

## **A. Introduction**

The Hong Kong 2009 East Asian Games ("2009 EAG"), held between 5 and 13 December 2009, was the first large-scale international multi-sports event ever held in Hong Kong. The Audit Commission ("Audit") conducted a review to examine the planning, organisation and implementation of the 2009 EAG. The review focused on the following areas:

- post-implementation review;
- operating cost and revenue;
- reduction in number of shooting competition events;
- conversion of squash courts into office accommodation;
- admission ticketing arrangements; and
- Audit survey.

2. The Committee held two public hearings on 5 and 7 May 2011 respectively to receive evidence on the findings and observations on this subject in the Director of Audit's Report ("Audit Report"). **Mr TSANG Tak-sing, Secretary for Home Affairs**, made an opening statement at the Committee's public hearing held on 5 May 2011. The full text of his statement is in *Appendix 5*.

## **B. Operating cost and revenue**

### Full direct cost of organising the event

3. In July 2003, the Finance Committee ("FC") of the Legislative Council ("LegCo") accepted in principle the financial implications of \$84 million for providing a government subsidy to meet the operating deficit for hosting the 2009 EAG (with a total operating budget of \$171 million), and agreed that Hong Kong should make a bid for hosting the event. In November 2003, the Sports Federation and Olympic Committee of Hong Kong, China ("SF&OC") won the bid for hosting the 2009 EAG. In January 2006, the FC approved a commitment of \$123 million under the Leisure and Cultural Services Department ("LCSD") to provide financial support for the organisation and implementation of the event.

4. According to paragraph 3.4 the Audit Report, the Administration had not ascertained the full cost implications of hosting the 2009 EAG. In the funding paper submitted to the FC in January 2006, the Administration estimated that the gross expenditure for organising and implementing the 2009 EAG would be \$240 million. As it transpired, the actual expenditure was \$291.1 million. In addition, as ascertained by Audit, apart from the expenditure financed by the government subsidy of \$123 million, additional direct expenditures amounting to \$132.8 million had been incurred by various bureaux/departments ("B/Ds") to support the hosting of the event. The B/Ds included the LCSD, the Home Affairs Bureau ("HAB"), the Information Services Department, the Home Affairs Department ("HAD") and the Architectural Services Department. However, the FC had not been informed of such additional expenditures.

5. Against the above background, the Committee asked whether the Administration agreed that the \$132.8 million incurred by various B/Ds to support the hosting of the 2009 EAG, as set out in Table 2 in paragraph 3.4 of the Audit Report, was direct expenditure of the Games and should be taken into account when calculating the full direct cost of the event.

6. The **Secretary for Home Affairs** responded that:

- the bid to host the EAG was won in late 2003 and the event was staged in late 2009. The project spanned six years and involved two terms of the Hong Kong Special Administrative Region ("HKSAR") Government;
- back in 2003 when the SF&OC made a bid for hosting the EAG, the Hong Kong economy had yet to recover from the damage caused by the outbreak of the Severe Acute Respiratory Syndrome ("SARS"). As such, the Administration sought in-principle approval from the FC for an estimated government commitment of only \$84 million for staging the EAG. When the Administration sought funding support from the FC for the operating cost of the EAG in January 2006, the government commitment was revised to \$123 million because more details on the sports items to be held and the resources required had been confirmed by that time. The \$123 million was the upper limit of the government subsidy for supporting the hosting of the EAG. The current HKSAR Government had taken measures to ensure that the allocation of \$123 million approved by the FC for the EAG would not be exceeded.

The measures included economising on expenditure and generating revenue from various sources, such as sponsorship;

- apart from the direct expenditures of the EAG, different government departments, including the police, medical and health, and immigration, had also enhanced their services to support the hosting of the EAG. The additional costs incurred were absorbed by the departments concerned. These departments would provide assistance to support any major events held in Hong Kong as part of their day-to-day responsibilities. It would be impractical and unfair to require the Administration to differentiate those expenditures from the departments' votes and attribute them to the EAG; and
- in fact, in the course of preparing the 2009 EAG, the Hong Kong economy suffered another setback due to the financial tsunami. The Financial Secretary specially allocated funding in his 2009-2010 Budget to various B/Ds for boosting domestic demand and increasing job opportunities. The initiative was approved by the FC. A large proportion of the funding allocated to the HAB and the LCSD was spent on employing young people for handling EAG duties. The HAB did not regard such expenditures as direct expenditures of the EAG. They were only indirect expenditures and were financed by the B/Ds' recurrent funding which had been approved by the FC.

7. The Committee noted the view of the Secretary for Financial Services and the Treasury given in paragraph 3.28 of the Audit Report that the expenditures incurred by various B/Ds listed in Table 2 of the Audit Report, as part of the overall financial implications of hosting the EAG, were quite different from the direct expenditures, such as those incurred by the 2009 East Asian Games (Hong Kong) Limited ("EAG Company") in hosting the EAG. The Committee asked about the basis of the Secretary for Financial Services and the Treasury's view and requested the full text of the Secretary's response.

8. The **Secretary for Financial Services and the Treasury** provided, in his letter of 13 May 2011 in *Appendix 6*, the full text of his response to Audit as set out in paragraph 3.28 of the Audit Report.

9. The Committee further asked whether the Administration agreed that, in seeking the FC's acceptance in principle for making a bid and funding approval for

hosting a major event, it should inform the FC of the full cost implications of hosting the event, particularly the total direct costs, so as to enable the FC to make an informed decision.

10. **Mr Stanley YING, Permanent Secretary for Financial Services and the Treasury (Treasury)**, stated that:

- as a matter of principle, the Administration agreed that when seeking funding approval from the FC for making a bid and funding approval for implementing an event, it should set out the full direct cost involved. In fact, this had all along been the Administration's practice;
- in practice, however, whether a specific expenditure should be regarded as the direct expenditure of an event was a matter of judgement. Also, at the time of seeking approval from the FC, the Administration might not have information on all the expenditures that would be incurred in the future. For example, the LCSO was allocated a sum of \$24.7 million in 2009-2010 under the ad hoc job creation initiative and this was after the granting of funding approval by the FC in 2006 for hosting the EAG. Subsequently, the LCSO employed contract staff to support the EAG with the additional allocation. In the circumstances, the Administration did not consider that the expenditure for employing the contract staff concerned was a direct expenditure of the EAG because it was not the EAG's requirement to employ such staff;
- under the existing mechanism, B/Ds were provided with annual provisions approved by the FC for carrying out their regular duties and delivering public services. The departments would provide support to different activities held in Hong Kong with funding from their departmental votes. As the 2009 EAG was a large-scale event, many departments had strengthened their services to support the event by deploying their departmental resources, e.g. the Hong Kong Police Force, the Customs and Excise Department, the Immigration Department, and the Hongkong Post. The Hong Kong Tourism Board had also provided services for the 2009 EAG as part of its normal duties to promote Hong Kong. In the Administration's view, these expenditures should not be regarded as direct expenditures of the 2009 EAG; and

- including the cost of services provided by various B/Ds, which belonged to their regular day-to-day duties, as the direct cost of an event/project would be at variance with the Administration's established practice in public finance management. The Administration did not agree to such arrangement.

11. The Committee pointed out that the additional direct expenditures as ascertained by Audit did not include the expenditures incurred by the police and immigration staff, etc for supporting any major function held in Hong Kong. Instead, they included the cost of temporary staff and temporary works which were directly related to the 2009 EAG and hence should be regarded as its direct expenditures.

12. According to the Committee's calculations, the total expenditure of the 2009 EAG amounted to some \$423.9 million, i.e. the actual expenditure of \$291.1 million plus the additional direct expenditures of \$132.8 million incurred by various B/Ds. The total amount borne by the Government, including the additional direct expenditures, should be \$243.9 million (i.e. \$111.1 million plus \$132.8 million). The Committee invited Audit's views on its calculations.

13. **Mr Benjamin TANG, Director of Audit**, said that:

- he agreed to the Committee's calculation of the total expenditure of the 2009 EAG and the total amount borne by the Government; and
- the additional direct expenditures as set out in Table 2 of the Audit Report were incurred by various B/Ds in employing staff or performing duties specifically for the purpose of the 2009 EAG, and were therefore direct expenditures of the EAG. Audit agreed that other expenditures like those arising from strengthened manpower of the Hong Kong Police Force or the Immigration Department due to the hosting of the event, as mentioned by the Secretary for Home Affairs and the Permanent Secretary for Financial Services and the Treasury (Treasury) earlier, were indirect expenditures. Such expenditures had not been taken into account by Audit in calculating the full direct cost of the EAG.

