

KAI TAK CRUISE TERMINAL

Executive Summary

1. In October 2006, the Government informed the Legislative Council (LegCo) that the Government was committed to developing Hong Kong into a regional cruise hub. In November 2009, the Finance Committee (FC) of LegCo approved the site formation works for the new cruise terminal at Kai Tak at an estimated cost of \$2,304 million. The FC further approved in April 2010 the construction of the cruise terminal building and ancillary facilities at an estimated cost of \$5,852 million. The terminal building and the first berth of the Kai Tak Cruise Terminal (KTCT) commenced operation in June 2013. The second berth commenced operation in September 2014. In its first full year of operation in 2014, the KTCT received 28 ship calls involving 48 days of operation and passenger throughput of 130,608. The number of ship calls increased to 95 involving 105 days of operation and passenger throughput of 424,868 in 2016. As at 28 February 2017, the total actual project expenditure for the KTCT was \$6,613 million.

2. The KTCT has a total floor area of 188,952 square metres (m²). In March 2012, the Government awarded a ten-year Tenancy Agreement (TA) to a terminal operator through an open tender. The Government has leased 120,402 m² of the KTCT to the terminal operator for operation and management for ten years commencing in June 2013. Under the TA, the terminal operator is required to pay a fixed rent of \$13 million for the ten-year operation and a variable rent (ranging from 7.3% to 34% of the annual gross receipts of the operator). The communal areas, government offices and the KTCT Park have not been leased to the terminal operator. The facility management services for the communal areas and government offices are outsourced to a contractor. The KTCT Park is managed by the Leisure and Cultural Services Department. Operation and maintenance services for certain electrical and mechanical systems and equipment in various parts of the KTCT are provided by the Electrical and Mechanical Services Trading Fund (EMSTF). The Tourism Commission (TC) under the Commerce and Economic Development Bureau is responsible for monitoring the operation of the KTCT and works closely with the Advisory Committee on Cruise Industry (ACCI) in developing Hong Kong into a leading regional cruise hub. The Audit Commission (Audit) has recently conducted a review of the KTCT.

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3. *Achievement of expected economic benefits brought by the cruise industry.* In November 2008, the Government informed LegCo that the economic benefits to be brought by the cruise industry would range from \$859 million to \$1.1 billion per annum by 2013 and \$1.5 billion to \$2.5 billion per annum by 2016. In November 2009 and April 2010, the Government informed the FC in the funding applications that with the availability of the new cruise terminal facilities and appropriate market strategies, the economic benefits to be brought by the cruise industry under different growth scenarios would range from \$1.5 billion to \$2.6 billion per annum and around 5,300 to 8,900 additional jobs would be generated by 2023. The economic benefits to be brought by the cruise industry were estimated by an economic model taking into account various factors, including the estimated number of ship calls and passenger throughput, and the estimated spending by cruise passengers and cruise operators. Audit compared the actual number of ship calls and passenger throughput and average per-passenger spending with the estimated figures used in making the estimation. Audit found that: (a) the actual number of ship calls of 191 in 2016 was 5% and 31.3% lower than the estimated numbers under the low and high growth scenarios respectively. According to the TC, the average passenger carrying capacity of the cruise ships berthed at the KTCT in 2016 was larger than the capacity used in the economic model; (b) the actual cruise passenger throughput of 677,031 in 2016 was 25% higher than the estimated throughput under the low growth scenario and was 33.5% lower than the estimate under the high growth scenario; and (c) the average per-passenger spending of cruise passengers visiting Hong Kong was short of the spending assumed in the economic model (paras. 2.7, 2.8 and 2.10 to 2.12).

4. *Driving ship calls to Hong Kong.* To develop Hong Kong into a leading regional cruise hub, one of the strategies adopted by the TC is to drive more ship calls to Hong Kong. The utilisation rates of the KTCT during the peak seasons (i.e. January to March and October to December) of 2014 to 2016 were 18.1%, 22.5% and 38.3% respectively. Audit noted that the KTCT had the capacity to receive more cruise vessels even at the peak seasons. For the peak seasons of 2015 and 2016, the total number of days when both berths were utilised were only 5 and 14 respectively (paras. 2.17 to 2.19).

