



Business Compliance Cost for hotel licence renewal

(for discussion at 18 September 2013 Hotel BLG)



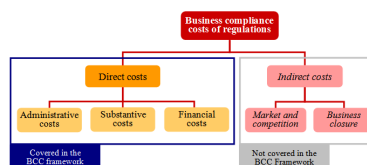
Economic Analysis and Business Facilitation Unit
Financial Secretary's Office

Purpose of the exercise

- To identify the business compliance costs incurred in the hotel licence renewal process
- To enhance transparency
- To explore room for reducing the compliance costs without compromising public interest

Introduction

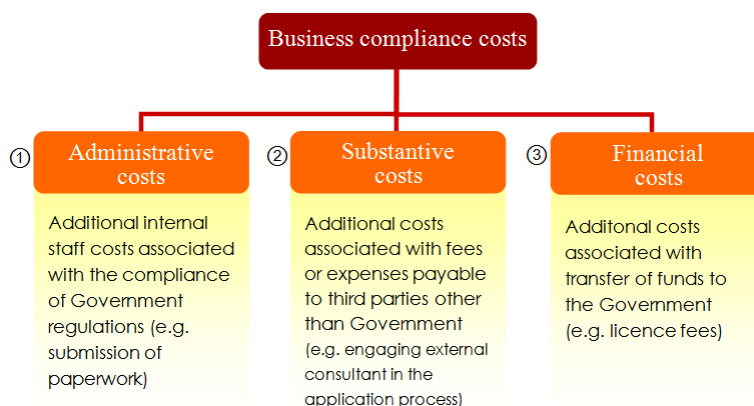
Background



- Home Affairs Department is the licensing authority of hotel licence under the Hotels and Guesthouses Accommodation Ordinance (Cap 349)
- Hotel needs to renew the licence before expiry
- At the Hotel BLG meeting held in Oct 2012, BLG secretariat was tasked to perform a BCC exercise on licence renewal
- Work commenced in early 2013
- Conducted a pilot in April 2013
- Briefed the trade in July 2013 and collected BCC data

The EABFU BCC framework

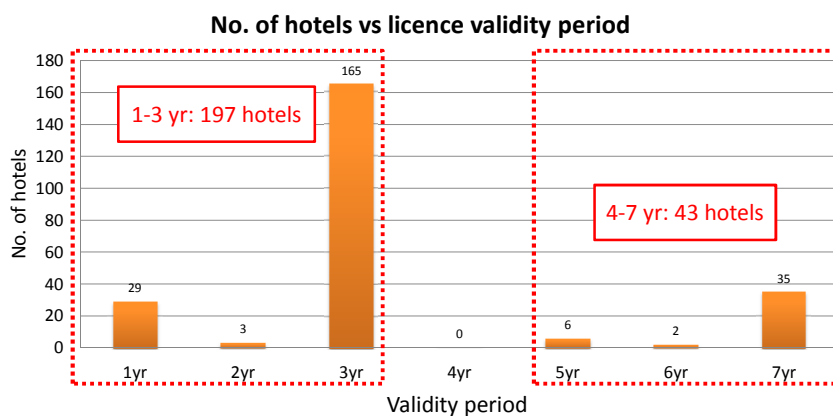
Three categories of cost to be collected -



Hotel Profile

According to HAD's record, as at 30 July 2013

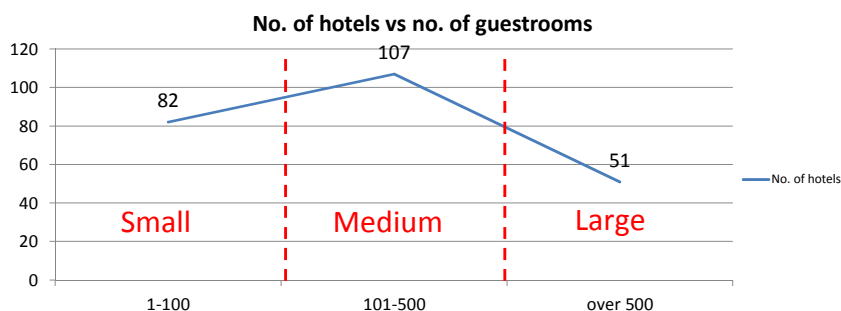
- There is a total of 240 hotels
- 197 (82%) hotels hold licence of 1-3 yr validity period
- 43 (18%) hotels hold licence of 4-7 yr validity period



