

For discussion
on 9 March 2009

**Legislative Council Panel on
Information Technology and Broadcasting

Funding to Support Creative Industries**

Purpose

The Financial Secretary earmarked \$300 million in the 2009-10 Budget to support Hong Kong's creative industries for the development of creative economy in the coming three years. This paper consults Members on the proposal to set up a \$300 million CreateSmart Initiative (CSI) and to centralise the management of various existing funding resources relating to creative industries, as well as the financial implications arising from the proposed establishment of a dedicated office, Create Hong Kong (CreateHK), under the Communications and Technology Branch (CTB) of the Commerce and Economic Development Bureau (CEDB).

Proposal

2. We propose to –

- (a) set up a \$300 million CSI to provide financial support to initiatives in support of the development of creative industries which are not covered by the Film Development Fund (FDF), the Film Guarantee Fund (FGF) and the DesignSmart Initiative (DSI);
- (b) transfer the FDF and FGF currently administered by the Television and Entertainment Licensing Authority (TELA) and the DSI by the Innovation Technology Commission (ITC) to CTB to enhance the coordination and cost-effective management of these funding resources;

- (c) transfer the \$100 million non-recurrent commitment for the Hong Kong Design Centre under ITC to the CreateHK office of CTB, which will in future be responsible for managing the commitment; and
- (d) provide a supplementary provision of \$132.384 million to CTB, to be offset by a total decrease of \$132.384 million in the Estimates for ITC, TELA and the Office of the Government Chief Information Officer (OGCIO).

Background

3. Creative industries are important economic drivers for Hong Kong. They help to increase the innovation capacity of the economy and can be a powerhouse for future economic growth. According to the latest statistics, Hong Kong has around 32 000 creative industry-related establishments, with over 170,000 practitioners engaged, and creating an added value to our Gross Domestic Product (GDP) of over HK\$60 billion annually, representing around 4% of our GDP. If they can be supported and nurtured effectively, the potential of the creative economy is substantial. It has been the Government's policy to promote the development of creative industries in Hong Kong.

4. The Chief Executive emphasized in the 2007 Policy Address that we had to speed up the development of the creative economy in order to maintain our edge and propel sustainable growth of our economy. As pledged by the Chief Executive in the 2008 Policy Address, the CEDB will promote the development of creative industries by setting up a dedicated creative industry office to coordinate efforts of different Government bureaux and departments and to work closely with the industries. We have briefed Members on our proposal to set up the dedicated office – Create Hong Kong (CreateHK) – under CTB through the redeployment of resources from OGCIO, TELA, ITC, and the Trade and Industry Department (TID), and the related staffing arrangement at the meeting of the Panel on Information Technology and Broadcasting held on 9 February 2009 (vide LC Paper No. CB(1)715/08-09(03)). We also briefed Members on the vision and mission of the CreateHK and our preliminary development strategy (**Annex A**). Members generally supported the proposal.

Justification

Existing Funding Support

5. The Government has been rendering financial support to different sectors of the creative industries through various Government bureaux and departments, including the CEDB, Home Affairs Bureau (HAB), TELA, ITC, OGCIO, etc. The major financial support measures for creative industries already provided by the departments under CEDB's purview amount to \$756 million, include the following -

- (a) the commitment of \$320 million in respect of FDF under TELA to provide financial support for the production of small-to-medium budget films and to finance projects which are beneficial to the healthy and long-term development of the film industry;
- (b) the commitment of \$30 million in respect of FGF under TELA to provide guarantees to help local film production companies to obtain loans from lending institutions for producing films and to stimulate the development of a film-financing infrastructure in Hong Kong;
- (c) the \$250 million DSI under ITC to promote innovation and design;
- (d) the \$100 million time-limited allocation for supporting the operation of the Hong Kong Design Centre for five years; and
- (e) the \$56 million commitment under the Innovation and Technology Fund for the Incubation-cum-Training Programme of Cyberport which offers office space, training opportunities, international connection and promotional support services to new start-ups of the digital entertainment sector.

