

ITEM FOR FINANCE COMMITTEE

HEAD 53 – GOVERNMENT SECRETARIAT: HOME AFFAIRS BUREAU

Subhead 700 General non-recurrent

New Item “Injection into the Arts and Sport Development Fund”

Members are invited to approve a new injection of \$3 billion into the Arts and Sport Development Fund to provide a sustainable source of funding support for arts, culture and sports initiatives.

PROBLEM

We need to provide a sustainable source of funding to support the long-term development of the arts, culture and sport.

PROPOSAL

2. The Secretary for Home Affairs (SHA) proposes to create a new commitment of \$3 billion for injection into the Arts and Sport Development Fund (ASDF) in 2010-11 as seed money to generate stable investment returns to support existing and new worthwhile arts, culture and sports initiatives on a sustainable and long-term basis.

JUSTIFICATION

3. The Government attaches great importance to promoting the development of arts, culture and sport. The ASDF has been one of the major sources of funding in these areas since its inception in 1997. As at 30 April 2010, the uncommitted balance of the arts and sports portion of the ASDF was about \$34.5 million and \$86.0 million respectively. Based on the pattern of grant disbursement in the past three years, the remaining balance of the ASDF will be

/exhausted

exhausted in 2011-12. A stable and substantial source of funding would enable the ASDF to support arts and sports projects on a sustained basis, especially for initiatives that may require financial support over a prolonged period. The proposed \$3 billion injection will enable the ASDF to generate better investment returns for providing stable and enhanced financial support to worthwhile arts and sports projects (including those that may span several years). Timely injection is also critical, or the ASDF may run out of funds for supporting worthwhile projects.

Benefits of the Proposed Injection

4. Based on the assumption of an average annual investment return rate of 4% to 5% in the long run, the proposed injection of \$3 billion may generate around \$120 million to \$150 million of annual investment proceeds to be shared equally between the arts and sports portions of the ASDF. This higher level of funding available for disbursement will enable the Government to respond more positively to the development needs of the arts and sports sectors. We have considered the possible uses of the future investment proceeds from the ASDF, including the scope for supporting new initiatives, and the mechanisms for processing and vetting ASDF applications. The respective proposals for the arts and sports portions of the ASDF are set out below.

Arts Portion

Support through the Hong Kong Arts Development Council

5. SHA considers and approves applications to the arts portion of the ASDF. At present, the arts portion supports primarily the schemes or projects initiated or recommended by the Hong Kong Arts Development Council (HKADC)¹ in four broad categories as follows –

- (a) Budding Grant Scheme – schemes / projects that support debut or budding artists by providing performance and exhibition opportunities;
- (b) Support Scheme for Budding Artists – schemes / projects that support budding artists with recognised potential by measures such as funding their internship with established arts institutions locally or overseas;

/(c)

¹ Established in June 1995, the HKADC 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. With the recurrent subvention from the Government and funding from the arts portion of the ASDF, the HKADC has been supporting the development of local artists and arts groups mainly through its Two-Year Grant, One-Year Grant, Project Grant, Multi-Project Grant, Devolved Grant and Emerging Artist Grant schemes.

- (c) Support for Small and Medium-sized Arts Groups – schemes / projects that support small and medium-sized arts groups, including the multi-project grant scheme that offers support to more than one project proposed by an applicant arts group; and
- (d) Arts Education, Arts Promotion and Community Participation – schemes / projects that enhance student and community appreciation of and participation in culture and the arts, including projects organised in partnership with the District Councils, non-governmental organisations and business entities to make culture and the arts more accessible to the community.

As at 30 April 2010, SHA had approved 1 287 schemes / projects with a total grant of about \$295.7 million under the arts portion of the ASDF. The uncommitted balance for this portion was \$34.5 million. A breakdown of the schemes / projects approved is at Enclosure 1.

Encl. 1

6. The average amount of grants approved in the past three financial years is over \$22 million per annum. To strengthen the cultural software through arts programme development, audience building, manpower training and arts education, we plan to support more schemes / projects through the HKADC with the increased investment income following the proposed injection into the ASDF. We propose that an enhanced provision of around \$30 million be reserved annually for the above schemes / projects undertaken or recommended by the HKADC. In accordance with the prevailing eligibility criteria adopted by the HKADC, the subsidy ceiling for such schemes / projects, other than those initiated by HKADC itself, is \$2 million.

