

Paper for Home Affairs Panel

**ARRANGEMENTS FOR BIDDING TO HOST
THE 2006 ASIAN GAMES
AND FAR EAST AND SOUTH PACIFIC (FESPIC) GAMES
FOR DISABLED ATHLETES**

INTRODUCTION

This paper summarises the arrangements for bidding to host the 2006 Asian Games in the Hong Kong Special Administrative Region. We also describe the projected financial implications of hosting the Games, which include the cost of hosting the 2006 FESPIC Games.

BACKGROUND

2. On 30 June 1999 the Legislative Council endorsed a motion moved by Hon Timothy Fok on “Providing major venues for sporting events”. During the debate, most Members expressed support in principle for a bid to host the Asian Games. Following a preliminary assessment by the Administration, on 20 November 1999 the Executive Council (ExCo) agreed that we should support the expression of interest which the Sports Federation and Olympic Committee of Hong Kong, China (SFOC) would submit to the Olympic Council of Asia (OCA) for the hosting of the Games.

3. We reported to Members of this Panel on ExCo’s decision in the LegCo Brief on “Support for the Bid to Host the 2006 Asian Games” [Ref: HAB CS/CR 7/8/76(99)]. In making its decision ExCo took note of the considerable non-quantifiable benefits of hosting the Asian Games, namely –

- elevating Hong Kong’s status as a centre in Asia for hosting international sports events;
- giving Hong Kong people a chance to enjoy the pride and excitement of hosting such an international event;

- encouraging Hong Kong athletes to improve their skills in the lead-up to the Games; and
- providing an opportunity for the community to showcase Hong Kong to the rest of Asia.

4. Hosting the Asian Games in 2006 would also give a boost to the further development of sports policy for Hong Kong. In preparing for the Games over the next six to seven years, we would focus on the following objectives -

- encouraging a more organised and professional approach to involvement in sport;
- developing more options for community involvement in sports programmes at all levels from elementary training to elite;
- promoting an improved venue-building and management policy to meet the needs of organised sports associations as well as the general public;
- creating more career opportunities for athletes, coaches and administrators in the sports field so as to stimulate expertise and excellence in this area; and
- positioning Hong Kong as a major centre of sports excellence in Asia, and as a sports events capital for the region.

5. At the meeting on 7 December we advised Members that we would strive to put forward a strong and competitive bid to host the 2006 Asian Games. We also said that we would engage financial consultants to establish detailed projections for the financial implications of hosting the Games, and that we would make available to Members the results of the financial study, as well as relevant economic assessment reports prepared by the Government Economist.

RECENT DEVELOPMENTS IN THE BIDDING PROCESS

6. The OCA invited its members to bid for the 2006 Asian Games in January 2000 and by the closing date of 28 February, four cities had applied to bid: Doha in Qatar, Kuala Lumpur in Malaysia, New Delhi in India and the Hong Kong SAR. On 3 March we formally established the Asian Games Bid Committee under the chairmanship of the Chief Secretary for Administration to co-ordinate and steer the bidding process.

7. The OCA requires the bidding cities to submit their full bid documents by 30 June 2000. The Council will then send an evaluation team to each city to assess in detail the competing bids. The final decision on the hosting of the Games is due to take place at the OCA General Assembly in November, when the OCA members will vote for the host city by secret ballot.

8. Prior to submission of the bid document, bidding cities have been invited to make a presentation to OCA members on 23 May during the annual meeting of the International Olympic Committee in Rio de Janeiro, Brazil.

9. It has been normal practice for the Asian Games host city also to stage the FESPIC Games, and we hope to play host to the FESPIC Games immediately after the Asian Games in 2006. With the support in principle of the SAR Government, the Hong Kong Sports Association for the Disabled (SAD) has expressed its interest in bidding to host the 2006 FESPIC Games. The SAD will pursue the formal process of bidding for the FESPIC Games, in competition with the cities of Kuala Lumpur and Christchurch, New Zealand. The result of this bid will be announced in early 2001.

WORK OF THE BID COMMITTEE

10. The Asian Games Bid Committee, whose membership is at Annex A, has concentrated on three main areas of work, namely –

- preparation of the formal bid documentation;
- the strategy for providing venues and athlete accommodation; and
- promoting the bid both locally and overseas.

