

Report No. 55 of the Director of Audit — Chapter 7

MANAGEMENT OF PERFORMING ARTS VENUES

Summary

1. The Leisure and Cultural Services Department (LCSD) is responsible for managing 13 performing arts venues. Each venue offers a combination of major facilities (such as auditoria) and minor facilities (such as studios) for public hiring. In 2009-10, the expenditure and income of the 13 venues were \$392.1 million and \$207.9 million respectively. The Audit Commission (Audit) has recently conducted a review on the LCSD's management of the 13 venues.

Venue utilisation and hiring arrangements

2. *Utilisation of major facilities.* The LCSD has put in place hiring arrangements which accord higher priority to arts activities than non-arts activities. In 2009-10, the overall arts-related usage of major facilities was 83%. However, the usage of the auditoria of the Tai Po Civic Centre (TPCC) and the North District Town Hall (NDTH) was low (29% and 56% respectively). *Audit has recommended that the Director of Leisure and Cultural Services should step up measures to promote the arts-related usage of the auditoria of these two venues, such as staging more of its arts programmes at these two venues.*

3. *Utilisation of minor facilities.* In 2009-10, the overall utilisation of minor facilities was 49%, with the 10 lowest utilisation rates for individual facilities ranging from 6% to 27%. Audit notes that there could be potential demand from arts groups which have insufficient facilities for rehearsals and artists' self-practices. *Audit has recommended that the Director of Leisure and Cultural Services should step up efforts to promote the use of minor facilities of performing arts venues, including liaising with potential users such as arts groups.*

4. *Monitoring of venue partners.* The LCSD has implemented a Venue Partnership Scheme to foster a partnership between venues and performing arts groups to make the best use of venues. In 2006, the LCSD formed a Committee on Venue Partnership (CVP) to advise it on the implementation of the Scheme. CVP members are encouraged to attend the programmes of each venue partner to facilitate the annual assessment of venue partners' performance. In 2009-10, they attended venue partners' programmes on 75 occasions but the distribution was uneven in that some venue partners were not covered. Some CVP members did not always complete evaluation forms for the programmes they attended. *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 an evaluation form after attending a venue partner's programme.

5. ***Implementing the fee revision proposals.*** The hiring charges of performing arts venues were adopted from the two ex-Municipal Councils. In 2000, the Government pledged to review these charges with a view to aligning the levels of charges and pricing policies. The review was subsequently shelved due to the economic downturn in 2000 and the outbreak of the Severe Acute Respiratory Syndrome in 2003. In April 2008, the LCSD set up a Working Group to conduct the review. 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. *Audit has recommended that the Director of Leisure and Cultural Services should take prompt action to complete the consultation exercise and implement the revised charging schemes as soon as possible.*

6. ***Target cost recovery rate.*** The Government has set a target cost recovery rate of 55% for performing arts venues. Over the 5 years from 2004-05 to 2008-09, the target rate was achieved only once in 2007-08. Audit is concerned that the target 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, it would become increasingly difficult to achieve the target rate in a more competitive market. *Audit has recommended that the Director of Leisure and Cultural Services should take prompt action to 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.*

Management of technical service agreements

7. ***Need to introduce more competition.*** In 2007 and 2010, the LCSD entered into Technical Sound Services Agreements (TSSAs) with a contractor (Contractor A) for servicing its performing arts venues. In the tendering exercises for the TSSAs, the LCSD had divided the venues into two groups for bidding. However, there was only one offer on both occasions — from Contractor A. The lack of competition suggested that there might not be sufficient contractors in the market to compete with Contractor A on such a large scale. *Audit has recommended that the Director of Leisure and Cultural Services should take measures to enhance competition in tendering exercises for the TSSA in future, such as splitting the TSSA into smaller contracts.*

8. ***Need to strengthen monitoring.*** Audit examined the monthly performance reports submitted by Contractor A for 2009-10 and found that the LCSD had not taken action notwithstanding that: (a) Contractor A submitted reports on the achievement of Key Performance Indicators (KPIs) for only one of the four venues examined; (b) there was no supporting data for the claimed achievement of the KPIs on response time to fault calls and mean time to resume services; and (c) there were cases of incomplete information in the reports on engineering maintenance. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) remind Contractor A to submit on time the stipulated monthly performance reports; (b) require Contractor A to provide necessary information to*

support the claimed achievement of KPIs; and (c) maintain adequate checking to ensure that information included in the monthly performance reports is complete and accurate.

