

CHAPTER 7

Leisure and Cultural Services Department

<h4>Management of performing arts venues</h4>
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**Audit Commission
Hong Kong
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This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

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MANAGEMENT OF PERFORMING ARTS VENUES

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PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines its objectives and scope.

Background

1.2 It is the Government's policy to create an environment which is conducive to artistic expression and creation, and a wider public participation in cultural activities. The Leisure and Cultural Services Department (LCSD) is responsible for providing quality performing arts services commensurate with Hong Kong's development as a world-class city and events capital. This is delivered through managing performing arts venues and presenting cultural programmes. The work is mainly carried out by the Performing Arts Division of the LCSD (see organisation chart at Appendix A).

Performing arts venues

1.3 There are 13 performing arts venues under the LCSD's management (Note 1). Based on the design, roles and functions of facilities, they can be classified into two broad groups:

- (a) *Seven purpose-built venues.* They are equipped with sophisticated technical facilities capable of accommodating major and technically demanding performances from the international touring circuit as well as established local performing arts groups, and attracting patrons from a large catchment area. They are:

Note 1: *Besides the 13 venues, the Hong Kong Coliseum and the Queen Elizabeth Stadium managed by the LCSD are multi-purpose venues. They also cater for cultural/entertainment performances, although priority is given to sports activities.*

Urban area	<ul style="list-style-type: none"> • Hong Kong Cultural Centre (HKCC) • Hong Kong City Hall (HKCH)
New Territories	<ul style="list-style-type: none"> • Tsuen Wan Town Hall (TWTH) • Sha Tin Town Hall (STTH) • Tuen Mun Town Hall (TMTH) • Yuen Long Theatre (YLT) • Kwai Tsing Theatre (KTT)

- (b) ***Six moderately-equipped venues.*** They are capable of accommodating small to medium-scale performances and activities including those organised by the community. They are:

Urban area	<ul style="list-style-type: none"> • Ko Shan Theatre (KST) • Sheung Wan Civic Centre (SWCC) • Sai Wan Ho Civic Centre (SWHCC) • Ngau Chi Wan Civic Centre (NCWCC)
New Territories	<ul style="list-style-type: none"> • Tai Po Civic Centre (TPCC) • North District Town Hall (NDTH)

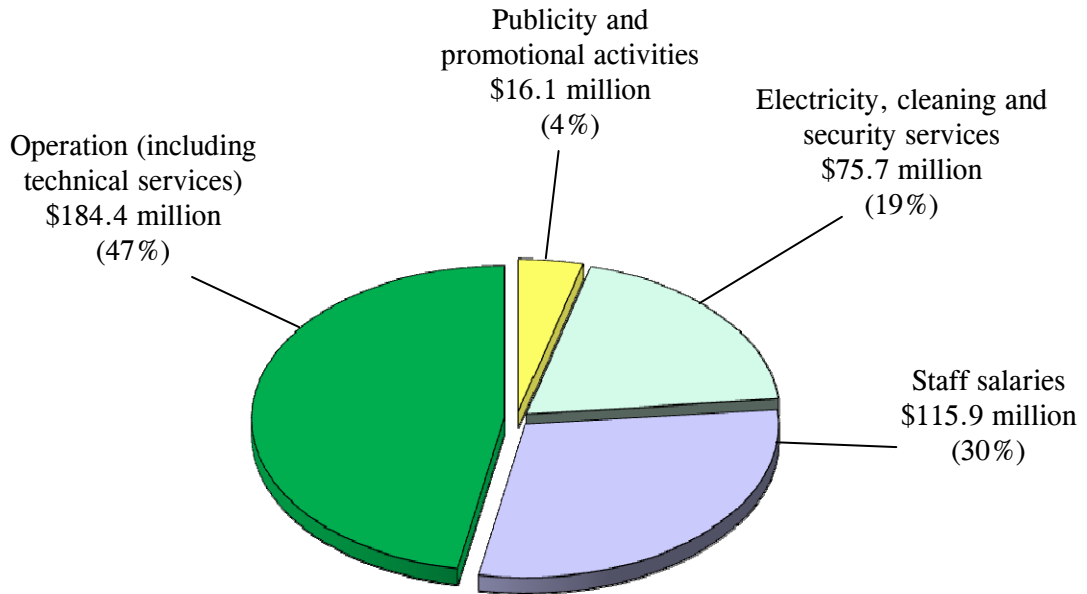
1.4 Each of the above venues offers a combination of facilities to cater for different types of performing arts and community activities. They include major facilities (such as auditoria, theatres and halls) and minor facilities (such as studios, rehearsal rooms and function rooms). These facilities are available for public hiring as well as programmes presented by the LCSD.

1.5 In 2009-10, the expenditure and income of the 13 venues were \$392.1 million and \$207.9 million respectively. A breakdown of the expenditure and income is shown in Figure 1. Of the expenditure, \$118.9 million (30% of \$392.1 million) related to services provided by a contractor (Contractor A) and the Electrical and Mechanical Services Trading Fund (EMSTF) under technical service agreements.

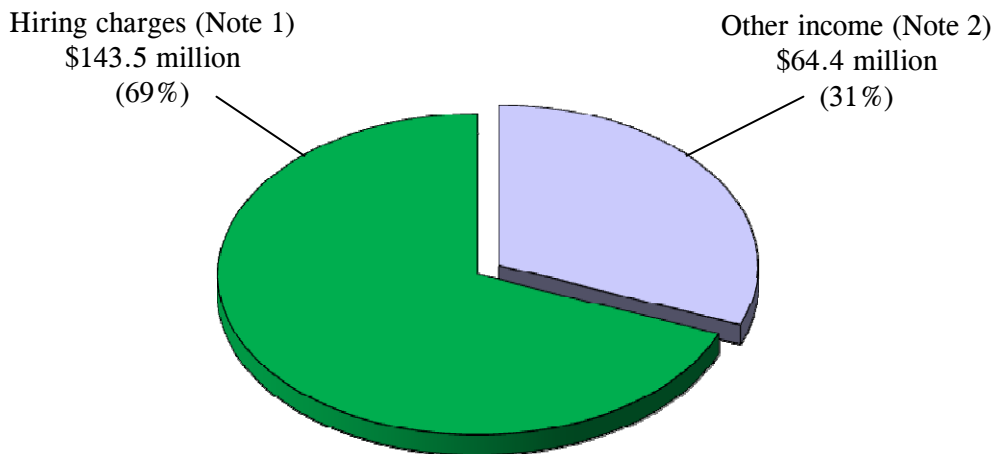
Figure 1

**Expenditure and income of 13 performing arts venues
(2009-10)**

(A) Expenditure: \$392.1 million



(B) Income: \$207.9 million



Source: LCSD records

Note 1: The hiring charges included notional charges for venue bookings by the LCSD itself, other government departments and District Councils.

Note 2: Other income mainly comprised rental income from catering facilities.

Audit review

1.6 The Audit Commission (Audit) has recently conducted a review on the LCSD's management of the 13 performing arts venues. The review has found that there is room for improvement in the following areas:

- (a) venue utilisation and hiring arrangements (PART 2);
- (b) management of technical service agreements (PART 3);
- (c) energy management (PART 4); and
- (d) implementation of revenue generating initiatives (PART 5).

General response from the Administration

1.7 The **Director of Leisure and Cultural Services** has said that the LCSD is grateful to Audit for working with it to explore opportunities to improve the value for money of its performing arts services and facilities. The LCSD agrees with the observations and recommendations made in the report and will make every endeavour to address the issues requiring follow-up actions to enhance the service standards and overall cost-effectiveness of the performing arts venues.

Acknowledgement

1.8 Audit would like to acknowledge with gratitude the full cooperation of the staff of the LCSD and the EMSTF during the course of the audit review.

PART 2: VENUE UTILISATION AND HIRING ARRANGEMENTS

2.1 This PART examines the utilisation and the hiring arrangements of the 13 performing arts venues.

Venue utilisation

2.2 The venues are provided with a combination of major facilities and minor facilities which can be used for both arts activities and non-arts community activities. The LCSD has put in place hiring arrangements which accord priority to arts activities. Firstly, there is a longer advance booking period for arts-related applications (Note 2). Secondly, priority is given to arts-related applications (under a points system) when there are other competing applications for the same time slots.

2.3 In 2004, the Government set up a Committee on Performing Arts (Note 3) to give advice on the provision of performing arts services. The Committee noted that there was then keen competition for the use of the LCSD's performing arts facilities, especially those at prime venues (such as the HKCC and the HKCH). The Committee also recognised the need of arts groups for dedicated venues for long-term development. In its 2006 report, the Committee recommended that the Government should:

- (a) implement a Venue Partnership Scheme (VPS) to foster a partnership between venues and arts groups to make the best use of venues; and
- (b) provide more marketing and promotional support at the moderately-equipped venues in less central location (which, unlike the prime venues, had not been fully utilised) to attract audience and performing arts groups.

2.4 The Government accepted the Committee's recommendations. Since then, on venue support, the LCSD has:

Note 2: *For example, the advance booking periods of major facilities varied from 3 to 12 months for arts-related applications, but 3 months for non-arts applications.*

Note 3: *The Committee includes non-official members (from diverse backgrounds) appointed by the Secretary for Home Affairs on 2-year terms, and ex-officio representatives from the Hong Kong Arts Development Council and the Hong Kong Academy for Performing Arts.*

- (a) implemented the VPS (see paras. 2.15 to 2.20); and
- (b) revised the booking system (e.g. according priority to the venue partners under the VPS) to optimise the utilisation of venues.

Audit observations and recommendations

Utilisation of major facilities

2.5 The 13 performing arts venues together provide 23 major facilities. Audit examined the utilisation (Note 4) of these facilities from 2007-08 to 2009-10. As shown in Table 1, besides an increase in the overall utilisation, the usage for arts activities also increased from 79% in 2007-08 to 83% in 2009-10. The usage for non-arts activities slightly decreased from 10% to 9% over the same period.

Table 1

**Utilisation of major facilities
(2007-08 to 2009-10)**

Activities	Average daily utilisation rate		
	2007-08	2008-09	2009-10
Arts	79%	80%	83%
Non-arts	10%	10%	9%
Total	89%	90%	92%

Source: Audit analysis of LCSD records

Note 4: *The LCSD measures the utilisation of major facilities using a daily utilisation rate, which is based on the number of days a facility is used in a year over the total number of days (excluding maintenance periods) available for hiring.*

2.6 However, an analysis of the utilisation of individual venues in 2009-10 showed that the arts-related usage of the auditoria in both the TPCC and the NDTH was lower than the overall arts-related usage rate of 83%, as follows:

- (a) **TPCC.** While the auditorium of the TPCC had a daily utilisation of 91%, non-arts-related usage accounted for 62%. Arts-related usage only accounted for 29% which was the lowest among the 13 venues (see comparison at Appendix B). The high non-arts-related usage was due to the priority use of the TPCC by the adjoining Tai Po Government Secondary School for activities such as assemblies, physical education lessons, examinations and speech days. This arrangement had its origin back in 1981 when the TPCC was proposed to be built on a site originally planned for constructing a school hall for the School. In 1982, the Public Works Sub-Committee of the Legislative Council approved the modification of the school hall project into a civic centre project, catering for both the School's need and the need of Tai Po residents for a performing arts venue; and
- (b) **NDTH.** The daily utilisation of the auditorium of the NDTH was only 71%. Deducting 15% for non-arts-related usage, the arts-related usage was only 56% which was the second lowest among the 13 venues. The NDTH was not a purpose-built performing arts venue. It was formerly the Sheung Shui Social Centre with upgrading works carried out in 1981 to improve its facilities up to the standard of a civic centre. Through measures such as the VPS, the LCS D increased the arts-related usage of the NDTH from 40% in 2007-08 to 56% in 2009-10.

