

ITEM FOR FINANCE COMMITTEE

HEAD 53 - GOVERNMENT SECRETARIAT : HOME AFFAIRS BUREAU Subhead 700 General other non-recurrent

Members are invited to accept in principle the financial implications of Hong Kong hosting the Asian Games in 2006 and in line with the normal practice, hosting also the 2006 Far East and South Pacific Games for the Disabled.

PROBLEM

To bid for the right to host the 2006 Asian Games in Hong Kong, a formal application in the form of a candidature file must be submitted to the Olympic Council of Asia (OCA) by 30 June 2000. The financial implications in terms of a Government subsidy to meet the operating deficit for hosting the Games (including the 2006 Far East and South Pacific Games for the Disabled (FESPIC Games)) could be in the order of \$945 million.

PROPOSAL

2. It is proposed that, subject to Members' acceptance in principle of the financial implications, Hong Kong should make a formal bid to the OCA for hosting the 2006 Asian Games and in line with the normal practice, Hong Kong should also bid to host the 2006 FESPIC Games.

JUSTIFICATION

Hosting the Games in Hong Kong

3. The 2006 Asian Games will be a very substantial and worthwhile project for the community of Hong Kong, and the largest multi-sport event ever

/held

held in the history of Hong Kong. In view of the magnitude of the Games and the social, financial and economic implications involved, the Government considers it appropriate to take a strong lead in formulating the bid and to provide the necessary financial support for the Games. Such leadership and support will ensure that Hong Kong puts up a strong bid for hosting the Games.

4. The benefits for Hong Kong to host the Games are as follows -
- (a) the hosting of a major sporting event like the Asian Games in Hong Kong is a recognition of Hong Kong's important status within the Asian community. It will enhance Hong Kong's prestige and international profile as an Asian centre for hosting international sports events;
 - (b) the staging of the Games in Hong Kong will serve as an additional incentive for tourists from the Mainland and other parts of Asia to visit Hong Kong which in turn promotes tourism and expenditure;
 - (c) the improved sporting infrastructure such as upgrading of sports facilities will bring about long-term benefits to the local community;
 - (d) it will give Hong Kong people a chance to share the pride and excitement of hosting such an international sports event;
 - (e) it will provide a tremendous boost to the morale of our own athletes and encourage them to upgrade their skills in the years ahead;
 - (f) the 2006 Asian Games will provide a rallying point for the whole community to demonstrate their unity and strength in the run-up to the Games;
 - (g) the holding of the Games in Hong Kong will highlight the enormous benefits of sports in fostering friendship among Asian nations, encourage youths to participate in sports and learn valuable lessons on team spirits, sportsmanship, fairness and discipline; and
 - (h) the Games will also raise awareness for a healthy lifestyle through regular exercise.

5. In conclusion, hosting the 2006 Asian Games will help foster a sense of unity, social cohesion and national pride, as well as telling the world more about Hong Kong, enhancing our status and showcasing our strengths. Hosting the Games in 2006 represents an extremely attractive opportunity for marketing Hong Kong overseas.

The Bidding Process

6. Following Government's decision to support the expression of interest by the Sports Federation and Olympic Committee of Hong Kong, China (SF & OC) for hosting the 2006 Asian Games, SF & OC submitted a 'letter of intent' to the OCA in February 2000. In March 2000, the SF & OC received a set of documents (the bid file) containing detailed guidelines and requirements for compilation of the formal bid, as well as a host city contract. To co-ordinate with the SF & OC in the preparation of the formal bid, and to promote Hong Kong's bid locally and overseas, the Asian Games Bid Committee chaired by the Chief Secretary for Administration was established on 3 March 2000.

Encl. 1

7. An outline of the contents of the bid file is at Enclosure 1. In the bid submission, the candidature city has to provide information on 22 "themes" which explain how the city will organise the Games according to OCA requirements. The OCA has set a deadline of 30 June 2000 for submission of the candidature file. After receipt of the candidature file, the OCA will send an evaluation team to Hong Kong to assess our capability of hosting the Games.

