

CHAPTER 2

Food and Environmental Hygiene Department

Public markets managed by the Food and Environmental Hygiene Department

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PUBLIC MARKETS MANAGED BY THE FOOD AND ENVIRONMENTAL HYGIENE DEPARTMENT

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PUBLIC MARKETS MANAGED BY THE FOOD AND ENVIRONMENTAL HYGIENE DEPARTMENT

Summary

1. From January 2000, the Food and Environmental Hygiene Department (FEHD) took over the responsibility for managing public markets. As at 31 March 2003, the FEHD managed 15,075 market stalls in 82 markets under the Public Health and Municipal Services Ordinance (para. 1.2).

AUDIT FINDINGS

Many market stalls were vacant or non-trading

2. The FEHD set the target overall market stall occupancy rate of public markets at 85% in January 2000. On this basis, the overall market stall vacancy rate (MSVR) for all markets, including older markets, should not exceed 15%. The target overall MSVR was revised to 16% in January 2001. Notwithstanding this, the overall MSVR of markets increased from 15.7% as at 31 March 2000 to 22.6% as at 31 March 2003. Many market stalls have been vacant for a long period of time. As at 31 March 2003, 61.7% of the vacant market stalls had been vacant for two years or more (paras. 2.3, 2.5 and 2.7).

3. It is reasonable to expect that public markets built in recent years would attract many customers and consequently achieve an MSVR much lower than 16%. However, as at 30 June 2003, the overall MSVR of the eight markets commissioned after 1998 was 19%. For five markets, the MSVR ranged from 20% to 53.5% (paras. 2.8 and 2.9).

4. For public markets previously managed by the then Urban Services Department (USD), the tenancy agreement allows a stall lessee to cease trading for a maximum of 156 days a year. For markets previously managed by the then Regional Services Department (RSD), the maximum is 84 days a year. Audit's survey in April and May 2003 revealed that in 20 randomly



selected markets, 17.6% of the market stalls leased out were not being used for trading (paras. 2.19 and 2.20).

Planning standard for public markets not updated since 1989

5. In determining the demand for market stalls, the FEHD takes into account the planning standard for public markets set down in the Hong Kong Planning Standards and Guidelines (HKPSG). This planning standard has not been updated since its approval by the Land Development Policy Committee in 1989. It now appears outdated, given the changed circumstances brought about by the proliferation of superstores, supermarkets and fresh provision shops in recent years (paras. 3.2, 3.3 and 3.5).

Large operating deficits incurred at some public markets

6. In 2002-03, the FEHD incurred an operating deficit at 74 public markets. At the ten markets with the highest operating deficits, the amount ranged from \$6.46 million to \$11.79 million. At the ten markets with the highest operating deficit per leased market stall, the deficit per stall ranged from \$90,000 to \$156,000 (paras. 4.2 and 4.3).

7. The audit findings in paragraphs 2 to 6 suggest that the FEHD needs to promptly conduct a comprehensive review with a view to ascertaining whether any of the markets should be closed down (para. 4.14).

Retrofitting of air-conditioning systems to improve the viability of public markets

8. In 2000, the FEHD retrofitted air-conditioning systems in three public markets. However, during the period March 2000 to June 2003, the overall MSVR of these three markets increased by 9.2% while the overall MSVR of all markets increased by only 6.9%. As at 30 June 2003, the MSVR of some markets without air-conditioning systems was very low (as low as 0.5%), while the MSVR of some markets provided with air-conditioning systems was very high (as high as 53.5%). These audit findings do not seem to support the belief that providing air-conditioning systems can significantly improve the viability of markets. In Audit's view, the FEHD should critically reassess the need for the retrofitting of air-conditioning systems in markets (paras. 5.3, 5.7 and 5.13 to 5.15).

**Vacant floor space in two public markets
not put to beneficial permanent use**

9. For some ten years, the vacant market floor space on the second floor of the Fa Yuen Street (FYS) Market and in the basement of the To Kwa Wan (TKW) Market has not been put to beneficial permanent use. The FEHD needs to promptly put the vacant market floor space to beneficial permanent use (paras. 6.3, 6.5, 6.12 and 6.13).

AUDIT RECOMMENDATIONS

10. The Director of Food and Environmental Hygiene should:

Vacant or non-trading market stalls

- (a) conduct a comprehensive review to ascertain the causes of the high MSVRs of public markets, especially those commissioned after 1998, and take remedial action to reduce the MSVR of markets (para. 2.16);
- (b) review the justifications for allowing:
 - (i) stall lessees of public markets previously managed by the USD to cease trading for a maximum of 156 days a year; and
 - (ii) stall lessees of markets previously managed by the RSD to cease trading for a maximum of 84 days a year (para. 2.23(a));

Planning standard for public markets

- (c) in conjunction with the Director of Planning, promptly conduct a comprehensive review of the demand for public market facilities, having regard to the changed circumstances brought about by the proliferation of superstores, supermarkets and fresh provision shops in recent years, and revise the planning standard for the



provision of public markets set down in the HKPSG accordingly (para. 3.6);

Operating deficits incurred at some public markets

- (d) promptly conduct a comprehensive review of public markets with a view to ascertaining whether any of the markets should be closed down (para. 4.17(a));
- (e) in the light of the results of the comprehensive review, draw up an action plan to deal with those public markets identified for closure (para. 4.17(b));
- (f) re-examine the feasibility of transferring the entire operation of selected public markets to private operators, and consider carrying out a pilot scheme to test this arrangement (para. 4.17(c));

Retrofitting of air-conditioning systems

- (g) critically reassess the need for the retrofitting of air-conditioning systems in public markets (para. 5.16); and

Vacant floor space in two public markets

- (h) draw up an action plan to put the vacant market floor space in the FYS Market and the TKW Market to beneficial permanent use (para. 6.14(b)).

Response from the Administration

11. The Administration generally agrees with Audit's observations and recommendations.

PART 1: INTRODUCTION

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

Background

1.2 The two Provisional Municipal Councils (PMCs) were dissolved on 31 December 1999. With effect from 1 January 2000, the Food and Environmental Hygiene Department (FEHD) took over the responsibility for managing the public markets previously managed by the then Urban Services Department (USD) and the then Regional Services Department (RSD). As at 31 March 2003, the FEHD managed 15,075 market stalls in 82 markets under the Public Health and Municipal Services Ordinance (Cap. 132). These markets are provided to meet the needs of the community and to accommodate hawkers who would otherwise be trading on-street, causing nuisance and congestion to pedestrian and vehicular traffic. All market stalls are let to lessees under tenancy agreements by auction.

1.3 Of the 82 public markets, 20 markets (24%) were built before 1980 (see Table 1). The design and facilities of some of these old markets may not meet present-day expectations, and may offer limited scope for improvement.

Table 1

Year of commissioning of the 82 public markets

Year of commissioning	Number of markets
Before 1970	10
1970 to 1979	10
1980 to 1989	31 (38%)
1990 to 1999	28 (34%)
2000 to 2002	3 (4%)

Source: Audit's analysis of FEHD's records

Number of market stalls in public markets

1.4 The construction and location of many public markets was determined mainly by the availability of sites and resiting commitments. Because of the need to meet resiting commitments, some markets were provided with a large number of market stalls. On average, each market has 184 market stalls. The FEHD is unable to lease out some market stalls in markets. Some market stalls leased out are not used for trading. Table 2 summarises the number of market stalls in the 82 markets.

Table 2

Number of market stalls in the 82 public markets

Number of market stalls	Number of markets
Over 400	8 (10%)
301 to 400	8 (10%)
201 to 300	17 (21%)
101 to 200	20 (24%)
Less than 101	29 (35%)

Source: Audit's analysis of FEHD's records

Costs of operating public markets

1.5 In most public markets, the cleansing and security services have been contracted out. For all markets, property maintenance services are provided by the Architectural Services Department (ArchSD) and electrical maintenance services are provided by the Electrical and Mechanical Services Department. In 2002-03, the total cost (excluding land cost and depreciation) of operating markets was \$551.7 million (see Table 3), and the operating deficit was \$237.5 million.

Table 3
Costs of operating public markets
(2002-03)

	Operating cost (\$ million)
Staff costs	183.3
Departmental expenses	288.8
Cost of services provided by other departments	45.4
Administrative overheads	29.7
Other costs (Note)	4.5
Total	551.7

Source: Audit's analysis of FEHD's records

Note: These do not include land cost and depreciation.

Air-conditioning in public markets

1.6 Poor ventilation has been put forward as a factor affecting the operation of some public markets. Of the 82 markets, 13 (16%) are provided with air-conditioning. Since the mid-1990s, air-conditioning has become a standard installation in new markets. Of the old markets, three have been retrofitted with air-conditioning systems.

Viability of public markets

1.7 In Chapter 15 of the Director of Audit's Report No. 29 of October 1997, Audit reported on the public markets managed by the USD. Audit recommended that:

- (a) viability should be the overriding consideration in planning markets; and
- (b) every new market should be justified by a comprehensive review of the demand for such market facilities.

1.8 In its Report No. 29 of February 1998, the Public Accounts Committee urged the then Director of Urban Services to:

- (a) strictly follow the policy of the then Urban Council (UC) that public markets should no longer be built to satisfy resiting commitments, but should be justified by establishing a distinct demand and role for them in a District Plan; and
- (b) justify every new market by conducting a comprehensive review of the demand for such market facilities.

Recent developments

1.9 In December 1999, shortly before the dissolution of the two PMCs, both the Finance Committee and the Public Works Subcommittee (PWSC) of the Legislative Council (LegCo) decided that projects being undertaken by the PMCs which were at a comparatively early planning stage and which had not obtained all necessary PMC approvals should be reviewed before proceeding further. Such projects included proposed public markets for eight locations, namely Aldrich Bay, Hung Shui Kiu, Kam Tin, Lau Fau Shan, Siu Sai Wan, Stanley, Tseung Kwan O and Tung Chau Street.

