

**For discussion  
on 6 April 2006**

**Legislative Council Panel on  
Information Technology and Broadcasting**

**Revision of Licence Fees  
under the Broadcasting (Licence Fees) Regulation (Cap. 562A)**

**Purpose**

This paper seeks Members' views on the proposal to revise the licence fees prescribed in the Broadcasting (Licence Fees) Regulation (the Regulation) (Cap. 562A), which is a piece of subsidiary legislation under the Broadcasting Ordinance (BO) (Cap. 562).

**Background**

*General principle*

2. It is government policy that fees should in general be set at levels sufficient to recover the full costs of providing the services. The television programme service licensees generally agreed to the aforesaid cost recovery principle when consulted in 1998 in the context of the public consultation on the 1998 Review of Television Policy.

3. The Regulation provides that holders of television programme service licences under the BO shall pay an annual licence fee. The fee levels are prescribed in Schedules 1 to 4 to the Regulation. The existing fees have taken effect since February 2001, reflecting the Television and Entertainment Licensing Authority (TELA)'s administrative costs of assisting the Broadcasting Authority (BA) in regulating the television industry.

*Types of television programme service licence*

4. There are four categories of television programme service licence under the BO, namely,

- (a) domestic free television programme service licence;

- (b) domestic pay television programme service licence;
- (c) non-domestic television programme service licence (this is primarily satellite television service uplinked from Hong Kong targeting the regional market. It is sub-divided into two types. Type A refers to free service while Type B refers to subscription service); and
- (d) other licensable television programme service licence (it is sub-divided into two types. Type A refers to television service provided for an audience of not more than 5,000 specified premises while Type B refers to television service provided for hotel rooms).

### **Licence Fee Formulae**

5. The amount and structure of the fees differ, reflecting the difference in the nature of the service and the costs of administering different licences. For example, the administrative costs for ensuring licensees' compliance with the statutory requirement for providing locking devices for parental control purposes will be incurred for administering subscription television services only. Most of the fees comprise a fixed fee and a variable fee calculated on a per subscriber/channel/hotel basis. The fixed fee reflects the costs incurred by general licence administration including the preparation and regular revision of codes of practice issued by the BA. The variable fee primarily reflects the costs of handling complaints, which is assumed to relate proportionally to the number of viewers served or the number of programme channels provided by a licensee, as the case may be.

### **Proposal for Fee Revision**

6. TELA has recently conducted a costing exercise at the 2005-06 price level. Based on the result, we propose to revise the licence fees as tabulated at **Annex A**. On the one hand, some fees will be reduced due to reduction in general administrative costs as a result of improvement of efficiency and streamlining of work procedure. On the other hand, intensified competition in the television market and technological convergence in the communications industry have led to increased workload and complexity of regulatory issues. Very often, the BA needs to

commission market and economic analyses as well as obtaining external legal and technical opinions in resolving regulatory matters, resulting in increase in administrative costs. In addition, from time to time, the BA needs to conduct benchmarking exercise to ensure that the regulatory practices are on par with international best practices. Details of the fee revision proposals are appended below and the cost computations of the proposed fees are set out in **Annex B**.

B

#### Domestic Free Television Programme Service Licence

7. The existing annual licence fee comprises a fixed fee of \$3,811,000 and a variable fee of \$1,566,000 per programme channel. As a result of reduction of administrative cost due to improved efficiency and streamlining of workflow in handling complaints, we propose to reduce the variable fee by 9% to \$1,421,600 per programme channel. On the other hand, we propose to raise the fixed fee by 13% to \$4,308,900 to recover increase in costs as a result of increase in workload including those arising from the implementation of digital terrestrial television broadcasting, as well as the costs for commissioning professional services to deal with regulatory issues. The proposed net increase in overall licence fee for an existing licensee which provides two programme channels will be 3% or \$209,100.

#### Domestic Pay Television Programme Service Licence

8. The existing annual licence fee comprises a fixed fee of \$1,371,000 and a variable fee of \$4 per subscriber. We do not propose change to the variable fee of \$4 per subscriber for all licence fees which comprise this component because, on average, this rate represents a fair share of the administrative cost of handling complaints related to pay television services. On the other hand, we propose to raise the fixed fee by 12% to \$1,533,000 to recover the rise in administrative costs which include those for commissioning market and economic analyses for adopting an evidence-based approach to resolve regulatory issues.

#### Non-domestic Television Programme Service Licence

9. The existing annual Type A non-domestic television programme service licence fee is \$56,600. The annual Type B non-domestic television programme service licence fee comprises a fixed fee of \$69,600 and a variable fee of \$4 per subscriber. The costs for administering Type A licences remain steady over the years. We propose a slight reduction of 0.4% of the fee to reflect the share of the reduction in general administration cost

according to the result of the costing exercise.

