

HONG KONG DESIGN CENTRE

Executive Summary

1. Hong Kong Design Centre (HKDC) is the Government's main partner in promoting design and related creative industries. It is a non-profit making organisation established in 2001. Create Hong Kong (CreateHK), under the purview of the Culture, Sports and Tourism Bureau (CSTB) headed by the Secretary for Culture, Sports and Tourism, is responsible for overseeing HKDC, and the administration and management of the CreateSmart Initiative (CSI), a funding scheme that provides financial support to projects conducive to the development of creative industries in Hong Kong. The Permanent Secretary for Culture, Sports and Tourism is the Controlling Officer of CSI. For the period from 2022-23 to 2024-25, dedicated funding of \$268 million from CSI has been earmarked for HKDC. HKDC's activities included the promotion of Hong Kong's creative industries by organising five flagship programmes, two incubation programmes and other projects. The Audit Commission (Audit) has recently conducted a review of HKDC.

Flagship programmes

2. *Need to monitor implementation of Business of Design Week (BODW) City Programme events.* To monitor the implementation of events without HKDC funding, BODW City Programme partners are required to provide the numbers of participants and event photos to HKDC, and HKDC will arrange site visits to selected events to ascertain the performance of the partners and the quality of the events. Audit noted that, of the 463 events conducted in the period from 2018-19 to 2021-22, the partners of 189 (41%) had not provided the numbers of participants and the partners of 80 (17%) had not provided event photos to HKDC. Furthermore, other than the records of travel expenses claimed by staff, HKDC did not have documentary records relating to the site visits conducted to ascertain the performance of the partners and the quality of events (paras. 2.5 and 2.6).

3. *Requirements on event promotion not complied with by BODW City Programme partners.* Up to 31 January 2023, BODW City Programme 2022 had rolled out 86 events. In December 2022 and January 2023, Audit conducted site visits to 6 of the 86 events and examined the social media pages of the partners of all the

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86 events. Audit noted that the requirements on event promotion were not complied with by a number of BODW City Programme partners. The partner of 1 (17%) of the 6 events visited by Audit did not put up BODW City Programme signage, posters, table tent cards or the equivalent at the event area. There were posts relating to the BODW City Programme events in the social media of the partners of 70 (81%) of the 86 events. For 30 (43%) of the 70 events, the partners did not acknowledge the events as BODW City Programme events nor applied tags or hashtags on the events' social media posts (para. 2.9).

4. ***Need to improve performance evaluation of BODW.*** The number of business contacts or enquiries received by event participants is set as a key performance indicator for BODW. Since July 2011, CreateHK has required HKDC to collect feedback from participants using a standard questionnaire on how useful BODW is in assisting them to expand their contact network and explore new business opportunities. Audit noted that in the period from 2017-18 to 2021-22, HKDC did not have information on the number of business contacts or enquiries received by event participants and did not report such information to CreateHK. In 2018-19, 30% of the respondents rated the programme as “fair” or “not useful” in assisting them to expand their contact network, and 33% of the respondents rated the programme as “fair” or “not useful” in assisting them to explore new business opportunities. Audit also noted that, since 2020-21, HKDC had used a customised questionnaire for its survey which did not include questions on usefulness of BODW (paras. 2.13 and 2.14).

5. ***Delays in commencement of work attachments or studies outside Hong Kong.*** Awardees of the CreateSmart Young Design Talent Award and CreateSmart Young Design Talent Special Award are required to commence their work attachments by the end of September in the year following the year of the award or to commence their studies by the end of February of the second year after the year of the award. Up to 28 February 2023, among the 34 awardees in the period from 2019-20 to 2021-22, 17 (50%) had not commenced work attachments or studies. Due to the coronavirus disease epidemic, HKDC had postponed the deadlines to 31 March 2023 for work attachments and 30 September 2023 for studies (para. 2.22).

6. ***Need to enforce undertakings to return to Hong Kong and work for a Hong Kong design business.*** Awardees of the CreateSmart Young Design Talent Award and the CreateSmart Young Design Talent Special Award are required to return to Hong Kong after the completion of their work attachments or studies outside

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Hong Kong, and work for a Hong Kong design business for not less than two consecutive years. HKDC has the right to rescind the award and claw back the sponsorships paid if the awardees failed to fulfil the requirements. Of the 54 awardees who received the awards in the period from 2017-18 to 2021-22, up to 28 February 2023, 26 had completed their work attachments or studies outside Hong Kong. Audit noted that one (4%) of the awardees had not returned to Hong Kong after the completion of his study. There was no documentary evidence showing that HKDC had taken enforcement actions against him. Furthermore, HKDC did not have information on whether every awardee had fulfilled the requirement on working for a Hong Kong design business for not less than two consecutive years and no specific timeframe was set out for the awardees to fulfil the requirements (paras. 2.24 and 2.25).

