by investment income accrued. As at 1 November 2006, the uncommitted balance of the sports portion of ASDF was \$58.5 million.

Proposed Injection of \$40 million into the Sports Portion of ASDF

22. The sports portion of ASDF is an important funding source for the development and promotion of sports in Hong Kong. In anticipation of the major games and major international sports events that Hong Kong will organise/stage in the coming years, we expect that an average of over \$30 million per annum will be required from the sports portion of ASDF over the next three to four years. Although the sports portion of the ASDF has a healthier balance than the arts portion, we consider it appropriate to seek an injection to the sports portion at the same time given an overall strategy to develop sports development on all fronts as announced after the Chief Executive's 2006-07 Policy Address. This would also be a boost to the morale of our athletes who are currently competing in the Doha Asian Games and as they intensify their training for the 2008 Beijing Olympics and the 2008 East Asian Games to be hosted by Hong Kong. Furthermore, a more steady source of funding support would help nurture a larger pool of elite athletes for these upcoming major events.

(B) Arts Development Fund (ADF)

Background

23. The ADF was set up with a capital of \$30 million as a sub-fund under the Sir David Trench Fund for Recreation in May 1993. When the ADF was first set up, it was used to support new and budding arts groups in the performing arts as well as to support the development of visual and literary arts. Upon the setting up of the ASDF in 1997, all applications from arts groups on specific projects were channeled to ASDF. Funding applications to ADF were stopped between 1997 and 2001.

24. In November 2001, in view of the rising interest of local arts groups/artists in developing cultural networks with overseas and Mainland cultural groups/organizations and presenting their works overseas and in the Mainland, the outstanding balance of ADF was used to fund outbound cultural exchange activities by local artists and art groups, in particular the participation in outbound cultural exchange by small and budding artists and art groups. We also reckon that one of the effective ways to support young and budding artists is to provide them with the opportunity to have exchange with overseas and Mainland artists and arts groups in order to broaden their horizons and experience as well as to facilitate the promotion of Hong Kong's arts and the promotion of Hong Kong internationally. The ADF is administered by the Secretary for Home Affairs. Applications to the ADF are considered by an advisory group chaired by the Deputy Secretary for Home Affairs, with membership of the Chairman, the Chief Executive and a member of HKADC and a representative from the Leisure and Cultural Services Department.

Operation of ADF

Eligibility of Applications for ADF

25. Local artists/arts organizations with proven track record may apply. Applications must be made on the basis of official invitations from either overseas government/quasi-government organizations, or any fairly reputable overseas organizations. Generally, applicants may receive a maximum of two grants in a 12-month period.

Approval and Disbursement of Funds for Applications

26. Applications for funding over \$50,000 are considered and recommended by the ADF Advisory Group, comprising HKADC members and representatives from the Home Affairs Bureau and the Leisure and Cultural Services Department, for approval by the Secretary for Home Affairs. Normally, the grants will not exceed one third of the total budget of a project, except for cases fully justified on individual merits.

27. Grants from ADF may be used to defray accommodation, transportation and insurance expenses. Expenditures on approved items are reimbursed with the support of receipts within three months upon completion of the activities

Monitoring of Approved Projects

28. ADF grantees must submit project reports to the Home Affairs Bureau within three months upon completion of approved projects.

Financial Position of ADF

29. From 1993-94 to 1996-97, a total of \$22.4 million was disbursed from the ADF through 130 grants. As at November 2001, the balance of the fund was \$14.1 million (including the investment income of the fund). Since November 2001, a total of 92 applications have been approved with a total grant of \$11.5 million. The remaining balance as at 15 November 2006 is \$4.9 million. A breakdown of the grants from 2001-2002 onwards is as follows:

Year	Number of Projects	Amount Approved
2001-2002	4	\$534,490
2002-2003	1	\$17,000
2003-2004	24	\$2,692,000
2004-2005	19	\$3,658,100
2005-2006	24	\$2,436,550
2006-2007 (as at November 2006)	20	\$2,208,400
Total	92	\$11,546,540

Proposed Injection of \$20 million into ADF

30. As there is no recurrent funding earmarked for outbound cultural exchange activities and in view of the fact that the ADF will soon be exhausted, we propose a new injection of \$20 million to continue the support for outbound cultural exchange activities. As cultural exchanges are two-way flows, we consider that support to these outbound activities would also be conducive to realizing our policy commitment to ‘attract worldwide creative talent to Hong Kong’ in the Policy Address in October 2006, when overseas or Mainland artists and arts groups reciprocate the visits of our artists and arts groups. Based on the past pattern of spending and taking into account the rising trend for outbound cultural exchange activities, we expect that the proposed funding injection should be able to support outbound exchanges from 2007 to 2012 at a rate of \$4 million per year. As with the ASDF funding, the Home Affairs Bureau would closely monitor the effectiveness of the cultural exchange activities funded by the ADF.

Advice Sought

31. Members are invited to comment on the proposed injection of funds into ASDF and ADF. Subject to Members’ view, we shall seek the approval of the Finance Committee in January 2007 for the proposed injection of \$80 million to ASDF and \$20 million to ADF in 2006-07.

Home Affairs Bureau

November 2006