

CHAPTER 4

Agriculture, Fisheries and Conservation Department

Health, Welfare and Food Bureau

Management of government fresh food wholesale markets

**Audit Commission
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MANAGEMENT OF GOVERNMENT FRESH FOOD WHOLESALE MARKETS

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PART 1: INTRODUCTION

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

Background

1.2 Hong Kong people consume large quantities of fresh food (i.e. vegetables, eggs, fish, live poultry and fruits). Each day, bulk volumes of imported and local fresh food produce have to be handled within a short period of time. Fresh food wholesale markets (wholesale markets) help distribute these fresh food items to retail outlets and restaurants throughout the territory.

Fresh food wholesale markets in the territory

1.3 There are 15 wholesale markets in the territory, comprising:

- (a) four government wholesale markets (see Appendix A), namely:
 - (i) the Cheung Sha Wan Wholesale Food Market Phase 1 (CSW Market – see Photograph 1);
 - (ii) the Western Wholesale Food Market (Western Market – see Photograph 2);
 - (iii) the Cheung Sha Wan Temporary Wholesale Poultry Market (CSW Poultry Market); and
 - (iv) the North District Temporary Wholesale Market for Agricultural Products (North District Market);
- (b) seven wholesale fish markets managed by the Fish Marketing Organisation (FMO – Note 1);

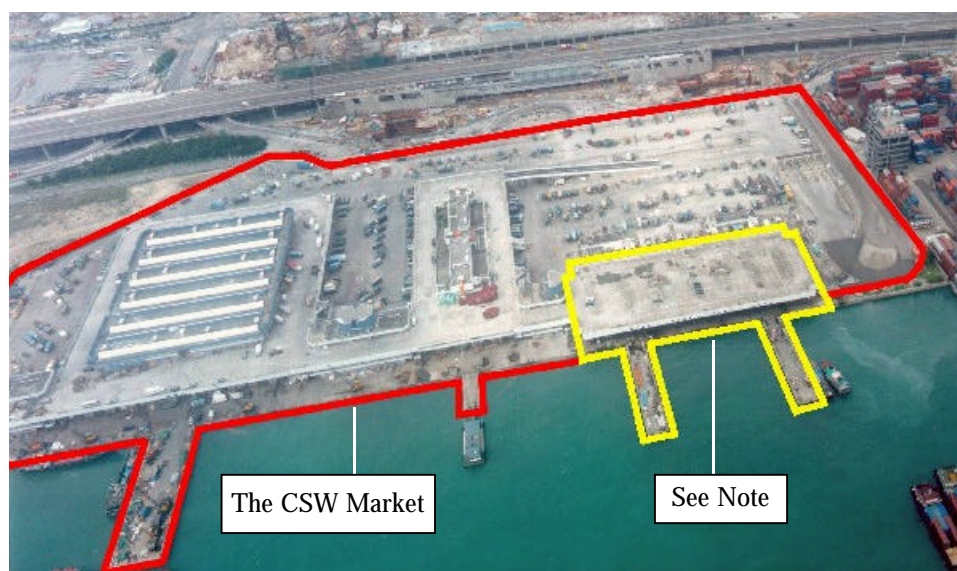
Note 1: *The FMO is a self-financing, non-profit-making body established under the Marine Fish (Marketing) Ordinance (Cap. 291). It is responsible for the wholesale marketing of marine fish.*

- (c) a vegetable market managed by the Vegetable Marketing Organisation (VMO Market – Note 2); and
- (d) three private markets (e.g. the Yau Ma Tei Fruit Market).

These 15 markets together handle 78% of the fresh food produce consumed in the territory (Note 3), of which half is handled by the four government wholesale markets mentioned in (a) above. In 2006, the value of fresh food traded in these four markets amounted to \$4,043 million.

Photograph 1

The CSW Market



Source: AFCD records

Note: On the ground floor of this part of the CSW Market, there is a wholesale fish market managed by the Fish Marketing Organisation.

Note 2: The VMO is a self-financing, non-profit-making body established under the Agricultural Products (Marketing) Ordinance (Cap. 277). The VMO Market has been in operation since 1965 under a special purpose lease entered with the Government.

Note 3: The remaining 22% is handled directly by retailers, restaurants and supermarket chains.

Photograph 2**The Western Market**

Source: AFCD records

Role of the Agriculture, Fisheries and Conservation Department

1.4 The Government's policy for wholesale markets is to ensure the adequate provision and efficient operation of government wholesale marketing facilities to meet the demands of the trades and to ensure stable supply of fresh food produce.

1.5 The Agriculture, Fisheries and Conservation Department (AFCD) is responsible for managing government wholesale markets and overseeing the reprovisioning of outdated wholesale markets. The CSW Market, the Western Market and the CSW Poultry Market (see para. 1.3(a)(i) to (iii)) are directly managed by the AFCD. As for the North District Market (see para. 1.3(a)(iv)), the AFCD has outsourced its operation and management to a private company.

Audit review

1.6 The Audit Commission (Audit) has recently conducted a review to examine the economy, efficiency and effectiveness of the AFCD in the management of government wholesale markets. The review focused on the following areas:

- (a) letting of market facilities (PART 2);
- (b) managing the daily operation of wholesale markets (PART 3);
- (c) outsourcing the operation of the North District Market (PART 4);
- (d) reprovisioning of outdated wholesale markets (PART 5); and
- (e) other areas for improvement (PART 6).

Acknowledgement

1.7 Audit would like to acknowledge with gratitude the full cooperation of the staff of the AFCD and the Health, Welfare and Food Bureau (HWFB) during the course of the audit review.

PART 2: LETTING OF MARKET FACILITIES

2.1 This PART examines the system of letting the market facilities in the three government wholesale markets directly managed by the AFCD, including monitoring the utilisation of the market facilities and the collection of rentals.

Market facilities available for letting

2.2 The three government wholesale markets provide some 1,000 units of market facilities, as detailed in Table 1.

Table 1
Market facilities available for letting
(30 September 2006)

Market	Market stalls (Number)	Trade offices (Note 1) (Number)	Ancillary facilities (Note 2) (Number)	Piers (Number)	Total (Number)
CSW Market	319	29	20	3	371
Western Market	511	14	20	5	550
CSW Poultry Market	86	3	2	–	91
Total	916	46	42	8	1,012

Source: AFCD records

Note 1: Trade offices are offices in the markets let to traders, traders' associations, transportation companies, etc. for wholesale and related activities.

Note 2: Ancillary facilities include banks, canteens, kiosks, battery charging rooms and ice storage.

2.3 In addition to the market facilities shown in Table 1, there are some 1,600 vehicle parking spaces in the three government wholesale markets. The AFCD has outsourced the operation and management of the vehicle parking spaces in the CSW Market and the Western Market to a private operator, but not those in the CSW Poultry Market.

2.4 In 2005-06, the AFCD collected \$78.2 million from letting the market facilities in the three markets. In the same year, the operating costs of the three markets amounted to \$96.5 million.

Utilisation of market facilities

2.5 Audit noted that for some years, many of the market facilities in the three wholesale markets have been vacant (vacant units). An analysis of the vacancy position as at 30 September 2006 is shown in Table 2.

Table 2

**Analysis of vacancy position
(30 September 2006)**

Market facilities (Note)	Provision (a) (Number)	Vacant units (b) (Number)	Vacancy rate (c) = (b)/(a) × 100% (Percentage)
CSW Market			
Market stalls	319	20	6%
Trade offices	29	1	3%
Ancillary facilities	20	4	20%
Piers	3	–	–
Subtotal	371	25	7%
Western Market			
Market stalls	511	64	13%
Trade offices	14	2	14%
Ancillary facilities	20	5	25%
Piers	5	4	80%
Subtotal	550	75	14%
CSW Poultry Market			
Market stalls	86	15	17%
Trade offices	3	–	–
Ancillary facilities	2	–	–
Subtotal	91	15	16%
Overall			
Market stalls	916	99	11%
Trade offices	46	3	7%
Ancillary facilities	42	9	21%
Piers	8	4	50%
Total	1,012	115	11%

Source: AFCD records

Note: This analysis does not include the letting of vehicle parking spaces which are hired on an hourly or monthly basis.

2.6 Table 3 shows an ageing analysis of the 115 vacant units in the three markets (see column (b) in Table 2).

Table 3
Ageing analysis of vacant units
(30 September 2006)

Vacant period	Market stalls	Trade offices	Ancillary facilities	Piers	Total	
	(a) (Number)	(b) (Number)	(c) (Number)	(d) (Number)	(Number)	(Percentage)
< 1 year	33	–	1	–	34	30%
1 to < 3 years	18	1	2	–	21	18%
3 to < 5 years	24	1	3	1	29	25%
5 years	24	1	3	3	31	27%
Total	99	3	9	4	115	100%

Source: AFCD records and Audit analysis

2.7 Table 4 further analyses the vacancy rates of the 99 vacant market stalls in the three markets (see column (a) in Table 3) by different trades.

Table 4
Analysis of vacant market stalls by trades
(30 September 2006)

Trade	Number of market stalls (a)	Number of vacant market stalls (b)	Vacancy rate (c) = (b)/(a) × 100%
Eggs	118	37	31%
Poultry	97	24	25%
Fruits	133	22	17%
Fish and meat (Note)	124	10	8%
Vegetables	444	6	1%
Overall	916	99	11%

Source: AFCD records and Audit analysis

Note: The three wholesale markets originally accommodated five trades (vegetables, fruits, eggs, fish and poultry). In 2003, 14 meat stalls and 13 fish stalls of the then Central Market (a retail market under planning for demolition) moved to the Western Market.

Audit observations

2.8 As at 30 September 2006, the three wholesale markets had an overall vacancy rate of 11% (see Table 2 in para. 2.5). The analyses in Tables 2 to 4 show that there is room for improvement in the following areas:

- (a) the Western Market and the CSW Poultry Market had relatively high vacancy rates of 14% and 16% respectively. In particular, there were 64 vacant market stalls at the Western Market, compared with 20 and 15 at the CSW Market and the CSW Poultry Market respectively;
- (b) of the 115 vacant units in the three wholesale markets, 99 related to market stalls, 48 of which had been vacant for three years or more;

- (c) among market stalls of various trades, egg stalls and poultry stalls had higher vacancy rates of 31% and 25% respectively;
- (d) four piers (out of five) at the Western Market had remained unused for three years or more; and
- (e) ancillary facilities in both the Western Market and the CSW Market had vacancy rates of 25% and 20% respectively.

Need to improve the utilisation of the markets

2.9 Audit notes that some of the market facilities (such as market stalls, piers and ancillary facilities), particularly those in the Western Market, were under-utilised. This is partly due to the declining demand for wholesale market services, which has arisen from changes in recent years of the fresh food distribution system in the territory (e.g. more direct sales from suppliers to retailers and supermarket chains – see para. 5.22).

2.10 Audit recognises it is unavoidable that some market stalls are vacant. For example, since the introduction of a voluntary surrender scheme (Note 4) for live poultry wholesalers in August 2005, 14 poultry stalls had been surrendered to the AFCD. To prevent avian flu, the AFCD had also ceased letting the vacant poultry stalls at the CSW Poultry Market and the Western Market.

2.11 In recent years, the AFCD has made efforts to improve the situation through, for example, allocating vacant units to other government departments for use and converting a vacant canteen to market stalls. According to the AFCD, sometimes there are constraints in adjusting the market facilities to meet changing demand. For example, with reference to the nine vacant units of ancillary facilities (see column (c) in Table 3 in para. 2.6), the AFCD has indicated that many of them are designed for a particular purpose (e.g. battery charging rooms and ice storage which are not provided with drainage or other supporting utilities). Without incurring high conversion costs, they are considered unsuitable for use as market stalls.

