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**Paper for the House Committee meeting
on 26 November 2010**

**Report of the Subcommittee on
Waterworks (Amendment) Regulation 2010**

Purpose

This paper reports on the deliberations of the Subcommittee on Waterworks (Amendment) Regulation 2010 (L.N. 129 of 2010) (the 2010 Amendment Regulation).

Background

2. Under the "user pays" principle, the Administration is of the stance that fees and charges should be set at levels sufficient to recover the full cost of providing the services. On 15 October 2010, the Secretary for Financial Services and the Treasury published in the Gazette the 2010 Amendment Regulation to revise 18 items of fees and charges under Parts I and IV of Schedule 1 to the Waterworks Regulations (Cap. 102 sub. leg. A) (the Regulations) in relation to the following services --

- (a) reconnecting a fire service or inside service (item 2 in Part I of Schedule 1 to the Regulations);
- (b) providing and installing a meter, or providing a meter (item 3 in Part I of Schedule 1 to the Regulations);
- (c) resealing a fire service or meter (item 4 in Part I of Schedule 1 to the Regulations);

- (d) testing a meter or a private check meter (including removal and refixing) (item 5 in Part I of Schedule 1 to the Regulations);
- (e) issuance or renewal of plumber's licence, and plumber's licence examination (items 6 to 8 in Part I of Schedule 1 to the Regulations); and
- (f) examination of a water sample, attendance to collect water sample and additional copy of examination report (items 1 to 3 in Part IV of Schedule 1 to the Regulations).

3. According to the Legislative Council Brief (LegCo Brief) issued by the Development Bureau in October 2010, charges of 16 items are proposed to increase from 9.8 % to 16.2% and two items are proposed to decrease by 13.4% and 82.1% respectively. Details are given in Annex 1 to the LegCo Brief. Among the 18 items, 16 items were last revised in 1996 and two items in 2001. The Administration has proposed that the new fees and charges would come into effect on 1 January 2011.

4. According to the LegCo Brief, a review of the cost of providing the relevant services at the 2010-2011 price level has been carried out by the Administration recently. The result shows that the present cost recovery levels range from 64% to 116%. In order to achieve full cost recovery gradually and to avoid a steep fee increase, the Administration proposed to adopt the following lines for the fees and charges revision --

- (a) for existing cost recovery rate of between 40% and 70%, adopt an increase of about 15%;
- (b) for existing cost recovery rate of over 70%, adopt an increase of about 10% or lower; and
- (c) adjust downward to full cost recovery for fees that are recovering more than the full cost.

5. An information paper provided by the Administration to the Panel on Development (the Panel) was circulated on 15 July 2010. There was no discussion by the Panel on the paper.

The Subcommittee

6. At the meeting of the House Committee on 22 October 2010, a subcommittee was formed to study the 2010 Amendment Regulation. Under the chairmanship of Hon Tommy CHEUNG Yu-yan, the Subcommittee has held two meetings. The membership list of the Subcommittee is in the **Appendix**.

Deliberations of the Subcommittee

Fees relating to plumber's licence, renewal of plumber's licence and plumber's licence examination

7. The Subcommittee notes that the existing plumber's licence fee is \$67 per year (item 6 in Part I of Schedule 1 to the Regulations), which was last revised in 1996. According to the LegCo Brief, the updated cost recovery level at 2010-11 price level is 83%. The Administration proposes to increase the fee by 10.4% to \$74. In response to members' questions, the Administration has explained that the expected extra revenue per annum generated from the increase will be about \$700, i.e. about 100 new licences issued per annum to be multiplied by an increase of \$7 per licence.

8. The Subcommittee also notes that the existing annual renewal fee of a plumber's licence is \$67 (item 7 in Part I of Schedule 1 to the Regulations), which was last revised in 1996. According to the LegCo Brief, the updated cost recovery level at 2010-11 price level is 116%. The Administration proposes to decrease the fee by -13.4% to \$58.

9. The existing plumber's licence examination fee is \$815 (item 8 in Part I of Schedule 1 to the Regulations). Members note that it was last revised in 1996. According to the LegCo Brief, the updated cost recovery level at 2010-11 price level is 73%. The Administration proposes to revise the fee by 9.8% to \$895. The Administration has advised that the revenues generated from the examination fees for a plumber's licence is minimal because in the past few years there was no applicant requesting plumber's licence examination to be conducted by the Administration.