11. Subject to the Finance Committee's agreement in principle to the likely financial implications of hosting the Asian Games and FESPIC Games in 2006, the SFOC and the SAD will submit the respective formal bids in accordance with the timetables described above (paragraphs 7 and 9).

12. With regard to venues and accommodation, the OCA's requirements in respect of the Asian Games are precise and extensive. As we advised Panel Members at the meeting on 7 December 1999, we would not build major new venues solely for the purpose of hosting the Asian Games. Rather, our strategy is based upon the use of existing venues, with temporary or permanent upgrading of facilities where appropriate to meet respectively the OCA requirements and the longer-term needs of the public and the Hong Kong sports community. We have identified suitable venues for the 31 sports events proposed for the Games programme.

13. To promote the Asian Games bid, we plan to launch a series of campaigns locally to increase public awareness of the benefits of hosting the Games. We shall also have the opportunity to present our case to OCA Members at the International Olympic Committee meeting in Brazil in late May, and the OCA General Assembly in November.

FINANCIAL PROJECTIONS

14. In order to provide an estimate of the potential financial implications of hosting the 2006 Asian Games, including the hosting of the FESPIC Games, we have engaged the services of a financial consultant with experience of budgeting for major games events. The consultant, KPMG Consulting (KPMG), has now completed its study, and the Executive Summary of the report on their findings is at Annex B. Copies of the full report have

been made available to the LegCo Secretariat.

15. The scope of KPMG's study into the financial implications of hosting the 2006 Asian Games and FESPIC Games required them to provide –

- an estimate of the projected expenditure likely to be required and revenue which could be raised;
- an operating budget; and
- a proposed accommodation strategy for the athletes and officials

The following paragraphs briefly summarise KPMG's key findings.

(A) Expenditure and Revenue

16. KPMG project the total operating expenditure to be \$1,925 million at 2006 prices, including a 10% contingency. The major items of operating expenditure are forecast to be –

- information technology – including communication systems, provision of an international broadcast centre and host broadcast facilities;
- venue upgrading and equipment – which includes temporary fitting-out costs, venue hire and venue decoration
- human resource costs – including full- and part-time staff; and
- the FESPIC Games, the cost of which is shown as a net figure discounting potential revenue for the event.

17. KPMG estimate that hosting the Asian Games 2006 in the SAR would generate revenue for Hong Kong of \$980 million at 2006 prices. This takes into account the fact that the OCA-appointed sports marketing agent is likely to take a commission of up to 20% of the sponsorship, TV rights and

merchandising revenue. It is also anticipated that the OCA will take a 33% share of Games revenue after payment of the agent's commission. This would leave Hong Kong with around 50% of the gross revenues from the major income sources.

18. The main sources of revenue for the Games are likely to be –

- sponsorship, both from multi-national Games “partners” and local sponsors and official suppliers;
- broadcasting rights, the value of which is seen as rising in an increasingly competitive market;
- ticket sales, based on likely attendance patterns; and
- merchandising of products related to the Games.

(B) Net Financial Implications

19. Based on their expenditure and revenue projections, KPMG have drawn up a summary operating budget. According to this, the net financial implications of hosting the 2006 Asian Games and FESPIC Games will be as follows (in 2006 prices) -

	\$m
Projected Revenue for Asian Games	980
Asian Games expenditure (including 10% contingency)	1,710.5
Net deficit for Asian Games	730.5
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FESPIC Games costs (net of revenue) (including 10% contingency)	214.5
Overall Net Deficit	945
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(C) Athlete Accommodation

20. During the period of the Asian Games we would expect to have to accommodate up to 11,000 athletes and officials in secure and dedicated facilities. In accordance with the OCA requirements, our consultants have devised a strategy for providing suitable accommodation in the most cost-efficient way possible. The recommended approach does not impact on the operating budget, however it does carry potential implications in terms of land premium revenue forgone.

21. Briefly, the proposed approach is to invite developers to compete by tender to purpose-build a residential project which would be suitable for use initially as the Athletes' Village. Apart from meeting the special requirements of the Asian Games and FESPIC Games, the residential accommodation would be sold to the public in the normal way. In exchange for undertaking to provide the Athletes' Village, it is assumed that potential developers would seek to offset the cost of so doing in assessing the premium they will offer for the site in question. The KPMG report estimates the premium revenue forgone in this way at \$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.