14. **Mrs Betty FUNG, Director of Leisure and Cultural Services**, explained that:

- it was the LCSD's responsibilities to provide support for large-scale sports events held in Hong Kong, such as the Hong Kong Marathon held every year. The LCSD also hosted sports events on its own for the purpose of promoting the development of sports. The LCSD's venues would be used for supporting the events in these situations. As such, it was the LCSD's duty to support the staging of the 2009 EAG and different expenditure items had been incurred;
- of the \$132.8 million additional direct expenditures set out in Table 2 of the Audit Report, \$73.3 million was incurred by the LCSD. The sum included \$24.7 million which was allocated to the LCSD under the Financial Secretary's initiative in the 2009-2010 Budget for creating temporary jobs. In 2009-2010, the LCSD spent \$22.7 million on employing about 160 contract staff for arranging EAG activities. These contract staff were deployed to the EAG Company to work at the competition venues and perform reception duties, etc. In fact, such expenditure would not have been incurred without the additional provision because the LCSD would not allocate its own resources to the EAG Company for employing the 160 contract staff; and
- the remaining \$50 million was the expenditure which the LCSD should spend to fulfil its regular responsibilities of promoting the development of sports, fostering the sporting culture and providing venue support. Of the \$50 million, \$23 million was used to implement a number of activities under the theme of "Green, Cultural, Dynamic Games" and to publicise the 2009 EAG, including the Countdown Show, the Torch Relay and a series of city dress-up programmes. About \$26 million was used to create 80 time-limited civil service posts in the five years from 2006-2007 to 2010-2011 to perform EAG duties, including enhanced security at competition venues, coordination with the EAG Company, National Sports Associations ("NSAs") and other government departments, publicity and promotion, VIP hospitality and so on. The LCSD would have provided the same support services for other events as part of its day-to-day responsibilities. Most of the 80 posts were only created for two to six months before the commencement of the EAG and all the posts were filled by serving LCSD staff.

15. In response to the Committee's request, the **Secretary for Home Affairs** provided, in Annex A of his letter dated 24 May 2011 (in *Appendix 7*), a breakdown of the 80 government staff deployed by the LCSD from 2006-2007 to 2010-2011 to provide support for the 2009 EAG, including their ranks and monthly salaries.

16. The Committee noted that the LCSD had deployed its staff to fill the 80 posts on a full-time basis. In some cases, the duties originally handled by those staff had to be covered by acting appointment. The Committee considered such an arrangement different from the deployment of police officers to perform crowd control duty when there was a major event like a fireworks show. As the police officers only performed the duty for several hours occasionally, the expenditures so incurred by the Police were only indirect expenditures of the fireworks show. In the circumstance, the Committee asked:

- why the Director of Leisure and Cultural Services insisted that the expenditures incurred by the LCSD as set out in paragraph 3.5 of the Audit Report were not direct expenditures of the 2009 EAG; and
- about the source of funding for creating the 80 posts and the acting arrangement.

17. The **Director of Leisure and Cultural Services** further explained that:

- as a general principle, when a major event was held in Hong Kong, different government departments would have to allocate resources under their departmental votes to support the event. The EAG was closely related to the work of the LCSD because it was the department's regular duties to promote sports, culture and a green city. The LCSD only deployed slightly more resources during the EAG to perform such regular duties, using the EAG as a theme; and
- the LCSD was one of the largest departments in the HKSAR Government with more than 8,000 staff and an annual recurrent expenditure of some \$5 billion. Very often, there were vacant posts that could not be filled at different times of a year. When necessary, the saving from the vacant posts could be used to create temporary posts through internal deployment of resources. As more than 50% of the 80 posts only lasted for two months, they were created by such resource deployment without affecting the LCSD's regular duties and services.

18. Noting that the HAB had not prepared an estimate of acceptable accuracy of the income and expenditure for the 2009 EAG when it sought the LegCo's approval for hosting the event, the Committee asked:

- about the mechanism adopted by the Administration for preparing the budget for the 2009 EAG and ensuring its accuracy, given that the EAG was a major event the preparation and implementation of which straddled two terms of the LegCo and two terms of the HKSAR Government; and
- about the role played by the Financial Services and the Treasury Bureau ("FSTB") in ensuring the accuracy of the budget and whether there was any coordination between the HAB and the FSTB.

19. The Committee further asked whether the Secretary for Home Affairs accepted that in organising a major event, the HAB should include all the projected expenditures, both direct and indirect, in the budget so as to enable members of the public to know the total cost involved.

20. The **Secretary for Home Affairs** responded that:

- in preparing the budget for the 2009 EAG, the HAB and the LCSD made suggestions and discussed with the FSTB;
- there was not a standard format for hosting a sports event and different places would have different standards for implementing major sports games. The Administration prepared the budget for the 2009 EAG having regard to the prevailing economic conditions and the affordability of the HKSAR Government at the relevant time. When the Administration prepared the budget in 2003 for seeking the FC's approval for bidding the hosting right, Hong Kong was suffering from the outbreak of the SARS. Hence, the assessment at that time was that the 2009 EAG should be organised in a modest manner. Having been granted the hosting right, the Administration studied the implementation of major sports games held elsewhere, particularly the 2005 Macau EAG, and sought the detailed advice of the sports sector. It then provided the FC with an updated budget in 2006 and sought the FC's approval for a government commitment of \$123 million;

- all the expenditures of the 2009 EAG were met by the provisions approved by the FC. There was no question of hidden expenditures of the EAG. For example, the HAB allocated funds from its departmental vote to carry out improvement works for the Tseung Kwan O Sports Ground. Although the improvement works were related to the 2009 EAG, the HAB did not carry out the works solely for the EAG, but for the long-term development of sports in Hong Kong; and
- the Administration had thoroughly considered the question as to whether all the expenditures incurred by various B/Ds in support of a major event, including those identified by Audit, should be regarded as part of the full cost of hosting the event. To do so, it would be necessary to quantify the amount of resources to be devoted by the B/Ds for inclusion in the budget of the event. The Administration considered such arrangement not advisable because it might give rise to an undesirable situation where B/Ds might be reluctant to undertake responsibilities which had not been budgeted for. This would create a negative impact on the delivery of public services.

21. **The Permanent Secretary for Financial Services and the Treasury (Treasury)** supplemented that:

- it was indeed the Administration's objective to prepare an accurate budget for a major event so that the authorities concerned would have a better understanding of the total cost involved when deciding whether to approve the hosting of the event. However, there were practical difficulties in providing an accurate budget because there would be a long time gap between making a decision to host a major event and actually launching it. A lot of changes would take place over the years. Moreover, the details of the event, such as the scale and the competition events to be held, would also be subject to change; and
- the Administration would draw on the experience gained from hosting each major event and, in organising similar events in future, strive to provide the LegCo with the most accurate estimate. However, the Administration could only prepare a budget based on the information available at the time of its preparation.

22. To ascertain the role of the Secretary for Home Affairs in the 2009 EAG, the Committee enquired:

- whether the Secretary for Home Affairs had discussed in detail the planning and preparation of the EAG with his predecessor when he assumed the post on 1 July 2007, given that the 2009 EAG was a highly important task during his term of office;
- as the Tripartite Agreement of June 2006 entered among the Government, the SF&OC and the EAG Company set out the detailed arrangements and the roles and responsibilities of the three parties in the organisation, implementation and delivery of the 2009 EAG, including the Government's cost control over the EAG, whether the Secretary for Home Affairs had read the Tripartite Agreement when he assumed office;
- whether the Secretary for Home Affairs had attended the meetings of the EAG Planning Committee and the Board of Directors of the EAG Company, which were important parts of the mechanism for overseeing the planning and preparation of the 2009 EAG; and
- whether the Secretary for Home Affairs had established a special reporting and monitoring mechanism in the HAB for the 2009 EAG, so as to enable him to have a full understanding of the operation and expenditures of the EAG.

