

**For discussion
on 10 February 2015**

Legislative Council Panel on Food Safety and Environmental Hygiene

**Review on Fees for Slaughterhouse Services provided by the
Food and Environmental Hygiene Department**

Purpose

This paper seeks Members' views on the Administration's proposal to revise the fees for slaughterhouse licences and related services provided by the Food and Environmental Hygiene Department ("FEHD").

Background

2. In the 2013 Policy Address, the Chief Executive announced, among other things, a plan to align the different fees and charges that existed for similar municipal facilities and services in the urban areas and New Territories. It was stated that, as a first step, where the fee or charge for a facility or service differs between the urban areas and New Territories, the lower rate would prevail, and that since most of the fees and charges for municipal facilities and services have remained unchanged since 2000, a comprehensive review of the fee levels and charging policy would be conducted by the relevant departments. In line with the established financial guidelines, once these fees and charges have been duly adjusted upon the completion of the comprehensive review, we would thereafter review and, where necessary, revise them on an annual basis.

3. The fee alignment exercise to bring the different fees to the lower level was completed in 2013. FEHD has since proceeded to review all its fee items. Given the large number of fees and charges involved, and the need to conduct detailed costing exercises, we would submit the fee revision proposals in batches.

4. This paper covers the proposal to revise the fees for slaughterhouse licences and related services which have remained unchanged since the previous revision of fees conducted by the Regional Council in 1997.

Fee revision proposals

5. In line with the “user pays” principle, it is Government’s policy that fees and charges of Government services should in general be set at levels sufficient to recover the full cost of providing the services. At present, there are five fee items prescribed in Schedule 7 to the Public Health and Municipal Services (Fees) Regulation (Cap. 132CJ) in respect of licences and examination under the Slaughterhouses Regulation (Cap. 132BU). There are three existing operators holding valid slaughterhouse licences and the fee items are applicable to them. Apart from issuing new and renewing slaughterhouse licences, FEHD also provides other services, such as amending licences, issuing duplicates of licences and examination of the carcasses or dressed carcasses and offal of animals. FEHD examines around 19 000 bovine animals and solipeds and 1 844 000 swine, goats and sheep each year.

6. FEHD has reviewed the said fee items and proposes to revise them accordingly in order to achieve full cost recovery. Details of the fee revision proposals are at **Annex** with justifications set out in the ensuing paragraphs.

Fees for slaughterhouse licences

Separation of fee items for new issue and renewal of licences

7. At present, a slaughterhouse licence is valid for one year. The fee charged for new issue and renewal of licences is the same. In reviewing the licencing procedures, we note that the process for handling a renewal application of a slaughterhouse licence is much less complicated than that of an application for a new licence, and the cost involved is lower. We therefore propose to set different fees for new issue and renewal of licences to reflect their respective costs in accordance with the “user pays” principle.

Introduction of “basic fees” and “variable fees”

8. Currently, the licence fees payable by the slaughterhouse operators are the aggregate of the licence fees for the maximum number of the two categories of animals (i.e. “bovine animals and solipeds” and “swine, goats and sheep”) that are permitted to be slaughtered each day in the slaughterhouses. For example, the licence fee for slaughtering a maximum of 200 “bovine animals and solipeds” each day is \$12,480 and

that for slaughtering a maximum of 1 000 “swine, goats and sheep” each day is \$41,560. The licence fee for slaughtering both of the above categories of animals is the sum of both fees.

9. The above arrangement is based on the premise that different slaughtering capacity and facilities for different animals call for different extent of inspection for the purpose of issuing or renewing a licence. It has not, however, taken into account the fixed cost which is the same irrespective of the different capacity of the slaughterhouses.

10. To reflect more appropriately the actual operation, the opportunity is taken to restructure the fees by splitting it into two parts, namely the “basic fees” and the “variable fees”. The “basic fee” will cover the fixed cost for issuing or renewing a slaughterhouse licence (mainly covering the administrative work) regardless of the types and number of animals to be slaughtered, while the “variable fees” will be charged according to the fee bandings for the different slaughtering capacity of different categories of animals, which reflect the costs involved in inspecting the slaughtering facilities on site.

