

**For discussion
on 17 July 2015**

**Legislative Council Panel on
Information Technology and Broadcasting
Funding Support for the CreateSmart Initiative**

Purpose

This paper briefs Members on the findings of the review on the CreateSmart Initiative (CSI) and seeks Members' views on the proposal to increase the commitment of the CSI by \$400 million.

Background

2. Creative industries in Hong Kong broadly cover advertising, architecture, design, digital entertainment, film, printing, publishing, television and music. To promote the development of creative industries, the Government launched the CSI in 2009 to provide funding support to assist industry and trade organisations (ITOs) and relevant stakeholders in organising talent nurturing, market development and promotional programmes for the benefit of the non-film creative sectors¹.

3. The CSI initially had a commitment of \$300 million. In May 2013, the Government injected another \$300 million into the CSI to sustain the operation of the funding scheme and brought the Design-Business Collaboration Scheme (DBCS) under the ambit of the CSI. As at 31 March 2015, the CSI has committed \$447.1 million in total for approved projects. \$445.7 million has been approved for 223 projects which support the overall development of creative industries or individual creative sectors, and \$1.4 million has been approved for 40 DBCS projects.

Review of the CSI

4. Create Hong Kong (CreateHK) has completed a comprehensive review (the Review) to evaluate the merits of the CSI. CreateHK

¹ Film-related initiatives are funded by the Film Development Fund.

conducted questionnaire surveys and focus group discussions to gauge the views of major stakeholders, including members of the CSI Vetting Committee (CSIVC), ITOs, academic institutions, grantees of the CSI funding support, and participants of CSI-funded programmes. The Review identifies a number of areas for improvement in the administration of the funding scheme². The Review is also a response to the recommendations of Chapter 6 of Report No. 62 of the Director of Audit's Report (the Audit Report). CreateHK has taken actions to follow up on all the recommendations of the Audit Report, as summarised at **Annex 1**. Key findings of the Review are highlighted in paragraphs 5 to 11 below.

Contribution to creative industries

5. The CSI has supported a range of projects. Apart from benefiting local participants, these projects may also accept overseas participants and selected programmes may also be viewed by audiences across different parts of the world, particularly Asia, via television broadcast. Business development opportunities are provided for creative establishments, in particular small and medium enterprises (SMEs), which participate in trade fairs and business matching activities. Job opportunities are created through the implementation of the CSI-funded activities. International awards have been attained by Hong Kong representatives under the CSI sponsorship. Nurturing opportunities are offered to creative talents and start-ups in training, competition, award and sharing programmes. Analytical breakdowns of the CSI projects (DBCS projects excluded) are at **Annex 2**. Highlights of the achievements of the CSI are at **Annex 3**.

6. CreateHK requires all CSI-funded projects to gauge participants' feedback through a standard questionnaire. Up to end March 2015, over 41 000 participants have responded with generally positive feedback on the CSI. Of the respondents, over 96% rated the CSI-funded programmes "Satisfactory", "Very Satisfactory" or "Excellent"; 91% were affirmative on the overall usefulness of the programmes; and the majority considered the programmes "Useful", "Very Useful" or "Definitely Useful" in enhancing knowledge (89%), expanding network (81%), exploring new business (78%), enhancing understanding of the industry position (85%), and broadening scope about the industry (90%).

Review on strategic foci

7. Most of the respondents of the Review's surveys consider the

² The Review does not cover the administration of the DBCS given the proposal to discontinue the operation of the DBCS.

CSI useful, particularly in terms of nurturing creative talents. The majority view is that the CSI should accord priority to support talent and start-up development. CreateHK should, through the use of the CSI funding, encourage the trade to provide more local internship opportunities for students; run local job placement programmes for graduates; support talented practitioners to take part in international competitions; provide creative talents with training opportunities or subsidies for attending overseas exchange programmes and internships; offer incubation or support services to start-ups, etc., with a view to facilitating the talent and entrepreneurship development of creative industries under a progressive ladder approach.

Review on mode of operation

8. Members of the CSIVC and ITOs generally consider that the current approval mechanism and assessment criteria are reasonable and practical. CreateHK has also reviewed the procedures of assessing funding applications as well as the management and monitoring of approved CSI projects. The slightly revised general eligibility and assessment criteria as well as modus operandi of the CSI are at **Annex 4** and **Annex 5** respectively.

9. Specifically, the Review recommends improvement measures, such as enhancing application guidelines, modifying the disbursement pattern of CSI funding, expanding the scope of allowable cost items, etc. There will also be clarifications to the application and control procedures to facilitate smooth implementation of the approved projects.

10. To further enhance monitoring, CreateHK has engaged an independent auditor to undertake test checks on books and records of selected projects, in addition to the general requirement for all completed projects to submit audited accounts. A Quick Reference Guide has also been issued to all grantees to remind them of the key compliance actions required on the part of grantees in implementing a CSI project, and grantees are requested to pass the Guide to their auditors to facilitate compliance checking.

Review on publicity

11. The Review also notes the suggestions of the participants of CSI-funded projects and other stakeholders that CreateHK should enhance publicity of itself and the CSI to ensure a wider public reach in promoting creativity. For example, CreateHK should step up promotional efforts through strengthened collaboration with the media and the trade, outreach activities and the featuring of success stories.

Response to the recommendations of the Review

12. While the Commerce and Economic Development Bureau (CEDB) is studying the recommendations of the Review in detail, the Bureau generally agrees that the CSI has so far fulfilled its mandate in supporting the development of Hong Kong's creative industries. Looking forward, the CEDB considers that the CSI should accord priority to incubation for start-ups and talent development in future.

Proposed injection into the CSI

Justifications

13. It is Government's policy to continue supporting the development and promotion of creative industries by creating an atmosphere which inspires creativity and expanding markets in and outside Hong Kong. The Review shows that key stakeholders and participants generally support the continued use of the CSI as a tool to help local creative industries further develop. The upward trend in the number of approved projects and committed funding since the establishment of the CSI indicates a strong demand from the trade.

14. The CSI adopts a "partnership approach" whereby the trade initiates and implements support programmes with funding support from the Government. This approach harnesses the capacity, creativity, expertise and networks of a wide range of ITOs and academic institutions. The market-driven and trade-championed nature of the projects allows the trade to organise programmes which best fit the needs of their respective creative sectors. As funding support is granted on a non-recurrent basis, flexibility is allowed for the trade to seek further funding support again for proven projects repeated in future.