Hotel Profile

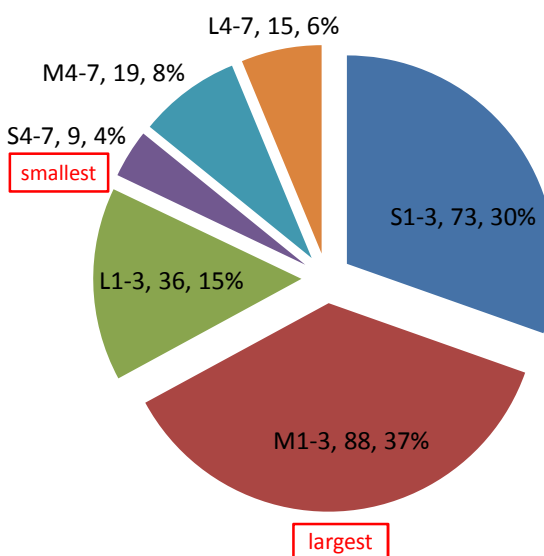
According to HAD's record, as at 30 July 2013

- There is a total of 240 hotels
- 34% small hotels (1-100 guestrooms)
- 45% medium hotels (101-500 guestrooms)
- 21% large hotels (over 500 guestrooms)



Hotel segmentation

Segment	No. of rooms	Licence validity	No. of hotels
S1-3	<100	1-3 yr	73
M1-3	101-500	1-3 yr	88
L1-3	>500	1-3 yr	36
S4-7	<100	4-7 yr	9
M4-7	101-500	4-7 yr	19
L4-7	>500	4-7 yr	15



Total: 240 hotels
as at 30.7.2013

2012 HAD Satisfaction Survey

In 2012, there were 79 hotel licence renewals completed for an average duration of 166 calendar days -

Renewal licence application				
Type of Hotel	Number of renewal application		Average renewal application duration (days)	
	2011	2012	2011	2012
Hotel (Purpose built)	73	68	139	167
Hotel (Non-purpose built)	13	11	137	162
Overall	86	79	139	166

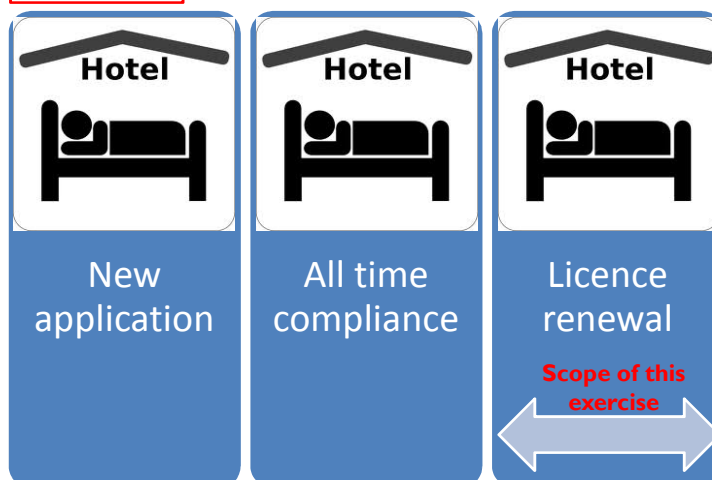
Of these 79 cases, the 2012 survey successfully contacted 27 cases. The average overall satisfaction rating given by these 27 hotel trade renewal respondents is 7.48 (out of a scale of 1 to 10, 10 being very satisfied). Of these 27 cases, six of them gave additional comments -

Open-ended answers for Q17 'other comments'	Count
希望能提高透明度	1
認為官員可清晰地與申請人講解提交文件的須知	1
希望可簡化遞交文件等手續	1
增加發牌部門的人手，這可加快效率	1
提供網上查詢牌照進度系統詳細程序使用方法及遞交文件狀況	2