Re-categorisation of animals

11. We propose to refine the categories of animals to better reflect the cost involved in issuing or renewing the licence. There are currently two categories of animals, i.e. (i) “bovine animals and solipeds” and (ii) “swine, goats and sheep”. Since the facilities for slaughtering swine and goats/sheep are very different and call for different extent of inspection for the purpose of issuing or renewing a licence, we propose to split the category of “swine, goats and sheep” into two categories, namely, “swine” and “goats and sheep”.

Adjusting the fee bandings

12. There is also a need to adjust the fee bandings to better reflect the cost incurred for inspection for the purpose of issuing or renewing a licence. Such inspection cost is largely dependent on the capacity of the slaughtering facilities, such as the number and scale of slaughtering lines that have to be inspected. As such, we propose to adjust the bandings of each type of animals to broadly align with the capacity of the slaughtering facilities for that type of animals. For example, as each slaughtering line for bovine can support the slaughtering of some 400 bovines, we propose to scale up the fee bandings for every 400 bovines. A similar approach is adopted for the other types of animals.

13. After the fee revision, the proposed licence fee would be the sum of the “basic fee” plus the “variable fee(s)” for the maximum capacity of the three categories of animals to be slaughtered. This new fee structure reflects more closely the existing mode of operation and better aligns with the costs of our working procedures. We consider it more reasonable and transparent.

Examination fees

14. To ensure that the meat processed at licensed slaughterhouses is fit for human consumption, FEHD carries out examination of food animals (i.e. ante-mortem examination) as well as the carcass/dressed carcass/offal (i.e. post-mortem examination). The calculation basis of the examination fees has hitherto taken into account the cost of post-mortem examination only.

15. In keeping with the “user pays” principle, we propose that the examination fees be revised to take into account also the cost of ante-mortem examination. The current fee item i.e. “Examination of each carcass or dressed carcass and offal” would be revised to be referred to as “Examination fee”.

New fee items

Transfer of licence and alteration to approved layout

16. FEHD occasionally receives requests from the slaughterhouse operators to alter an approved layout plan under a slaughterhouse licence or transfer a slaughterhouse licence. In keeping with the “use pays” principle, we propose to set up two new fee items, one for the alteration to an approved layout plan of a slaughterhouse; and the other for the transfer of a slaughterhouse licence to cover the costs incurred for processing such requests.

Electronic applications

17. FEHD has also reviewed the cost of processing applications via electronic means (“e-applications”). It is noted that the cost of e-applications is lower than that submitted via the regular channels, namely by hand and by post. It is therefore proposed that the fees which are allowed to be processed via e-applications should be set at a lower level to reflect the respective costs accordingly. This initiative would also help

provide an additional incentive for applicants to use e-applications.

Effects of the new fee charged

18. Assuming that the slaughtering capacities of the existing three licenced slaughterhouse operators are maintained, the impact of the revised fees on the operators would be as follows :

	Existing Licence Renewal Fee	Non-e-application		e-application	
		Proposed Licence Renewal Fee	Percentage Change	Proposed Licence Renewal Fee	Percentage Change
Sheung Shui Slaughterhouse	\$217,230	\$10,890	- 95%	\$10,620	- 95%
Tsuen Wan Slaughterhouse	\$83,150	\$5,240	- 94%	\$4,970	- 94%
Cheung Chau Slaughterhouse	\$20,800	\$4,140	- 80%	\$3,870	- 81%

19. In addition, the operators would have to pay the examination fees which would be varied subject to the number of food animals which have to undergo the ante-mortem and post-mortem examinations. Assuming that the existing three licenced slaughterhouse operators continue to slaughter the same type and number of food animals and that all the increase in examination fees are passed on to retail customers, it is estimated that the effects of the new examination fees on the retail prices of fresh meat is as follows:

	Swine	Bovine	Goats / Sheep
Meat retail price* (per catty)	\$40	\$80	\$140
Increase in meat retail price (per catty)	\$0.24	\$0.47	\$1.25
Percentage increase in meat retail price (per catty)	0.6%	0.6%	0.9%

* Ball park market price as illustration.

It is nevertheless noteworthy that the table above has not factored into account the decrease in licence fee stated in paragraph 18 above. When

the fee revisions in licence and examination fees are both factored into account, the magnitude of increase in retail price should be much moderated.