2.7 While the LCS D also presented and sponsored arts programmes at the 13 performing arts venues, its usage of the TPCC and the NDTH was not high. For example, in 2009-10, the LCS D presented and sponsored 1,643 arts programmes at the 13 venues. Only 30 (1.8%) and 72 (4.4%) of such programmes were staged at the TPCC and the NDTH respectively. The TPCC, in particular, had the fewest of such programmes among the 13 venues.

2.8 In 2006, the Committee on Performing Arts recommended that the Government should promote the use of moderately-equipped venues in less central location to attract audience and performing arts groups (see para. 2.3(b)). **The LCS D needs to step up measures to promote the arts-related usage of the TPCC and the NDTH, such as presenting more of its arts programmes at these two venues.**

Utilisation of minor facilities

2.9 The 13 performing arts venues together provide 63 minor facilities (see para. 1.4). Audit examined the utilisation (Note 5) of these facilities in 2009-10. As shown in Table 2, the overall utilisation was 49% in 2009-10.

Table 2
Utilisation of minor facilities
(2009-10)

Venue	Hourly utilisation rate		
	Peak periods (Note)	Non-peak periods	Overall
Urban venues	47%	31%	39%
New Territories venues	68%	54%	61%
All venues	57%	41%	49%

Source: Audit analysis of LCSD records

Note: Peak periods refer to the hiring periods after 6 p.m. on weekdays and the entire hiring periods (from 9 a.m. to 11 p.m.) on Saturdays and Sundays.

2.10 Further analysis of the utilisation of individual minor facilities showed that the 10 most under-utilised ones were found in 5 venues. The utilisation rates ranged from 6% to 27%.

2.11 The low utilisation rates indicate that more efforts are needed to promote the use of these minor facilities. Audit understands that the LCSD has planned to boost up the daytime usage of these facilities by extending the scope of its incentive schemes. However, Audit also notes that there could be potential demand from arts groups which the LCSD should seek to tap.

Note 5: *The LCSD measures the utilisation of minor facilities using an hourly utilisation rate, which is based on the number of hours a facility is used in a year over the total number of hours available for hiring.*

2.12 In May 2010, in response to the Public Accounts Committee (PAC)'s enquiry, the Hong Kong Chinese Orchestra Limited said that its facilities were grossly insufficient for all its rehearsals and musicians' self-practices. Its smaller rehearsal rooms were extremely inadequate for high-volume musical instruments such as "Suona" and "Sheng". The PAC urged the Home Affairs Bureau (HAB) to take measures to ensure that adequate support facilities, including space for rehearsals and self-practices, would be provided to the Orchestra. Audit noted that the facilities of the SWCC (housed in the same building as the Orchestra's office) were under-utilised. For example, the utilisation rate of the arts studio was 27% while those of the 2 music practice rooms were 13% and 6% respectively. The LCSD needs to liaise with the Orchestra and other arts groups with a view to putting the minor facilities to effective use.

Audit recommendations

2.13 **Audit has recommended that the Director of Leisure and Cultural Services should:**

Utilisation of major facilities

- (a) **step up measures to promote the arts-related usage of the auditoria of the TPCC and the NDTH, such as staging more of its arts programmes at these two venues; and**

Utilisation of minor facilities

- (b) **step up efforts to promote the use of minor facilities of the 13 performing arts venues, including liaising with potential users such as arts groups.**

Response from the Administration

2.14 The **Director of Leisure and Cultural Services** accepts the audit recommendations and has said that the LCSD will:

- (a) step up measures to promote the arts-related usage of the auditoria of the TPCC and the NDTH by staging more of its arts programmes at these venues, as well as encouraging usage by its venue partner and other arts bodies at these venues. However, in view of the constraints of the stage facilities in the TPCC and the NDTH, only small scale and less sophisticated arts programmes can be staged in these two venues. In the case of the TPCC, the priority use of the venue by the school during weekdays has constrained the staging of performances that require setting-up or rehearsals during weekdays; and

- (b) continue to explore means to put the minor facilities of the performing arts venues to more effective use. For example, the LCSD will tap the demand of such potential users as arts groups and non-professional groups/commercial hirers (who mostly organise their activities after school/office hours), introduce appropriate incentive schemes, step up publicity and review the designated uses of specific facilities to match prevailing market needs.

Venue Partnership Scheme

2.15 The VPS is an arts development initiative implemented by the LCSD as recommended by the Committee on Performing Arts (see para. 2.3). It aims to foster a partnership between the venues and performing arts groups with a view to building up the artistic image and character of the venues and their partners, enlarging their audience base, optimising usage of facilities, developing venue-based marketing strategies, facilitating the solicitation of corporate/private sponsorship, encouraging community involvement in the development of the arts and contributing to the healthy development of the performing arts scene.

2.16 In November 2006, a Committee on Venue Partnership (CVP — Note 6) was formed to advise the LCSD on the implementation of the VPS. The work of the Committee includes formulation of a detailed plan for the VPS, assessment of proposals and selection of venue partners, monitoring and evaluation of the performance of venue partners during the partnership term, and review of the VPS.

2.17 In 2007 and 2008, the LCSD invited applications from arts groups to become venue partners. Since 2009-10, 19 venue partners have teamed up with 11 performing arts venues (two venues do not have any venue partner while one venue partner has teamed up with two venues). Support to the venue partners is given in various forms, including priority use of venue facilities, free work stations, enhanced publicity arrangements and subsidy for organising activities and related production, staff and administrative costs.

2.18 Based on the source of funding, the venue partners can be classified into two groups, i.e. the HAB-subvented partners and the LCSD-sponsored partners. The 8 HAB-subvented partners are major arts groups already receiving recurrent subvention from the HAB. In 2009-10, they received additional funding of \$16.5 million from the HAB for organising VPS activities. The 11 LCSD-sponsored partners are small or medium-scale arts groups. The LCSD provided them with both cash subsidy and free use of facilities which added up to \$19.1 million in 2009-10.

Note 6: *The CVP comprises seven non-official members appointed by the LCSD on 2-year terms.*

2.19 The VPS is a 3-year trial scheme spanning from April 2009 to March 2012. For each of the three years, the LCSD and venue partners enter into agreements which detail the rights and obligations under the VPS. The agreements also list out the activities to be implemented. Activities organised by venue partners cover a variety of stage performances, educational and audience building activities (e.g. talks, workshops and training classes) in various art forms. The LCSD will review the VPS in consultation with stakeholders to map out the way forward for 2012-13 and beyond.

Monitoring mechanism

2.20 In July 2009, the CVP agreed to adopt the following mechanism on monitoring and evaluation of the performance of venue partners:

- (a) ***Assessment by the LCSD.*** The LCSD shall compile assessment reports on individual programmes of its sponsored partners and selected programmes of the HAB-subvented partners. In addition, the LCSD shall compile year-end assessment reports for all the 19 venue partners;
- (b) ***Self-assessment by venue partners.*** The LCSD-sponsored partners shall submit to the LCSD interim and year-end reports on their activities. For the HAB-subvented partners, the LCSD has obtained their consent to accessing their annual assessment reports submitted to the HAB;
- (c) ***CVP members' assessment.*** CVP members (Note 7) are encouraged to attend the programmes of venue partners (in particular the LCSD-sponsored ones) to facilitate the annual assessment for the renewal of the VPS agreements for another year. The CVP members are also encouraged to complete standard evaluation forms for the programmes they attended; and
- (d) ***Annual assessment meeting.*** A CVP meeting will be held in early February each year to assess venue partners' overall performance and to consider members' views on the renewal of the VPS agreements for another year.

Note 7: *Apart from the 7 members of the CVP, 3 members of the Programme and Development Committee (formed in November 2006 to review the LCSD's programme presentation strategies) also participated in the assessment. For simplicity, the 10 CVP/Programme and Development Committee members are collectively termed "CVP members".*

Audit observations and recommendations

Need to ensure adequate monitoring of all partners

2.21 At the CVP meeting held in July 2009 when the monitoring mechanism of venue partners' performance was discussed, the Chairman considered that there should be a coordinated approach in scheduling CVP members' attendance of venue partners' programmes. On the basis of at least 3 members attending programmes of each venue partner, on average, each CVP member would have to attend at least 6 programmes of different partners each year (Note 8).

2.22 In September 2009, based on the CVP members' returns on their preferred attendance of venue partners' programmes, the LCSD noted that additional attendance would be required so that the programmes of each venue partner would be attended by at least 3 members. The LCSD then issued a letter to urge the CVP members to sign up for additional attendance.

2.23 Based on the 2009-10 records of the LCSD, Audit found that the CVP members attended venue partners' programmes on 75 occasions, i.e. more than the proposed 60 occasions (20 partners × 3 occasions per partner). However, the distribution was uneven in that some venue partners' programmes were not attended whereas others' were attended on more than 3 (up to 17) occasions (see Table 3).

Note 8: *As the proposed attendance was venue-based, the 19 venue partners were taken as 20 partners (given that one of them has teamed up with 2 venues) in the Chairman's calculation:*

$$20 \times 3 \text{ programmes} \div 10 \text{ members} = 6 \text{ programmes per member}$$

Table 3
CVP members' attendance of venue partners' programmes
(2009-10)

Number of venue partners (a)	Number of occasions CVP members attending each partner's programmes (b)	Total (c) = (a) × (b)
1	17	17
1	11	11
1	9	9
1	7	7
2	6	12
1	4	4
1* (Note 1)	4	4
3* (Note 2)	3	9
2*	1	2
7*	0	0
20		75

Legend: * Less than 3 members had attended the programmes of these partners.

Source: *Audit analysis of LCSD records*

Note 1: *The same CVP member had attended the partner's programmes on all 4 occasions.*

Note 2: *Only 2 CVP members had attended each partner's programmes.*

2.24 As shown in Table 3, there were 13 (1 + 3 + 2 + 7) venue partners for which less than 3 CVP members had attended their programmes. Of the 7 venue partners without any of their programmes attended by the CVP members in 2009-10, 5 were sponsored by the LCSD although it was expected that the CVP members' attendance would be focused on these partners (see para. 2.20(c)). **There is a need to better coordinate CVP members' attendance of venue partners' programmes to ensure that there is adequate coverage of all partners.**

2.25 While the CVP members attended venue partners' programmes on 75 occasions in 2009-10, the LCSD only received 19 evaluation forms. The CVP members' feedback would help the LCSD assess venue partners' performance. There is a need to encourage members to complete standard evaluation forms for the programmes they attended.

Audit recommendations

2.26 **Audit has recommended that the Director of Leisure and Cultural Services should:**

- (a) **better coordinate CVP members' attendance of venue partners' programmes to ensure that there is adequate coverage of all partners; and**
- (b) **encourage the CVP members to submit a standard evaluation form after attending a venue partner's programme.**

Response from the Administration

2.27 The **Director of Leisure and Cultural Services** accepts the audit recommendations and has said that the LCSD will:

- (a) enhance the coordination of CVP members in attending venue partners' programmes to ensure that each partner will be adequately covered and the programmes more evenly attended; and
- (b) encourage and remind CVP members to submit the evaluation forms after attending the programmes.