6. Despite these supporting efforts for specific target sectors of the creative industries, we consider it necessary to provide broader financial support

to extend the coverage to other creative industries sectors as well as for projects not covered by the scope of these existing supporting efforts. The Financial Secretary announced in the 2009-10 Budget that the Government would earmark an additional \$300 million for the development of other creative industries in the coming three years.

The CreateSmart Initiative

7. To better support the development of the creative industries, we propose to set up a \$300 million fund to be named the CreateSmart Initiative (CSI) to support projects that are conducive to the development and promotion of the creative industries.

8. There are strong views from the community that the funding support from Government to drive the further development of the creative industries should be enhanced. In addition to those sectors currently supported through individual schemes, e.g. FDF, FGF and DSI, creative industries bodies consider that financial support from the Government should also be provided to other sectors of the industry as well.

9. To achieve our vision of building Hong Kong into a regional creative capital, we propose to set up a \$300 million CSI. The new fund is intended to provide targeted support to projects in the creative industries sectors other than those for which dedicated Government funds are already available. The CSI will fund projects with objectives that are in line with our strategic direction to drive the development of the creative industries, namely -

- (a) nurturing a pool of creative human capital which will form the backbone of our creative economy;
- (b) facilitating start-ups and the development of creative establishments;
- (c) generating demand for innovation and creativity and expanding the local market size for creative industries;
- (d) promoting Hong Kong creative industries in the Mainland and overseas to help explore outside markets;

- (e) fostering a creative atmosphere within the community;
- (f) developing creative clusters in the territory to generate synergy and facilitate exchanges; and
- (g) promoting Hong Kong as Asia's creative capital.

10. This new initiative will be a significant boost to the creative industries sector over the next three years starting from the 2009-10 financial year.

11. The new CSI will be administered by CreateHK. The Permanent Secretary for Commerce and Economic Development (Communications and Technology) (PSCT) will be the controlling officer for the new fund. To ensure cost-effective deployment of resources under the CSI and better control of the projects financed, we propose to set up a vetting committee comprising members from the creative industries, academics and other relevant professionals to assess funding applications and make recommendations to PSCT. Our proposed general eligibility and assessment criteria are set out in **Annex B**.

12. To enhance transparency, we propose that PSCT will only approve projects under the CSI costing up to \$10 million each. For individual project the cost of which exceeds \$10 million, PSCT will seek the approval of the Finance Committee of the Legislative Council.

13. The general modus operandi of the CSI is outlined in **Annex C**.

14. The CSI will be used to support projects initiated by different sectors of the creative industries (e.g. architecture, comics, digital entertainment, advertising, music, etc) as well as the CreateHK and other related Government departments to drive the development of the creative economy. Together with our proposal to put various other funds related to creative industries under the common management of the CreateHK as detailed below, we will be able to use all the funds under the CTB more effectively and with greater impact than previously.

15. In respect of nurturing creative human capital, the CSI will be used for the provision of scholarship and support for talented youths and students. It

will allow talented youth and students to participate in overseas exchange programmes, international creative competitions and internship programmes. The funding will also support research and training projects in various fields within the creative industries.

16. In respect of exploring and developing overseas and Mainland markets, the fund would support various sectors of the industries to carry out promotional projects or to participate in fairs and other promotional activities overseas and on the Mainland. The fund can help support projects initiated by NGOs and relevant industry/professional bodies to promote a particular creative industry sector or for cross-sector promotions, e.g. to participate in the international creative industry exhibitions in Shenzhen and Shanghai, the Venice Biennale for Architecture, etc.

17. In respect of supporting projects to foster creative atmosphere within the community, there is a strong pool of creative talent and activities in Hong Kong but they are at the moment scattered and not well organised. The dedicated creative industry office could make use of the funding to organise and coordinate these talent and activities and put them under a conspicuous banner to promote the creative industries of Hong Kong within the community and to enhance the atmosphere of creativity in Hong Kong, so that our efforts are well known to both local and overseas communities.

Existing funding for promotion of creative industries

18. To enhance synergy and better coordination of various other funding resources which are currently scattering among different agencies within CTB, we also propose to put these resources under the centralised management of the CreateHK.

