

For discussion on
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Legislative Council Panel on Home Affairs

Proposed Capital Injection into the Arts and Sport Development Fund

PURPOSE

This paper seeks Members' views on the proposed injection of \$3 billion into the Arts and Sport Development Fund (ASDF) in the 2010-11 financial year.

PROPOSAL

2. In his Budget Speech on 24 February 2010, the Financial Secretary announced a proposal to create a new non-recurrent commitment of \$3 billion for injection into the ASDF as seed money and to use the annual investment return of the Fund to provide sustainable additional resources for subsidising the long-term development of the arts, culture and sport.

JUSTIFICATION

3. In January 1997, the ASDF was set up as a sub-fund under the Sir David Trench Fund for Recreation¹ (SDTFR) to provide funding for worthwhile projects for the further development of arts and sports in the community, in particular key initiatives of the Hong Kong Arts Development Council (HKADC)² and the then Hong Kong Sports Development Board³. A sum of \$300 million was approved as

¹ Sir David Trench Fund for Recreation is a statutory fund established under the Sir David Trench Fund for Recreation Ordinance (Cap. 1128) for the purpose of providing facilities for recreational, sporting, cultural and social activities and other objects ancillary or incidental to this purpose. It is held in trust by the Incorporation of the Director of Accounting Services and administered by the Secretary for Home Affairs.

² Established in June 1995, the HKADC is a statutory body set up under the Hong Kong Arts Development Council Ordinance (Cap. 472) to promote and develop culture and the arts in Hong Kong. With the recurrent subvention from the Government and funding from the arts portion of the ASDF, the HKADC has been supporting the development of local artists and arts groups mainly through its Two-Year Grant, One-Year Grant, Project Grant, Multi-Project Grant, Devolved Grant and Emerging Artist Grant schemes.

³ The Hong Kong Sports Development Board was the former statutory body responsible for promoting the development of sport in Hong Kong until its dissolution on 1 October 2004, which was followed by the re-constitution of the Hong Kong Sports Institute as an incorporated body focusing on elite athletes' training and development, and the setting up of the Sports Commission and its three committees.

a one-off injection to support these initiatives. The allocation between the arts and sports portions of ASDF was \$160 million and \$140 million respectively. The Finance Committee (FC) approved further capital injections into the ASDF of \$80 million (\$40 million each for the arts and sports portions) on 26 January 2007 and \$150 million (\$60 million for the arts portion and \$90 million for the sports one) on 20 February 2009. As at 31 March 2010, the uncommitted balance of the arts and sports portions of the Fund was \$35.7 million and \$88.1 million respectively. Summaries of the arts and sports projects supported over the past three financial years are at **Annexes A** and **B** respectively.

4. Based on the present rate of grant disbursement, we expected that in order to maintain our support for key arts and sports projects, we would need to seek FC's approval for a further capital injection into the ASDF in the 2011-12 financial year. The absence of a stable and substantial source of funding has made it difficult to support worthwhile arts and sports projects on a sustained basis, especially for initiatives that may require financial support over a prolonged period. Based on the assumption of an average annual investment return rate of 4 to 5% in the long run, the proposed injection of \$3 billion may generate around \$120 to \$150 million of annual investment proceeds. This income, to be shared between the arts and sports portions equally, would provide regular financial support to worthwhile arts and sports projects and also allow the ASDF to build up a reserve to counter fluctuations arising from market volatility.

5. We have reviewed the use of the ASDF, including the scope for supporting new initiatives, as well as the mechanisms for processing and vetting ASDF applications. Based on the outcome of this review, our proposed way forward is outlined below.

PROPOSED FUTURE USES OF THE ASDF

Arts Projects

6. At present, the arts portion of the ASDF primarily supports the schemes or projects initiated or recommended by the HKADC, particularly to promote the development of small and medium-sized arts groups, the nurturing of budding artists, and the community appreciation of and participation in culture and the arts. The yearly approved funding through the ASDF to the HKADC increased from \$19.6 million in 2007-08 to \$27.1 million in 2009-10.

7. In line with our vision to strengthen the cultural software through arts programme development, audience building, manpower training and arts education, it is our plan to further support the long-term development of the arts and cultural sector with increased annual funding to support more projects through the HKADC following the proposed injection into the ASDF.

8. Past experience has also indicated that there are bigger scale arts and cultural projects worth supporting that may not have ready access to public funding support. The additional investment income generated from the proposed injection will allow us to consider supporting significant projects that are conducive to building up a vibrant local arts scene and boosting the city's standing in the world cultural map so as to complement the West Kowloon Cultural District project. For this reason, in addition to our continuous support to the HKADC to promote the arts sector and the Secretary for Home Affairs (SHA)'s disbursement of funds to worthwhile initiatives that will make a significant contribution to the further development of the arts and culture in the community, an advisory committee consisting mainly of non-government officials will be established to advise SHA on the apportionment of funds from the arts portion of the ASDF, taking into account resources available, to the key areas set out in paragraphs 12 and 13 below.