Hiring charges

2.28 The present hiring charges of performing arts venues were adopted from the two ex-Municipal Councils. Following the dissolution of the two Councils and the establishment of the LCSD in 2000, the Government pledged to review these charges with a view to aligning the levels of charges and pricing policies.

2.29 Section 124K(1) of the Public Health and Municipal Services Ordinance (Cap. 132) empowers the LCSD to determine the fees and charges for certain cultural activities subject to the approval of the Financial Secretary (Note 9). To streamline the financial procedures, in December 1999, the then Secretary for the Treasury:

- (a) delegated to the LCSD the power for setting and waiving fees for cultural services with effect from 1 January 2000; and
- (b) advised the LCSD that it should:
 - (i) aim to achieve a target cost recovery rate of 55% (on a full cost and overall basis — Note 10); and
 - (ii) review the ex-Municipal Councils' approved schemes of granting reduced hiring charges for non-profit-making organisations with a view to exploring the feasibility of eliminating these hidden subsidies.

2.30 Table 4 shows a chronology of key events of the LCSD's fee review.

Note 9: *By virtue of section 3 of the Interpretation and General Clauses Ordinance (Cap. 1), Financial Secretary also means the Secretary for Financial Services and the Treasury, formerly the Secretary for the Treasury.*

Note 10: *The target cost recovery rate was set for the 13 performing arts venues, the Hong Kong Coliseum and the Queen Elizabeth Stadium taken as a whole.*

Table 4

**LCSD's fee review
(2000 to 2010)**

Year	Key event
2000 to 2003	The LCSD commenced a fee review with a view to achieving consistency in the pricing policies and fee structures. However, the review was shelved due to the economic downturn in 2000 and the outbreak of the Severe Acute Respiratory Syndrome in 2003.
2004	The Financial Secretary announced in his Budget Speech the need to consider resumption of revising Government fees and charges. In November 2004, the Financial Services and the Treasury Bureau (FSTB) urged the LCSD to resume the fee review.
2005 and 2006	After discussions, the Financial Secretary and the Secretary for Home Affairs agreed on the factors (including utilisation of facilities, rationalisation of fee structure, reduction of subsidy level, public acceptability and affordability) that should be considered in fee setting and alignment.
2007	In May 2007, the LCSD, HAB and FSTB discussed the fee alignment and waiver arrangements.
2008 to August 2010	In April 2008, the LCSD set up a Working Group on Cultural Services Fees and Charges (chaired by a Deputy Director of the LCSD and with representatives of the HAB) to formulate fee revision proposals. Since then, the Working Group had met four times. At the fourth meeting held in January 2010, the Working Group proposed to align and rationalise the fees and various concessionary schemes of the performing arts venues (see paras. 2.31 to 2.34). The Working Group suggested that consultation on the proposals should be conducted before implementation.

Source: LCSD records

Fee alignment

2.31 The LCSD currently maintains some 390 types of fees for its performing arts venues. The number of fee types is large because the fee structure is venue-based and has to cater for different needs of hirers. The following are some examples:

- (a) **Basic hiring charges.** The basic hiring charges of an auditorium vary with a hirer's usage, i.e. higher rates for performances and rehearsals, and a lower rate for occupation without the need for supportive technical services;
- (b) **Sales-based charges.** A hirer is required to pay this charge which is based on the excess of 10% or 20% (depending on the venue) of its gross ticket income above the basic hiring charge of an auditorium. For venues in the urban area, this charge may be waived for non-profit-making organisations with a clearly-stated aim to promote the arts in their constitutions; and
- (c) **Miscellaneous charges.** These charges cover the hire of equipment/services such as musical instruments, stage equipment and video/sound recording services. At present, there are different charging modes and rates for similar equipment/services at different venues. For example, the use of a concert grand piano is charged at \$1,400 per function per day in the HKCC but at \$1,250 for a 4-hour session in the KTT.

2.32 The LCSD Working Group found that the existing fee structure had to be maintained in order to cater for different needs of hirers. Nevertheless, the Working Group considered it necessary to align the miscellaneous charges for the provision of similar types of equipment/services for different venues.

Rental subsidy/reduction schemes

2.33 The LCSD has inherited from the ex-Municipal Councils two rental subsidy/reduction schemes, i.e. one for the urban venues and the other for the New Territories venues. Both schemes offer discounts to non-profit-making organisations on hiring LCSD venues for staging arts and cultural activities. In 2009-10, the revenue forgone under these schemes amounted to \$34 million. However, there are a number of disparities in the operation of the two schemes, as follows:

- (a) **Applicant's status.** The urban venues require an applicant to be a registered body (e.g. under the Societies Ordinance — Cap. 151 or the Companies Ordinance — Cap. 32) while the New Territories venues accept applications from a bona-fide non-profit-making organisation not being a registered body;
- (b) **Nature of activities under application.** The urban venues offer discounts for arts-related activities only while the New Territories venues also offer discounts for activities in furtherance of educational, scientific, public health and social service purposes; and

- (c) ***Level of subsidy.*** The urban venues offer discounts of 65% and 50% for major and minor facilities respectively whereas the New Territories venues offer discounts ranging from 50% to 80%.

Incentive schemes

2.34 At present, there are 15 incentive schemes in operation. Most of these schemes are venue-based. The purpose of these schemes is mainly to boost venues' usage. The Working Group has found that there is a need to rationalise these schemes. For example:

- (a) ***STTH facilities.*** The lower hiring charges for the non-prime time use of the STTH facilities have been introduced since the opening of the venue when the usage was low. However, in recent years, the STTH has almost reached capacity usage;
- (b) ***Daytime use of minor facilities.*** The New Territories venues offer a 50% discount for daytime use of minor facilities (i.e. between 9 a.m. and 6 p.m. on weekdays and for a minimum of 2 consecutive hours), but there is no similar arrangement for urban venues; and
- (c) ***Use of minor facilities for private practice.*** Some of the urban venues offer discounts (30% to 70%) for the use of minor facilities for private practice but there is difficulty in verifying whether a hirer's activities are for private practice or not.

Audit observations and recommendations

Implementing the Working Group's proposals

2.35 It has been some ten years since the Government pledged in 2000 to review the hiring charges of performing arts venues (among others) with a view to aligning the levels of charges and pricing policies inherited from the two ex-Municipal Councils. In January 2010, the Working Group suggested conducting consultation on its fee alignment and rationalisation proposals. However, up to August 2010, the LCSD had not started the consultation exercise.

2.36 The Working Group's fee alignment and rationalisation proposals would help achieve better use of public resources for arts development. The LCSD needs to take prompt action to gain stakeholders' support so that the proposals could be implemented as soon as possible.

Target cost recovery rate

2.37 The Government has set a target cost recovery rate of 55% (on a full cost and overall basis) for the performing arts venues (see para. 2.29(b)(i)). Over the 5 years from 2004-05 to 2008-09, the target rate was achieved only once in 2007-08 (see Table 5).

Table 5
Cost recovery rates
(2004-05 to 2008-09)

	2004-05	2005-06	2006-07	2007-08	2008-09	5-year average
(a) Total cost (\$ million)	634	623	618	617	617	622
(b) Total income (\$ million)	299	298	310	340	261 (Note)	302
(c) Cost recovery rate (b)/(a) × 100%	47.2%	47.8%	50.2%	55.1%	42.3%	48.6%

Source: LCSD records

Note: There was a drop in hiring charge income for 2008-09 because the Hong Kong Coliseum and the Queen Elizabeth Stadium (see Note 10 to para. 2.29(b)(i)) were temporarily closed for renovation to prepare for the 5th East Asian Games held in Hong Kong.

2.38 The Working Group considered that: (a) the economic situation and the high maintenance cost (due to ageing of the venues) were the main factors affecting the achievement of the target cost recovery rate for some years; and (b) the fact that a cost recovery rate of 55.1% was achieved in 2007-08 indicated that the target of 55% was achievable.

2.39 However, Audit is concerned that the target cost recovery rate could not be achieved even in years when the utilisation for major facilities was high (e.g. 88% in 2006-07 and 90% in 2008-09). With the West Kowloon Cultural District coming on

stream which will provide 15 new performing arts venues (Note 11), it would become increasingly difficult to achieve the target rate in a more competitive market. Early action is needed to meet this challenge. In Audit's view, the LCSD should critically review the operating cost of the venues to see if there is room for achieving greater economy, and explore new sources of revenue through value-added services. Audit has highlighted in the ensuing parts of this report specific measures that warrant the LCSD's consideration, such as enhancing competition in the tendering of technical services (PART 3) and implementing revenue generating initiatives (PART 5).

Audit recommendations

2.40 **Audit has recommended that the Director of Leisure and Cultural Services should take prompt action to:**

- (a) **complete the consultation exercise and implement the revised charging schemes for performing arts venues as soon as possible; and**
- (b) **achieve greater economy in operating the performing arts venues and explore new sources of revenue to facilitate the achievement of the target cost recovery rate.**

Response from the Administration

2.41 The **Director of Leisure and Cultural Services** accepts the audit recommendations and has said that:

- (a) the Working Group completed the fee review and internal deliberations in September 2010. The LCSD will submit its recommendations to the HAB and the FSTB for consideration shortly. Upon their endorsement, the LCSD will arrange consultation with stakeholders and implement the revised charging schemes for performing arts venues as soon as practicable; and
- (b) the LCSD will explore ways to achieve greater economy in operating the performing arts venues while upkeeping its service standards, and identify new sources of revenue through value-added services and new initiatives.

Note 11: *In January 2008, the Administration accepted the recommendations of the Consultative Committee on the Core Arts and Cultural Facilities of the West Kowloon Cultural District which included the provision of 15 performing arts venues.*

PART 3: MANAGEMENT OF TECHNICAL SERVICE AGREEMENTS

3.1 This PART examines the LCSD's management of the following technical service agreements, namely:

- (a) the Technical Sound Services Agreement (TSSA) under which Contractor A is responsible for the operation and maintenance of audio, multi-media and communication systems for the LCSD performing arts venues (paras. 3.2 to 3.22); and
- (b) the Service Level Agreements (SLAs) under which the EMSTF is responsible for the operation and maintenance of electrical and mechanical systems (such as stage lighting and air conditioning), and building services installations (such as lifts and fire services installations) for the LCSD leisure and cultural venues (paras. 3.23 to 3.40).

Tendering arrangements of Technical Sound Services Agreement

3.2 Technical sound services are one of the major outsourced services of the LCSD venues. The service fee was about \$34.6 million in 2009-10. The services have been provided by Contractor A for a long time, dating back to 1988. From January 1988 to September 2006, the services were provided under a 1988 Technical Services Agreement (Note 12) made between the Government and Contractor A.

3.3 After a review in 2001, the then Finance Bureau considered that the Technical Services Agreement should not be renewed upon its expiry in 2006. User departments were advised to introduce greater competition for achieving better value for money when acquiring new services.

Note 12: *Besides technical sound services for the LCSD performing arts venues, the Agreement also covered electronic and telecommunication services for other departments such as the Civil Aviation Department and Radio Television Hong Kong.*

2006 tendering exercise

3.4 In early 2006, with a view to obtaining competitive bids, the LCSD adopted open tendering for the provision of technical sound services for 12 of its 13 venues (Note 13) for a 3-year period. The technical sound services were divided into two groups for bidding according to the locations of management, i.e. one group for the 5 urban venues and another group for the 7 New Territories venues. Tenderers were allowed to bid for providing the services for either one or both groups. **In the event, only one offer for both groups was received from a related company of Contractor A.** The tender was subsequently cancelled as Contractor A's experience was not counted in considering the tenderer's experience.