15. While we see merits to continue with the prevailing market-driven approach in allocating the CSI funding, we will also introduce a certain degree of flexibility in project selection where the Government will accord priorities to certain types of projects. This would allow us to make more strategic use of the limited resources available so as to tie in with the Government's directions in promoting the development of creative industries. Echoing the views of stakeholders and taking into account the findings and recommendations of the Review, we will in the coming few years seek to encourage or accord priority where appropriate to those projects which focus on nurturing of talents, start-up incubation, promotion of Hong Kong designers and brands, etc., with a view to building up a nurture-based progressive ladder of CSI-funded programmes focusing.

We have also earmarked dedicated funding to support incubation programmes (see paragraphs 18 to 21 below).

16. The uncommitted balance of the CSI was \$179.2 million³ as at end March 2015. We expect that it will be fully committed around the first quarter of 2016-17. The Financial Secretary announced in the 2015-16 Budget Speech the proposed injection of \$400 million into the CSI. With the injection, the CSI will be able to continue providing sustained support to the trade.

17. We will also make use of the CSI to finance various initiatives of the non-film creative sectors as elaborated in paragraphs 18 to 24 below. It is our objective to rationalise and consolidate Government's funding support for the non-film creative sectors under the CSI as a single funding pool. This will help rationalise administrative procedures, allow for greater flexibility in redeployment of resources, and enhance transparency for vetting of funding applications and monitoring of approved projects.

Incubation programmes

18. The Hong Kong Design Centre (HKDC) has administered the Design Incubation Programme (DIP) since May 2012⁴ to offer financial assistance and incubation services to design start-ups over a two-year incubation period. The HKDC has already fulfilled the target of recruiting 60 incubatees. 33 of the incubatees are still undergoing incubation. The HKDC has strengthened the scope and intensity of the incubation services, particularly in regard to business and marketing know-how, mentorship advice and problem solving techniques. Since the HKDC took over the DIP, incubatees attained 23 international awards and 100 local awards, registered 182 trademarks, and lodged one patent and 19 registered designs. The DIP created 436 job opportunities. The survival rate of the incubatees is 95%, which is measured in terms of the number of the DIP graduates still in business two years after completion of the incubation programme.

19. The Government has accepted the recommendation of the Economic Development Commission (EDC) to expand the scale of the DIP to nurture more design start-ups. To ride on its expertise, we will continue

³ The total size of approved funding mentioned in paragraph 3 (\$447.1 million) and the uncommitted balance mentioned in paragraph 16 (\$179.2 million) do not add up to the existing commitment of \$600 million. The difference of \$26.3 million is attributable to the unspent portion of the approved funding. Generally speaking, this mainly arises as a result of the ultimate expenditure of an approved project being lower than the approved budget.

⁴ The HKDC received an allocation of \$42.1 million from the Government, part of which was approved by the Finance Committee of the Legislative Council vide FCR(2012-13)3 (\$26.25 million) and the remaining portion of which from resources redeployed by the Government from the residual funding of the now-defunct DesignSmart Initiative (\$15.85 million).

to engage the HKDC in running the expanded DIP. We plan to increase the average annual intake from 20 at present to 30 in the coming three financial years from 2016-17 to 2018-19. The overall target is to admit 90 additional incubatees within three years, which represents an increase of 50% in the scale of intake against the current phase of the DIP.

20. The Government is also considering the merits of launching other incubation programmes for creative industries. Indeed, the Government has accepted the EDC's recommendation to launch a dedicated incubation programme for up-and-coming fashion design start-ups (i.e. fashion incubation programme or "FIP" in short), with a total expected cost of some \$16.5 million. Providing earmarked funding for such incubation programmes, which will normally last for more than one year and have several batches of intake, will facilitate programme planning.

21. We plan to earmark about \$106.5 million out of the proposed \$400 million for supporting the DIP and FIP. Meanwhile, HKDC is exploring the possibility of making use of the residual balance of the current allocation to admit additional incubatees under the DIP.

Business of Design Week and DFA Awards

22. Business of Design Week (BODW)⁵ and DFA Awards (previously known as HKDC Awards)⁶ are the design signature events of Hong Kong which are organised by the HKDC. BODW has grown in scale and built up a strong brand over the years. BODW and its concurrent events annually attracted some 100 000 participants. BODW helps strengthen Hong Kong's trade and economic relationships with key players in the global design and business communities. It brings to Hong Kong not only trade delegates from the partner countries and the resulting business development opportunities, but also design and business professionals from different parts of the world who would like to tap the international network offered by the BODW. Hong Kong as a whole has also benefitted from the business and networking opportunities as well as international limelight and publicity mileages brought by BODW. As for DFA Awards, it is highly esteemed locally and overseas. In 2014, the Design for Asia Awards of the DFA Awards registered a record-high number of 1 024 entries from 23 countries/regions.

23. The Finance Committee (FC) of the Legislative Council

⁵ BODW comprises conferences, exhibitions, forums, outreaching programmes, etc. BODW is now the largest design event in Asia and one of the largest of its kind in the world.

⁶ The DFA Awards programme honours design excellence and outstanding achievements in the design field for practicing designers, business leaders, design enterprises, design graduates and students in Hong Kong and elsewhere in Asia.

approved vide FCR(2012-13)³ an allocation of \$37.5 million to support the HKDC in organising BODW and DFA Awards from 2012 to 2014. The non-recurrent allocation has already lapsed upon completion of the 2014 edition of BODW and DFA Awards.

24. We see the merits of investing in a longer-term development of BODW and DFA Awards by providing dedicated funding support to ensure funding certainty which facilitates project planning, liaison with other participating economies, and retention of project staff and expertise. We will subsume the support for BODW and DFA Awards under the CSI and earmark about \$60 million out of the proposed injection for supporting the organisation of both programmes from 2016 to 2019 in view of their strategic importance in raising the international profile of Hong Kong. This will reap the benefits of both a dedicated funding approach and a more rationalised and transparent funding mechanism of the CSI.