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Monitoring performance of terminal operator

5. ***Vibrancy of the KTCT.*** The TA stipulates that the terminal operator shall use its best endeavours to keep the ancillary commercial area fully let or occupied. Audit noted that, as at 1 March 2017, of the 5,601 m² of ancillary commercial area, 2,695 m² (48.1%) was let and open for business. The remaining 2,906 m² (51.9%) was not open for business. Of the 2,906 m², the sub-tenancy of 2,196 m² (39.2%) was terminated and was under legal proceedings, 355 m² (6.3%) had not been leased out, and 355 m² (6.3%) was leased out in January 2017 for the first time and was currently under renovation. Audit visited the KTCT on three ship call days on 4 November 2016, 6 December 2016 and 17 January 2017, and found that the visitor traffic to the ancillary commercial area was not high. The TC informed LegCo in November 2014 that the KTCT was also used as an event venue during non-cruise days with a view to better utilising the terminal facilities and increasing number of visitors. In the period from its commissioning in June 2013 to December 2016, 38 non-cruise events (involving 67 event days and 85 days for setting up and dismantling) were held at the KTCT. The TC needs to continue to urge the terminal operator to promote the use of the KTCT as a venue for non-cruise events with a view to bringing more visitors to the KTCT (paras. 3.6, 3.7 and 3.11 to 3.13).

6. ***Performance monitoring of the terminal operator.*** The TC monitors the performance of the terminal operator through a set of service pledges and performance indicators specified in the TA. The TA stipulates that the terminal operator shall propose the service pledges for the approval of the TC, publish the approved service pledges within one month prior to the commencement date of the business, and prepare a report on compliance with the service pledges annually within two months after the end of each calendar year. Audit found that the service pledges had not been approved. The terminal operator had not published the service pledges until January 2017 and had not submitted annual reports on compliance with the service pledges for 2013, 2014 and 2015 until 30 December 2016. Furthermore, Audit reviewed the existing service pledges and found room for improvement. The TC may consider expanding the coverage of the service pledges to include, for example, satisfaction of cruise passengers, embarkation and disembarkation arrangements for turnaround call passengers, and baggage handling process. Service pledges should be reviewed periodically to ensure that they are challenging. The terminal operator had met and exceeded all the service pledges since 2013. For instance, one of the service pledges is that disembarking port-of-call passengers should spend less than 20 minutes to traverse the distance

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from shipside to kerbside, but the actual time spent by passengers in 2013 to 2015 was only 4.5 minutes. Audit also found that the terminal operator had not fulfilled four TA requirements related to market consultation forum, operation and maintenance reports submission, written report on ancillary commercial area submission and information dissemination on website (paras. 3.16 to 3.18 and 3.20 to 3.22).

Administrative issues

7. *Transport connectivity.* Audit found that there was room for improvement for transport connectivity. The number of malls providing free shuttle bus services connecting the KTCT to the malls near Mass Transit Railway stations in Kowloon East had decreased from three in 2013 to two in 2015. It was likely that the free shuttle bus service provided by a mall in Diamond Hill might not be able to sustain in the long run. The franchised buses departing from the KTCT with stops at Mass Transit Railway Ngau Tau Kok Station and Kwun Tong were not equipped with luggage storage facilities and the patronage was not high. Audit made a site visit to the KTCT on 17 January 2017 and observed that while there were a large number of cruise passengers waiting for taxi, there were also many taxis waiting for passengers at the taxi queuing spaces. Only 6 of the 18 taxi pick-up points were available for boarding. The TC needs to review whether more pick-up points can be made available during peak hours. Under the TA, the terminal operator is required to submit a traffic management plan to the Government for approval. The terminal operator informed the TC that prior to the opening of the second berth, the traffic management plan would be updated. However, the terminal operator had not submitted the updated traffic management plan for the TC's approval until 27 February 2017 (paras. 4.3, 4.4 and 4.6).

8. *Usage of KTCT facilities.* There is a video wall (measuring 60 metres by 3.7 metres) installed on the external wall of the terminal building for displaying messages and advertisements. Since the commissioning of the KTCT in 2013, the video wall has not been let out and has not generated any income. Moreover, Audit conducted site visits on 4 November 2016 and 17 January 2017 and found that the video wall was not functioning properly. Two plant rooms (occupying a total area of 1,100 m²) are reserved at the KTCT for setting up the on-shore power supply system. In June 2015, the installation of the system was put on hold. The plant rooms have been used temporarily by the EMSTF since 2015. There is a need to review the optimal use of the two rooms (paras. 4.11 to 4.15).

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9. ***Monitoring performance of contractor on facility management services.***

According to the contracts, the TC may carry out joint site inspections with the contractor to inspect the quality of services provided. Audit noted that no joint site inspections were carried out under the first contract. The first joint site inspection under the current contract (commencing June 2015) was carried out in February 2016. Audit review of the joint site inspection records revealed that during the inspections, only the attendance of contractor staff was checked instead of the quality of services. Furthermore, the TC had not issued any guidelines or checklists for site inspections to ensure that the site inspections are carried out effectively and consistently to monitor the quality of the services provided by the contractor (para. 4.22).