1.10 In July 2003, the FEHD completed its review of the proposed public markets. Taking into account the audit recommendations and the Public Accounts Committee's recommendations, the FEHD decided to proceed only with the proposed market in Aldrich Bay.

Audit review

1.11 Audit has conducted a review of public markets managed by the FEHD (Note 1). The audit objectives were to examine:

- (a) the situation of vacant market stalls and non-trading market stalls (see PART 2);
- (b) the progress of reviewing and updating the planning standard for markets (see PART 3);
- (c) the operating deficits incurred at some markets (see PART 4);
- (d) the cost-effectiveness of retrofitting air-conditioning systems in markets as a measure to enhance their viability (see PART 5); and
- (e) the justification for allowing some market floor space to remain vacant for lengthy periods (see PART 6).

Note 1: *The review did not cover the cooked food markets managed by the FEHD.*

PART 2: VACANT MARKET STALLS AND NON-TRADING MARKET STALLS

2.1 This PART examines the situation of vacant market stalls and non-trading market stalls, and suggests measures for improvement.

Vacancy rate of market stalls as a measure of viability

2.2 The viability of a public market is affected by a number of factors, including the population size in its catchment area, its location, and the presence of competitors in the vicinity. The percentage of market stalls which are vacant, i.e. the market stall vacancy rate (MSVR), is a useful quantitative benchmark for measuring the viability of a market.

FEHD's target market stall occupancy rate

2.3 After taking over the responsibility for managing public markets from the USD and the RSD in January 2000, the FEHD set an 85% target for the overall market stall occupancy rate of its markets. This indicated that the overall MSVR should not exceed 15%. With effect from 1 January 2001, the FEHD revised the target overall market stall occupancy rate of markets to 84% (i.e. the overall MSVR of markets should not now exceed 16%). However, the FEHD has not set a target market stall occupancy rate for each market.

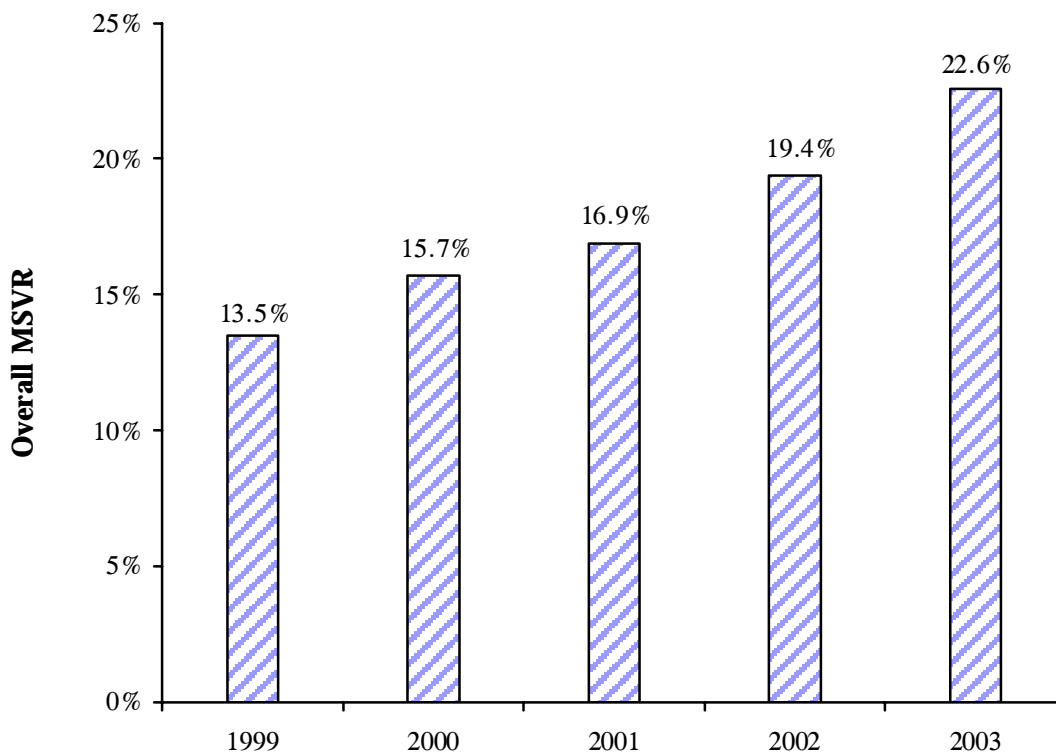
Overall MSVR of public markets

2.4 Public markets face increasingly strong competition. A major threat to the business of stall lessees stems from the changing shopping habits of the public. A survey commissioned by the FEHD in late 2000 revealed that the proportion of customers who preferred shopping at supermarkets to shopping at markets had increased. Apart from supermarkets, hawkers and other retail outlets (such as fresh provision shops and grocery stores) were also strong competitors.

2.5 As indicated in Figure 1, the overall MSVR of public markets increased from 13.5% as at 31 March 1999 to 22.6% as at 31 March 2003.

Figure 1

**Overall MSVR of public markets
(1999 to 2003)**



As at 31 March

Source: Audit's analysis of FEHD's records

Remarks: 1. The FEHD's target overall MSVR from 1 January 2000 to 31 December 2000 was 15%. This was changed to 16% with effect from 1 January 2001 (see para. 2.3).

2. As at 30 June 2003, the overall MSVR was 22.6%.

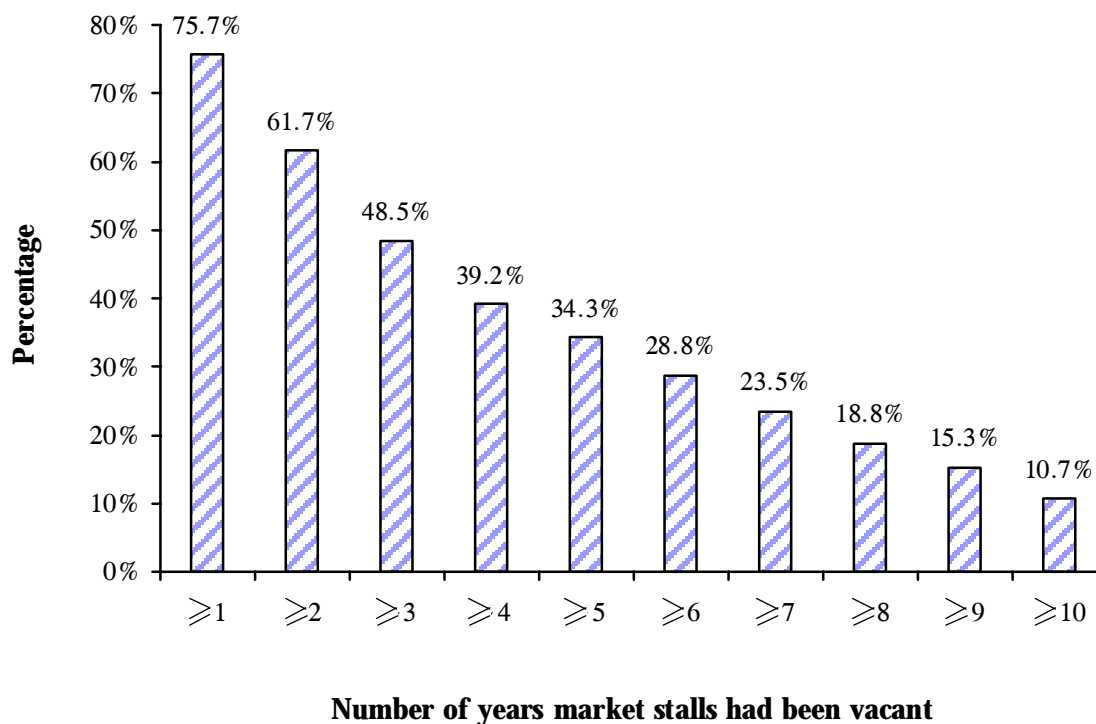
2.6 Audit's analysis of the MSVR of the 82 public markets revealed that as at 31 March 2003, there were 38 markets (46%) which each had a vacancy rate higher than 20% (see Appendix A).

Ageing analysis of vacant market stalls

2.7 Audit performed an ageing analysis of the 3,411 vacant market stalls as at 31 March 2003. Audit found that 61.7% of them had been vacant for two years or more (see Figure 2).

Figure 2

Ageing analysis of vacant market stalls
(31 March 2003)



Source: Audit's analysis of FEHD's records

MSVR of some recently commissioned public markets

2.8 The FEHD has not set a target MSVR for each public market. The FEHD's target overall MSVR of 16% represents an average MSVR for all markets, including older markets. It is reasonable to expect that markets built in recent years would attract many customers and consequently achieve an MSVR much lower than 16%.

2.9 Eight public markets were commissioned after 1998. Audit analysed the MSVR of these markets as at 30 June 2003 and found that their overall MSVR was 19%. The MSVRs of five markets (i.e. Lei Yue Mun, Luen Wo Hui, Peng Chau, Stanley Temporary and Yee On Street) ranged from 20% to 53.5%. The MSVRs of the remaining three markets were below 16% (see Appendix B).

Case studies of two recently commissioned public markets with high MSVRs

2.10 Audit reviewed two recently commissioned public markets, namely the Peng Chau Market and the Luen Wo Hui Market, which were planned by the RSD in the 1990s. Audit found that no viability studies had been conducted before these markets were built with the purpose of resiting stall lessees of existing markets and hawkers in the vicinity.

