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Panel on Information Technology and Broadcasting

Meeting on 13 May 2010

Updated background brief on Hong Kong Design Centre

Purpose

This paper gives the background to the Government's support for the operation of Hong Kong Design Centre (HKDC) and also a summary of views and concerns expressed by Members in previous discussions.

Background

2. HKDC is a non-profit making infrastructure organization established in 2001 to further the development of design. It is a company limited by guarantee, with the Hong Kong Designers Association, Chartered Society of Designers, Hong Kong, Interior Design Association Hong Kong, Hong Kong Fashion Designers Association, and the Hong Kong Federation of Design Associations as members. The objectives of HKDC are to, among other things, promote design as a value-added activity and integration of design into mainstream business processes, which are in line with Government's policy on the promotion of design and innovation. HKDC has since its inception been Government's main partner in promoting design. To support HKDC's initial operation, the Government provided a one-off funding of \$10 million to HKDC as seed money in 2001.

3. On 11 October 2006, the Chief Executive announced in his 2006-2007 Policy Address that the Government would earmark \$100 million over five years for HKDC to further assist the trades and industries in Hong Kong to make full use of their designs and build their brand names. Following consultation with the Panel on Commerce and Industry (CI Panel), the Administration submitted a funding proposal of \$100 million to support the operation of HKDC over five years to promote the importance of design and innovation. The proposal was approved by the Finance Committee (FC) on 25 May 2007.

4. HKDC is governed by a Board of Directors with a balanced composition comprising representatives from the relevant design-related industrial and business sectors and professions, as well as two government officials viz. the Commissioner for Innovation and Technology and Deputy Secretary for Home Affairs. The Innovation and Technology Commission disburses funds to HKDC subject to necessary safeguards and funding requirements as set out in a Funding Agreement between HKDC and the Innovation and Technology Commission (**Appendix**).

5. HKDC has instituted a system to measure and evaluate the effectiveness of its programme, such as conducting regular tracking surveys on design awareness and standard in Hong Kong, and exploring with other organizations to conduct benchmarking study on the economic/social benefits brought about by design and innovation. Other quantitative key performance indicators include the revenue stream of HKDC, number of participants in HKDC events, number of visitors to the HKDC website, size of HKDC's database on designers and number of international design awards won by Hong Kong. HKDC is required to report to the Commissioner for Innovation and Technology its operation, cashflow position and performance as measured against a set of performance indicators in the annual report. The Government also provides input to this performance evaluation system.

6. Apart from conducting annual reviews on its performance, HKDC is required to conduct a major review in the fourth year of the five-year funding period to evaluate its overall performance, strategy and financial position. The results of the review would enable the Government to assess whether HKDC could be operationally and financially self-sustainable at the end of the five-year funding period. HKDC is expected to operate on a self-financing basis as early as possible and the Government does not plan to provide recurrent subvention to HKDC upon depletion of the \$100 million commitment. HKDC may be required to draw up a timely exit plan if it is unlikely to be financially self-sustainable within a reasonable period of time.

Previous discussions

7. The CI Panel discussed the work of HKDC on 17 April 2007, 15 April 2008 and 19 May 2009. In general, CI Panel members welcomed the Government's support for HKDC as such support was conducive to the development of local enterprises as well as the long-term economic development of Hong Kong. Panel members also considered it important for HKDC to promote a wider and more strategic use of design to enhance Hong Kong's competitiveness.

8. Some CI Panel members took the view that to solicit more co-operation with overseas partners and hence business opportunities, HKDC should conduct more promotional activities overseas to showcase Hong Kong's design talents. The Administration assured members that it would arrange Hong Kong designers to

partner with world-renowned international manufacturers to produce and showcase limited-edition signature products in overseas mega events, which would help raise the profile and reputation of Hong Kong's design talents in the international arena.

9. In addition to promoting design, CI Panel members were also keen to ensure that safeguards would be put in place by HKDC to protect the intellectual property (IP) of designers and their products. In this regard, they noted that HKDC had compiled a business manual for local designers which covered IP protection on how to apply for registration for their IP and related legal issues. The Administration assured CI Panel members that HKDC would continue to provide assistance to the design industries on this front.

10. In view of the development in the Mainland in recent years, CI Panel members considered that efforts should be stepped up in nurturing design talents in Hong Kong to meet with market demand, so that Hong Kong would maintain its competitive edge in the long run. The Administration should strive to obtain international recognition of the local design qualification, in order to encourage more inspired talents to join the design industry, thereby raising the quality of the local design industry.

11. Noting that many business and industry players were not yet convinced of or conversant with design and branding, CI Panel members were concerned whether the Administration would take appropriate measures to assist the trades and industries to make fuller use of design and innovation to build their brand names. The Administration assured members that in addition to the DesignSmart Initiative (DSI) which aimed to promote the interest and investment of Hong Kong entrepreneurs in relation to utilizing design and transforming design activity into tradable deliverables, HKDC had spared no efforts in promoting the private sector to move from Original Equipment Manufacture to Original Brand Manufacture by various promotional activities including conferences, workshops, discussion fora and experience sharing sessions.