Expected benefits

25. With the proposed funding injection and given our intention to accord priority to talent and start-up development in future, we expect that more individual companies and practitioners, particularly young talents and SMEs, will benefit from the CSI-funded programmes. The CSI will also continue to support business matching and promotional events to help creative industries gain exposure, broaden business networks and expand in markets outside Hong Kong. While it would be hard to quantify the actual economic benefits of the CSI-funded programmes and that it would take time for talents and start-ups to mature, we expect that the additional funding for the CSI will bring tangible economic benefits in terms of creation of additional job, nurturing, incubation and business development opportunities as well as intangible benefits such as an enhanced international profile and media interest.

Discontinuance of the Design-Business Collaboration Scheme

26. The DBCS was launched in 2004 under the DesignSmart Initiative (DSI) to promote the interest and investment of SMEs in relation to utilising design and transforming design into tradable deliverables which manifest exploitation and deployment of intellectual property rights. With the approval of the FC vide FCR(2013-14)⁴, the DBCS has since 24 May 2013 been funded under the CSI. Under the DBCS, a matching grant, capped at \$100,000 or half of the project cost, whichever is the less, is provided to the applicant SME for utilising design in the projects concerned.

27. Ever since its launch, the DBCS has funded 436 applications

with a total approved funding of \$26 million as at end March 2015⁷. 133 design companies and 370 SMEs have benefitted from the DBCS. The total value of design projects generated amounted to some \$55 million.

28. The trade's interest in the DBCS has waned in recent years as indicated by a downward trend in the number of applications received and approved projects (**Annex 6**). Nearly two-thirds of the applications are now on branding design covering mainly basic branding activities, like design of logo, stationery, brochures/leaflet, website and shop design, rather than product design. Such activities will be put in place by any SME wishing to run a proper business with or without the DBCS grant. On the other hand, changes in the creative ecology in the region and relocation of manufacturing activities to the Mainland of China may have reduced the demand for product design services.

29. As design has already become widely recognised as a value-adding tool, the DBCS has served its purpose of the time. We consider that it is no longer cost-effective to operate the DBCS. For example, only 21 projects involving a total grant of \$0.78 million were approved in 2014-15. With a high rejection rate, a lot of time and efforts are spent in abortive work weeding out unworthy applications. We plan to cease accepting DBCS applications with effect from 1 January 2016. The uncommitted funding earmarked for the DBCS will be redeployed to fund other CSI projects⁸.

Control mechanism

30. The Permanent Secretary for Commerce and Economic Development (Communications and Technology) (PSCT) will continue to be the Controlling Officer of the CSI and decide whether to approve the applications and disburse funds on the advice of the CSIVC. Individual CSI projects requiring funding of more than \$10 million each will need to be separately submitted to the FC for specific approval, except for DIP, FIP, BODW and DFA Awards, for which dedicated funding support would be earmarked.

31. The CSIVC, which entirely consists of non-officials appointed by the Secretary for Commerce and Economic Development (SCED) from creative industries, academia and relevant professionals, will continue to act independently, assess funding applications, review the progress and

⁷ As mentioned in paragraph 3 above, the CSI has since 2013 funded 40 DBCS applications with a total approved funding of \$1.4 million.

⁸ The Government proposed vide FCR(2013-14)4 that a maximum of \$10 million be earmarked for the DBCS under the CSI. As at end March 2015, only \$1.4 million has been committed.

completion reports of approved projects, and make recommendations to PSCT. There will basically be no change to the existing approval and control mechanism.

32. Dedicated funding of some \$106.5 million and \$60 million will be earmarked for DIP and FIP as well as BODW and DFA Awards respectively. However, these programmes will still be subject to the same vetting and examination processes of the CSIVC. We will closely monitor and review the requirement having regard to the actual operational need and industry demand. Where justified and necessary, we will adjust as appropriate the earmarked levels for these programmes provided that the overall commitment of the CSI will not be exceeded.

Financial implications

33. We propose an injection of \$400 million into the CSI. We expect that the funding injection will sustain the operation of the CSI up to around 2018-19. For the purpose of budgetary planning, the indicative funding apportionment and cashflow requirements under different initiative categories of the CSI are as follows –

	2016-17	2017-18	2018-19	Total
	(\$' 000)	(\$' 000)	(\$' 000)	(\$' 000)
(a) CSI projects	54,500	89,500	89,500	233,500
(b) DIP and FIP	35,500	35,500	35,500	106,500
(c) BODW and DFA Awards	20,000	20,000	20,000	60,000
Total	110,000	145,000	145,000	400,000

34. CEDB will continue to support the operation of the CSI within the existing resources.

Way forward

35. Subject to Members' views, we will seek the approval of the FC for the proposal to increase the commitment of the CSI by \$400 million.

Communications and Technology Branch
Commerce and Economic Development Bureau
July 2015

Annex 1

**Actions taken in response to the recommendations made in
Report No. 62 of the Director of Audit (Audit Report)**

Audit Report Para. No.	Recommendations	Actions Taken
2.8(a)	Head of Create Hong Kong (Head of CreateHK) should take measures to ensure that sufficient time is given to CreateSmart Initiative (CSI) Vetting Committee members to return their 1st tier declaration of interests on appointment.	Create Hong Kong (CreateHK) has issued internal guidelines to require its staff to allow sufficient time for members of the CSI Vetting Committee to return their 1st tier declaration of interests on appointment.
2.8(b)	Head of CreateHK should implement procedures to ensure that only members who have duly submitted their 1st tier declaration of interests which indicate no conflict of interest are invited to serve in Assessment Panels.	<p>CreateHK has issued internal guidelines to require its staff to check the 1st tier declaration of interests submitted by members before inviting those members who have no conflict of interest to serve in Assessment Panels.</p> <p>In the event that a member, who has conflict of interest with one or more projects, needs to be invited to serve in a particular Assessment Panel meeting owing to his expertise which is relevant to other projects or unavailability of other members, the member concerned will be asked to withdraw from the discussion on the project(s) with which he has conflict of interest.</p>
2.8(c)	Head of CreateHK should take measures to ensure that Assessment Panel members have submitted their 2nd tier declaration of interests before issuing documents relating to project applications to them and allowing them to participate in the Panels.	<p>CreateHK has issued internal guidelines to require its staff to issue documents relating to project applications only to those Assessment Panel members who have submitted their 2nd tier declaration of interests.</p> <p>In the event that a member, who has conflict of interest with one or more projects, needs to be invited to serve in a particular Assessment Panel meeting owing to his expertise which is relevant to other projects or unavailability of other members, the member concerned will be asked to withdraw from the discussion on the project(s) with which he has conflict of interest.</p>