Measures to improve efficiency

20. FEHD regularly reviews its operation and streamlines its procedures with a view to improving efficiency and lowering the operating costs. FEHD implemented the Licensing Management Information System in 2006 and enhanced the Live Food Animal System in 2009-10 to streamline the processes of handling applications for slaughterhouse licences and related services. The effects of these improvement measures, mainly reduction in processing time, have been factored in when calculating the costs of the relevant services.

Revenue implication

21. If the fee revision proposal as set out in **Annex** is implemented, the estimated increase in revenue is about \$46 million per annum.

Trade consultation

22. The existing three licenced slaughterhouse operators were briefed on the fee revision proposal. They did not object to the “user pays” principle in determining the fees for slaughterhouse services. They however expressed concern over the magnitude of the increase in the examination fee. That said, as set out in paragraph 19 above, the increase in examination fees is expected to constitute a very small percentage of the retail prices of fresh meat and the net increase in total operating costs of the slaughterhouses would also be moderated by the drastic decline in licence fees.

Next step

23. To give effect to the fee revision, amendments to the relevant subsidiary legislation are required. The Administration plans to table the relevant legislative amendments before the Legislative Council within the 2014-15 legislative session.

Advice sought

24. Members are invited to comment on the fee revision proposals set out in this paper.

**Food and Health Bureau
Food and Environmental Hygiene Department
February 2015**

Under Current Fee				Under Proposed Fee						
	Description of fee	Current level	Current cost recovery rate (Note 1)	Description of fee	Non-E Application			E-Application		
					Proposed level	Cost recovery rate at proposed level (Note 1)	Fee increase / decrease	Proposed level	Cost recovery rate at proposed level (Note 1)	Fee increase / decrease
1	New issue of a licence for the use and occupation of premises as a slaughterhouse			New issue of a licence for the use and occupation of premises as a slaughterhouse						
	<u>Basic Fee for a slaughterhouse licence</u>			<u>Basic Fee for a slaughterhouse licence</u>	\$21,100	100%	N/A	\$18,800	100%	N/A
	<u>Bovine animals and solipeds</u> Maximum number permitted to be slaughtered each day in aggregate			<u>Variable fee - Bovine animals and solipeds</u> Maximum number permitted to be slaughtered each day in aggregate						
	(a) not exceeding 150	\$9,350		(a) not exceeding 400	\$22,500	100%	N/A	\$22,500	100%	N/A
	(b) exceeding 150 but not exceeding 200	\$12,480		(b) exceeding 400	\$37,000	100%	N/A	\$37,000	100%	N/A
	(c) exceeding 200 but not exceeding 250	\$15,570								
	(d) exceeding 250 but not exceeding 300	\$18,700								
	(e) exceeding 300 but not exceeding 350	\$21,830								
	(f) exceeding 350	\$24,930								
	<u>Swine, goats and sheep</u> Maximum number permitted to be slaughtered each day in aggregate			<u>Variable fee - Swine</u> Maximum number permitted to be slaughtered each day in aggregate						
	(a) not exceeding 500	\$20,800		(a) not exceeding 1000	\$15,250	100%	N/A	\$15,250	100%	N/A
	(b) exceeding 500 but not exceeding 1000	\$41,560		(b) exceeding 1000 but not exceeding 2500	\$22,500	100%	N/A	\$22,500	100%	N/A
	(c) exceeding 1000 but not exceeding 1500	\$62,370		(c) exceeding 2500 but not exceeding 4000	\$29,750	100%	N/A	\$29,750	100%	N/A
	(d) exceeding 1500 but not exceeding 2000	\$83,150		(d) exceeding 4000	\$37,000	100%	N/A	\$37,000	100%	N/A