23. The **Secretary for Home Affairs** replied that:

- according to normal government procedures, he had discussed the various aspects of his work with the former Secretary for Home Affairs. Apart from the 2009 EAG, he had other important tasks to deal with when he assumed the post, including the hosting of the Equestrian Events of the 2008 Beijing Olympics and Paralympics in Hong Kong. However, the continuity of the work of the Government did not rely on discussions at the personal level, but on file records and documents and civil servants like the permanent secretaries who would remain in office despite the change of bureau secretaries;
- he had not read the Tripartite Agreement when he assumed office, but he knew the main provisions therein. He was fully aware that the government commitment for the 2009 EAG was \$123 million and it was

necessary to take measures to ensure that this ceiling of subsidy would not be exceeded;

- he was not a member of the Board of Directors of the EAG Company, so he had not attended its meetings. He had also not attended the meetings of the EAG Planning Committee, but it would report important issues to him; and
- as directed by him, the EAG Organising Committee was established in 2008 to coordinate the work of various government departments and non-governmental agencies for the 2009 EAG. The Committee was co-chaired by the Chairman of the EAG Planning Committee and the Permanent Secretary for Home Affairs. Under this Committee, there were five coordinating committees overseeing five key functional areas. There were also standing reporting and monitoring mechanisms in place in the HAB for the different tasks within the bureau's purview. The Permanent Secretary and the Director of Leisure and Cultural Services would regularly report to him on their work, including the organisation of the 2009 EAG. As such, he had a full understanding of the implementation of the EAG.

24. The Committee further asked whether the Secretary for Home Affairs was involved in soliciting sponsorship for the 2009 EAG, and whether he had given any direction to maximise the amount of sponsorship so as to enable the EAG Company to have more surplus funding for return to the Government after the conclusion of the Games.

25. The **Secretary for Home Affairs** said that under the Tripartite Agreement, the EAG Company was responsible for fund raising, but he was informed of the progress in obtaining sponsorship. The goal of the Administration and the EAG Company was to solicit as much sponsorship as possible to support the EAG while ensuring that the government commitment of \$123 million would not be exceeded. In the end, this goal was achieved. The 2009 EAG was successfully held and the EAG Company was not only able to balance its books, it even recorded a surplus for return to the Government.

Income and expenditure variances

26. According to Table 3 in paragraph 3.14 of the Audit Report, some actual income and expenditure items of the 2009 EAG as at June 2010 differed significantly from the estimated amounts stated in the FC paper of January 2006. For example, the estimated and actual expenditures on the opening and closing ceremonies were \$35 million and \$63.4 million respectively (i.e. an increase of 81%). The amount of income from community/commercial sponsorship had also increased by 163%.

27. It appeared to the Committee that the significant variances between the estimated and actual income and expenditure items reflected that, in seeking the LegCo's support for hosting a major event, the Administration tended to be conservative in estimating the expenditure and over-optimistic in estimating the income. The Committee queried:

- whether this was the case and why there were significant variations in the income and expenditure items of the 2009 EAG; and
- why the HAB had not been able to provide a reasonably accurate budget for some expenditure items such as the cost of transportation, which should be under the Administration's control.

28. **The Secretary for Home Affairs and Mr Johnny WOO, Former Chief Executive Officer of the EAG Company**, responded that:

- as stated in the FC submission in 2006, the Government's objective was to ensure that the EAG Company would use its best endeavour to economise on expenditures, live within the sums appropriated by the FC and generate revenues for organising the EAG. The Administration considered that these objectives had been achieved in that the EAG Company had lived within the \$123 million approved by FC and attained a balanced final account with a surplus to be returned to the Government. The actual balance borne by the Government was only about \$110 million, or 38% of the total operating expenditure for the EAG; and
- as the 2009 EAG was a major international sports event and its preparation lasted some six years, it was not unusual to find variations between the estimated and actual income and expenditure in respect of individual items. The Administration was unable to give a very

accurate estimate of the income and expenditure involved before details of the Games were confirmed at a later stage of the preparation process.

29. The **Director of Leisure and Cultural Services** supplemented that:

- the budget included in the funding paper submitted to the FC in January 2006 was prepared in 2005. At that time, the Hong Kong economy had not yet fully recovered from the SARS. In preparing the budget, the LCSD had consulted the sports sector, including the SF&OC, particularly on the amount of community sponsorship that such sports events would be able to attract. As a matter of fact, the estimated income from sponsorship had already been revised from \$30 million in 2003 to \$50 million in 2006. But given the economic situation at that time, the LCSD was not confident that it could solicit an even greater amount of sponsorship, e.g. up to \$100 million. As it transpired, the Hong Kong economy recovered in 2008 and 2009 and the society began to show more support for sports and athletes. The EAG Company was then able to solicit a total sponsorship of \$131.4 million through the SF&OC and other sources;
- the decrease in ticket sales was due to the setting of a lower ticket price at the time of sale (\$50 on average) than the original estimate (\$100 on average). The adjustment was made in response to FC members' views that the ticket price should be low to encourage people to watch the EAG competition events; and
- some variations were due to changes in the accounts to be charged for certain expenditure items. For example, the increase in expenditure on accommodation and catering was due to the redirection of accommodation and catering costs of VIPs from “VIP hospitality” to this item. The increase in transportation expenditure was due mainly to the redirection of the transportation cost for VIPs from “VIP hospitality” to this item.

30. The Committee further asked why the expenditure on the opening and closing ceremonies had increased by 81%, and whether this reflected that the HAB and the LCSD had not properly performed their duty of ensuring that the EAG Company would keep its expenditures within budget.

31. The **Director of Leisure and Cultural Services** and the **Former Chief Executive Officer of the EAG Company** responded that:

- the expenditure on the opening and closing ceremonies had increased due to the improved standard and quality of the opening ceremony. The closing ceremony only cost about \$3 million. After the 2008 Beijing Olympics, the public had a higher expectation on the scale and standard of the opening ceremony of a major multi-sports event like the EAG;
- the HAB and the LCSD worked closely with the EAG Company and urged the company to adopt a prudent approach in financial management and to keep its expenditures within budget. Before making a commitment to increase an expenditure item, the EAG Company was required to first identify additional funds, such as a sponsorship, for the purpose; and
- as a result of the EAG Company's efforts to generate revenue, the company received a sponsorship of \$10 million from Sponsor A in November 2009 to support the opening ceremony. Given this sponsorship, the EAG Company managed to engage the production team of the 2008 Olympic Games Opening Ceremony for the EAG and produced a remarkable opening ceremony.

32. The **Secretary for Home Affairs** stated that it was his decision to hold a remarkable EAG opening ceremony for the 2009 EAG after knowing that there would be sufficient funding for the purpose.

33. Regarding the income from television rights, the Committee noted that when the Administration sought in-principle support from the FC for hosting the EAG in July 2003, the estimated revenue from television rights was \$25 million. In the FC paper of January 2006, the estimate was revised downwards to \$12 million. In the end, the actual income as at June 2010 was only \$1.2 million, representing a decrease of 90% from the 2006 estimate. The Committee queried about the reasons for the significant variance in this regard and whether the Administration had intentionally over-estimated this income item in order to obtain support from the FC.

34. The **Director of Leisure and Cultural Services** stated that the variance was mainly caused by the Administration's lack of experience in devising the original estimated income from the sale of broadcasting and television rights.

35. **Miss Olivia CHAN, Assistant Director (Leisure Services) 2 of the LCSD**, stated at the public hearings, and the **Secretary for Home Affairs** stated in his letter of 24 May 2011, that:

- when the Administration sought the FC's in-principle support in July 2003 for Hong Kong to bid for the right to host the 2009 EAG, it assumed that there would be bids for the host broadcasting rights and that the income so derived would be in the region of \$25 million. Subsequently, in view of the experience of the 2005 EAG held in Macau, the Administration adjusted the estimated income from the sale of broadcasting rights downwards to \$12 million when seeking the FC's funding approval in January 2006. However, the experience of the Hong Kong leg of the 2008 Beijing Olympic Torch Relay revealed that none of the local electronic media organisations had the required capacity to take up the role of host broadcaster for the Torch Relay. To overcome such problem, a consortium involving all the local electronic media organisations was formed to share the filming work at cost and, in return, they were granted free broadcasting rights for the Torch Relay;
- taking into account the arrangements for the Olympic Torch Relay and in view of the large number of EAG venues and competition events to be covered, the EAG Company and the local electronic media organisations agreed in early 2009 that a consortium should be formed to arrange for the filming and broadcasting of the 2009 EAG; and
- the seven local electronic media organisations agreed among themselves the division of production work for the EAG ceremonies and competitions, having regard to manpower and equipment availability. Under the consortium model, the local electronic media organisations were required to provide production crews, equipment and coverage of the EAG ceremonies and competition events at cost and, in return, were granted free broadcasting rights. As for overseas broadcasters, the EAG Company engaged an acquisition agent through open tender to handle the sales and distribution of the broadcasting rights. After deducting the commission paid to the agent, the EAG Company received \$1.2 million from the sale of broadcasting rights to 16 overseas broadcasters.