2.8(d)	Head of CreateHK should take steps to ensure that adequate follow-up action is taken on cases of overdue declarations of interests.	CreateHK has taken follow-up action on all outstanding declarations.
2.14(a)	Head of CreateHK should revise the project application form to require the provision of the information on applicants' project teams wherever applicable.	CreateHK has revised the project application form to require applicants to provide information on their project teams if the team has been formed.
2.14(b)	Head of CreateHK should, for projects involving the engagement of major sub-grantees, require project applicants to provide information on the sub-grantees' project teams for the Assessment Panel's consideration wherever applicable.	CreateHK has issued internal guidelines to require its staff to ensure that information is provided wherever applicable by project applicants on the sub-grantees' project teams for the Assessment Panel's consideration.
2.14(c)	Head of CreateHK should take measures to ensure that information is provided wherever applicable by the applicant on whether the project coordinator and/or any project team members will work concurrently on three or more projects within the same project period.	CreateHK has revised the project application form to require project applicants to provide information wherever applicable on whether the project coordinator and/or any project team members will work concurrently on three or more projects within the same project period.
2.25(a)	Head of CreateHK should issue clear guidelines on the criteria for the identification of repeated projects and promulgate the same on the CSI's website to enhance transparency and public accountability.	CreateHK has prepared guidelines to set out the criteria for the identification of repeated projects, and will promulgate the guidelines on the CSI's website.
2.25(b)	Head of CreateHK should take measures to ensure that information published on the CSI's website is correct and accurate.	CreateHK has corrected the inaccurate information on the CSI's website. CreateHK will make continuous efforts to ensure that information published on the CSI's website is correct and accurate.
3.6(a)	Head of CreateHK should lengthen the required retention period of the books and records of the projects.	CreateHK has extended the required retention period of the books and records of the projects from two to seven years, and revised the project agreement accordingly. The extended required retention period applies to the projects approved since June 2014.

3.6(b)	Head of CreateHK should follow up with the grantees concerned on the anomalies identified by Audit relating to the expenditure items and accounts payable.	CreateHK has engaged an independent auditor to conduct a second audit on the relevant projects to follow up on the anomalies identified by the Audit Commission. It has also asked the grantee in two other projects to declare if there were any unspent balances for the projects concerned.
3.6(c)	Head of CreateHK should take measures to ensure that grantees keep proper books and records for their projects.	CreateHK introduced a Quick Reference Guide in June 2014 to highlight the important actions and attention required on the part of the grantees under the project agreement, including the need to keep proper books and records for their projects.
3.17(a)	Head of CreateHK should remind grantees the need to maintain designated bank accounts solely for handling project funds.	CreateHK introduced a Quick Reference Guide in June 2014 to highlight important actions and attention required on the part of the grantees under the project agreement, including the need to maintain designated bank accounts solely for handling project funds.
3.17(b)	Head of CreateHK should consider penalising grantees who failed to maintain designated bank accounts.	Failing to keep a designated bank account does not necessarily mean that the grantee concerned fails to keep proper books and records although this is in breach of the funding agreement between the Government and the grantee unless prior approval has been given by the Government for waiving the requirement. CreateHK will consider penal action if malpractices are found. CreateHK has highlighted in the Quick Reference Guide the need for grantees to maintain designated bank accounts solely for handling project funds.
3.17(c)	Head of CreateHK should follow up those projects where designated bank accounts had not been maintained to ensure that there is no improper use of project funds and take remedial action where necessary (e.g. initiating recoupment of funds and/or penal action).	CreateHK has engaged an independent auditor to conduct a second audit on two relevant projects. As for the rest of the projects identified by the Audit Commission as not having kept designated bank accounts, CreateHK has engaged an independent auditor to conduct test checks on the books and records of some of the grantees on a random sampling basis.

3.17(d)	Head of CreateHK should follow up those projects where the grantees have used project funds to cover unallowable costs (see para. 3.10) and seek repayments from them.	CreateHK has followed up with the grantees concerned and received repayments from the grantees in respect of the unallowable costs incurred.
3.17(e)	Head of CreateHK should, in future, test check the books and records of grantees to identify unallowable costs and demand repayments from them where warranted.	CreateHK has engaged an independent auditor to conduct test checks on the books and records of some of the grantees as appropriate.
3.17(f)	Head of CreateHK should conduct a review of the alternative funding approach.	CreateHK has reviewed the CSI funding arrangements and clarified requirements as to how private sponsorship is to be ploughed back into CSI projects.
3.17(g)	Head of CreateHK should remind grantees of the procurement requirements and conduct test-checks to ensure compliance.	<p>CreateHK introduced a Quick Reference Guide in June 2014 to highlight important actions and attention required on the part of the grantees under the project agreement, including the procurement requirements.</p> <p>CreateHK has engaged an independent auditor to conduct test checks on the books and records of some of the grantees as appropriate.</p>
3.17(h)	Head of CreateHK should test check the subsequent settlement of accounts payable and take remedial measures (e.g. demand repayments from grantees if any payables have been settled with smaller amounts) where necessary.	<p>With effect from June 2014, grantees of the ongoing projects have been required to report to CreateHK upon project completion the status of subsequent settlement of accounts payable until all accounts payable are fully settled. This allows CreateHK to keep track of the subsequent settlement of accounts payable and take remedial measures where necessary.</p> <p>For those projects which had already been completed, CreateHK has asked grantees to declare if there is any unspent balance in relation to their projects, and has engaged an independent auditor to conduct random checks. CreateHK will recoup unspent balances from the grantees where necessary.</p>