2.12 **Audit recognises the AFCD's efforts, but considers that there is scope for further improvement. Given that there are still 115 vacant units, including 99 vacant market stalls (half of which had been vacant for three years or more), Audit considers that the AFCD needs to make more vigorous efforts to improve the market utilisation.**

Note 4: *The voluntary surrender scheme is one of the preventive measures introduced by the Government to reduce the risk of avian flu outbreaks in Hong Kong. Under the scheme, ex-gratia payment will be given to live poultry wholesalers who voluntarily surrender their poultry stall tenancies at the CSW Poultry Market and the Western Market.*

For example, the AFCD may need to consider putting the vacant poultry and egg stalls to alternative use and taking vigorous action to make better use of the vacant market stalls in the Western Market.

2.13 For the unused piers at the Western Market (see para. 2.8(d)), three had been unused for more than five years, with one having never been used since the commissioning of the Western Market in October 1991 (see Appendix A). In August 1998, in response to the AFCD's enquiries, the Government Property Agency (GPA) indicated that these piers were unable to attract market interest as the design and rough sea conditions rendered them unsuitable for the intended use. **As eight years have passed, it appears desirable for the AFCD to revisit this issue and explore, in consultation with the Lands Department (Lands D) and the GPA, other options of using the piers.**

Need to monitor the cost-recovery position of the wholesale markets

2.14 As agreed with the Financial Services and the Treasury Bureau (FSTB), the AFCD determines rental charges for the CSW Market and the Western Market based on the full-cost recovery principle (Note 5). The operating costs to be recovered include staff costs, departmental expenses, depreciation and cost of services provided by other government departments. The AFCD conducts a costing exercise every two years and revises the rental charges, if required.

2.15 Table 5 shows the cost-recovery position of the CSW Market and the Western Market for 2005-06. The two markets could only recover 81% of the full operating costs. The costs under-recovered amounted to \$17.2 million (\$88.6 million less \$71.4 million – Note 6).

Note 5: *As agreed between the AFCD and the FSTB, the full-cost recovery principle does not apply to the CSW Poultry Market. For this market, the AFCD reviews and revises the rental charges annually based on the Consumer Price Index.*

Note 6: *Costs under-recovered in 2005-06 of \$17.2 million are attributable to: (a) rental charges forgone due to vacant market facilities (\$9 million); (b) rental charges forgone due to the use of market facilities by other government departments without charges (\$3.5 million); and (c) an increase of \$4.7 million in rental arrears on 31 March 2006 as compared with the position on 31 March 2005, mainly as a result of overdue rentals owed by freshwater fish traders whose businesses were affected by the malachite green incident (see para. 2.31).*

Table 5
Cost-recovery rates of CSW Market and Western Market
(2005-06)

Market	Rental income (a) (\$ million)	Operating cost (b) (\$ million)	Cost-recovery rate (c) = (a)/(b) × 100% (Percentage)
CSW Market	37.9	45.6	83%
Western Market	33.5	43.0	78%
Overall	71.4	88.6	81%

Source: AFCD records

2.16 Given the existing occupancy position of the CSW Market and the Western Market (see paras. 2.8 to 2.13), the costs under-recovered were substantial. Audit considers that the AFCD needs to monitor the cost-recovery position of the two markets and continue taking action to improve it.

Audit recommendations

2.17 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

- (a) **critically review the utilisation of the market facilities in different wholesale markets, and make further efforts to improve it;**
- (b) **explore other options of using the four unused piers at the Western Market, in consultation with the Director of Lands and the Government Property Administrator; and**
- (c) **monitor the cost-recovery position of the CSW Market and the Western Market and take appropriate action to improve it.**

Response from the Administration

2.18 The **Director of Agriculture, Fisheries and Conservation** accepts all the audit recommendations. She has said that:

Need to explore ways to improve the utilisation of the markets

- (a) she welcomes Audit's acknowledgement of the AFCD's constraints in utilising the market facilities, including changes in fresh food wholesale trade, overriding concerns to combat avian flu, lack of basic facilities in some of the vacant stalls, and of the AFCD's effort in improving and letting vacant market stalls (see paras. 2.9 to 2.11);
- (b) out of the 99 vacant market stalls in Table 3 (see para. 2.6), 24 are poultry units left vacant as a result of the Government's measures to combat avian flu. While the disposal of those vacant units at the CSW Poultry Market will depend on the progress of the planned poultry slaughtering plant, the AFCD has started action to renovate and fit out the 10 vacated poultry stalls at the Western Market for other wholesale operations;
- (c) the other major groups of vacant market stalls include 37 egg stalls and 22 fruit stalls in the CSW/Western Market. The AFCD will continue to explore possible alternative wholesale use of these stalls with a view to letting them out;

Need to monitor the cost-recovery position of the wholesale markets

- (d) in 2005-06, vacant market stalls accounted for 52% of the shortfall in cost recovery (\$9 million out of \$17.2 million – see Note 6 to para. 2.15). The AFCD will focus on letting vacant market stalls out to improve the recovery rate;
- (e) the second major contributor to cost under-recovery is overdue rentals (\$4.7 million) owed by some freshwater fish traders. Policy support was given in July 2006 to recover the shortfall through payment by instalments (see para. 2.31), and the AFCD enlisted the assistance of the Department of Justice (D of J) to recover the overdue rentals. As most of these freshwater fish traders had still failed to settle the overdue rentals by the end of 2006, the D of J has already sent letters to them demanding payment. The AFCD will work closely with the D of J to follow up these cases; and

- (f) another major factor is rentals forgone (\$3.5 million) for market facilities used by other government departments. While the current accounting practice precludes inter-departmental charging, the financial implications to the Government as a whole would more or less remain neutral as user departments need not incur rental expense, as is the case for renting properties from the private sector.

2.19 Regarding the use of the four piers at the Western Market, the **Director of Lands** has said that he would suggest the AFCD to issue a memorandum to government departments to see if they have any use of the piers, failing which the AFCD (or the GPA) could invite tenders for commercial/private use. Depending on the proposed uses, planning permission may be required.

2.20 The **Government Property Administrator** has said that the GPA is prepared to assist the AFCD to revitalise the use of the four piers.

Letting of market facilities

2.21 From time to time, vacant market facilities in the wholesale markets are available for letting. The AFCD has issued a set of guidelines on the application procedures for renting market facilities. In the event that more applications are received, all eligible applicants will be invited to take part in an open ballot to be conducted by the AFCD to determine who will be selected for renting.

Audit observations

Need to improve the guidelines for renting market stalls

2.22 During a visit to the Western Market in December 2006, Audit noted that notices were posted on the notice board informing traders that a number of vacant egg stalls were available for letting. It was stated in the notices that offers would be made on a first-come-first-served basis. Upon enquiry, the AFCD officers advised Audit that an open balloting system would normally be adopted for letting market stalls, but the stalls would be let on a first-come-first-served basis if no one applied for the vacant stalls after a notice had been posted for more than two weeks.

2.23 Audit noted that the practice of offering the market stalls for renting on a first-come-first-served basis was not stipulated in the AFCD's guidelines. **Audit considers it desirable for the AFCD to state also in the guidelines the circumstances under which the first-come-first-served basis will be applied.**

Need to explore ways to attract prospective traders

2.24 To inform traders of the availability of vacant market stalls, the AFCD posted such information on the notice boards of the markets. The AFCD did not advertise such information in newspapers (Note 7) or post such information onto its website. After Audit's enquiries, in January 2007 the AFCD posted the information onto its website. Audit welcomes the AFCD's prompt action and considers that the AFCD needs to continue exploring other effective means of publicising the availability of vacant units.

Audit recommendations

2.25 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

- (a) **state in the AFCD guidelines the circumstances under which the first-come-first-served basis will be applied for letting market stalls; and**
- (b) **continue exploring other effective means of publicising the availability of the vacant units in the three wholesale markets.**

Response from the Administration

2.26 The **Director of Agriculture, Fisheries and Conservation** accepts the audit recommendations. She has said that:

- (a) the AFCD will stipulate clearly in the operating guidelines that the first-come-first-served basis only applies when no one has taken up the vacant market stalls after the open application period; and
- (b) the AFCD has already started posting wholesale market vacancies on its website. The AFCD will also publicise the availability of vacant units in wholesale markets quarterly through wholesale trade organisations and major local newspapers.

Note 7: *For the 10 years up to August 2006, the AFCD had only posted newspaper advertisements on three occasions to invite interested traders to rent the vacant market facilities in the CSW Market and the Western Market.*

Collection of rentals

2.27 According to the tenancy agreements between the AFCD and traders for renting market facilities of the government wholesale markets:

- (a) tenants are required to pay a rental deposit (usually two months' rentals) as security, and monthly rentals in advance on the first day of the month; and
- (b) if rental is in arrears for over 14 days, the Government is entitled to re-possess the stall and deduct from the rental deposit the amount in default.

2.28 Rentals are payable at the revenue collection offices located at the AFCD Headquarters (HQ) and the three wholesale markets. The revenue collection office at the HQ is open on all working days, whereas the revenue collection offices at the markets are open for only seven days (i.e. the first three and the last four working days of each month). Tenants can pay rentals in person at the revenue collection offices at the HQ or the markets, or by post to the HQ. On receipt of the rentals, the AFCD officers issue a manual receipt to the tenant and record the transaction manually.

2.29 The AFCD does not issue rental demand notes to tenants, but will issue a reminder in the third week of the month due. It will issue a second reminder in the third week of the following month if the tenant has still not paid the rental.

Audit observations

2.30 The rentals in arrears on 31 March 2006 but still outstanding as at 30 June 2006 amounted to \$6.4 million. It had increased by \$2.6 million as compared with the arrears position as at 30 June 2005. Table 6 shows an ageing analysis of the arrears of \$6.4 million.

Table 6

**Ageing analysis of rentals in arrears on 31 March 2006
but still outstanding as at 30 June 2006**

Market	Arrears on 31.3.2006 (a) (\$' 000)	Arrears in (a) still outstanding as at 30.6.2006 (b) (\$' 000)	Ageing analysis of arrears in (b)		
			2005-06	2004-05	Before 1 April 2004
			(c) (\$' 000)	(d) (\$' 000)	(e) (\$' 000)
CSW Market	7,655	4,021	2,566	24	1,431
Western Market	2,499	1,583	161	132	1,290
CSW Poultry Market	965	825	–	49	776
Total	11,119	6,429	2,727	205	3,497

Source: AFCD records

Rentals in arrears for the CSW Market

2.31 Of the arrears outstanding as at 30 June 2006 (\$6.4 million), \$2.7 million related to 2005-06, out of which \$2.6 million related to the CSW Market (see column (c) in Table 6). The amount of rentals in arrears for the CSW Market was large, mainly because some freshwater fish traders had refused to pay their rentals and had asked the AFCD to grant them a three months' rental waiver due to poor business, following the detection of malachite green in eels. With the support of the HWFB in July 2006, the AFCD allowed the freshwater fish traders to settle their rentals in arrears by instalments.