Detail

(a) Support to the Arts Sector through HKADC

9. Following the current practice, funds will be allocated to the HKADC from the arts portion of the ASDF to support the schemes/ projects on the four existing broad categories as follows –

- (a) Budding Grant Scheme – schemes/ projects that aim to support debut or budding artists so as to give them performance and exhibition opportunities;
- (b) Support Scheme for Budding Artists – schemes/ projects that aim to support budding artists with recognised potential including funding their internship with established arts institutions locally or overseas;
- (c) Support for Small and Medium-sized Arts Groups – schemes/ projects that aim to support small and medium-sized arts groups, including the multi-project grant scheme that offers support to more than one project proposed by an applicant arts group; and

- (d) Arts Education, Arts Promotion and Community Participation – schemes/ projects that target enhancing student and community appreciation of and participation in culture and the arts, including projects organised in partnership with the District Councils, non-governmental organisations and business entities to bring culture and the arts more accessible to the community.

10. Taking into account the average volume of grants approved in the past few years, for planning purposes, we propose that an enhanced provision of around \$30 million be reserved annually for the above schemes/ projects undertaken or recommended by HKADC. In accordance with the prevailing eligibility criteria of the HKADC, the subsidy level sought for such schemes/ projects is up to a ceiling of \$2 million (with the exception of schemes/ projects initiated by the HKADC itself).

(b) Funding for Arts and Cultural Proposals

11. The newly established advisory committee will advise SHA on, inter alia, how the remainder of the arts portion of the ASDF should be used to fund arts and cultural proposals initiated by individuals or organizations. For the reason given in paragraph 8 above, the proposed funding mechanism whereby applications are assessed by the advisory committee should seek to support –

- (a) schemes/ projects of a larger scale than those normally funded by the HKADC, with a subsidy level of above \$2 million ; and
- (b) longer-term yet time-limited programmes, the implementation of which would otherwise not be possible without a regular source of funding during the implementation period.

12. Detailed funding criteria, including any themes and/or priorities (such as audience building) to be set for inviting funding applications, assessment criteria and control mechanism, would be worked out by the committee to be established. The advisory committee would also advise on the ceiling amount of the grants to be disbursed, to ensure that the total grants approved in a year would not exceed the investment return generated from the previous year.

Sports Projects

13. The sports portion of the ASDF is an important source of funding for the development and promotion of sport in Hong Kong. The average amount of funding approved for sports projects since the inception of the ASDF is about \$24 million per year. At present, the sports portion of the ASDF supports projects in the following categories -

- (a) support for athletes to prepare for and participate in major international and national games;
- (b) the hosting of major international sports events by National Sports Associations (NSAs) and other sports organisations; and
- (c) “one-off” initiatives that are important to the development and promotion of sport in Hong Kong.

14. With the frequency of international competitions (including events held in Hong Kong) increasing and the number of Hong Kong athletes taking part in such events also on the rise, the amount of funding required for sports projects has also increased significantly in recent years – the annual average of grants approved in the last three financial years reached \$36 million. The additional investment income generated from the proposed capital injection will not only enable us to strengthen our support for projects in the above categories, but also allow us to consider supporting new projects.

15. When considering which new sports projects should be supported, and how existing ones should be strengthened, we proposed that the Sports Commission⁴ (SC), as the highest-level advisory committee on sports policy, should assume the over-arching advisory role for disbursement of the sports portion of the ASDF. In this connection, we propose to consult the SC annually on the broad areas to be supported (which may include existing programmes and new initiatives), having regard to sports policy objectives and the specific needs of the sports community. Similar to the arts portion of the ASDF, the SC could also

⁴ 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, taking into account the input from various stakeholders in sport through partnership and collaboration. 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 16 non-official members and one official member (Director of Leisure and Cultural Services).

advise on the ceiling amount of the grants to be disbursed, to ensure that the total grants approved in a year would not exceed the investment return generated from the previous year.

16. Once the SC has endorsed the broad framework for funding, the three committees of the SC, which have responsibility for community sport, elite sport and major sports events would consider individual applications for grants, subject to any conditions imposed by the SC.

17. We have yet to consult SC on the broad areas to be supported in the coming year, but as an illustration, we may invite the SC to consider supporting projects in the following areas -

- (a) support for team sports that have the potential for greater spectator appeal and public participation. For example, additional funding could be allocated to NSAs to hire high-performance coaches and to take part in more overseas training and competitions to raise playing standards;
- (b) upgrading school and district-level programmes to boost community participation in sport, for example through the creation of more training and competition opportunities; and broadening the ambit of the Hong Kong Games and other community-wide projects; and
- (c) on the basis of the recommendations of the Football Task Force, allocating resources to implement the recommendations of the consultancy study on the development of local football.