Film Development Fund

19. The FDF was first established in 1999 to support projects that are conducive to the long-term development of the local film industry. It is currently administered by the Film Services Office (FSO) of the TELA, with the Commissioner for Television and Entertainment Licensing (CTEL) serving as the controlling officer. A project vetting committee under the Film Development Council comprising members of the film industry and other

professionals has been set up to assess applications and make recommendation to CTEL to approve the applications and disburse the funds, prescribe the terms and conditions of funding, and monitor the progress and results of the funding projects. CTEL is now authorised to approve projects costing \$10 million or below. For projects that merit funding support which cost more than \$10 million, CTEL would refer the projects to the Finance Committee for individual approval.

20. The Finance Committee of the Legislative Council approved to increase the commitment of the FDF from \$20 million to \$320 million in 2007 and expanded its scope to finance the production of small-to-medium budget films. The funding support also aims to encourage more commercial investment in small-to-medium film productions, create a larger mass of film activities and employment opportunities, and nurture new talent. As at end January 2009, the FDF has an uncommitted balance of \$241 million.

Film Guarantee Fund

21. The FGF was established in 2003 with a commitment of \$50 million to provide guarantees to assist local film production companies to obtain loans from lending institutions for producing films and to stimulate the development of a film-financing infrastructure in Hong Kong. Same as the FDF, it is currently administered by the FSO of TELA, with CTEL serving as the controlling officer. The FGF provides loan guarantee to local participating lending institutions that offer loan facilities to film productions that have secured a film completion arrangement. It operates on a revolving basis, i.e., once discharged by lending institutions, the guaranteed commitment will be ploughed back into the FGF for other successful applications. The maximum loan guarantee under the FGF for each application is \$2.625 million.

22. In 2005, following a review of the operation of FGF, the Finance Committee approved the continuation of the FGF with a reduced commitment of \$30 million, while the remaining \$20 million was deployed to the FDF. Up to mid February 2009, the FGF has provided loan guarantee for 11 films, ten of which have already discharged their loans, and the FGF has an uncommitted balance of \$28.88 million.

DesignSmart Initiative

23. The \$250 million DSI was launched in 2004 to fund design-related activities and infrastructure. It is currently administered by the Design Team of the ITC with the Commissioner for Innovation and Technology serving as the controlling officer. The DSI comprises two main components, namely, the Design Support Programme (DSP) and the InnoCentre Programme. The DSP comprises four funding schemes to provide resource support for projects in design and branding-related research, design and business collaboration, professional continuing education and promotion of a design culture. The purpose of the InnoCentre is to provide a one-stop shop as the focal point for support and services related to design. The Hong Kong Science and Technology Parks Corporation (HKSTPC) and the Hong Kong Design Centre (HKDC) jointly develop the programmes and services at the InnoCentre, which include an incubation programme for design start-ups; renting of office space for design companies; professional education and training; design-related exhibitions, seminars and workshops; design-related resources such as a design library; and events and activities for networking among design professionals and user industries. CIT is now authorised to approve projects costing \$10 million or below. For projects costing more than \$10 million each, CIT will refer them to the Finance Committee for individual approval. As at end January 2009, the DSI has an uncommitted balance of \$87.5 million.

24. Upon the setting up of the CreateHK and the transfer of the FDF, FGF and DSI to CTB, PSCT will be the controlling officer of these funding schemes. In line with the existing practice, PSCT will seek the approval of the Finance Committee for individual project under FDF and DSI which costs more than \$10 million. The existing project vetting mechanism will be maintained and the vetting committee will make recommendation to PSCT to approve applications. The modus operandi of the three funding schemes will remain unchanged.

Hong Kong Design Centre

25. In May 2007, the Finance Committee approved a new commitment of \$100 million over five years under the ITC for supporting the operation of the HKDC for it to further assist our trades and industries to make full use of design and build their brand names. To enhance synergy and better co-ordinate the

deployment of resources for development of creative industries, we propose that the \$100 million approved commitment should be transferred to CTB with PSCT as the controlling officer.