10. The Subcommittee has expressed concern that the efforts taken by the Administration in the present legislative exercise is out of proportion to the minimal revenue to be collected from the fee increases. In this connection, the Subcommittee has suggested that the Administration

should freeze all fees at the existing level, in particular those related to plumber's licences.

11. The Administration has responded that the proposed fee increases are not directly related to people's livelihood, the degree of increases is mild, and the increases are only intended to achieve full cost recovery and comply with the "user pays" principle. Further, since the maximum upward adjustment of the proposed fee increases is only 16%, since their last revision about ten years ago or more, there would be little impact on those who require the services.

12. In relation to the proposed items of fee increases in the 2010 Amendment Regulation, the Administration has, at the Subcommittee's request, provided the Subcommittee with a paper on the total amount of fees collected, breakdown on type of users, level of recovery of costs based on the current fees, level of recovery of costs based on the revised fees, over the past two years.

Testing a meter or a private check meter (including removal and refixing)

13. The Subcommittee notes that there are different fees charged for testing a meter or a private check meter under item 5 in Part I of Schedule 1 to the Regulations. The different scales of charges are dependent on different sizes in diameters of the mains in question. The existing fees for the service are as follows --

- (a) \$460 (proposed to increase to \$530) for any size up to and including 80 mm in diameter;
- (b) \$1,080 (proposed to increase to \$1,240) for any size above 80 mm in diameter up to and including 100 mm in diameter;
- (c) \$1,800 (proposed to increase to \$2,070) for any size above 100 mm in diameter up to and including 150 mm in diameter; and
- (d) \$2,240 (proposed to increase to \$2,580) for any size above 150 mm in diameter up to and including 200 mm in diameter.

14. The Subcommittee has enquired about the reasons for the huge range of these charges from \$530 to \$2,580, upon revision. In response, the Administration has explained that the main reason for charging different fees for testing of meters is that the cost involved in the handling

of meters of larger diameters for testing work is substantially higher than meters of smaller diameters. Owing to the size and weight of larger meters, more staff and time are needed to perform the work on connection, disconnection and transportation. The Administration has further added that if a water meter is found to be inaccurate, i.e. over or under 3% of the correct amount, the concerned customer would be refunded the testing fee.

Principle of full cost recovery

15. The Subcommittee has expressed concern that the proposed fee increases would not necessarily lead to full cost recovery by the Administration.

16. The Administration has explained that, though the revenue generated from individual item may be small, it is vital for the Administration to uphold the “user pays” principle to avoid spending public money in subsidizing a particular group of people using these kinds of services. The Administration has further explained that the existing cost recovery levels for those items with proposed fee increases will range from 64% to 86%. Upon the revision of fees, the cost recovery levels for those items will range from 73% to 94%. For the item on fee for renewal of plumber's licence, the fee will be adjusted downward from \$67 to \$58 and the cost recovery level will be adjusted consequently from 116% to 100%.

Amendment to the Amendment Regulation

17. The Subcommittee has enquired whether the Legislative Council (LegCo) has the power to amend the 2010 Amendment Regulation. The legal adviser to the Subcommittee has advised that pursuant to section 34(2) of the Interpretation and General Clauses Ordinance (Cap. 1), the 2010 Amendment Regulation could be amended by LegCo in any manner consistent with the power to make the Regulation.

18. The Subcommittee considers that it would be for individual members to decide whether or not to support the proposed fee increases.

Proposed amendments

19. Both the Administration and the Subcommittee will not move any amendments to the 2010 Amendment Regulation.

Advice sought

20. Members are requested to note the deliberations of the Subcommittee.

Council Business Division 1
Legislative Council Secretariat
25 November 2010

Subcommittee on Waterworks (Amendment) Regulation 2010

Membership list

Chairman Hon Tommy CHEUNG Yu-yan, SBS, JP

Members Hon LEE Wing-tat
Hon CHEUNG Hok-ming, GBS, JP
Hon Tanya CHAN

(Total: 4 members)

Clerk Mr Stephen LAM

Legal Adviser Ms Clara TAM

Date 10 November 2010