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Panel on Economic Development
Meeting on 19 January 2009

Background brief on the Hong Kong Tourism Board

Purpose

This paper provides background information on the establishment of and funding arrangements for the Hong Kong Tourism Board (HKTB), and summarizes the views and concerns expressed by Members of the Legislative Council (LegCo) on the subject.

Establishment of HKTB

2. HKTB was founded on 1 April 2001 under the HKTB Ordinance (Cap. 302). It was reconstituted from and replaced the Hong Kong Tourists Association (HKTA).¹
3. According to the HKTB Ordinance, the objects of HKTB are to:
 - (a) endeavour to increase the contribution of tourism to Hong Kong;
 - (b) promote Hong Kong globally as a leading international city in Asia and a world class tourist destination;
 - (c) promote the improvement of facilities for visitors;
 - (d) support the Government in promoting to the community the importance of tourism;

¹ HKTA was set up as a membership organisation in 1957. Consequent upon the completion of the Strategic Organisation Review in late 1999, the Board of Management of HKTA decided to abolish the membership system of HKTA and reconstitute it into HKTB. The HKTB Ordinance was enacted in March 2001 to effect these changes. While HKTA was an association of members, HKTB has no affiliation to any specific sector or organization within the industry.

- (e) support, as appropriate, the activities of persons providing services for visitors to Hong Kong; and
- (f) make recommendations to and advise the Chief Executive of the Hong Kong Special Administrative Region (Chief Executive) in relation to any measures which may be taken to further any of the foregoing matters.

4. To achieve these statutory objects, HKTB's funding is mainly for marketing and promoting Hong Kong as the region's preferred travel destination among different targeted visitor segments in key markets. The detailed plans and programmes of HKTB are implemented by various functional units in the Head Office in Hong Kong as well as Worldwide Offices (WWOs).

5. The governing body of HKTB is the Board which consists of 20 members.² There are four committees established under the Board, namely, Audit Committee, Staff and Finance Committee, Marketing and Business Development Committee, and Product and Event Committee. The functions of the respective committees are in **Appendix I**. As at 28 January 2008, HKTB has an establishment of 325 staff, comprising 224 staff of its Hong Kong Head Office, and 101 staff of its 15 WWOs.

6. The Tourism Commission (TC), established under the Commerce and Economic Development Bureau and headed by the Commissioner for Tourism, is responsible for formulating and coordinating implementation of policies, plans and strategies for tourism development. TC works closely with HKTB and other organizations to promote the development of tourism in Hong Kong. It provides advice to the Secretary for Commerce and Economic Development on matters relating to HKTB and tourism. The Government has appointed the Commissioner for Tourism as a member of the Board since the establishment of HKTB on 1 April 2001. The Commissioner is also a member of all the four Committees under the Board.

Funding arrangements for HKTB

7. The principal source of income for HKTB is the subvention from the Government. The subvention is determined having regard to the needs of HKTB as presented in its annual budget and proposed programme of activities. Moreover, the Government may provide non-recurrent fund to support HKTB in implementing promotional activities. In addition, HKTB can collect fees for services to achieve cost recovery as appropriate, and seek private market

² The authority for the Chief Executive to appoint members of the Board and approve HKTB's Business Plan and Budget was delegated to the Financial Secretary in April 2001, then to the former Secretary for Economic Development and Labour in July 2004 and to the Secretary for Commerce and Economic Development with effect from 1 July 2007.

sponsorship for organizing mega events.

8. The HKTB's budgetary cycle dovetails with the Government's annual budgetary process. Under section 17B(1) of the HKTB Ordinance, HKTB is required to forward a programme of its proposed activities and estimates for the next financial year to the Government before the appointed date.

Monitoring mechanisms for HKTB

9. According to HKTB, it has an established mechanism of financial monitoring and internal audit to ensure cost-effectiveness of its promotional activities. Its work plan, budget, programmes, financial procedures, guidelines and progress and effectiveness of marketing are required to be vetted and monitored by the relevant Committees established under the Board. To track the effectiveness of the promotional programmes and activities, HKTB has established four objective Key Performance Indicators (KPIs), including visitor arrivals, length of stay, satisfaction level and spending of visitors.