2.32 **Audit considers that the AFCD needs to monitor closely the payment by instalments to ensure that the rentals in arrears are settled.**

Regular review of long outstanding cases for write-off

2.33 Of the arrears of \$6.4 million, some \$4 million was due from ex-tenants, and \$3.5 million had been in arrears for more than two years (see column (e) in Table 6). **Audit considers that the AFCD needs to analyse the rentals in arrears of \$3.5 million**

and assess the recoverability. In this connection, Audit notes that the AFCD does not have procedural guidelines for conducting regular reviews of its long outstanding arrears and for writing them off. As a result, in the five years 2002 to 2006, only three cases (two involved bankruptcy of the tenants) totalling \$31,500 had been written off. **Audit considers that the AFCD needs to devise procedural guidelines for conducting regular reviews of long outstanding cases (including regular follow-up of the cases referred to the D of J) and, where recovery action is futile, initiating write-off action.**

Adoption of the Treasury's General Demand Note System to collect rentals

2.34 Audit notes that the existing collection procedures at the various revenue collection offices (Note 8) are labour-intensive and involve extensive supervisory checking. At present, the AFCD maintains a manual register in each of the wholesale markets to monitor the rental payments by tenants. Each month, the AFCD reviews the manual registers to identify arrears cases for issuing reminders.

2.35 According to the tenancy agreements, tenants should pay their rentals in advance on the first day of the month (see para. 2.27(a)). Audit however notes that they did not always pay punctually, as reflected from the ageing analysis in Table 6. Audit considers that, without the regular issue of rental demand notes (see para. 2.29), tenants might forget to pay rentals on time. They might also pay rentals late because the revenue collection offices at the markets are open for only seven days a month. Payments made at the HQ may be less convenient. In this connection, Audit notes that the AFCD does not use the Treasury's General Demand Note System (GDNS – Note 9) to collect rentals. **Audit considers that the AFCD needs to consider critically the use of the GDNS to enhance its rental collection procedures (Note 10).**

Note 8: *The collection procedures include manual receipting, posting of collection records, daily and monthly checking and reconciliation of revenue records with cash collected, banking of revenue collections, safe custody of money, and surprise cash inspections.*

Note 9: *The GDNS is a web-based billing system, which produces demand notes and is used to capture information of all the general demand notes issued by bureaux and departments. The AFCD uses the GDNS to collect rental deposits from tenants.*

Note 10: *With the use of the GDNS, tenants can settle demand notes at any time and at any place through a wide range of payment methods (e.g. Payment by Phone Service, Automatic Teller Machine, Internet banking service, e-pay station and counter/post services). The GDNS can also perform matching of revenue receipts against demand notes and generate reminders and management reports (e.g. ageing reports and unmatched receipt reports).*

Surcharge on overdue rentals

2.36 Unlike other government departments such as the Food and Environmental Hygiene Department (FEHD) and the Housing Department which impose a surcharge on outstanding rentals owed by tenants of market stalls and commercial properties, the AFCD does not impose a surcharge on overdue rentals. **Audit considers that imposing a surcharge on overdue rentals will encourage tenants to pay their rentals punctually and reduce the need for recovery action.**

Audit recommendations

2.37 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

- (a) **monitor closely the payments of rentals in arrears that are permitted to be settled by instalments;**
- (b) **analyse the rentals that have been in arrears for more than two years and assess the recoverability;**
- (c) **devise procedural guidelines for conducting regular reviews of cases of long outstanding rentals (including regular follow-up of the cases referred to the D of J) and for taking write-off action;**
- (d) **consider using the Treasury's GDNS to enhance the AFCD wholesale market rental collection procedures; and**
- (e) **consider imposing a surcharge on overdue rentals.**

Response from the Administration

2.38 The **Director of Agriculture, Fisheries and Conservation** accepts all the audit recommendations. She has said that:

- (a) the AFCD will work closely with the D of J to follow up those rentals in arrears that have been permitted to be settled by instalments (see para. 2.18(e));
- (b) the AFCD will re-examine each arrears case to assess its recoverability and take appropriate action accordingly. The AFCD always refers tenants who fail to pay their rents for more than three months to the D of J for recovery action. Preliminary analysis of the arrears revealed that most of the debtors involved have gone into bankruptcy, and the AFCD has already filed proof of debts with the High Court with a view to recovering the overdue rent from the sale of assets. Normally, the AFCD will only initiate write-off action after the bankruptcy order has expired and there is no reasonable hope of recovering the overdue rent. Most of the arrears fall into this category;

- (c) the AFCD will review its procedures for conducting regular review of long outstanding rental cases, with a view to building in safeguards to ensure that no cases will be left unattended. The AFCD currently compiles monthly reports to alert the subject officers to follow up on all the debtors;
- (d) regarding the use of the Treasury's GDNS, the AFCD will revise its rental collection procedures; and
- (e) the AFCD will seek the D of J's advice on whether there is a need to revise the tenancy terms to implement the proposal of imposing a surcharge on overdue rental. In fact, the D of J would press for interest on the overdue payment if an arrears case eventually goes to court.

2.39 The **Director of Administration and Development, D of J** has said that:

- (a) depending on the amount of debt involved, the recovery of the rentals in arrears is handled by the Debt Collection Unit or the Recovery Team of the D of J. Systems are in place to monitor the progress of the cases handled by the D of J; and
- (b) there is no difficulty to cope with the proposal for the AFCD to conduct regular reviews of outstanding cases that had been referred to the D of J. Resource permitting, the D of J would be happy to provide further assistance to the AFCD in its reviews.

2.40 The **Director of Accounting Services** supports the audit recommendation on the use of the Treasury's GDNS in the AFCD wholesale market rental collection (see para. 2.37(d)).

PART 3: MANAGING THE DAILY OPERATION OF WHOLESALE MARKETS

3.1 This PART examines the AFCD's management of the day-to-day operation of the wholesale markets.

Management of the day-to-day operation of wholesale markets

3.2 The Wholesale Markets Management Division (Markets Division) of the AFCD manages the day-to-day operation of the wholesale markets. The Markets Division, with a staff strength of 62, reports to the Agriculture Branch which is headed by an Assistant Director. An organisation chart of the Markets Division is at Appendix B.

3.3 The work of the Markets Division includes:

- (a) monitoring the contractors' work in market cleansing, security and car park management;
- (b) managing the tenancies;
- (c) liaising with other government departments (such as the Architectural Services Department, the Electrical and Mechanical Services Department (EMSD) and the FEHD) to provide for the repair and maintenance services, and to address food safety issues; and
- (d) providing administrative and operational support to the markets (e.g. handling complaints and enquiries, preparing management reports, and collecting statistics).

3.4 The wholesale markets operate 24 hours a day throughout the year. Each market is manned by 16 staff who work in 3 shifts.

Audit observations

Inspections not conducted as frequently as required

3.5 According to the "*Inspection Manual for Cheung Sha Wan Wholesale Food Market*" issued in 2004 (Inspection Manual – which the AFCD had informed Audit that it was applicable to all the three wholesale markets), an inspection, led by a Field Assistant, should be carried out "at least once for each of the three shifts every day". The inspection

should cover security, cleansing, car park and general market conditions. After the inspection, an inspection report should be prepared. At least once a day, the Senior Field Officer/Field Officer/Senior Field Assistant should carry out a supervisory check and countersign the inspection report.

3.6 Audit examination of the inspection reports for the three months from September to November 2006 revealed that inspections and supervisory checks were not carried out as frequently as required, particularly at the Western Market (see Table 7 for details).

Table 7
Extent of carrying out the required inspection frequency
(September to November 2006)

Wholesale Market	One inspection per shift		One supervisory check per day	
	Achieved (%)	Not achieved (%)	Achieved (%)	Not achieved (%)
CSW Market	99%	1%	100%	—
CSW Poultry Market	93%	7%	84%	16%
Western Market (Note)				
• market cleansing	46%	54%	86%	14%
• conditions of equipment	43%	57%	23%	77%
• security guard services	99%	1%	99%	1%

Source: AFCD records and Audit analysis

Note: Before December 2006, the Western Market used a different proforma for reporting the inspection results. In that proforma, different parts were provided for recording the inspection results of market cleansing, conditions of equipment and security guard services. Since December 2006, the Western Market has adopted a proforma similar to that used by the CSW Market and the CSW Poultry Market.

3.7 Table 7 shows that the standards of one inspection per shift and one supervisory check per day were not met for the Western Market. Given that the Inspection Manual is entitled “*Inspection Manual for Cheung Sha Wan Wholesale Food Market*”, in the absence of written instructions, it is possible that staff at the Western Market may not know that the Inspection Manual is also applicable to them. **For the avoidance of doubt, the AFCD needs to issue a revised Inspection Manual and make it clear to its staff that it would be applicable to all the three wholesale markets.** The AFCD also needs to remind its staff that they should conduct inspections as frequently as required by the Inspection Manual.

Inadequacies in enforcing the tenancy terms

3.8 The tenancy agreements between the AFCD and tenants have specified a number of requirements (Note 11) which have to be observed by the latter. The Markets Division is responsible for enforcing these tenancy requirements. Examples of tenancy requirements that need to be enforced are listed at Appendix C.

3.9 Audit noted from various sources (including AFCD incident reports, complaints/referrals from traders, minutes of inter-departmental meetings and contractors’ notifications) that there had been incidents of non-compliance with the tenancy requirements. Examples of such incidents are shown in Table 8.

Note 11: *These requirements include those rules laid down by the AFCD in the market administrative rules, which form part of the tenancy agreements.*

Table 8

Examples of cases of non-compliance with tenancy requirements

- Two egg stalls at the CSW Market were found selling groceries in addition to eggs (April 2005 – based on a complaint).
- An occupier at the CSW Market claimed that he had taken over a vegetable stall from the original tenant who had left (July 2004 – based on a complaint).
- A fruit stall at the Western Market was found selling groceries and snacks (July 2004 – based on an AFCD incident report).
- 66 suspected illegal workers were arrested in the CSW Market during a joint operation of the Hong Kong Police Force (Police) and the Immigration Department in 2003 (based on a complaint – Note).
- A vegetable stall at the CSW Market was found selling cold drinks (October 2003 – based on a complaint).
- Stalls at the CSW Market were found keeping dogs without permission (June 2003 – based on reports from the security contractor).
- Obstructions were found blocking the fire fighting equipment in the Western Market (January 2003 – based on a complaint).
- An operation by Anti-Triad Squad of the Western Police Station uncovered an illegal gambling activity in the Western Market. 24 persons were detained for investigation in June 2000 (based on reports from the security contractor and Police operation – Note).

Source: AFCD records

Note: In these two cases, enforcement action was taken by the Police after reports from AFCD staff.

3.10 During an audit visit to the Western Market on 12 December 2006, Audit also noted the following incidents of non-compliance:

- (a) people were playing mahjong in the market (item (c) at Appendix C is relevant);
- (b) a vegetable stall was displaying pig-blood curd and bean curd for sale – see Photograph 3A (item (a) at Appendix C is also relevant);
- (c) some vegetable stalls had a canned-drink refrigerator for selling cold drinks (see item (a) at Appendix C);
- (d) dogs and cats were kept around the stalls (see item (f) at Appendix C);
- (e) many stalls had set up cold rooms and hoisting systems and there was no evidence that approval had been obtained for such installations (see item (d) at Appendix C);
- (f) goods were seen blocking the fire fighting equipment – see Photograph 3B (item (h) at Appendix C is also relevant); and
- (g) goods were put up for retail sale (see item (a) at Appendix C).