Other Notional Financial Implications

22. Aside from the possible premium revenue forgone described above, there are two other items with notional financial implications which do not appear in the operating budget due to their not being direct costs. These are –

- (a) the re-deployment of up to 100 public sector staff to the Asian Games organizational structure between the years 2001 and 2006, at an estimated notional staff cost of \$400 million; and
- (b) the permanent upgrading and renovation of some venues, which would be likely to come under the regular budget for maintenance and refurbishment, but which will also provide long-term benefit to the public before and after the Games - the cost for this is estimated

at \$680 million.

ECONOMIC IMPLICATIONS

23. The Government Economist has prepared an assessment of the economic implications of hosting the Games based on the cost and revenue estimates provided by KPMG. The economic benefits are assessed in terms of the value-added contribution to GDP arising from additional spending by overseas visitors and local residents, and the business income generated by the Asian Games.

24. The estimated economic benefits amount to \$862 million, in 2000 prices, based on the Games attracting 55,000 tourists and 250,000 local residents, and using the base case figures for sponsorship and broadcasting revenue provided by KPMG⁽¹⁾.

25. The aggregate major resource costs of hosting the Games amount of about \$1,164 million, comprising mainly the upgrade of sports facilities (\$229 million), provision of information technology-related equipment (\$305 million), staff costs (\$280 million), and land revenue foregone due to the provision of the Athletes Village and other accommodation facilities (\$350 million). The net economic benefits will be around - \$302 million. The updated economic assessment report is at **Annex C**⁽²⁾.

(1) If only 25 000 tourists and 110 000 local residents were to be attracted to the Games, and using the low case figures for sponsorship and broadcasting revenues provided by KPMG, the event would bring a smaller total economic benefit of about \$528 million.

(2) At the Panel meeting on 7 December 1999, we undertook to provide Members with the economic analysis once more detailed financial projections from our independent consultants were available. The previous economic assessment report, based on very preliminary inputs, is at Annex D.

26. A summary of the economic benefits and costs is shown below -

	\$ million
Economic benefits	862
Direct economic costs, comprising mainly	<u>814</u>
• Upgrade of sports facilities	229
• Provision of information technology	305
• Staff costs	<u>280</u>
Net direct economic benefits	48
Estimated land revenue foregone	<u>350</u>
Net economic benefits	- 302

27. The Government Economist has noted that in addition to the staff cost incurred as mentioned in paragraph 25, about 100 Government employees will be redeployed to the Games organisation. The imputed salary cost of the redeployed staff is estimated at around \$343 million. Inclusive of this, the net economic benefit will become -\$645 million.

28. However, according to our present plans, as far as possible no extra staff will be recruited to fill the vacancies for the staff redeployed. Their work will be absorbed by other civil servants, with working overtime. It is reckoned that this adjustment in work arrangements may not be able to offer a complete offset to the resource cost estimated for the redeployed government staff (who will mainly come from the leisure services sector). Nevertheless, the community at large will not suffer from a reduced supply of public services, and the economy will not sustain a net loss in output.

29. The economic assessment has only quantified the economic benefits of the additional commercial activities generated by the Asian Games. Understandably, there are other much wider and longer-term community and social benefits that are intangible and cannot be readily quantified, as set out in paragraph 3 above. These should constitute the main justification for Hong Kong making the bid to host the event.

CONCLUSION

30. At the Panel meeting on 7 December 1999 we stated clearly that in view of the substantial commitments involved, the Government did not expect that hosting the 2006 Asian Games would generate either an operating profit or a quantifiable economic return. Nonetheless, should the OCA award the 2006 Games to Hong Kong, we would seek to maximise revenues, while keeping expenditure to the minimum levels necessary to provide a first-class Games.

31. In supporting the SFOC's bid to host the 2006 Asian Games, we have taken the view that the SAR is capable of organising the Games. We believe that the likely social and cultural benefits represent a huge return on the community's investment.

NEXT STEPS

32. The decision to support the SFOC's submission of an expression of interest to host the Games was made on the basis that, in respect of the formal bid, any financial commitment for hosting the Games should be subject to the approval of the Finance Committee of LegCo.

33. On the basis of the projections in the financial consultant's report, which we believe represent at this stage a reasonable estimate of the operating budget for hosting the Asian Games and FESPIC Games in 2006, we propose to submit an item to the Finance Committee for endorsement in principle of the projected financial commitments, before giving support to the SFOC's formal bid to the OCA.