10. Under section 18 of the HKTB Ordinance, the annual financial statement of HKTB has to be audited by an external auditor appointed by the Government. A copy of the statement of the audited accounts together with the auditor's report on that statement/accounts shall be laid before LegCo as soon as possible. Section 19 of the HKTB Ordinance provides that HKTB has to submit an annual report of activities to the Chief Executive, and the Secretary for Commerce and Economic Development shall lay the report on the table of LegCo. In addition, HKTB is a "public body" under the Prevention of Bribery Ordinance, and is subject to the Director of Audit (D of A)'s scrutiny.

Value-for-money audits

11. When examining the Estimates of Expenditure for 2005-2006, 2006-2007 and 2007-2008 at the respective special meetings of the Finance Committee, members expressed concern about the measures to evaluate the performance of HKTB. They were keen to ensure that mechanism was in place to monitor the operations and spending of HKTB. The Administration was urged to conduct cost-benefit analysis and value-for-money audits for the work of HKTB.

12. D of A carried out a value-for-money audit for HKTB in 2007. The audit findings are contained in Chapters 5 and 6 in Report No. 49 of the D of A³. D of A's summaries on the two chapters are hyperlinked in **Appendix II**.

³ Report No. 49 of the Director of Audit on the results of value for money audits completed between March and September 2007 was tabled in the Legislative Council on 28 November 2007.

Discussion by LegCo Members

13. Members had raised questions at Council meetings on the operation and work of HKTB, the cost-effectiveness of additional funding for HKTB, as well as the remuneration for the Executive Director of HKTB. The Panel on Economic Services⁴ also discussed the marketing campaigns and business plans of HKTB on 2 June 2005, 26 June 2006 and 28 January 2008.

14. The LegCo Public Accounts Committee (PAC) held 15 public hearings on Chapters 5 and 6 in Report No. 49 concerning HKTB. PAC requested the Administration to take various follow-up actions as set out in Part 4 of the PAC Report No. 49A (hyperlinked in **Appendix II**). Members' major views and concerns expressed at the meetings of the Council, Panel and PAC are summarized in the ensuing paragraphs.

Marketing strategy

15. Panel members in general shared HKTB's mission in promoting Hong Kong as a preferred travel destination worldwide. They welcomed HKTB's initiative in briefing the Panel on its work plans to enhance transparency and accountability. In scrutinizing the work plans, Panel members were keen to ensure that provisions for marketing input would capture the latest market trends and be proportional to the market potential while conducive to boosting visitor arrivals. For example, more resources should be allocated to conduct research and studies to track market trends, such as the development of tourism products for MICE (Meetings, Incentives, Convention and Exhibitions). At the meeting on 24 October 2008, the Panel noted that the Administration supported HKTB to launch a dedicated office "Meeting and Exhibitions Hong Kong" in November 2008 to provide one-stop professional support for MICE event organizers. To complement these measures, Panel members stressed the importance of enhancing the visitor-friendliness of entry facilities and strengthening consumer protection.

16. Panel members noted the Government's initiative to strengthen collaboration among agencies responsible for promoting Hong Kong overseas and developing strategies for city branding and publicity, including HKTB, Hong Kong Economic and Trade Offices, Trade Development Council and Invest Hong Kong. A member asked if the Administration would consider gradually transferring the responsibilities of HKTB to other agencies. In response to a LegCo question raised on 19 November 2008, the Administration advised that the agencies maintained close contact and worked together to produce optimum results and avoid duplication of efforts.

⁴ The Panel on Economic Services has been renamed as the Panel on Economic Development with effect from the 2007-08 session.