Financial and staffing implications

26. The setting up of the CSI will require the creation of a non-recurrent commitment of \$300 million. An indicative breakdown of the estimate funding requirements under the CSI is as follows:

Nurturing creative human capital	\$120 million
Exploring and developing overseas and Mainland markets	\$105 million
Supporting projects to foster creative atmosphere within the community	\$75 million
Total:	<u>\$300 million</u>

27. To support the operation of the CreateHK and CSI, we will seek the Finance Committee's approval to provide supplementary provision of \$37.789 million to top up the recurrent funding of CTB for 2009-10, to be offset by a total decrease of \$37.789 million from the provisions for ITC, OGCIO and TELA.

28. To tie in with the transfer of initiatives relating to creative industries to the proposed CreateHK office, the existing non-recurrent commitments for the FDF and FGF will be transferred from TELA to CTB, while the commitments for the DSI and HKDC will be transferred from ITC to CTB. We will seek the Finance Committee's approval for the transfer of these non-recurrent commitments as well as the supplementary provision of \$94.595 million for these commitments in 2009-10 for CTB. The total supplementary provision to be provided is \$132.384 million (\$37.789 million + \$94.595 million).

29. We will further review the amount of provisions to be transferred to CTB from relevant departments/offices when details of the implementation plan for promotion of creative industries are finalised. The approval of the Finance Committee will be sought for the necessary changes to the approved Estimates for the relevant Heads of Expenditure.

Way Forward

30. Subject to Members' comments, we will seek the approval from the Financial Committee in May 2009. We aim to tie in the creation of the CSI with the establishment of CreateHK. We aim to establish CreateHK by mid 2009 after approval from the Finance Committee has been obtained.

Communications and Technology Branch
Commerce and Economic Development Bureau
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Creative Economy Development

Vision

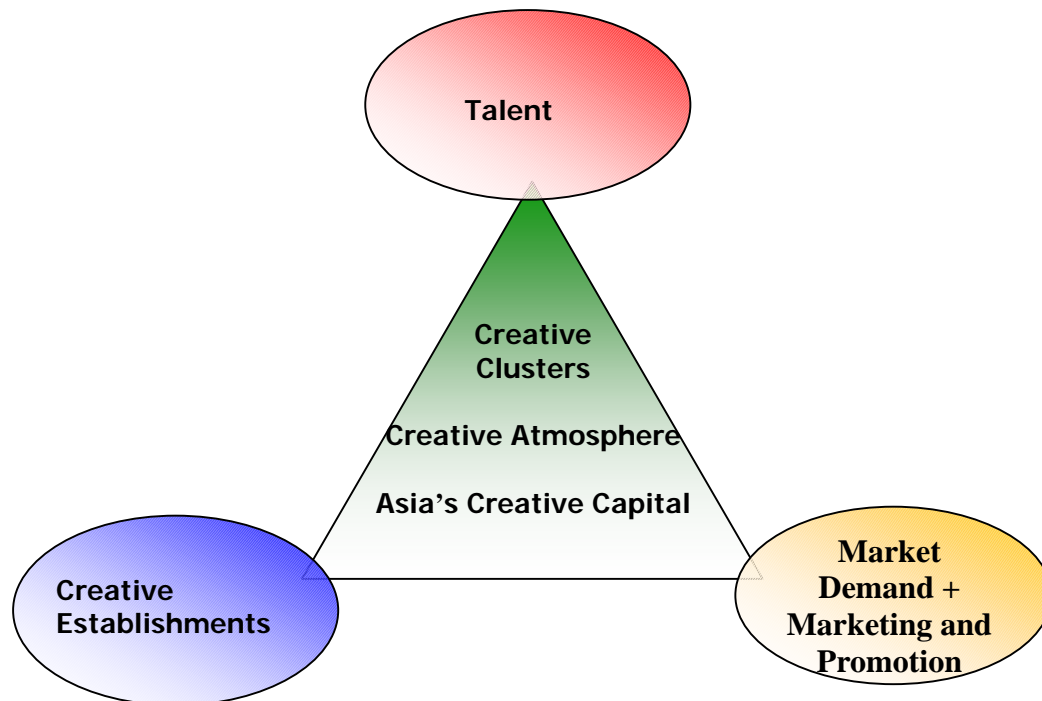
To build Hong Kong into a regional creative capital.

