

For discussion on
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Legislative Council Panel on Home Affairs

Establishment of the Elite Athletes Development Fund

PURPOSE

This paper invites Members' views on a proposal to inject \$7 billion into an Elite Athletes Development Fund (EADF) in 2011-12.

PROPOSAL

2. In his 2011-12 Budget, the Financial Secretary proposed to set up a \$7 billion EADF. The investment return of the EADF would replace the current mode of subvention to the Hong Kong Sports Institute (HKSI). Under this arrangement, the HKSI would no longer receive an annual subvention from the Government, but instead would receive income generated from the investment return from the \$7 billion EADF.

CONSIDERATIONS

Funding requirements of the HKSI

3. The HKSI is responsible for delivering services to support Hong Kong's top athletes and works in close collaboration with stakeholders such as the Sports Federation & Olympic Committee of Hong Kong, China (SF&OC) and the national sports associations. The HKSI provides an environment in

which sports talent can be identified, nurtured and developed, offering tailor-made training programmes and support in other areas to help athletes pursue excellence in their chosen sports. The HKSI provides direct support to more than 1 000 athletes, of whom currently about 170 are full-time athletes.

4. The HKSI receives most of its funding from subvention from the Government, allocated through the Home Affairs Bureau (HAB). Other sources of income include the Hong Kong Jockey Club Elite Athletes Fund, sponsorship and donations, and commercial income generated by providing training courses for members of the public and renting facilities to outside parties¹. In 2010-11, the HKSI's annual budget was about \$240 million, of which \$217 million was provided by the Government.

5. To improve the HKSI's capacity to support the development of high-performance athletes, in 2007 and 2008 the Finance Committee of the Legislative Council approved funding for the redevelopment of the HKSI at a total cost of about \$1.8 billion. Upon completion of the redevelopment, the HKSI will have new facilities including a nine-storey multi-purpose building, a sports hall, a boathouse, and a 52-metre indoor swimming pool, as well as more space for support services such as athlete accommodation, sports science and sports medicine. The cost of operating the HKSI will rise accordingly.

Strategic development of the HKSI

6. The HKSI has formulated a strategic development plan for the coming five years. After consultation with stakeholders, the Board of Directors of the HKSI Limited has endorsed the five-point strategic framework outlined

¹ The HKSI's capacity for generating commercial income is currently constrained by the on-going redevelopment works (paragraph 5 refers). We expect there to be greater scope for the institute to generate commercial income upon the completion of the redevelopment, when new facilities become available.

below to promote the development of elite athletes –

- (a) **Elite Training System Development:** To enhance the connectivity of the HKSI with international counterparts to ensure its training system is benchmarked against state-of-the-art systems and its resources are streamlined; and to enhance talent identification and talent screening to improve performance.
- (b) **Elite Athlete Lifestyle System Development:** To attract and retain more full-time athletes in the HKSI through integrated education and accreditation programmes.
- (c) **Electronic and Technological Development:** To enhance the use of high performance training technology to improve training outcomes; and to improve the use of IT to strengthen communication systems and to refine the core administration system of the HKSI.
- (d) **HKSI Brand Development:** To enhance the visibility of the HKSI as a centre of elite training in order to attract and retain talented athletes; and to increase community connectivity and engagement through high performance lifestyle education and information.
- (e) **Human Resources Capacity Building:** To develop the human resources capabilities of the HKSI by reengineering and development programmes.

7. This strategic framework comprises components essential to the long-term support and development of Hong Kong's elite athletes. The HKSI management has developed this framework into concrete proposals in three core

areas, namely: elite training systems delivery, corporate resource management, and HKSI brand development. The HKSI aims eventually to be able to support up to 500 full-time athletes, providing better education and career support and developing a professional equivalence accreditation programme for athletes. In order for the HKSI to be able to make the best use of its upgraded facilities and achieve its strategic development targets, the HKSI must have sufficient and sustainable financial resources.

8. Taking into account its current funding requirements and the resources required to begin implementing its strategic development objectives, the HKSI has prepared an estimated budget for 2011-12, with total expenditure projected at approximately \$270 million. Given the proposed increase in the number of full-time elite athletes and of young potential athletes identified through its talent identification programme, the HKSI will in future need additional funding to provide support to athletes, including direct financial assistance as well as funding support for training and coaching programmes, participation in local and overseas competitions, sports science and sports medicine services, and meals and accommodation. The HKSI's annual budget is projected to rise to more than \$300 million by 2013-14. The projected increase in operational expenditure is unlikely to be offset by the potential increase in commercial and other revenues generated after the completion of the redevelopment project. Additional funding would therefore be necessary to ensure that there is sufficient financial support for the future work of the HKSI.

9. With the establishment of the EADF, there will be scope for us to redeploy existing resources, such as the Arts and Sport Development Fund (ASDF) to strengthen support for athletes who are not on the elite programme, in particular athletes in team sports, and to promote greater community involvement in sport, including sport in schools.