Peng Chau Market

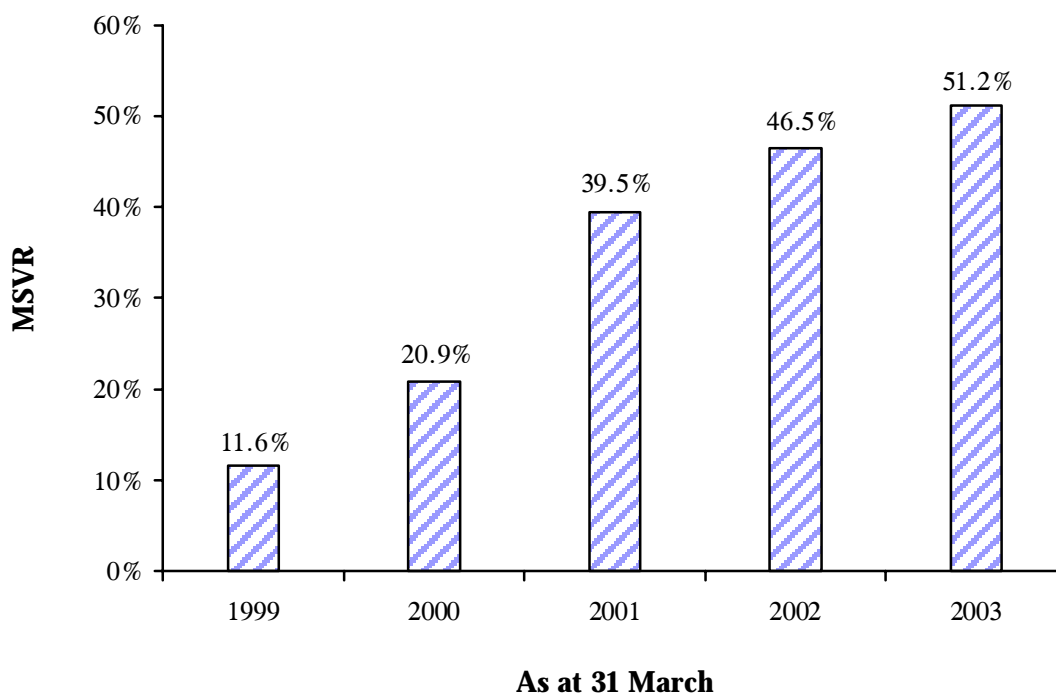
2.11 Construction of the Peng Chau Market began in October 1996 and was completed in August 1998. It was commissioned in February 1999. Forty-three market stalls were provided in this market to resite:

- (a) 16 stall lessees of an existing market in Peng Chau; and
- (b) 3 licensed hawkers and 33 unlicensed hawkers.

2.12 The population of Peng Chau is less than 8,000. Many Peng Chau residents work or study in the urban areas where they can buy their daily necessities. As indicated in Figure 3, the MSVR of the Peng Chau Market has increased, from 11.6% as at 31 March 1999 to 51.2% as at 31 March 2003.

Figure 3

**MSVR of Peng Chau Market
(1999 to 2003)**



Source: Audit's analysis of FEHD's records

Remarks: As at 30 June 2003, the MSVR of the Peng Chau Market was 53.5%.

Luen Wo Hui Market

2.13 Construction of the Luen Wo Hui Market began in November 1999 and was completed in May 2002. It was commissioned in July 2002. A total of 334 market stalls were provided in the Luen Wo Hui Market to resite:

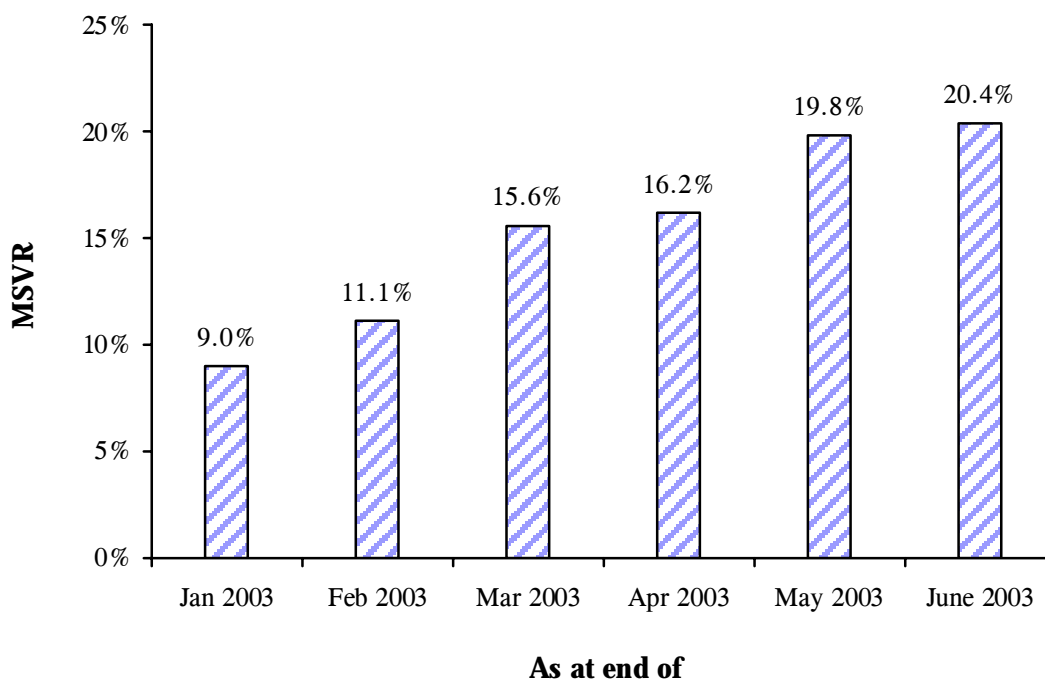
- (a) 60 stall lessees of the Luen Wo Private Market;

- (b) 60 licensed hawkers trading in the Luen Wo Hui Temporary Hawker Bazaar; and
- (c) 25 licensed hawkers and 189 unlicensed hawkers trading in the Luen Wo Hui Hawker Bazaar.

2.14 The MSVR of the Luen Wo Hui Market (commissioned in July 2002) increased from 9% as at 31 January 2003 to 20.4% as at 30 June 2003 (see Figure 4). One major reason seems to be that the Luen Wo Hui Market competes with the Shek Wu Hui Market for patronage. The Shek Wu Hui Market is centrally located in the township of Shek Wu Hui and is linked by elevated walkways with a number of shopping arcades and residential developments, and with the Sheung Shui railway station.

Figure 4

**MSVR of Luen Wo Hui Market
(January 2003 to June 2003)**



Source: Audit's analysis of FEHD's records

Audit observations

2.15 The FEHD set the target overall MSVR for public markets at 15% in January 2000, and revised it to 16% in January 2001. Notwithstanding this, the overall MSVR for all markets increased from 15.7% as at 31 March 2000 to 22.6% as at 31 March 2003 (see para. 2.3 and Figure 1 in para. 2.5). Many market stalls have been vacant for a long period of time. As at 31 March 2003, 61.7% of the vacant market stalls had been vacant for two years or more (see para. 2.7). It is a matter of concern that a few markets commissioned after 1998 have high MSVRs (see para. 2.9).

Audit considers that the FEHD should take action to reduce the MSVR of its markets.

Audit recommendations

2.16 **Audit has recommended that the Director of Food and Environmental Hygiene should:**

- (a) **conduct a comprehensive review to ascertain the causes of the high MSVRs of public markets, especially those commissioned after 1998;**
- (b) **in the light of the results of the comprehensive review, take remedial action to reduce the MSVR of markets. In doing so, the Director should:**
 - (i) **consider setting a target MSVR for each market which takes into account the business environment in the vicinity; and**
 - (ii) **closely monitor the MSVR of each market to ensure that its target MSVR is not exceeded.**

Response from the Administration

2.17 **The Director of Food and Environmental Hygiene agrees to consider whether Audit's recommendation of setting an individual MSVR for each public market would be helpful in reducing their MSVR.** He has also said that:

- (a) the MSVR should be seen in relation to the overall economic climate. The overall vacancy rate for private commercial premises used for retail business in 2002 was 10.7%;
- (b) the word “target” used in the Estimates and the Controlling Officer’s Report (COR) is a misnomer. The FEHD meant it to stand for what could reasonably be achieved having regard to a host of factors (such as the prevalent economic climate, shopping habits of the public, and competition from other retail outlets) rather than what should be achieved. The FEHD meant it to be an indicator rather than a target. The FEHD will change the wording in the Estimates and the COR when these documents are next published;
- (c) the letting of a large number of market stalls in markets has been purposely frozen for reasons such as redevelopment, resiting commitments and improvement works. After deducting the number of purposely frozen market stalls, the MSVR as at 31 July 2003 was only 11.8%. This is comparable to the overall vacancy rate for private commercial premises used for retail business in Hong Kong, and compares favourably with the indicator of 16% (Note 2);
- (d) the FEHD believes that the overall vacancy rate for private commercial premises used for retail business is a useful benchmark for assessing whether the MSVR of markets is unacceptably high (after deducting the number of purposely frozen market stalls);
- (e) to improve the operating environment of its markets, the FEHD has earmarked nearly \$640 million over the next few years for carrying out improvement works, which will include the retrofitting of air-conditioning systems or improvement of ventilation systems, the upgrading of drainage systems, lighting and signages, and the replacement of floor and wall finishes;

Note 2: *Audit notes that the target overall market stall occupancy rate of 84% (from which the MSVR indicator of 16% is derived) was set by the FEHD in January 2001 by expressing the number of leased market stalls as a percentage of the **total** number of market stalls (including the frozen market stalls — see para. 2.3). **The FEHD has now changed its position by excluding the frozen market stalls.***

- (f) to improve the management of its markets, the FEHD is taking steps to harness entrepreneurship and creativity from the private sector by implementing a Market Manager Pilot Scheme in four markets. Under this scheme, well-qualified and experienced personnel from the private sector are being engaged to manage the markets and organise promotional activities to attract customers;
- (g) since early 2003, the FEHD has provided customer service training seminars for stall lessees of ten markets to promote the importance for traders of adopting to customer needs in their everyday business operations. Similar seminars will be offered to stall lessees of other markets later this year; and
- (h) the FEHD will further explore ways of reducing the MSVR of its markets to below the overall vacancy rate for private commercial premises used for retail business and below any MSVR, should such references be set, for individual markets.