7. *Need to improve response rates and event selection mechanism for questionnaire surveys.* Audit examined the records of the questionnaire surveys for four flagship programmes conducted in the period from 2017-18 to 2021-22 and noted that questionnaire surveys were not conducted for some events of the flagship programmes. The response rates of the questionnaire surveys were on the low side, ranging from 0.76% to 45.73% in the period from 2017-18 to 2019-20 and 0.3% to 11.18% in 2020-21 and 2021-22 (para. 2.29).

8. *Need to set challenging target Income-to-Expenditure (I/E) ratios.* According to the funding agreements between the Government and HKDC, HKDC shall use its best endeavours to increase its income level to recoup the cost of the programmes funded by the Government and HKDC is required to meet the target I/E ratio for each financial year. Audit noted that although the actual I/E ratios were much higher than the targets in the period from 2017-18 to 2019-20, the target was reduced from 25% in 2019-20 to 20% in 2020-21 and further to 17% in 2021-22 (paras. 2.37 and 2.38).

9. *Need to explore measures to improve I/E ratios of flagship programmes.* Four flagship programmes, namely BODW, DFA Awards, Knowledge of Design Week and Fashion Asia Hong Kong, are included in the calculation of HKDC's I/E ratio. Audit noted that in the period from 2017-18 to 2021-22, the overall I/E ratio of the four flagship programmes decreased by 14.6 percentage points from 35.7% to 21.1%. There were decreases in I/E ratios of individual programmes of all the four flagship programmes, ranging from 5.1 percentage points to 20.2 percentage points. The income of DFA Awards and Fashion Asia Hong Kong decreased by

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\$0.6 million and \$0.4 million respectively, notwithstanding that the expenditure increased by \$4.9 million and \$6.8 million respectively (para. 2.41).

10. *Need to improve administration of sponsorship.* Audit examined HKDC's sponsorship records for the five flagship programmes conducted in the period from 2019-20 to 2021-22. Audit noted that HKDC did not lay down guidelines on the procedures for handling sponsorships. As a result, there were variations in HKDC's handling of sponsorships. While customised agreements detailing the terms and conditions for the provision of sponsorships were signed with some sponsors, sponsorship reply forms confirming the values and types of sponsorship were signed with other sponsors. Furthermore, 36 (36%) of the 100 sponsorship reply forms examined by Audit were signed by the sponsors after the commencement dates of the sponsored programmes, with delays ranging from 1 to 338 days (averaging 85 days) (para. 2.44).

Other programmes and projects

11. *Need to review provision of working spaces to incubatees.* The Design Incubation Programme (DIP) and the Fashion Incubation Programme (FIP) of HKDC provide incubatees with working spaces in the incubation centres during the two-year incubation period. Audit found that HKDC did not maintain records on the utilisation of the working spaces by the incubatees. In the period from October to December 2022, Audit visited the incubation centres four times and found that the utilisation was low: (a) in the first visit, there were persons present in 2 (3%) of the 69 working spaces visited; and (b) in the three subsequent visits, there were persons present in 2 (25%), 3 (38%) and 5 (63%) of the 8 working spaces visited respectively (paras. 3.6 and 3.11).

12. *Some working spaces were vacant for a long period of time.* In 2018, CreateHK asked HKDC to ensure that the vacancy period of an individual working space would not exceed seven calendar days, and told HKDC that leaving working space vacant for over a month without legitimate reasons could be tantamount to wastage of public funds and was unacceptable. Audit noted that, in the four-year period from 2018-19 to 2021-22: (a) in 3 of the 4 years, there were working spaces with vacancy period exceeding 7 calendar days; (b) 6 to 23 working spaces in each of the 3 years had a vacancy period of 1 month or more. The length of the vacancy period ranged from 1 to 7 months in a year, averaging 3 months; and (c) the total

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vacant working-space-months (i.e. the sum of the number of months vacant for each working space) ranged from 17 to 86 each year (paras. 3.13 and 3.14).

13. ***Admission of DIP graduates as FIP incubatees.*** In the period from August 2016 to December 2022, 6 (40%) of the 15 incubatees admitted to FIP Phase 1 and 14 (93%) of the 15 incubatees admitted to FIP Phase 2 were DIP graduates. In Audit's view, the large number of DIP graduates being admitted to FIP may not be compatible with the original intention of launching DIP and FIP because by admitting a DIP graduate into FIP, HKDC will provide a total of four years of incubation services to the incubatee. With the high percentage of FIP incubatees being DIP graduates, FIP virtually became an extension of DIP. Furthermore, the provision of such a long period of incubation services to incubatees may not be conducive to the achievement of the objectives of DIP and FIP (paras. 3.20 and 3.22).

