

LCQ6: Finance and resources allocation of Travel Industry Council of Hong Kong

Following is a reply by the Acting Secretary for Commerce and Economic Development, Mr Gregory So, to a question by the Hon Paul Tse in the Legislative Council today (March 9):

Question:

Some members of the trade have pointed out that given that the Government has required, through legislation, travel agents to pay "Council levy" to the Travel Industry Council of Hong Kong (TIC) in order to meet the expenditure incurred by TIC in discharging its function of regulating the tourism industry, and it is stipulated that TIC is subject to value for money audits, the Government is duty-bound to monitor the use of funds (most of which comes from the levy) by TIC. Regarding the following expenditure items of TIC, will the Government inform this Council:

(a) whether it knows the amount of funds used by TIC in placing an advertisement entitled "Statement" in several newspapers on February 17 this year; whether TIC had consulted travel agents and the Government before deciding whether or not it should use its funds to place the advertisement; if TIC had done so, of the details; if not, the reasons for that; whether the government officials who are appointed to monitor the operation of TIC were aware of the placing of the said advertisement beforehand and whether they had offered advice to TIC as to whether it should and could use its funds to place such an advertisement; if the government officials concerned had done so, of the advice offered; if not, the reasons for that;

(b) given that TIC had conducted "undercover" operations during the recent Lunar New Year to detect cases of non-compliance by travel agents and tourist guides in receiving mainland inbound tour groups, whether the Government knows the amount of funds TIC used to date for conducting these operations; the average expenditure involved in conducting each operation; whether the conduct of such operations will become a standing practice; whether any estimation has been made regarding the amount of annual expenditure involved in conducting such operations; and

(c) as I have learnt that TIC will use more than \$1,000,000 to engage an audit firm to conduct a value for money audit, and that TIC will set aside a provision of about \$400,000 for the purpose of recruiting its Executive Director through head hunting agencies, whether the Government is aware of and whether it has monitored such

expenditure items; regarding TIC's non-recurrent expenditure items involving huge amounts of money (e.g. \$200,000 or above), whether the Government has any established mechanism for monitoring such expenditure items; if it has, of the details; if not, the reasons for that?

Reply:

President,

The Travel Industry Council of Hong Kong (TIC) is a trade organisation for travel agents incorporated under the Companies Ordinance (Cap. 32). The TIC carries out its functions, including regulation of the trade, in accordance with its Memorandum and Articles of Association. Under sections 32I of the Travel Agents Ordinance (Cap. 218) (TAO), a travel agent is required to pay a Council levy to the TIC. The TIC shall expend the Council levy received only on operational expenses it incurred in pursuing or achieving its objects. Besides the Council levy, the TIC's income sources include membership fees from member travel agents, inbound tour registration fees, shop registration fees, as well as tour escort pass and tourist guide pass registration fees.

Under the TAO, the TIC shall submit its estimates of income and expenditure in respect of the next financial year to the Secretary for Commerce and Economic Development each year. According to the requirement of the Companies Ordinance, the TIC's annual account (including statement of income and expenditure, balance sheet and statement of cash flows, etc) is audited by an auditor every year. The audited account is then submitted to TIC members for approval at the TIC's Annual General Meeting.

My reply to the various parts of the question is as follows.

(a) The incident involving a dispute between a local tourist guide and Mainland visitors on February 5 this year has aroused extensive concern and discussion in the community. As we understand, the Board of Directors of the TIC (the Board) considered that some comments made were inaccurate and had seriously tarnished the reputation and credibility of the TIC, and would very likely undermine the TIC's regulatory work and its effectiveness as the regulatory body of the trade. Therefore, the Board resolved to publish a statement of clarification in newspapers after discussion at its meeting on February 15. A representative of the Tourism Commission attended the meeting as observer.

The TIC published the statement in seven newspapers on February 17, which cost around \$90,000. The Board is responsible for overseeing the TIC's affairs, including its finance and resources allocation. Under the TIC's Memorandum and Articles of Association, the Board represents the TIC in its overall dealings with the Government, other authorities and the general public. Public relations work, including explaining the TIC's position through different channels, should be within the areas of responsibilities of the Board. The Board did not consult the Government on the decision to publish the statement. According to the TIC's procurement guidelines, purchases with a value between \$50,001 and \$100,000 shall be authorised by any two of the following office bearers, namely the TIC Chairman, the Honorary Treasurer and the Executive Director. The guidelines do not stipulate that member travel agents should be consulted on such purchases. As we understand, the TIC did not consult the member travel agents on the decision to publish the statement.

(b) In response to several incidents of suspected coerced shopping involving Mainland inbound tour visitors last year, the TIC stepped up inspection of Mainland inbound tours in the second half of 2010. The TIC also mounted undercover operations at different times to monitor more effectively the quality of service of the tours, particularly on whether there is non-compliance including coerced shopping. During the period between September 2010 and Lunar New Year this year, the TIC conducted six undercover operations, which cost around \$40,000 or around \$7,000 per operation on average. The TIC will continue to conduct irregular undercover operations in 2011, the number and frequency of which will depend on need. Therefore, it is not possible to provide the total estimated expenditure on the whole operation.

(c) In April 2010, the TIC decided to engage a professional audit firm through open tender to conduct a value-for-money audit. We mentioned such arrangement in the paper "Review of the Operation of the Travel Industry Council of Hong Kong" submitted to the Legislative Council Panel on Economic Development on May 24, 2010. The estimated expenditure on the whole audit is \$528,000.

Since the contract of the current TIC Executive Director will expire in December this year, the Board authorised a selection panel to recruit a new Executive Director. The Staff and Finance Committee under the Board decided to engage an agency to search for candidates suitable for taking up the post of Executive Director for the selection panel's consideration. The TIC conducted an open tender in August 2010 for

the agency services for the search of Executive Director candidates. The service cost was \$400,000.

The TIC's Staff and Finance Committee is responsible for preparing and reviewing the financial budget, monitoring the TIC accounts and formulating human resources policy of the TIC Executive Office. The Committee consists of eight members, among which the Convenor, the Deputy Convenor and two other members are the TIC non-trade independent directors. After assessing the tender documents for the above two services in accordance with the established procedures, the Committee approved the procurement for these two exercises. The Convenor of the Committee also reported the decisions to the Board. The TIC handles procurement matters in accordance with established guidelines, which stipulate the procurement methods and procedures for goods or services of different values. Authorisation from TIC department head is required for purchases with a value below \$2,000.

Authorisation from one of the following office bearers, namely the Chairman, the Honorary Treasurer and the Executive Director, is required for purchases with a value between \$2,001 and \$50,000. Authorisation from two of the following office bearers, namely the Chairman, the Honorary Treasurer and the Executive Director, is required for purchases with a value between \$50,001 and \$100,000.

Purchases with a value over \$100,000 must be authorised by the Staff and Finance Committee or a committee/working group designated by the Board.

A representative of the Tourism Commission attended the meetings of the Board and the Staff and Finance Committee as observer, and is aware of the above two expenditure items. The representative of the Tourism Commission is in attendance at the TIC meetings to offer advice on the operation and use of resources of the TIC. As mentioned above, the TIC is required to submit its estimates of income and expenditure in respect of the next financial year to the Secretary for Commerce and Economic Development each year for the Government to monitor its financial situation.

Ends/Wednesday, March 9, 2011

Issued at HKT 17:18