36. Noting that the estimated and actual amounts of "Other income" were \$4 million and \$26.1 million respectively, representing an increase of 553%, the Committee asked for a breakdown of "Other income" and the reasons for the significant increase.

37. The **Former Chief Executive Officer of the EAG Company** stated that "Other income" included admission fees of the two EAG fund-raising concerts and the increase was mainly due to the excellent response to the concerts which raised some \$20 million. In his letter of 24 May 2011, the **Secretary for Home Affairs** provided a breakdown of the \$26.1 million under "Other income", as follows:

(a) EAG fund-raising concerts	\$19.75 million
(b) Income from pro-shop, banner promotion and video wall promotion services, EAG stamps and magazine, bank interest and sundry items	\$6.33 million
Total	\$26.08 million

38. In response to the Committee's request, the **Secretary for Home Affairs** provided, in Annex C of his letter of 24 May 2011, an analysis of the reasons for the significant variances between the estimated income and expenditure items and the actual ones, as set out in Table 3 in paragraph 3.14 of the Audit Report.

#### Post- implementation review

39. According to paragraph 2.2 of the Audit Report, the HAB, the LCSD and the EAG Company held a wash-up meeting on 15 December 2009 to review the experience of the 2009 EAG. Given that the 2009 EAG was the first large-scale international multi-sports event ever held in Hong Kong and there were significant variances between the estimated and actual income and expenditure items, the Committee asked whether:

- the parties concerned had discussed the reasons for the variances at the wash-up meeting;

- the Administration had conducted a comprehensive and systematic post-implementation review ("PIR") on the organisation of the 2009 EAG, including a financial review, so as to consolidate experience and enhance the Administration's capabilities for organising future events and preparing more accurate budgets; and
- the FSTB had promulgated any requirements for B/Ds to review the accuracy of the income and expenditure estimates for the major event hosted by them, after conclusion of the event.

40. The **Permanent Secretary for Financial Services and the Treasury (Treasury)** responded that:

- under the Public Finance Ordinance (Cap. 2), a controlling officer was responsible and accountable for all expenditure from any head or subhead for which he/she was the controlling officer. As far as the 2009 EAG was concerned, the Director of Leisure and Cultural Services was the controlling officer for the government commitment of \$123 million. There were other controlling officers for other funds relating to the hosting of the EAG, such as the expenditures on temporary works funded under the Capital Works Reserve Fund ("CWRF"); and
- at the central level, as mentioned in the Audit Report, the Efficiency Unit ("EU") had issued a best practice guide entitled "A User Guide to Post Implementation Reviews" ("the Guide") in February 2009 for reference by B/Ds.

41. The **Director of Leisure and Cultural Services** and the **Assistant Director (Leisure Services) 2** stated that:

- the wash-up meeting was held several days after the conclusion of the 2009 EAG. It focused on reviewing the experience gained in the operational aspect, and did not touch on financial issues; and
- the financial statements in relation to the last three months of the EAG Company's operation (i.e. from April to June 2010) had been completed in early April 2011 and submitted to the Inland Revenue Department ("IRD") for tax assessment. After obtaining a notice of clearance from

the IRD, the LCSD would have information on the final account of the EAG Company.

42. The **Secretary for Home Affairs** added that he had requested the relevant parties involved in the organisation of the 2009 EAG to conduct a review of the event and he had been provided with explanations for the variations in the income and expenditure items. Nevertheless, he agreed that there was room for improvement in this aspect and would consider the need to conduct a comprehensive financial review on the EAG.

43. The Committee enquired whether the review requested by the Secretary for Home Affairs had made reference to the user guide on PIRs issued by the EU. The **Secretary for Home Affairs** said that:

- as project planning for the 2009 EAG was already well advanced by the time the EU's guidance was available in February 2009, the Administration could not fully follow the procedures for a formal PIR as laid down in the EU's Guide. As a matter of fact, the Guide did not specify a single format for conducting PIRs for compliance by all B/Ds, but set out the factors to be considered in conducting PIRs and the stages involved, etc for their reference; and
- in requesting the review of the 2009 EAG, he had focused on the experience gained from the Games for the purpose of promoting sports development in Hong Kong and for organising similar events in future, such as bidding for the right to host the Asian Games. He had highlighted some of the lessons learnt in his opening statement.

#### Cost of temporary works

44. As reported in paragraphs 3.8 and 3.10 of the Audit Report, the Administration informed the Panel on Home Affairs of the LegCo in July 2003 that the estimated cost of temporary works for the EAG venues was \$6.2 million. As it turned out, the actual cost of the temporary works amounted to \$48.2 million, representing a sixfold increase. Besides, the cost of temporary works was not included in the FC paper of January 2006 which sought funding approval for hosting the 2009 EAG.

45. Paragraph 3.11 of the Audit Report further revealed that, in seeking funding of \$823.6 million from the FC in 2007 for both the long-term improvement works for the government venues and the temporary works for the 2009 EAG, the Administration did not inform the FC of the estimated cost of the temporary works as a separate item.

46. The Committee asked:

- about the reasons for the significant increase in the cost of temporary works;
- why, despite that the temporary works were directly related to the 2009 EAG, the Administration did not include the cost of such works in the FC paper of 2006, thereby making it difficult for FC members to have the full picture of the total cost involved when considering whether to support the hosting of event; and
- why the Administration did not inform the FC of the cost of temporary works as a separate item in 2007.

47. The **Director of Leisure and Cultural Services** explained that:

- it was not possible for the Administration to provide an accurate estimate of the cost of the temporary works involved at the time of seeking acceptance in principle from the FC in 2003, as the sports items to be included and the venues to be used had to be approved by the EAG Association. Such approval would only be given after Hong Kong had succeeded in bidding for the EAG and submitted a list of sports items and venues for approval. These occurred in November 2003 and June 2006 respectively, after the FC had given its acceptance in principle in July 2003;
- it was the Administration's decision at that time to fund the temporary works under the CWRP and not to include the cost as the EAG's operating expenditure. In seeking the FC's funding approval for the government commitment of \$123 million in January 2006, the Administration had informed the FC that it would separately submit to the FC funding applications for the capital cost of venue improvement works of 13 government venues. In January and February 2007, the Administration submitted two papers respectively to the FC seeking

approval for a total funding of \$823.6 million under the CWRP for venue improvement works of the 13 government venues. The works included both the long-term improvement works and the temporary works for the 2009 EAG; and

- the Administration accepted Audit's recommendation that, in organising similar events in future, the cost information on temporary works should be presented as a separate item in the relevant FC papers. Drawing on the experience gained from the 2009 EAG, the estimated project cost for temporary overlay was listed as a separate item by the HAB in the public consultation document issued in 2010 for the bid for hosting the 2023 Asian Games.

#### Legacy project and use of public funds

##### *Using surplus funding from the EAG to implement the legacy project*

48. According to paragraphs 3.16 and 3.17 of the Audit Report, as of March 2010, the EAG Company had a surplus of \$21.5 million. In June 2010, under a legacy project of \$10 million, the EAG Company made two donations of \$4.9 million each, one to an athletes career and education programme and another to an athletes' fund, to support the long-term development of Hong Kong athletes. As reported in paragraph 3.19, Audit was concerned with the use of the EAG Company's surplus to finance the two donations because:

- according to the Tripartite Agreement of June 2006, the EAG Company should use all revenue generated solely for the organisation, implementation and delivery of the 2009 EAG, and any surplus funding should be returned to the Government; and
- neither the FC paper of January 2006 nor the Tripartite Agreement stated that the EAG Company would make donations to support the long-term development of Hong Kong athletes.

49. To ascertain the conditions on the disposal of surplus from the 2009 EAG, the Committee obtained a copy of the Tripartite Agreement (in *Appendix 8*) and the Memorandum and Articles of Association of the EAG Company (in *Appendix 9*). The Committee noted that Clause 16 of the Tripartite Agreement provided that "surplus funding from the Games, if any, up to the total amount of Government

subsidy provided and hiring charges waived, shall be returned to the Government". However, the meaning of "surplus funding" was not defined.

50. It appeared to the Committee that although the implementation of a legacy project to support the long-term development of Hong Kong athletes was a meaningful initiative on its own, the Tripartite Agreement did not allow the use of the EAG Company's operating surplus for such purpose. Moreover, according to the approval granted by the FC in 2006, the government commitment of \$123 million was to provide financial support for "the organisation and implementation" of the EAG, and the donations under the legacy project fell outside the ambit of the FC's approval.