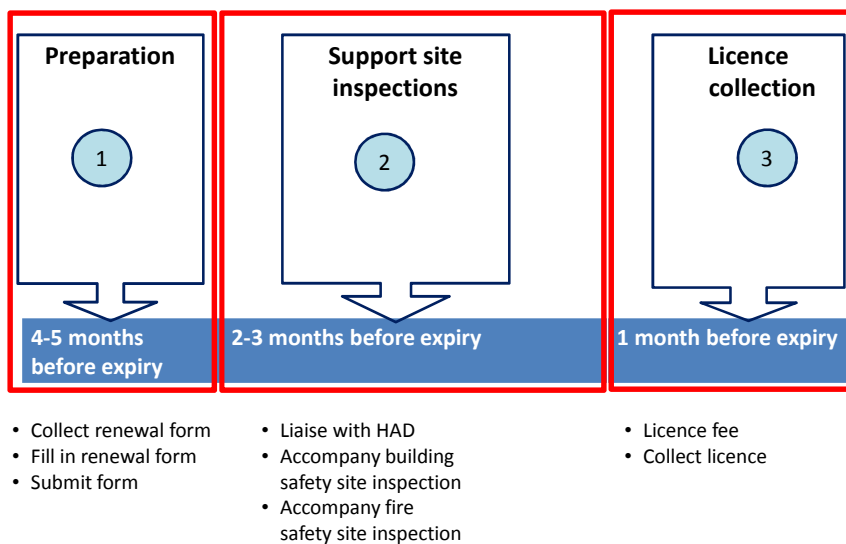
The trade is generally satisfied with the licence renewal process

Scope of the BCC Exercise

Hotel Licence
under Cap 349



Tasks in Hotel Licence Renewal Process

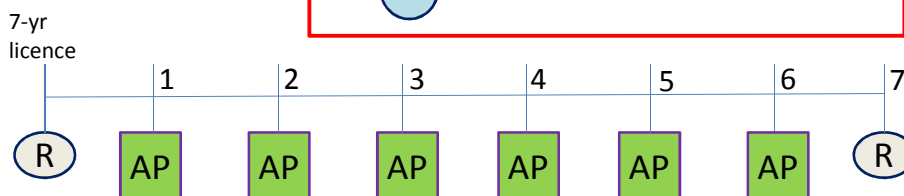


AP certification for >3-year licence (e.g. a 7-year hotel licence)

Hotel requires to submit AP certificate to HAD every year under Cap.349

AP Certification (4)

- AP fee
- Prepare documents for AP inspection
- Accompany AP inspection



R = Renewal
AP = AP certification

Data collection form

Established
during pilot

Tasks	Activities	One-off cost	Staff Cost		Frequency (per year)	Remarks
			no. of hours	hourly cost		
1. Preparation ①	Collect hotel licence renewal application form, retrieve registered plan etc.					
	Fill in application form					
	Submit application form and relevant copies of certificates					
	Others: _____ (please specify)					
2. Support site inspections ②	Liaise with HAD on renewal inspection date, arrange staff to support inspections					
	Accompany site inspection conducted by Building Safety Unit of Office of the Licensing Authority (OLA)					
	Accompany site inspection conducted by Fire Safety Team of OLA					
	Others: _____ (please specify)					
3. Collect licence ③	Licence fee					
	Administration cost					
4. Engage consultant to issue AP certificate (for licence validity period over 36 months only) ④	AP fee					
	Prepare documents for AP inspection					
	Pre-check site before AP inspection					
	Accompany AP inspection					
	Check and submit AP certificate					
	Others: _____ (please specify)					