9. ***Need to review service level requirements.*** Over-specifying the service requirements could lead to wastage and might even deter some potential tenderers from bidding. Audit has found that some requirements in the TSSA need to be reviewed, for example, the response time for non-urgent fault calls which is more stringent than that for stage-related services under another agreement (see para. 10). *Audit has recommended that the Director of Leisure and Cultural Services should review and revise, if necessary, the service level requirements in the TSSA with reference to actual need.*

10. ***Need to finalise Service Level Agreements (SLAs) before commencement.*** Since 2004, the LCSD has entered into two bulk SLAs with the Electrical and Mechanical Services Trading Fund (EMSTF) for the operation and maintenance of electrical and mechanical systems and building services installations for the LCSD leisure and cultural venues. The start date of the second agreement (the 2008 bulk SLA) was April 2008. However, due to protracted discussions and revisions of the draft SLA provisions, the SLA was only finalised in July 2010, 27 months after its commencement date. Moreover, the finalised SLA was not signed by representatives of the senior management to signify their endorsement. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) expedite action to finalise an SLA before its commencement date; and (b) stipulate that the senior management's approval is required before finalising a major contract.*

11. ***Need to review the SLA arrangement.*** According to a Financial Circular of August 2001, a Controlling Officer can choose to enter into an SLA with a trading fund without recourse to competitive bidding if the trading fund is capable of delivering a cost-effective service. After a review in 2005, the LCSD considered that the SLA arrangement with the EMSTF was appropriate and planned to conduct another review in 2008. However, the LCSD had not conducted the planned review before entering into the 2008 bulk SLA. *Audit has recommended that the Director of Leisure and Cultural Services should review the SLA arrangement before deciding on whether to continue the EMSTF's services.*

12. ***Need to improve SLA provisions.*** Audit has found that there is room for improvement in the provisions of the 2008 bulk SLA. For example, there is no provision for payment deduction to discourage under-performance in the EMSTF's services. There are also no clear requirements that any service subcontracting by the EMSTF needs the LCSD's approval to protect the latter's interest. *Audit has recommended that the Director of Leisure and Cultural Services should ensure that contractual rights and obligations (such as those relating to service delivery management and subcontracting arrangement) are clearly set out in an SLA.*

13. ***Need to step up monitoring service delivery.*** The EMSTF is required under the bulk SLAs to submit reports to the LCSD on the achievement of the performance targets. However, the LCSD has not promulgated procedures requiring venue staff to check these reports. In a sample checking of these reports, Audit found cases of discrepancies (such as

wrongly quoted performance targets and overstated achievements) which had not been detected by the LCSD. *Audit has recommended that the Director of Leisure and Cultural Services should step up monitoring the EMSTF's services provided under an SLA.*

14. ***Need to tighten checking on fee adjustment claim.*** In April 2010, the EMSTF put up a claim to the LCSD to adjust the service fee (for the period April 2009 to February 2010) as the actual operational hours were more than those provided in the SLA. Audit sample checking revealed cases of overstatements of the claimed hours which had not been detected by the LCSD. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) clarify with the EMSTF the discrepancies in its claimed manhours and conduct checking to see if there are similar discrepancies; and (b) tighten the checking on any fee adjustment claim under an SLA.*

Energy management

15. ***Energy audits and energy saving projects.*** Under the 2008 bulk SLA, the EMSTF shall conduct energy audits on 7 performing arts venues from 2008-09 to 2013-14, and carry out 4 energy saving projects in 2008-09. Audit found that: (a) of the 6 venues not selected for conducting energy audits, the NDTH and the TPCC did not have records of the last energy audits; and (b) 2 of the 4 energy saving projects were delayed. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) ascertain the need for conducting energy audits for the NDTH and the TPCC; (b) require the EMSTF to complete the two energy saving projects as soon as possible; and (c) strengthen the monitoring of the EMSTF's performance in delivering energy saving projects.*

16. ***Air conditioning.*** According to a circular memorandum issued by the Environment Bureau in October 2004, the air-conditioned temperature for government premises including cultural premises should be set at 25.5°C. Based on a sample checking of 3 venues, Audit found that there were some activities (such as seminars and briefings for government staff) for which the air-conditioned temperature was set below 25.5°C. Such activities, if held in other government premises, would have been subject to the 25.5°C requirement. *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.*

Implementation of revenue generating initiatives

17. ***Revenue generating initiatives.*** In 1999, a number of revenue generating initiatives were proposed for the performing arts venues. Audit sample checked the implementation of these initiatives and found that the LCSD: (a) had not implemented some initiatives, such as exploring the feasibility of using the back of tickets for advertisement; and (b) had not put in place proper management arrangements for overseeing the implementation of the initiatives except the one on contracting out car parks. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) carry out an overall review of the revenue generating initiatives; and (b) put in place proper management arrangements to monitor the implementation of the initiatives on a regular basis.*

18. ***Management of carpark.*** Of the 13 venues, nine have carpark for use by venue staff, hirers and visitors. Audit reviewed the carpark operations of the Hong Kong Cultural Centre (HKCC) and the Sha Tin Town Hall and found that: (a) both venues had not regularly compiled statistics for monitoring the carpark utilisation; (b) the HKCC might have surplus parking spaces, as according to sample checks, the utilisation rates were 39% for the 31 spaces at its basement and 55% for the 40 spaces in the nearby private development; and (c) there was inadequate control over the issue of parking coupons to prevent the unauthorised use of the HKCC's parking spaces in the nearby private development. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) compile statistics on a regular basis to monitor the utilisation of carpark at performing arts venues; (b) take measures to put the surplus parking spaces of the HKCC to effective use; and (c) require the HKCC to tighten the control over the use of parking spaces in the nearby private development.*

Response from the Administration

19. The Director of Leisure and Cultural Services accepts the audit recommendations.

November 2010