51. Against the above background, the Committee asked:

- whether there was any provision in the Tripartite Agreement that allowed the Administration to use the EAG Company's operating surplus to finance the two donations under the legacy project; if there was no such provision, why the Administration considered it appropriate to expend the surplus in this way; and
- the Administration's justifications for not returning the \$10 million for financing the legacy project, which formed part of the EAG Company's surplus funding, to the Government in accordance with the Tripartite Agreement.

52. The **Director of Leisure and Cultural Services** stated that:

- in April 2010, the EAG Company informed the LCSD that it would have an unallocated balance of about \$20 million and consulted the LCSD on the disposal of the surplus. The EAG Company considered that it would be more meaningful to use the surplus, as a part of the EAG legacy, to support the career development and the living of both serving and retired athletes. This would also meet the public sentiment that the outstanding results of the 2009 EAG could not have been achieved without the contribution by local athletes; and
- in the view of the HAB and the LCSD, although there was not a specific provision in the Tripartite Agreement which stated that the EAG Company's operating surplus could be used for financing a legacy

project, there was also no provision in the agreement that prohibited such use. Hence, the LCSD, after obtaining the Secretary for Home Affairs' approval in May 2010, consulted the FSTB on the proposed legacy project. The FSTB advised in June 2010 that if part of the unallocated balance of \$20 million could be differentiated from the government subsidy and did not have any specified use, it could be argued that the Government might not have the first claim on that part of the balance.

53. **The Permanent Secretary for Financial Services and the Treasury (Treasury)** stated that:

- when the FSTB discussed with the LCSD the proposal to fund a legacy project by using an unallocated balance left in the EAG Company's account, the FSTB was mindful of the ambit of the FC's funding approval as set out in the FC paper of 2006;
- it was stated in paragraph 18 of the paper that "Surplus funding from the event, if any, up to the amount of government subsidy provided and hiring charges waived, shall be returned to the Government". Clause 16 of the Tripartite Agreement mirrored this requirement. The FSTB considered that under this funding condition, if a sponsored sum had not yet been deposited to the EAG Company's general pool of resources and if it was the donor's wish that the sponsorship should not be transferred to the Government, the EAG Company could consider respecting the donor's wish and spend the sponsored sums in such ways as deemed appropriate; and
- the FSTB did not have details of individual donations for the 2009 EAG, but it had explained the above principles to the LCSD.

54. **Hon Timothy FOK Tsun-ting, President of the SF&OC**, stated that the appropriation of the EAG Company's surplus to implement a legacy project was legitimate and reasonable. The arrangement was also in line with the wish of the sponsors and supported by the public. The EAG Company had sought advice from its legal adviser and the relevant government departments before making the decision. It was the Government's advice that half of the surplus should be returned to the General Revenue and the remainder could be donated to the athletes' funds.

55. As requested by the Committee, the **Secretary for Home Affairs** provided, in his letter of 6 May 2011 (in *Appendix 10*), an e-mail dated 23 April 2010 from the EAG Company's legal adviser setting out her opinion on the proposal of donating the company's surplus to the athletes' funds. In reply to the Committee's question, the **Permanent Secretary for Financial Services and the Treasury (Treasury)** confirmed that the Administration had not separately sought legal advice on the matter.

56. The Committee noted the legal adviser's view that "the EAG Company is bound by the Tripartite Agreement to use the funding for the Games and to refund the surplus to the Government. Such 'surplus' is in a sense a liability of the Company owed to the Government as a creditor. If however, the Government waives or concludes that the Company is not required to pay such 'surplus' to the Government, the Company may transfer the surplus in accordance with Clause 7 of the Memorandum". The Committee asked:

- about the procedure that the Secretary for Home Affairs had gone through before deciding to allow the EAG Company to use its surplus to fund the legacy project, instead of returning the surplus to the General Revenue; and
- whether it had occurred to the Secretary for Home Affairs that under the established regime for controlling the use of public funds, he should first seek the FC's approval for using the EAG Company's surplus to fund the legacy project, given that the legacy project fell outside the ambit of the FC's funding approval which was only for the organisation and implementation of the 2009 EAG.

57. The **Secretary for Home Affairs** replied that:

- he was aware that the Tripartite Agreement did not mention any legacy project and the operating surplus should be returned to the Government pursuant to the agreement. On the other hand, the EAG Company's legal adviser had confirmed that donations to funds that would benefit athletes fell within the company's objects stated in its Memorandum and Articles of Association;
- the LCSD had submitted a minute (a copy of the minutes is given in the Secretary for Home Affairs' letter of 31 May 2011 in *Appendix 11*) to him in early May 2010 seeking his decision on how to dispose of the surplus of the EAG Company in a proper and meaningful manner; and

- when the FC's funding approval was sought in January 2006, the Administration had not anticipated that there would be surplus from organising the EAG. The EAG Company eventually received a large amount of sponsorships and it was clearly the sponsors' wish that their donations should be used to support the EAG and sports development. In late 2009, the EAG Company identified a sponsorship which had not been spent and could be used for the purpose of the legacy project. He agreed that it would be desirable to implement projects which could benefit athletes and such arrangement would meet the public expectation. Taking all these into consideration, he made a policy decision to donate about \$10 million to support the long-term development of Hong Kong athletes. According to established practice, the decision was within the scope of policy decisions which he was entitled to make and it had not occurred to him that it was necessary for the Administration to seek the LegCo's approval.

58. In Annex D of his letter of 24 May 2011, the **Secretary for Home Affairs** provided a table showing the sequence of events for the arrangements for funding the legacy project and the relevant documents, including the correspondences between the FSTB and the LCSD. It was also stated in the letter that with the approval of the Secretary for Home Affairs and its Board of Directors, the EAG Company implemented the legacy project with a \$10 million sponsorship from Sponsor B, not Sponsor A (as stated in paragraph 3.17 of the Audit Report).

*Source of finance for the legacy project*

59. In view of the Secretary for Home Affairs' claim that the source of finance for the legacy project was a \$10 million sponsorship received from Sponsor B in January 2010, instead of the \$10 million sponsorship from Sponsor A in November 2009, the Committee asked about the basis of the Secretary's claim and the details of Sponsor B's donation, including the conditions and timing of the donation.

60. The **Secretary for Home Affairs** responded in his letters of 24 May 2011 and 31 May 2011 that:

- the last batch of government funding disbursed to the EAG Company was received in November 2009. The \$10 million sponsorship used to fund the legacy project was received from Sponsor B in January 2010 and its purpose was to support the EAG generally without being

designated for any specific EAG activities or expenditure items. Given its timing, Sponsor B's \$10 million sponsorship could easily be differentiated from the government funding disbursed to the EAG Company;

- funding the legacy project with the above sponsorship met the general principles set out in the FSTB's memo dated 1 June 2010 (an extract from the memo is in Appendix V to Annex D of the Secretary's letter of 24 May 2011, in *Appendix 7*) and had suitably taken into account the wishes of the Sponsor to support the EAG and sports development. The EAG Company therefore sought its Board's approval in mid-June 2010; and
- Sponsor B made two major donations to the EAG Company. The first one, amounting to about \$13 million, was pledged in early 2009 for specific EAG activities. The second one, amounting to \$10 million, was pledged in November 2009 without reference to any designated use. The second donation did not form a part of nor was it in any way related to the first one. The payment of the second donation was eventually received on 22 January 2010.

61. The Committee invited Audit's comments on the new piece of information concerning the source of finance for the legacy project and whether it would affect Audit's observations and recommendations in this regard. In his letter of 30 May 2011 (in *Appendix 12*), the **Director of Audit** stated that:

- the new piece of information provided by the Secretary for Home Affairs did not affect Audit's observations and recommendations regarding the legacy project. Audit's views stated in paragraphs 3.19 and 3.26(d) of the Audit Report were still valid;
- Audit made reference to Sponsor A's \$10 million sponsorship in the Audit Report based on the following information:
  - (a) the minute submitted by the LCSD to the Secretary for Home Affairs on 5 May 2010 on the disposal of the surplus fund, specifying the proposed legacy project and an alternative option of returning to Sponsor A his sponsorship of \$10 million in support of the EAG opening ceremony; and

(b) the reference to Sponsor A's \$10 million sponsorship secured in November 2009 for enhancing the EAG opening ceremony in the correspondences in May and June 2010 between the LCSD and the FSTB; and

- during the course of the audit review, Audit could not find records showing that the legacy project was financed by Sponsor B's sponsorship, and neither the HAB nor the LCSD had provided Audit with such information.