3.17(i)	Head of CreateHK should revise the Project Agreement to spell out the requirement that if the amount of project funds used to settle accounts payable is less than the account received by the grantee from the Government for such purpose, the grantee should refund the difference to the Government.	CreateHK is revising the project agreement to spell out the relevant requirement after consulting the Department of Justice (DoJ).
3.17(j)	Head of CreateHK should ensure that grantees' track records of handling project funds is taken into account in assessing their new applications for funding.	CreateHK has issued internal guidelines to require its staff to include grantees' track records of handling project funds in the assessment of new funding applications.
3.21(a)	Head of CreateHK should require grantees to ensure that parties subsidised by them properly used the subsidies.	CreateHK is revising the project agreement to spell out the relevant requirement after consulting DoJ.
3.21(b)	Head of CreateHK should provide in the Project Agreement that grantees are liable for inappropriate use of project funds by subsidised parties.	
3.21(c)	Head of CreateHK should recoup from grantees funds used for unallowable expenditure by subsidised parties.	CreateHK has issued a letter to the grantee concerned to demand repayment of project funds that have been used by subsidised parties for unallowable costs. The grantee has returned the funds concerned.
3.24	Head of CreateHK should, on a risk basis, carry out sample inspections of the grantees' books and records.	CreateHK has engaged an independent auditor to conduct sample inspections of the grantees' books and records.
4.15(a)	Head of CreateHK should issue guidelines setting out the factors (such as the cash-flow pattern of projects) that should be taken into account in determining the mode of funding of a project (i.e. number of instalments and amount of each instalment).	CreateHK has conducted a review on the CSI and examined the factors to be taken into account in determining the mode of funding of a project.
4.15(b)	Head of CreateHK should take measures to ensure that the justifications for the mode of funding are documented.	CreateHK has issued internal guidelines to require its staff to document the justifications for the mode of funding.
4.15(c)	Head of CreateHK should monitor the progress of all approved projects and document the action taken in monitoring the projects.	CreateHK now provides updates to the CSI Vetting Committee on the progress of the approved projects at the Assessment Panel meetings by highlighting the events and programmes which take place in between the meetings. In addition, CreateHK has required those projects with duration of

4.15(d)	Head of CreateHK should regularly provide the CSI Vetting Committee with information on the progress of the approved projects with a view to seeking its advice and facilitating its monitoring work.	more than one year and approved since November 2013 to submit mid-term progress reports to the CSI Vetting Committee.
4.15(e)	Head of CreateHK should adopt a structured approach for site visits and issue guidelines setting out the basis of selection, checks to be performed, frequency of visits and the reporting requirements, taking into account project risks involved (such as the funding amounts and nature of the projects).	CreateHK has promulgated internal guidelines in relation to site visits.
4.15(f)	Head of CreateHK should ensure that observations made during site visits are followed up and the results of the follow-up action taken are documented.	CreateHK has issued internal guidelines to require its staff to follow up on the observations made during site visits and to document the results of any follow-up actions taken.
4.15(g)	Head of CreateHK should review the deadline for submitting Completion Reports and audited accounts and consider either tightening up follow-up action on late submission or revising the submission requirement by setting a more realistic and achievable submission deadline.	Having reviewed the deadline for submitting Completion Reports and audited accounts, CreateHK considers that it would be more appropriate to extend the submission deadline from two to four months after the project completion date. CreateHK has revised the project agreement accordingly. The extension of the submission deadline applies to the projects approved since June 2014.
4.28(a)	Head of CreateHK should issue guidelines setting out a systematic approach in conducting project evaluation; e.g. the information to be collected, the mechanism of verifying the information as far as practicable, and the time frame for each stage of evaluation.	CreateHK is developing guidelines to set out the information required for, and critical steps in, conducting project evaluation.
4.28(b)	Head of CreateHK should take measures to ensure that evaluations of completed projects are finalised in a timely manner.	CreateHK has issued internal guidelines to require its staff to complete evaluation of completed projects in a timely manner.
4.28(c)	Head of CreateHK should regularly review the Project Agreement to ensure that it is up-to-date and does not include unnecessary requirements.	CreateHK has reviewed the project agreement and is revising it after consulting DoJ. CreateHK will review the project agreement on a periodic basis.

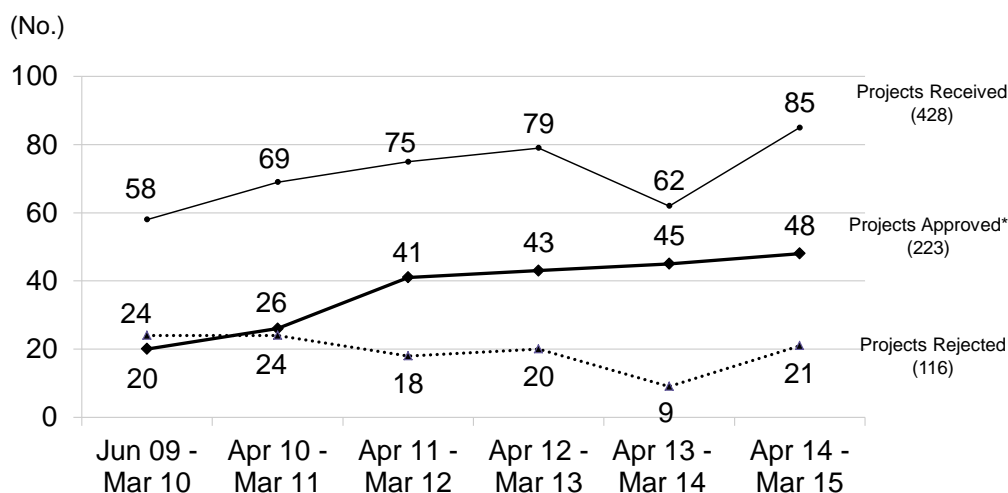
4.28(d)	Head of CreateHK should, if questionnaire is used in reviews of the CSI, balance the ratings around a neutral mid-point.	CreateHK has implemented the Audit Commission's recommendation in the process of conducting the ongoing review of the CSI.
4.28(e)	Head of CreateHK should take measures to ensure that the performance of grantees in previous projects (e.g. failure to solicit the committed amount of sponsorship) is recorded in the Internal Assessment Reports of the grantees' subsequent applications.	For repeated projects, it has been the established practice of CreateHK to put up as far as practicable the completion report of an individual project and its subsequent application for discussion at the same CSI Assessment Panel meeting. This allows the CSI Assessment Panel to have a full picture of a project and its subsequent application. In case the pair-up arrangement is not possible, CreateHK will attach the Evaluation Report of the previous project and the notes of the relevant meeting of the CSI Assessment Panel to the Internal Assessment Report of the subsequent applications for reference.
4.28(f)	Head of CreateHK should ensure that the CSI Vetting Committee's comments on individual projects are followed up and incorporated in the Internal Assessment Reports of subsequent applications of repeated projects.	
5.10(a)	Head of CreateHK should ascertain the reasons for the few projects initiated from some creative sectors and where necessary, take measures to boost the project applications from these sectors.	CreateHK has conducted a review on the CSI and analysed the distribution of funded projects. CreateHK considers that the uneven distribution reflects the breadth of coverage of the scope of individual creative sectors and the relative demand of different sectors for CSI funding.
5.10(b)	Head of CreateHK should publish on the CSI's website and in relevant public documents the creative sectors and industries funded by the CSI.	A fact sheet showing the creative sectors covered by the CSI has been uploaded onto the CSI's website.
5.10(c)	Head of CreateHK should develop a formal strategic plan for the CSI and update the plan periodically to take into account changes in the CSI's strategic goals and challenges.	CreateHK has conducted a review on the CSI and developed strategies for the CSI in future.
5.18(a)	Head of CreateHK should disclose more quantitative and qualitative performance information (including, where appropriate, the achievements of projects by each individual strategic directions) on the CSI's website.	CreateHK has uploaded the performance information of CreateHK to the CSI's website, and will conduct a review to consider enhancement and improvement for the CSI's website so as to provide more performance information on the CSI projects and to enhance transparency.