3.5 In October 2006, the LCSD conducted a re-tendering exercise (Note 14). **Again only one offer was received from Contractor A.** The LCSD then entered into a contract (2007 TSSA) with Contractor A at a contract sum of \$105.1 million for the provision of technical sound services from April 2007 to March 2010. The contract sum was 19% higher than the LCSD's pre-tender estimate of \$88.2 million.

2009 tendering exercise

3.6 In late 2009, the LCSD invited tenders for the provision of technical sound services from April 2010 to March 2013, adopting the same bidding arrangement as that in 2006 (i.e. dividing the services into 2 groups by locations). **Again only one offer was obtained from Contractor A.** The LCSD entered into a contract (2010 TSSA) with Contractor A at a contract sum of \$126.7 million. The contract sum was 9% higher than the LCSD's pre-tender estimate of \$116.5 million and 21% higher than that of the 2007 TSSA.

Audit observations and recommendations

Need to introduce more competition

3.7 Notwithstanding that the LCSD had divided the technical sound services into 2 groups (each comprising 5 or 7 venues) for open tendering in 2006 and 2009, there was only one single offer on both occasions — from Contractor A (the incumbent contractor).

Note 13: *The services provided to the KST under the 1988 Technical Services Agreement were terminated with effect from 1 April 2004. Since then the services have been provided by the EMSTF (see para. 3.9).*

Note 14: *The LCSD continued to use Contractor A's services from October 2006 to March 2007.*

The LCSD accepted Contractor A's offers, which were higher than the pre-tender estimates (see paras. 3.5 and 3.6).

3.8 The lack of competition in the two tendering exercises suggested that there might not be sufficient contractors in the market to compete with Contractor A on such a large scale, bearing in mind that Contractor A had been providing the services since 1988. In March 2010, in approving the LCSD's tender recommendation for the 2010 TSSA, the Central Tender Board advised the LCSD to find out the reasons behind the poor response to the tendering exercise and to explore ways to encourage competition, including but not limiting to splitting the contract into smaller ones.

3.9 In this connection, Audit noted that there was a successful example of open tendering of the technical services on a smaller scale with a competitive price obtained. As mentioned in Note 13 to paragraph 3.4, the KST was detached from the 1988 Technical Services Agreement in April 2004 and serviced by the EMSTF under an SLA (April 2004 to March 2008). In November 2007, the LCSD invited open tenders for the operation and maintenance of all electrical/mechanical systems relating to stage, lighting and sound for the KST from April 2008 to March 2011. In the event, there were two offers. The LCSD awarded the contract (the 2008 SLA for KST — Note 15) to the EMSTF, which submitted the lower conforming tender. The contract sum of \$9.6 million was 9% lower than the pre-tender estimate of \$10.5 million.

3.10 Besides contract size, Audit considers that the service requirements of the TSSA should also be reviewed to ascertain whether there is any over-specification which might inflate the service fee unnecessarily and/or deter some potential tenderers from bidding. In this regard, Audit has found that there is scope for relaxing the service level requirements as shown in paragraph 3.20.

Need to specify maintenance frequency in tender documents

3.11 In the tender documents for the 2007 and 2010 TSSAs, tenderers were required to propose a lump sum fee for maintenance services (Note 16). However, for preventive maintenance services, the LCSD had not specified the required frequency for tenderers to price their services on a common basis. Audit noted that the maintenance fee accounted for about 23% of the contract sum under the 2007 and 2010 TSSAs.

Note 15: *According to Stores and Procurement Regulation 380, a procuring department shall enter into an SLA with a trading fund where its tender has been accepted as the lowest or most advantageous.*

Note 16: *Maintenance services include preventive, corrective and emergency maintenance services.*

3.12 In the absence of a specified frequency, the LCSD was also not well placed to monitor the adequacy of the preventive maintenance services delivered by Contractor A. Similar to the TSSA, the 2008 SLA for KST (see para. 3.9) also did not specify the preventive maintenance frequency. In a sample checking of the preventive maintenance services of four venues (the HKCC, STTH, TPCC and NDTH), Audit found that Contractor A inspected 98% of the sound systems of these venues once (and twice for the remaining 2%) in 2008-09. However, under the SLA for KST, the EMSTF inspected the sound systems of the KST about three times in that year.

3.13 In September 2010, the LCSD informed Audit that it had not specified the preventive maintenance frequency in the 2007 and 2010 TSSAs as the contracts covered over 10,000 items of equipment/systems in the 12 performing arts venues. Their maintenance needs varied substantially even for the same type of equipment/system due to different models, life span and utilisation. In Audit's view, the LCSD may consider seeking expert advice on how best to specify the preventive maintenance frequency in the TSSA in future.

Audit recommendations

3.14 **Audit has recommended that the Director of Leisure and Cultural Services should:**

- (a) **take measures to enhance competition in tendering exercises for the technical sound services of performing arts venues in future, such as splitting the TSSA into smaller contracts and relaxing some overly stringent service requirements; and**
- (b) **specify the required preventive maintenance frequency in the tender documents for the technical service agreements.**

Response from the Administration

3.15 The **Director of Leisure and Cultural Services** accepts the audit recommendations and has said that:

- (a) the 2010 TSSA has included a clause which allows the LCSD to vary the contract price by 20% through addition or deletion of services, thus enabling the LCSD to invite separate tenders for technical sound services for smaller venues before the expiry of the TSSA in March 2013. In this regard, the LCSD is exploring the feasibility of inviting open tenders for the provision of technical sound services for one of its medium-sized venues currently served by Contractor A. Moreover, it will critically review the service requirements to be included in the TSSAs in future, having regard to the actual needs of venues and hirers; and

- (b) the LCSD will critically consider how best the preventive maintenance frequency and related fees could be specified in future contracts and seek independent expert advice on the matter where appropriate.

Monitoring performance under Technical Sound Services Agreement

Service level requirements

3.16 Both the 2007 and 2010 TSSAs have specified the level of services to be delivered by Contractor A in terms of Key Performance Indicators (KPIs). There are 15 KPIs (see Appendix C), covering the following 4 aspects of performance:

- (a) ***Sound service availability.*** There are 4 KPIs on making available sound services as requested under different circumstances, with target rates ranging from 95% to 99.9%;
- (b) ***System availability.*** There are 3 KPIs on making available major/minor systems during performances and rehearsals, with target rates ranging from 97% to 99.95%;
- (c) ***Response time to service/fault calls.*** There are 2 KPIs on the response time, viz. “less than 2 minutes” for urgent calls and “less than 10 minutes” for non-urgent calls; and
- (d) ***Mean time to resume services.*** There are 4 KPIs on the mean time to resume services for major/minor system breakdowns, ranging from “less than 3 minutes” to “less than 20 minutes”. There are 2 KPIs on the mean time to resume services for device/component faults, viz. “less than 10 minutes” for major faults (which may affect performance) and “less than 15 minutes” for minor faults (without effect on performance).

Performance monitoring system

3.17 The two TSSAs have stipulated that Contractor A shall provide for each serviced venue the following monthly performance reports to the LCSD:

- (a) ***Report on KPIs.*** This report summarises the extent of achievement of the KPIs;
- (b) ***Report on engineering maintenance.*** This report contains information on system breakdowns and equipment failures, preventive and corrective maintenance works, and spare part utilisation and purchases; and

- (c) ***Fault report.*** According to the 2007 TSSA, this report shall show the locations, dates, times, durations, causes and technical or operational details of faults.

3.18 The two TSSAs have also provided that the LCSD shall assess Contractor A's performance monthly. For each instance where Contractor A fails to meet a KPI, the LCSD shall issue a default notice. Contractor A shall take appropriate action upon receiving a default notice. The number of default notices issued for each venue shall be accumulated on a monthly basis. The LCSD may make deduction from the monthly payment to Contractor A based on the number of default notices issued.

Audit observations and recommendations

Need to strengthen monitoring

3.19 Audit reviewed the monthly reports submitted by Contractor A for 2009-10 for four venues (the HKCC, STTH, TPCC and NDTH). The following inadequacies in performance reporting were found, but the LCSD had not taken action to address them:

- (a) ***Report on KPIs.*** Of the four venues, Contractor A had only submitted the monthly reports on KPIs for the HKCC;
- (b) ***Achievement of KPIs on response time.*** The reports on KPIs for the HKCC showed that for 2009-10, there was 100% achievement of the stipulated response time to 74 fault calls (i.e. "less than 2 minutes" for urgent fault calls and "less than 10 minutes" for non-urgent fault calls — see para. 3.16(c)). However, the fault reports (see para. 3.17(c)) only recorded the date but not the time (in terms of hour and minute) when the calls were received and responded to. In other words, there was no supporting data to show that the KPIs on the response time had been complied with. Similar problems were also found for the other three venues;
- (c) ***Achievement of KPI on mean time to resume services.*** The reports on KPIs for the HKCC showed that there was 100% achievement of the stipulated mean time to resume services for 74 minor faults (i.e. "less than 15 minutes" — see para. 3.16(d)) in 2009-10. However, similar to (b) above, the fault reports did not record the time when the faults were reported and when the services were resumed. As such, there was no supporting data to show that the KPI on the mean time to resume services had been complied with. Similar problems were also found for the other three venues; and
- (d) ***Report on engineering maintenance.*** Audit cross-checked the reports on engineering maintenance against the fault reports for 2009-10 and found that:

- (i) while the fault reports showed that 101 and 37 faults had been rectified for the HKCC and the STTH respectively, the reports on engineering maintenance only included information for 74 and 32 cases; and
- (ii) the reports on engineering maintenance for all 4 venues only included information on faults rectified during the month of reporting. Information on fault rectification works not yet started or remaining unfinished at the end of the month was not provided. Without such information, the LCSD was not well placed to chase up the contractor on long outstanding works. In 2009-10, there were 10 numbers of such works, spanning 1 to 14 months.

Need to review the service level requirements

3.20 It is stipulated in the 2010 TSSA that the response time is “less than 2 minutes” for urgent fault calls and “less than 10 minutes” for non-urgent ones (see para. 3.16(c)). As for the mean time to resume services, it is “less than 10 minutes” for major faults and “less than 15 minutes” for minor faults. While the stipulated response/service resumption time within minutes may be necessary for urgent fault calls and major faults to ensure a high standard of service to the public, that for non-urgent fault calls and minor faults needs to be reviewed because:

- (a) the response time for non-urgent calls is more stringent than that for the stage-related electrical and mechanical services under the 2008 bulk SLA (see para. 3.25), i.e. it is “less than 10 minutes” under the TSSA but “less than 30 or 60 minutes (Note 17)” under the bulk SLA;
- (b) according to the TSSA, minor faults refer to those that have no effect on the quality of service during performance (see para. 3.16(d)). Based on the reports on KPIs, the reported faults for the HKCC for 2009-10 were all minor faults; and
- (c) over-specifying the service requirements should be avoided as it could lead to wastage (given that the requirements would be factored in a tenderer’s price) and might even deter some potential tenderers from bidding.