62. In view of Audit's comments, the Committee asked the reason why:

- only the sponsorship from Sponsor A was discussed in the correspondences on the legacy project in May and June 2010 and there was no mention of the donation of \$10 million from Sponsor B at that time; and
- the Administration had not informed Audit that the legacy project was financed by Sponsor B's sponsorship, instead of Sponsor A's sponsorship, in the course of the audit review.

63. In his letter of 31 May 2011, the **Secretary for Home Affairs** explained that:

- in May 2010, the LCSD wrote to the FSTB to propose that the EAG Company should be allowed to use its unallocated balance to fund two legacy projects. In response to an oral enquiry from the FSTB, the LCSD replied via an email that the company had received some substantial "last-minute" donations, including the \$10 million donation from Sponsor A for enhancing the opening ceremony. This was cited as an example of a substantial "last-minute" donation secured by the company, in support of the LCSD's point that a large proportion of the unallocated balance was attributable to such donations. The LCSD did not give the FSTB an exhaustive list of the last-minute donations received by the company;
- the reference to Sponsor A in the reply from the FSTB to the LCSD was made to help illustrate the general principles that: "if all (or part) of the unallocated balance of \$20 million can be attributed to community/commercial sponsorship received by the EAG Company,

depending on the sponsorship terms, one could argue that the Government may not necessarily have the first claim on the balance (or that part of it)". The LCSD and the FSTB did not discuss the specific source of the funding that was proposed for implementing the legacy projects;

- the Administration's discussion with Audit on this area of the draft Audit Report focused primarily on the rationale for allowing the EAG Company to use part of the unallocated balance on the two legacy projects; and on whether such use was permissible under the Tripartite Agreement. In February 2011, the former Chief Executive Officer of the EAG Company pointed out to Audit that the donation from Sponsor A had been used to enhance the opening ceremony. Neither the LCSD nor the Chief Executive Officer were asked to clarify further the specific source of funding for the legacy projects; and
- as Audit's value-for-money study was conducted more than a year after the EAG was held, the EAG Company had ceased operation and no longer had any working staff. It was therefore not always possible for the Administration, which was not directly responsible for organising the EAG, to provide detailed facts and figures within a tight timeframe and to trace the reasons behind some of the decisions taken by the company. In these circumstances, it was possible that comments given by the LCSD did not cover in full each and every aspect of the various issues raised by Audit.

64. On the timing of Audit's value-for-money study, the **Director of Audit** clarified in his letter of 1 June 2011 (in *Appendix 13*) that Audit actually commenced the audit review in early August 2010, about seven months after the completion of the 2009 EAG in mid-December 2009. The audit was conducted shortly after the commencement of the liquidation of the EAG Company in June 2010.

#### *Accounting arrangements for recognition of sponsorships and government grant*

65. The Committee referred to Note 15 on "Deferred Income" in the Notes on the EAG Company's audited financial statements up to 31 March 2010 (in *Appendix 14*). As shown in the movements in the accounts during the years, in the 2010, all government grant had been expended and all the balance of \$23.8 million was regarded as sponsorships. However, the situation was different in 2009 where the balance included a large amount of government subsidy. The

Committee asked why different accounting treatments were adopted for the recognition of sponsorships and government grant in the two years, and whether the arrangements reflected the decision to attribute the EAG Company's balance to sponsorships instead of government grant, so that it would not form part of the surplus for return to the Government and could be used for other purposes, such as financing the legacy project.

66. The **Director of Leisure and Cultural Services** responded that the financial statements were prepared by professional accountants independently without being influenced by the EAG Company or the decision to implement the legacy project.

67. In Annex B of his letter of 24 May 2011, the **Secretary for Home Affairs** informed the Committee of the detailed accounting arrangements of the EAG Company for recognition of sponsorships and government grant. He also stated that the accounting treatments in this respect reflected the progress in delivering the EAG as well as the EAG Company's accounting policy and the actual funding situation. The accounting arrangement had been consistently applied throughout the financial years concerned. All deferred income from both government grant and sponsorships was recognised upon the conclusion of the 2009 EAG.

### **C. Other matters**

#### Admission ticketing arrangements

68. According to paragraphs 6.9 and 6.10 of the Audit Report, on 2 December 2009, the first day of the preliminaries for some competition events, the EAG Company set up box offices for selling same-day admission tickets at three competition venues. It was only upon public requests that the EAG Company provided box offices at four additional competition venues for selling same-day tickets from the second day of the competition events. The Committee queried why sufficient on-site box offices were not provided from the first day of the events, which was not conducive to encouraging spectator attendance at the events.

69. The Committee was also aware of the comments that there were many unoccupied seats despite high ticket-sale rates, and asked whether the LCSD had analysed the causes thereof.

70. The **Director of Leisure and Cultural Services** replied that:

- box offices for selling on-site tickets were only available at some large LCSD venues, such as the Hong Kong Coliseum, the Hong Kong Stadium and the Queen Elizabeth Stadium. Many of the EAG competition events were held in smaller stadiums which did not have such facilities. Before the commencement of the EAG, the LCSD had enquired if the EAG Company would allocate more resources to establish on-site box offices at four other venues which still had unsold tickets. However, in view of the high set-up cost involved and the small number of tickets left for sale on-site, the EAG Company decided to set up on-site box offices at three competition venues only;
- on 2 December 2009, the LCSD was aware that there was public demand for improving the on-site ticket sales service. To meet the need of the public and visitors, four additional sales outlets were arranged on 3 December 2009 on top of the original three. This was made possible by an expedient arrangement agreed between the LCSD and the EAG Company whereby pre-printed tickets were sold on a cash basis; and
- the LCSD had reviewed the reason for having many unoccupied seats despite high ticket-sale rates. The EAG Company adopted a day-pass arrangement which enabled a holder to watch the events held at a competition venue at different times of a day. While this provided convenience to the pass holders, most of the holders might choose to attend those events held after office hours, leading to lower attendance rates for the events held in the daytime. The LCSD would explore ways to improve the ticketing arrangement in future, such as adopting a session-ticketing arrangement for appropriate sports items.

71. On the distribution of spectator seats, the Committee noted from Table 4 in paragraph 6.4 of the Audit Report that the total number of seats available for the opening and closing ceremonies and the competition events was about 413,000, but only 210,000 seats were available for open ticket sales after deducting the reserved seats, seats for guests with admission tickets and seats for sponsored student tickets. The Committee asked the purpose of assigning more than 33,000 reserved seats.

72. Paragraph 6.12 of the Audit Report also revealed that the overall attendance rates of some sports events for which a large number of admission tickets were issued to guests were very low. As low attendance rates of guests issued with admission tickets would result in a large number of unoccupied seats and effectively deprived other citizens of their opportunities to attend the competition events, the Committee asked why as many as 44,974 guest tickets were issued, and whether the LCSD had drawn on its own experience in distributing the free guest admission tickets.

73. The **Director of Leisure and Cultural Services** and the **Assistant Director (Leisure Services) 2** responded that:

- the 33,000 seats were reserved for operational use, including the placing of broadcasting equipment, and for use by the press and working personnel, etc. Besides, some seats were not released for sale due to their unsatisfactory location which would limit the spectators' view;
- the guest admission tickets were mainly issued to sponsoring organisations according to their sponsored amounts. Some were issued to District Councils, NSAs and the National Olympic Committees. For the cultural activities organised by the LCSD, the complimentary tickets were issued by the department directly and it could make arrangements to ensure the attendance of the recipients. For the EAG, the guest admission tickets were issued to the sponsors who, in turn, might give the tickets to their clients, staff or guests. The LCSD and the EAG Company did not have control over the distribution of tickets by the sponsors. Even the sponsors could not ensure the attendance of their guests;
- there were practical difficulties if the EAG Company did not reserve seats for guests issued with admission tickets. However, the LCSD and the EAG Company had promptly taken measures to address the situation after gaining experience from the competition events held earlier. For the events held in larger venues, such as the Siu Sai Wan Sports Ground, if there were still unoccupied seats reserved for guests after the events had started, the EAG Company would arrange for other spectators to take up those seats; and
- the LCSD agreed that it should explore ways to improve the arrangement for issuing guests tickets to sponsors when staging similar events in future.

74. In response to the Committee's question, the **Secretary for Home Affairs** stated in his letter of 24 May 2011 that, of the 44,974 admission tickets issued to all guests for the 22 sports events, about 18% of the tickets were issued to District Councils.