Photograph 3A

A vegetable stall displaying pig-blood curd and bean curd for sale



Photograph 3B

Goods blocking the fire fighting equipment



Source: Photographs taken at the Western Market by Audit on 12 December 2006

3.11 In February 2007, the AFCD advised Audit that:

- (a) pig-blood curd and bean curd (see para. 3.10(b)) were not items regularly seen in wholesale markets. The AFCD would monitor the tenants involved;
- (b) to address the issue that some vegetable stalls were selling canned drinks (see para. 3.10(c)), the AFCD would liaise with the current refreshment kiosk operator to provide a 24-hour service;
- (c) the dogs and cats found (see para. 3.10(d)) were actually stray animals from the nearby Western District Public Cargo Working Area. The AFCD regularly requested Dog Catching Teams from the Hong Kong Animal Management Centre at Pokfulam to catch these animals; and
- (d) regarding paragraph 3.10(e), to remove ambiguities, the AFCD would standardise the practice of granting approvals to market stalls for setting up cold rooms and hoisting systems.

3.12 The tenancy agreements require that the tenants have to insure the market stalls and, upon request by the Government, to produce the insurance policies and the premium receipt for inspection (see item (g) at Appendix C). In September 2006, Audit requested the AFCD to provide evidence of checking such insurance coverage. Audit found that, except for some of the first-term tenancies, in most cases, the AFCD could not produce evidence of checking insurance policies.

3.13 From a scrutiny of the Inspection Manual, Audit found that the AFCD inspections mainly focused on the market and environmental conditions. Although the inspection procedures also covered checking (for selected shifts and for the CSW Market and the Western Market only) of gambling activities, keeping of cats/dogs, illegal/improper operations at night in fish/vegetable stalls, unauthorised occupation of vacant stalls and blockage of access, there was little guidance on the need to ensure that the tenants had complied with the tenancy requirements. In particular, the inspection procedures did not cover specific compliance checks to ensure that:

- the stalls are used only for the purposes specified in the tenancy agreements (e.g. solely for the wholesale of a particular type of fresh food);
- no illegal workers are working in the market;
- no alterations or additions to the premises are made without the written consent of the Government;
- there is no subletting of stalls, or disposal of any interests in the stalls; and
- tenants have insured the market stalls against loss or damage by fire and storm, etc.

(Items (a), (b), (d), (e) and (g) at Appendix C are relevant.)

3.14 In the course of an inspection, it would be at the discretion of the AFCD staff to look for non-compliance and to decide on what action should be taken. In the absence of clear guidelines, questions could arise about the reasonableness of an inspection staff's judgement on a particular case, and about the consistency of judgements of different staff handling similar cases. From a scrutiny of the AFCD's market inspection reports for the three months of September to November 2006, Audit noted that, other than a few cases of obstructions to traffic movement, no other incident of non-compliance was reported. **Audit considers that the AFCD needs to improve the Inspection Manual by including suitable provisions to govern compliance checking. Guidelines should also be provided to assist the inspection staff to exercise their discretion and decide on action to be taken.**

Keeping of proper and complete records on market operations

3.15 Apart from the inspection reports, the AFCD also keeps different log books on complaints, enquiries and service requests received. The log books are regularly reviewed by the Senior Field Officer of each market to ensure that the complaints and requests have been properly dealt with. Besides, the AFCD maintains statistics of thefts, burglaries, illegal gambling, employment of illegal workers, and traffic accidents etc. that have occurred in the three markets.

3.16 Audit found that the statistics kept by the AFCD were not always complete, as illustrated below:

- (a) ***Incomplete statistics on crimes kept by the AFCD.*** Statistics on the employment of illegal workers in the wholesale markets as kept by the AFCD were different from those reported by the Police (see examples below):

Example 1

The AFCD's statistical record for the quarter ended December 2003 showed no cases of illegal workers for the three wholesale markets. However, the Police reported in an inter-departmental meeting held (among the Police, the Immigration Department, the Labour Department and the AFCD) on 28 June 2004 that in December 2003 alone, 91 illegal workers were arrested at the CSW Market.

Source: AFCD records

Example 2

The AFCD's statistical record for the quarter ended June 2004 showed no cases of illegal workers for the three wholesale markets. However, the AFCD's incident file revealed that in a joint operation taken by the Police and the Immigration Department on 25 May 2004, more than 34 illegal workers were arrested at the CSW Market.

Source: AFCD records

Upon Audit's enquiries in December 2006, the AFCD explained that only crime cases (e.g. employment of illegal workers) known to AFCD market staff (including those not reported to the Police) were included for compiling the AFCD's statistics. There was no procedure for the AFCD to ask the Police for details of the market crimes that had occurred. As a result, the AFCD had no full knowledge of the crimes (such as which tenants had committed crime and the particulars). Audit considers that such information is useful for the AFCD to monitor the market conditions and assess the tenants' compliance with the tenancy requirements (see para. 3.8); and

- (b) **No record of food test results.** The AFCD receives monthly information from the FEHD on details of food samples that have been selected from the CSW Market and the Western Market for testing. However, the AFCD does not keep any record of the test results, nor has the FEHD informed the AFCD of the test results (Note 12). Audit considers that, in the absence of such information, the AFCD may have difficulties in ascertaining whether the tenants have observed the provisions of the Public Health and Municipal Services Ordinance (Cap. 132) and complied with the tenancy terms (Note 13).

3.17 **The AFCD is responsible for the effective management of wholesale markets. Audit considers that the AFCD needs to maintain proper and complete information on the market operations, without which it would be difficult to anticipate potential problems and manage the markets effectively. The AFCD also needs to design procedures for collecting information regularly from the Police and the FEHD on crimes committed in the wholesale markets and food testing results.**

Need to enhance the market entry registration system

3.18 Since May 2006, the AFCD has strengthened the security control of the CSW Market and the Western Market by introducing an entry registration system. The system is operated by the security service contractors and the car park management contractors of the two markets (hereinafter referred to as security contractors). Under the system, all persons and vehicles entering the two markets have to be registered. According to a notice issued by the AFCD in May 2006, all market users, including drivers and passengers, before entering the markets, need to either show a Market Entry Permit (MEP – Note 14), or have their names, identity card (ID card) numbers and purpose of visit recorded. In other words, there are two types of market users: regular MEP holders and non-MEP holders.

Note 12: *In an inter-departmental meeting held in August 2006 among the HWFB, the FEHD and the AFCD on the checking of health certificates of live freshwater fish from the Mainland at the CSW Market and the Western Market, the FEHD had undertaken to keep the AFCD informed of the results of its sampling tests on freshwater fish. There is however no evidence that the FEHD had informed the AFCD of the test results.*

Note 13: *All tenants are obliged under the market administrative rules, which form part of the tenancy agreements, to observe the provisions of the Public Health and Municipal Services Ordinance. The AFCD is empowered to terminate the tenancy if the tenant fails to observe the provisions.*

Note 14: *The MEP, which bears the name and a photograph of the holder, is issued by the AFCD to an applicant who has provided his particulars such as his name, identity card number, trade, role to play in the market (e.g. as a tenant/worker/buyer) and phone number in an MEP application.*

3.19 According to the AFCD, the objectives of introducing the market entry registration system are to deter unscrupulous people from using the markets for unlawful activities, and to facilitate normal trading activities and better market management. The AFCD estimated that this system would involve expenditure of \$11.4 million in 2006-07.

3.20 An audit review of the entry registration procedures at the CSW Market and the Western Market revealed the following:

- (a) **Verbal identity information is accepted.** The AFCD informed the trade representatives at a special meeting of the Market Management Advisory Committee of the Western Market held in May 2006 that all persons entering the two markets had to show their ID cards or MEPs to the security contractors' staff for registration. However, the AFCD guidelines issued to the security contractors stipulated that verbal information provided by non-MEP users was acceptable. To verify the procedures, Audit visited the two markets. On 21 September 2006, Audit staff (accompanied by AFCD staff) paid a visit to the CSW Market by taxi. Before allowing entry, the security contractors' staff on duty asked the audit staff to produce their ID cards for registration. On 12 December 2006, Audit staff (not accompanied by AFCD staff) visited the Western Market and entered through the pedestrian entrance. On this occasion, the security contractors' staff on duty did not ask the audit staff to produce ID cards for registration. They just asked for verbal identity information (i.e. the first four digits of ID card numbers); and
- (b) **Market entry information recorded is incomplete.** From an examination of the security contractors' entry registration records kept for the week ended 11 November 2006, Audit noted that the information recorded was not complete, as summarised in Table 9.

Table 9

**Market entry information recorded by security contractors
(for non-MEP holders)**

Particulars recorded	Drivers/passengers entering the CSW Market and the Western Market	Pedestrian visitors entering	
		CSW Market	Western Market
Name of person	Rarely recorded	Recorded	Rarely recorded
First four digits of the ID card number	Recorded	Recorded	Recorded
Purposes of visit	Rarely recorded	Recorded	Recorded

Source: AFCD records

3.21 **Audit considers that the existing entry registration procedures cannot provide adequate controls.** In this connection, Audit notes that, from time to time, illegal workers were found working at the CSW Market and the Western Market. For example, in the quarter ended September 2006, the AFCD reported five cases of illegal employment (three in the CSW Market and two in the Western Market) to the Police for investigation.

3.22 **Given that the AFCD has introduced the entry registration system for more than 10 months and that it would spend \$11.4 million in 2006-07 on the system (see para. 3.19), Audit considers that the AFCD needs to conduct a post-implementation review to assess the cost-effectiveness of the system.** If the system is to continue, the AFCD needs to improve the entry registration procedures for ensuring efficiency and effectiveness.

3.23 The existing entry registration procedures are labour-intensive. The registration booths at the CSW Market and the Western Market have to be manned by a number of security contractors' staff for 24 hours a day and 7 days a week. Traffic at the markets is also busy. In the CSW Market alone, some 4,600 visitors and 2,900 vehicles enter the market each day. Audit notes that most market users are MEP holders. As the MEP has a barcode imprinted on it, Audit considers that it would be more cost-effective if the registration of MEP holders can be automated by means of a barcode reader linked to a computer system for storing the registration information. This helps improve the controls and ensures that a proper record is maintained. **Audit considers it desirable for the AFCD to explore the feasibility and cost-effectiveness of automating the registration procedures for MEP holders.**

Audit recommendations

3.24 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

Inspections of wholesale markets

- (a) **issue a revised Inspection Manual and make it clear that it is applicable to all three wholesale markets;**
- (b) **remind the AFCD staff that they should conduct inspections as frequently as required by the Inspection Manual;**

Inadequacies in enforcing the tenancy terms

- (c) **improve the Inspection Manual by including suitable provisions governing compliance checking and providing guidelines to assist the AFCD staff to exercise their discretion and decide on action to be taken;**

Keeping of proper and complete records on market operations

- (d) **keep proper and complete records on the market operations, in order to facilitate management to anticipate potential problems and manage the markets effectively;**
- (e) **design procedures for collecting information regularly from the Police on crimes committed in the wholesale markets and from the FEHD on food testing results;**

Need to enhance the market entry registration system

- (f) **review the entry registration procedures at the CSW Market and the Western Market and identify areas for improvement, e.g. promoting the use of MEPs, requesting non-MEP holders to show ID cards and maintaining proper and complete entry registration records;**
- (g) **conduct a post-implementation review to assess the cost-effectiveness of the entry registration system; and**
- (h) **explore the feasibility and cost-effectiveness of automating the entry registration procedures for MEP holders.**

Response from the Administration

3.25 The **Director of Agriculture, Fisheries and Conservation** accepts all the audit recommendations. She has said that:

Inspections of wholesale markets

- (a) the AFCD will make clear to all market staff that the Inspection Manual is applicable to all wholesale markets under the AFCD's direct management;
- (b) the less-than-required number of inspections in the Western Market (see para. 3.7) is primarily due to insufficient staff as resources were drawn to deal with new duties arising from the malachite green food incident. The AFCD has already redeployed two additional Field Assistants to strengthen the staff team in the Western Market for maintaining the required inspection frequencies;

Inadequacies in enforcing the tenancy terms

- (c) the AFCD will update the Inspection Manual and will ensure that traders in wholesale markets follow the tenancy terms. In particular, the AFCD will put out a special watch on those irregularities (playing mahjong, selling pig-blood curd and bean curd, stray dogs and cats, blocking fire fighting equipment, putting up goods for retail sale, etc.) mentioned in the audit report;

Keeping of proper and complete records on market operations

- (d) the AFCD will devise procedures to ensure that all pertinent information from different sources is compiled appropriately in relevant databases to facilitate market management;
- (e) the AFCD will liaise with the Police and the FEHD on collecting relevant information regularly from them;

Need to enhance the market entry registration system

- (f) the AFCD will continue to refine the entry registration system as suggested. As some 8,000 people and 4,000 vehicles visit the wholesale markets daily, and often converge within a few hours in the early morning, there are practical difficulties for security personnel to collect all the information without causing serious delays and provoking some of the more uncooperative elements in the wholesale market on a daily basis. Under these circumstances, the AFCD considers verbal provision of information a practical alternative. Some people may only provide their surnames and refuse to provide their full names;
- (g) vehicles entering the wholesale markets are required to declare the market stalls they are visiting. This provides a good indication of where the vehicle is going inside the wholesale market and its purpose of visit;
- (h) the AFCD has been working with the Police in making use of the entry registration system to combat crime in wholesale markets. Since the implementation of the entry registration system, the Police has on a number of occasions used the data collected for its enforcement operations. It is believed that the entry registration system helps deter criminal elements from entering the wholesale markets; and
- (i) the AFCD is liaising with the EMSD on automating the registration procedures. Automation is always in the AFCD's mind to help solve the traffic and control problem. Right at the very beginning in designing the entry registration system, the AFCD has already built in barcodes in the entry permit with a view to automating the system in future. As a matter of fact, in August 2006, the AFCD had requested the EMSD to develop an automatic barcode access control system. The AFCD is meanwhile examining a draft proposal from the EMSD.

PART 4: OUTSOURCING THE OPERATION OF THE NORTH DISTRICT MARKET

4.1 This PART examines the AFCD's outsourcing of the operation of the North District Market.

Background

4.2 The North District Market (Note 15) is an open-air temporary market that operates in Fanling. Wholesale trade is carried out for imported and local fresh vegetables. Since December 2000, the market operation and management (see para. 1.5) has been outsourced to a private company (the market contractor). The current contract has been in force since December 2000 (the 2000 contract).

Photograph 4

The North District Market



Source: AFCD records

Note 15: *The North District Market is located at On Kui Street, Fanling and occupies an area of 1.3 hectares. Its facilities include a trading area of 1,700 square metres and 168 vehicle parking spaces.*

4.3 The services provided by the market contractor include managing and operating the trading floor, providing weighing services for wholesale transactions, managing the vehicles entering/leaving the market, cleansing, security, handling of complaints and disputes, and repairs and maintenance. The market contractor earns income through charging market users commission for weighing and parking fees. Under the 2000 contract, the market contractor is obliged to pay the Government a one-off non-refundable premium and a fixed monthly rental charge (Note 16).

4.4 The 2000 contract had a contractual period of three years (December 2000 to November 2003), extendable by the Government for a further period in aggregate of two years, subject to the market contractor's satisfactory performance in the initial 3-year period.

Repeated extensions of the 2000 contract

4.5 As at February 2007, the 2000 contract was still in force. The contract had been extended five times for a total period of three years and four months. The last extension would expire on 31 March 2007. Details of the five extensions are at Appendix D. As at February 2007, a new tendering exercise for outsourcing the operation and management of the North District Market for a period of five years (commencing in April 2007) was in progress.

4.6 According to the AFCD, as the tendering exercises needed more time in order to get the necessary clearance of the tender documents, the various extensions for the 2000 contract were unavoidable.

Note 16: *The monthly rental was fixed at \$21,770, which was pre-determined by the Government based on the full-cost recovery principle. At the request of the AFCD, the amount of the premium paid for the 2000 contract is not disclosed in this report on commercial confidentiality grounds.*

Audit observations

4.7 According to the AFCD, the 2000 contract is a revenue contract, which aims at providing an additional source of revenue for the Government. Although the 2000 contract contains provisions to allow for contract extensions (Note 17), Audit considers that the repeated extensions of the contractual period are less than desirable. This is because the one-off premium paid by the market contractor under the 2000 contract is in exchange for the 3-year right to operate and manage the market, and a 2-year option at the Government's discretion (see paras. 4.3 and 4.4). **With the extension of the contractual period, the Government has missed an opportunity to obtain another one-off premium through open market bids.**

4.8 Audit considers that there is scope for improvement in the AFCD's management of the 2000 contract, as elaborated in paragraphs 4.9 to 4.19.

Need to learn lessons from management of the 2000 contract

4.9 The need to submit repeated applications for contract extensions is less than desirable. In relation to the contract extension for the period 1 December 2003 to 30 November 2005 (see item (a) at Appendix D), the AFCD submitted its application to the FSTB on 4 August 2003, less than four months before the expiry of the contractual period. Because insufficient time was available for conducting another tender exercise, the FSTB had to approve the contract extension.

4.10 When granting the approval in November 2003, the FSTB stated that approval was given subject to the following conditions:

- (a) the proposed extension was the final extension;
- (b) the AFCD should conduct well in advance a tender exercise to let out a new contract to tie in with the expiry of the extended contract; and

Note 17: *The contract allows the Government to extend the contract from time to time for a further period in aggregate of not more than two years, subject to the market contractor's satisfactory performance in the initial 3-year period. To exercise this option, the Government has to give not less than two months' notice in writing. The contract also allows the Government to extend the contract upon giving a notice of three months before the expiry of the contract/extended period, but the terms and conditions are to be agreed between the parties.*

- (c) contract extension should normally be used as a stop-gap measure. If the AFCD intended to extend any contract, it should seek approval at least 6 to 7 months before the contract expiry date. This arrangement would ensure that the AFCD would have adequate time (i.e. about six months) to conduct a tender exercise to let out a new contract in the event that the proposed extension was not approved by the FSTB. In the event that the tender exercises involved were complicated and more time was required for the tender exercises, the AFCD should submit the extension applications even earlier.

In granting approvals on the subsequent occasions, the FSTB reiterated the need for the AFCD to make good use of the extension period to let out a new contract and to avoid further extensions. In August 2006, when approving the AFCD's application of July 2006 (see item (e) at Appendix D), the FSTB commented that the situation was far from satisfactory.

4.11 On several occasions, the AFCD submitted its applications for contract extensions in less than one month's time before the contract expired. As a result, the FSTB's approvals could only be given close to the contract expiry dates. The market contractor could not be given a notice period of two/three months as required by the contract (see Note 17 to para. 4.7).

4.12 **Audit considers that the AFCD needs to learn lessons from its management of the 2000 contract. In particular, it should allow more time for a tendering exercise to minimise the need for repeated contract extensions.** In situations when contract extensions cannot be avoided, the AFCD needs to provide the contractor with adequate notice as stipulated in the contract.

Need to enforce the contractual terms

4.13 According to the 2000 contract, the market contractor is required to furnish monthly to the AFCD information relating to his operation of the market, including details of market throughput, gross revenue/income/receipts, and staff deployment position.

4.14 Audit however noted that, except for market throughput, the market contractor had not furnished monthly to the AFCD other operating information (e.g. gross revenue and staff deployment position). **Audit considers that the AFCD needs to enforce the contractual terms by requiring the market contractor to furnish the operating information regularly.**

Need to set a minimum premium in the tender conditions

4.15 As mentioned in paragraph 4.3, the market contractor earns income from providing weighing services and collecting parking fees. The Government collects revenue from the market contractor in the following ways:

- (a) ***A one-off non-refundable premium.*** This is a price offered by the market contractor in the tender to obtain the contract; and
- (b) ***Monthly rental payments.*** The rental charge is specified in the tender specifications and is computed by the Government on the full-cost recovery basis (see Note 16 to para. 4.3).

4.16 Instead of bidding on the rentals, tenderers are required to bid on the amount of the premium. Under the existing practice, the AFCD does not set any minimum premium in the tender conditions. Apparently, it is believed that through competitive tendering, the tenderer will offer a premium that will reflect the fair market rate.

4.17 Audit shares this view, but considers that a fair premium will be obtained only when there is keen competition. Past experience showed that competition for this outsourcing tender was not keen. There was little assurance that the premium obtained was a reasonable amount.

4.18 **To better protect the Government's interest, Audit considers that the AFCD needs to consider setting a reasonable level of minimum premium in the tender conditions.** In this connection, Audit considers that the AFCD can make reference to the premiums paid under previous contracts and other trading information kept by the market contractor (see para. 4.13) in setting a minimum premium in the tender documents.

Audit recommendations

4.19 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

- (a) **learn lessons from the AFCD's management of the 2000 contract and in particular, allow more time for a tendering exercise to minimise the need for repeated contract extensions;**
- (b) **provide the contractor with adequate notice for any contract extensions required;**

- (c) **enforce the contractual terms by asking the market contractor to furnish the required operating information regularly; and**
- (d) **consider setting a reasonable level of minimum premium in the tender documents, with reference to previous contracts and the market contractor's business activities.**

Response from the Administration

4.20 The **Director of Agriculture, Fisheries and Conservation** accepts all the audit recommendations. She has said that:

- (a) the AFCD will take account of additional lead time in future tender exercises. Of the total of 40 months' contract extension on five occasions, the first extension of 24 months was built into the original contract and was to be awarded if the contractor provided good performance. This first extension was scheduled to expire in November 2005, and the AFCD had started preparing for tendering in January 2005, 11 months before the expiry date. Unfortunately subsequent events (as detailed at Appendix D) had shown that this amount of lead time was still not enough for this particular contract;
- (b) the situation of providing the contractor with inadequate notice for contract extensions required would not have arisen if the tendering exercise had proceeded as planned. The AFCD always prefers to let out new tenders rather than going for contract extensions; and
- (c) regarding the proposal of setting a reasonable level of minimum premium in the tender conditions, the AFCD will take this into consideration in preparing for future contracts.

4.21 The **Secretary for Financial Services and the Treasury** has said that:

- (a) the FSTB supports the audit recommendations. In particular, the FSTB reiterates that the AFCD should plan in advance a tender exercise to let out a new contract to tie in with the expiry of the existing contract; and
- (b) the FSTB also supports that the AFCD should strengthen and enforce the measures for monitoring the contractor's performance. This is in line with the Government's Stores and Procurement Regulations, which require departments to devise an effective monitoring mechanism to ensure that a contractor performs to standard and complies with the terms of a contract.

PART 5: REPROVISIONING OF OUTDATED WHOLESALE MARKETS

5.1 This PART examines the Government's progress in reprovisioning the outdated wholesale markets.

Executive Council decision in 1969

5.2 Before 1969, the wholesaling of imported fresh food was conducted on streets and scattered in prime sites or urban residential areas. These activities caused widespread obstruction, traffic congestion, sanitary and environmental problems and nuisance to the neighbourhood. In 1969, the Executive Council (ExCo) approved that the Government should accept the responsibility for the construction of wholesale food markets and that the capital required would be met from public funds.

