

Supplementary Information about Revision of Broadcasting Licence Fees

(A) Information Requested by the Subcommittee on Broadcasting (Revision of Licence Fees) Regulation 2006

The following information is set out at Annexes:

- A
- (a) revenue from licence fees with details about the number of channels and subscribers (**Annex A**);
- B
- (b) breakdown expenditure by major items, including staffing cost, increase in workload and changes in manpower requirement, and expenditure on external consultancy fees (**Annex B**); and
- C
- (c) the extent of cost recovery in levying the licence fees (**Annex C**).

(B) Response to the Licensees' Submissions

Fee Charging Mechanism

2. The fee charging mechanism is based on the principle of cost recovery which was generally agreed by the licensees when consulted in 1998.

3. While it is possible that the licence fee charging mechanism may undergo review in future in view of the proposed merger of the Broadcasting Authority and the Telecommunications Authority, we consider that the existing licence fee charging mechanism based on cost-recovery principle should be followed to determine the licence fees unless and until the mechanism is modified.

Efficiency Saving by Television and Entertainment Licensing Authority

4. As shown at **Annex B**, the Television and Entertainment Licensing Authority (TELA) has reduced its administrative costs in the past years. Specifically, the estimated staffing cost decreases from about \$24 million in 2001-02 to about \$18 million in 2005-06, a 25% reduction in five years. In addition, the departmental expenses and other costs

decrease from about \$11 million to about \$5.7 million, a 48% reduction. These reductions are attributed to TELA's continuous efforts on cost saving (e.g., retrenchment of staff number and reduction in accommodations costs) and efficiency improvement through streamlining work procedures.

5. Measures to improve efficiency include simplifying the complaint handling procedures, rationalizing regulatory approval procedures, appropriate delegation of authority, and streamlining procedures of renewing other licensable television programme service licences.

6. As we explained in the LegCo brief issued on 12 May 2006, based on the result of TELA's recent costing exercise, some fees will decrease due to reduction in general administrative costs as a result of TELA's cost-saving measures. On the other hand, intensified competition in the television market and technological convergence in the communications industry have led to increased workload and expenses (e.g., commissioning external economic and market analyses) in handling complex regulatory issues. This offsets the saving in administrative costs and therefore leads to increase in the fees of some categories of licences.

**Television and Entertainment Licensing Authority
June 2006**

TELA's Revenue from Licence Fees for the Years 2001-02 to 2005-2006

	2001-02	2002-03	2003-04	2004-05	2005-06
	\$	\$	\$	\$	\$
Domestic Free TV	13,886,000	13,886,000	13,886,000	13,886,000	13,886,000
Domestic pay TV	7,402,000	10,164,000	6,328,000	7,648,000	7,428,000
Non-domestic TV	889,000	1,486,000	890,000	847,000	815,000
Other licensable TV	697,000	771,000	912,000	911,000	963,000
Total	22,874,000	26,307,000	22,016,000	23,292,000	23,092,000

Note:

1. There are four TV channels provided by the two domestic free TV licensees.
2. The total numbers of subscribers of domestic pay TV services in 2004-05 and 2005-06 were 810,090 and 828,631 respectively. The number of subscriber for 2001 to 2004 is not available because the only active pay TV licensee in operation during the period considers that the figure, being commercially sensitive information, should not be released.

Costs of TELA's Broadcasting Division for years 2001-02 to 2005-06

Cost Items	2001-02	2002-03	2003-04	2004-05	2005-06
Staffing cost	24,296,000	23,438,000	19,916,000	18,457,000	17,914,000
Departmental expenses & other cost	11,257,000	9,333,000	6,523,000	5,467,000	5,734,000
Total Cost	35,553,000	32,771,000	26,439,000	23,924,000	23,648,000

Note:

(1) The staffing costs for 2001-02, 2002-03 and 2003-04 are estimates.

(2) The major cost items include the following:

		\$
For year 2001-02:	(a) consultant fee for preparation of competition guidelines	500,000
	(b) broadcasting services survey	375,000
	(c) payment for OFTA's technical advice	3,353,000
	(d) subscription to TV rating report	336,000
		<u>4,564,000</u>
For year 2002-03 :	(a) subscription to TV rating report	550,000
	(b) payment for OFTA's technical advice	1,637,000
	(c) computer system for broadcasting licence administration	288,000
		<u>2,475,000</u>
For year 2003-04:	(a) competition consultant fees	928,000
	(b) broadcasting services survey	469,000
	(c) computer system for broadcasting licence administration	101,000
	(d) payment for OFTA's technical advice	1,411,000
		<u>2,909,000</u>
For year 2004-05 :	(a) competition consultant fees	685,000
	(b) consultant fee for drafting an accounting manual	650,000
	(c) payment for OFTA's technical advice	1,102,000
		<u>2,437,000</u>
For year 2005-06 :	(a) competition consultant fee	372,000
	(b) consultant fee for drafting an accounting manual	330,000
	(c) broadcasting services survey	300,000
	(d) payment for OFTA's technical advice	1,155,000
		<u>2,157,000</u>

Revenues & Costs of TELA's Broadcasting Division for the Years 2001-02 to 2005-06

	2001-02	2002-03	2003-04	2004-05	2005-06
	\$	\$	\$	\$	\$
Costs	35,553,000	32,771,000	26,439,000	23,924,000	23,648,000
Revenues	22,874,000	26,307,000	22,016,000	23,292,000	23,092,000
Difference	12,679,000	6,464,000	4,423,000	632,000	556,000
Cost recovery rate	64%	80%	83%	97%	98%
	(Note)				

Note:

The television market was further liberalised with the introduction of the existing regulatory regime under the Broadcasting Ordinance which came into force in July 2000. The under-recovery of cost in 2001-02 was due to overestimation of the number of licences to be issued under the liberalized regime.