Support to other Arts and Cultural Proposals

7. In recent years, there have been calls to provide funding support for arts and cultural projects of a larger scale so as to build up a vibrant local arts scene and boost Hong Kong's standing in the world cultural map so as to complement the West Kowloon Cultural District project. The additional investment income generated from the proposed injection will allow SHA to consider supporting worthwhile initiatives that will contribute to the further development of the arts and culture in the community, including schemes / projects of a scale larger than those normally recommended by the HKADC, as well as time-limited programmes that require a regular source of funding spanning several years. Our estimate is that about \$30 million to \$45 million of ASDF's investment income should be made available for such initiatives. Subject to Members' approval of the proposed

/injection

injection, we will set up a committee comprising mainly non-government officials including arts experts to advise SHA on an appropriate mechanism to fund additional arts and cultural projects of different art forms (including performing and visual arts), and the themes or priorities (such as audience building) to be set for each funding application cycle. The committee will consider preliminary assessment of the applications received, and make recommendations to SHA for approval.

8. Similar to the existing monitoring mechanism applicable to schemes / projects initiated or recommended by HKADC, applicants will be required to set out clearly the targets / deliverables, and to consult SHA prior to making substantial changes to the scope of an approved scheme / project. Grant recipients will be required to submit evaluation reports and audited statements of accounts in respect of completed projects, and periodic progress report(s) for programmes that span more than a year. Any unspent balance will be returned to the ASDF. Detailed funding and assessment criteria and the control mechanism will be worked out by the advisory committee to be established.

Sports Portion

9. Like the arts portion, SHA considers and approves applications to the sports portion of the ASDF. At present, the sports portion supports projects in the following categories –

- (a) support for athletes to prepare for and participate in major international and national games;
- (b) the hosting of major international sports events by National Sports Associations (NSAs) and other sports organisations; and
- (c) “one-off” initiatives that are important to the development and promotion of sport in Hong Kong.

As at 30 April 2010, SHA had approved 181 sports projects with a total approved grant of about \$311.3 million. The uncommitted balance for the sports portion was \$86.0 million. A breakdown of the funding approved by category of projects is at Enclosure 2. Currently, funding applications in the sports portion are mainly vetted by the Home Affairs Bureau (HAB) and the Leisure and Cultural Services Department (LCSD) before obtaining SHA’s approval.

Encl. 2

10. With more Hong Kong athletes taking part in more international sports competitions (including major events staged in Hong Kong), the amount of funding required for sports projects has risen significantly in recent years. The annual average of grants approved in the last three financial years was \$36 million. The larger investment proceeds to be generated from the proposed injection in the ASDF will enable us to continue and strengthen our support for sports projects. For example, we may consider expanding the scope of international sports events for which we will grant funding to athletes for preparation and participation, so that athletes taking part in events other than the largest-scale multi-sports games may also be supported to strive for more achievements. In addition, we may consider making additional funding available to NSAs for staging and marketing "M" Mark events², thereby increasing the number of high-profile events held in Hong Kong and helping them achieve greater success to raise our profile as a capital of sporting events in Asia. Our initial estimate is that, on average, about \$30 million to \$40 million would be required annually to support and strengthen these existing projects.

11. In addition, we would support new worthwhile sports projects. In this regard, we consider that there is a need to enhance the present application vetting mechanism, so that SHA may take account of the views of stakeholders in considering individual applications. We propose that the Sports Commission³ (SC), the highest-level advisory committee on sports policy, should advise on the disbursement of the sports portion of the ASDF. We propose to consult the SC annually on the broad areas to be supported (which may include existing projects and new initiatives), having regard to sports policy objectives and the specific needs of the sports community. The SC could also advise on the ceiling of each area to ensure that the total grants approved in a year would not exceed the investment returns generated from the previous year.