5.3 With funds approved in principle by the Finance Committee (FC) of the Legislative Council (LegCo) in February 1969, the Government proceeded with the detailed planning of two permanent government market complexes. The two government wholesale markets, the CSW Market Phase 1 (located in Kowloon) and the Western Market (located on Hong Kong Island) were constructed and became fully operational in 1993 and 1994 respectively. With their operation, eight outdated temporary wholesale markets were replaced.

5.4 In accordance with the 1969 ExCo's decision, two more wholesale markets, i.e. the Yau Ma Tei Fruit Market (YMT Fruit Market – see para. 1.3(d)) and the CSW Poultry Market, had to be reprovisioned. According to the Government's original plan, these two markets were to be reprovisioned to the CSW Market Phase 2 site (Phase 2 site), which is adjacent to the CSW Market Phase 1 and has an area of 9.9 hectares.

Audit review in 1996 and PAC Report of January 1997

5.5 In 1996, Audit conducted a review of the provision of government wholesale food markets. In the Director of Audit's Report No. 27 of October 1996, Audit reported that the 1969 ExCo's decision had not been fully implemented. In particular, the YMT Fruit Market and the CSW Poultry Market had yet to be reprovisioned. Audit recommended that the Administration should expedite the development of the Phase 2 project. Having noted that the development potential of the sites for the CSW Market Phase 1 and the Western Market had not been fully realised, Audit also recommended that the Administration should explore the possibility of maximising the development potential of the Phase 2 site.

5.6 In its Report No. 27 of January 1997, the Public Accounts Committee (PAC) urged the Administration to expedite the development of the Phase 2 project and, in particular, the reprovisioning of the YMT Fruit Market. The PAC also urged the Administration to maximise the development potential of the Phase 2 site.

Response from the Administration in 1997

5.7 In the Government Minute laid before the LegCo in April 1997, the Administration advised the PAC that the Government accepted the PAC's recommendation. In the annual progress report submitted to the LegCo in October 1997, the Administration further informed the PAC that the Government was inviting private developers to tender for the construction of a combined-user development (including a new market – Note 18) at the Phase 2 site. The YMT Fruit Market and the CSW Poultry Market would be relocated to the new wholesale market which was expected to be available by mid-2001.

Position as at February 2007

5.8 There was however little progress in the implementation of the Phase 2 project. As at February 2007, the Phase 2 site (see Photograph 5) remained undeveloped, with both the YMT Fruit Market and the CSW Poultry Market still operating at their existing locations.

Note 18: *In May 1997, when the FC approved the upgrading of the CSW Market Phase 2 project to Category A, the Phase 2 project was planned to be tendered out for private development, with the Phase 2 complex comprising wholesale markets for fruits and poultry, mid-stream container handling facilities and industrial-office accommodation, i.e. it would be a combined-user development. The Government would bear the cost of the wholesale market component.*

Photograph 5

The Phase 2 site at Cheung Sha Wan, Kowloon



Source: Photograph taken by Audit in February 2007

Events affecting progress of the Phase 2 project

5.9 In the tender exercise for the construction of a combined-user development at the Phase 2 site, only one tender proposal was received. It was not accepted by the Government because it had departed materially from the tender conditions. In February 1998, the then Chief Secretary's Lands, Works, Transport, Housing and Environmental Protection Policy Group (LWPG – Note 19) decided that the Government should implement the Phase 2 project by itself and, in order to make optimum use of the site which occupied a prime location in the urban area, the Government should explore the possibility of including other uses in developing the Phase 2 site.

Note 19: *The LWPG was one of the policy groups formed under the Chief Secretary's Committee to assist in the coordination of government policies. It was chaired by the Chief Secretary for Administration.*

5.10 In August 1998, the LWPG agreed to the proposal of developing a multi-storey market complex at the Phase 2 site. The complex would accommodate five trades (vegetables, eggs, fish, live poultry and fruits). Apart from reprovisioning the YMT Fruit Market and CSW Poultry Market, it would also reprovision the following:

- (a) the CSW Market Phase 1 which would be demolished after reprovisioning to release the site for other uses; and
- (b) the VMO Market (see para. 1.3(c) and Note 20).

5.11 Following the LWPG's endorsement, the AFCD proceeded to consult relevant trades in 1999. The trades however objected strongly to the concept of accommodating all of them in a multi-storey complex. They believed that it would cause serious traffic problems and operational conflicts, and the concept would not work in practice. The trades were also concerned about the high rentals that would be charged on them in order to recover the high construction cost.

5.12 In the light of the outcome of the consultation, the then Environment and Food Bureau (EFB – Note 21) and the AFCD reviewed the scope of the Phase 2 project. In a revised proposal of May 2000, they recommended that due to public health reasons, the CSW Poultry Market should be excluded from the Phase 2 project and be reprovisioned to a site in the New Territories. In other words, the Phase 2 site would only accommodate four trades (vegetables, eggs, fish and fruits). In the revised proposal, the EFB/AFCD also reported the following:

- (a) **Traffic problems.** The proper functioning of any planned traffic arrangement was doubtful if the traders did not cooperate and were not self-disciplined. Given the perishable nature of the fresh produce, the Government might face possible claims from market users for damage due to improper functioning of the market complex; and
- (b) **Traders unwilling to move.** It was conceivable that traders would refuse to move into Phase 2 on the grounds of operational difficulties. Any action to force them to move could lead to confrontation and it was doubtful whether the Administration would secure support of the LegCo and the public. There was a risk that the facility would be under-utilised.

Note 20: *Because the existing VMO Market premises was not sufficient to meet the wholesale needs, the reprovisioning of the VMO Market was under consideration by the Government.*

Note 21: *Since July 2002, the food portfolio of the EFB has been taken over by the HWFB.*

5.13 In considering the revised proposal in June 2000, the LWPG agreed that the CSW Poultry Market should be excluded from the Phase 2 project and be relocated to a remote area (Note 22). However, the LWPG had reservation on the high capital cost of the Phase 2 project and decided that, before committing to proceeding with the project, the Government should ascertain the costs and benefits of various development options and explore alternative sites to relocate the YMT Fruit Market.

5.14 A site search was conducted by the Planning Department for relocating the YMT Fruit Market. The result was however not fruitful. At a meeting held in September 2002 to discuss the relocation of the YMT Fruit Market, the HWFB advised relevant bureaux and departments that a multi-storey complex for four trades through reprovisioning the CSW Market Phase 1, the YMT Fruit Market and the VMO Market might not represent good value for money, taking into account the current economic environment, land demand and the anticipated traders' objection. It was also considered infeasible for various wholesale trades to operate within a multi-storey market complex.

5.15 In the Government Minute laid before the LegCo in May 2004, the Administration advised the PAC that:

- (a) the Government had decided not to pursue the five-trade option for developing the Phase 2 site and the CSW Market Phase 1 should continue its operation;
- (b) the Government was reviewing other options of developing the Phase 2 site for wholesale market purpose, taking into account current economic environment and land demand, concerns of relevant traders, as well as the need for reprovisioning some wholesale markets; and
- (c) the Government would keep the LegCo Panel on Food Safety and Environmental Hygiene informed of the development.

5.16 Since May 2004, there has been no further development on the Phase 2 project. As at February 2007, the HWFB was reviewing the Government's responsibility for the construction of wholesale markets in the light of the current economic policy and the present needs of Hong Kong. The Administration had not decided on the way forward for the Phase 2 project.

Note 22: *Since 2000, the future development of the live poultry trade, including the future of the CSW Poultry Market, has been under consideration by the Government. To separate live poultry from humans to avoid human infection of avian flu, the Government is exploring the setting up of a poultry slaughtering plant in the New Territories. Once the slaughtering plant commences operation, live poultry will be brought directly to the slaughtering plant without any need to pass through the CSW Poultry Market.*

Audit observations

Need to make a decision on the Phase 2 project

5.17 The ExCo's decision on wholesale markets was made in 1969. The PAC urged the Administration in January 1997 to expedite the development of the Phase 2 project and, in particular, the reprovisioning of the YMT Fruit Market. The Administration had also indicated in the FC paper of May 1997 (see Note 18 to para. 5.7) that:

“The noise, traffic congestion and environmental hygiene problems generated by Yau Ma Tei Fruit Market and Cheung Sha Wan Temporary Wholesale Poultry Market have been the source of complaints from nearby residents. To address these problems, the Government plans to relocate both markets to the site reserved for Phase 2 of the Cheung Sha Wan Wholesale Market Complex. Relocation of the markets will significantly improve the living environment for the residents concerned. The new markets will be able to cope with the increased volume of trade and enable better management and efficiency of operation.”

5.18 However, as at February 2007, the Phase 2 site remained undeveloped (see para. 5.8). **Audit considers that the HWFB needs to expedite its review of the Government's responsibility for the construction of wholesale markets and finalise its decision on how to take forward the Phase 2 project. As undertaken in the Government Minute of May 2004, the HWFB should also keep the LegCo Panel on Food Safety and Environmental Hygiene informed of the development (see para. 5.15(c)).**

Need to plan for early reprovisioning of the YMT Fruit Market

5.19 As the Government has not decided on the way forward for the Phase 2 project, the YMT Fruit Market (Note 23) has been operating at its existing location for more than 80 years and is in a very dilapidated condition (see Photograph 6). There is no identifiable boundary. Infrastructures are also lacking. Because of the shortage of loading/unloading and trading spaces, activities of the market have spilled over into the surrounding areas. This has caused serious traffic and environmental nuisances in the vicinity and has been the source of continuous complaints from the residents and the district council. **Audit considers that the HWFB needs to plan, in consultation with the Housing, Planning and Lands Bureau, for the early reprovisioning of the YMT Fruit Market.**

Note 23: *The YMT Fruit Market has an area of 1.53 hectares and is occupied by 273 trading units.*

Photograph 6

The YMT Fruit Market in early morning



Source: Photograph taken by Audit on 9 March 2007 at 7:30 a.m.