10. ***Maintenance of KTCT facilities.***

The TC and the EMSTF signed a service level agreement for ten years from 1 June 2013. According to the agreement, the EMSTF is required to submit half-yearly performance reports on the actual performance of the engineering systems compared with the specified targets. However, the EMSTF had only submitted five reports for the seven half-yearly periods from 1 June 2013 to 31 December 2016. There were 256 maintenance cases reported to the Architectural Services Department and the EMSTF during the period from January 2015 to December 2016 relating to water leakage/seepage, representing 22% of all maintenance cases. Audit analysed 83 water leakage/seepage cases reported by the terminal operator in 2016 and noted that 67 locations were involved. For 12 of the 67 locations, water leakage/seepage occurred more than once and for 3 of the 12 locations, water leakage/seepage occurred more than twice. Audit analysed the 98 fault cases of lifts/escalators reported in 2015 and 2016 and noted that fault cases had been reported for 21 (27%) of the 78 lifts/escalators, although many were caused by improper operation. Of the 78 lifts/escalators, 7 (9%) had fault cases more than 5 times. One of them had fault cases 17 times during the period (paras. 4.25 to 4.27 and 4.29 to 4.31).

11. ***Attendance at ACCI meetings.***

The ACCI advises the Government on measures to enhance the development of Hong Kong as a regional cruise hub. Audit examination of the attendance records up to February 2017 of the 12 current ACCI members during their tenures revealed that the attendance rates of some members were on the low side. Three members had average attendance rates below 50%. Audit also noted that the two members with the lowest attendance rates had each been reappointed twice despite their low attendance rates in their previous terms (paras. 4.36 to 4.38).

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12. ***Strategic planning.*** A structured strategic planning process could be a useful means of soliciting advice and securing support from key stakeholders in the cruise and tourism industry. From time to time, the TC analysed the situations of the cruise industry and the possible strategic directions for developing Hong Kong into a leading regional cruise hub. There is merit for the TC to produce a document in the form of a Strategic Plan, incorporating all the elements of strategic planning (paras. 4.43 and 4.44).

Audit recommendations

13. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in the Executive Summary. Audit has recommended that the Commissioner for Tourism should:**

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- (a) **as soon as the KTCT has gathered sufficient operational experience, conduct a mid-term assessment on the progress made by the cruise industry in achieving the expected economic benefits and the prospect of realising the expected benefits by 2023 (para. 2.15(a));**
- (b) **take further measures to drive more ship calls to the KTCT (para. 2.20(a));**

Monitoring performance of terminal operator

- (c) **urge the terminal operator to continue its efforts to lease out the unlet ancillary commercial area at the KTCT (para. 3.14(a));**
- (d) **continue to urge the terminal operator to promote the use of the KTCT as a venue for non-cruise events (para. 3.14(d));**
- (e) **ensure that the service pledges on the performance of the terminal operator are approved by the TC (para. 3.23(a));**

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- (f) ensure that the terminal operator complies with all the requirements under the TA (para. 3.23(b));
- (g) ensure that comprehensive service pledges covering all major areas of operation and management of the KTCT are set to facilitate the monitoring of the performance of the terminal operator (para. 3.23(c));
- (h) review the service pledges on the performance of the terminal operator periodically to ensure that they are meaningful, challenging and achievable (para. 3.23(d));

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- (i) in collaboration with the terminal operator, continue to critically review the overall transport arrangement to ensure that effective and efficient transport services are provided (para. 4.8(g));
- (j) ensure that the traffic management plan is updated regularly by the terminal operator and is approved by the TC (para. 4.8(f));
- (k) urge the terminal operator to endeavour to let out the video wall (para. 4.16(a));
- (l) monitor the proper functioning of the video wall regularly and ensure that repair work for the video wall is carried out in a timely manner (para. 4.16(c));
- (m) review whether the current temporary use of the two spare on-shore power supply system plant rooms by the EMSTF represents the optimal use (para. 4.16(d));
- (n) ensure that joint site inspections are carried out in a way that is effective in monitoring the quality of the services provided by the contractor (para. 4.23(c));

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- (o) **ensure that the EMSTF submits half-yearly performance reports in a timely manner, and include in the reports the actual performance (para. 4.32(a));**
- (p) **in collaboration with the Architectural Services Department, take effective measures to address the water leakage and seepage problem (para. 4.32(b));**
- (q) **in collaboration with the EMSTF, take effective measures to address the problem of lifts/escalators fault cases (para. 4.32(d));**
- (r) **take measures to improve the attendance rates of ACCI members with low attendance records and in future give due consideration to the attendance records of members when considering their reappointments (para. 4.40);**
- (s) **develop a Strategic Plan incorporating elements such as strategic objectives, strategic directions and strategic actions (para. 4.45(b)); and**
- (t) **review and update the Strategic Plan periodically to take into account changes in the cruise industry (para. 4.45(c)).**

Response from the Government

14. The Government agrees with the audit recommendations.