10. We propose to raise the fixed fee of Type B licences by 6% to \$74,000 to recover net increase in the costs for administering this type of licences which include the administrative work of examining the annual returns on the sources of the advertising and subscription revenues, the nature and size of subscribers and the proportion of local marketing expenses for the subscription service. Such administrative work is necessary to assist the BA in determining if a service is non-domestic television programme service not primarily targeting Hong Kong. According to section 12(6)(b) of the BO, when determining if a service primarily targets Hong Kong, the BA shall take into account, among other things, whether the sources of advertising and subscription revenues are derived principally from Hong Kong. The variable fee of \$4 per subscriber remains the same (see para. 8 above).

#### Other Licensable Television Programme Service Licence

11. The existing annual Type A other licensable television programme service licence fee comprises a fixed fee of \$224,000 and a variable fee of \$4 per subscriber. No such licence has been granted so far. During the recent costing exercise, we estimated that the notional cost of administering such a licence is about \$171,200 and therefore propose to revise the fee downward to the estimated sum accordingly. This represents a 24% deduction. The variable fee of \$4 per subscriber remains the same (see para. 8 above).

12. The existing annual Type B other licensable television programme service licence fee comprises a fixed fee of \$15,200 and a variable fee of \$5,400 per hotel. We propose to raise the fixed fee by 11% to \$16,800 due to increase in administration work related to licence renewal. The term of most of the existing Type B licences ranges from one to three years as compared with 12 years for other categories of television programme service licences. The BA renewed 16 and 7 such licences in 2004 and 2005 respectively.

#### **Financial Implications**

13. If implemented, the proposed fee revision will lead to an increase in government revenue of about \$0.9 million per annum.

## Consultation

14. We have consulted the existing licensees on the proposed fee revisions and explained to them the charging mechanism and reasons for the proposed fee changes. The two domestic free television programme service licensees and three domestic pay television programme service licensees are opposed to the fee increases. Their views are summarized below:

- (a) the fee review should be withheld and revisited in the context of the Government's proposal for a rationalized broadcasting regulatory regime and the merger of the Broadcasting Authority (BA) and the Telecommunications Authority (TA);
- (b) the administrative costs relating to the investigation into non-compliance with licence conditions should be recovered either from the offenders via fines or forfeitures, or from the complainants who made frivolous and vexatious complaints;
- (c) the fees for domestic free television programme service licence should be reduced, having regard to the substantial costs of carrying government programmes and announcements in the public interest (APIs) and contribution to the digitization of terrestrial television by the domestic free television programme service licensees;
- (d) the proposed fee increases are higher than the general Consumer Price Index (CPI) and will impose additional financial burden on them in the current business environment characterized by increasing competition and high operating costs. In addition, the fee increases run counter to the trend in the telecommunications market where the licence fees have been reduced; and
- (e) TELA's increases in administrative costs could be offset by the anticipated growth in future revenue arising from projected rise in the number of licences and subscribers.

15. As explained in paragraph 2, the licences fees are charged and reviewed based on the principle of cost recovery. This is an established government policy that has been implemented for years. Licensees generally

agreed to the principle when consulted. While the licence fee charging mechanism may undergo review in future, we should follow the cost recovery principle in determining the licence fee unless and until the existing mechanism is modified. At the present moment, we do not consider it necessary or appropriate to change the fee charging mechanism.

### **Implementation**

16. Subject to Members' views, we plan to table the Broadcasting (Licence Fees) (Amendment) Regulation setting out the proposed fees at the Legislative Council on 17 May 2006 for negative vetting, with a view to effecting them on 7 July 2006.

**Television and Entertainment Licensing Authority  
April 2006**

**Proposal for Revision of Licence Fees  
under the Broadcasting (Licence Fees) Regulation**

Licence Category	Existing		Proposed	
	Fixed Fee	Variable Fee	Fixed fee	Variable fee
Domestic Free TV Programme Service Licence	\$3,811,000	\$1,566,000 per programme channel	\$4,308,900 (+13%)	\$1,421,600 per programme channel (-9%)
Domestic Pay TV Programme Service Licence	\$1,371,000	\$4 per subscriber	\$1,533,000 (+12%)	\$4 per subscriber (No change )
Type A Non-domestic TV Programme Service Licence (free service)	\$56,600	N.A.	\$56,400 (-0.4%)	N.A.
Type B Non-domestic TV Programme Service Licence (pay service)	\$69,600	\$4 per subscriber	\$74,000 (+6%)	\$4 per subscriber (No change )
Type A Other Licensable TV Programme Service Licence (for an audience of not more than 5,000 specified premises)	\$224,000	\$4 per subscriber	\$171,200 (-24%)	\$4 per subscriber (No change )
Type B Other Licensable TV Programme Service Licence (for hotels)	\$15,200	\$5,400 per hotel	\$16,800 (+11%)	\$5,400 per hotel (No change )

