

Laying of the Report Report No. 48 of the Director of Audit on the results of value for money audits was laid in the Legislative Council on 18 April 2007. The Committee's Report (Report No. 48) was subsequently tabled on 11 July 2007, thereby meeting the requirement of Rule 72 of the Rules of Procedure of the Legislative Council that the Report be tabled within three months of the Director of Audit's Report being laid.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 48 was laid in the Legislative Council on 17 October 2007. A progress report on matters outstanding in the Government Minute was issued on 29 October 2008. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 7 below.

Administration of short term tenancies
(Chapter 1 of Part 4 of P.A.C. Report No. 48)

3. The Committee was informed that:
- the Government had accepted all the recommendations made by the Director of Audit concerning administration of short term tenancies ("STTs") and had actively responded to them. The progress was reported to the Panel on Development of the Legislative Council on 23 October 2007; and
 - most of the recommendations had been implemented. However, there were three recommendations where action was reported to be ongoing, namely: (a) requiring a personal guarantee from a shareholder or director of the company interested in taking up an STT; (b) requiring STT tenderers to provide a statutory declaration of the ownership and directorship of all related companies including those registered overseas; and (c) seeking legal advice on the way forward to share tenants' information among relevant government departments. The Lands Department had considered the implementation issues internally and had sought further advice from the Department of Justice ("D of J"). The Administration would consider how to take these recommendations forward after consulting the D of J.
4. The Committee wishes to be kept informed of the progress of the various courses of action taken by the Administration.

Management of government fresh food wholesale markets

(Chapter 3 of Part 4 of P.A.C. Report No. 48)

5. The Committee was informed that:

Letting of market facilities

Vacant stalls at Cheung Sha Wan Wholesale Food Market ("CSW Market") and Western Wholesale Food Market ("Western Market"); poultry market at Western Market; and letting of market facilities

- the Agriculture, Fisheries and Conservation Department ("AFCD") had continued to implement a series of measures to improve the vacancy position at government wholesale markets. These included:
 - (a) extending uses of vacant egg and fruit stalls to include wholesaling of canned food, kitchen utensils and fruit associated products;
 - (b) widening vacancy advertising coverage through the AFCD's homepage, postings at all government wholesale markets, and quarterly advertisements through wholesale trade organisations and major local newspapers; and
 - (c) arranging for alternative uses of long-standing vacant facilities by other government departments and public organisations through the Government Property Agency ("GPA");
- through the above efforts, the AFCD had rented out 22 of the 99 previously vacant stalls. It had also allocated the vacant poultry market at Western Market to the Hongkong Post as a Speedpost and regional delivery centre;

Four unused market piers at Western Market

- as for the unused piers, the GPA had assessed the commercial viability of disposing the piers through commercial leasing. The assessment revealed that commercialisation would not be viable because of insufficient demand, and high repair and maintenance costs. The Administration was considering demolition of the four piers to save recurrent costs. To this end, the AFCD consulted the wholesaler representatives through the Western Market's Market Management Advisory Committee ("MMAC") in late July 2008. The MMAC was generally supportive of the demolition. The Food, Environment, Hygiene and Works Committee of the Central and Western District Council ("DC") also noted the proposal in early September 2008. The AFCD would further consult the Sub-committee on Harbour Plan Review of the Harbour-front Enhancement Committee ("the HEC Sub-committee") on the proposal;

Collection of rentals

- the AFCD expected to see increased recovery of operating costs with its effort to improve stall vacancy rates. In addition, the AFCD had revised the "Guideline on Recovery and Writing off of Overdue Rents for Government Wholesale Food Markets" with a view to clearly stating how AFCD staff should closely liaise with the Department of Justice ("D of J") and follow up on overdue cases. Out of the 84 cases and \$6.4 million outstanding rental payments recorded at the time of the audit study, 45 cases had either fully repaid, or started repaying in parts or by instalment their outstanding rent, totalling some \$2 million. Another 25 cases involving around \$2.4 million had been written off, primarily because the debtors involved had already been declared bankrupt. The D of J had also commenced proceedings against the remaining 14 cases with a view to recovering their outstanding amount totalling some \$2 million;
- regarding the introduction of a surcharge on overdue rentals, the AFCD had considered various surcharge practices adopted by other departments and devised a proposal of charging interest on late payment for consultation with the wholesalers in December 2007. The wholesalers in all three government wholesale markets raised strong unanimous objection to the proposal. The AFCD would continue to liaise with the wholesalers to take into account their views in refining the proposal. Pending agreement of the stakeholders and successful conclusion of mutually agreed amendment to the tenancy terms, the AFCD intended to introduce the surcharge in 2009;
- the AFCD had also implemented other recommendations made by the Audit Commission. The Treasury's General Demand Note System for the collection of rental had been implemented since 1 October 2007. The guidelines governing the letting of market stalls had been updated and implemented;

Managing daily market operation

- the AFCD was conducting a post-implementation review of the market entry registration system, including its cost-effectiveness and the possibility of further automation;

Outsourcing operation of the North District Temporary Wholesale Market for Agricultural Products ("North District Market")

- the new contractor had assumed the responsibilities of managing the North District Market from 1 April 2007. The AFCD had requested the contractor to provide the required operating/business information as stated in the contract for reference. The AFCD would initiate the next tender exercise at least a year before the current contract expired. Also, the AFCD would

consider setting a reasonable level of minimum premium in the tender documents, with reference to previous contracts and the contractor's business activities;