5.18(b)	Head of CreateHK should in addition to disclosing statistics pertinent to all creative sectors, disclose also those statistics that are pertinent only to the creative sectors covered by the CSI.	CreateHK has sought the assistance of the Census and Statistics Department to compile the relevant statistics pertinent to the creative sectors under the ambit of CreateHK. CreateHK will cover the relevant statistics in the annual update to the Legislative Council Panel on Information Technology and Broadcasting on the work of CreateHK.
5.18(c)	Head of CreateHK should establish more performance pledges and report the extent of achieving the pledges.	In addition to the existing performance pledge, CreateHK has established in September 2014 a new performance pledge on the timely evaluation of completed projects. These will be reported to the Legislative Council Panel on Information Technology and Broadcasting annually.
5.22	Head of CreateHK should establish a timetable for conducting a comprehensive review of the administration and the way forward of the CSI.	CreateHK has completed a comprehensive review on the administration of CSI in June 2015. CreateHK will keep in view the operation of the CSI.

Analytical Breakdowns of the CreateSmart Initiative Projects

(Design-Business Collaboration Scheme projects excluded)

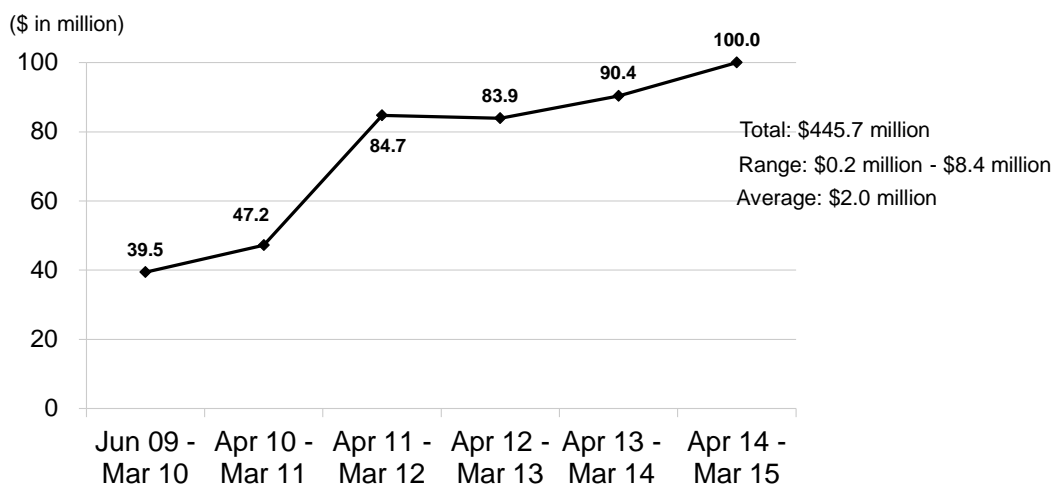
**Number of Projects Received, Approved and Rejected
from June 2009 to March 2015**



Approval Rate – 65.8%
Rejection Rate – 34.2%

* Funding applications withdrawn subsequent to funding approval is given are excluded.

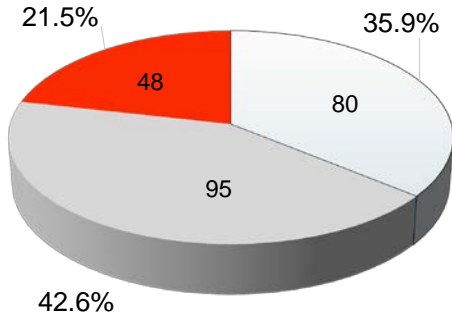
**Size of Approved Funding
from June 2009 to March 2015**



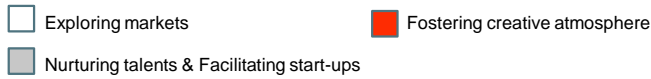
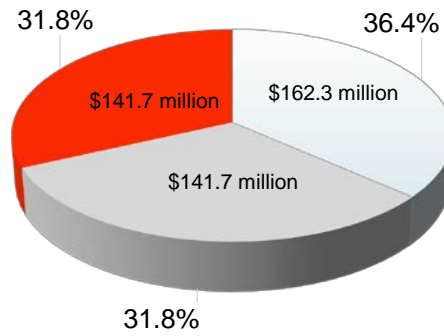
Note : Funding applications withdrawn subsequent to funding approval is given are excluded.