MANAGEMENT OF THE EADF

10. We propose to establish the EADF as a trust fund under the Secretary for Home Affairs Incorporation Ordinance (Cap. 1044) with the Secretary for the Home Affairs Incorporated (SHAI) as its trustee. The future operation of the HKSI would be largely financed by investment returns on the seed capital of the EADF, and SHA would be the authority for granting funding approval under the EADF. On the assumption that the long-term average investment return would be about 4 to 5%, the \$7 billion EADF would generate between \$280 million and \$350 million per annum, which would cover the current expenditure of the HKSI and provide room for the HKSI to develop its programmes further in line with its strategic framework.

11. We will require the HKSI management to ensure the effective use of any allocation from the EADF for achieving its corporate objectives of promoting the development of elite sport in Hong Kong. Government representatives sitting on the HKSI Board of Directors (which include officers from both the Home Affairs Bureau and Leisure and Cultural Services Department) will regularly review the operating plans and budgetary position of the HKSI. We propose that, in future, the HKSI should be required to seek the endorsement of the Sports Commission² (SC), which is the highest-level advisory committee on sports policy, on its annual budget and operating plans. The Secretary for Home Affairs would approve an annual allocation from the fund to the HKSI having regard to the institute's projected operating budget and the advice of the SC.

² Established on 1 January 2005, the SC advises the Government on the policies, strategies and implementation framework of sports development in Hong Kong; and the provision of funding and resources in support of sports development. The SC is underpinned by three Committees, namely the Community Sports Committee, the Elite Sports Committee and the Major Sports Events Committee, which help develop and promote community sport, elite sport and major sports events. SHA is the Chairman of the SC, which has 18 non-official members and one official member (Director of Leisure and Cultural Services).

12. In line with the practice for other trust funds under the Secretary for Home Affairs Incorporation Ordinance, statements of account of the EADF would be audited by the Director of Audit and incorporated into the financial report of the SHAI for tabling at the Legislative Council annually.

INVESTMENT OF THE EADF

13. The investment returns on the EADF would replace the existing annual subvention for HKSI. It is therefore important that the Fund be invested on a prudent basis to avoid disruption to the operation of the HKSI due to unsatisfactory investment performance. In this connection, we propose to place a substantial portion of the EADF as a deposit with the Hong Kong Monetary Authority (HKMA) to earn an investment return that is linked to the performance of the Hong Kong Exchange Fund. The remaining portion could be deposited at banks in order to meet the HKSI's liquidity needs. We shall work out details of the proposal, including the amount to be deposited and the relevant terms, in consultation with the HKMA, having regard to the HKSI's forecast budgetary needs.

14. We further propose that SHA should be able to authorise the use of part of the seed capital of the EADF to meet the funding needs of the HKSI in the following circumstances –

- (a) during the initial period after the setting-up of the EADF when the investment return from the EADF is not yet available; and
- (b) in times of high market volatility when the investment return falls short of the amount required to support the operation of the HKSI.

This would ensure that the sustained efforts to promote sport through the HKSI would not be disrupted. This arrangement was proposed by Members of the SC when they were consulted on the EADF in April (see paragraph 16(d) below).

FINANCIAL IMPLICATIONS

15. We propose a one-off injection of \$7 billion into the EADF in 2011-12. The regular subvention currently being provided to the HKSI will cease upon the establishment of the EADF. We will redeploy internal resources as far as practicable to meet the administrative cost and additional workload arising from the setting-up of the EADF. We will assess the need for additional staffing support in the light of the actual workload and seek the additional manpower resources according to the established mechanism when necessary. The related financial expenditure will be absorbed by the EADF.

PUBLIC CONSULTATION

16. Members of the sports community have welcomed the proposal to establish the EADF, noting that it would allow the HKSI to provide better support for athletes in terms not only of training but also in key areas such as education and career guidance. The SC discussed the proposed establishment of the EADF at its meeting on 11 April 2011. In supporting the proposed establishment of the EADF, Members noted the following points –

- (a) the additional funding available from the EADF should be used primarily to provide more direct support to athletes;

- (b) the establishment of the EADF should allow the HKSI to strengthen support services to athletes and to launch new services to better prepare athletes for a second career after retirement from high-level competition;
- (c) the funding allocation mechanism of the EADF should be simple and efficient and the Government should continue to monitor the financial position of the HKSI to ensure that public money is properly spent;
- (d) funding support to the HKSI should be based on the actual needs of the institute. If the income from the EADF in any given year is more than that required by the HKSI, the surplus should be kept as a reserve for possible future needs. There should also be a mechanism to allow the Government to deploy resources from the \$7 billion seed capital of the EADF in the event that the investment return and the reserve combined could not provide sufficient funding to maintain the normal operation of the HKSI; and
- (e) the HKSI has done a great deal to support athletes with disabilities and non-elite athletes and should increase such support given the additional resources available. The Government should explore possible ways to strengthen support for non-elite sport, e.g., through the ASDF.

ADVICE SOUGHT

17. Members are invited to comment on the proposed injection of funds into the EADF, having regard to the views of the SC. Subject to Members' views, we intend to seek FC's approval for the proposed injection into the EADF within 2011.

Home Affairs Bureau

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