Data collected by hotel segment

Tasks	Activities	Cost per hotel per year*					
		S1-3	M1-3	L1-3	S4-7	M4-7	L4-7
1. Preparation ①	Collect hotel licence renewal application form, retrieve registered plan etc.	\$72	\$68	\$72	\$26	\$25	\$23
	Fill in application form	\$112	\$105	\$112	\$41	\$38	\$36
	Submit application form and relevant copies of certificates	\$63	\$59	\$62	\$23	\$21	\$20
2. Support site inspections ②	Liaise with HAD on renewal inspection date, arrange staff to support inspections	\$83	\$78	\$83	\$30	\$28	\$27
	Accompany site inspection conducted by Building Safety Unit of Office of the Licensing Authority (OLA)	\$157	\$244	\$380	\$57	\$89	\$124
	Accompany site inspection conducted by Fire Safety Team of OLA	\$128	\$199	\$310	\$46	\$73	\$101
3. Collect licence ③	Licence fee (average of all 240 hotels)	\$9,593	\$13,213	\$18,153	\$5,927	\$7,276	\$9,072
	Administration cost	\$48	\$45	\$48	\$18	\$17	\$16
4. Engage consultant to issue AP certificate (for licence validity period over 36 months) ④	AP fee (provided by FHKHO)	NA	NA	NA	\$29,333	\$50,812	\$85,556
	Prepare documents for AP inspection	NA	NA	NA	\$48	\$49	\$246
	Accompany AP inspection	NA	NA	NA	\$243	\$246	\$1,242

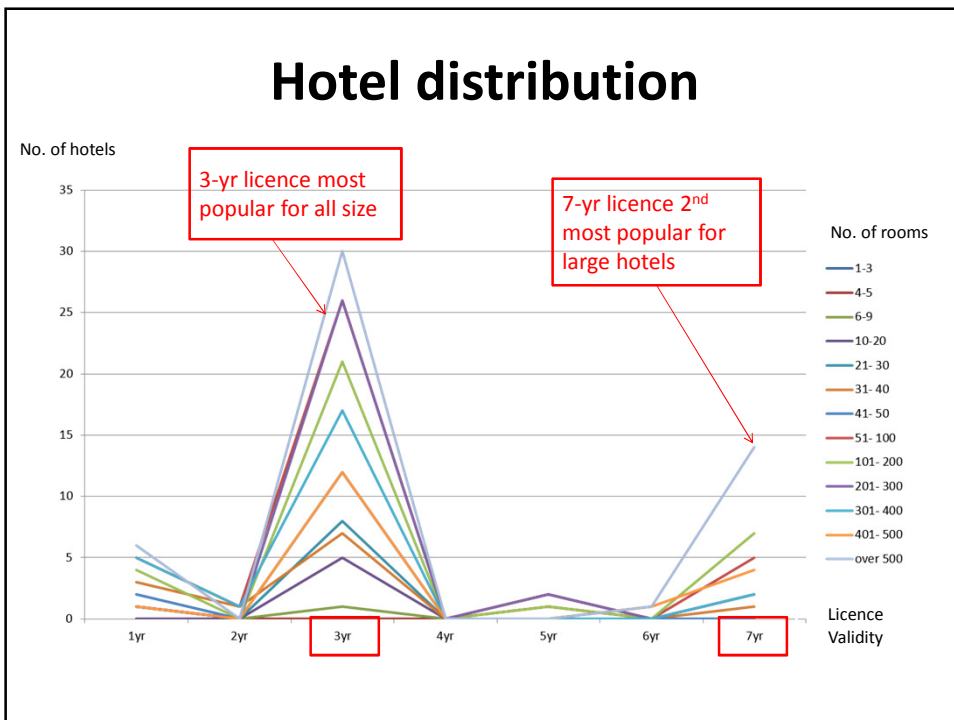
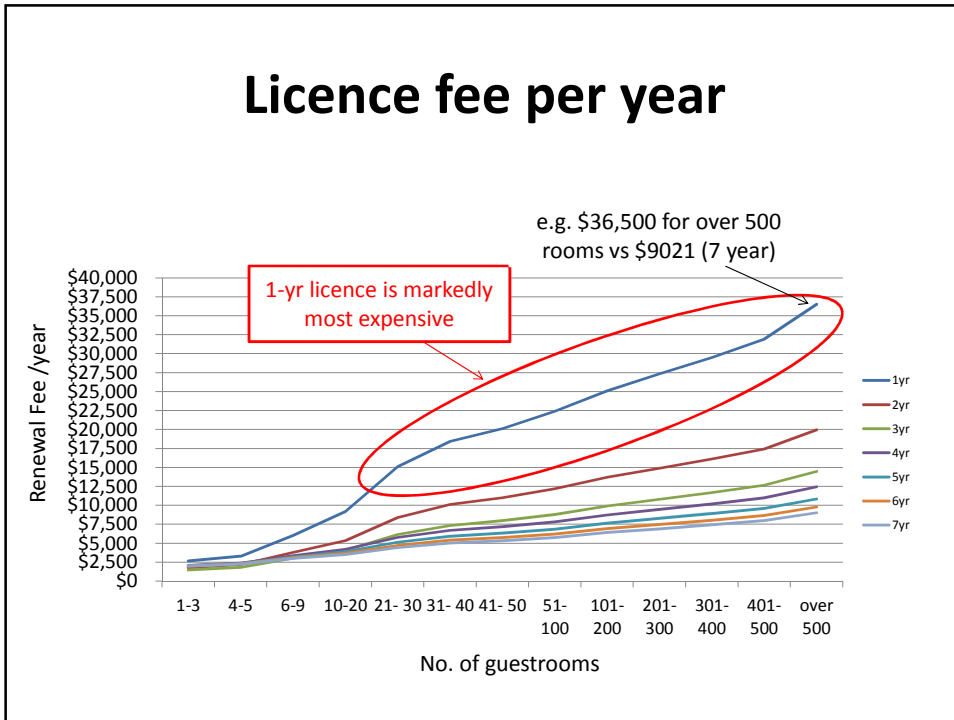
* Data collected from 8 hotels. No sample from S4-7 (estimated from other similar segments)