Note 17: *The response time of “less than 30 minutes” is for venues on Hong Kong Island and in Kowloon. The response time of “less than 60 minutes” is for venues in the New Territories.*

Audit recommendations

3.21 **Audit has recommended that the Director of Leisure and Cultural Services should:**

Need to strengthen monitoring

- (a) **remind Contractor A to submit on time the stipulated monthly performance reports;**
- (b) **require Contractor A to include necessary information (such as the time when fault calls were received and responded to) in the fault reports to support the claimed achievement of KPIs on response time and mean time to resume services;**
- (c) **maintain adequate checking to ensure that information included in the monthly performance reports (such as the reports on engineering maintenance) is complete and accurate;**
- (d) **require Contractor A to provide in the reports on engineering maintenance information on fault rectification works not yet started or remaining unfinished at the end of the month for monitoring their progress; and**

Need to review the service level requirements

- (e) **review and revise, if necessary, the service level requirements in the TSSA (such as the response time to non-urgent fault calls) with reference to actual need.**

Response from the Administration

3.22 **The Director of Leisure and Cultural Services accepts the audit recommendations and has said that the LCSD:**

- (a) **has accordingly required Contractor A to:**
 - (i) **submit the stipulated monthly performance reports under the 2010 TSSA for checking by all venue management. All staff have been reminded to closely monitor the performance of Contractor A in accordance with the requirements laid down in the TSSA; and**
 - (ii) **provide engineering maintenance information in the reports as recommended in paragraph 3.21(d);**

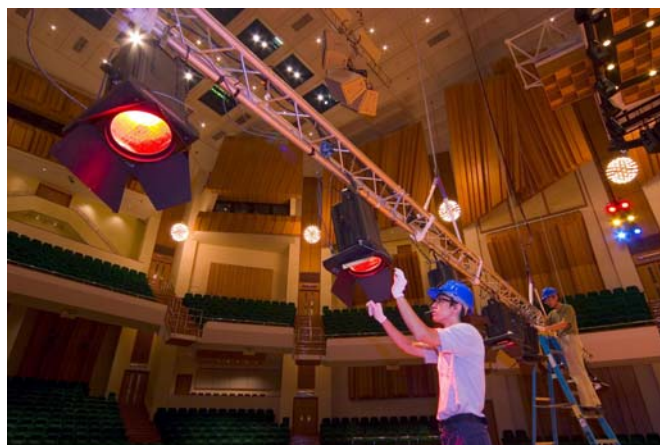
- (b) will require Contractor A to provide proper records, which should include information on the time when fault calls were received and responded to, so that the venue management can keep track of the claimed achievement of KPIs on response time and mean time to resume services;
- (c) has accordingly put in place a proper checking mechanism to ensure that information included in the monthly performance reports (e.g. the reports on engineering maintenance) is complete and accurate; and
- (d) will critically review the service level requirements in the TSSA (e.g. the response time for non-urgent fault calls) having regard to the actual operational requirements and the risk levels in tendering exercises in future.

Management of Service Level Agreements

3.23 Before August 1996, the Electrical and Mechanical Services Department (EMSD) was responsible for providing a full package of electrical and mechanical services (such as the operation and maintenance of stage lighting systems and air-conditioning installations — see Photographs 1 and 2) for the cultural and leisure venues of the then Municipal Councils. In August 1996, the EMSD commenced operating as the EMSTF and charged users (including the Municipal Councils) for electrical and mechanical services provided under SLAs. In 2000, the LCSD took over the two Councils' SLAs.

Photograph 1

Stage lighting maintenance under SLA



Source: EMSTF records

Photograph 2

Air-conditioning maintenance under SLA



Source: EMSTF records

3.24 According to Financial Circular 9/99 of June 1999, user departments would be untied from the services of the EMSTF by phases starting from August 1999. Upon untying, they would be free to retain the services of the EMSTF or choose alternative service providers. In April 2004, the LCSD entered into a 4-year SLA (the 2004 bulk SLA) with the EMSTF. This SLA covered all LCSD leisure and cultural venues except some in Yuen Long and the North District, and the Hong Kong Visual Arts Centre (for which the LCSD selected service providers through open tendering).

3.25 In November 2007, the LCSD and the EMSTF agreed in principle to enter into a 6-year SLA (the 2008 bulk SLA) covering all LCSD venues (Note 18). The 6-year term comprises a fixed 3-year period (April 2008 to March 2011) and an optional 3-year extension period (April 2011 to March 2014) for which the LCSD can choose to use the EMSTF or other contractors' services. In 2009-10, the service fee was \$401 million (of which \$78 million was related to 13 performing arts venues). The salient provisions of the 2008 bulk SLA are summarised as follows:

- (a) **Annual fee and adjustment mechanism.** A baseline annual fee for the first year (2008-09) is stipulated in the agreement and based on which the actual annual fee for each year is determined by adjusting for changes in:

Note 18: For the KST, the bulk SLA only covers building services and general electrical and mechanical services. The technical services relating to stage, lighting and sound are covered by a separate SLA (see para. 3.9).

- (i) service scope including addition/deletion of venues and equipment, and shortening/lengthening of operation hours;
 - (ii) performance level such as relaxation/tightening of response time, and fault rectification time; and
 - (iii) annual fee adjustment factor which is equal to 55% of the weighted average of civil service payment adjustment rates;
- (b) ***Service level.*** The agreement has set out the service levels in terms of the annual manhours for servicing the specified operational systems of all venues (mainly stage lighting and equipment for performing arts venues) and the daily service hours for those venues with EMSTF operation teams stationed; and
- (c) ***Performance standard.*** The agreement has laid down performance targets covering 4 aspects, namely “service availability of major systems”, “response time to fault calls”, “fault rectification time”, and “technical advice on projects and procurement services”.

Audit observations and recommendations

Need to finalise SLA before commencement

3.26 In July 2007, the LCSD started to negotiate with the EMSTF for extending its packaged services under a new SLA for commencement in April 2008. In November 2007, the LCSD and the EMSTF agreed in principle to enter into a 6-year SLA. After meetings and discussions, the EMSTF prepared in January 2008 a draft version of the 2008 bulk SLA for the LCSD’s comment/agreement. However, up to 31 March 2008, the LCSD was unable to finalise the SLA with the EMSTF as some major users (including the Cultural Services Branch of the LCSD responsible for managing performing arts venues) needed more time to vet the draft SLA provisions, particularly the proposed 2008-09 baseline fee which would affect subsequent years’ fees (see para. 3.25(a)). Pending finalisation of the SLA, the EMSTF continued its packaged services for the LCSD venues from the start date of the contract period in April 2008.

3.27 Apart from the 2008-09 baseline fee, the LCSD subsequently raised various concerns about the draft SLA provisions. For example, given that the EMSTF hired contractors to inspect and maintain fire services installations, the LCSD found it necessary to state clearly in the SLA the inspection frequency and the responsibility for ensuring that such services would be in compliance with the statutory requirements. After discussions, the EMSTF revised the draft SLA six times to address the LCSD’s concerns. In July 2010, the LCSD Finance Section agreed with the EMSTF on the finalised version of the SLA.

3.28 The 2008 bulk SLA is an important contractual document governing the provision of essential technical services for the efficient and reliable operation of the LCSD venues. The service fee involved is in the order of \$401 million a year. **It is unsatisfactory that the SLA was only finalised in July 2010, i.e. 27 months after the commencement of the contract period in April 2008.**

3.29 Audit also noted that the finalised 2008 bulk SLA was not signed although the original draft showed that it was intended to be signed by the Directors of the LCSD and the EMSD. For proper management control, major contracts should be signed by representatives of the senior management to signify their endorsement.

Need to review the SLA arrangement

3.30 According to Financial Circular 6/2001 of August 2001, a Controlling Officer can choose to enter into an SLA with a trading fund direct without recourse to competitive bidding if he/she is clearly satisfied that:

- (a) the trading fund is fully capable of delivering in a cost-effective manner specific services that his/her department needs; and
- (b) having regard to circumstances, such as the urgency or the special circumstances of the services required, inviting competitive bidding for the delivery of such services is not appropriate.

3.31 In 2005, the LCSD reviewed the SLA arrangement. The LCSD considered that the arrangement was appropriate having regard to the complexity of the service requirements and that the EMSTF was able to provide reliable and cost-effective services. For instance, the LCSD obtained, through negotiation with the EMSTF, fee reduction for the 2004 bulk SLA. On all three occasions of open tendering the services for individual venues (see para. 3.24), the EMSTF turned out to be the lowest bidder. Moreover, there was also concern about the need to hire professional staff (at additional cost) to monitor the performance of a private contractor if the EMSTF's services were not used. The Director of Leisure and Cultural Services then agreed that:

- (a) the SLA arrangement with the EMSTF should continue and that the three service contracts for individual venues awarded to the EMSTF through open tendering should be incorporated in the bulk SLA; and
- (b) in order to achieve the best value from the EMSTF's services, the SLA arrangement should be reviewed in 2008 to maintain pressure on the EMSTF's pricing.

3.32 However, the LCSD had not conducted the 2008 review before entering into a new SLA with the EMSTF. Audit noted that the LCSD had obtained through negotiation with the EMSTF a fee reduction of about 2.8% under the 2008 bulk SLA (Note 19) and an option to terminate the SLA unconditionally after the first 3 years. Nevertheless, in Audit's view, a review before deciding on the SLA arrangement is necessary to ascertain whether there has been any change in the service provider market and if there is any better alternative to the existing arrangement. Even if the SLA arrangement is to be continued, a review can help the LCSD identify scope for improving the SLA provisions.

Need to improve SLA provisions

3.33 Audit has compared the 2008 bulk SLA with the 2008 SLA for the KST (see para. 3.9) and found that there is room for improvement in the provisions of the bulk SLA, as follows:

- (a) *Service delivery management.* While the SLA for the KST has provided for payment deduction in the event of the EMSTF's non-compliance with the stipulated performance standards (similar to that of the TSSA — see para. 3.18), there is no such provision in the bulk SLA to discourage under-performance in the EMSTF's services. Based on the quarterly performance reports submitted by the EMSTF, Audit noted that the performance targets under the bulk SLA were not achieved on the following occasions (see Table 6); and

Note 19: *In November 2007, in return for the LCSD's agreement to enter into a new 6-year SLA, the EMSTF agreed to reduce the annual fee for 2007-08 by \$11 million to \$389 million (i.e. about 2.8% reduction). The 2007-08 annual fee would be taken as the basis for arriving at the 2008-09 baseline fee in the new SLA.*

Table 6
Instances of performance targets not achieved
(2008-09 to 2009-10)

Target	Actual performance not achieving target
“Greater than 98%” service availability to meet operation/safety needs	(a) “96%” service availability for lift and escalator installation of the SWHCC for the second quarter of 2008
	(b) “97%” service availability for fire services installation of the SWCC for the third quarter of 2008
“85%” of responses to fault calls within the stipulated time	(c) “80%” achieved for fault calls related to fire services and alarm installation and “75%” for those related to lift and escalator installation of the STTH for the second quarter of 2008

Source: LCSD records

Remarks: The EMSTF reported 2,358 performance indicators under the bulk SLA for the 13 performing arts venues for the 8 quarters from April 2008 to March 2010.

- (b) **Subcontracting arrangement.** The EMSTF has hired outside contractors to provide some of the services (e.g. maintenance of fire services installations). While the SLA for the KST has set out clear requirements that any service subcontracting by the EMSTF needs the LCSD’s approval and that the EMSTF shall be held responsible for the good conduct of its subcontractors, there is no similar provision in the bulk SLA to protect the LCSD’s interest.

3.34 In Audit’s view, contractual rights and obligations relating to service delivery management and subcontracting arrangement should be clearly set out in an SLA irrespective of whether it is obtained by negotiation (such as the 2008 bulk SLA) or by competitive bidding (such as the SLA for the KST). The LCSD needs to improve the 2008 bulk SLA provisions in this regard if it decides to extend the EMSTF’s services in 2011.