12. The CI Panel noted that HKDC would engage a consultant to undertake a review, which would cover, among other things, a performance evaluation framework for the design industries in Hong Kong, including HKDC. In this connection, Panel members requested the Administration to include issues relating to corporate governance and management of funding in HKDC's annual reports to the CI Panel in future.

Recent developments

13. On 9 February 2009, the Administration presented a proposal on the setting up of a dedicated office for creative industries "CreateHK" to the Panel on Information Technology and Broadcasting (ITB Panel). The ITB Panel was supportive of the Administration's proposal to, amongst others, transfer the \$100 million non-recurrent commitment for HKDC under the Innovation and Technology

Commission to CreateHK under the Communications and Technology Branch, which will in future be responsible for managing the commitment.

14. On 1 June 2009, the Administration set up CreateHK which aims to coordinate Government policy and effort regarding creative industries, focus Government's resources catering for the promotion and speeding up of the development of creative industries in Hong Kong, and work closely with the trade to boost the development of creative industries.

15. Together with other matters of CreateHK which are reported and considered at the ITB Panel, the progress report of HKDC will be submitted to the ITB Panel instead of the CI Panel.

Latest position

16. The Administration and the representative of HKDC will report the progress of work of HKDC to the ITB Panel on 13 May 2010.

Relevant papers

Paper provided by the Administration for the Commerce and Industry Panel meeting on 17 April 2007

<http://www.legco.gov.hk/yr06-07/english/panels/ci/papers/ci0417cb1-1319-3-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 17 April 2007

<http://www.legco.gov.hk/yr06-07/english/panels/ci/minutes/ci070417.pdf>

Paper provided by the Administration for the Finance Committee meeting on 25 May 2007

<http://www.legco.gov.hk/yr06-07/english/fc/fc/papers/f07-14e.pdf>

Minutes of the Finance Committee meeting on 25 May 2007

<http://www.legco.gov.hk/yr06-07/english/fc/fc/minutes/fc070525.pdf>

Paper provided by the Administration for the Commerce and Industry Panel meeting on 15 April 2008

<http://www.legco.gov.hk/yr07-08/english/panels/ci/papers/ci0415cb1-1211-5-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 15 April 2008

<http://www.legco.gov.hk/yr07-08/english/panels/ci/minutes/ci080415.pdf>

Paper provided by the Administration for the Commerce and Industry Panel meeting on 19 May 2009

<http://www.legco.gov.hk/yr08-09/english/panels/ci/papers/ci0519cb1-1551-9-e.pdf>

Background brief prepared by the Legislative Council Secretariat for the
Commerce and Industry Panel meeting on 19 May 2009

<http://www.legco.gov.hk/yr08-09/english/panels/ci/papers/ci0519cb1-1551-10-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 19 May 2009

<http://www.legco.gov.hk/yr08-09/english/panels/ci/minutes/ci20090519.pdf>

Council Business Division 1

Legislative Council Secretariat

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Funding Agreement between Hong Kong Design Centre and the Innovation and Technology Commission

- (a) Unless with Government approval, there should be no change in the appointment arrangements for the Board of Directors during the Government funding period to ensure a balanced representation of stakeholders;
- (b) HKDC is required to submit to the Commissioner for Innovation and Technology (CIT) annually, before the submission of the annual plan, a three-year business plan, and roll it over every year. The plan should set out the strategic targets of Hong Kong Design Centre (HKDC), the use of Government funding with defined time frame, missions, deliverables, performance indicators, staffing structures and a system to interface with stakeholders;
- (c) HKDC is subject to various controls on its operation such as submission of annual plan, budgets and audited accounts for Government approval, performance indicators and assessment, acceptance of the quarterly/annual operational reports and financial statements by CIT before disbursement of funds on a quarterly basis, prior Government approval for non-budgeted items and over 30% variation between categories of expenditure, compliance with corporate governance manual, and value-for-money checks by the Audit Commission if required by Government;
- (d) HKDC is required to build up and enhance its revenue stream with a view to achieving self-financing as soon as possible. CIT may set and revise an income target from time to time which HKDC has to meet;
- (e) disbursement of the five-year Government funding will be subject to a review and exit mechanism. For example, if CIT considers that HKDC is unlikely to be operationally or financially self-sustainable within a reasonable period of time, HKDC may be required to draw up a timely exit plan to take care of its operation without further public funding support;
- (f) HKDC is not allowed to keep and retain any unspent Government funding as reserve. Any unspent balance of the Government funding, including any surplus income generated from such funding, has to be returned to Government after expiry of the five-year funding period or if HKDC ceases business before that; and

- (g) the operation and programmes of HKDC funded by Government must be kept in a specific account distinct and separate from that for operation not funded by Government (covering, for example, any HKDC liabilities out of non-Government-funded operation and expenditure in a Government funded project over and above the approved Government funding and not otherwise covered by other project income). The Government will not assume any responsibility for the liabilities and expenditures in the non-Government funded account; HKDC has to seek separate donations and other incomes to cover such liabilities and expenditures.