8. The SF & OC will have two opportunities to present its bid to the National Olympic Committees (NOCs) of the OCA. One is a preliminary presentation of the bid at the Annual Meeting of the NOCs to be held in Rio de Janeiro from 23 to 26 May 2000. If it presents a good case in May 2000, it will be allowed to make its final presentation at the General Assembly of the OCA to be held in Pusan, South Korea in November 2000.

Games Venue and Accommodation

9. A key component of the bid to host the Games is the availability of suitable venues for the events of the Games and accommodation for athletes and officials taking part in the event. Thirty-one sports events have been proposed by the SF & OC for the 2006 Asian Games including the mandatory ones on athletics and swimming. The relevant "national" Sports Associations locally have been consulted and agreed to the proposed venues for the Games. Apart from the Ma On Shan Indoor Recreation Centre due for completion in 2003, all venues are existing facilities the majority of which are managed by the Leisure and Cultural Services Department. Non-government facilities include the Hong Kong Exhibition and Convention Centre, the South China Athletic Club, etc. Most of these venues require some upgrading work or the temporary addition of supporting facilities.

10. Apart from the sports events, the highlight of Games is the opening and closing ceremonies which, according to OCA, should take place at a venue with a desirable capacity of 70 000 spectators. Our largest public sport facility, the Hong Kong Stadium, has a maximum capacity of 40 000. We will need to explore other options which will come as close as possible to providing the OCA's desired capacity by 2006.

11. The host city has to provide accommodation for the 11 000 athletes and officials taking part in the event. A wide range of options have been considered on how best we can provide an Athletes Village that could meet the standards required. The choice of a site needs to take account of the locations of sports venues for the Games and the convenience of transportation to them. The Village will comprise 3 000 air-conditioned units to cater for about 11 000 participants and officials. Each unit will be comfortably furnished with modern facilities in the bedrooms, bathroom and kitchen. The Village hub – the International Zone – will be self-contained with restaurants and canteens providing a wide variety of national cuisine, convenience stores, banks, and places of worship, etc. Other facilities include a Village Square, an Information Centre, a Polyclinic and a Village Media Centre. A transport pool will be located in the Village to provide service for resident athletes and officials.

12. The preferred approach to providing the Village is to invite developers to compete by open tender to purpose-build a residential project which would be suitable for use as the Athletes Village. These residential units will be sold by the developer to the public in the normal way for occupation after completion of the Games. The terms of the tender will need to be worked out in detail if Hong Kong is awarded the hosting right.

The FESPIC Games

13. It has been the practice for the city hosting the Asian Games to stage the FESPIC Games as well. The Hong Kong Sports Association for the Physically Disabled (HKSAPD) has recently made a presentation to bid for hosting the 2006 FESPIC Games. A decision on the host city will be announced in early 2001. If Hong Kong wins the bid for both Asian Games and FESPIC Games, the latter will be held a few weeks after the Asian Games. The FESPIC Games will involve some 4 500 participants over a period of two weeks. The facilities provided for the Asian Games will be used for these Games, with some minor modifications.

FINANCIAL IMPLICATIONS

Overview

14. To provide a better assessment of the likely financial implications for Hong Kong to host the 2006 Asian Games, we have engaged a consultancy firm to undertake a study. That study has provided a detailed description and assessment of both the revenues and expenditure involved.

15. The report concludes that at 2006 prices, the operating cost of hosting the Asian Games and FESPIC Games (including a 10% contingency) would be about \$1,925 million. On the revenue side which is more likely to be affected by external factors beyond Hong Kong's control, it is assessed that as a "base" case, we could expect revenue of \$980 million net of commission payable to the OCA and to the marketing agent for the Games. The "high" and "low" case scenarios for net revenue are given at \$1,311 million and \$737 million respectively. Accordingly, the overall **operating deficit** would be \$614 million in the "high" revenue case, \$945 million in the "base" case and \$1,188 million in the "low" case. Major components of revenues and expenditure are described below.