Need to step up monitoring service delivery

3.35 Both the 2004 and 2008 bulk SLAs stipulate that the EMSTF shall submit reports to the LCSD on the achievement of the performance targets. Since 2004, the EMSTF has submitted these quarterly reports to the LCSD electronically. However, the LCSD has not promulgated procedures requiring venue staff to check these reports against the performance targets stipulated in the SLA. In a sample check of 9 quarterly reports (January 2008 to March 2010), Audit found that some discrepancies, as follows, had not been detected by the LCSD:

- (a) the targets were wrongly quoted:
 - (i) as “greater than 99.5%” for service availability of electricity supply distribution and as “greater than 99%” for service availability of air-conditioning installation, instead of “greater than 98%” as per the SLA, in 6 quarterly reports; and
 - (ii) as “90%” for fault rectification within the stipulated time for urgent calls, instead of “85%” as per the SLA, in 9 quarterly reports; and
- (b) the achievements for fault rectification within the stipulated time were overstated (i.e. larger than the maximum level of 100%), as follows:
 - (i) “114%” for the engineering and electronic services of the HKCC and “125%” for the building services of the SWHCC, in the first quarterly report of 2010;
 - (ii) “200%” for the building services of the NCWCC in the first quarterly report of 2009; and
 - (iii) “147%” for the engineering and electronic services of the TWTH in the fourth quarterly report of 2008.

3.36 Upon Audit’s enquiry, the EMSTF confirmed that the above discrepancies were due to input errors in compiling the quarterly reports. The LCSD needs to step up monitoring the EMSTF’s service and take early action on any under-performance.

Need to tighten checking on fee adjustment claim

3.37 The 2008 bulk SLA provides that the annual service fee may be adjusted where the actual operational hours deviated from those stipulated in the agreement. In April 2010, the EMSTF put up a claim to the LCSD that the service fee (for the period April 2009 to February 2010) should be increased by \$395,089 as its actual operational hours for stage

lighting services for relevant LCSD venues were 1,748 hours more than the 195,815 hours provided in the SLA. The LCSD Finance Section subsequently requested user divisions concerned to verify the claimed hours for their respective venues.

3.38 Of the 13 performing arts venues, only the TWTH reported discrepancies found in the claimed manhours while the other 12 venues confirmed that the claimed hours were correct. However, based on a sample check of the operational records of 4 venues, Audit found the following discrepancies:

- (a) for the HKCC, the claimed manhours could have been overstated by 312 hours for the period April 2009 to February 2010; and
- (b) for the NDTH, STTH and TPCC, the claimed manhours could have been overstated by 36.5, 77 and 25 hours respectively for January and February 2010.

Audit recommendations

3.39 **Audit has recommended that the Director of Leisure and Cultural Services should:**

Need to finalise SLA before commencement

- (a) **expedite action to finalise an SLA before its commencement date;**
- (b) **stipulate that the senior management's approval is required before finalising a major contract;**

Need to review the SLA arrangement

- (c) **review the SLA arrangement before deciding on whether to continue the EMSTF's services for another three years;**

Need to improve SLA provisions

- (d) **ensure that contractual rights and obligations (such as those relating to service delivery management and subcontracting arrangement) are clearly set out in an SLA;**

Need to step up monitoring service delivery

- (e) **step up monitoring the EMSTF's services provided under an SLA;**

Need to tighten checking on fee adjustment claim

- (f) **clarify with the EMSTF the discrepancies in its claimed manhours highlighted in paragraph 3.38 and conduct checking to see if there are similar discrepancies; and**
- (g) **tighten the checking on any fee adjustment claim under an SLA.**

Response from the Administration

3.40 The **Director of Leisure and Cultural Services** accepts the audit recommendations and has said that:

- (a) written consent of the senior directorate will be obtained before finalising a major agreement in future;
- (b) the LCSD is conducting a review of the SLA arrangement to assess whether it should continue for another three years upon expiry of the fixed 3-year period in 2011;
- (c) the LCSD will ensure that contractual rights and obligations are clearly stated in the SLA if it is to be extended in 2011 for another three years;
- (d) the LCSD staff concerned have been reminded of the need to verify the EMSTF's records against the achievement of KPIs carefully and regularly;
- (e) all venues are re-examining the validity of the operational manhours claimed by the EMSTF for 2009-10 before settling the related charges; and
- (f) all related LCSD staff have been reminded to be more cautious and stringent in checking fee adjustment claims in future.

PART 4: ENERGY MANAGEMENT

4.1 Electricity charges are major expenditure in operating the LCSD's performing arts venues. In 2009-10, electricity charges amounted to \$39.4 million, accounting for 10% of the total expenditure. This PART examines the LCSD's energy management measures.

Energy audits and energy saving projects

4.2 According to the Guidelines on Energy Audit issued by the EMSD, an energy audit is an examination of an energy consuming equipment/system to ensure that energy is used efficiently. The objective of an energy audit is to identify means to achieve energy efficiency and conservation.

4.3 Under the 2008 bulk SLA, the EMSTF shall:

- (a) conduct energy audits on the major venues including the HKCC, HKCH, KTT, STTH and YLT during the 6-year contract period. The LCSD may change the venues for conducting the audits if required; and
- (b) carry out improvement projects on energy saving and renewable energy which would be funded by the EMSTF. Confirmed and proposed projects for 2008-09 were listed in the SLA while more projects for subsequent years would be advised and confirmed by the EMSTF later.

4.4 In June 2010, upon the LCSD's request, the EMSTF conducted energy audits for two more venues, namely the SWHCC and the TWTH. Together with the 5 venues mentioned in paragraph 4.3(a), 7 venues were selected for conducting energy audits from 2008-09 to 2013-14.

Audit observations and recommendations

Energy audits

4.5 Of the 6 (13 less 7) venues not selected for conducting energy audits, the NDTH and the TPCC did not have records of the last energy audits (while all other venues had such records). The LCSD needs to arrange energy audits for these venues if they have not been conducted for a long time.

Energy saving projects

4.6 According to the 2008 bulk SLA, there were 4 confirmed energy saving projects relating to 7 venues for 2008-09. Audit examined the implementation of these projects and found that 2 projects for replacing the fluorescent tubes of the STTH and the KTT with more energy efficient type were delayed.

4.7 Up to August 2010, the EMSTF replaced the fluorescent tubes for 5 of 8 STTH office/public areas and 2 of 10 KTT office/public areas. It planned to complete the remaining works for the STTH by 2010-11 and those for the KTT by 2011-12. The LCSD needs to urge the EMSTF to complete the outstanding works as soon as possible.

Audit recommendations

4.8 **Audit has recommended that the Director of Leisure and Cultural Services should:**

- (a) **maintain proper records of energy audits conducted for the performing arts venues (to facilitate review of the need for further audits in future);**
- (b) **ascertain the need for conducting energy audits for the NDTH and the TPCC;**
- (c) **require the EMSTF to complete the energy saving projects for the STTH and the KTT as soon as possible in accordance with the SLA provisions; and**
- (d) **strengthen the monitoring of the EMSTF's performance in delivering energy saving projects.**

Response from the Administration

4.9 The **Director of Leisure and Cultural Services** accepts the audit recommendations and has said that:

- (a) due to the relatively low electricity consumption (around \$0.34 million and \$0.59 million a year respectively), the NDTH and the TPCC have not been included in the existing schedule of energy audits. The LCSD is now working with the EMSTF on drawing up a comprehensive energy audit plan for all the performing arts venues (including the NDTH and the TPCC);

- (b) the STTH and the KTT have already worked out the arrangement with the EMSTF for completing the energy saving projects within 2010-11. The staff concerned will closely monitor the progress to ensure timely completion; and
- (c) the LCSD will strengthen the monitoring of the EMSTF's performance in delivering energy saving projects by requesting the latter to submit regular progress reports.

Air conditioning

4.10 Air conditioning accounts for a major portion of electricity consumption of a building. According to a circular memorandum on energy saving measures issued by the Environment Bureau in October 2004 (which is still in force):

- (a) air conditioning accounted for almost 50% of electricity consumption of offices in general and more so for facilities such as indoor games halls and theatres. Raising the air-conditioned temperature by 1°C could save as much as 3% of energy and reduce the energy consumed in a building by 1.5%;
- (b) government bureaux/departments were required to set the temperature at 25.5°C which was the design indoor temperature of air-conditioning plants in government premises in accordance with international standards. The specified temperature of 25.5°C should apply to all premises including offices, indoor games halls, cultural premises and community centres; and
- (c) requests for lowering the temperature required the endorsement of the Green Managers (Note 20) who should satisfy themselves that such requests were necessary to meet essential operational needs (e.g. protection of certain exhibits in museums).

4.11 In May 2005, the LCSD's Green Manager (a Deputy Director) approved that the air-conditioned temperature of performing arts venues could be set at 22°C to 24°C under the following circumstances:

- (a) setting temperature at 25.5°C would cause discomfort to the audience in a fully packed auditorium/theatre and foyer (before admission and during intermissions);

Note 20: *According to a General Circular of 1993 issued by the Director of Administration, all bureaux/departments should appoint their Green Managers to provide a focal point for introducing and reviewing initiatives to improve their environmental performance.*

- (b) a lower temperature was necessary for stage performances requiring tremendous amount of stage lighting and heavy costume/make-ups, and for hirers' functions requiring tremendous physical movement (such as dance classes); and
- (c) some facilities and technical equipment (such as lighting and sound equipment in control rooms) had to be kept under a lower temperature.

Audit observations and recommendation

4.12 Based on a sample checking of the usage and air-conditioned temperature records of 3 venues (the TPCC, SWCC and SWHCC), Audit found that there were some activities for which the air-conditioned temperature should have been set at the required 25.5°C.

4.13 *School activities at the TPCC.* As mentioned in paragraph 2.6(a), the auditorium of the TPCC also serves as a school hall for the adjoining school. According to a Circular issued by the Education Bureau in May 2006 (which is still in force), schools were urged to maintain the temperature of their air-conditioned premises at 25.5°C. Audit found that during June 2010, the school used the auditorium for school activities (mainly examinations) on 14 occasions. The LCSD's records showed that the temperature was set at 22°C to 24°C for 11 of the 14 occasions. The LCSD should set the air-conditioned temperature of its venues for school activities with due regard to the Education Bureau's advice.

4.14 *Activities for government staff.* From time to time, some government bureaux/departments would hire performing arts venues for holding seminars and briefings for their staff. Based on a sample checking, Audit found that from May to October 2009, there were 10 activities held for government staff at the SWCC and the SWHCC with the air-conditioned temperature set at 23°C to 24°C. The lowering of temperature for these activities was not warranted as the same activities held in other government premises would have been subject to the 25.5°C requirement.

4.15 The above audit findings suggested that some venue management might have unwarily applied the Green Manager's approval of lowering the air-conditioned temperature to situations without essential operational needs. The LCSD needs to tighten control in this regard.