17. On mega events, some Panel members raised doubts on the limited benefits of boosting further visitor arrivals especially during festive seasons. They suggested deploying the resources to promote those local events or tourist attractions which had great appeal to visitors but there was insufficient publicity. HKTB was urged to make reference to popular events held in other places and organize more appealing activities. HKTB noted the concern, and informed the Panel in January 2008 that HKTB was conducting a comprehensive review of the strategy for implementation of mega events from 2009-2010 onwards.

Performance measurement

18. PAC members noted that HKTB did not set out performance measures in its annual reports during the years 2001-2002 to 2005-2006. Some Panel members held the view that the current KPIs adopted by HKTB tended to reflect the performance of Hong Kong's tourism industry as a whole rather than HKTB's performance as a marketing organization. They considered that HKTB alone could not claim credit for the increase in visitor arrivals. To address this concern, HKTB undertook at the Panel meeting in January 2008 to conduct a review of its performance measurement system with input from tourism-related sectors and academics with a view to formulating more specific KPIs for application in the 2009-2010 work plan.

Corporate Management

19. As revealed by the findings of PAC, there was a lack of good corporate governance and good management in HKTB, and unclear demarcation of the respective roles and responsibilities among the governing body, the government representatives serving as members of the governing body, and the top management of HKTB. Various problems and irregularities had been identified over internal documentation, rules and procedures, recruitment, appointment and remuneration, contract provisions, procurement and disbursement of expenses, office administration, etc. PAC considered that the Administration, the Board and top management of HKTB should all be held responsible for the malpractices and deficiencies. In this connection, PAC pointed out that the Commissioner for Tourism should play a more unique role in monitoring the work of HKTB.

20. Panel members had raised concerns about TC's efforts in exercising effective monitoring over the work of HKTB, and had critically examined the role and function of the Board and its committees. While appreciating that it would be practically difficult for the non-executive Board members to monitor the day-to-day work of HKTB, Panel members were concerned that some Board members had very low attendance at Board meetings. HKTB indicated that it had re-delineated the power and responsibilities of its Chairman, Board members and Executive Director, with a view to putting in place a more stringent and accountable mechanism in internal control. HKTB had also undertaken to make

arrangements to facilitate members who could not attend Board meetings in person to take part in the discussion through video or telephone conferencing facilities.

21. On the appointment of Board members, Panel members observed that the Administration aimed at securing adequate expertise and experience in tourism and consumer protection in the Board's membership. It also encouraged HKTB to engage the tourism sectors at different levels, and to institutionalize its existing communication with related sectors of the tourism industry. HKTB has, starting from 2007-2008, extended consultation on its marketing plans and strategies to cover non-travel trade stakeholders.

Cost control

22. There had been much public criticism about HKTB as a spendthrift and the low cost-effectiveness of its activities. At a special meeting of the Finance Committee, members were unconvinced that economic benefits of tourism should be referred to as a means to justify the ever-increasing expenditure of HKTB. Grave concerns were also raised about staff establishment and remuneration of HKTB. LegCo questions were raised on the discretionary performance pay received by the former Executive Director of HKTB in 2005-2006 and on whether pay adjustments of HKTB staff should be linked to the performance of Hong Kong's tourism industry.

23. Panel members noted that HKTB would implement a series of measures to tighten cost control, such as freezing its headcount, exploring new revenue streams and reducing Head Office marketing input. As fixed cost (including staff cost) constituted the bulk of HKTB's expenditure, some Panel members advised HKTB to review whether staff establishment and structure could be further downsized and streamlined, and whether staff remuneration packages were commensurate with market rates.

Latest developments

24. The Administration will brief the Panel on the work plan of HKTB for 2009-2010, the overview of Hong Kong tourism industry in 2008 and the outlook of 2009 at the meeting on 19 January 2009.

References

25. A list of the relevant papers is in **Appendix II**.

Council Business Division 1
Legislative Council Secretariat
14 January 2009

Appendix I

The four Committees established under the Board of HKTB

(a) Audit Committee

- to provide advice to the Board on corporate governance matters and adequacy of internal controls; review and endorse the annual audit plan of critical operations and annual audited financial statement before submission to the Board; review findings from the internal audit assignments and other external agencies, e.g. ICAC, and implementation of agreed actions.