Projected Expenditure

16. According to the consultant's estimation, the gross expenditure for running the Asian Games and the FESPIC Games is \$1,925 million, broken down as follows -

	Current prices (\$ million)	2006 prices ⁺ (\$ million)
(a) Asian Games		
Human resources	280	330
Information technology	305	355
Village and catering	55	65
Venue sports events	315	350
Finance and administration	75	85
Transport	70	80
Commercial	120	135
Ceremonies	55	65
Security	45	50
Volunteers	35	40
Contingency @10%	135	155
Sub-total	1,490	1,710

/(b)

	Current prices (\$ million)	2006 prices⁺ (\$ million)
(b) FESPIC Games		
FESPIC Games	170	195
Contingency @10%	17	20
Sub-total	187	215
Total	<u>1,677</u>	<u>1,925</u>

+ In bringing the prices to the 2006 level, the estimate is based on an overall annual inflation rate of approximately 2.7%.

Encl. 2

A more detailed note of the individual items of the estimated expenditure is at Enclosure 2.

17. The consultant has advised that its estimate of expenditure is a prudent one, which reflects reasonable requirements to deliver a successful Asian Games for Hong Kong in 2006. However, it should be noted that the \$1,925 million operating budget has not included the following financial implications -

- (a) the notional cost of potential land premium forgone in the recommended approach to develop the Athletes Village. Based on the interest costs of an approximately four-month delay in the accommodation becoming available for its permanent residential use and the cost of first providing and then removing the special facilities and fittings required for the duration of the Games, the consultant has estimated this to cost \$378 million. However, in assessing developers' tenders, account would be taken of the premium figure, the costs attributed to the Athletes Village element in the overall project and the quality of the village proposals and therefore the actual amount could be reduced. As such the land premium forgone in the development of the Village will not be a charge on the Games' operating expenditure;
- (b) the notional cost of redeploying up to 100 civil service and other public sector staff to the Games organisation for varying periods estimated at about \$400 million. The required staff will be drawn mainly from the Leisure and Cultural Services Department who are involved in sports development and organisation matters. We do not

/intend

intend to create additional posts or recruit extra staff for this purpose and hence the cost need not be a charge to the Games' operating expenditure; and

- (c) the cost of permanently upgrading some of the venues identified which, on grounds of these works bringing a lasting benefit to the community, will not be captured in the Games' operating expenditure. These more permanent upgrading works are estimated to cost \$680 million at today's prices.

Projected Revenue

18. Revenue for the Games is principally generated from sponsorship, television (TV) rights, ticket sales and merchandising. Total revenue in the "base case" scenario is projected at \$980 million, most of which coming from sponsorship (\$595 million) and the sale of TV rights (\$205 million). These figures represent the net amounts accrued to the organising committee after the official marketing agent and the OCA have taken their shares from the gross incomes from sponsorship and TV rights. These shares are likely to be 20% for the agent and 33% for the OCA.

19. Assuming an overall annual inflation rate of approximately 2.7%, the base case, low case and high case scenarios of projected revenue, from the main sources of income in 2006 prices are tabulated as follows -

Items	Base case (Total) \$ million	Low case (Total) \$ million	High case (Total) \$ million
Sponsorship Income	595	480	740
Television Income	205	145	310
Ticket Sales Income	100	75	130
Merchandising Income	35	20	67
Other Income	45	17	64
Grand Total	<u>980</u>	<u>737</u>	<u>1,311</u>

Encl. 3

A more detailed note of the individual items of projected revenue is at Enclosure 3.

20. In assessing the projected revenue and expenditure figures, the consultant has taken reference from published information on other major games events such as the 1998 Bangkok Asian Games and the 1998 Kuala Lumpur Commonwealth Games and budget projections for the 2002 Pusan Asian Games, the 2002 Commonwealth Games in Manchester and the 2006 Commonwealth Games in Melbourne. It has also consulted people in the trade where appropriate. However, putting these projections for Hong Kong to host the Asian Games in context, the consultant has pointed out that -

- (a) the projections are based on the best assumptions and parameters currently available;
- (b) the host city and organisers will normally have more direct control over expenditure than revenue as the Games (and their commercial rights) are the exclusive property of OCA;
- (c) the initial forecasts of both revenues and expenditure are subject to fluctuations over the next six years; experience of previous Games suggests that it is not unusual for organising committees to adjust their expenditure budget to reflect changes in anticipated revenues; and
- (d) a comprehensive and detailed business plan should be drawn up should the Games be awarded to Hong Kong.