Audit recommendation

4.16 **Audit has recommended that the Director of Leisure and Cultural Services should require performing arts venues to follow the 25.5°C air-conditioned temperature requirement as far as possible and only lower the temperature to meet essential operational needs.**

Response from the Administration

4.17 **The Director of Leisure and Cultural Services accepts the audit recommendation.**

PART 5: IMPLEMENTATION OF REVENUE GENERATING INITIATIVES

5.1 This PART examines the LCSD's implementation of revenue generating initiatives.

Revenue generating initiatives

5.2 In 1999, in preparation for the setting up of the LCSD, an interdepartmental committee (Note 21) suggested a number of revenue generating initiatives for the LCSD. The initiatives relating to performing arts venues included the following:

- (a) contracting out car parking facilities;
- (b) obtaining paid advertisements by:
 - (i) identifying external walls and indoor sites of selected venues for displaying advertisements;
 - (ii) engaging an agency to solicit advertisements to be placed in LCSD publications such as house programmes of cultural events, monthly programme brochures and promotional materials; and
 - (iii) using the back of tickets of cultural events for displaying advertisements; and
- (c) hiring out VIP boxes and lounges of venues.

Audit observations and recommendations

Implementing revenue generating initiatives

5.3 Audit sample checked the implementation of the 1999 revenue generating initiatives and found that:

Note 21: *The committee, chaired by the then Director of Regional Services, had representatives from the then Urban Services Department and Regional Services Department as members.*

- (a) ***Contracting out car parking facilities.*** Of the nine performing arts venues with carpark facilities, only the STTH carpark had been contracted out to generate revenue. There was room for improving the utilisation and management of some carparks (see paras. 5.7 to 5.15);

- (b) ***Obtaining paid advertisements.*** Regarding the proposed use of external walls/indoor sites for displaying advertisements, the LCSD had only let out wall banner sites to venue hirers for promoting their activities. There was room for improving the utilisation and management of these sites (see paras. 5.17 to 5.22). As for displaying advertisements in LCSD publications, only 5 (Note 22) of the 13 venues had made arrangements for hirers to advertise their events (at a fee) in venues' monthly event calendars. The LCSD had not explored the feasibility of using the back of tickets for advertisement; and

- (c) ***Hiring out VIP boxes and lounges.*** At a senior directorate meeting of the LCSD held in July 2000, members endorsed a proposal to hire out the VIP boxes and lounges of five performing arts venues (Note 23) for the LCSD programmes. It was expected that the proposal would generate revenue of \$63,000 for a 7-month period based on a 30% success rate. From 2001 to 2005, the LCSD programme offices tried to market the VIP box/lounge service but there was no further action thereafter. In August 2010, the LCSD informed Audit that the initiative had been discontinued due to poor response (i.e. no request for such service had been received) but there was no record showing that the senior management had been duly informed.

5.4 Audit also reviewed the LCSD's arrangements for overseeing the implementation of the 1999 initiatives. Audit found that the LCSD had formed a working group for the carpark initiative only and reported the results to the Director of Leisure and Cultural Services. There was no similar management arrangement for the other two initiatives. The LCSD needs to put in place proper management arrangements in this regard. The LCSD also needs to carry out an overall review of the 1999 initiatives with a view to identifying room for improvement in their implementation (e.g. requiring venues to make use of their publications and tickets to provide advertisement services to hirers).

Note 22: *The five venues are the KST, KTT, NCWCC, STTH and TWTH.*

Note 23: *Only 5 of the 13 performing arts venues are provided with VIP boxes and lounges. They are the HKCC, HKCH, STTH, TMTH and TWTH.*

Audit recommendations

5.5 **Audit has recommended that the Director of Leisure and Cultural Services should:**

- (a) **carry out an overall review of the 1999 revenue generating initiatives with a view to identifying room for improvement in their implementation; and**
- (b) **put in place proper management arrangements to monitor the implementation of the 1999 initiatives on a regular basis.**

Response from the Administration

5.6 The **Director of Leisure and Cultural Services** accepts the audit recommendations and has said that the LCSD will:

- (a) re-examine the feasibility of the 1999 revenue generating initiatives; and
- (b) assign an office to coordinate and monitor the implementation of new initiatives on a regular basis.

Management of carparks

5.7 Of the 13 performing arts venues, nine have carparks (Note 24) providing 189 parking spaces. Eight of the nine carparks are managed by the respective venue management. The largest one is at the HKCC which has 71 parking spaces (31 in the HKCC basement and 40 in a nearby private development — Note 25). These carparks are used by venue staff, contractors, hirers and visitors free of charge.

5.8 The carpark at the STTH (with 37 parking spaces) is the only one managed by a contractor (based on the recommendation of the working group on contracting-out of LCSD carparks — see para. 5.4). Of the 37 parking spaces, 14 are reserved for the STTH's use (Note 26). The contractor charges the public (including venue hirers) for using the carpark.

Note 24: *While not all venues have their own carparks, each of them is provided with loading/unloading areas.*

Note 25: *The land lease required the developer to construct a carpark and operate the carpark in accordance with the terms of a Service Agreement made with the then Urban Council. Under the Agreement, the developer had to make available 40 parking spaces for use by the HKCC staff, hirers and visitors free of charge.*

Note 26: *After midnight, the reserved parking spaces will also be released for public use.*

The LCSD receives from the contractor a monthly rent of \$108,000 for the STTH carpark (Note 27).

5.9 Audit selected the carpark of the HKCC (managed by the LCSD) and the STTH (managed by a contractor) to review their operations.

Audit observations and recommendations

Utilisation of carparks

5.10 Audit found that both the STTH and the HKCC had not regularly compiled statistics for monitoring utilisation of their carparks. For the purpose of this review, Audit derived utilisation rates based on the operational records available:

- (a) ***STTH carpark.*** The contractor was required under the contract to provide monthly returns on the hourly usage of the parking spaces. Based on such returns, Audit found that the utilisation rate of the STTH carpark for January 2010 was 76% during the venue opening hours (9 a.m. to 11 p.m.);
- (b) ***HKCC basement carpark.*** The HKCC security guards had recorded the vehicle numbers of parked cars during their patrols (5 times each day). Based on such records, Audit found that the utilisation rate of the basement carpark for January 2010 was 39% during the venue opening hours (9 a.m. to 11 p.m.); and
- (c) ***HKCC parking spaces in nearby private development.*** The HKCC issued parking coupons (provided by the developer's carpark operator), each of which entitled the holder to free parking for a whole day. Upon enquiry, the HKCC informed Audit that a total of 2,643 coupons were issued for the 4 months from January to April 2010. Based on a daily average of 22 coupons issued for 40 parking spaces (see para. 5.7), the utilisation rate was 55%.

5.11 **The utilisation rates of 39% (at the basement carpark) and 55% (at the nearby private development carpark) showed that a significant proportion of the 71 parking spaces of the HKCC might have been surplus to its operational needs.** The LCSD needs to take measures to put the surplus parking spaces to effective use (such as contracting out the basement carpark for operating as a public carpark similar to that of the STTH to generate revenue and to better serve the public). The LCSD also needs to review other carparks to see if there is similar under-utilisation for taking necessary action.

Note 27: *Besides the STTH carpark, the contractor also operates 4 other carparks of LCSD leisure venues, all under a bulk contract. The LCSD receives 60% of the monthly gross receipt of the 5 carparks if it exceeds the total monthly rent of \$260,100 under the bulk contract.*

Controlling the use of parking spaces

5.12 *Essential and ad hoc users.* According to the LCSD's Administrative Circular of March 2000 on the use of parking spaces, priority should be accorded to departmental cars and essential users (Note 28). There are 13 and 11 parking labels issued for essential users of the HKCC (for the basement carpark) and STTH respectively on a regular basis (Note 29). Other ad hoc users (such as staff not working full-time at the venue, contractors and visitors) have to apply for one-off parking on a need basis. Audit found that the STTH had maintained written records of the applications and approvals, but the HKCC had not always done so. For example, in a sample checking of ad hoc uses of the HKCC basement carpark for January 2010, 7 out of 10 cases checked were without written approvals.

5.13 *Issue of parking coupons.* At present, only non-essential users use the HKCC parking spaces in the nearby private development. The users may apply for parking coupons in advance of their actual use. There were cases that some users had been issued with a number of coupons for a whole month's use. **However, there was no control over the actual use, i.e. whether the coupons were used by the intended users and for the approved purposes.** This was because no vehicle number or date of use was marked on the coupons to prevent them from being transferred to other persons. The LCSD needs to tighten the control to guard against abuse. For example, instead of issuing the coupons in advance, the HKCC could require users to produce the carpark entry tickets for collecting the coupons on the day of use.

Provision of security guard service at STTH carpark

5.14 According to the contract terms of the bulk carpark contract (see Note 27 to para. 5.8), the contractor shall provide a minimum of one security guard at each of the carparks. However, the contractor did not provide any security guard at the STTH carpark. The LCSD needs to enforce the contract term in this regard.

Audit recommendations

5.15 **Audit has recommended that the Director of Leisure and Cultural Services should:**

Note 28: *Essential users are defined as officers who work at the venue and use their private cars on official duties for eight or more occasions in a month.*

Note 29: *The parking labels for essential users are issued on a yearly basis for the STTH and a half-yearly basis for the HKCC. The essential users of the HKCC carpark also include staff of the two neighbouring museums and the HKCC's tenants.*

- (a) **compile statistics on a regular basis to monitor the utilisation of carparks at performing arts venues;**
- (b) **take measures to put the surplus parking spaces of the HKCC to effective use;**
- (c) **review the usage of other carparks to see if there is under-utilisation for taking necessary action;**
- (d) **require the HKCC to maintain written records of approvals of one-off parking at its basement carpark and tighten the control over the use of parking spaces in the nearby private development; and**
- (e) **require the carpark contractor to provide security guard service for the STTH carpark in accordance with the contract terms.**

Response from the Administration

5.16 The **Director of Leisure and Cultural Services** accepts the audit recommendations and has said that:

- (a) all the performing arts venues with carpark provision have started compiling statistics to monitor the utilisation of carparks regularly;
- (b) the LCSD will carefully examine the use of the HKCC carpark spaces taking into consideration the design constraints and operational needs, and consider measures to put surplus spaces to effective use; and
- (c) the carpark contractor of the STTH has provided a security guard at the carpark in accordance with the contract terms.

Management of wall banner sites

5.17 In September 2000, the LCSD carried out a review on the letting of wall banner sites at performing arts venues. The review concluded that, due to the limited number of wall banner sites, they would only be let out to hirers who had longer bookings of major facilities of the venues, as follows:

- (a) for using the wall banner sites of a performing arts venue, the hirer must be staging two or more admission-charged performances or holding exhibitions lasting for three or more days at the major facilities of the venue; and

- (b) of the five wall banner sites at the HKCC, three would be let out based on (a) above. For using the two sites at the main entrance of the HKCC, the hirer must be organising large-scale events running for more than one month or hiring all the three major facilities of the HKCC for three or more days.

5.18 As at June 2010, of the LCSD's 13 venues, 10 venues provided 39 wall banner sites. Audit selected the HKCC and the STTH to examine their management of wall banner sites. The HKCC had 5 sites for letting at charges ranging from \$1,000 to \$2,000 per day. The STTH had 4 sites (2 of which were commissioned in June 2010) for letting at \$300 per day each.

Audit observations and recommendations

Utilisation of wall banner sites

5.19 Both the HKCC and the STTH did not compile statistics on the utilisation of their wall banner sites. Upon Audit's request, the two venues compiled the statistics for 2009-10 (see Table 7).

