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Panel on Economic Development
Meeting on 25 January 2010

Updated background brief on the
Workplan of Hong Kong Tourism Board

Purpose

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

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**. HKTB has a worldwide network of 15 offices and 5 representatives³. As at 31 March 2009, the establishment of HKTB is 325 staff, of whom 99 are stationed outside Hong Kong.

6. The Tourism Commission (TC), established under the Commerce and Economic Development Bureau and headed by the Commissioner for Tourism (C 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

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.

³ A Representative Office is for travel trade/media/consumer enquiries only.

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 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 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. Based on the survey findings, the weighted overall satisfaction score⁴ of Hong Kong among overnight visitors in 2008 was 8.2 (out of a 10-point scale).

10. From 2009-2010, HKTB will implement a new framework to measure the performance against the objective of the organization, which was drawn up with reference to the practices of national tourism organizations of various destinations, including Australia, Canada, Singapore, Thailand and the United Kingdom. Under the new framework, in addition to KPIs, HKTB will bring in a new set of about 50 corporate performance indicators to measure the activities and the associated expected results from HKTB's marketing programmes by strategic focuses.

11. 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 listed as a "public body" under the Prevention of Bribery Ordinance, and is subject to the Director of Audit (D of A)'s scrutiny. D of A carried out a

⁴ Satisfaction includes aspects such as shopping, dining, accommodation, sightseeing and hospitality of Hong Kong people.

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 A⁵.

Workplan of HKTb for 2009-2010

12. The economic downturn in the third quarter of 2008 has led to a decline in both consumer and business confidence in the global tourism industry⁶. In drawing up the workplan for 2009-2010 in January 2009, the HKTb has expected that travellers would favour destinations closer to home, as compared to long-haul travel, and the latter would suffer more than the market for short-haul travel. When the economy picked up, travel would bounce back strongly and the Asia Pacific region would increasingly be at the heart of the global demand⁷. HKTb projected that visitor arrivals in 2009 would decrease by 1.6% to 29 million. More details can be found in **Appendix II**.

13. Against this background of macro environment, HKTb considered it necessary to continue its promotion to minimize the impact of the downturn and to ensure that Hong Kong would stand ready to capture the upsurge in visitor arrivals when the economy picked up towards end 2009 or early 2010⁸. In 2009-2010, HKTb would use a new market prioritization model in allocating resources for various source markets such that focus would be placed on the high-growth Mainland market and selected short-haul markets. More resources would also be deployed for tapping the emerging markets and high-potential visitor segments. To counter market volatility, the HKTb would maintain a highly flexible approach, monitoring the situations of the macro environment closely and shifting resources between markets in a timely manner.

14. To broaden the source of Mainland visitors, the Government has engaged in ongoing discussion with the Central Government on further facilitation measures for Mainland residents to visit Hong Kong. Measures that have already been implemented include allowing eligible Shenzhen non-permanent residents and their close relatives to visit Hong Kong in group tours, and introducing a one-year multiple-entry Individual Visit Scheme (IVS) endorsement for eligible Shenzhen permanent residents to visit Hong Kong.

15. According to the 2009-2010 Policy Agenda published in October 2009, HKTb has adjusted its promotion strategies in light of the market situation by focusing resources on strengthening promotions in the Mainland and short-haul markets with growth potential, developing new promotional windows, and

⁵ 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.

⁶ *UNWTO World Tourism Barometer*, October 2008.

⁷ Speech by Professor Geoffrey Lipman, Assistant Secretary General of UNWTO at the 2nd UNWTO Conference on Tourism Trends and Outlook in December 2008 in Guilin, China.

⁸ Forecast by International Monetary Fund (IMF) in November 2008.

encouraging Hong Kong's hotels, ground operators and major attractions to come up with appealing offers to induce arrivals. HKTB is also working to intensify its overseas media and trade familiarization visits so that participants can experience first-hand the allure of Hong Kong. The Government will continue its support for HKTB to market Hong Kong in key source markets, and to promote MICE (Meetings, Incentives, Convention and Exhibitions) tourism, hospitality culture, and honest and quality tourism in Hong Kong.

Discussion by LegCo Members

16. 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 former Panel on Economic Services⁹ also discussed the marketing campaigns and business/work plans of HKTB on 2 June 2005, 26 June 2006, 28 January 2008 and 19 January 2009.

17. The LegCo Public Accounts Committee (PAC) held 15 public hearings on Chapters 5 and 6 in Report No. 49 concerning HKTB held in December 2007 to February 2008. PAC requested the Administration to take various follow-up actions as set out in Part 4 of the PAC Report No. 49A (details are in the link in the references section). Members' major views and concerns expressed at the meetings of the Council, Panel and PAC are summarized in the ensuing paragraphs.

Promotion strategy in different source markets

18. Panel members in general shared HKTB's mission in promoting Hong Kong as a preferred travel destination worldwide, with overseas/Mainland visitors as the major targets who would bring economic benefits and tourism dollars for Hong Kong. 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.

19. Panel members had diverse views on the marketing focus on the Mainland market. While some members opined that HKTB should ride on the liberalization measure of IVS and invest more in the high-growth Mainland market, there was concern that IVS alone would not sustain the growth of visitor arrivals to Hong Kong in the long run. A member also suggested that the Administration should relax the quota restriction to enable more Mainland

⁹ The Panel on Economic Services has been renamed as the Panel on Economic Development with effect from the 2007-2008 session.

officials to participate in exchange tours to Hong Kong.