Number of Approved Projects and Size of Approved Funding by Strategic Foci on an Aggregate Basis

Number of Approved Projects



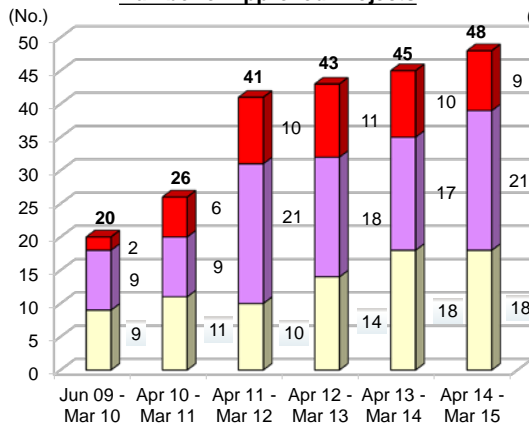
Size of Approved Funding



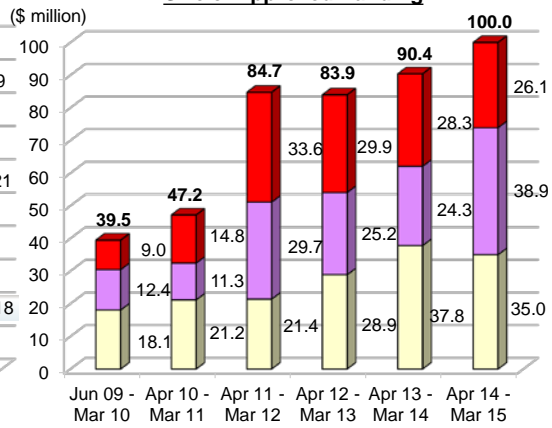
Note : Funding applications withdrawn subsequent to funding approval is given are excluded.

Number of Approved Projects and Size of Approved Funding by Strategic Foci from June 2009 to March 2015

Number of Approved Projects

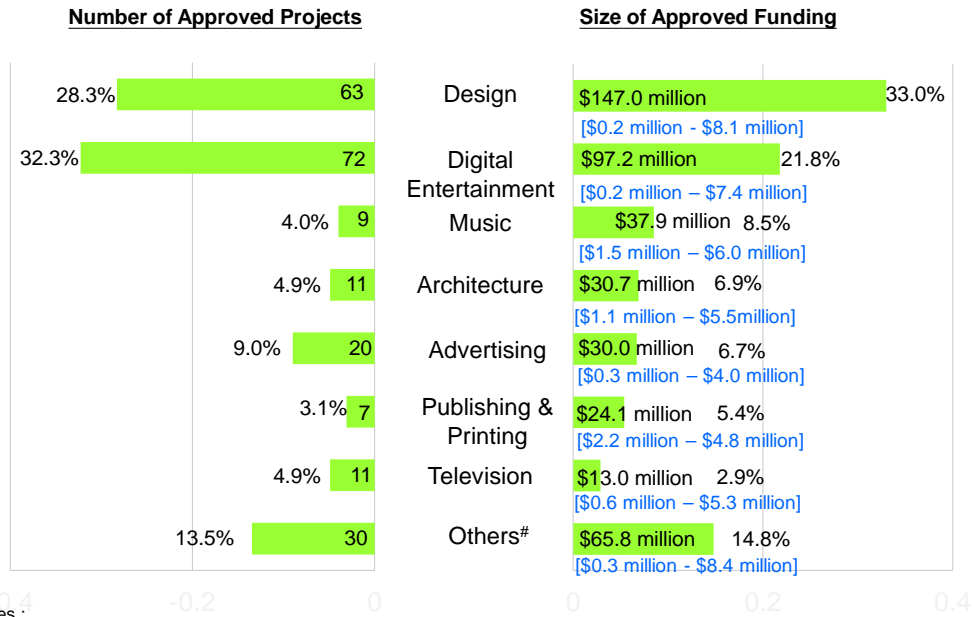


Size of Approved Funding



Note : Funding applications withdrawn subsequent to funding approval is given are excluded.

Number of Approved Projects and Size of Approved Funding by Creative Sectors



Notes :

(a) Funding applications withdrawn subsequent to funding approval is given are excluded.
 (b) Ranges of approved funding per project are shown in brackets.

"Others" covers cross-sectoral, multi-disciplinary and short film-related projects

Achievements of the CreateSmart Initiative (CSI)

Objectives of the CSI

The CSI was established in June 2009 to support initiatives which are conducive to the development of the non-film creative sectors. The CSI-funded projects are non-profit making by nature and must be beneficial to the overall development of individual creative sectors or the entire creative industries. Grantees of the CSI funding cannot derive financial benefits from the project per se and no direct subsidies will be made available to support the production activities and business operation of individual companies or practitioners.

2. It has supported a wide range of projects covering three strategic foci, namely nurturing talents and facilitating start-ups; exploring markets; and fostering a creative atmosphere. The support provided by the CSI to creative industries is highlighted in the following paragraphs.

Support provided to creative industries

Nurturing talents and facilitating start-ups

3. The CSI provides funding support to initiatives which offer internship opportunities to graduates of selected creative disciplines, such as the digital entertainment and advertising sectors. Under the CSI's sponsorship, companies provided graduate trainees with a period of full time employment and on-the-job training. Overseas work attachment or further study opportunities are also provided to awardees in selected design competitions, e.g. the Hong Kong Young Design Talent Award. To honour the achievement of local creative talents, CSI also sponsored award programmes/competitions such as Hong Kong Smart Gifts Design Awards, EcoChic Design Award, My Toy Design Competition, HKDA Global Design Awards, etc.

Exploring markets

4. The CSI assists local creative industries in exploring markets outside Hong Kong through promotional and business matching activities

or participation in trade fairs. In general, CreateHK encourages the CSI applicants to accord priority to small and medium sized enterprises (SMEs) and first time participants. CSI sponsorship has been provided to trade organisations to stage promotional campaigns and events such as the “SmartHK” trade fair and “Creativity in Business” seminars in various Mainland cities, an architectural exhibition and forums in London, fashion showcases in Paris, Tokyo and Singapore, etc. The CSI has also helped the printing and publishing sectors participate in the book fairs held in Beijing, Guangzhou, Taipei, Bologna, Frankfurt and London.

Fostering a creative atmosphere

5. The CSI supports the staging of creative events in Hong Kong with a view to fostering a creative atmosphere in Hong Kong and raising awareness of the achievements of Hong Kong’s creative industries among the general public. Funded events include Hong Kong Asian-Pop Music Festival, DETOUR, Fashion Forward Festival, the public engagement activities of the graduation show of the Hong Kong Design Institute, etc.

Performance indicators

6. Over the years, CSI’s supported programmes have attracted over 10 million visitors/participants, and those awards presentation and musical programmes broadcasted have attracted over 228 million audiences. So far as information is available, about 900 SMEs have made or received over 7 300 business contacts or enquires in the business events. Over 8 600 job opportunities, including over 1 400 directly created ones, have been created through the implementation of the CSI-funded projects. 64 international awards have been attained by Hong Kong representatives under the CSI sponsorship. Over 30 000 nurturing opportunities have been created in some 90 training, competition, award and sharing programmes.