(b) Staff and Finance Committee

- to monitor the HKTB's human resources and financial policies, including its annual budget, audited accounts, and also remuneration policies and salary adjustment levels;

(c) Marketing and Business Development Committee

- to provide strategic input and advice on the HKTB's marketing direction and business development, as well as review and endorse its business plan; and

(d) Product and Event Committee

- to review and approve the product and event strategy plan as well as the concepts and implementation of mega events, in order to monitor the cost effectiveness of the products and events.

(Source: Extracts from the Administration's paper on "2006-07 Business Plan of the Hong Kong Tourism Board" (LC Paper No. CB(1)1805/05-06(05)) issued on 26 June 2006.)

Background brief on the Hong Kong Tourism Board

List of relevant papers

Panel/Committee	Date	Paper
Finance Committee (FC)	12 April 2005	Minutes of the special meeting (Chapter X, Report on the examination of Estimates of Expenditure 2005-06) http://www.legco.gov.hk/yr04-05/english/fc/fc/minutes/sfc_rpt.pdf
Council Meeting	18 May 2005	Hon Fred LI raised a question on Hong Kong Tourism Board [Hansard "page 146"] http://www.legco.gov.hk/yr04-05/english/counmtg/hansard/cm0518ti-translate-e.pdf
Panel on Economic Services (ES Panel)	2 June 2005	Administration's paper on "Use of additional funding by the Hong Kong Tourism Board" LC Paper No. CB(1)1647/04-05(03) http://www.legco.gov.hk/yr04-05/english/panels/es/papers/es0602cb1-1647-3e.pdf Supplementary information on "Global marketing campaigns launched by the Hong Kong Tourism Board" LC Paper No. CB(1)2211/04-05(01) http://www.legco.gov.hk/yr04-05/english/panels/es/papers/es0602cb1-2211-1e.pdf Letter dated 6 May 2005 from Hon SIN Chung-kai regarding the operation and funding for the Hong Kong Tourism Board (Chinese version only) LC Paper No. CB(1)1671/04-05(01) http://www.legco.gov.hk/yr04-05/chinese/panels/es/papers/es0602cb1-1671-1c.pdf The Administration's reply to Hon SIN Chung-kai's letter dated 6 May 2005 LC Paper No. CB(1)1671/04-05(02)

Panel/Committee	Date	Paper
		<p>http://www.legco.gov.hk/yr04-05/english/panels/es/papers/es0602cb1-1671-2e.pdf</p> <p>Supplementary information on the additional funding of \$470 million allocated to Hong Kong Tourism Board in 2005-06 and 2006-07 for launching global marketing campaigns LC Paper No. FC87/04-05 http://www.legco.gov.hk/yr04-05/english/fc/fc/papers/fc87e.pdf</p> <p>Powerpoint presentation materials provided by the Administration relating the Government's monitoring of the work of the Hong Kong Tourism Board (Chinese version only) LC Paper No. CB(1)1711/04-05(01) http://www.legco.gov.hk/yr04-05/chinese/panels/es/papers/es0602cb1-1711-1c.pdf</p> <p>Powerpoint presentation materials provided by the Hong Kong Tourism Board (HKTB) relating to the governance and operation of HKTB and the use of additional funding by HKTB in 2005-06 and 2006-07 (Chinese version only) LC Paper No. CB(1)1711/04-05(02) http://www.legco.gov.hk/yr04-05/chinese/panels/es/papers/es0602cb1-1711-2c.pdf</p> <p>Minutes of the meeting (LC Paper No. CB(1)1862/04-05) (paragraphs 4 to 60) http://www.legco.gov.hk/yr04-05/english/panels/es/minutes/es050602.pdf</p>
FC	14 March 2006	<p>Minutes of the special meeting (Chapter IX, Report on the examination of Estimates of Expenditure 2006-07) http://www.legco.gov.hk/yr05-06/english/fc/fc/minutes/sfc_rpt.pdf</p>

