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8 October 2010

Ms Betty Fong
Clerk to Panel on Home Affairs
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Ms Fong,

Hong Kong's potential bid for the 2023 Asian Games

At the special meeting of the Legislative Council Panel on Home Affairs held on 21 September 2010, Members requested the Administration to provide more information regarding the financial implications of hosting the 2023 Asian Games in Hong Kong.

Operating cost

To provide a better assessment of the likely financial implications of hosting the 2023 Asian Games and the Asian Para Games in Hong Kong (the Games), we have engaged a consultancy firm to undertake a study. According to the consultant's estimation, the operating cost of running the Games would approximately amount to **HK\$3.2 – 4 billion** at the current price level, broken down as follows –

	Low case (\$ million)	Base case (\$ million)	High case (\$ million)
(a) Asian Games			
(i) Human resources	615	684	752
(ii) Information technology ¹	264	304	344
(iii) Village and catering ²	299	327	356
(iv) Venue sports events ³	190	211	233
(v) Finance and administration	101	110	120
(vi) Transport	74	98	122
(vii) Commercial	135	151	166
(viii) Ceremonies	133	148	163
(ix) Security	94	105	115
(x) Volunteers	37	41	45
(xi) Broadcast	513	570	627
(xii) Bid-related expenditure ⁴	208	229	250
(xiii) Contingency @10%	266	298	329
Sub-total	2,929	3,276	3,622

¹ This includes the provision of hardware, software, network services and venue technology to support the Games operations. The costs associated with broadcast (e.g. production, distribution and facilities costs) are featured in item (xi) "Broadcast".

² Village operation includes temporary construction costs and operations for a fully serviced medical centre, a dedicated dining hall which could accommodate some 2,500 athletes and officials in one sitting and other ancillary facilities, and reinstatement costs after the Games.

³ The venue sports events costs include the hiring charges for commercial venues and sporting equipment etc. Venue fitting out costs such as temporary seating and upgrading costs are featured separately under direct capital cost.

⁴ This includes the expenses payable to the Olympic Council of Asia (OCA) for the application and hosting fees, promotional campaign and marketing programme. In addition, VIP hospitality (e.g. boarding and lodging costs) should be provided for the Executive Board Members, Standing Committee Members, International Olympic Committee Members, OCA staff as well as three delegates per National Olympic Committee (NOC) (total 45 NOCs) before and during the Games in accordance with the OCA constitution.

	Low case (\$ million)	Base case (\$ million)	High case (\$ million)
(b) Asian Para Games			
(i) Asian Para Games	266	298	329
(ii) Contingency@10%	27	30	33
Sub-total	293	328	362
Total	<u>3,222</u>	<u>3,604</u>	<u>3,984</u>

Direct capital cost

In addition to meeting the operational cost of running the Asian Games, we would need to incur capital cost to provide suitable venues for staging the Games. Our preliminary assessment of the potential venue requirements indicates that the direct capital cost for temporary works to existing facilities and expanding and upgrading works for bringing planned new venues up to Asian Games standards, i.e. works which would not be carried out if we are not hosting the Games, would amount to some **HK\$10.5 billion** at the current price level, broken down as follows –

Items	(\$ million)
(a) Overlay allowance to existing Government and non-Government sports facilities ⁵	2,000
(b) Expanding and upgrading three planned indoor sports centres to meet the requirements of staging the Asian Games ⁶	8,500

⁵ The overlay allowance is a budgetary allowance to cover the temporary provisions such as temporary seating, media works area, temporary toilets and changing rooms, venue dressing, signage etc. required by 35 competition venues including the hired venues and proposed venues in neighbouring cities.

⁶ The sites for these three indoor sports centres have already been earmarked for such development in the long term.

This is a ballpark figure provided as a preliminary indication of cost of the upgrading works for the three indoor sports centres. In arriving at this figure, reference has been made to the latest available cost information of other indoor sports centre projects.

Given the limited information available at this early stage, the following factors have been considered in deriving the figure:

- i. A disproportionate increment of circulation area and ancillary facilities (such as toilets, changing rooms and doping rooms);

(i)	Planned Sports Centre in Tai Po	3,960
(ii)	Planned Sports Centre in Yuen Long	2,270
(iii)	Planned Sports Centre in Sha Tin	2,270
	Total	<u>10,500</u>

Projected revenue

Part of the operational costs could be offset by the sale of tickets, merchandising and sponsorships. According to the consultant, the ballpark estimate of such income would amount to HK\$0.7 – \$0.86 billion at the current price level, broken down as follows –

Items	Low case (\$ million)	Base case (\$ million)	High case (\$ million)
(a) Net sponsorship income ⁷	562	624	687
(b) Television income ⁸	0	0	0
(c) Net ticket sales income ⁹	69	85	92

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- ii. larger span on structural roof to accommodate more seats to meet the proposed seating capacities;
 - iii. higher building services cost due to larger building volume;
 - iv. higher specification requirements for Asian Games venues;
 - v. uncertain ground conditions;
 - vi. thematic design including engagement of consultants and possible change in use of venues from conducting one sport to other similar events; and
 - vii. escalation of labour costs, contractor's prices and consultant fees due to contract packages tendered in similar period.

⁷ According to the OCA constitution, 33% of the income after commission to the marketing agent should be given to OCA as contribution. The figures shown are the net income after deducting contributions to OCA.

⁸ According to the bidding questionnaire provided by OCA, 100% of the television income should be given to OCA as contribution.

⁹ According to the bidding questionnaire provided by OCA, 25% of the ticketing revenue will be reserved for distribution to the Asian Federations by OCA. The figures shown are the net income after deducting contributions to OCA.

Items	Low case (\$ million)	Base case (\$ million)	High case (\$ million)
(d) Net merchandising income ¹⁰	37	42	46
(e) Other income ¹¹	24	27	30
Total	<u>692</u>	<u>778</u>	<u>855</u>

Job creation

According to the consultant's latest estimation, about **11,525 – 12,225** jobs¹² would be directly / indirectly created, broken down as follows –

(a) Number of jobs created from visitors' spending	1,600 - 2,300
(b) Number of jobs created from venue upgrading works	2,260
(c) Number of jobs created from venue temporary overlay works	1,560
(d) Number of jobs created from Asian Games organizing body	615
(e) Number of jobs created from security work	3,000
(f) Number of jobs created for transportation staff	990
(g) Number of jobs created for IT & telecommunication staff	800
(h) Number of jobs created for catering staff	700

Total: **11,525 – 12,225**

¹⁰ According to the OCA constitution, 33% of the net profit from merchandising should be given to OCA as contribution. The figures shown are the net income after deducting contributions to OCA.

¹¹ Other income may include sales of stamps and commemoration coins.

¹² There are slight adjustments in the consultant's projections after the release of the preliminary figures as set out in the consultation paper.

Final Report on financial and economic impact assessment

We shall be pleased to provide the complete findings on the financial and economic impact assessment to the Home Affairs Panel when the consultancy report is finalized.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Eddy Chan', written in a cursive style.

(Eddy Chan)

for Secretary for Home Affairs