2.18 The **Secretary for Health, Welfare and Food** shares Audit's view that proactive actions are required to reduce the MSVR of public markets. He has also said that:

- (a) the Health, Welfare and Food Bureau (HWFB) has been exploring with the FEHD ways and means to reduce the MSVR; and
- (b) the HWFB has recently sought the Financial Services and the Treasury Bureau's consent to implement a more flexible upset price-setting mechanism for long-standing vacant market stalls, on a trial basis. Under this mechanism, the upset price for these market stalls will be lowered by 20% of the open market rent (OMR — Note 3) for every successive auction until they attract a bid, subject to a minimum of 60% of the OMR being set as the upset price. The trial scheme is being run in three markets and, depending on its results, the HWFB will consider extending this mechanism to other markets.

Note 3: *The open market rent of a market stall refers to the rent at which the market stall may reasonably be expected to be let on the terms of the tenancy in the open market at a certain valuation date.*

Many market stalls leased out not used for trading

2.19 According to the market stall tenancy agreement, a stall lessee must not cease carrying on business at the market stall for more than a specified number of days without the FEHD's prior consent in writing. For public markets previously managed by the USD, the tenancy agreement allows a stall lessee to cease trading for a maximum of 156 days a year (13 days per month × 12 months). For markets previously managed by the RSD, the maximum is 84 days a year.

Audit survey of non-trading market stalls

2.20 In April and May 2003, Audit surveyed 20 randomly selected public markets (Note 4) to ascertain the number of market stalls which were not used for trading. The results of Audit's survey (see Appendix C) indicated that 17.6% of the market stalls leased out in these 20 markets were not being used for trading.

2.21 Audit found that at 17 public markets, the FEHD had not maintained proper records showing the number of non-trading days of each market stall, and whether that number had exceeded the maximum allowed by the tenancy agreement. However, the FEHD began keeping non-trading records for one of these 17 markets in March 2003, and for another in May 2003.

Audit observations

2.22 The existence of many non-trading market stalls is detrimental to the viability of a public market. It also deprives other traders of opportunities to lease the market stalls. Traders and customers tend to further distance themselves from a market with a high market stall non-trading rate, making it even less viable.

Note 4: *The survey covered 6,450 market stalls, which represented 43% of the 15,075 market stalls in all 82 public markets. Every market stall in the 20 selected markets was visited twice on the same day, once in the morning and once in the afternoon, during the busy shopping hours. During these pre-arranged visits, Audit staff were accompanied by officers of the FEHD. Audit classified a leased market stall as non-trading if there were no observable trading activities during both visits.*

Audit recommendations

2.23 **Audit has recommended that the Director of Food and Environmental Hygiene should:**

- (a) **review the justifications for allowing:**
 - (i) **stall lessees of public markets previously managed by the USD to cease trading for a maximum of 156 days a year; and**
 - (ii) **stall lessees of markets previously managed by the RSD to cease trading for a maximum of 84 days a year;**
- (b) **standardise the terms in all tenancy agreements regarding the maximum number of non-trading days allowed in a year;**
- (c) **ensure that FEHD staff keep proper records showing that stall lessees have complied with the tenancy agreement regarding the number of days that they are allowed to cease trading in a year; and**
- (d) **closely monitor the situation of non-trading market stalls in each market and consider taking action against those stall lessees who have breached the tenancy agreement regarding the maximum number of non-trading days allowed in a year.**

Response from the Administration

2.24 The **Director of Food and Environmental Hygiene** has said that:

- (a) the FEHD will review the justifications for allowing the current maximum number of non-trading days in a year and standardise the trading requirement for stall lessees of public markets; and

- (b) the FEHD has already taken measures to ensure that its staff keep proper records of the non-trading days of stall lessees. The FEHD has stepped up enforcement of the tenancy conditions concerning non-trading days and will continue to do so. However, the FEHD envisages that there will be enforcement difficulties, given the limited number of staff it deploys to manage markets and the fact that it is sometimes arguable whether a market stall is non-trading. As trading inside a market is a commercial activity, stall lessees are free to operate the market stalls at any time and for any period within the market opening hours.

2.25 **The Secretary for Health, Welfare and Food agrees that the image of a public market is adversely affected by having a high percentage of leased-out market stalls in non-trading mode.** He has also said that:

- (a) Audit's recommendation to reduce the overall proportion of non-trading stalls in markets deserves careful consideration;
- (b) it is worth noting that tightening up on the "non-trading" rule in tenancy agreements would inevitably lead to more terminations of tenancies. This may put further pressure on the overall occupancy rate of markets and reduce rental income collectible. Termination of such tenancies will not necessarily lead to a reduction in operating costs unless the FEHD can partly or completely close down the markets concerned; and
- (c) in seeking to reduce the percentage of non-trading market stalls, consideration should also be given to encouraging dormant stall lessees to reactivate their businesses rather than relying on punitive measures alone.

PART 3: PLANNING STANDARD FOR PUBLIC MARKETS

3.1 This PART examines the planning standard for public markets and suggests measures for improvement.

Current planning standard based on a 1987 study

3.2 In 1987, the USD commissioned a market research company to survey the demand for and supply of market facilities in the Central, Wan Chai, Western and Sham Shui Po Districts. Based on the survey results, the USD submitted recommendations to the then Land Development Policy Committee (LDPC — Note 5). In August 1989, the LDPC approved the USD's recommendations, which then became the basis of the current planning standard set down in Chapter 6 of the Hong Kong Planning Standards and Guidelines (HKPSG). Chapter 6 of the HKPSG deals with retail planning including the provision of public markets. It states that:

“the standard for market provision in urban area is one stall per 55-65 households or approximately 40-45 stalls per 10,000 population. This standard is also applicable to the New Territories without resiting commitment. The standard serves as a guideline and should be applied flexibly to take into account the resiting commitment, the availability of complementary retail facilities in the vicinity, the nature and scale of bulk and retail sales, the viability of the market and the existing nuisance caused by the hawkers. Each case would have to be assessed in a district context.” (Audit's emphasis)

Planning standard for public markets not updated since 1989

3.3 The planning standard for public markets has not been updated since its approval by the LDPC in 1989.

3.4 In Chapter 15 of the Director of Audit's Report No. 29 of October 1997 (see para. 1.7), Audit recommended that the USD should review the standard for the provision of market stalls set down in the HKPSG. In 1998, the general retail planning

Note 5: *The Land Development Policy Committee, which was chaired by the then Chief Secretary, advised on land policy matters. It was dissolved in August 1994 because of duplication in membership and functions with the Lands, Works, Transport, Housing and Environmental Protection Policy Group of the then Chief Secretary's Committee.*

guide was updated following a study of the retail situation in Hong Kong. However, this update did **not** cover the planning standard for public markets because, at that time, the USD was planning to commission a consultancy on the markets which it managed. In March 1999, the UC decided not to proceed with the consultancy. Up to the completion of this audit in July 2003, the FEHD had not updated the planning standard for markets.

Audit observations

3.5 The planning standard for public markets was approved by the LDPC in 1989 (see para. 3.2). The FEHD takes this planning standard into account in determining the demand for market stalls. In Audit's view, the proliferation of superstores, supermarkets and fresh provision shops in recent years has posed an increasing threat to the business of markets. Furthermore, superstores have a significant impact on the traditional retail trade and on the shopping habits of the public because they sell a wide range of commodities including fresh provisions and live seafood. To a large extent, they are playing the role of markets.

Audit recommendations

3.6 **Audit has recommended that the Director of Food and Environmental Hygiene should, in conjunction with the Director of Planning:**

- (a) **promptly conduct a comprehensive review of the demand for public market facilities, having regard to the changed circumstances brought about by the proliferation of superstores, supermarkets and fresh provision shops in recent years; and**
- (b) **in the light of the comprehensive review, revise the planning standard for the provision of markets set down in the HKPSG.**

Response from the Administration

3.7 The **Director of Food and Environmental Hygiene** agrees that the planning standard for the provision of public markets set down in the HKPSG should be revised. He has also said that:

- (a) the planning standard for the provision of public markets set down in the HKPSG is not the sole factor in deciding to construct a market but simply serves as an administrative reference;

- (b) since its establishment in 2000, the FEHD has taken a host of factors into account besides the planning standard in deciding whether to construct new markets. These factors include the adequacy of existing market facilities in the catchment area provided by both the public and private sectors, the future viability of the proposed market facilities, the market facilities being planned by the Housing Authority (HA) and private developers, the FEHD's resiting commitments, and potential population growth in the catchment area. The FEHD will continue to adopt the same approach in planning future markets; and
- (c) any revision of the HKPSG should be based on the results of a review of the demand for market facilities.

3.8 The **Secretary for Health, Welfare and Food** agrees that the existing standards for the provision of public markets set down in the HKPSG may have outlived their usefulness. He has also said that:

- (a) the HWFB observes that the retailing of daily necessities and fresh produce in Hong Kong is characterised by a high degree of market accessibility and contestability. There are indeed equivalents or close substitutes in the private sector for goods sold and services rendered by purpose-built markets run by the HA and the FEHD. It does not seem meaningful to make a distinction between public and private market/retail facilities, particularly in an open market economy where the private sector can freely and efficiently respond to any imbalance in supply and demand of such facilities;
- (b) the HWFB considers that territory-wide and district-based planning of market/retail facilities should be demand-driven and customer-oriented. In the final analysis, it is the demographic profile of the shopping community and the prevailing needs and preferences of consumers that dictate the requirements for various types of market/retail facilities. In this connection, a review on shopping habits (commissioned by the Planning Department) will shed light on the extent to which the Government should continue to be involved in providing and operating market facilities; and
- (c) the HWFB has informed the Planning Department of the need to review the relevant paragraphs in the HKPSG using a holistic cross-government approach rather than a compartmentalised approach (which sets separate standards for retail facilities run by the private sector, the HA and the FEHD). The HWFB will continue to provide input into this review.

