

# Report No. 48 of the Director of Audit — Chapter 4

## MANAGEMENT OF GOVERNMENT FRESH FOOD WHOLESALE MARKETS

### Summary

1. The Agriculture, Fisheries and Conservation Department (AFCD) is responsible for managing four government fresh food wholesale markets (wholesale markets). Three wholesale markets are directly managed by the AFCD: (a) the Cheung Sha Wan Wholesale Food Market Phase 1 (CSW Market); (b) the Western Wholesale Food Market (Western Market); and (c) the Cheung Sha Wan Temporary Wholesale Poultry Market (CSW Poultry Market). As for the North District Temporary Wholesale Market for Agricultural Products (North District Market), the AFCD has outsourced the operation and management to a private company (the market contractor) since December 2000. In 2006, the value of fresh food traded in the four government wholesale markets amounted to \$4,043 million.

#### Letting of market facilities

2. The CSW Market, the Western Market and the CSW Poultry Market provide some 1,000 units of market facilities (i.e. market stalls, trade offices, ancillary facilities and piers). In 2005-06, the AFCD collected \$78.2 million from letting these facilities. In the same year, the operating costs of the three markets amounted to \$96.5 million.

3. **Utilisation of market facilities.** As at 30 September 2006, the three wholesale markets had an overall vacancy rate of 11%. The Western Market and the CSW Poultry Market had relatively high vacancy rates of 14% and 16% respectively. 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. Four piers (out of five) at the Western Market had been unused for three years or more. One pier has not been used since 1991. *Audit has recommended that the Director of Agriculture, Fisheries and Conservation should make further efforts to improve the utilisation of the market facilities in different wholesale markets.*

4. **Cost-recovery position of the wholesale markets.** As agreed with the Financial Services and the Treasury Bureau, the AFCD determines rental charges for the CSW Market and the Western Market based on the full-cost recovery principle. In 2005-06, the two markets could only recover 81% of the full operating costs. The costs under-recovered amounted to \$17.2 million. *Audit has recommended that the Director of Agriculture, Fisheries and Conservation should monitor the cost-recovery position of the two markets and take appropriate action to improve it.*

5. **Collection of rentals.** The rentals in arrears on 31 March 2006 but still outstanding as at 30 June 2006 amounted to \$6.4 million. Of this \$6.4 million, some \$4 million was due from ex-tenants, and \$3.5 million had been in arrears for more than two years. The AFCD does not have procedural guidelines for conducting regular reviews of its long outstanding arrears and for writing them off. Audit also notes that tenants did not always pay rentals punctually. *Audit has recommended that the Director of Agriculture, Fisheries and Conservation should: (a) devise procedural guidelines for conducting regular reviews of cases of long outstanding rentals and for taking write-off action; and (b) consider using the Treasury's General Demand Note System to enhance the AFCD wholesale market rental collection procedures.*

### **Managing the daily operation of wholesale markets**

6. The AFCD's Wholesale Markets Management Division manages the day-to-day operation of the wholesale markets. Its work includes monitoring the contractors' work in market cleansing, security and car park management, managing the tenancies, and providing administrative support to the markets.

7. **Inspections of wholesale markets.** The Inspection Manual issued by the AFCD in 2004 has laid down the frequency for inspections and supervisory checks to be conducted by its market staff. Audit found that the inspections and supervisory checks were not carried out as frequently as required, particularly at the Western Market. Also, the inspections were mainly focused on the market and environmental conditions. The Inspection Manual provided little guidance on the need to ensure that the tenants had complied with the tenancy requirements. During a visit to the Western Market, Audit noted a number of incidents of non-compliance with the tenancy requirements. *Audit has recommended that the Director of Agriculture, Fisheries and Conservation should remind the AFCD staff that they should conduct inspections as frequently as required by the Inspection Manual, and improve the Inspection Manual by including suitable provisions governing compliance checking of tenancy terms.*

8. **Keeping of records on market operations.** The AFCD maintains statistics of crimes that have occurred in the three wholesale markets. Audit found that the statistics kept by the AFCD were not always complete, as some market crimes (e.g. employment of illegal workers) reported by the Hong Kong Police Force (Police) had not been included. Also, the AFCD does not keep any record of the test results of food sampling conducted by the Food and Environmental Hygiene Department (FEHD) at the wholesale markets. *Audit has recommended that the Director of Agriculture, Fisheries and Conservation should keep proper and complete records on the market operations, and design procedures for collecting information regularly from the Police on market crimes and from the FEHD on food testing results.*

9. **Need to enhance the market entry registration system.** 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 would involve expenditure of \$11.4 million in 2006-07. An audit review of the entry registration procedures revealed that the existing procedures could not provide adequate controls as the security contractors

accepted verbal identity information from people entering the markets, and the market entry information recorded was not complete. *Audit has recommended that the Director of Agriculture, Fisheries and Conservation should review the entry registration procedures, identify areas for improvement, and conduct a post-implementation review to assess the cost-effectiveness of the system.*

### **Outsourcing the operation of the North District Market**

10. For the North District Market, 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. 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.

11. The 2000 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. Audit considers that the repeated extensions of the contractual period are less than desirable. This is because, with the extensions of the contractual period, the Government has missed an opportunity to obtain another one-off premium through open bidding. *Audit has recommended that the Director of Agriculture, Fisheries and Conservation should allow more time for a tendering exercise to minimise the need for repeated contract extensions.*

### **Reprovisioning of outdated wholesale markets**

12. 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. In accordance with the ExCo's decision, the Yau Ma Tei Fruit Market (YMT Fruit Market, which is a private market) 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), adjacent to the CSW Market Phase 1.

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

14. In 1997, the Administration advised the PAC that the Government accepted the PAC's recommendation and that the YMT Fruit Market and the CSW Poultry Market would be relocated to the Phase 2 site in 2001. In 1998, the Government was considering a proposal of developing a five-trade market complex at the Phase 2 site. However, in May 2004 the Administration advised the PAC that the Government had decided not to pursue the five-trade option for developing the Phase 2 site and that the Government was reviewing other options of developing the Phase 2 site for wholesale market purpose.

15. Since 2004, there has been no further development on the Phase 2 project. As at February 2007, the Phase 2 site remained undeveloped, with both the YMT Fruit Market and the CSW Poultry Market still operating at their existing locations. The Health, Welfare and Food Bureau 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. *Audit has recommended that the Secretary for Health, Welfare and Food should: (a) expedite the review and finalise a decision on the way forward for the Phase 2 project; and (b) in consultation with the Secretary for Housing, Planning and Lands, plan for the early reprovisioning of the YMT Fruit Market.*

### **Other areas for improvement**

16. ***Advertising opportunities.*** The CSW Market and the Western Market are located at prime sites by the waterfront. In 1997 and 2002, the AFCD had initiated action to examine the viability of letting out spaces on the two market premises for placing commercial advertisements as they could have great potential to attract interested advertising agents. However, the AFCD's initiative has not been followed through. *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 and resolve technical problems that may arise.*

### **Response from the Administration**

17. The Administration has accepted all the audit recommendations.

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