14. ***Funding applications not submitted in a timely manner.*** According to CSI Guide, for projects funded by CSI outside the dedicated funding, CSI Secretariat's processing time for funding application is 50 clear working days after receiving all the required information from HKDC. If HKDC chooses to incur/commit any expenditure for the projects before funding approval, it will have to pay for the incurred/committed expenditure itself in case the funding applications are rejected or only partially approved. Audit noted that, of the 9 HKDC projects funded by CSI outside the dedicated funding in the period from 1 April 2017 to 31 December 2022, 8 (89%) commenced before receiving funding approvals. For 5 (63%) of the 8 projects, HKDC submitted the funding applications to CreateHK less than 50 clear working days before the project commencements, ranging from 0 to 43 clear working days, averaging 14 clear working days (paras. 3.28 to 3.30).

15. ***Progress reports accepted after completion of projects.*** For 2 of the projects funded by CSI outside the dedicated funding, HKDC is required to submit to CreateHK progress reports that contain details on the progress and financial positions of the projects for the first half of the project durations. Audit reviewed the acceptance of progress reports of the 2 projects and found that the progress reports were accepted 3 days and one month respectively after the projects have been completed (paras. 3.32 and 3.33).

16. ***Long time taken in the revision and acceptance of completion reports.*** Audit reviewed the processing of the completion reports of the 8 completed projects

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funded by CSI outside the dedicated funding, of which 7 have been accepted as at 31 December 2022. Audit found that HKDC had taken 44 to 154 days (averaging 93 days) to submit the revised completion reports after receiving CreateHK's comments. For 2 (29%) of the 7 accepted completion reports, the stipulated time of informing applicants of the results within 50 clear working days after receipt of full information of the completion reports was not met, with delays of 20 and 43 clear working days respectively (averaging 31.5 clear working days) (paras. 3.36 and 3.37).

Other issues

17. *Need to strengthen regulation over matters concerning the safeguarding of national security.* The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region was implemented on 30 June 2020. The Law stipulates that the Government of the Hong Kong Special Administrative Region shall take necessary measures to strengthen public communication, guidance, supervision and regulation over matters concerning national security, including those relating to schools, universities, social organisations, the media, and the Internet. Audit noted that the funding agreements between the Government and HKDC had not incorporated guidelines and requirements related to the safeguarding of national security (paras. 4.2 and 4.3).

18. *Need to improve attendance of some Directors in Board of Directors (Board) meetings.* In the period from 2017-18 to 2021-22, 5 Board meetings were held in each year. In each year during the five-year period, the overall attendance rates of the Directors ranged from 55% to 78% (averaging 65%). Among the three classes of Directors, the attendance rates of Class B Directors were relatively low, ranging from 49% to 74% (averaging 61%) (para. 4.8).

19. *Need to ensure that Board members comply with requirements on declaration of interest.* In the period from 1 January 2018 to 31 December 2022: (a) 14 (70%) of the 20 Board members having first appointment in the period had not submitted the Register of Members' Interest forms for first appointment; (b) 50 (40%) of the 126 annual Register of Members' Interest forms due for submission had not been submitted by the Board members; and (c) HKDC had not issued requests to the Board members for submission of 36 (11 for first appointment and 25 for annual submission) Register of Members' Interest forms (para. 4.11).

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20. ***Late submission of and long time taken in endorsements of three-year business plans and annual plans.*** In the six-year period from 2017-18 to 2022-23, for 3 (50%) of the 6 years, the three-year business plans and annual plans were submitted later than the stipulated deadlines or the extended deadline agreed by CreateHK. The delays ranged from 11 to 272 days (averaging 100 days) for the three-year business plans and 7 to 17 days (averaging 12 days) for the annual plans. For all the 6 years, the endorsements of the three-year business plans and annual plans were obtained after the period covered by the plans had commenced. The time periods from the start of the period to the endorsements of the three-year business plans and annual plans ranged from 1 to 264 days (averaging 82 days) and from 1 to 107 days (averaging 39 days) respectively (para. 4.15).

21. ***Need to ensure compliance with funding agreements.*** In August 2020, CSI's Controlling Officer issued a warning letter to urge HKDC's Board Chairman to tackle a breach of the funding agreement between the Government and HKDC regarding HKDC's pitching of \$3.8 million CSI funding as in-kind contribution to the Design District Hong Kong project without the Controlling Officer's approval. In the period from 2019-20 to 2021-22, apart from the warning letter issued in August 2020, CreateHK also expressed its concern on HKDC's non-compliance with the funding agreements signed between the Government and HKDC (paras. 4.22 and 4.23).