18. We envisage that funding support to the projects mentioned above could be of the order of \$25 million to \$30 million a year. We would also consider ways to strengthen support to the existing programmes listed in paragraph 13 above. For example, we will consider increasing the number of international sports events for which we grant funding to athletes for preparation and participation, and making additional funding available to NSAs for marketing "M" Mark events⁵. We expect that about \$30 million to \$40 million would be required annually to support and strengthen existing programmes.

⁵ The "M" Mark System was launched in November 2004 with a view to nurturing more sustainable major sports events in Hong Kong. An "M" Mark status is awarded to recognised major sports events held in Hong Kong which meet a number of eligibility criteria. Support measures including the provision of matching grant can be made available to "M" Mark events in their first few years to help them develop into sustainable undertakings.

19. For both the arts and sports portions of the Fund, the Home Affairs Bureau (HAB) and the Leisure and Cultural Services Department (LCSD) would conduct preliminary assessments of the applications, the findings of which would then be considered by the respective advisory committees before submission to SHA for approval. Upon receipts of grants, recipients would have to comply with conditions regarding the submission of evaluation reports and statements of accounts in respect of completed projects. Any unspent balance would be returned to the Fund.

INVESTMENT AND MAINTENANCE REQUIREMENT OF ASDF

20. The ASDF is a sub-fund under the SDTFR established under the Sir David Trench Fund for Recreation Ordinance (Cap. 1128). The Director of Accounting Services (DAS) is the statutory trustee of the SDTFR and is responsible for managing the related investment and accounting work. As required by the Ordinance, the Government has set up the Sir David Trench Fund for Recreation Investment Advisory Committee (the Committee), which sets the investment strategies for the SDTFR and its various sub-funds and advises on matters in relation to investment. The existing framework, which is statutory in nature, will continue after the proposed capital injection into the ASDF.

21. The investment guideline of the ASDF is based on a prudent and conservative principle, and the current investments include fixed deposits and bonds. The proposed injection of \$3 billion will be used as seed money. Through the annual investment return, the seed money will provide the ASDF with additional and sustainable resources to subsidise the long-term development of sports, culture and arts. HAB will work with the Treasury on the future investment strategy having regard to the forecast annual funding requirements and consult the Committee on the proposed strategy. The objectives will be to generate sufficient investment returns to support grants to approved projects under both the arts and sports portions while maintaining the capital base (i.e. the \$3 billion capital injected). However, to allow flexibility for worthwhile or time-critical arts and sports projects to be supported in times of high market volatility, we propose that SHA should be allowed to authorise the use of part of the ASDF capital base if the investment return in a particular year should the accumulated surplus be inadequate to meet the funding needs. This would ensure that sustained efforts to promote sport, culture and arts would not be disrupted by short-term fluctuations in the investment markets.

FINANCIAL IMPLICATIONS

22. We propose a one-off injection of \$3 billion into the ASDF in 2010-11. The additional workload arising from the administration and operations of the ASDF will initially be absorbed by HAB, LCSD and The Treasury. Upon approval of the proposed injection, we will review the staffing requirements having regard to the actual operational needs.

PUBLIC CONSULTATION

23. On the arts portion of the ASDF, we have briefed HKADC and the Funding Committee for the Performing Arts on our proposals to enhance support to the small and medium-sized arts sector through HKADC, and provide resources to other worthwhile arts and cultural projects initiated by arts practitioners. The proposals were well-received.

24. As for the sports portion, we have not consulted the SC yet, as its next meeting will not be held until June 2010. That being the case, we have consulted the Vice-Chairman of the SC, and the Chairmen of the relevant committees, and they indicated their support for the proposed capital injection and the revised approval mechanisms, which would increase the level of participation of the SC and its committees in the ASDF funding process.

ADVICE SOUGHT

25. Members are invited to comment on the proposed injection of funds into the ASDF. Subject to Members' views, we intend to seek FC's approval for the proposed capital injection of the \$3 billion into the ASDF within the current legislative session.

Home Affairs Bureau
May 2010

**Approved Arts Schemes/Projects by Category
between 1 April 2007 and 31 March 2010**

Nature of Projects	Number of Projects	Amount Approved (\$)
Budding Grant Scheme	4	5,850,000
Support Scheme for Budding Artists	5	9,170,000
Support for Small and Medium-sized Performing Arts Groups	5	15,127,500
Arts Education, Arts Promotion and Community Participation	22	37,339,700
Total	36	67,487,200

**Approved Sports Projects by Category
between 1 April 2007 and 31 March 2010**

Nature of Projects	Number of Projects	Amount Approved (\$)
Preparation for Major Games	13	43,973,360
Participation in Major Games	14	28,977,762
Hosting of Major International Events	39	34,618,505
Other “One-off” Activities	2	1,770,000
Total	68	109,339,627