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31 December 2009

Ms Serena CHU
The Legislative Council
Legislative Council Building
8 Jackson Road
Central

Dear Ms CHU,

**The Director of Audit's Report on the
results of value for money audits (Report No. 53)**

Administration of the Sports Subvention Scheme (Chapter 1)

Thank you for your letter of 21 December 2009.

Additional information on the Sports Subvention Scheme as requested by the Public Accounts Committee (PAC) is set out below for your follow-up action -

- (a) We will set up a Working Group in January 2010 to conduct a comprehensive review of the Sports Subvention Scheme (the Scheme). The directions and key areas of the review are set out at **Annex A**. We will report to the PAC the progress and outcome of the review as appropriate.
- (b) At present, the achievement of the performance targets set by a National Sports Association (NSA) for the last financial year is one of the factors considered by the Leisure and Cultural Services Department (LCSD) in determining the subvention level for the NSA in the next year. In the review, we will actively explore how we could encourage the NSAs to set more objective/quantitative performance targets and to better link the NSAs' achievement of the targets with the next subvention allocation. In addition, consideration will be given to the introduction of a system to reward/penalize the over/under achievement of performance targets by NSAs. This is one of the key areas to be reviewed by the Working Group (see items B(a)(i) of Annex A) and details will be worked out in consultation with the NSAs.

- (c) The Government has been working in close partnership with the NSAs to promote the three objectives of sports development in Hong Kong, namely: (i) to develop a strong sporting culture in the community; (ii) to help our elite athletes to achieve excellence; and (iii) to raise our profile as a centre for international sporting events. With the annual subvention granted under the Scheme, the NSAs organize a wide range of programmes to achieve the three objectives. For objective (i), NSAs receiving government subvention organize promotional and development programmes throughout the year, including development schemes, school sports programmes, local competitions and community sports club projects with a view to encouraging people from all walks of life to participate in sports, thereby enhancing the physical fitness of Hong Kong people and fostering a strong sporting culture in the community. For objective (ii), in order to train more young people with potential to compete for Hong Kong in the international sports arena, the Scheme provides funding support for NSAs to organize training programmes for our elite athletes in the national, junior and regional squads, as well as for their participation in international competitions. The Scheme also provides the much needed funding support for NSAs to enhance their feeder systems in order to identify and nurture the young and upcoming athletes to join the elite teams. The feeder system has proved to be successful as evidenced by the good results achieved by our athletes in many international sports events in recent years. The subvention granted for the organization of training programmes for NSA officials/referees and their attendance at international meeting/conferences keep them abreast of the updated rules and regulations for international competitions, which is essential for the development of the sports in Hong Kong. In addition to providing valuable training/competition opportunities for our elite athletes, the Scheme, in supporting NSAs to host Local International Events such as the FINA Marathon Swimming World Cup-Hong Kong and the Tours of South China Sea (Cycling), help achieve objective (iii) by raising Hong Kong's status as a major sports events capital.
- (d) As mentioned at the PAC hearing, since LCSD took over the role to provide subvention to NSAs in 2004, we have received only one application for subvention which was not invited by us. The application was made by the Hong Kong Muay Thai Association (HKMTA) (香港泰拳理事會) in 2005 and was not approved as the legitimacy of its representation for the sport of Thai-boxing in Hong Kong has remained unresolved. This is because the Hong Kong Boxing Association (HKBA), a member of the Sports Federation and Olympic Committee of Hong Kong, China (SF&OC), had all along been receiving subvention from the former

Hong Kong Sports Development Board (HKSDB) for the development of boxing in Hong Kong. While HKBA claims that it is the local authority for developing other disciplines of ring competitions including Thai-boxing, the HKMTA, which has become a member of SF&OC in November 2004, also claims that it is the authority for developing Muay-thai (Thai-boxing) in Hong Kong. At the international level, HKBA and HKMTA are recognized separately by two different international sports federations to develop the sport in Hong Kong. As the legitimate representation for Muay-thai (Thai boxing) in Hong Kong has not yet been resolved, we are unable to approve HKMTA's application for subvention under the Scheme. Nevertheless, we will continue to discuss with SF&OC with a view to resolving the matter.