Key assumptions made

- High level estimation of costs only, not statistically robust
- A normally efficient hotel business / Government
- No alteration / addition work in progress
- HAD inspection of the hotel find no major irregularities
- Include cost directly incurred by the renewal process only
- AP cost is provided by FHKHO and verified in briefing –

Hotel size (no. of room)	AP Inspection Cost (3 years or more licence)
Small (100 or less)	HK\$35,000
Medium (101-500)	HK\$60,000
Large (over 500)	HK\$100,000

Observations and Findings



Hotel distribution

No 4-yr hotels

Few S4-7 hotels (9 only,
about 3.8% of all hotels)

No. of Room	1yr	2yr	3yr	4yr	5yr	6yr	7yr
1-3	0	0	0	0	0	0	0
4-5	0	0	0	0	0	0	0
6-9	1	0	1	0	0	0	0
10-20	0	0	5	0	0	0	0
21- 30	1	0	8	0	0	0	0
31- 40	3	1	7	0	1	0	1
41- 50	2	0	12	0	0	0	0
51- 100	5	1	26	0	2	0	5
101- 200	4	0	21	0	1	0	7
201- 300	1	0	26	0	2	0	2
301- 400	5	1	17	0	0	0	2
401- 500	1	0	12	0	0	1	4
over 500	6	0	30	0	0	1	14

BCC by hotel by tasks

BCC per hotel per year					
Segment	No. of hotels	Task 1 (prep)	Task 2 (liaise w/ HAD)	Task 3 (Licence)	Task 4 (AP)
S1-3	73	\$248	\$367	\$9,641	\$0
M1-3	88	\$232	\$521	\$13,259	\$0
L1-3	36	\$246	\$773	\$18,201	\$0
S4-7	9	\$90	\$133	\$5,945	\$29,625
M4-7	19	\$85	\$191	\$7,293	\$51,107
L4-7	15	\$80	\$251	\$9,088	\$87,043

Task 3 is the biggest component for 1-3 yr licence

Task 4 is the biggest component for 4-7 yr licence

BCC by hotel by cost categories

BCC per hotel per year

Segment	no. of hotels	BCC	Admin cost	Financial (Lic fee)	Substantive (AP cost)	Lic %	AP %
S1-3	73	\$10,256	\$663	\$9,593	\$0	94%	NA
M1-3	88	\$14,011	\$798	\$13,213	\$0	94%	NA
L1-3	36	\$19,220	\$1,067	\$18,153	\$0	94%	NA
S4-7	9	\$35,792	\$532	\$5,927	\$29,333	17%	82%
M4-7	19	\$58,675	\$587	\$7,276	\$50,812	12%	87%
L4-7	15	\$96,462	\$1,835	\$9,072	\$85,556	9%	89%

S1-3 has the lowest BCC

For 1-3, Licence fee is the biggest BCC

L4-7 has the highest BCC

For 4-7, AP cost is the biggest BCC

BCC by room

Segment	No. of hotels	Total no. of rooms	BCC per room per year
S1-3	73	3,613	\$207
M1-3	88	24,887	\$50
L1-3	36	23,044	\$30
S4-7	9	639	\$504
M4-7	19	5,144	\$217
L4-7	15	13,000	\$111