Need to consider various factors in planning the Phase 2 project

5.20 Audit notes various factors which may affect the Government's plan for the future construction of wholesale markets and the way forward for the Phase 2 project. These include:

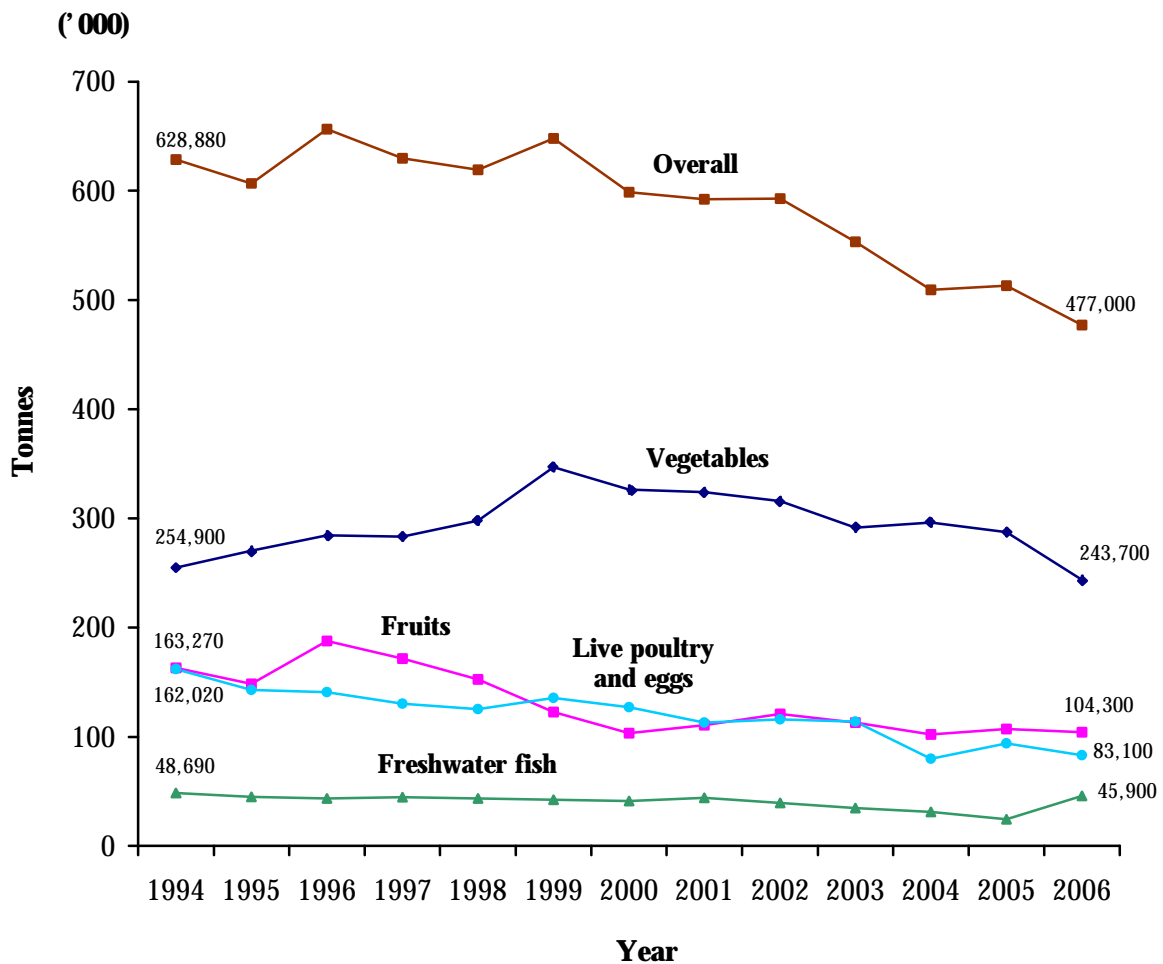
- (a) continued decrease in wholesale market throughput (see paras. 5.21 and 5.22);
- (b) changed transport mode for delivery of fresh food into Hong Kong (see paras. 5.23 and 5.24); and
- (c) under-utilisation of the CSW Market Phase 1 and the Western Market (see para. 5.25).

Audit considers that the HWFB needs to take into account these factors in future planning for the construction of wholesale markets and deciding the way forward for the Phase 2 project.

Continued decrease in wholesale market throughput

5.21 Figure 1 shows that the total market throughput for the four government wholesale markets had decreased since 1999.

Figure 1
Throughput of government wholesale markets
(1994 to 2006)



Source: AFCD records

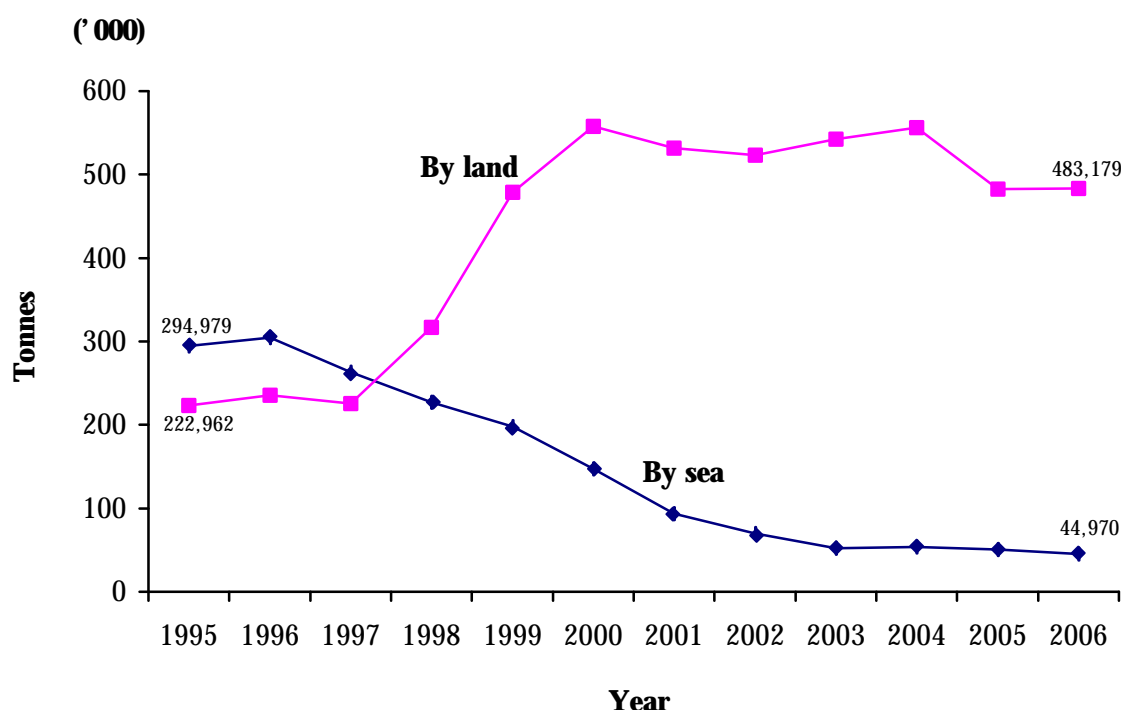
5.22 The decrease in market throughput reflects that there have been changes in the fresh food distribution and marketing system in Hong Kong. For example, there have been more direct sales from suppliers to bulk users (e.g. supermarkets, restaurant chains and institutional catering organisations). Direct imports by retailers are also becoming more common.

Changed transport mode for delivery of fresh food into Hong Kong

5.23 There is a diminishing need for wholesale markets located by the waterfront, as there has been a change in transport mode for the delivery of fresh food into Hong Kong. For example, fresh food arriving by sea transport is generally decreasing. This is evidenced by the facts that four of the five piers at the Western Market have remained unused for years (see paras. 2.8(d) and 2.13), and that the piers at the CSW Market Phase 1 are allowed to load/offload goods other than fresh food in order to improve utilisation.

5.24 There is a steady increase in the supply of fresh food to Hong Kong by land transport. In 2006, fresh food delivered by land transport accounted for 42% of food delivered by all transport modes (compared with 32% in 1995). The change in transport mode was most obvious for imported vegetables, as shown in Figure 2.

Figure 2
Change in transport mode for imported vegetables
(1995 to 2006)



Source: AFCD records

Under-utilisation of the CSW Market Phase 1 and the Western Market

5.25 In its Report No. 27 of January 1997, the PAC recommended that the Administration should examine the site areas occupied by the CSW Market Phase 1 and the Western Market with a view to maximising their utilisation. Over the years, there has not been much improvement on the utilisation of the two sites (Note 24). Therefore, in planning for the future construction of wholesale markets, the HWFB needs to take into account the development potentials of the sites of the two markets. Besides, it should be borne in mind that the facilities of the two markets have not been fully utilised (see paras. 2.5 to 2.13).

Audit recommendations

5.26 **Audit has recommended that the Secretary for Health, Welfare and Food should:**

- (a) **expedite the review of the Government's responsibility for the construction of wholesale markets and finalise a decision on the way forward for the Phase 2 project;**
- (b) **keep the LegCo Panel on Food Safety and Environmental Hygiene informed of the development;**
- (c) **in consultation with the Secretary for Housing, Planning and Lands, plan for the early reprovisioning of the YMT Fruit Market; and**
- (d) **consider the various factors mentioned in paragraphs 5.20 to 5.25 in planning for the future construction of wholesale markets and deciding the way forward for the Phase 2 project.**

Note 24: *In order to release the Western Market site for better utilisation in the long run, the Planning Department had proposed to reserve in the concept plan of the Western District Development Strategy a smaller site at the Western Reclamation to house the reprovisioning of the Western Market. However, in accordance with the Government's pledge that there would be no further reclamation in the harbour (apart from Central, Wan Chai North and South East Kowloon), the Western Reclamation plan was abandoned in 2004.*

Response from the Administration

- 5.27 The **Secretary for Health, Welfare and Food** has said that the HWFB will:
- (a) diligently follow up on the audit recommendations as far as practicable; and
 - (b) keep the LegCo Panel on Food Safety and Environmental Hygiene informed of the outcome of the review as soon as practicable.
- 5.28 The **Secretary for Housing, Planning and Lands** has said that, when approached by the HWFB, his bureau will do its best to assist.

PART 6: OTHER AREAS FOR IMPROVEMENT

6.1 This PART examines other areas for improvement relating to the AFCD's management of government wholesale markets.

Performance measurement

6.2 **Guidelines on performance measures.** Setting performance measures (indicators and targets) helps enhance government performance, transparency and accountability. The FSTB has devised guidelines on the reporting of performance information in the Controlling Officer's Reports (CORs). According to FSTB Circular Memorandum No. 14/2005 dated 10 October 2005, Controlling Officers should:

- (a) focus more on targets when developing performance measures and apply the most relevant performance indicators that measure economy, efficiency and cost-effectiveness of the resources deployed;
- (b) indicate the extent to which the department's operational objectives are being achieved. In general, outcome (versus output or input) measures/indicators are preferred; and
- (c) provide unit cost or productivity indicators to indicate the extent to which the department is achieving, for example, a greater level of output with a less than corresponding increase in the level of input.

Performance information reported

6.3 Under the Programme "Agriculture, Fisheries and Fresh Food Wholesale Markets" of the 2006-07 COR, the AFCD did not set targets to measure its performance in respect of wholesale markets. It only reported the following performance indicators in the COR for 2006-07:

Performance indicator	2004 (Actual)	2005 (Actual)	2006 (Estimate)
Annual throughput (tonnes)	509,000	513,000	513,000
Rental market stall space occupied (%)	89.9	88.9	88.9
Area of wholesale markets managed (m ²)	295,645	295,645	295,645

Audit observations

6.4 Setting targets helps motivate performance and improve accountability. In the absence of any targets set in the COR, stakeholders cannot assess, in isolation, the performance of the AFCD in the management of wholesale markets. Audit considers that the AFCD needs to set targets for reporting in the COR.

6.5 The performance indicators of “rental market stall space occupied” and “annual throughput” in the COR measure the usage of the wholesale markets, whereas the performance indicator of “area of wholesale markets managed” measures the AFCD’s workloads. In Audit’s view, these three performance indicators do not directly reflect how effectively and efficiently the AFCD has discharged its role in managing the wholesale markets. More meaningful performance indicators need to be developed for reporting in the COR.

6.6 As mentioned in paragraph 2.15, the CSW Market and the Western Market could only recover 81% of the full operating costs in 2005-06. Audit considers that the extent of achieving full-cost recovery in operating the wholesale markets is a useful performance measure to be reported in the COR.

6.7 Audit also considers it desirable for the AFCD to consider developing other outcome/productivity measures for publication in the COR. Such outcome/productivity measures may reflect:

- the satisfaction levels of the market users with the services provided by the AFCD;
- the number of complaints received on the operation of the wholesale markets;
- the number of health and safety incidents that have occurred in the wholesale markets;
- market operating cost per unit throughput; and
- cost reduction in operating the wholesale markets.