Panel/Committee	Date	Paper
ES Panel	26 June 2006	<p>Administration's paper on "2006-07 Business Plan of the Hong Kong Tourism Board" LC Paper No. CB(1)1805/05-06(05) http://www.legco.gov.hk/yr05-06/english/panels/es/papers/es0626cb1-1805-5e.pdf</p> <p>Power-point presentation materials on Hong Kong Tourism Board Annual Business Plan (Chinese version only) LC Paper No. CB(1)1865/05-06(02) http://www.legco.gov.hk/yr05-06/chinese/panels/es/papers/es0626cb1-1865-2c.pdf</p> <p>Supplementary information on the total marketing expenditure of the Hong Kong Tourism Board LC Paper No. CB(1)1865/05-06(03) http://www.legco.gov.hk/yr05-06/english/panels/es/papers/es0626cb1-1865-3e.pdf</p> <p>Information paper on "Hong Kong Tourism Board Budget for 2006-07" LC Paper No. CB(1)2288/05-06(01) http://www.legco.gov.hk/yr05-06/english/panels/es/papers/es0626cb1-2288-1e.pdf</p> <p>Letter dated 12 July 2006 from Hon SIN Chung-kai to the Secretary for Economic Development and Labour on the use of public funding by the Hong Kong Tourism Board (Chinese version only) LC Paper No. CB(1)174/06-07(01) http://www.legco.gov.hk/yr05-06/chinese/panels/es/papers/es0626cb1-174-1c.pdf</p> <p>Minutes of the meeting (LC Paper No. CB(1)2067/05-06) (paragraphs 42 to 70) http://www.legco.gov.hk/yr05-06/english/panels/es/minutes/es060626.pdf</p>
Council Meeting	15 November 2006	<p>Hon Fred LI raised a question on the Hong Kong Tourism Board [Hansard "page 49"] http://www.legco.gov.hk/yr06-07/english/counmtg/hansard/cm1115-translate-e.pdf</p>

Panel/Committee	Date	Paper
ES Panel	27 November 2006	Speaking note of the Executive Director of the Hong Kong Tourism Board (Chinese version only) LC Paper No. CB(1)392/06-07(04) http://www.legco.gov.hk/yr06-07/chinese/panels/es/papers/es1127cb1-392-4-c.pdf
Council Meeting	24 January 2007	Hon SIN Chung-kai raised a question on additional provision for Hong Kong Tourism Board [Hansard "page 96"] http://www.legco.gov.hk/yr06-07/english/counmtg/hansard/cm0124-translate-e.pdf
FC	21 March 2007	Minutes of the special meeting (Chapter XII, Report on the examination of Estimates of Expenditure 2007-08) http://www.legco.gov.hk/yr06-07/english/fc/fc/minutes/sfc_rpt.pdf
-	28 May 2007	Note prepared by Hong Kong Tourism Board (HKTB) in response to Hon Fred LI's article about the computation of tourism receipts by HKTB (Chinese version only) LC Paper No. CB(1)1618/06-07(01) http://www.legco.gov.hk/yr06-07/chinese/panels/es/papers/escb1-1618-1-c.pdf
Council Meeting	9 May 2007	Hon SIN Chung-kai raised a question on variable pay for Executive Director of Hong Kong Tourism Board [Hansard "page 44"] http://www.legco.gov.hk/yr06-07/english/counmtg/hansard/cm0509-translate-e.pdf