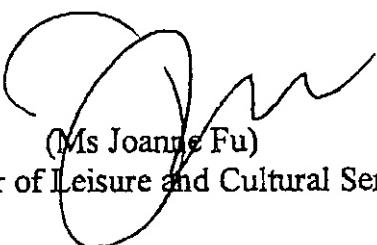
- (e) In signing the Subvention Agreement with individual NSAs, we will attach a list of the approved programmes to be organized by the NSAs under different categories during the year as reference. If the unspent allocation is resulted from the economy use of resources or successful solicitation of sponsorship for the individually approved programmes organized, the savings thus resulted can be deposited into the reserve fund held by NSAs. However, if any of the individually approved programmes are cancelled, the amount of subvention specifically allocated to such programmes should be returned to the Government. For the lump-sum subvention for programmes under the categories of International events held outside Hong Kong, National/Junior Squad Training Programmes, Regional Squad Training Programmes, Training of Officials, and Meetings/Conferences, it should be noted that the total expenditure of the approved list of programmes often far exceeds the lump sum subvention allocated to the NSAs under these categories. As explained at the PAC hearing, given the nature of these programmes in which certainty of staging/attending is not under the sole control of the NSAs, we have built in the flexibility and given the NSAs some discretion to decide which international competitions/training their athletes would take part in having regard to the athletes' needs and their strategy to attain the best results/benefits for the development of their sports. Normally, NSAs will exhaust the subvention allocated for these programmes. In case the NSAs will not be able to use up the subvention for these categories of programmes, they can retain the unspent amount. Notwithstanding that a lump sum subvention is provided for these categories of programmes, LCSD still performs a vetting role to make sure that the individual items of expenditure meet the eligibility criteria for subvention and are within the ceiling set for the relevant expenditure items. Furthermore, the use of the reserve fund is subject to the prior approval of the Department. We will

review the current arrangements for the reserve fund in the review exercise.

- (f) When LCSD took over the Scheme from the former HKSDB in 2004, we have redeployed existing manpower resources from within the Department to administer the Scheme. So far, the Department has endeavoured to meet the requirements through the resources available in the Department. Nevertheless, given the increase in the subvention amount, the number of programmes administered under the Scheme and the increasing complexity of the monitoring mechanism, we will review the manpower resources required for the proper and effective administration of the Scheme as part of the comprehensive review to be conducted.

Please contact me if further information is required.

Yours sincerely,



(Ms Joanne Fu)
for Director of Leisure and Cultural Services

c.c. Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

**Review of the Sports Subvention Scheme
Under the Leisure and Cultural Services Department (LCSD)**

A. Directions / Objectives

A Working Group will be set up by LCSD to conduct a comprehensive review of the Sports Subvention System (the Scheme) with a view to -

- (a) improving its overall effectiveness and efficiency;
- (b) streamlining and rationalizing the monitoring system having regard to relevant best practices;
- (c) enhancing the internal control of the National Sports Association (NSAs) and their accountability;
- (d) enhancing their compliance with guidelines promulgated for the Scheme; and
- (e) strengthening LCSD's monitoring role and capability under the Scheme.

In conducting the review, the Working Group will seek to strike a balance between strengthening control of the use of public funds on the one hand, and maintaining reasonable flexibility for NSAs in the planning and execution of activities on the other.

B. Key Areas of Work

The key areas of work of the Working Group include –

- (a) To review the various aspects of the Scheme and formulate practical improvement measures for implementation -
 - (i) Allocation of subvention
 - Eligibility for subvention
 - Budgetary process
 - Existing approaches to determine the subvention for different categories of sports programmes (including the lump sum subvention approach)
 - Funding principles and criteria
 - Setting and assessment of performance targets, and its relationship with the subvention level
 - Mechanism for calculating Reserve Fund (e.g. formula and ceiling)

(ii) NSAs' Reporting Requirements

- Reporting system for NSAs (types of reports, submission frequency, format, etc)
- Sanctions against non-compliance with the guidelines promulgated by LCSD (including late submission of reports and audited accounts)

(iii) LCSD's Monitoring Work

- Development of best practices for internal processing of reports and follow-up work (including timely issue of reminders, vetting of reports, calculation of reserve fund and recovery of unspent subvention)
- Measures to enhance and streamline the monitoring functions
- On-site inspection of subvented programmes
- Development of a computerized system for internal use and/or communication with NSAs

(iv) NSA's Internal Control and Compliance

- Follow-up actions on LCSD's quality assurance checks
- Development of best practices and guidelines on internal controls for NSAs
- Assistance provided to NSAs on enhancing internal control and compliance with the guidelines promulgated for the Scheme
- Audit arrangements

(b) To identify problems encountered by NSAs in the operation of the Scheme and consult them on the recommendations of the Working Group.

(c) To consider the manpower and financial implications arising from the recommendations to be made by the Working Group for the administration of the Scheme by LCSD.