7. Although it is not possible to quantify the economic benefits attributable to the participation of individual companies or practitioners in the CSI-sponsored programmes, the parties concerned will benefit from participating in the programmes in terms of, for instance, business support, promotion and marketing, or training and development. Moreover, individual companies or practitioners have gained recognition and exposure, thereby raising their profiles. The CSI-funded programmes have also raised international awareness of our creative talents.

**Revised General Eligibility and Assessment Criteria
of the CreateSmart Initiative (CSI)**

1. An applicant should normally be a locally registered institution/organization. Create Hong Kong and other government departments can also apply for the funding.
2. Project elements which are covered under the scope of the Film Development Fund¹ and those which will receive or have received funding from other government sources are not eligible to apply for funding under the CSI.
3. Projects under application must be beneficial to the overall development of individual creative industry sectors or the entire creative industries.
4. Benefits accrued from the projects must serve the interests of individual creative industry sectors or the entire creative industries, and not just an individual private company or a consortium of private companies.
5. Projects should mainly be non-profit making by nature. Special consideration could be given for projects that can ultimately be self-financing.
6. In general, funds approved can only be used for non-recurrent expenditure. Under exceptional circumstance where the projects under application consist of a recurrent item (e.g. staff cost), the funds can only be of a one-off nature.
7. Funds approved cannot be used to create any civil service posts.

¹ The original version of this criterion is as follows –

“Project elements which are covered under the scope of the Film Development Fund and the Film Guarantee Fund and those which will receive or have received funding from other government sources are not eligible to apply for funding under the CSI.”

The underlined part has been deleted to reflect the fact that the Film Guarantee Fund has ceased to accept applications with effect from 1 July 2015.

8. In examining an application, the following must be taken into consideration –
- (a) the benefits that a project may bring to local creative industries, either to individual sectors or the industries as a whole;
 - (b) the need of such projects;
 - (c) the technical and project management capabilities of the applicant institution/organization;
 - (d) whether the implementation schedule of the proposed project is well planned and whether the time required for implementation is reasonable;
 - (e) whether the proposed budget is reasonable and realistic;
 - (f) whether the project has been funded or should be funded by other government sources;
 - (g) whether there is/will be any duplication in terms of the work carried out by other institutions;
 - (h) whether the project can be self-financing after a certain period of time; and
 - (i) any other special factors which are relevant and can contribute towards the objective of the CSI.

Revised Modus Operandi of the CreateSmart Initiative

1. Applications will be open throughout the year. Create Hong Kong may also from time to time issue theme-specific topics to solicit applications.
2. Successful applicants will be required to comply with the conditions of the grant. They will also be required to submit a final report with accounts certified by a qualified accountant (or audited account if necessary) after the project is completed. *If the duration of the projects is over one year, the grantees are required to submit progress reports on a regular basis.*¹
3. Only cost directly related to the project will be covered. Industrial/commercial sponsorship can be in kind or in cash.
4. *A vetting committee comprising professionals, industrialists, businessmen, academics and other relevant members of the public is set up to assess the applications, monitor progress and review the quality of each funded project.*² If necessary, comments and advice will be sought from outside experts on specific applications. The Independent Commission Against Corruption's advice will be sought on the vetting procedures as and when necessary.

¹ The original version of this clause is as follows –

“Successful applicants will be required to comply with the conditions of the grant. They will also be required to submit a final report with accounts certified by a qualified accountant (or audited account if necessary) after the project is completed. Depending on the nature and duration of the project, the applicants may be required to submit progress reports on a regular basis.”

The underlined part has been revised to reflect the strengthened control measure introduced by CreateHK to monitor the progress of approved projects.

² The original version of this clause is as follows –

“A vetting committee comprising officials, professionals, industrialists, businessmen, academics and other relevant members of the public has been set up to assess the applications, monitor progress and review the quality of each funded project. ”

The underlined part has been deleted to reflect the prevailing practice that no official is appointed to the CSI Vetting Committee.

5. For transparency purpose, any individual project requiring more than \$10 million funding will be submitted to the Finance Committee for approval.
6. Projects should mainly be non-profit making by nature. Interest income derived from grants disbursed to successful project applicants will be kept by the applicants for use in the projects concerned during the project period. Any unused balance upon the completion of the project, *including the interest income derived*, must be returned to the Government³.
7. Funds for projects will be disbursed to successful applicants by installments, tying with appropriate milestones or any other conditions offered when the grant is approved. Final instalment of the disbursement of the fund will only be released upon the completion of the project and that the Government is satisfied with the final report as mentioned in (2) above.
8. Successful applicants will be required to carry out the projects as approved. The Government will reserve the right, inter alia, to terminate funding, demand immediate return of all the disbursed funds with interest, and hold the successful applicants liable for any loss or damages the Government may sustain if the successful applicants are in breach of any of the terms and conditions of funding or undertakings made for the approved projects.
9. Any intellectual property rights derived from the project will be owned by the project applicant (or be co-owned by the project applicant and the sponsor and partner as agreed among themselves). If necessary (such as when public interests are involved or in order to fulfill the objective of providing support to the community and the industries/businesses), the project applicant will be required to grant unconditionally to Government a non-exclusive perpetual royalty-free licence to exploit or dispose of the relevant intellectual property rights.

³ The additional part “including the interest income derived” is inserted in the revised version as a matter of clarity.

Statistics of the Design-Business Collaboration Scheme (DBCS)

Financial Year	Applications received[#] (Number)	Approved Projects[#] (Number)	Approved grant (\$)	Average grant per approved project (\$)
2004-05	2	0	-	-
2005-06	8	5	386,345	77,269
2006-07	47	45	4,308,950	95,754
2007-08	90	75	6,721,750	89,623
2008-09	100	79	5,001,550	63,311
2009-10	115	67	3,331,246	49,720
2010-11	81	51	2,239,675	43,915
2011-12	54	34	950,950	27,969
2012-13	48	25	867,670	34,707
2013-14[*]	50	34	1,316,980	38,735
2014-15	42	21	779,020	37,096
Total	637	436	25,904,136	59,413

* The DBCS was placed under the CSI on 24 May 2013. The application and approval figures represent the full year figure irrespective of whether the funding is from the DSI or the CSI.

The projects approved in the year may not relate to the applications received in the same year, as applications received may be approved in the following year.