20. Panel members were also concerned about the marketing resources put on other markets such as Japan, the Middle East and South East Asia. They were of the view that HKTB should not under-estimate Japan as a high potential market given the prevailing strength of Japanese currency and relatively stronger consumption power of the Japanese visitors whereas the budget for the Middle East market should not be increased in light of the drop in visitor arrivals from the region in 2008. Members also considered that as South East Asia, in particular the Mainland, was a largely untapped cruise market, they called on HKTB to set up a task force to focus on the development of cruise tourism and to work with TC to speed up the provision of new cruise facilities.

21. The Panel suggested that HKTB should step up its effort on e-marketing, particularly in geographically large source markets such as the United States, and should extend publicity coverage to more non-official websites. In March 2009, Hon Mrs Regina IP wrote to HKTB suggesting making use of Apple's App Store to promote Hong Kong by inviting local software programmers to develop applications about how to have fun in Hong Kong.

Marketing tourism products

22. Panel members urged that more resources should be allocated to conduct research and studies to track market trends, such as the development of tourism products for MICE. 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, including assistance in bidding for prestigious MICE events, generating attendance and promoting cross-selling of tourism products. For this purpose, the Administration had earmarked \$30 million every year to HKTB for five consecutive years. To complement these measures, Panel members stressed the importance of enhancing the visitor-friendliness of entry facilities and strengthening consumer protection.

23. On mega events, some Panel members raised doubts on the limited benefits of boosting further visitor arrivals especially during festive seasons. They suggested that HKTB should deploy the resources to help local organizations to promote those local events or tourist attractions which had great appeal to visitors but lack of publicity. HKTB noted the concern, and informed the Panel in January 2008 that it was conducting a comprehensive review of the strategy for implementation of mega events from 2009-2010 onwards. At the meeting on 19 January 2009, Panel members urged HKTB to draw reference to the failure of Harbourfest concert in 2003, and step up publicity for mega events like the Woodstock Concert and the Fifth East Asian Games.

24. 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, Hong Kong Trade Development Council(TDC) and Invest Hong Kong. A member asked if the Administration would consider gradually transferring the responsibilities of HKTB to other agencies. Members urged HKTB to enhance coordination with TDC and strengthen cooperation with strategic partners such as overseas media and airlines. At the Council meeting on 13 May 2009, Hon Paul TSE moved a motion urging the Government to establish a Tourism Bureau with dedicated responsibility for handling tourism issues, including coordinating the various organizations, such as HKTB, which regulated and promoted the development of tourism in Hong Kong. The motion was negatived.

Performance measurement

25. On visitor satisfaction rating among the current KPIs, some members considered that HKTB should conduct more in-depth analysis to enable Panel members to understand the factors that would motivate visitors to re-visit Hong Kong. Noting that visitor arrivals had fallen short of the 2008 forecast, a Panel member urged HKTB to undertake analysis in a realistic and pragmatic manner, having regard to competition from Macau and Shanghai.

Corporate Management

26. 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 Board, C for Tourism, 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 C for Tourism should play a more unique role in monitoring the work of HKTB.

27. Panel members had raised concerns about TC's efforts in effectively monitoring 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.

28. 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

29. 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, grave concerns were raised about the 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. Members were concerned about the adequacies of the KPIs and the ways in working out the forecast of visitor arrivals as these factors were linked to a staff's performance discretionary pay.

30. 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. Members also noted that the review of WWOs was expected to complete in the first quarter of 2009 and HKTB would re-assess the establishment of these offices yearly.

Latest development

31. The Administration will present the work plan of HKTB for 2010-2011 and brief the Panel on the overview of Hong Kong tourism industry in 2009 and the outlook of 2010 at the meeting on 25 January 2010.

References

32. A list of the relevant papers with their hyperlinks is in [http://www.legco.gov.hk/database/english/data es/es-hktb.htm](http://www.legco.gov.hk/database/english/data_es/es-hktb.htm)

Council Business Division 1
Legislative Council Secretariat
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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.)

Projection of Visitor Arrivals in 2009

The Hong Kong Tourism Board (HKTB) projects that visitor arrivals in 2009 will decrease by 1.6% to 29 million. This projection was derived following a systematic and structured forecasting process that not only took into account various factors of the macro environment, as well as analysis and projections by international organisations, but also made detailed assessment of the socio-economic conditions, travel-related policies, tourism trends and patterns of major source markets.

The factors of the macro environment that the HKTB took account of include the economic indicators by organisations such as the International Monetary Fund and Economist Intelligence Unit, the fuel prices and any increase/decrease in air capacity. Reference was also made to the projections by international tourism organisations, including the United Nations World Tourism Organization (UNWTO), the Pacific Asia Travel Association (PATA) and the International Air Transport Association (IATA).

In addition to the above macro factors, the HKTB assessed the impact brought by new tourism infrastructure in Hong Kong, and the implementation of marketing campaigns or programmes supported by the regular subvention.

With the full year 2008 actual arrivals figures obtained in the beginning of January 2009 as the base, the HKTB conducted further review of the macro economic conditions and competitive environment, and worked out the 2009 arrival projections for different market regions and the overall tourism performance indicators.

(Source: Extracts from the supplementary information provided by HKTB on its Work Plan for 2009-2010 (LC Paper No. CB(1)788/08-09(01)) issued on 16 February 2009.)