12. As regards the new sports projects that could be supported in the first year after the capital injection, the SC has already been consulted and agreed that further consideration should be given to initiatives in the following areas –

/(a)

² The "M" Mark System was launched in November 2004 to nurture more sustainable major sports events in Hong Kong. An "M" Mark status is awarded to recognised major sports events held in Hong Kong which meet a number of eligibility criteria. Support measures including the provision of matching grant to "M" Mark events in their first few years to help them develop into sustainable undertakings.

³ Established on 1 January 2005, the SC advises the Government on the policies, strategies and implementation framework of sports development in Hong Kong; and the provision of funding and resources in support of sports development, taking into account the input from various stakeholders in sport through partnership and collaboration. SHA is the Chairman of the SC, which has 16 non-official members and one official member (i.e. Director of Leisure and Cultural Services).

- (a) support for team sports that have the potential for greater spectator appeal and public participation. For example, additional funding could be allocated to NSAs to hire renowned coaches and to take part in more overseas training and competitions to raise standards;
- (b) upgrading school and district-level programmes to boost community participation in sport, for example, through the creation of more training and competition opportunities; strengthening support to young talents and helping them develop into elite athletes; and broadening the ambit of the Hong Kong Games and other community-wide sports projects; and
- (c) on the basis of the recommendations of the Football Task Force⁴, allocate resources to implement the recommendations of the consultancy study on the development of local football.

13. Depending on the grant ceiling to be determined based on SC's advice, and the actual number of applications received from NSAs, schools and district organisations, we envisage that some \$25 million to \$35 million would be required for the above new projects in the first year after the capital injection. Subject to Members' approval of the proposed injection, we will work out the detailed application vetting procedures together with the SC. We aim to invite applications for the new sports initiatives from the second half of the 2010-11 financial year.

14. For applications made to the sports portion of the ASDF, the HAB and the LCSD would conduct preliminary assessments of the applications and make recommendation to the SC for consideration before submission to SHA for approval. While the detailed vetting procedures have to be worked out, the monitoring and control measures will be similar to those to be adopted for the arts portion as elaborated in paragraph 8 above.

/Investment

⁴ The Football Task Force was appointed by SHA to take forward the key recommendations of the consultancy report on football development published in March 2010, in particular to identify priority areas for the long-term development of football and to monitor progress of the related initiatives.

Investment and maintenance requirement of ASDF

15. The ASDF is a sub-fund under the Sir David Trench Fund for Recreation⁵ (SDTFR) established under the Sir David Trench Fund for Recreation Ordinance (Cap. 1128). The Director of Accounting Services is the statutory trustee of the SDTFR and is responsible for managing the related investment and accounting work. As required by the Ordinance, the Government has set up the Sir David Trench Fund for Recreation Investment Advisory Committee (the Committee), which sets the investment strategies for the SDTFR and its various sub-funds and advises on matters in relation to investment. The existing statutory framework will continue after the proposed capital injection into the ASDF.

16. The investment guideline of the ASDF is based on a prudent and conservative principle, and the current investment portfolio includes fixed deposits and bonds. The proposed injection of \$3 billion will be used as seed money. Through the annual investment returns, the seed money will provide the ASDF with additional and sustainable resources to support the long-term development of sport, culture and arts. HAB will work with the Treasury on the future investment strategy having regard to the forecast annual funding requirements and consult the Committee on the proposed strategy. Although it remains the objective to maintain the capital base (i.e. the \$3 billion injection) intact in the long run, we consider it appropriate to allow SHA to use part of the capital base if the investment returns plus the accumulated surplus are inadequate to meet the funding needs in a particular year to allow flexibility in supporting worthwhile or time-critical projects in times of high market volatility. This would ensure that sustained efforts to promote sport, culture and arts would not be disrupted by short-term fluctuations in the investment markets.

FINANCIAL IMPLICATIONS

17. We propose a one-off injection of \$3 billion into the ASDF in 2010-11. The additional workload arising from the administration and operations of the ASDF will initially be absorbed by HAB, LCSD and the Treasury. We will review the staffing requirements having regard to the actual experience following the injection, and follow up as appropriate.

/PUBLIC

⁵ SDTFR 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 the Director of Accounting Services and administered by SHA.

