

Information Note

Review of Fees and Improvement Measures for Liquor Licensing Services

Purpose

The Government has reviewed the adjustment of fees and improvement measures for liquor licensing services. This paper briefs the trade on the review and seeks views on the way forward.

Background

2. Prior to 2000, liquor licence (LL) services in the urban and New Territories areas were under the respective purview of the ex-Urban Council and ex-Regional Council. There were disparities in LL fee levels in the urban areas and the New Territories, as the fee reviews were made by two separate entities. In 2013, an exercise was completed to align the different fees (including LL fees) in the urban areas and the New Territories to the lower level of the two. Please see the table below for the fee items applicable to LL under the fee alignment exercise –

LL Services	Fees Before alignment (\$)		Fees After alignment (\$)
	Urban areas (since 1998)	NT (since 1997)	Whole territory (since July 2013)
New Issue / Renewal (1-year)			
➤ LL (bar ¹)	3,940	4,300	3,940
➤ Club LL ² (bar)	3,940	1,100	1,100
➤ LL (no bar)	1,990	2,200	1,990
➤ Club LL(no bar)	1,990	1,100	1,100
Transfer	140	780	140
Amendment	140	610	140
Issue of Duplicates	140	140	140
Authorisation of person to manage premises	10	10	10

¹ Where a bar is kept on the premises. Under regulation 2 of the Dutiable Commodities (Liquor) Regulations (DCLR), “bar” means any place exclusively or mainly used for the sale and consumption of intoxicating liquor.

² Clubs are not licensed as restaurants. Club liquor licence is issued under regulation 26 of DCLR, which provides that no liquor shall be supplied at any premises used by any club for the purposes of the club to any member of the club except under and in accordance with a club liquor licence.

3. In the 2013-14 Budget, the Financial Secretary announced a review of fees and charges to ensure that public subsidy is given only when justified and to forestall cost recovery items from being inadvertently turned into heavily subsidised items. Mitigation measures to reduce the impact of fee revision all at one go are permissible. On the basis of this promulgation, FEHD has proceeded to review its fee items. This paper covers our considerations with respect to the fees for LL services.

4. While taking forward the revision of LL fees on the basis of 2013-14 Budget Speech, we notice that the same fees are charged for services requiring great disparity in complexity and efforts required. A salient example is charging new licence applications and one-year licence renewal the same level of fees when the former obviously requires more thorough checking and neighbourhood consultations. Hence, we shall take the opportunity of the fee review exercise to rationalise the fees structure, so that it may better reflect the relative costs of the respective fee items.

Current position

5. Based on a recent in-house costing exercise, FEHD has found out that the overall cost recovery rate for liquor licensing services is only 38%. This translates into a subsidy by taxpayers of around \$24 million per annum. We recognise that some liquor licensees are small and medium sized enterprises. This notwithstanding, the justification for long term public subsidy of a profit-making business operation needs to be prudently considered, taking into account the possible alternative uses of public funds for socially and economically worthy causes.

Rationalisation of the Fee Structure

6. The under-recovery of the cost of the LL services owes as much to absence of fee adjustments over the past two decades as to an obsolete fee structure engendered in the era of ex-Urban Council and ex- Regional Council which no longer reflects fully the relative costs of the different services rendered. Based on the latest costing exercise done, we would propose to rationalise the fee structure to better reflect the relative costs of fee items in the first place as per **Annex A**.

7. Based on the rationalised fee structure set out at **Annex A**, we have projected the estimated fees at the 2017/18 price level if we are to recover the full cost of the services rendered, as tabulated below -

LL Services	Current Fee (\$)	Estimated Full Cost Recovery at 2017/18 price level (\$)	No. of Cases in 2016	Amount of Subsidy (\$ million)
New Issue				
➤ LL(bar)	3,940	17,020	75	10.2
➤ Club-LL(bar)	1,100	17,020	5	
➤ LL(no bar)	1,990	8,510	1 107	
➤ Club-LL(no bar)	1,100	8,510	15	
Renewal - one year				2.0
➤ LL(bar)	3,940	5,110	433	
➤ Club-LL(bar)	1,100	5,110	28	
➤ LL(no bar)	1,990	2,550	2 206	
➤ Club-LL(no bar)	1,100	2,550	60	
Renewal - two year				
➤ LL(bar)	5,910	7,660	229	
➤ Club-LL(bar)	1,650	7,660	30	
➤ LL(no bar)	2,990	3,820	1 295	
➤ Club-LL(no bar)	1,650	3,820	84	
Transfer				10.4
➤ LL(bar)	140	10,770	303	
➤ Club-LL(bar)	140	10,770	18	
➤ LL(no bar)	140	5,380	1123	
➤ Club-LL(no bar)	140	5,380	56	
Amendment				
➤ LL(bar)	140	10,770	34	
➤ Club-LL(bar)	140	10,770	0	
➤ LL(no bar)	140	5,380	81	
➤ Club-LL(no bar)	140	5,380	2	
Issue of duplicates	140	425	7	0.002
Authorisation of person to manage premises				
- not more than 30 days	10	695	641	0.4
- more than 30 days	10	4,260	209	0.9

Possible Impact

8. The all at one-go projection above follows the “user pays” principle and abides by the Government 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. Contextually, the increase is illustrated in paragraphs 9 to 11 below.