Reprovisioning of outdated wholesale markets

- in response to the recommendation in the Committee's Report, the Food and Health Bureau forwarded to the Committee in January 2008 a progress update and an indicative timetable (in *Appendix 3*) for relocating the Yau Ma Tei Fruit Market ("YMT Fruit Market"). According to the timetable, the Administration would have the new wholesale fruit market operational 53 months after obtaining the fruit traders' and the DCs' agreement to the relocation;
- the Administration recognised that reaching a mutual understanding with the fruit wholesalers was crucial to a smooth relocation of the YMT Fruit Market. The Administration had therefore continued to engage the fruit wholesalers and the DCs concerned through various channels. Pending further discussion with the fruit wholesalers and the relevant DCs on the relocation, the Administration would proceed with the development of the new wholesale fruit market according to the timetable forwarded to the Committee in January 2008;
- in the meantime, relevant government departments, including the Police and the Food and Environmental Hygiene Department, would continue with necessary enforcement actions, with a view to mitigating the traffic and environmental nuisance caused by the operation of the YMT Fruit Market to neighbouring residents. In this regard, the District Office (Yau Tsim Mong) would continue to take a leading role in co-ordinating inter-departmental efforts;

Other areas for improvement

- new performance indicators in respect of wholesale markets, including the number of requests for assistance handled, the number of daily inspections conducted, and the percentage of recovery of rentable revenue in the CSW Market and the Western Market, had been introduced in the Controlling Officer's Report of the AFCD starting from 2008-2009; and
- the AFCD consulted the Harbour-front Enhancement Committee ("HEC") in October 2007 on a draft proposal for letting out market roofs and external walls for commercial advertisements. The HEC members raised strong and unanimous objection to the idea, citing adverse visual impact and conflicts with the harbour planning principles as the primary reasons for objection. The Administration had therefore decided not to pursue this option further.

6. To follow up on some of the issues reported above, the Committee had written to the AFCD and obtained the updated position as set out below:

Letting of market facilities

Vacant stalls at the CSW Market and Western Market; poultry market at Western Market; and letting of market facilities

- in response to the Committee's enquiry as to why only 22 of the 99 vacant stalls had been rented out despite various efforts made by the AFCD to improve the vacancy situation, and about the actions that would be taken by the AFCD to rent out the remaining vacant stalls, the **Director of Agriculture, Fisheries and Conservation** stated in her letter of 7 January 2009, in *Appendix 4*, that:
 - (a) as of 31 December 2008, the AFCD had rented out 24 of the 99 previously vacant stalls. The 75 stalls which had not been leased out included 15 stalls in the Cheung Sha Wan Temporary Wholesale Poultry Market (which would not be further leased out in view of the recent Voluntary Surrender Scheme for the live poultry trade) and nine stalls located in the Western Market (the area where the stalls were situated had been allocated to the Hongkong Post as a Speedpost and regional delivery centre through the assistance of the GPA); and
 - (b) the remaining 51 stalls were mainly located in the egg or fruit sections of the CSW Market and the Western Market. It was observed that importers were increasingly distributing eggs and fruits to supermarkets or retailers direct, i.e. without going through the Government's wholesale markets. As a result, the demand for egg and fruit stalls remained low. That said, the AFCD would continue to closely monitor the vacancy situation and carry on promoting these stalls to attract more tenants;

Four unused market piers at Western Market

- regarding the latest progress of the consultation with the HEC Sub-committee and the expected timeframe for demolition of the piers, the **Director of Agriculture, Fisheries and Conservation** stated in her letter of 29 January 2009, in *Appendix 5*, that:
 - (a) the AFCD consulted the HEC Sub-committee on 24 September 2008. The Sub-committee strongly objected to demolishing the piers (extract of relevant meeting notes in *Appendix 5*); and

- (b) on 20 November 2008, the Culture, Leisure and Social Affairs Committee of the Central and Western DC reiterated its suggestion of developing the area of the vacant piers into leisure facilities for the enjoyment of the public. As one of the measures to beautify and revitalise the harbourfront areas as pledged by the Chief Executive in his 2008-2009 Policy Address, the Development Bureau would study the possible beneficial re-use of piers which had been left idle (including the four unused piers at the Western Market) but could not be replaced under the restriction on reclamation in Victoria Harbour, with a view to enabling these piers to contribute to the vibrancy of the waterfront. To this end, the AFCD stood ready to surrender the four vacant piers for other uses provided that the security, operations and pedestrian safety of the Western Market and its vicinity were not compromised;

Collection of rentals

- in response to the Committee's enquiry about the current progress of the introduction of a surcharge on overdue rentals, the **Director of Agriculture, Fisheries and Conservation** stated in her letter of 7 January 2009 that during the latest consultation with the tenants, the tenants continued to object strongly to the proposal. In view of the latest economic situation and the Government's commitment to revive the economy by supporting small and medium enterprises, the AFCD was considering possible refinements to the proposal and would consult the tenants again in due course; and

Reprovisioning of outdated wholesale markets

- regarding the latest progress of consultation with the fruit traders for relocation of the YMT Fruit Market, and the possibility of expediting the whole process of relocation, the **Director of Agriculture, Fisheries and Conservation** informed the Committee vide her letter 29 January 2009 that consultation with the fruit wholesalers was ongoing. The Administration had been discussing different aspects of the relocation, including the location, mode of operation and design of the new market with the fruit wholesalers through various channels, including the Working Group on Concern for the YMT Fruit Market under the Yau Tsim Mong DC. The tentative timetable submitted to the Committee depicted the general procedures for public works projects. The Administration would explore whether there was any room for compressing the works timetable in due course.

7. The Committee wishes to be kept informed of further development on the subject.