**COST COMPUTATION**  
**Television and Entertainment Licensing Authority**  
**Annual Television Programme Service Licence Fees**  
**under Broadcasting (Licence Fees) Regulation**  
**Unit Cost at 2005-06 Price Level**  
**Domestic Free Television Programme Service**

	<u>Fixed</u>	<u>Variable</u>
	\$	\$
Staff cost	3,508,653	2,162,212
Departmental expenses	306,564	354,295
Accommodation cost	219,472	161,716
Depreciation	6,488	NA
Central administrative Overheads	267,646	164,937
<b>Total Cost</b>	<b>4,308,823</b>	<b>2,843,160</b>
Estimated number of programme channels per licence for 2005-06		2 programme channels
Unit cost at 2005-06 prices	\$4,308,900	\$1,421,600 per programme channel
Proposed licence fee formula under the Regulation		\$4,308,900 + \$1,421,600 per programme channel
Computed Licence fee	\$7,152,100	



### Domestic Pay Television Programme Service

	<b>Fixed</b>	<b>Variable</b>
	\$	\$
Staff cost	1,138,496	1,686,709
Departmental expenses	233,719	907,288
Accommodation cost	69,634	194,164
Depreciation	4,325	NA
Central administrative Overheads	86,846	128,665
<b>Total Cost</b>	<b>1,533,021</b>	<b>2,916,825</b>
 Total number of subscribers of domestic pay TV service		 828 631 subscribers
 Unit cost at 2005-06 prices	 \$1,533,000	 \$4 per subscriber
 Proposed licence fee formula under the Regulation	 \$1,533,000 + \$4 per subscriber <sup>1</sup>	

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<sup>1</sup> The variable fee of \$4 per subscriber to the domestic pay TV programme service remains unchanged.

### Non-Domestic Television Programme Service

	<b>Non-Domestic (Free) Licence Fee</b>	<b>Non-Domestic (Pay)</b>	
	\$	<b>Fixed</b> \$	<b>Variable</b> \$
Staff cost	43,205	55,629	10,879
Departmental expenses	5,947	6,425	1,556
Accommodation cost	2,635	3,426	730
Depreciation	1,298	4,325	NA
Central administrative Overheads	3,296	4,243	830
<b>Total Cost</b>	<b>56,380</b>	<b>74,049</b>	<b>13,994</b>
Estimated number of subscribers per licence			3 333 subscribers
Unit cost at 2005-06 prices	\$56,400	\$74,000	\$4 per subscriber
Proposed licence fee formula under the Regulation	\$56,400	\$74,000 + \$4 per subscriber <sup>2</sup>	

<sup>2</sup> The variable fee of \$4 per subscriber to the non-domestic pay TV programme service remains unchanged.

### Type A Other Licensable Television Programme Service

	<b>Type A Other Licensable (for not more than 5 000 specified premises)</b>	
	<b>Fixed</b>	<b>Variable</b>
	\$	\$
Staff cost	135,002	12,846
Departmental expenses	4,360	4,069
Accommodation cost	8,602	872
Depreciation	12,976	NA
Central administrative Overheads	10,298	980
<b>Total Cost</b>	<b>171,238</b>	<b>18,767</b>
Estimated number of subscribers per licence		5 000 subscribers
Unit cost at 2005-06 prices	\$171,200	\$4 per subscriber
Proposed licence fee formula under the Regulation		\$171,200 + \$4 per subscriber <sup>3</sup>

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<sup>3</sup> The variable fee of \$4 per subscriber to the Type A other licensable TV programme service remains unchanged.

### Type B Other Licensable Television Programme Service

	<b>Type B Other Licensable (for hotel)</b>	
	<b>Fixed</b>	<b>Variable</b>
	\$	\$
Staff cost	13,929	4,544
Departmental expenses	423	173
Accommodation cost	891	305
Depreciation	519	NA
Central administrative Overheads	1,063	347
<b>Total Cost</b>	<b>16,824</b>	<b>5,369</b>
Unit cost at 2005-06 prices	\$16,800	\$5,400 per hotel
Proposed licence fee formula under the Regulation	\$16,800+ \$5,400 per hotel <sup>4</sup>	

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<sup>4</sup> The variable fee of \$5,400 per hotel provided with the Type B other licensable TV programme service remains unchanged.