22. ***High staff turnover rates and vacancy rates.*** In the period from 2019-20 to 2021-22, overall speaking, HKDC's staff turnover rates were high, ranging from 21.3% in 2020-21 to 48.4% in 2021-22 (averaging 36.4%). As at 31 December 2022, 24 (23.1%) of the 104 positions were vacant. There was a significant increase in staff vacancy rate from 6.6% as at 31 March 2021 to 12.2% as at 31 March 2022 and 22.4% as at 31 December 2022 (paras. 4.28 and 4.29).

Audit recommendations

23. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that:**

- (a) **the Secretary for Culture, Sports and Tourism should incorporate guidelines and requirements in future funding agreements to strengthen**

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regulation over matters concerning the safeguarding of national security (para. 4.4);

(b) the Head of Create Hong Kong should:

Flagship programmes

- (i) devise appropriate mechanism to improve the performance evaluation of BODW (para. 2.17);
- (ii) set a challenging target I/E ratio for HKDC taking into account the actual I/E ratios achieved in preceding years (para. 2.46);

Other programmes and projects

- (iii) ensure that progress reports are processed in a timely manner and accepted before the completion of projects (para. 3.41(a));
- (iv) ensure that completion reports requiring revisions are resubmitted by HKDC in a timely manner (para. 3.41(b));
- (v) ensure that completion reports are processed and accepted in a timely manner (para. 3.41(c)); and

Other issues

- (vi) closely monitor the attendance rates of Directors at Board meetings and, when necessary, take measures to encourage Directors to avoid absences from Board meetings as far as possible (para. 4.17);

(c) the Executive Director, HKDC should:

Flagship programmes

- (i) for BODW City Programme events without HKDC funding, ensure that:

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- documentary records are maintained for site visits conducted (para. 2.18(a)); and
 - the partners provide the numbers of participants and event photos to HKDC as required, and comply with the requirements on event promotion (para. 2.18(b) and (c));
- (ii) for the CreateSmart Young Design Talent Award and the CreateSmart Young Design Talent Special Award:
- urge the awardees to commence their work attachments or studies as soon as possible (para. 2.27(a)); and
 - monitor the compliance of and enforce awardees' undertakings, and consider setting a timeframe for the awardees' fulfilment of the undertakings (para. 2.27(c) and (d));
- (iii) improve the response rates of the questionnaire surveys for evaluation of events (para. 2.35(a));
- (iv) improve the mechanism for selecting events for questionnaire surveys (para. 2.35(b));
- (v) improve I/E ratios of BODW, DFA Awards, Knowledge of Design Week and Fashion Asia Hong Kong (para. 2.47(a));
- (vi) issue guidelines on the procedures for handling sponsorships (para. 2.47(c));

Other programmes and projects

- (vii) review the justifications for the provision of working spaces to the incubatees (para. 3.24(a));
- (viii) closely monitor the utilisation of working spaces (para. 3.24(c));

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- (ix) monitor the allocation of working spaces in the incubation centres, particularly when launching the new phase of DIP and FIP (para. 3.24(e));
- (x) review whether the admission of a high percentage of FIP incubatees from DIP graduates is conducive to the achievement of the objectives of DIP and FIP (para. 3.24(h));
- (xi) ensure that funding applications for projects funded by CSI outside the dedicated funding are submitted to CreateHK at least 50 clear working days prior to project commencements (para. 3.42(a));
- (xii) ensure that completion reports requiring revisions are revised and resubmitted to CreateHK in a timely manner (para. 3.42(b));

Other issues

- (xiii) ensure that the Register of Members' Interest forms are submitted by Board members in a timely manner (para. 4.18(a));
 - (xiv) ensure compliance with funding agreements between the Government and HKDC (para. 4.26); and
 - (xv) ensure that the review on HKDC's human resources issues and practices is completed in a timely manner, and take measures to address the issues of high staff turnover rates and high staff vacancy rates (para. 4.32); and
- (d) the Head of Create Hong Kong and the Executive Director, HKDC should ensure that the three-year business plans and annual plans are submitted in a timely manner and endorsements are obtained from CSTB prior to the start of the period concerned (para. 4.19).

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Response from the Government and the Hong Kong Design Centre

24. The Secretary for Culture, Sports and Tourism, the Head of Create Hong Kong and the Executive Director, HKDC agree with the audit recommendations.

