

**For discussion
on 25 March 2014**

**Legislative Council Panel on Food Safety and Environmental Hygiene –
Subcommittee on Issues Relating to Public Markets**

Issues relating to the operating environment of Public Markets

PURPOSE

This paper sets out the current positioning and functions of public markets and briefs Members on the actions being taken by the Administration to address issues relating to the operating environment of public markets.

GENERAL BACKGROUND

2. At present, the Food and Environmental Hygiene Department (“FEHD”) is managing over 70 public markets that sell wet and dry goods.

Current Positioning and Functions

3. Public markets are one of the major sources of fresh provisions for the community in general and the grassroots in particular; they also provide employment opportunities for the grassroots, meeting their livelihood needs. They offer a wide array of commodities of good quality at reasonable prices amidst competition posed by other retail outlets which have mushroomed over the past decades or so and which offer similar, if not the same, commodities as public markets.

4. Insofar as the prices of the goods sold in public markets are concerned, tenants of public markets are free to determine and adjust the prices of their goods having regard to such market forces as supply and demand, as well as their operating costs (including transportation costs, rentals and staff salaries, etc.). The Government does not control the prices of the goods sold in public markets. Nor is the Government in a position to guarantee that the goods sold in public markets would be cheaper than those in other shops.

Developments over the Years

5. In early years, public markets were provided by the two former Municipal Councils (“MCs”) to resite hawkers who would otherwise be trading on-street causing environmental nuisance and obstruction to pedestrians and vehicular traffic. Hence the older markets were developed with their design and layout reflecting, to a large extent, the then prevailing hawker policy.

6. In recent years, with enhanced hawker management, the problems concerning hawkers have largely been contained. Since the late 1990s, the main function that public markets used to serve as a measure to support the hawker policy was no longer valid. Over time, the design and layout of new public markets have also evolved to provide bigger stalls with wider passageways. Public markets have become convenient places for the public to buy their daily necessities, in particular fresh provisions.

7. In 2009, the Government conducted a review on the positioning, functions and usage of public markets¹. The review concludes that public markets fulfil an important social function in that they are one of the major sources of fresh provisions for the grassroots, offering quality food at affordable prices. Public markets also provide employment opportunities for the grassroots. The community has generally accepted and got used to the mode of operation of public markets and their positioning geared towards ordinary folks.

Market Stall Rental

8. At present, public market stalls are generally let out through open auctions. Prospective tenants would take into account relevant business factors (e.g. customer flow, environment and facilities of markets as well as competition from shops selling similar goods in the vicinity, etc.) before deciding whether or not to bid for a stall.

Updated Position of Rental Level

9. As at 31 December 2013, 13 061 stalls out of a total of 14 445 stalls in the public markets were let out. The occupancy rate stood at 90%.

¹ For details, please refer to the papers discussed at meetings of the Legislative Council Panel on Food Safety and Environmental Hygiene on 14 July 2009 and 10 November 2009 (Ref.: LC Paper No. CB(2)2155/08-09(04) and LC Paper No. CB(2)197/09-10(04)).

Of these, 79% are let out at a rental lower than the open market rental (“OMR”)². The breakdown is set out below:

Rental Level	Number of Tenants (as at 31 December 2013)
More than OMR	1 203 (9%)
Equal to OMR	1 551 (12%)
70% – 99% of OMR	3 908 (30%)
50% – 69% of OMR	2 619 (20%)
30% – 49% of OMR	2 494 (19%)
Less than 30% of OMR	1 286 (10%)
Total:	13 061 (100%)

10. The distribution of tenants by actual rental level is as follows:

Rental Level (per month)	Number of tenants (as at 31 December 2013)
Equal to / less than \$200	295 (2%)
\$201 – \$1,000	3 108 (24%)
\$1,001 – \$3,000	6 243 (48%)
\$3,001 – \$5,000	1 809 (14%)
\$5,001 – \$9,000	1 225 (9%)
More than \$9,000	381 (3%)
Total:	13 061 (100%)

11. FEHD recorded a deficit of \$220.1 million in the management of public markets in 2012-13. The deficit in this regard for 2013-14 is estimated to be \$236.4 million.

