

The Audit Commission ("Audit") conducted a review of the operation of the Hong Kong Sports Institute Limited ("HKSI") and related issues.

2. HKSI was incorporated under the Companies Ordinance (Cap. 622) in 2004 as a company limited by guarantee. It is the government's agent responsible for delivering elite sports training and support under the policy direction of Home Affairs Bureau ("HAB"). In 2011, HAB obtained a funding of \$7 billion for setting up the Elite Athletes Development Fund ("EADF") to provide recurrent funding support to HKSI. In 2013-2014, the funding support received from EADF amounted to \$325 million, accounting for 84% of HKSI's total revenue of \$387 million. The total expenditure in 2013-2014 was \$369 million, comprising \$285 million (77%) on elite athlete training and \$84 million (23%) on administrative expenses.

3. HKSI's governing body is its Board of Directors. Directors of the Board are nominated by the Secretary for Home Affairs for a two-year term. The Board is supported by five standing committees. The Chief Executive of HKSI is appointed by the Board and is responsible for the day-to-day operation of HKSI. As at 31 December 2014, HKSI had 328 staff (62 coaches and 266 other staff), providing training and support to 1 051 athletes (279 full-time and 772 part-time athletes).

4. The Committee noted the following findings from the Director of Audit's Report:

- HKSI had difficulties in recruiting coaches. As at December 2014, HKSI had 10 coach vacancies (14% vacancy rate). The vacancy periods ranged from 1 to 30 months, averaging 15 months;
- four directors' attendance at Board/committee meetings was low, including two representatives from HAB and the Leisure and Cultural Services Department ("LCSD"). In 2014, there were two cases of inquorate committee meetings;
- HKSI's Articles of Association specify strict rules on conflicts of interest, including the requirement that a director or officer should not attend or vote in any meetings whereby matters that he is interested in would be considered or discussed. At the Board/committee meetings of 2013 and 2014 when the proposed Secondary Education Programme was discussed, the rules had not been strictly followed;

- HKSI had not established an internal audit function or an audit committee to strengthen its internal control on financial and administrative matters;
- utilization of some sports facilities was low, ranging from 18% to 83% in 2014, partly due to the redevelopment project. Also, usage of shuttle bus service between HKSI's Fo Tan venue and MTR Tai Wai Station or Shatin downtown (for lunch) was low (2 to 16 users per trip). Average costs per user per trip ranged from \$14 to \$127;
- HKSI could have saved electricity charges of \$1.3 million in 2014 if it had selected the more economical bulk tariff for its electricity accounts. Furthermore, by merging HKSI's three high-consumption electricity accounts, it might be entitled to a large power tariff with further savings;
- HKSI's redevelopment project, targeted for completion in the third quarter of 2011, was substantially completed in December 2014. The rowing boat launching facilities, however, had not been constructed and there was no timetable for completion. The delay of over three years in project completion resulted in a delay in HKSI's resumption of normal operation; and
- based on the commercial income generated by HKSI from its facilities, LCSD was charging a rent of \$3.96 million a year for the site presently used by HKSI¹. This arrangement involved administrative efforts in renewing the tenancy agreement and reviewing the rent level regularly. It was also not commensurate with the government's long-term support to elite sports through HKSI. The Audit recommended that HAB should, subject to the result of its review of private recreational lease policy, consider whether there was merit in granting the site currently used by HKSI for its long-term operation under a private recreational lease at a nominal premium.

5. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding meeting attendance by directors of the Board, prevention and proper management of conflicts of interests, measures to enhance the utilization rates of HKSI's facilities, follow-up on the completion of rowing boat

¹ The tenancy arrangement was last renewed in April 2014 for a period of 36 months at a monthly rent of \$0.33 million, or \$3.96 million a year.

launching facilities and lease arrangement for HKSI. The replies from the **Chief Executive of HKSI** and the **Secretary for Home Affairs** are in *Appendices 45* and *46* respectively.

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