PART 4: OPERATING DEFICITS INCURRED AT SOME PUBLIC MARKETS

4.1 This PART examines the operating deficits incurred at some public markets and suggests measures for improvement.

Operating deficit per leased market stall

4.2 The FEHD incurs high costs in operating public markets. In 2002-03, their combined operating deficit was \$237.5 million (see para. 1.5). Of the 82 markets, 74 markets incurred an operating deficit. At the ten markets with the highest operating deficits, the amount ranged from \$6.46 million (Chai Wan Market) to \$11.79 million (Smithfield Market) (see Appendix D).

4.3 Audit calculated the annual operating deficit per leased market stall in 2002-03. At the ten public markets with the highest operating deficit per leased market stall, the deficit per stall ranged from \$90,000 (equivalent to 395% of the annual rental revenue per leased market stall) at the Electric Road Market to \$156,000 (equivalent to 645% of the annual rental revenue per leased market stall) at the Stanley Temporary Market (see Appendix E).

Rental of market stalls

4.4 When the FEHD was established, the Administration undertook to review the policy on rent revision for market stalls in public markets. In July 2000, an inter-departmental working group was set up under the FEHD to conduct the review. In May 2001, the working group reported to the LegCo Panel on Food Safety and Environmental Hygiene that the letting and operation of market stalls were basically commercial activities. As a general principle, rent should be set at the OMR. However, since market stall rent was at that time significantly below the OMR, the working group considered it desirable to raise the rent to the OMR gradually by phases to minimise the impact of rises on stall lessees.

4.5 After careful deliberation, the working group proposed the following rental adjustment mechanisms:

- (a) for new stall lessees who obtained market stalls by open auction at market rent, they would be required to pay the OMR as assessed by the Rating and Valuation Department (RVD) upon tenancy renewal;

- (b) for existing stall lessees who were paying a rent higher than the OMR as assessed by the RVD, the rent for the new tenancy would be set at the OMR;
- (c) for existing stall lessees whose rent was lower than the OMR, the rent would be increased according to a phased schedule to minimise its impact. The rent would be gradually raised by equal increments over each 3-year tenancy period, reaching a specific “target percentage” of the OMR by the end of each tenancy. The “target percentage” would be determined with regard to the difference between the rent and the OMR; and
- (d) the maximum annual rent increase would be capped at 20%.

4.6 Despite the FEHD’s intention to raise rents to the OMR, the rent of many market stalls is still below the OMR. The most recent revision of market stall rent was a 30% reduction in 1998. Since then, rent levels have been frozen.

4.7 In November 2002, because of the prevailing economic climate and the hardship faced by some stall lessees, the FEHD decided to extend the rental freeze period for a further 12 months, i.e. until 31 December 2003.

4.8 The rent of market stalls in most public markets is below the OMR. In 2002-03, the rent of market stalls was on average 57.5% of the OMR for markets in the urban area, and 64.5% of the OMR for markets in the New Territories.

Operating deficit would have continued even if FEHD had raised the rent to OMR

4.9 Audit also calculated the annual operating deficit per leased market stall, assuming that the FEHD had raised market stall rent to the OMR. At the ten public markets with the highest operating deficit per leased market stall in 2002-03, the amount would have ranged from \$74,000 (equivalent to 254% of the annual rental revenue per leased market stall) at the Mui Wo Market to \$138,000 (equivalent to 328% of the annual rental revenue per leased market stall) at the Stanley Temporary Market (see Appendix F).

Building costs of some public markets

4.10 It is costly to build public markets. As indicated in Table 4, the building cost per market stall of three recently commissioned markets ranged from \$0.84 million to \$1.38 million. Had depreciation been taken into account, the operating deficit incurred for markets in 2002-03 would have been much higher.

Table 4

Building cost per market stall of three recently commissioned public markets

Market	Year of commissioning	Building cost	Number of market stalls	Building cost per market stall
		(a)	(b)	(c) = $\frac{(a)}{(b)}$
		(\$ million)		(\$ million)
Peng Chau	1999	48.43	43	1.13
Sai Ying Pun	1999	140.76	102	1.38
Yee On Street	1999	54.60	65	0.84

Source: Audit's analysis of FEHD's records

Over-provision of market stalls

4.11 The USD and the RSD built public markets primarily to accommodate hawkers who would otherwise be trading on-street, causing nuisance and congestion to pedestrian and vehicular traffic (see para. 1.2). By the time the FEHD took over the markets, there was an over-provision of market stalls.

4.12 In September 2000, the FEHD completed an analysis of the demand for and provision of market stalls, based on the HKPSG and the population distribution projection made by the Planning Department in August 2000. According to the HKPSG, the standard for market provision is 40 to 45 market stalls per 10,000 population (see para. 3.2). The FEHD's projection of the demand for market stalls was

based on the figure of 40 market stalls per 10,000 population. The FEHD's analysis indicated that there were already 1,762 market stalls more than the projected demand.

4.13 The FEHD's projection of the demand for market stalls was based on population figures. The existence of other retail outlets was not taken into account. Had this been done, the number of market stalls over-provided would probably have exceeded 1,762. As at 31 March 2003, the total number of vacant market stalls was 3,411.

Audit observations

4.14 At the meeting of a subcommittee set up to follow up on the outstanding capital works projects of the PMCs which was held on 19 February 2003, a LegCo Member said that the Government should review the design of existing public markets to see whether they still met public demand and community's expectations (Note 6). Another LegCo Member said that the Administration should explore the possibility of closing those markets which were no longer viable. **In view of the over-provision of market stalls (see paras. 4.11 to 4.13), Audit considers that the FEHD needs to promptly conduct a comprehensive review with a view to ascertaining whether any of the markets should be closed down.**

4.15 In most public markets, the cleansing and security services are contracted out (see para. 1.5). To enhance the cost-effectiveness of market operation, the FEHD also plans to contract out the management of some markets. In this proposed plan, the FEHD will divide selected markets into small groups and then contract out cleansing services, security services and management for each group to one contractor. The FEHD expects the proposed arrangement to save from 30% to 40% in staff costs, and plans to launch a pilot scheme in early 2004.

4.16 In early 2003, the FEHD explored the feasibility of transferring the entire operation of selected public markets to private operators. Under such an arrangement, the FEHD would sell or lease each of the selected markets to a single operator. In the event, the FEHD considered that this proposal was not feasible because it would require

Note 6: *The LegCo Member also pointed out that some of these public markets were unpopular because of their location and outdated design. Citing the Tsuen King Circuit Market as an example, he noted that the business turnover of these outdated markets was so low that it would be a waste of public money to carry out general improvement works in them. He was of the view that the Administration should consider closing these markets and make compensation to the stall lessees concerned.*

the tenancy agreements of all stall lessees of such markets to be terminated before the transfer could take place. **Audit considers that the FEHD should not rule out such an arrangement without conducting an in-depth review of its feasibility from technical and legal points of view.**

Audit recommendations

4.17 **Audit has recommended that the Director of Food and Environmental Hygiene should:**

- (a) **promptly conduct a comprehensive review of public markets with a view to ascertaining whether any of the markets should be closed down. In doing so, factors which should be taken into account include:**
 - (i) **the cost-effectiveness of providing market stalls in the market;**
 - (ii) **the availability of retail facilities in the vicinity of the market;**
 - (iii) **the MSVR of the market; and**
 - (iv) **the extent to which the cost-effectiveness of providing market stalls in the market can be improved by:**
 - **contracting out the cleansing services, security services and management to a single contractor (see para. 4.15); or**
 - **contracting out the entire operation of the market to a single operator (see para. 4.16);**
- (b) **in the light of the results of the comprehensive review, draw up an action plan to deal with those markets identified for closure; and**
- (c) **re-examine the feasibility of transferring the entire operation of selected markets to private operators, and consider carrying out a pilot scheme to test this arrangement (see para. 4.16).**

Response from the Administration

- 4.18 The **Director of Food and Environmental Hygiene** has said that:
- (a) the FEHD will take into account the factors mentioned in paragraph 4.17(a) when identifying those public markets that should be closed because of unresolvable viability problems. To determine whether the viability problem of a market with high MSVR is unresolvable, the FEHD will attempt to ascertain the causes of the high MSVR. Once the FEHD has finalised the list of markets that should be closed, it will draw up an action plan;
 - (b) the FEHD will also consider whether it would help improve cost-effectiveness to:
 - (i) contract out cleansing services, security services and management to a single contractor; and
 - (ii) contract out the entire operation of the market to one or a small number of private operators;
 - (c) the FEHD will examine the feasibility of transferring the operation of selected markets to private operators. Dealing with existing stall lessees will be a major difficulty that needs to be overcome before such transfer can take place; and
 - (d) the FEHD also needs to maintain direct control over at least some markets so that it can:
 - (i) meet its resiting commitments;
 - (ii) accommodate itinerant hawkers who choose to give up their hawker licences to trade in markets, in line with the current policy; and
 - (iii) accommodate stall lessees of markets to be closed who choose to continue trading in other markets.

4.19 The **Secretary for Health, Welfare and Food** has said that:

- (a) **in the interests of judicious use of public resources, the HWFB supports the rationalisation of public markets with serious and insurmountable viability problems.** A sensible way forward is to examine the viability of each market with a view to identifying those which do not justify further resource commitments by the Government;
- (b) taking into account the list of viability factors (see para. 4.17(a)), the FEHD has embarked on a study to identify markets that may merit closure. Upon completion of this study, the HWFB will draw up a rationalisation plan, including options for terminating the tenancies of incumbent stall lessees, for consultation with LegCo, District Councils and other stakeholders involved; and
- (c) the HWFB has no objection in principle to leasing out markets to single private operators, although the practicability of this initiative needs further consideration. Apart from legal considerations, two key pre-requisites would have to be met:
 - (i) the FEHD needs to be convinced that there is substantial interest from the private sector in taking over the markets managed by the FEHD on a commercial basis without government subsidy. This will be contingent on the extent to which a single operator is allowed flexibility in venue design and layout, selection of stall lessees, determination of trade mix, stall configurations, stall rentals, etc.; and
 - (ii) the HWFB needs to ensure that takeover by a single operator is not objectionable to the majority of existing stall lessees concerned, if they cannot be relocated, nor to other stakeholders, e.g. District Councils.