Audit recommendations

6.8 **To enhance performance reporting, Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

- (a) **set targets for reporting in the COR the AFCD's performance in respect of wholesale markets;**
- (b) **report the extent of achieving full-cost recovery in operating the CSW Market and the Western Market in the COR;**
- (c) **explore developing other outcome/productivity measures that reflect the effectiveness and efficiency of the AFCD in managing the wholesale markets; and**
- (d) **report such outcome/productivity measures in the COR.**

Response from the Administration

6.9 The **Director of Agriculture, Fisheries and Conservation** accepts the audit recommendations. She has said that the AFCD will liaise with the housekeeping bureau with a view to implementing the changes in the next financial year.

Advertising opportunities at the wholesale markets

6.10 Both the CSW Market and the Western Market are located at prime sites by the waterfront (see Photographs 7 and 8). The letting out of spaces on either the roof or external walls of the market premises for placing commercial advertisements may generate considerable revenue. Audit noted that in 1997 and 2002, the AFCD had initiated action to examine the viability of such a proposal and had sought the GPA's assistance to conduct an initial assessment. However, the AFCD did not follow through this initiative upon learning from the GPA that the proposal might involve amendments to the terms of the existing Lease Agreements (Note 25), as the use of the markets for commercial advertising activities did not accord with the lease terms. In January 2003, the Lands D advised the AFCD once again that advertisement activities at the CSW Market were not within the permitted uses of the lease, and amendments to the user clause and other relevant clauses (if any) of the Lease Agreement would be required.

Note 25: *The Lands D has advised Audit that the two wholesale markets are held by the Financial Secretary Incorporated by way of two separate short term tenancies currently on yearly terms. There are user restrictions in the respective tenancies. For example, the CSW Market can only be used as a wholesale market for fruit, fish, poultry, vegetables, eggs and for the landing of produce and goods from vessels to the market and such ancillary uses as may be approved.*

Photograph 7

The waterfront of the CSW Market



Source: AFCD records

Photograph 8

The waterfront of the Western Market



Source: Photograph taken by Audit in December 2006

Audit observations and recommendations

6.11 Audit notes that the AFCD's initiative has not been followed through. As the Director of Agriculture, Fisheries and Conservation informed the Government Property Administrator in January 1997, the two markets could have great potential to attract interested advertising agents. The Director also stated that, provided that there was no objection to the proposal from the technical and works departments from the technical and structural point of view, the AFCD had no objection in principle to have advertising signs put up on the roof of the premises.

6.12 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should re-examine, in collaboration with the Government Property Administrator and the Director of Lands, the feasibility of the advertising proposal (see para. 6.10), and resolve technical problems that may arise.**

Response from the Administration

6.13 The **Director of Agriculture, Fisheries and Conservation** accepts the audit recommendations. She has said that the AFCD will initiate action accordingly.

6.14 The **Director of Lands** has said that:

- (a) while commercialisation of government properties falls within the ambit of the GPA, the Lands D is amenable to the AFCD's advertising proposal and the necessary amendments to the relevant clauses in the existing Lease Agreements (subject to comments from other government departments) to facilitate the matter; and
- (b) there has been public concern about the uses on sites along the harbour-front. The Harbour-front Enhancement Committee, which is an advisory body to advise the Government (through the Secretary for Housing, Planning and Lands) on planning, land uses and developments along the existing and new harbour-front of the Victoria Harbour, has formulated a set of harbour planning principles to provide guidelines in the planning, development and management of the Victoria Harbour and its waterfront areas. As such, the AFCD is recommended to take into account the harbour planning principles and consult the Committee on the commercial advertising proposal.

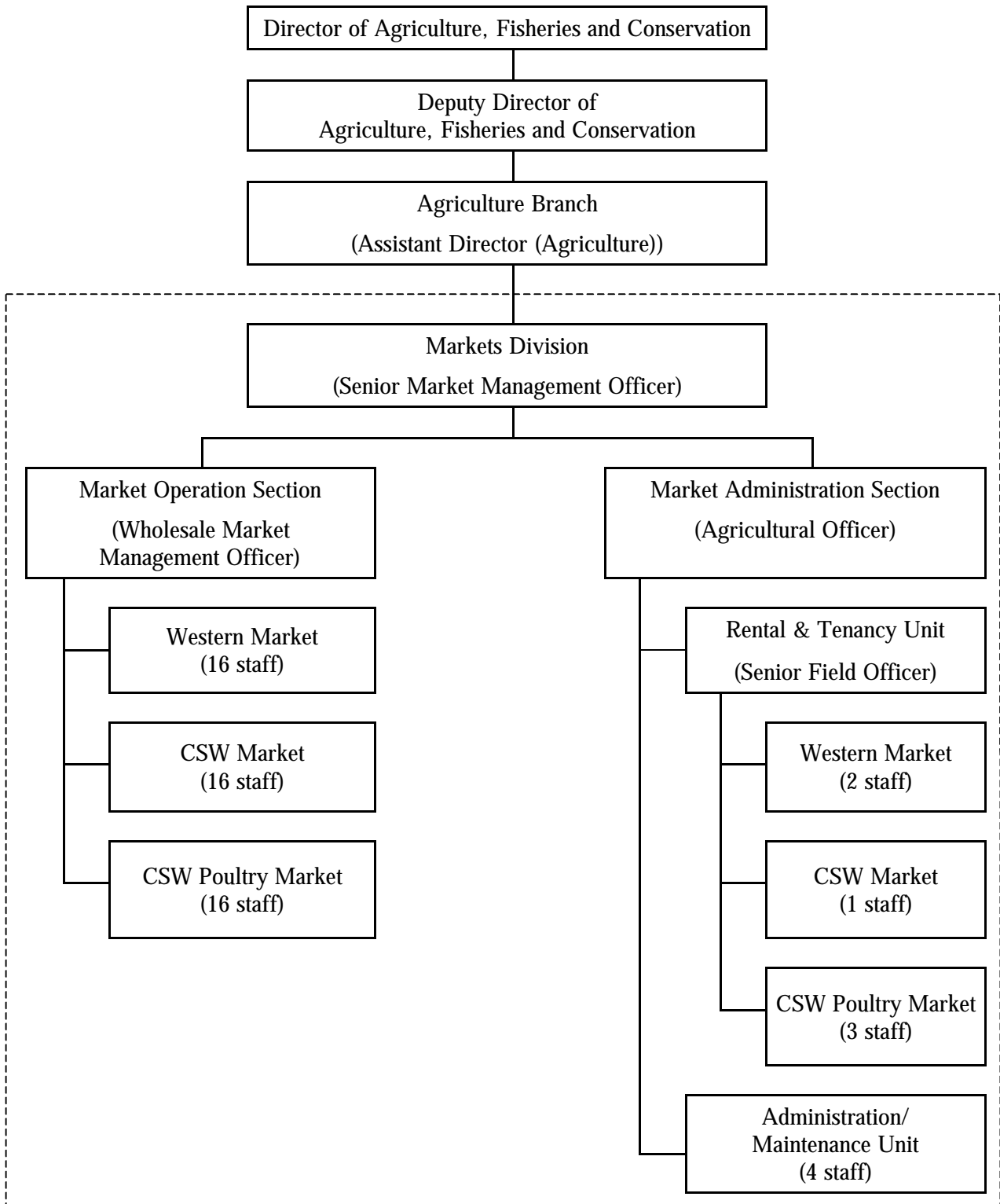
6.15 The **Government Property Administrator** has said that the GPA is prepared to assist the AFCD to ascertain the feasibility of the advertising proposal.

Government wholesale markets

Market	Date of commissioning	Market site area (Hectares)	Fresh food produce traded
CSW Market	October 1993	10.0	Vegetables, eggs and freshwater fish
Western Market	October 1991 (Phase 1) March 1994 (Phase 2)	6.2	Vegetables, eggs, freshwater fish, poultry and fruits
CSW Poultry Market	November 1974	2.6	Poultry
North District Market	February 1989	1.3	Vegetables

Source: AFCD records

**Organisation chart of the Markets Division
(1 January 2007)**



Source: AFCD records

Examples of terms of tenancy agreement that need to be enforced

The tenancy agreement states, among other things, that the tenant shall:

- (a) not use the stall for any purpose other than for the purpose specified in the tenancy agreement;
- (b) ensure that no illegal workers are allowed to work in the market;
- (c) not use the stall for residential purposes, gambling or any immoral purposes;
- (d) not make any alterations or additions to the stall (such as electrical installations, fixture partition or other erection) without the written consent of the Government;
- (e) not sublet the stall and dispose of any interests in the stall;
- (f) not keep any animal, bird or livestock in the stall other than those specified in the tenancy agreement;
- (g) insure and keep insured the market stall against loss or damage by fire, storm, tempest, explosive and aircraft; and upon request by the Government, to produce the policy of such insurance and the receipt for the premium; and
- (h) not place any goods, article, equipment or vehicle in the public area of the market so as to cause obstruction or disruption to the smooth operation of the market, except with the permission of the market manager.

Source: AFCD records

Appendix D
(paras. 4.5, 4.9, 4.10 and
4.20(a) refer)

Contract extensions of the North District Market

Date of AFCD's application to the FSTB	Period covered by the extension	Duration of the extension (Months)	Justifications for the contract extension
(a) 4.8.2003	1.12.2003 to 30.11.2005	24	The AFCD considered that the extension, being an option provided in the contract, should be exercised as an incentive for the market contractor to perform well.
(b) 8.11.2005	1.12.2005 to 31.12.2005	1	The extension was required to allow more time to complete the preparation work for the new tender/contract.
(c) 12.12.2005	1.1.2006 to 31.3.2006	3	The extension was required to allow more time to complete the tender evaluation as the information provided by the tenderers was not complete.
(d) 3.3.2006 & 15.3.2006	1.4.2006 to 31.8.2006	5	There was a need to re-tender as the two tender submissions received did not conform to the tender requirements.
(e) 31.7.2006	1.9.2006 to 31.3.2007	7	There was a need to consider including a liquidated damages clause in the new tender/contract documents, in order to compensate the Government if the contractor does not fulfil the contractual requirements (Note).
Total		40	

Source: AFCD records

Note: In December 2006, the AFCD decided that, due to time constraint, it would not include a liquidated damages clause in the new tender/contract documents.

Acronyms and abbreviations

AFCD	Agriculture, Fisheries and Conservation Department
Audit	Audit Commission
CORs	Controlling Officer's Reports
CSW Market	Cheung Sha Wan Wholesale Food Market Phase 1
CSW Poultry Market	Cheung Sha Wan Temporary Wholesale Poultry Market
D of J	Department of Justice
EFB	Environment and Food Bureau
EMSD	Electrical and Mechanical Services Department
ExCo	Executive Council
FC	Finance Committee
FEHD	Food and Environmental Hygiene Department
FMO	Fish Marketing Organisation
FSTB	Financial Services and the Treasury Bureau
GDNS	General Demand Note System
GPA	Government Property Agency
HQ	AFCD Headquarters
HWFB	Health, Welfare and Food Bureau
ID card	Identity card
Lands D	Lands Department
LegCo	Legislative Council
LWPG	Lands, Works, Transport, Housing and Environmental Protection Policy Group
MEP	Market Entry Permit
PAC	Public Accounts Committee
VMO	Vegetable Marketing Organisation
YMT Fruit Market	Yau Ma Tei Fruit Market