Historical Background

12. In keeping with the circumstances then prevailing at a time when society as a whole recognised that we should assist hawkers displaced by re-siting projects in adapting to the operating environment in public markets, the two former MCs had put in place concessionary rental

² OMR is assessed annually by the Rating and Valuation Department (“RVD”). In assessing the OMR, RVD mainly makes reference to the auction results of similar stalls in the same market and other markets. Other factors taken into consideration include the trade permitted for operation, the size and layout of the stall, the location of the stall within the market and the location of the market.

arrangements³ for these hawkers upon relocation to public markets. That said, each of the two former MCs had its own rental adjustment mechanism, underpinned by policies established in the course of time, for determining the rental level upon renewal of tenancy. Both include the policy of using the OMR as a basis for assessing the renewal rent and adjusting it according to some pre-set formula in determining the new rent for market stalls during tenancy renewal⁴.

13. In 1998, due to the then poor state of the economy, the two former MCs decided to reduce public market rental across-the-board by 30%. Public market rental has since been frozen at the reduced level. The latest extension of the rental freeze period will end on 31 December 2015. The majority of public market tenants have been paying rents below the OMR.

14. Since the dissolution of the former provisional MCs in 2000, FEHD has taken up the responsibility of managing public markets. In 2001, the Administration consulted the Legislative Council (“LegCo”) Panel on Food Safety and Environmental Hygiene (“the Panel”) on proposals on the alignment of market rental adjustment mechanism and other related arrangements⁵. In view of the economic downturn at the time, the Panel considered that it was not an opportune time to increase stall rentals, and therefore no consensus was reached on the rental adjustment mechanism.

15. In his Report No. 51 on the Management of Public Markets published in October 2008, the Director of Audit expressed concern over the situation and recommended that the Administration should devise a rental adjustment mechanism for consideration by the Panel. The Audit Commission also pointed out that as some tenants were paying extremely

³ For example, the former Urban Council implemented a voluntary surrender scheme for itinerant hawker licences in the 1990s, under which itinerant hawkers were allowed to pay a concessionary monthly rental equivalent to one twelfth of the licence fee (i.e. approximately \$120) for their market stalls in the first tenancy. The scheme was extended to itinerant hawker licences in the New Territories in 2003.

⁴ In the case of the former Provisional Urban Council (“PUC”), rental adjustment was made with reference to the difference between the contractual rent (i.e. the last rent specified in the tenancy agreement) and the prevailing OMR. The increase would be capped by the prevailing increase in Consumer Price Index (A) plus a pre-set percentage. For market stalls under the former Provisional Regional Council which were acquired through open auctions, tenants were required to pay the OMR upon tenancy renewal if the current rent is lower than the OMR. For market stalls acquired through restricted auctions where tenants were mostly former licensed hawkers or market tenants affected by clearance and redevelopment, rental adjustment would be made with reference to the difference between the contractual rent and OMR. The rent would be increased gradually by phases to achieve a certain pre-set percentage of OMR. However, unlike PUC’s practice, there was no cap for the increases.

⁵ LC Paper No. CB(2)1642/00-01(03).

low rental while tenants renting stalls of similar sizes through open auctions had to pay higher rental, this arrangement might discourage potential tenants from renting market stalls through open auctions. Furthermore, as the rental of some stalls was low, this might increase the risk of subletting market stalls for financial gains. The Public Accounts Committee urged the Administration to work out an appropriate mechanism as soon as possible to address the problem of rental disparity.

16. Over the past few years, the Administration has consulted the Panel on several occasions regarding the proposed rental adjustment mechanism for public market stalls. The Administration recognises that any proposed adjustment in rental should not be radical and has to be made in a gradual way sensitive to the overall affordability of public market stall traders. Different proposals were put forward to the Panel in 2009 and 2010 respectively.

17. Having considered the views of the Panel and representatives of stall tenants on the proposals, the Administration had further revised the proposal and submitted it to the Panel for discussion in January 2013⁶. Under this latest proposal, the market rentals will be adjusted in accordance with the movement of the average Consumer Price Index (A) of the past three years, with the increase capped at 5% or the OMR, whichever is the lower. We believe that the financial impact of the further revised proposal on stall tenants is gentle. At the Panel meeting in January 2013, Members of the Panel and the attending trade representatives opined that the Administration should conduct a comprehensive review covering the policy and usage of public markets and improve their operating environment before considering implementing the new rental adjustment mechanism.