9. The majority of LL applicants are restaurants seeking LL without bar endorsement (see **emphasis** added to the table above). Using the number of cases in 2016 to illustrate –

Category	Total no. of applications	Applications from restaurants without a bar		Applicable fees under all at one-go scenario (\$)
	(A)	No. (B)	% (C)=(B)/(A)	
(a) New Issue	1 202	1 107	92%	8,510
(b) Renewal – one year	2 727	2 206	81%	2,550
(c) Renewal – two years	1 638	1 295	79%	3,820 (i.e. 1,910 a year)
Total	5 567	4 608	83%	-

If implemented, the one-off fee for new issue of LL is \$8,510. New issue of LL is usually valid for one year. Spread monthly, this implies \$709 per month. The licence renewal fees, annual or biennial as the case may be, are much more modest (\$2,550 or \$1,910 a year on average). Translated into monthly terms, this would mean \$212.5 or \$159.2.

10. About 83% of all existing liquor licensees are those of restaurants without a bar. The licence renewal fees they are subject to would only experience a small increase (\$560 or \$415 a year on average, or \$46.7 or \$34.6 monthly).

11. As regards the remaining fee categories (i.e. other than issue of new licences or renewal of existing licences), the average amount involved is not substantial, if such one-off fees are spread over the normal lifetime of a licence.

For illustration purposes, about 60% of all existing LL has its term lasting for 5 years or above.

12. Despite the questionable justification for subsidy of profit-making businesses from the public coffers, and despite the modest amounts involved as illustrated in the preceding paragraphs, if some form of mitigation measures are warranted to alleviate the impact on the trade, we may consider implementing the fees adjustment on an incremental basis.

Possible Mitigation

13. For illustration of how we may seek to smoothen out the rationalisation and revision of LL fees, we have attempted further scenarios such as fees adjustment on an incremental basis to facilitate consultation with the trade and solicitation of views from the public. The scenario of recovering the full costs over two years is set out below at **Annex B**.

Public Consultation

14. We briefed members of the LegCo Panel on Food Safety and Environmental Hygiene (the Panel) and the Liquor Licensing Board on the review on 11 and 25 July respectively. As planned, we will consult stakeholders at the coming liaison meetings with the trade in August. This would cover the Business Facilitation Advisory Committee's Food Business and Related Services Task Force, Task Force on Business Liaison Groups, Recreational Clubs Business Liaison Group (BLG), Karaoke establishments, nightclubs, bars and other entertainment clubs BLG and Hotels BLG, and relevant trade associations. We will also join a special meeting of the Panel in September to receive views from stakeholders and the public.

Legislative steps

15. Having regard to the outcome of the above consultation and views of the Panel, we plan to finalise a fee revision proposal as appropriate for submission to the Panel in late 2017. The fees for the liquor licensing services are specified in Part 2 of the Dutiable Commodities (Liquor Licences) (Fees) Regulation (Cap 109H). To revise the fees, the Secretary for Food and Health may amend the Dutiable Commodities (Liquor Licences) (Fees) Regulation

(Cap 109H)³. We plan to table the necessary amendment regulation implementing the fee revision proposal before the Legislative Council by early 2018 for negative vetting and implement the fee adjustment before April 2018. The same amendment regulation will provide for the first and subsequent annual adjustments to achieve full cost recovery.

Measures to improve efficiency and lower costs

16. As part of the package of measures to improve the regime to address concerns about public safety and security and lower the regulatory burden and nurture a business-friendly environment, in August 2015 we extended the maximum validity period of a LL upon renewal from one year to two years. Given the longer licence coverage, the fee for this new two-year licence was set at 1.5 times of that for one year, while the fees for all other services remained unchanged.

17. FEHD regularly reviews its operation and streamlines procedures with a view to facilitating the trade, improving efficiency, and lowering operating costs where possible. FEHD implemented LL Processing System in 2009 and the following measures to streamline licensing procedures between 2015 and 2017 –

- (a) extending the duration of a LL from one year to two years which most renewal applications can be submitted once every two years;
- (b) allowing LL applicants to submit the application forms electronically either by assigned passwords or digital certificates; and
- (c) introducing an optional “reserve licensee” mechanism which minimize disruption to the liquor selling business due to sudden departure of the licensee by identifying and nominating at an early stage a suitable person as a reserve licensee to take over the role of the licensee.

18. Apart from the above, the LLB, through its Secretariat run by FEHD, implemented a number of trade facilitation measures to improve LL services in 2013 –

- (a) publishing on the LLB website a set of Guidelines capturing the factors that are taken into account when assessing liquor licence

³ The fee for ‘authorisation of person to manage premises during temporary absence of licensee’ is currently charged on an administrative basis. We would take this opportunity to put it on a statutory footing and cover it by Part 2 of Cap 109H.

applications in the interest of enhancing transparency;

- (b) allowing the licensee to submit renewal applications between 3 and 4 months prior to expiry of LL instead of previous 2 to 3 months so that the licensee would have sufficient time to deal with the applications; and
- (c) setting out the procedures of processing “application of transfer of liquor licence without the consent of the existing licensee”.

19. A review team comprising representatives from the Food and Health Bureau, FEHD, the Police and the Home Affairs Department formed in January 2017 has reviewed the existing practice and identified improvement measures, with a view to enabling timely processing of LL applications. Annex C sets out the details of the improvement measures implemented in June 2017.

20. In the coming years, further streamlining and facilitation measures will be explored and proposed to better the service to the trade and reduce costs, for instance, development of e-service to LL through an online service system.

Views Sought

21. Your views on the above issues are welcomed.

Food and Health Bureau
Food and Environmental Hygiene Department
August 2017