Government's Commitment

21. The consultant's research into previous Games events has highlighted that notwithstanding increasing commercialisation, historically major Games have not been profit-making ventures for host cities. Governments of the host cities are obliged to provide the operating subsidy necessary to fund the cost of the event as well as any capital investment on building or upgrading sports facilities. Hosting the Asian Games in Hong Kong is likely to require a significant amount of Government support.

22. In simple arithmetic terms, based on the consultant's estimates, hosting the Asian Games and FESPIC Games in Hong Kong would require a Government subsidy of \$945 million (in 2006 prices) to meet the Games' operating deficit using the "base" revenue case. This expenditure will spread over a number of years. Moreover, taking account of the cash flows of the projected expenditure and the flow of revenue, Government may have to provide additional loans or advances to meet the shortfall in the period leading up to 2006. We intend to put in place an appropriate mechanism for organising the Games to ensure that every effort will be made to maximise revenue and secure sponsorship as well as to control expenditure in order to reduce the cost to Government.

23. Should Hong Kong's bid be successful, we would have to negotiate with the OCA on the detailed terms in the host city contract. A business plan will be drawn up with the proposed mechanism to organise the event. Detailed estimates will then be prepared and an appropriate submission will be put to Members for approval of the actual financial commitment required.

BACKGROUND INFORMATION

24. The Asian Games are held once every four years, involving some 10 000 athletes and officials from the 44 members states of the OCA. Bids to host the Asian Games come from the member federations of the OCA. In recent years, the Games have been held in Beijing (1990), Hiroshima (1994) and Bangkok (1998). The 2002 Asian Games will be held in Pusan, South Korea.

25. On 22 November 1999, the SF & OC, with the support of the Hong Kong Special Administrative Region Government, formally lodged its expression of interest in bidding to host the 2006 Asian Games with the President of the OCA on the understanding that any formal bid would be subject to further approval of the Executive Council and acceptance of the likely financial implications involved by the Finance Committee of the Legislative Council. In March 2000, the SF & OC was formally invited to submit the bid providing the detailed information and undertakings to be included in the bid document file, which has to be submitted to the OCA by end of June 2000.

26. Upon receipt of the formal bid document, the OCA will send an evaluation team to visit the bidding cities and undertake a detailed assessment of the competing bids. The OCA's final decision on the hosting cities will be made by voting of the 44 OCA members at the General Assembly to be held in Pusan, South Korea in November 2000. It has been the practice for the city hosting the Asian Games to stage the FESPIC Games as well. The HKSAPD has made a presentation to FESPIC Federation to bid for hosting the Games in 2006.

27. The Executive Council at its meeting on 2 May 2000 approved the bid to host the Asian Games 2006 and the FESPIC Games in Hong Kong subject to acceptance in principle of the financial implications involved by the Finance Committee. We briefed the Legislative Council Home Affairs Panel on the bid and the financial projections at a meeting on 5 May 2000.

An Outline of the Contents of the Bid File

1. Manual for Bidding Cities

PART I: Candidature Guide

Introduction

- Chapter 1: Stages prior to declaration of candidature
- Chapter 2: Technical candidature file
- Chapter 3: Forwarding of the candidature file to the OCA, study of the candidature and visit by the OCA Study Committee
- Chapter 4: Presentation of the candidature at the General Assembly which elects the host city of the Asian Games
- Chapter 5: Signature of the Host City Contract and constitution of the Organizing Committee of the Asian Games (OCAG)

PART II: Candidature file for the Winter Asian Games or the Asian Games/Questionnaire

- Theme 1: National and international characteristics of the country
- Theme 2: Candidate city
- Theme 3: Customs and immigration formalities
- Theme 4: Meteorological conditions
- Theme 5: Environmental protection
- Theme 6: Security
- Theme 7: Health/Medical system
- Theme 8: Athletes Village
- Theme 9: Accommodation (except Athletes Village)
- Theme 10: Transport

/Theme 11

- Theme 11: Asian Games Programme
 - Theme 12: Proposed competition sites
 - Theme 13: Art exhibition
 - Theme 14: OCA General Assembly
 - Theme 15: Ceremonies
 - Theme 16: Media
 - Theme 17: Telecommunications
 - Theme 18: Data processing services and links
 - Theme 19: Finance
 - Theme 20: Marketing
 - Theme 21: Legal aspects
 - Theme 22: Sports experience
2. Host City Contract for the 2006 Asian Games
 3. OCA Constitution 2000 (Drafted Version)
 4. The undertaking from the Government of the Host City
 5. The undertaking from the Host NOC and Candidate City
 6. The Conditions governing use of marks by candidate cities for an Asian Games