CONSULTANCY STUDY

18. At the meetings of the Panel on 16 April 2013 and 9 July 2013, we briefed Members on the Administration's plan to engage a consultant to assist in developing proposals for improving the operating environment of public markets thereby enabling them to fulfil the functions expected of them in present-day circumstances. Subsequently on 7 August 2013, we provided an information note to give Members an outline of the consultancy brief.

⁶ LC Paper No. CB(2)415/12-13(03).

19. Specifically, the scope of the study covers four areas: tendering views on the current functions and positioning of public markets (as set out in paragraph 3 above); surveying the public markets and coming up with specific improvement proposals for five or six representative ones; providing some general suggestions for the routine improvement works for public markets; and suggesting ways and concrete measures to preserve market stalls that are selling traditional commodities or involving traditional specialty.

20. Since each market may have its own unique circumstances (in terms of the physical facilities required, the operational problems encountered, the competition that it is facing from similar retail outlets in the vicinity, etc.), the consultant will categorise the problems and analyse them accordingly with a view to tackling the problems on their own merits. The consultant is expected to comprehensively analyse all relevant factors affecting the operating environment of public markets such as consumer profile (e.g. income and age), their shopping preferences, the mode of market operation, as well as the state of transport network in the vicinity etc. and formulate recommendations. The study commenced in December 2013 and if it progresses smoothly, we expect the consultant to submit the preliminary findings of the study in mid-2014.

ENHANCEMENT OF THE OPERATING ENVIRONMENT OF PUBLIC MARKETS

21. Over the years, we have made sustained efforts to enhance the operating environment and competitiveness of public markets. Pending the outcome of the consultancy study, FEHD will continue to implement improvement measures in this respect. Such measures include:

- (a) carrying out improvement works in specified markets in addition to regular maintenance and daily management of markets. In 2014-15, the FEHD will implement improvement works in five markets. These works include installation of a goods lift, improvement of ventilation and lighting systems and refurbishment of toilets. The estimated cost of these improvement works is about \$31.5 million;
- (b) installing in each cooked food centre of the markets a signboard listing all its stalls to facilitate the public in making their choices;

- (c) with effect from February 2009, lowering the upset auction prices to 80% and 60% of the open market rental for stalls which have been left vacant for six months and eight months respectively in order to boost the occupancy rate of public markets. As at February 2014, a total of 2 452 stalls have been let out through this arrangement;
- (d) starting from July 2009, gradually introducing service trades, light refreshment and bakery stalls with a view to diversifying the services provided in public markets and letting out since October 2010 small stalls through short-term tenancy on a trial basis to allow more flexibility for prospective tenants. As at February 2014, a total of 114 stalls have been let out for service trades, light refreshment and bakery stalls;
- (e) organising promotional activities (including some 340 celebratory activities for traditional festivals e.g. Lunar New Year and Mid-Autumn Festival, and around 140 thematic exhibitions and 100 talks with cooking demonstrations per year) from time to time to boost patronage;
- (f) arranging for the display of “Recipes of Chef’s Daily Recommendation” in four languages (Chinese, English, Filipino and Indonesian) to attract more people to shop in public markets; and
- (g) publishing a well-illustrated booklet in ten languages, listing over 500 common food items, goods and service trades available in public markets to facilitate and encourage patronage of public markets by members of various ethnic groups, and publishing quarterly newsletters to provide updated market information.

OTHER ISSUES IN WHICH THE PANEL HAS SHOWN INTEREST

22. Apart from the above, we note that the Panel has previously expressed concerns over other issues relating to public markets, including development of new public markets, the conditions under which installation of air-conditioning should be embarked upon in public markets and the basis on which air-conditioning charges are to be worked out. We stand ready to listen to Members’ views on these issues.

ADVICE SOUGHT

23. Members are invited to note the contents of this paper.

**Food and Health Bureau
Food and Environmental Hygiene Department
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