#### Conversion of squash courts into office accommodation

75. The Committee noted that the Administration informed the FC in January 2006 that the office accommodation of the EAG Company would be provided by conversion of six squash courts at the Hong Kong Squash Centre ("HKSC") and that the conversion and subsequent reinstatement of the squash courts would cost \$4.4 million. After completion of the conversion works at the HKSC at a cost of \$4.9 million, the EAG Company used the office accommodation from February 2007 to June 2010.

76. Paragraph 5.11 of the Audit Report, however, revealed that the Administration did not inform the FC of an alternative option of renting a private office in nearby areas and the related cost comparison information when seeking funding for the 2009 EAG in January 2006. In addition, as stated in paragraph 5.12, the LCSD did not take action to reinstate the six squash courts at the HKSC after they had been returned to the LCSD in June 2010. This was at variance with the commitment made to the FC in January 2006.

77. In response to the Committee's question, the **Director of Leisure and Cultural Services** confirmed that the Administration was aware of the need to avoid using sports facilities for permanent office purposes. The HAB and the LCSD would reconsider the future use of the converted squash courts at the HKSC, taking into account factors such as the cost of further works and the demand for sports facilities.

#### **D. Conclusions and recommendations**

78. The Committee:

##### Overall comments

- notes that the Audit Commission ("Audit")'s value for money review was focused on the planning, organisation and implementation of the

Hong Kong 2009 East Asian Games ("2009 EAG"), and not whether the Games had been held successfully;

- considers that it is incumbent upon the Administration, in seeking the Finance Committee ("FC")'s acceptance in principle for making a bid and funding approval for hosting a major event, to inform the FC of the full cost implications, particularly the full direct costs, of hosting the event. To this end, the Administration should:
  - (a) provide the FC with a comprehensive and reasonably accurate budget for the income and expenditure of the event, which should include all the direct expenditures to be incurred by various bureaux/departments ("B/Ds") to support the staging of the event;
  - (b) ensure that the budget also includes the costs of all necessary temporary improvement works of government venues and present such cost information in the FC papers as a separate item;
  - (c) use its best endeavour to provide an estimation of the indirect expenditures involved when seeking the FC's in-principle support for the event; and
  - (d) inform the FC of the revised estimates after more details of the event have been confirmed, such as when applying for the FC's funding approval upon successful bidding for the event;
- recommends that the Secretary for Financial Services and the Treasury:
  - (a) should widely promulgate the above requirements for compliance by B/Ds when preparing papers for the FC, and take measures to ensure compliance; and
  - (b) for those major events/projects which take years to prepare and implement, should establish a mechanism to require the responsible B/Ds to proactively keep the Legislative Council ("LegCo") informed of the updated income and expenditure estimates and highlight significant changes since such estimates were provided to the FC, such as by making periodic progress reports to the relevant Panels or the FC where appropriate;
- expresses dissatisfaction and finds that the Tripartite Agreement of June 2006 entered among the Government, the Sports Federation and

Olympic Committee of Hong Kong, China and the 2009 East Asian Games (Hong Kong) Limited ("EAG Company") was drafted without due consideration and precision and leaves much room for different interpretations. For instance, although Clause 16 of the agreement provides that "surplus funding from the Games, if any, up to the total amount of Government subsidy provided and hiring charges waived, shall be returned to the Government", the meaning of "surplus funding" is not defined and can be interpreted to mean the overall surplus (i.e. including money provided by sponsors) or the surplus of government funding (i.e. excluding funding from sponsorship);

- recommends that the Administration, in organising similar events in future, should include suitable provisions in the agreements to be signed with relevant parties to cater for different possible scenarios, including the realisation of surplus, so as to avoid ambiguities that may permit wilful misinterpretation;
- is surprised and finds it unacceptable that:
  - (a) despite the fact that the 2009 EAG was the first large-scale international multi-sports event ever held in Hong Kong, the Secretary for Home Affairs and the Director of Leisure and Cultural Services had not conducted a comprehensive post-implementation review ("PIR") to consolidate experience and identify good practices and lessons learnt. Neither had they conducted a comprehensive and systematic financial review on the organisation of the 2009 EAG; and
  - (b) the wash-up review and the survey on participating National Sports Associations ("NSAs") conducted after the completion of the 2009 EAG did not involve formal consultation with key stakeholders, such as the participating National Olympic Committees ("NOCs"), sponsors, broadcasters, volunteers and technical officials;
- recommends that the Secretary for Home Affairs should:
  - (a) promptly compile, for future reference, a report on good practices and lessons identified from hosting of the 2009 EAG, as recommended in paragraph 2.16(a) of the Director of Audit's Report ("Audit Report"); and

- (b) conduct a comprehensive financial review on the organisation of the 2009 EAG;
- recommends that the Administration, in organising similar events in future, should conduct a PIR, including a financial review, after conclusion of the events to consolidate experience and identify good practices and lessons learnt;

### Operating cost and revenue

#### *Full direct cost of organising the event*

- expresses grave dismay and finds it unacceptable that:
  - (a) when the Home Affairs Bureau ("HAB") sought the FC's funding approval for hosting the 2009 EAG, it had neither ascertained the full direct cost implications of hosting the event nor informed the FC of them; and
  - (b) apart from the government subsidy of \$123 million, additional direct expenditures of \$132.8 million as ascertained by Audit had been incurred by various government B/Ds to support the hosting of the 2009 EAG. However, such expenditures were not mentioned in the funding paper submitted to the FC in January 2006;
- notes the Director of Leisure and Cultural Services' explanation that of the additional direct expenditures of \$132.8 million, \$22.7 million was incurred by the Leisure and Cultural Services Department ("LCSD") for employing about 160 contract staff with resources allocated to the LCSD under the Financial Secretary's initiative in the 2009-2010 Budget for creating temporary jobs, and such expenditure would not have been incurred without the additional provision;
- considers that the \$22.7 million aside, other additional direct expenditures as ascertained by Audit had been incurred by various B/Ds to support the 2009 EAG, and therefore disagrees with the Secretary for Home Affairs' and the Secretary for Financial Services and the Treasury's view that such expenditures should not be regarded as direct expenditures of the Games;

- expresses grave dismay and finds it unacceptable that in the funding paper submitted to the FC in January 2006, the HAB estimated that the gross expenditure for organising and implementing the 2009 EAG would be \$240 million, but as it transpired, the actual expenditure, excluding the additional direct expenditures of \$132.8 million incurred by various B/Ds, was \$291.1 million. Adding those additional direct expenditures, the total expenditure of the Games amounted to \$423.9 million of which \$243.9 million was borne by the Government;

*Income and expenditure variances*

- finds it appalling and inexcusable that the HAB failed to prepare an estimate of acceptable accuracy of the income and expenditure for the 2009 EAG when seeking the LegCo's approval for hosting the Games, in that:
  - (a) some expenditure items of the 2009 EAG differed significantly from the estimated amounts as stated in the FC paper of January 2006. For example, the estimated and actual expenditure on the opening and closing ceremonies was \$35 million and \$63.4 million respectively (i.e. an increase of 81%); and
  - (b) the actual cost of temporary works for the EAG competition venues was \$48.2 million, against the estimated cost of \$6.2 million, representing a sixfold increase;
- finds it unacceptable that the HAB had not taken the initiative to timely inform the FC or the Panel on Home Affairs of the significant variations in the income and expenditure estimates of the 2009 EAG after obtaining the FC's funding approval in 2006;
- acknowledges that:
  - (a) the Secretary for Home Affairs and the Director of Leisure and Cultural Services have accepted the audit recommendations in paragraph 3.26(a) and (c) of the Audit Report; and
  - (b) for a similar sports event in future, the HAB and the LCSD will aim to provide the FC with accurate estimates of the total direct expenditures and the best possible estimates of the costs of temporary works, and will take into account the reasons for the

variances between the estimated and actual income and expenditure items of the 2009 EAG in preparing budgets;

- strongly urges:
  - (a) the Secretary for Home Affairs, in implementing large-scale events/projects that take years to prepare and implement, to proactively inform the FC of the updated income and expenditure estimates and highlight significant variations which may have arisen due to changes in circumstances over time after the FC's funding approval has been obtained, for the good of public accountability and transparency; and
  - (b) the Secretary for Financial Services and the Treasury to take measures to ensure that all government B/Ds, including the HAB, will implement the Committee's above recommendations by informing the LegCo of the full direct cost implications and updated income and expenditure estimates in launching large-scale events/projects in future;