PART 5: RETROFITTING OF AIR-CONDITIONING SYSTEMS

5.1 This PART examines the cost-effectiveness of retrofitting air-conditioning systems in public markets to enhance their viability, and suggests measures for improvement.

Retrofitting of air-conditioning systems in three public markets

5.2 Ventilation in public markets designed before the mid-1980s mainly relied on natural airflow, supplemented by electrical fans at suitable locations. Air ducts and extraction fans were subsequently installed in some of these markets to improve air circulation and remove the heat generated by electrical equipment installed by the stall lessees.

5.3 Mechanical Economic Air Treatment systems were provided at public markets built between the mid-1980s and the mid-1990s to improve ventilation. Since 1994, air-conditioning has been gradually introduced in newly designed markets. As for existing markets, in 1997 the RSD decided to retrofit air-conditioning systems in the Sha Tin Market, the Tai Kiu Market and the Yan Oi Market. This project was completed in September 2000.

5.4 In December 2000, the FEHD estimated the annual cost of providing the Sha Tin Market, the Tai Kiu Market and the Yan Oi Market with retrofitted air-conditioning systems. Based on this estimated annual cost, Audit calculated that the cost per leased market stall (including depreciation and electricity and maintenance costs) of providing retrofitted air-conditioning systems in these three markets in 2002-03 ranged from \$14,000 to \$26,000 (see Appendix G).

5.5 These three public markets were previously managed by the RSD. According to the policy of the then Provisional Regional Council, stall lessees were not required to share the capital cost of market air-conditioning. They were, however, required to begin paying for the recurrent cost of air-conditioning when they renewed their tenancy agreements. However, all tenancy agreements which expired after the retrofitting of the air-conditioning systems in September 2000 were extended on the same terms and conditions until 31 December 2003. **As a result, stall lessees have not been required to pay for the recurrent cost of air-conditioning.**

MSVR of public markets with retrofitted air-conditioning systems

5.6 To assess the impact of retrofitted air-conditioning systems on the viability of public markets, Audit analysed the MSVRs for the period March 2000 to June 2003

of the three markets retrofitted with air-conditioning systems. Appendix H shows that the MSVRs of these three markets in fact **increased** after the retrofitting of air-conditioning systems.

5.7 Audit also compared the overall MSVR of these three public markets retrofitted with air-conditioning systems with that of all markets from March 2000 to June 2003. Audit found that during this period, the overall MSVR of these three markets increased by 9.2% (from 7.6% to 16.8% — see Appendix H), while the overall MSVR of all markets increased by only 6.9% (from 15.7% to 22.6% — see Figure 1 in para. 2.5).

Further retrofitting of air-conditioning systems in public markets

5.8 In December 2000, the FEHD completed a review of the retrofitting of air-conditioning systems in the three public markets. The FEHD concluded that:

- (a) air quality was generally improved;
- (b) the provision of air-conditioning had improved the working environment for stall lessees and the shopping environment for customers;
- (c) stall lessees were generally satisfied with the air-conditioning systems; and
- (d) the improved shopping environment was conducive to the viability of the markets.

5.9 In the light of the review, the FEHD decided that the retrofitting of air-conditioning systems in 18 public markets (Note 7) should proceed. However, the FEHD took into account the fact that, apart from having to share the recurrent cost of air-conditioning, stall lessees would also be affected when the retrofitting works were carried out. It therefore decided that the retrofitting projects would only proceed if an 85% majority consent from stall lessees was obtained.

5.10 As at 31 March 2003, the FEHD had obtained the 85% majority consent in three markets, namely the Fa Yuen Street Market, the San Hui Market and the Yue

Note 7: *Before the dissolution of the two PMCs on 31 December 1999, the USD had planned to retrofit air-conditioning systems in ten public markets and the RSD had planned to retrofit air-conditioning systems in eight markets.*

Wan Market. The FEHD therefore decided to proceed with the retrofitting projects at these three markets (Note 8).

5.11 In April 2003, the PWSC approved funding of \$68.8 million for retrofitting an air-conditioning system and implementing general improvement works at the Yue Wan Market. In May 2003, the PWSC discussed the retrofitting of an air-conditioning system at the Fa Yuen Street Market. At the PWSC's meeting in May 2003, the FEHD withdrew the funding proposal, pending further information to be provided to the PWSC. Up to the end of June 2003, the FEHD had not yet sought approval for funding for the retrofitting of an air-conditioning system in the San Hui Market.

Allocation of the cost of providing retrofitted air-conditioning systems

5.12 The FEHD considers that the capital cost of providing air-conditioning in public markets should not be recovered from the stall lessees. If the FEHD were to do so, the stall lessees would have to pay very high monthly air-conditioning charges. Since the stall lessees do benefit from the retrofitting projects, the FEHD considers that they should bear the recurrent electricity and maintenance costs. However, the FEHD apportions the electricity and maintenance costs payable by stall lessees according to the floor area of the **leased** market stalls. The FEHD bears the remaining portion which, in percentage terms, is roughly equal to the MSVR of the market. Table 5 shows the MSVRs, as at 31 March 2003, of the Fa Yuen Street Market, the San Hui Market and the Yue Wan Market, in which the FEHD plans to retrofit air-conditioning systems.

Table 5

**MSVR of the three public markets in which
the FEHD plans to retrofit air-conditioning systems
(31 March 2003)**

Market	MSVR
Yue Wan	28.4%
San Hui	21.3%
Fa Yuen Street	5.3%

Source: FEHD's records

Note 8: *At the remaining 15 public markets, despite the FEHD's repeated efforts in lobbying stall lessees for their support, some stall lessees preferred to continue operating in a low-cost business environment without air-conditioning.*

MSVR of public markets without air-conditioning systems

5.13 The MSVR of the three public markets retrofitted with air-conditioning systems deteriorated after the retrofitting (see Appendix H). Audit noted that, as at 30 June 2003, the MSVR of some markets which were not provided with air-conditioning systems was very low (see Table 6). **This suggests that the lack of an air-conditioning system in a market does not necessarily lead to a high MSVR.**

Table 6

**Five public markets without air-conditioning systems
with very low MSVR
(30 June 2003)**

Market	MSVR
Pei Ho Street	0.5%
Lai Wan	2.4%
Cheung Chau	2.9%
Tui Min Hoi	2.9%
Hung Hom	3.3%
Overall	2.3%

Source: FEHD's records

MSVR of public markets with air-conditioning systems

5.14 Audit also noted that, as at 30 June 2003, the MSVR of some public markets provided with air-conditioning systems was very high (see Table 7). **This indicates that the provision of an air-conditioning system does not significantly improve the viability of a market.**

Table 7**Five public markets provided with air-conditioning systems
with very high MSVR
(30 June 2003)**

Market	MSVR
Peng Chau	53.5%
Yee On Street	30.8%
Tai Kiu	23.4%
Luen Wo Hui	20.4%
Lei Yue Mun	20.0%
Overall	24.2%

Source: FEHD's records

Audit observations

5.15 The audit findings in paragraphs 5.13 and 5.14 do not seem to support the belief that providing air-conditioning systems can significantly improve the viability of public markets. Provision of air-conditioning alone cannot enliven or revitalise a market. Other important factors, including the price, variety and quality of the commodities offered for sale, the standards of cleanliness, and the location of the market, also affect the business of the market stalls.

Audit recommendations

5.16 **Audit has recommended that the Director of Food and Environmental Hygiene should critically reassess the need for the retrofitting of air-conditioning systems in public markets. In doing so, the Director should take the following factors into account:**

- (a) **evidence indicating that the retrofitting of air-conditioning systems improves the viability of a market has yet to be found;**
- (b) **some stall lessees prefer operating in a low-cost business environment without air-conditioning; and**

- (c) **there is a risk that the MSVR of the market may increase after the retrofitting and consequently the FEHD's share of the recurrent cost of air-conditioning in respect of vacant market stalls will increase.**

Response from the Administration

5.17 The **Director of Food and Environmental Hygiene** agrees to reassess the need to retrofit air-conditioning systems in public markets in future, taking into account the factors mentioned in paragraph 5.16. Regarding the San Hui Market retrofitting project, the FEHD plans to seek approval for funding in late 2003 after sorting out implementation details with stall lessees who will be affected.

5.18 The **Secretary for Health, Welfare and Food** has said that:

- (a) like Audit, the HWFB has never regarded the retrofitting of air-conditioning systems as a solution for viability problems in public markets. As pointed out by Audit, many other important factors, such as the competitiveness of commodities sold in terms of price, quality and variety, market location and venue cleanliness, have a bearing on the business turnover of market stalls;
- (b) the HWFB recognises that some members of the public are strongly in favour of equipping markets with air-conditioning systems. They see the retrofitting of air-conditioning systems as an indispensable step for enhancing the competitiveness of markets in relation to supermarkets and other private retail outlets, which are mostly air-conditioned. The HWFB has therefore agreed to proceed with the retrofitting of air-conditioning systems in selected markets, provided that 85% or more of concerned stall lessees support the retrofitting project and agree to bear the recurrent cost involved; and
- (c) the HWFB bore in mind the factors mentioned in paragraph 5.16, notably the need to avoid worsening the operational deficit of markets, when setting the 85% support threshold as a pre-condition for the retrofitting of air-conditioning. Of the 18 markets with improvement works planned before 2000, only three had attained the 85% support requirement by the end of the consultation period (i.e. 31 March 2003). As for the remaining 15 markets, it is the HWFB's plan to carry out general improvement works which will entail less capital outlay and fewer recurrent costs than the retrofitting of air-conditioning systems.