Analysis of Projected Expenditure by Items

(a) Human Resources - \$330 million

The largest component of human resources costs is the salary and related benefits for staff (\$300 million). The costs are modelled on a largely private-sector resourced Games organisation. Apart from 100 civil service and other public sector staff to be redeployed to assist in the organisation of the Games, it is expected that 400 staff will have to be recruited from the private sector. The overall salary costs for these 400 staff are calculated on the basis of private sector wages based on median remuneration offered in the market in 1998. Other human resource costs (\$30 million), benchmarked against experience of past Games, include recruitment and relocation, staff expenses, career transition programme, etc.

(b) Information Technology - \$355 million

This includes hardware and software costs at \$150 million, telecommunication costs at \$40 million and broadcasting costs at \$165 million. The projected total information technology cost can be compared with the experience of other recent multi-sports events. For example, the reported Kuala Lumpur 1998 Commonwealth Games technology costs were 78 million Ringgit (HK\$160 million) for an event with half the number of sports events of the Asian Games.

(c) Village and Catering - \$65 million

Under the recommended approach, the development cost of the Athletes Village will be taken care of in the land sale tender, probably resulting in some land premium forgone. Operating the Village during the period of the Games would incur mainly catering and running expenses. The catering costs are estimated on the basis of providing good quality food to 11 000 athletes and officials at \$285 per day at an average occupancy rate of 80% (\$40 million), providing a lunch box each day to 15 000 volunteers (\$15 million) and catering for VIPs and ceremonies performers (\$5 million), giving a total catering cost of \$60 million. Other costs include housekeeping, rubbish disposal and Village management estimated at \$5 million.

(d) Venue Sports Events - \$350 million

These include estimated sports equipment and venue fit-out cost such as temporary seating and upgrades estimated at \$254 million, venue hire cost estimated at \$38 million (mainly the Hong Kong Exhibition and Convention

Centre), the projected costs for medical and doping service of \$9 million (based on using the doping centre in Beijing and transportation cost of the samples) and other costs of \$49 million for medals, official training, test events and pageantry and signage requirements at all venues.

(e) Finance and Administration - \$85 million

The finance and administration budget is estimated at \$85 million covering insurance fees (\$25 million), audit and accounting costs (\$7 million), office rental and maintenance (\$23 million), office furniture (\$7 million), consultants fees (\$13 million), postage, office supplies and courier cost (\$10 million). If existing Government office space could be utilized with no incremental cost, the office rental cost could be significantly reduced.

(f) Transport - \$80 million

The transport and travel budget covers subsidy of flights to an agreed level and the local transportation of athletes and officials between competition venues, training venues and accommodation. Based upon four travel zones surrounding Hong Kong and by estimating the number of athletes attending by country, the average travel cost per athlete or official would be \$9,250. The subsidy of air travel to athletes and officials is estimated to be \$12 million. The local bus and other vehicle costs of \$53 million have been estimated based on the number of vehicles at the 1998 Bangkok Asian Games, their working hours and the rates of hiring vehicles in Hong Kong. Other transport costs of \$15 million mainly comprise travel expenses for volunteers at \$12 million (\$50 per volunteer per day) which can be mitigated by providing free and reduced rate travel on public transport and parking and tunnel tolls. The cost of drivers, fuel, vehicles cleaning, etc. is included in the cost of vehicle rental.

(g) Commercial - \$135 million

Commercial expenses principally comprise advertising cost, public relations, promotional events, market research, and printed materials and publications. The estimate of \$135 million reflects the need to create a very strong local image of the Games in order to meet the target income of local sponsorship of \$250 million. This estimate compares with the responsibility laid out in the draft host city contract to provide a paid-for-media campaign at no less than \$115 million. The provision does not include funds for street dressing the amount of which can be spent quite flexibly.