*Cost of temporary works*

- finds it unacceptable that in seeking funding of \$823.6 million from the FC in 2007 for both long-term improvement works for the government venues and temporary works for the 2009 EAG, the Administration did not inform the FC of the estimated cost of the temporary works as a separate item;
- acknowledges that:
  - (a) the Secretary for Home Affairs and the Director of Leisure and Cultural Services have accepted the audit recommendations in paragraph 3.26(b) of the Audit Report; and
  - (b) as a result of the experience gained from the 2009 EAG, the estimated project cost for temporary overlay was listed as a separate item by the HAB in the public consultation document issued in 2010 for the bid for hosting the 2023 Asian Games;
- urges the Secretary for Financial Services and the Treasury to take measures to ensure that the cost of the temporary works for a project/event is provided as a separate item in the relevant FC papers;

*Legacy project and use of public funds*

- notes:
  - (a) that the EAG Company implemented a legacy project of \$10 million in June 2010, which comprised two donations totalling \$9.8 million to support the long-term development of Hong Kong athletes, by utilising the company's operating surplus;
  - (b) the Secretary for Home Affairs' claim that the source of finance for the legacy project was a \$10 million sponsorship received from Sponsor B, instead of the \$10 million sponsorship from Sponsor A as stated in the Audit Report and which had been designated for enhancing the EAG opening ceremony; and
  - (c) the Administration's view that as the \$10 million sponsorship could be differentiated from the government subsidy, it was reasonable not to regard the sum as part of the EAG Company's operating surplus for return to the Government;
- considers that although the implementation of a legacy project to support the long-term development of Hong Kong athletes was a meaningful initiative on its own, the use of the EAG Company's operating surplus to finance the two donations under the legacy project was inappropriate because:
  - (a) according to the Tripartite Agreement, the EAG Company should use all revenue generated solely for the organisation, implementation and delivery of the 2009 EAG, and any surplus funding should be returned to the Government; and
  - (b) neither the FC paper of January 2006 nor the Tripartite Agreement states that the EAG Company would make donations to support the long-term development of Hong Kong athletes;
- finds the Secretary for Home Affairs' claim that the \$10 million sponsorship from Sponsor B was the source of finance for the legacy project totally unacceptable because:
  - (a) according to the Secretary for Home Affairs, the sponsorship of \$10 million was pledged by Sponsor B in November 2009 for the purpose of supporting the 2009 EAG generally without being

designated for any specific EAG activities or expenditure items. The payment of \$10 million was eventually received on 22 January 2010. As Sponsor B had not specified any use for the \$10 million (e.g. funding a legacy project), the sum received should become part of the EAG Company's general pool of resources;

- (b) the LCSD only consulted the HAB on using the EAG Company's surplus funds on the legacy project in early May 2010, which was after the donation from Sponsor B had become part of the EAG Company's general pool of resources. Given that the EAG Company did not maintain separate accounts for government subsidy and sponsorship funds, it is unjustifiable to claim that Sponsor B's sponsorship could be differentiated from the government subsidy and be identified as the source of finance for the legacy project; and
  - (c) during the course of the audit review, Audit could not find records showing that the legacy project was financed by Sponsor B's sponsorship, and neither the HAB nor the LCSD had provided Audit with such information;
- is of the view that the \$10 million for financing the legacy project was paid from the unallocated balance of the EAG Company's general pool of resources, and should be regarded as surplus funding from the 2009 EAG and be returned to the Government according to the Tripartite Agreement;
  - is not convinced by the Secretary for Home Affairs that the allocation of part of the operating surplus of the EAG Company to fund the legacy project was within the scope of policy decisions which he was entitled to make and it was not necessary for the Administration to seek the LegCo's approval. Notwithstanding that the legacy project itself was worthwhile and agreed to by the Administration, it fell outside the ambit of the FC's funding approval for the organisation and implementation of the 2009 EAG, and the operating surplus should be returned to the Government pursuant to the Tripartite Agreement. Hence, the Secretary for Home Affairs has neither discretion nor room to allow the allocation of the operating surplus to fund the legacy project and the Administration should first seek the FC's approval for so doing, in accordance with the established regime for controlling the use of public funds;

- acknowledges that the Secretary for Home Affairs and the Director of Leisure and Cultural Services have accepted the audit recommendations in paragraph 3.26(d) of the Audit Report;
- strongly urges the Secretary for Home Affairs:
  - (a) in making decision to dispose of the surplus of an event funded by government subsidy and/or commercial sponsorship, to ensure that the option pursued is in strict compliance with the terms of the funding allocation and the sponsorship, and consult the LegCo and the sponsors where appropriate; and
  - (b) in organising similar events in future, to consider at the early planning stage whether and how a legacy project should be implemented and make suitable arrangements accordingly;
- strongly urges the Secretary for Financial Services and the Treasury to inform all government B/Ds of the Committee's above recommendations;

*Timeframe for administrative arrangements*

- expresses concern that as of February 2011, the EAG Company was still under liquidation. As a result, the final audited financial statements of the company had not been submitted to the Government and the EAG Planning Committee, and surplus funds not returned to the Government, hence not meeting the six-month requirement in the Tripartite Agreement;
- acknowledges that the Secretary for Home Affairs and the Director of Leisure and Cultural Services have accepted the audit recommendations in paragraph 3.26(e) of the Audit Report;
- urges the Secretary for Home Affairs and the Director of the Leisure and Cultural Services to closely monitor the progress of the liquidation of the EAG Company to ensure that surplus funds from the 2009 EAG are returned to the Government as early as possible;

Other matters

*Admission ticketing arrangements*

- expresses concern that:
  - (a) at the commencement of the 2009 EAG, the EAG Company did not provide sufficient on-site box offices at competition venues for selling same-day tickets;
  - (b) the attendance rates of some sports events for which a large number of admission tickets were issued to sponsoring organisations, District Councils and so on were very low, and this effectively deprived other citizens of their opportunities to attend the events; and
  - (c) some sports items had high percentages of unsold tickets;
- acknowledges that the Secretary for Home Affairs and the Director of Leisure and Cultural Services have accepted the audit recommendations in paragraph 6.19 of the Audit Report;
- urges the Secretary for Home Affairs and the Director of Leisure and Cultural Services to draw on the experience of the 2009 EAG and improve the ticketing arrangements, including the issuance of guest admission tickets to sponsoring organisations, in staging similar sports events in future;

*Conversion of squash courts into office accommodation*

- notes that:
  - (a) the Administration informed the FC in January 2006 that the office accommodation of the EAG Company would be provided by conversion of six squash courts at the Hong Kong Squash Centre ("HKSC") and that the conversion and subsequent reinstatement of the squash courts would cost \$4.4 million; and
  - (b) after completion of the conversion works at the HKSC at a cost of \$4.9 million, the EAG Company used the office accommodation from February 2007 to June 2010;

- expresses concern that:
  - (a) the Administration did not inform the FC of the alternative option of renting a private office in nearby areas of the HKSC and the related cost comparison information when seeking funding for the 2009 EAG in January 2006;
  - (b) the LCSD did not take action to reinstate the six squash courts at the HKSC, which had been used as the EAG Company's former office accommodation, after the return of the accommodation to the LCSD in June 2010. This was at variance with the commitment made to the FC in January 2006; and
  - (c) the use of the six squash courts at the HKSC as office accommodation has deprived the public of the use of the sports facility in the Central and Western District;
- acknowledges that the Secretary for Home Affairs and the Director of Leisure and Cultural Services have accepted the audit recommendations in paragraph 5.14 of the Audit Report;
- urges the Secretary for Home Affairs and the Director of the Leisure and Cultural Services to take early action to convert the EAG Company's former office accommodation at the HKSC into appropriate sports, amenity and cultural facilities to meet the demand for such facilities in the Central and Western District;

*Audit survey*

- expresses concern that although the overall assessments of the 2009 EAG made by the NOCs and the NSAs in the survey conducted by Audit were "Excellent" or "Good", some NOCs and NSAs have expressed dissatisfaction over the arrangements for competition events, provision of competition venues and facilities, and handling of suggestions and complaints;
- acknowledges that the Secretary for Home Affairs and the Director of Leisure and Cultural Services have accepted the audit recommendations in paragraph 7.9 of the Audit Report;

- urges the Secretary for Home Affairs and the Director of Leisure and Cultural Services to take effective measures to implement the above audit recommendations; and

Follow-up action

- wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and Audit.