Table 7

**Utilisation of HKCC and STTH wall banner sites
(2009-10)**

Venue	Wall banner site	Number of days used	Utilisation rate
		(a)	(b) = (a) ÷ 365 × 100%
HKCC	A	102	28%
	B	158	43%
	C	308	84%
	D	168	46%
	E	168	46%
	Average for the 5 sites	181	50%
STTH	F	157	43%
	G	255	70%
	Average for the 2 sites	206	56%

Source: LCSD records

5.20 The overall utilisation rates of 50% for the HKCC and 56% for the STTH indicate that more efforts are needed to promote the use of wall banner sites. In this connection, Audit has found that:

- (a) of the 10 venues with wall banner sites, only four (the HKCC, HKCH, TMTH and YLT) included in their websites information of their wall banner sites (such as the positions, sizes and charge rates). There is a need to step up the publicity effort; and
- (b) given the low utilisation rates of the wall banner sites, there is merit in uplifting the hiring restrictions (see para. 5.17) so that all hirers can use these sites irrespective of the length of their bookings.

Public liability insurance policies of wall banners

5.21 The LCSD requires the hirer of a wall banner site to take out a public liability insurance policy, as a condition of hiring. The insurance policy has to be in the joint names of the LCSD and the hirer and with a protection of not less than \$10 million. Audit selected 10 hirers each of the HKCC and STTH sites for examining their insurance policy documents. In August 2010, Audit found that all selected hirers of the HKCC sites and one selected hirer of the STTH sites had complied with the hiring condition. However, for the remaining 9 selected hirers of the STTH sites who had not submitted the required insurance policy documents, the LCSD had not checked to ensure that they had taken out the required public liability insurance policies.

Audit recommendations

5.22 **Audit has recommended that the Director of Leisure and Cultural Services should:**

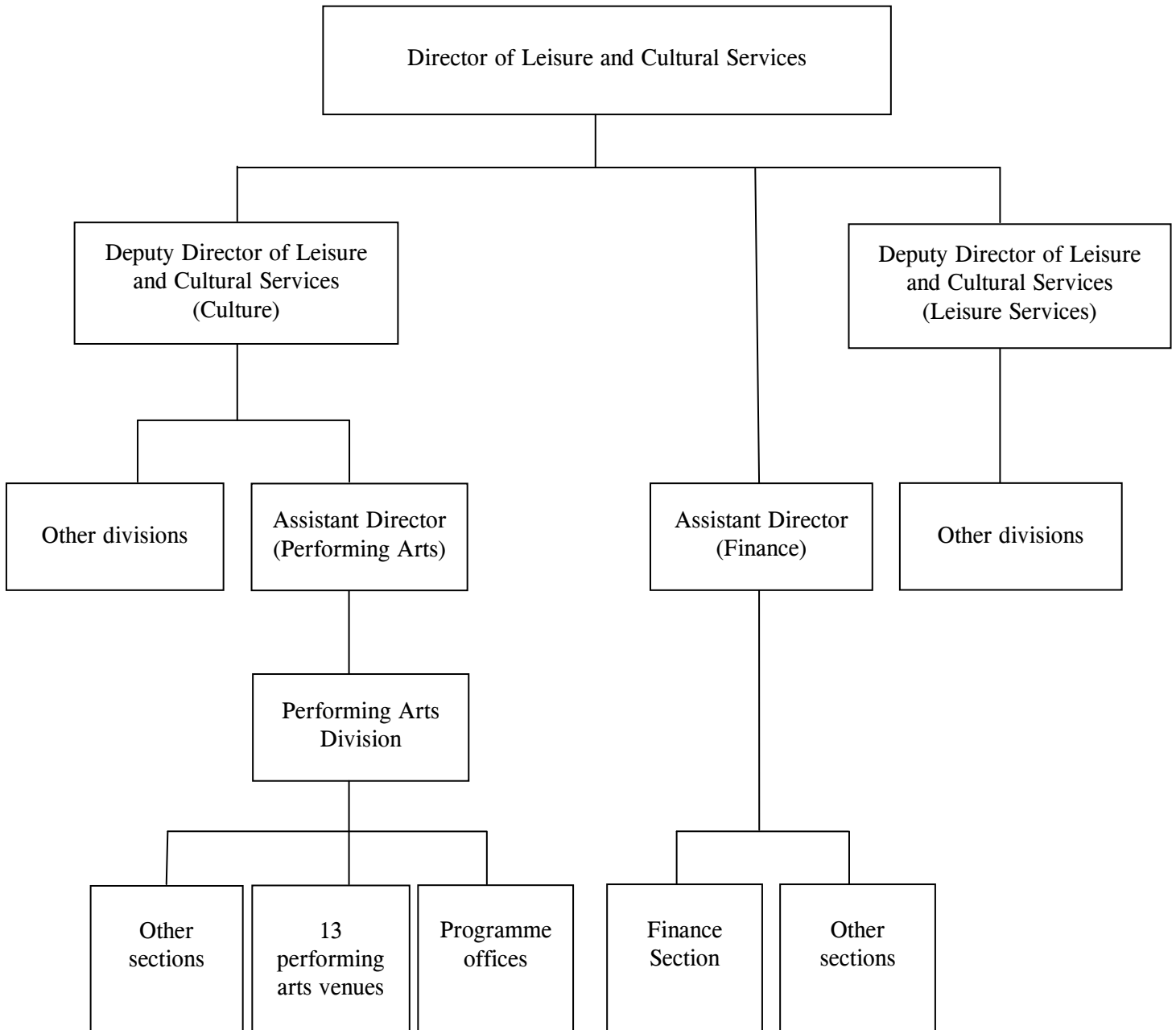
- (a) **require the 10 performing arts venues with wall banner sites for hiring to compile statistics on a regular basis for monitoring their utilisation;**
- (b) **promote the use of wall banner sites by stepping up the publicity effort and allowing all hirers to use these sites irrespective of the length of their bookings of venue facilities; and**
- (c) **require hirers of wall banner sites to submit public liability insurance documents for checking to ensure compliance with the hiring condition.**

Response from the Administration

5.23 The Director of Leisure and Cultural Services accepts the audit recommendations and has said that the LCSD has:

- (a) arranged to publicise all wall banner sites in the Scale of Hire Charges on the respective venues' websites, and will explore other ways to further promote the use of the wall banner sites. The LCSD will work out arrangements to allow all hirers to use the sites irrespective of the length of their bookings of venue facilities where appropriate; and
- (b) instructed venue staff to ensure timely submission of public liability insurance documents in compliance with the hiring terms and conditions for the wall banner sites.

Leisure and Cultural Services Department
Organisation chart (extract)
(1 August 2010)



Source: LCSD records

Arts-related usage of major facilities
(2007-08 to 2009-10)

Venue	Facility	Arts-related usage rate		
		2007-08	2008-09	2009-10
<i>Urban area</i>				
HKCC	Concert hall	97%	100%	100%
	Grand theatre	100%	100%	100%
	Studio theatre	100%	100%	100%
HKCH	Concert hall	97%	96%	96%
	Theatre	98%	97%	99%
KST	Theatre	96%	96%	98%
NCWCC	Theatre	85%	81%	82%
	Cultural activities hall	55%	61%	74%
SWCC	Theatre	83%	81%	93%
	Lecture hall	79%	72%	70%
SWHCC	Theatre	95%	96%	97%
	Cultural activities hall	95%	96%	91%
<i>New Territories</i>				
KTT	Auditorium	94%	98%	94%
	Black box theatre (Note)	—	76%	72%
NDTH	Auditorium	40%	49%	56%
STTH	Auditorium	92%	93%	88%
	Cultural activities hall	75%	72%	82%
TPCC	Auditorium	39%	38%	29%
TMTH	Auditorium	66%	70%	85%
	Cultural activities hall	67%	82%	91%
TWTH	Auditorium	78%	69%	80%
	Cultural activities hall	53%	54%	63%
YLT	Auditorium	58%	61%	74%
Overall		79%	80%	83%

Source: LCSD records

Note: The KTT black box theatre started operation in May 2008.

Key performance indicators under the 2007 and 2010 TSSAs

Service/System Item	Target
<p>(A) Sound service availability</p> <p>1. Service requested under normal booking schedule</p> <p>2. Service additionally requested 48 hours in advance</p> <p>3. Service additionally requested 24 hours in advance</p> <p>4. Service additionally requested within 24 hours</p>	<p>99.9%</p> <p>99.9%</p> <p>99%</p> <p>95%</p>
<p>(B) System availability</p> <p>5. Major system availability during performance and rehearsal (Notes 1 and 2)</p> <p>6. Minor system availability during performance and rehearsal (Note 3)</p> <p>7. System device/component availability (without causing system breakdown)</p>	<p>99.95%</p> <p>98%</p> <p>97%</p>
<p>(C) Response time to service/fault calls</p> <p>8. Urgent service/fault call (Note 4)</p> <p>9. Non-urgent service/fault call (Note 5)</p>	<p>< 2 minutes</p> <p>< 10 minutes</p>
<p>(D) Mean time to resume services</p> <p><i>Major system breakdown (Note 1)</i></p> <p>10. with hot standby system (Note 6)</p> <p>11. without hot standby system</p>	<p>< 3 minutes</p> <p>< 15 minutes</p>

(Note 9)

Service/System Item	Target
<i>Minor system breakdown (Note 3)</i>	
12. with hot standby system (Note 6)	< 5 minutes
13. without hot standby system	< 20 minutes
14. Major device/component fault (may have effect on performance) (Note 7)	< 10 minutes
15. Minor device/component fault (without effect on performance) (Note 8)	< 15 minutes

} (Note 9)

Source: LCSD records

Note 1: The target does not include breakdown caused by external factors such as breakdown of electricity supply.

Note 2: Major systems are those which if they fail are noticeable to the public and seriously affect the operation and the image of LCSD. Examples include video production system, stage production communication system and production closed-circuit television system.

Note 3: Minor systems are those which if they fail are unnoticeable to the public and will not seriously affect the operation and the image of LCSD. Examples include minor sound system, foyer video and audio playback systems.

Note 4: Emergency equipment/system fault which may cause interruption of system and service that seriously affect the operation and the image of LCSD.

Note 5: Non-urgent service/fault which may not cause interruption of system and service and will not affect the operation and the image of LCSD.

Note 6: A system with hot standby is a system that provides automatic changeover or semiautomatic changeover facility between the failed and replacement system.

Note 7: Major device/component is one that if it fails may affect the quality of the service during performance, but will not cause system breakdown.

Note 8: Minor device/component is one that if it fails will not affect the quality of the service during performance.

Note 9: For the performance targets on response time to service/fault calls and mean time to resume services, the compliance level is to be no less than 99.99%.

Acronyms and abbreviations

Audit	Audit Commission
CVP	Committee on Venue Partnership
EMSD	Electrical and Mechanical Services Department
EMSTF	Electrical and Mechanical Services Trading Fund
FSTB	Financial Services and the Treasury Bureau
HAB	Home Affairs Bureau
HKCC	Hong Kong Cultural Centre
HKCH	Hong Kong City Hall
KPIs	Key Performance Indicators
KST	Ko Shan Theatre
KTT	Kwai Tsing Theatre
LCSD	Leisure and Cultural Services Department
NCWCC	Ngau Chi Wan Civic Centre
NDTH	North District Town Hall

Appendix D
(Cont'd)

PAC	Public Accounts Committee
SLAs	Service Level Agreements
STTH	Sha Tin Town Hall
SWCC	Sheung Wan Civic Centre
SWHCC	Sai Wan Ho Civic Centre
TMTH	Tuen Mun Town Hall
TPCC	Tai Po Civic Centre
TSSA	Technical Sound Services Agreement
TWTH	Tsuen Wan Town Hall
VPS	Venue Partnership Scheme
YLT	Yuen Long Theatre