(h) Ceremonies - \$65 million

These include the costs for the opening and closing ceremonies and other ceremony cost. The opening ceremony is often the showpiece of any major sporting event, and particularly for multi-sports events. A sum of \$57 million

/has

has been assumed for the opening and closing ceremonies of the Games, which would be adequate to provide a moderate degree of spectacle. Other ceremonial cost of \$8 million cover the staging of the “torch run”, national anthems and victory ceremonies.

(i) Security - \$50 million

The host city is required to provide adequate security for personnel and property during the Games. Discussions with the Hong Kong Police Force suggest that the total incremental cost of providing adequate security for the Games, inclusive of both overtime payments and the purchase of security equipment and technical services, would be \$50 million. This budgeted cost is comparable to that of other recent Games.

(j) Volunteers - \$40 million

The budget of \$40 million covers the costs associated with the recruitment, clothing and training of volunteers. The volunteer costs have been based upon an estimate of 15 000 volunteers with the assumption that training centres will be procured at minimal rental rates within existing government buildings.

(k) FESPIC Games - \$195 million

The HKSAPD has indicated that approximately 4 500 athletes and officials are expected to participate in the 2006 FESPIC Games which will be held over a roughly two-week period immediately after the Asian Games. Benchmarked against previous FESPIC Games, and taking account of HKSAPD’s preliminary estimates related to the revenues and expenditures for the FESPIC Games, an estimate of \$195 million has been included in the expenditure calculations. This amount is the estimated incremental cost and has been adjusted to account for inflation and anticipated participant numbers. It is assumed that facilities of the Asian Games (venues, village, etc.) will be used as far as possible with a minimum of additional cost.

(l) Contingency - \$175 million

A 10% contingency is built into the budget as with most project estimates.

Analysis of Projected Revenue by Items

(a) Sponsorship Income - \$595 million

The main partner packages will be marketed for \$60 million and about ten to 12 main corporate partners will be sought, making a total income of \$660 million. In addition, eight to ten official supplier packages would be marketed for between \$5 million and \$25 million generating income of \$95 million. It is also expected that local firms will provide cash and in-kind sponsorship. The raising of \$250 million from local sponsorship will be critically dependent upon creating a strong image for the Games in Hong Kong. The revenue to Hong Kong from sponsorship, net of agent commission and OCA share, is estimated at \$595 million. The similar figures for the high and low cases are \$740 million and \$480 million respectively.

(b) Television Income - \$205 million

The value of the television rights for the 2006 Games is projected to exceed that for previous Asian Games. The estimate of television income is \$384 million. After subtracting agency commission and OCA share, this results in \$205 million revenue to the host city.

(c) Ticket Sales Income - \$100 million

Ticket revenues have been calculated for each event. It has been assumed that about 30% of seats are used by VIPs, sponsors and athletes and consequently will not generate income. Net of direct sales costs, ticket revenues are estimated at \$100 million (\$130 million in high case and \$75 million in low case) of which approximately 40% will come from the opening and closing ceremonies. These projections have been based upon the assumption that all ticket sales revenue can be retained by the organising committee though the draft host city contract states that the OCA shall determine the allocation of revenues from admission tickets.

(d) Merchandising Income - \$35 million

Income generated from merchandising at previous Asian Games has been very low. However, Hong Kong represents a good market for Games merchandise. The range of products would typically include toys, pin badges, hats, clothing, stationery, cups and games. Base case profit from merchandising has been assumed to be \$55 million. This is based on gross sales of approximately \$550 million, from which manufacturer's profit

/margin

margin and commission are deducted. The net merchandising income is further adjusted to \$35 million by discounting the OCA share. The high case income is \$67 million based on gross sales of approximately \$1 billion, and the low case is \$20 million based on gross sales of \$300 million.

(e) Other Income - \$45 million

This consists of revenue from the sale of commemorative coins (\$12 million), postal covers (\$3 million) and accommodation charges from athletes and officials. It is estimated that a combined catering and accommodating charge is made of \$390 per person. Assuming that the village will, on average, be at 80% capacity, this will result in \$30 million in income to the Games after provision for discounts. The high and low cases assume a \$10 million variation in either direction. While fund raising events could be a significant source of income, a reliable estimate of the income to be generated from fund raising cannot be made in the absence of any specific information and this has therefore been valued at \$nil in the budget.