

**Government's Response on  
Financial Arrangements for Travel Industry Authority  
raised at the Meeting of the Bills Committee on Travel Industry Bill  
held on 6 June 2017**

**Purpose**

Subsequent to the Government's reply issued in July 2017 in respect of the matters raised at the Bills Committee on Travel Industry Bill (the Bill) on 6 June 2017, this paper sets out the Government's progress of examining the financial arrangements for the Travel Industry Authority (TIA).

**Financial Arrangements for the TIA**

2. Under the new regulatory regime, the TIA will be the statutory regulatory body of the industry, taking up the licensing and trade-regulatory functions from the Travel Agents Registry (TAR) and Travel Industry Council of Hong Kong (TIC) respectively. The TIA will run on a self-financing basis in the long run and, as necessary, adjust the levels of its charges under an incremental approach. In line with the above principles, we, together with an independent consultant, are formulating detailed financial arrangements for the TIA on the basis of the relevant information including manpower, income and expenditure, etc. of the TAR and TIC.

3. According to the consultant's preliminary estimates, the TIA's operating expenditure for the first year upon the full implementation of the new ordinance will be about \$65 million. The aggregate operating expenditure of the TAR and TIC is about \$50 million per year at present. As compared with the existing regulatory regime, the TIA will be empowered to discharge a more comprehensive set of statutory regulatory functions, including conducting inspection of the operation of inbound tour group business, investigating into suspected cases of non-compliance with administrative measures and the new ordinance, conducting inquiries, etc. In addition, the TIA will shoulder new functions, including managing the Travel Industry Development Fund to be established, implementing the Continuing Professional Development Scheme for Tour Escorts, etc. Therefore, the TIA will need to employ more staff to discharge its various statutory functions effectively to safeguard the interests of consumers and tourists.

4. As regards income, the aggregate income of the TAR and TIC is about \$50 million per year at present. The major sources of income are levies on outbound fares received by travel agents, licence fees, and registration fees on inbound tour groups from the Mainland, which are comparable with the TIA's major sources of income.

5. The Government understands the trade's concern about whether the TIA will significantly increase the levels of its charges in future. We, together with our consultant, have thus been examining different ways to ensure that the TIA can cope with its daily operation and achieve a self-financing status in the long run, whilst at the same time taking into account the affordability of the trade –

- (a) as proposed earlier, the Government will apply for funding to provide the TIA with a one-off capital grant as seed money in due course to support its initial operation. As long as the amount of the grant is adequate, the TIA will be able to obtain stable income through investment to cover part of its operating expenditure, so there is no need to increase significantly the overall levels of its charges to cope with its expenditure; and
- (b) to reduce the impact brought about by the new regulatory regime on the trade, we have also earlier proposed maintaining Authority levies and licence fees for five years at the prevailing levels upon the full implementation of the new ordinance. As regards registration fees on inbound tour groups from the Mainland, as the Government pointed out in 2013, the TIC's experience suggests that it has been allocating a large amount of resources to the inspection of the operation of inbound tour groups from the Mainland and handling of relevant complaints. As compared with that of outbound tour levies, the present level of the registration fee is also considerably low, with room for upward adjustment<sup>1</sup>. In the past, the Government proposed increasing the level of registration fees on inbound tour groups from the Mainland to \$200 per group in the first year upon the full implementation of the new ordinance; nevertheless, having considered the affordability of the trade, we now propose increasing the level of the registration fees since the first year upon the TIA's full operation under an incremental approach.

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<sup>1</sup> At present, the registration fee on each Mainland inbound tour group is only \$30, meaning that the per-head fee is about \$0.75 for a tour group of 40 members. As for outbound tour levies, at present, the TIC collects Council levies at a rate of 0.15% based on each outbound fare, meaning that the per-head levy is about \$5 for an outbound tour group fee of about \$3,330 per member. In the light of this, as compared with the outbound tour levy, the registration fee on inbound tour groups from the Mainland is considerably low, with room for upward adjustment.

6. With the investment income generated from seed money and upward adjustments of registration fees of inbound tour groups from the Mainland, the TIA is expected to have stable income sources to cope with its operating expenditure. According to the consultant's preliminary estimates, even for a certain period of time after the full implementation of the new ordinance for five years, there should be no significant pressure to drive any increase in Authority levies or licence fees for achieving breakeven. The indicative budget for the TIA as preliminarily formulated by the consultant is at **Annex**.

7. Furthermore, the Government will closely monitor the finances of the TIA after its establishment. Under the Bill, the TIA will be required to furnish to the Secretary for Commerce and Economic Development (SCED) annually its annual report, statement of accounts and auditor's report. The SCED will arrange the documents to be laid on the table of the Legislative Council. The TIA will also be required to submit to the SCED for approval its annual work plan and estimates of its income and expenditure for the next financial year. If the TIA adjusts the level of Authority levies, licence fees or registration fees on inbound tour groups from the Mainland in future, the subsidiary legislation concerned will be subject to the Legislative Council's approval.

**Tourism Commission**  
**Commerce and Economic Development Bureau**  
**October 2017**

**Indicative Budget for the TIA  
Preliminarily Formulated by the Consultant**

	<b>Year 1</b> <b>(\$ million)</b>	<b>Year 2</b> <b>(\$ million)</b>	<b>Year 3</b> <b>(\$ million)</b>	<b>Year 4</b> <b>(\$ million)</b>	<b>Year 5</b> <b>(\$ million)</b>	<b>Year 6</b> <b>(\$ million)</b>	<b>Year 11</b> <b>(\$ million)</b>
<b>(A) TIA’s estimated operating expenditure</b> (assuming a staff size of about 90)	64.6	66.6	68.6	71.3	73.4	75.7	89.5
<b>(B) TIA’s estimated cashflow<sup>2</sup></b>	83.4	70.6	72.6	75.3	77.4	75.7	89.5
<b>(C) TIA’s estimated income<sup>3</sup></b>	51.3	58.0	59.6	61.3	63.0	70.4	89.5
(i) Authority levy	27.9	29.3	30.9	32.5	34.1	35.9	46.3
(ii) Licence fee	12.6	12.6	12.6	12.6	12.6	12.6	12.6
(iii) Registration fee on inbound tour groups from the Mainland	9.2	9.5	9.8	10.2	10.5	16.3	25.7
(iv) Investment and other income	1.6	6.5	6.2	6.0	5.7	5.5	4.9
<b>(D) Estimated surplus/(deficit)</b> <b>= (C) – (B)</b>	(32.1)	(12.6)	(13.0)	(14.0)	(14.4)	(5.3)	0.1

**Note:** There may be a slight discrepancy between the sum of individual items and the total as shown in the table owing to rounding.

<sup>2</sup> The estimated cashflow includes capital and non-recurrent expenditure on setting up the TIA.

<sup>3</sup> It is assumed that the rate of Authority levy and licence fees would be maintained at the prevailing levels; and that the level of registration fees on inbound tour groups from the Mainland would be increased under an incremental approach, i.e. \$100 per group in Year 1, and adjusted upwards to \$150 and \$200 per group in Years 6 and 11 respectively.