

**For discussion
on 13 March 2012**

LegCo Panel on Food Safety and Environmental Hygiene

**Rental Adjustments of
Cheung Sha Wan Wholesale Food Market and
Western Wholesale Food Market**

Purpose

This paper outlines the rental adjustment mechanism of the Cheung Sha Wan Wholesale Food Market (CSWWFM) and Western Wholesale Food Market (WWFM).

Rental Adjustment Mechanism for CSWWFM and WWFM

2. The Agriculture, Fisheries and Conservation Department (AFCD) manages four wholesale food markets, namely CSWWFM, WWFM, the Cheung Sha Wan Temporary Wholesale Poultry Market (CSWTWPM) as well as the North District Temporary Wholesale Market for Agricultural Products (NDTWM). The different background and historical development of these markets give rise to their own rental adjustment mechanisms.

3. In line with the 'user pays' principle, it is government policy that fees and charges should be set at levels sufficient to recover the full cost of providing the services. Since the commissioning of CSWWFM and WWFM in 1993 and 1994 respectively, the rents of these two wholesale markets have been charged on full cost recovery basis. They are reviewed every two years after completion of a full costing exercise. This rental adjustment mechanism has been in operation for nearly two decades and is fair and effective.

4. The items taken into account in the computation of the rent of the two wholesale markets on a full cost recovery basis include departmental staff costs and expenses (including electricity charges and other hiring charges), depreciation of buildings and equipment, rates, cost of services provided by other government departments and central administrative overhead. Between 2000/01 and 2007/08, the rents of the two wholesale markets have been reduced on four occasions according to the full cost recovery principle. One major reason accounting for the decrease in operating cost was the streamlining of manpower and implementation of energy saving measures. The rent was increased by 11.42%[#] for 2008/09 to 2009/10 and remained the same for 2010/11 to 2011/12 under the established rental adjustment mechanism.

Rental Adjustment Mechanisms for Other Wholesale Markets

5. As pointed out in paragraph 2 above, different wholesale markets have their own rental adjustment mechanisms owing to the different historical background. CSWTWPM is still a temporary market despite the fact that it has been in its present location for over 20 years. The fixtures there are crude. Commencing in 1998/99, its rent has been determined annually with reference to the movement of the Consumer Price Index (A) (CPI(A)) in the preceding year.

6. NDTWM is currently outsourced to a private management company which charges a commission for each basket of vegetables sold by wholesalers. However, in view of the serious management problems of the wholesale market, AFCD will resume direct management of the market on 1 April 2012 and charge rent on the basis of the full cost recovery principle similar to that of CSWWFM and WWFM. Relevant stakeholders, including the traders, have been thoroughly consulted on the new arrangement. Under this arrangement, the operating costs of the wholesalers and local farmers will be significantly reduced.

[#] In view of the prevailing economic environment at the time, the Administration granted two months of rental waiver to tenants of the wholesale markets to be effected in October 2008 and October 2009.

The Rental Adjustments of CSWWFM and WWFM for 2012/13 to 2013/14

7. We have recently completed a costing exercise for CSWWFM and WWFM. The exercise indicates that the cost has increased by 8.04%. In line with the established arrangement, the costing has already excluded those costs related to the improvement of public order and public health (i.e. the market entry registration, control of house crows and inspection of freshwater fish). The increase in the operating cost of the two wholesale markets is mainly due to the upward movement in costs relating to cleansing and security services (increased by 9.1%) and facilities maintenance (increased by 11%). There are more than 800 units in CSWWFM and WWFM. The increase in rent for the most common standard stall (34.5m²) is \$320 a month.

8. The rental increase was announced to traders' representatives of the two wholesale markets two months before the new rental effective date (1 April), i.e. in early February 2012. During discussions with AFCD, the representatives indicated that their trade was experiencing a deteriorating operating environment and they requested a rental freeze.

9. While the Administration recognises the challenging business environment besetting the wholesalers, we do not consider there being sufficient justifications for non-adherence to the established rental mechanism. The reasons are mainly two-fold. First, the mechanism is a transparent one and has been in operation for nearly two decades. It is important for us to maintain the integrity of the mechanism and the full-cost recovery principles behind. Secondly, the macro-economic environment in Hong Kong is undergoing an inflationary cycle. The increase in business cost, notably the appreciation of Renminbi as cited by the trade is a challenge faced by the commercial sector in general. Unless there are negative factors unique to the operation of these two wholesale markets justifying a departure from the mechanism, we do not consider it appropriate to grant concessions to CSWWFM and WWFM.

10. Some wholesalers have suggested that since there has been a rental freeze for public market stalls managed by the Food and

Environmental Hygiene Department, the same arrangement should be applied to wholesale markets as well. The Administration considers that a straight comparison between wholesale markets and public markets may not be entirely appropriate. Unlike CSWWM and WWM which have a well-established rental adjustment mechanism, the Administration is still in discussion with the trade and the Legislative Council on the issue of rental adjustment in public markets as well as the payment of rates and air conditioning charges. Given the different background and historical developments of the two, a direct comparison of their rental adjustment mechanism should not be drawn.

Way Forward

11. The Administration will continue to engage the wholesalers in the two markets.

Advice Sought

12. Members are invited to note and advise on the contents of the paper.

**Food and Health Bureau
Agriculture, Fisheries and Conservation Department
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