PART 6: VACANT FLOOR SPACE IN TWO PUBLIC MARKETS

6.1 This PART examines the vacant market floor space on the second floor of the Fa Yuen Street Complex (originally designed and constructed as part of the Fa Yuen Street Market — FYS Market), and in the basement of the To Kwa Wan Market and Government Offices (originally used as part of the To Kwa Wan Market — TKW Market), and suggests measures for improvement.

Vacant market floor space in the Fa Yuen Street Market

6.2 The FYS Market is housed in the Fa Yuen Street Complex. The FYS Market was originally designed to occupy three floors of the Complex, namely the ground, first and second floors, and to provide 349 market stalls.

6.3 In 1987, to enhance the viability of public markets, the UC decided that markets should consist of not more than two storeys. As a result, the FYS Market has only two storeys. The 187 market stalls constructed on the second floor of the FYS Market have not been leased out since its commissioning in 1988.

6.4 The gross floor area of the second floor of the FYS Market is 1,680 square metres. Its usable floor area is 1,200 square metres. As at 31 July 2003, the average rent of market stalls located on the second floor of other public markets was \$1,500 per month. Audit calculated that, if the FEHD was able to successfully lease out all 187 market stalls on the second floor of the FYS Market, the annual rental revenue would be \$3.4 million ($\$1,500 \times 187 \times 12$).

Attempts to find a permanent use for the second floor of the FYS Market

6.5 From 1988 to 1999, the USD considered a number of proposals for making permanent use of the vacant market floor space on the second floor of the FYS Market (see Appendix I). However, all its efforts were futile. Since May 1998, parts of this vacant floor space have been used as temporary storage areas for litter bins, cleansing utensils, recreation utensils and filing cabinets.

6.6 In September 2000, the FEHD informed the Government Property Agency (GPA) of its intention to return the second floor of the market to the GPA. In December 2000, the GPA advised the FEHD that:

- (a) the Fa Yuen Street Complex was a specialist building. The GPA would assist the FEHD to identify other users; and
- (b) once a suitable user was identified, the GPA would advise the FEHD.

In February 2001, the GPA again advised the FEHD that until an alternative user could be identified, the second floor of the market would remain under the FEHD's responsibility. The GPA also suggested that the FEHD use this space to meet its accommodation needs. In March 2002, the GPA informed the FEHD that no alternative user could be found and reminded the FEHD that it should use this space to meet its accommodation needs.

***Plan to convert the second floor of
the FYS Market into a Theme Market***

6.7 The most recent proposal, which the FEHD has been considering since December 2002, is to convert the second floor of the FYS Market into a Theme Market and lease it to a single operator through open tender. The successful bidder would be responsible for refurbishment works and for the overall management of the Theme Market. The FEHD expects the elevated walkways linking the Mong Kok railway station and the proposed new Theme Market to enhance the viability of the Theme Market.

Vacant market floor space in the To Kwa Wan Market

6.8 The TKW Market was commissioned in February 1984. It was originally designed to occupy three storeys of the To Kwa Wan Market and Government Offices, namely part of the basement and the whole of the ground and first floors. The market was designed to provide 485 market stalls.

***Attempts to find an alternative user
for the basement of the TKW Market***

6.9 Since its commissioning in February 1984, the MSVR of the TKW Market had been high, especially for those market stalls located in the basement which has a total gross floor area of 630 square metres. In January 1988, the MSVR of the market was 55%. The situation was even worse for the 112 market stalls in the basement, where only seven market stalls were leased out. In February 1988, to improve the

viability of the market, the USD began considering a proposal to convert the market space in the basement into a public carpark to attract more customers. The USD hoped the carpark would extend the catchment area of the TKW Market beyond the typical catchment area of a ten-minute walking distance, to areas in Ho Man Tin with more affluent residents.

6.10 In October 1989, the USD abandoned the carpark proposal and began considering another proposal to improve the viability of the TKW Market by converting the basement into a supermarket.

6.11 In December 1989, the Principal Legal Officer of the USD expressed his views against the proposal of converting the basement of the TKW Market into a supermarket, as follows:

- (a) the subsidiary legislation concerning public markets made under the Public Health and Municipal Services Ordinance needed to be amended to provide for the leasing out of shops in markets;
- (b) the items offered for sale in the supermarket needed to be restricted to those allowed by the Public Health and Municipal Services Ordinance; and
- (c) the commercial leasing of the basement to a single operator was in conflict with the accepted concept of the provision of market facilities.

In November 1990, the USD gave up the proposal of converting the basement of the TKW Market into a supermarket.

***Basement of the TKW Market used as
a temporary storage area since January 1994***

6.12 From December 1992 to April 1994, the USD carried out improvement works in the TKW Market. From December 1992 to December 1993, the basement of the TKW Market was used to temporarily accommodate those market stalls on the ground and first floors which were affected by the improvement works. By January 1994, all market stalls (including the five leased market stalls) in the basement

had been resited to the ground and first floors. **Since 1 January 1994, the basement has been used as a temporary storage area.** In August 2003, in response to Audit's enquiry, the FEHD informed Audit that because the market stalls located in the basement of the TKW Market had proved to be non-viable, there was no loss of rental income due to the use of the basement as a temporary storage area.

Audit observations

6.13 The ongoing, long-term use of vacant market floor space for storage is not justified. **Audit considers that the FEHD needs to promptly put the vacant market floor space to beneficial permanent use.**

Audit recommendations

6.14 **Audit has recommended that the Director of Food and Environmental Hygiene should, in coordination with the Government Property Administrator:**

- (a) **vigorously identify possible alternative permanent uses for the vacant market floor space in the FYS Market and the TKW Market (e.g. conversion of the second floor of the FYS Market into a Theme Market); and**
- (b) **draw up an action plan to put the vacant market floor space in the FYS Market and the TKW Market to beneficial permanent use.**

Response from the Administration

6.15 The **Director of Food and Environmental Hygiene** has said that:

- (a) the FEHD has already been exploring the feasibility of converting the vacant market floor space in the FYS Market into a Theme Market. The FEHD will consider alternative permanent uses for the vacant floor space in the TKW Market at the same time. As soon as the feasibility of alternative uses has been ascertained, the FEHD will proceed to draw up action plans; and

- (b) in the event that there is no interest from the private sector in operating the vacant market floor space in the FYS Market for market purposes, consideration should be given to asking the GPA to take up this vacant space for other possible uses. This is because the FEHD can only operate public markets or use the space for purposes in line with its activities, e.g. public toilets and refuse collection points.

6.16 The **Secretary for Health, Welfare and Food** has said that:

- (a) while welcoming initiatives to put the vacant market floor space in the FYS Market and the TKW Market into productive use, the HWFB is not sure if the FEHD is the most suitable agency to identify beneficial use for the vacant market floor space in question; and
- (b) in practice, the FEHD's ability to implement Audit's recommendations will be constrained by its functional ambit and the austerity targets it has to achieve. Therefore, it seems more appropriate for the task to be entrusted to a more resourceful agency such as the GPA. Should the proposal to convert the second floor of the FYS Market into a Theme Market prove unachievable, the HWFB sees it fit for the FEHD to surrender the vacant market floor space of the two markets to the GPA for identification of productive use.

6.17 The **Government Property Administrator** has said that:

- (a) public markets are specialist buildings and the responsibility for their management and use rests with the department concerned; and
- (b) nevertheless, the GPA has no objection to providing the FEHD with assistance, where necessary, in implementing the audit recommendations.

**MSVR of 82 public markets
(31 March 2003)**

MSVR	Number of markets	
Higher than 40%	15	(18%)
30.1% to 40%	10	(12%)
20.1% to 30%	13	(16%)
10.1% to 20%	25	(31%)
Lower than 10.1%	19	(23%)

A right-facing curly bracket groups the first three rows (Higher than 40%, 30.1% to 40%, and 20.1% to 30%) with the label (46%) to its right.

Source: Audit's analysis of FEHD's records

Appendix B
(para. 2.9 refers)

**MSVR of public markets commissioned after 1998
(30 June 2003)**

Market	Year of commissioning	MSVR
Peng Chau	1999	53.5%
Stanley Temporary	1999	33.3%
Sai Ying Pun	1999	2.0%
Tsing Yi	1999	11.8%
Yee On Street	1999	30.8%
Lei Yue Mun	2000	20.0%
Chai Wan	2001	14.5%
Luen Wo Hui	2002	20.4%
	Overall	19.0%

Source: Audit's analysis of FEHD's records

**Audit survey of non-trading market stalls in 20 public markets
(April and May 2003)**

Market	Year of commissioning	No. of leased stalls	No. of leased stalls not used for trading	Percentage of non-trading market stalls
		(a)	(b)	$(c) = \frac{(b)}{(a)} \times 100\%$
Hong Kong Region				
Bowrington Road	1979	251	71	28.3%
Shau Kei Wan	1973	58	38	65.5%
Sheung Wan	1989	195	45	23.1%
Tin Wan	1979	140	50	35.7%
Yue Kwong Road	1981	160	32	20.0%
Yue Wan	1979	293	55	18.8%
Kowloon Region				
Fa Yuen Street	1988	161	24	14.9%
Kowloon City	1988	470	91	19.4%
Mong Kok	1977	63	42	66.7%
Ngau Chi Wan	1986	346	37	10.7%
Po On Road	1988	398	65	16.3%
Tai Shing Street	1998	436	34	7.8%
Tung Chau Street Temporary	1992	115	68	59.1%
New Territories Region				
North Kwai Chung	1984	212	16	7.5%
Sha Tin	1980	172	9	5.2%
Shek Wu Hui	1994	353	34	9.6%
Tai Kiu	1984	305	36	11.8%
Tsuen King Circuit	1990	131	43	32.8%
Tung Yick	1991	268	48	17.9%
Yeung Uk Road	1990	321	14	4.4%
Overall		4,848	852	17.6%