Mission

To foster a conducive environment in Hong Kong to facilitate creative industries development.

Strategic Direction: Seven strategic areas

- (a) nurturing a pool of creative human capital which will form the backbone of our creative economy;
- (b) facilitating start-ups and development of creative establishments;
- (c) generating demand for innovation and creativity and expanding local market size for creative industries;
- (d) promoting creative industries on the Mainland and overseas to help explore outside markets;
- (e) fostering a creative atmosphere within the community;
- (f) developing creative clusters in the territory to generate synergy and facilitate exchanges; and
- (g) promoting Hong Kong as Asia's creative capital.



(a) Talent

- To train a large pool of creative talent as the essential fuel to propel the development of the creative economy
- To groom local creative talent as well as to attract talent from outside Hong Kong

(b) Creative Establishments

- Facilitate start-up of creative establishments
- To help local talent set up their own business amidst the high cost of operation in HK
- Provide financial incentives as well as business knowledge for them to become sustainable establishments

(c) Market Demand

- To sustain the survival and growth of our creative industry establishments by generating new demand for innovation and creativity and expanding local market size

(d) Marketing and Promotion

- To promote local creative industries on the Mainland and overseas
- To generate sustainable and expandable demand for local creativity in Mainland and overseas markets

(e) Creative Clusters

- Some areas in HK are characterised by a particularly active presence of cultural and creative activities, e.g. Hollywood Road, “Soho” and Shek Kip Mei
- To build on existing strength and establish creative clusters to become the focal point of the creative economy

(f) Creative Atmosphere

- To facilitate the fostering and strengthening of a more creative environment within our community and create audience
- Conducive to the building of creative capacity and generate sustainable local demand

(g) Asia’s Creative Capital

- To develop HK’s position in creativity and innovation in the region
- To introduce major signature events
- To attract talent to come to HK for creative ideas and exchange or as a base for them to develop creative businesses and enrich HK’s diversity in creativity
- Promoting HK as Asia’s creative capital

The Way Forward

Immediate:

- Refine development strategy taking into account views of the industries and the Legislative Council
- Set up the dedicated office: CreateHK

Mid-term:

- Develop and implement support measures
- Commission in-depth study for the long-term creative industries development

Long-term:

- Formulate long-term strategy based on the results of the commissioned study

**General Eligibility and Assessment Criteria
of the CreateSmart Initiative**

1. An applicant should normally be a locally registered institution / organisation engaged in creative industries or a related body. CreateHK and other Government departments can also apply for the funding.
2. Projects which are covered under the scope of the FDF, FGF and DSI are not eligible to apply for funding under the CSI.
3. Projects which will receive or have received funding from other Government sources are not eligible to apply for funding under the CSI.
4. Projects under application must be beneficial to the overall development of individual creative industry sectors or the entire creative industries.
5. 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.
6. Projects should mainly be non-profit making by nature. Special consideration could be given for projects that can ultimately be self-financing.
7. In general, funds approved can only be used for non-recurrent expenditure. Under exceptional circumstances where the projects under application consist of a recurrent item (e.g. staff cost), the funds approved can only be of a one-off nature.
8. Funds approved cannot be used to create any civil service posts.

9. 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 project;
- (c) the technical and project management capabilities of the applicant institution / organisation;
- (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 contribute towards the objective of the CSI.

**General Modus Operandi
of the CreateSmart Initiative**

1. Applications will be open throughout the year. CreateHK 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 accounts 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.
3. Only cost directly related to the project will be covered. Industrial/commercial sponsorship can be in kind or in cash.
4. An assessment panel comprising officials, professionals, industrialists, businessmen, academics and other relevant members of the public will be set up to assess the applications, monitor progress and review the quality of each funded project. If necessary, comments and advice will be sought from outside experts on specific applications. ICAC's advice will be sought on the vetting procedures.
5. For transparency purpose, any individual project requiring more than \$10 million funding will be submitted to the Legislative Council 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 will be returned to the CSI.
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 installment of the disbursement of the fund will only be released upon the completion of the project and 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.