	(e) exceeding 2000 but not exceeding 2500	\$103,960								
	(f) exceeding 2500 but not exceeding 3000	\$124,730		<u>Variable fee - Goats and sheep</u> Maximum number permitted to be slaughtered each day in aggregate						
	(g) exceeding 3000 but not exceeding 3500	\$145,530		(a) not exceeding 300	\$7,610	100%	N/A	\$7,610	100%	N/A
	(h) exceeding 3500 but not exceeding 4000	\$166,300		(b) exceeding 300	\$11,250	100%	N/A	\$11,250	100%	N/A
	(i) exceeding 4000 but not exceeding 4500	\$187,100								
	(j) exceeding 4500	\$207,880								
	Renewal of a licence for the use and occupation of premises as a slaughterhouse (Same as new issue)			Renewal of a licence for the use and occupation of premises as a slaughterhouse						
	<u>Basic Fee for a slaughterhouse licence</u>			<u>Basic Fee for a slaughterhouse licence</u>	\$1,930	100%	N/A	\$1,660	100%	N/A
	<u>Bovine animals and solipeds</u> Maximum number permitted to be slaughtered each day in aggregate			<u>Variable fee - Bovine animals and solipeds</u> Maximum number permitted to be slaughtered each day in aggregate						
	(a) not exceeding 150	\$9,350	360%	(a) not exceeding 400	\$1,950	100%	N/A	\$1,950	100%	N/A
	(b) exceeding 150 but not exceeding 200	\$12,480	(SSSH)	(b) exceeding 400	\$2,570	100%	N/A	\$2,570	100%	N/A
	(c) exceeding 200 but not exceeding 250	\$15,570								
	(d) exceeding 250 but not exceeding 300	\$18,700		<u>Variable fee - Swine</u> Maximum number permitted to be slaughtered each day in aggregate						
	(e) exceeding 300 but not exceeding 350	\$21,830		(a) not exceeding 1000	\$2,210	100%	N/A	\$2,210	100%	N/A
	(f) exceeding 350	\$24,930		(b) exceeding 1000 but not exceeding 2500	\$3,310	100%	N/A	\$3,310	100%	N/A
	<u>Swine, goats and sheep</u> Maximum number permitted to be slaughtered each day in aggregate			(c) exceeding 2500 but not exceeding 4000	\$4,420	100%	N/A	\$4,420	100%	N/A
	(a) not exceeding 500	\$20,800	503%	(d) exceeding 4000	\$5,520	100%	N/A	\$5,520	100%	N/A
	(b) exceeding 500 but not exceeding 1000	\$41,560	(CCSH)							
	(c) exceeding 1000 but not exceeding 1500	\$62,370		<u>Variable fee - Goats and sheep</u> Maximum number permitted to be slaughtered each day in aggregate						
	(d) exceeding 1500 but not exceeding 2000	\$83,150	1586%	(a) not exceeding 300	\$745	100%	N/A	\$745	100%	N/A
	(e) exceeding 2000 but not exceeding 2500	\$103,960	(TWSH)	(b) exceeding 300	\$1,490	100%	N/A	\$1,490	100%	N/A
	(f) exceeding 2500 but not exceeding 3000	\$124,730								
	(g) exceeding 3000 but not exceeding 3500	\$145,530								
	(h) exceeding 3500 but not exceeding 4000	\$166,300								
	(i) exceeding 4000 but not exceeding 4500	\$187,100								
	(j) exceeding 4500	\$207,880	2505% (SSSH)							
2	Any amendment to a licence	\$140	23%		\$620	100%	343%	\$600	100%	329%
3	The issue of a duplicate of a licence	\$180	47%		\$385	100%	114%	No e-application		
4	Examination of each carcass or dressed carcass and offal (Note 2)			Examination fee (each)				No e-application		
	(a) in the case of a bovine animal or solipeds	\$19.8	18%	A bovine animal or solipeds	\$206	100%	N/A			
	(b) in the case of a swine, goat or sheep	\$13.0	90%	A swine, goat or sheep	\$36.2	100%	N/A	No e-application		
5	New fee			Transfer of a licence	\$2,930	100%	N/A	\$2,820	100%	N/A
6	New fee			Alteration to approved layout	\$14,550	100%	N/A	\$14,050	100%	N/A

Note 1 : The costing is based on 2015-16 price level.

Note 2 : The current cost recovery on "Examination of each carcass or dressed carcass and offal" for bovine and swine/goat are 18% and 90% respectively. However, if taking the cost for ante-mortem examination into account, it will be 10% and 36% respectively.

CCSH : Cheung Chau Slaughterhouse
TWSH : Tuen Wan Slaughterhouse
SSSH : Sheung Shui Slaughterhouse