Source: FEHD's records and Audit's field visits

**The ten public markets with the highest operating deficits
(2002-03)**

Market	Operating deficit
	(\$ million)
Smithfield	11.79
Shek Tong Tsui	9.16
Sheung Wan	8.66
Pei Ho Street	7.89
Po On Road	7.80
Kwun Chung	7.79
Kowloon City	7.60
Sai Ying Pun	6.90
Lockhart Road	6.65
Chai Wan	6.46
Total	<u>80.70</u>

Source: Audit's analysis of FEHD's records

**The ten public markets with
the highest operating deficit per leased market stall
(2002-03)**

Market	Rental revenue per leased market stall	Operating deficit per leased market stall	Operating deficit as a percentage of rental revenue
	(a)	(b)	(c) = $\frac{(b)}{(a)} \times 100\%$
	(\$'000)	(\$'000)	(%)
Stanley Temporary	24.2	156	645%
Lei Yue Mun	28.2	148	525%
Peng Chau	20.4	145	711%
Centre Street	20.2	134	663%
Bridges Street	9.8	128	1,306%
Tang Lung Chau	22.9	102	445%
Wong Nai Chung	31.0	100	323%
Yee On Street	19.3	94	487%
Cha Kwo Ling	5.5	94	1,709%
Electric Road	22.8	90	395%
Overall	22.7	111	489%

Source: Audit's analysis of FEHD's records

**The ten public markets with the highest operating deficit
per leased market stall in 2002-03
(assuming that the rent had been raised to OMR)**

Market	OMR per leased market stall (Note)	Operating deficit per leased market stall	Operating deficit as a percentage of OMR
	(a)	(b)	(c) = $\frac{(b)}{(a)} \times 100\%$
	(\$'000)	(\$'000)	(%)
Stanley Temporary	42.1	138	328%
Peng Chau	31.7	134	423%
Lei Yue Mun	49.0	128	261%
Bridges Street	17.0	121	712%
Centre Street	35.1	119	339%
Cha Kwo Ling	9.6	90	938%
Tang Lung Chau	39.8	85	214%
Yee On Street	33.5	80	239%
Wong Nai Chung	53.8	77	143%
Mui Wo	29.1	74	254%
Overall	38.0	98	258%

Source: Audit's analysis of FEHD's records

Note: The OMR was supplied by the RVD.

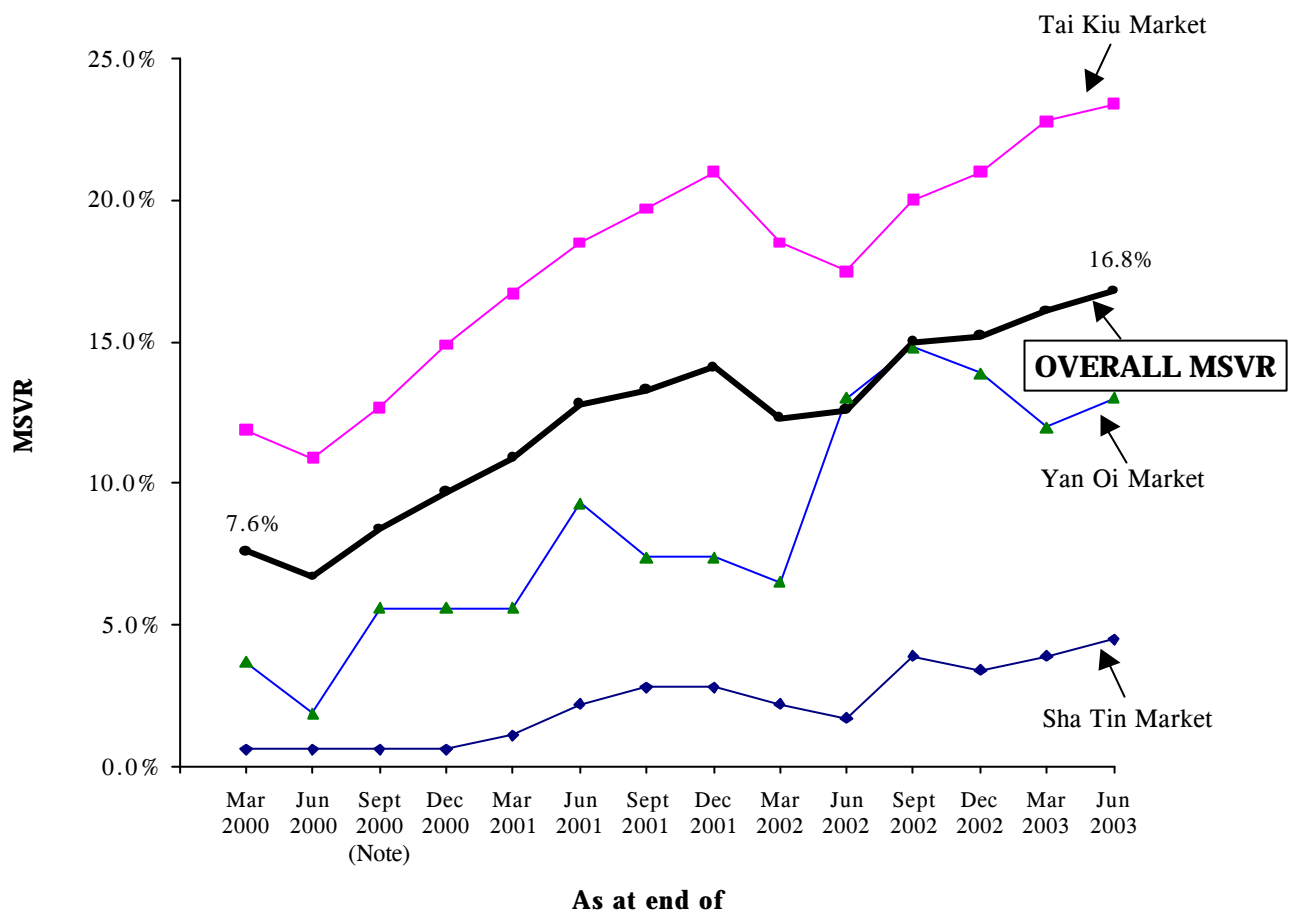
Appendix G
(para. 5.4 refers)

**Cost of providing retrofitted air-conditioning systems
per leased market stall in three public markets
(2002-03)**

Market	Capital cost	Depreciation	Electricity cost	Maintenance cost	Total cost	Average number of leased market stalls	Cost per leased market stall
	(a)	$(b) = \frac{(a)}{15}$	(c)	(d)	$(e) = (b) + (c) + (d)$	(f)	$(g) = \frac{(e)}{(f)}$
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)		(\$'000)
Yan Oi	20.38	1.36	0.95	0.22	2.53	97	26
Sha Tin	26.78	1.79	1.83	0.43	4.05	173	23
Tai Kiu	30.60	2.04	2.06	0.49	4.59	318	14
Overall	77.76	5.19	4.84	1.14	11.17	588	19

Source: Audit's analysis of FEHD's records

**MSVRs of three public markets retrofitted with air-conditioning systems
 (March 2000 to June 2003)**



Source: Audit's analysis of FEHD's records

Note: The retrofitting of air-conditioning systems in these three markets was completed in September 2000.

**USD's proposals to make permanent use
of the vacant market floor space in the FYS Market**

1. In early 1990, the USD explored the possibility of leasing out the vacant market floor space on the second floor of the FYS Market as a supermarket. In May 1990, representatives from some supermarket groups expressed interest in the proposal. In October 1990, the USD gave up the proposal to convert the second floor of the FYS Market into a supermarket because this was contrary to the original intention of allocating the land to the USD for the purpose of providing a public market.
2. In 1991, the USD planned to resite the flower hawkers trading in Flower Market Road to the second floor of the FYS Market. However, the flower hawkers considered the proposal unattractive and refused to move there.
3. In January 1992, the USD considered the feasibility of using the second floor of the FYS Market for staff recreational purposes. In May 1995, the UC approved the proposal to convert the second floor into a staff clubhouse. In July 1996, the USD estimated that the capital cost of the staff clubhouse would be \$20.3 million and the annual operating cost would be \$1.1 million. In view of the high costs, the USD modified the project to convert only part of the second floor into a staff clubhouse and the remaining part into a bowling centre to promote bowling activities.
4. In December 1996, the ArchSD informed the USD that some market stalls would have to be closed for some months during the conversion of part of the second floor into a bowling centre. In December 1997, the USD gave up the idea of a bowling centre because of strong objections from the lessees of the affected market stalls. Instead, the USD considered providing a children's playroom there.
5. In December 1998, the USD decided that the staff clubhouse and children's playroom projects should be placed on hold. The USD then explored the possibility of converting the second floor into a book stack area for the UC libraries. In July 1999, the UC decided that the second floor should be put to public use because it was located at a prime site. However, no suitable public use was identified.

Acronyms and abbreviations

ArchSD	Architectural Services Department
COR	Controlling Officer's Report
FEHD	Food and Environmental Hygiene Department
FYS Market	Fa Yuen Street Market
GPA	Government Property Agency
HA	Housing Authority
HKPSG	Hong Kong Planning Standards and Guidelines
HWFB	Health, Welfare and Food Bureau
LDPC	Land Development Policy Committee
LegCo	Legislative Council
MSVR	Market stall vacancy rate
OMR	Open market rent
PMC	Provisional Municipal Council
PWSC	Public Works Subcommittee
RSD	Regional Services Department
RVD	Rating and Valuation Department
TKW Market	To Kwa Wan Market
UC	Urban Council
USD	Urban Services Department