PUBLIC CONSULTATION

18. On the arts portion of the ASDF, we have briefed HKADC on our proposals to enhance support to the small and medium-sized arts sector through HKADC, and provide resources to other worthwhile arts and cultural projects initiated by arts practitioners. The proposals were well received.

19. As for the sports portion, we have consulted the SC in mid-June. The SC indicated support for the proposed capital injection and the revised approval mechanisms, which would enhance the participation of the SC in the ASDF funding process.

20. We consulted the Legislative Council Panel on Home Affairs on 14 May 2010. In general, Members supported the proposed injection and the submission of the proposal to the Finance Committee (FC) for consideration. Panel members sought supplementary information on the composition of the advisory committee to be set up to advise SHA on the mechanism for funding additional arts and cultural projects, as well as the estimated amount of funds earmarked for these projects. We have incorporated the related information into paragraph 7 of this paper. The Panel also sought information on the sponsorship for arts and sports programmes for people with disabilities through the ASDF. During the past five years, the sums allocated to programmes for people with disabilities were about \$1.4 million and \$5.4 million under the arts and sports portions respectively. The supplementary information requested was separately provided to the Panel on 22 June 2010.

BACKGROUND

21. With the approval of the FC in January 1997, the ASDF was set up as a sub-fund under the SDTFR to provide funding for worthwhile projects for the further development of arts and sport in the community, in particular key initiatives of the HKADC and the then Hong Kong Sports Development Board⁶. A sum of \$300 million was approved as a one-off injection to support these initiatives.

/The

⁶ The Hong Kong Sports Development Board was the former statutory body responsible for promoting the development of sport in Hong Kong until its dissolution on 1 October 2004, which was followed by the re-constitution of the Hong Kong Sports Institute as an incorporated body focusing on elite athletes' training and development, and the setting up of the SC.

The allocation between the arts and sports portions of ASDF was \$160 million and \$140 million respectively. The FC approved two further injections into the ASDF, viz. \$80 million (\$40 million each for the arts and sports portions) on 26 January 2007 and \$150 million (\$60 million for the arts portion and \$90 million for the sports one) on 20 February 2009. Both government injections and investment income generated by the injections have been used to support arts and sports activities. Any refunds from the underspending of approved projects have also been ploughed back into the ASDF.

22. The Financial Secretary announced in the Budget Speech on 24 February 2010 a proposal to inject \$3 billion into the ASDF as seed money and to provide sustainable additional resources for supporting the long-term development of sport, culture and arts.

Home Affairs Bureau
June 2010

Enclosure 1 to FCR(2010-11)35

**Approved Arts Schemes/Projects by Category
between 1 January 1997 and 30 April 2010**

Between January 1997 and March 2007

Nature of Projects	Number of Projects	Amount Approved (\$)
Research	95	32,393,896
Arts Education	164	25,412,354
Arts Promotion	826	133,046,588
Cultural Exchange	62	36,315,672
Total	1 147	227,168,510

Between April 2007 and April 2010 (with programme areas re-organised to focus on the nurturing of small and medium-sized groups and budding artists)

Nature of Projects	Number of Schemes / Projects	Amount Approved (\$)
Budding Grant Scheme	6	8,550,000
Support Scheme for Budding Artists	4	7,870,000
Support for Small and Medium-sized Performing Arts Groups	107 ^{Note}	13,727,500
Arts Education, Arts Promotion and Community Participation	23	38,394,700
Total	140	68,542,200

^{Note} This includes the 2008-10 Multi-project Grant Scheme (involving 37 projects), the 2009-11 Multi-project Grant Scheme (involving 30 projects) and the 2010-12 Multi-project Grant Scheme (involving 39 projects), and one other project to support small and medium-sized performing arts groups.

**Approved Sports Projects by Category
between 1 April 1997 and 30 April 2010**

Nature of Projects	Number of Projects	Amount Approved (\$)
Preparation for Major Games	39	120,884,169
Participation in Major Games	44	76,231,858
Hosting of Major International Events	70	62,102,017
Other "One-off" Activities	28	52,070,655
Total	181	311,288,699