Panel/Committee	Date	Paper
Council Meeting	28 November 2007	<p>Report No. 49 of the Director of Audit on the results of value for money audits completed between March and September 2007</p> <p>(a) Chapter 5 of Report No. 49 (Hong Kong Tourism Board: Corporate Governance and Administrative Issues)</p> <ul style="list-style-type: none">- Full Report http://www.aud.gov.hk/pdf_e/e49ch05.pdf- Summary http://www.aud.gov.hk/pdf_e/e49ch05_sum.pdf <p>(b) Chapter 6 of Report No. 49 (Hong Kong Tourism Board: Planning, Execution and Evaluation of Marketing Activities)</p> <ul style="list-style-type: none">- Full report http://www.aud.gov.hk/pdf_e/e49ch06.pdf- Summary http://www.aud.gov.hk/pdf_e/e49ch06_sum.pdf
Panel on Economic Development (EDEV Panel)	28 January 2008	<p>Administration's paper on "Appointment to Hong Kong Tourism Board" LC Paper No. CB(1)672/07-08(01) http://www.legco.gov.hk/yr07-08/english/panels/es/papers/edevcb1-672-1-e.pdf</p> <p>Administration's information paper on "Hong Kong Tourism Board Work Plan for 2008-09" LC Paper No. CB(1)636/07-08(04) http://www.legco.gov.hk/yr07-08/english/panels/es/papers/edev0128cb1-636-4-e.pdf</p>

Panel/Committee	Date	Paper
		<p>Administration's paper on Hong Kong Tourism Board Work Plan for 2008-09 (power-point presentation materials) (Chinese version only) LC Paper No. CB(1)715/07-08 http://www.legco.gov.hk/yr07-08/chinese/panels/es/papers/edev0128cb1-715-c.pdf</p> <p>Paper on the Hong Kong Tourism Board prepared by the Legislative Council Secretariat (Background brief) LC Paper No. CB(1)636/07-08(05) http://www.legco.gov.hk/yr07-08/english/panels/es/papers/edev0128cb1-636-5-e.pdf</p> <p>Minutes of the meeting (LC Paper No. CB(1)1023/07-08) (paragraphs 29 to56) http://www.legco.gov.hk/yr07-08/english/panels/es/minutes/ev080128.pdf</p>
FC	31 March 2008	<p>Minutes of the special meeting (Chapter V, Report on the examination of Estimates of Expenditure 2008-09) (paragraphs 5.20 to 5.21 and 5.26 to 5.29) http://www.legco.gov.hk/yr07-08/english/fc/fc/minutes/sfc_rpt.pdf</p>
Public Accounts Committee (PAC)	February 2008	<p>Report of the PAC on the reports of the Director of Audit on the accounts of the Government of the HKSAR for the year ended 31 March 2007 and the results of value for money audits (Report No. 49)</p> <p>(a) Chapter 1 of Part 7 (Hong Kong Tourism Board : Corporate governance and administrative issues) http://www.legco.gov.hk/yr07-08/english/pac/reports/49/m_7a.p</p> <p>(b) Chapter 2 of Part 7 (Hong Kong Tourism Board : Planning, execution and evaluation of marketing activities) http://www.legco.gov.hk/yr07-08/english/pac/reports/49/m_7b.pdf</p>

Panel/Committee	Date	Paper
PAC	April 2008	Supplemental Report of the PAC on Report No. 49 of the Director of Audit on the results of value for money audits (Part 4 of Report No. 49A on Hong Kong Tourism Board: Corporate governance and administrative issues, and Hong Kong Tourism Board: Planning, execution and evaluation of marketing activities) http://www.legco.gov.hk/yr07-08/english/pac/reports/49a/49a_rpt.pdf
--	9 July 2008	The Government Minute in response to the Report No. 49A of PAC dated April 2008 http://www.legco.gov.hk/yr07-08/english/pac/minutes/pac_gm_49a-e.pdf
EDEV Panel	24 October 2008	Administration's paper on "Policy Agenda of the Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau" (paragraphs 2 to 3 and 10 to 14 on initiatives related to the Hong Kong Tourism Board) LC Paper No. CB(1)33/08-09(02) http://www.legco.gov.hk/yr08-09/english/panels/eDEV/papers/eDEV1024cb1-33-2-e.pdf Minutes of the meeting LC Paper No. CB(1)324/08-09 http://www.legco.gov.hk/yr08-09/english/panels/eDEV/minutes/eDEV20081024.pdf