L1-3 has the lowest BCC

S4-7 has the highest BCC

BCC as % of Operating Expenses

Segment	OPEX (note)	BCC	% of OPEX
S1-3	\$14,930,720	\$10,256	0.069%
M1-3	\$69,053,014	\$14,011	0.020%
L1-3	\$160,346,588	\$19,220	0.012%
S4-7	\$14,930,720	\$35,792	0.240%
M4-7	\$69,053,014	\$58,675	0.085%
L4-7	\$160,346,588	\$96,462	0.060%

L1-3 the lowest

S4-7 the highest

Note:

- Hotel operating expenses per hotel per year from Census and Statistic Department for the year 2011 and the staff-to-room ratio is taken at 0.6:1 by making reference to the 2011 Hotel Industry Manpower Survey Report by the Vocation Training Council
- OPEX includes all hotel operation costs and staff salary

Look closer - BCC by hotel

Size and yr	No. of hotels	BCC per hotel per yr
L7	14	\$96,569
L6	1	\$94,966
M6	1	\$59,249
M7	15	\$59,027
M5	3	\$56,720
L1	6	\$38,900
S7	6	\$36,129
S5	3	\$35,118
M1	11	\$29,829
S1	12	\$20,549
M2	1	\$17,103
L3	30	\$15,283
S2	2	\$11,916
M3	76	\$11,681
S3	59	\$8,106

Total: 240 hotels
in 15 segments

L3, S2, M3 and S3
have the lowest BCC.
They represented 70%
of the hotels

Look closer - BCC by room

Size and yr	No. of hotels	BCC per room per yr
S5	3	\$563
S7	6	\$480
S1	12	\$381
S2	2	\$246
M5	3	\$243
M7	15	\$225
S3	59	\$167
M6	1	\$118
L6	1	\$115
L7	14	\$111
M1	11	\$107
L1	6	\$64
M2	1	\$45
M3	76	\$41
L3	30	\$24

S5 = Small hotel with 5-year licence

Total: 240 hotels in 15 segments

S5 has the highest BCC

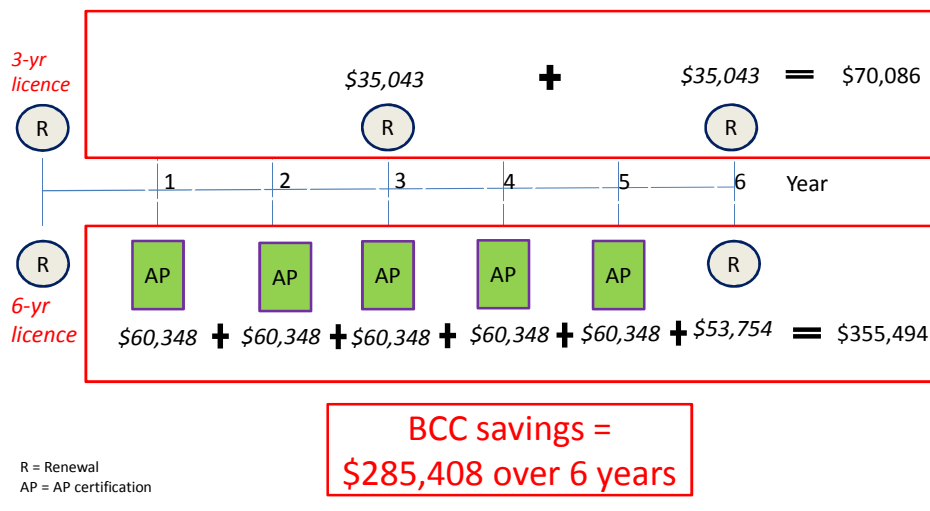
L3 has the lowest BCC

Annual AP certification

- Annual AP inspection and certification is required for over 3-year licence
- The hotel needs to submit the AP certificate to HAD which certify –
 - there is no unapproved alteration
 - there is no contravention of any licensing conditions
 - proper condition regarding building and fire safety
- During licence renewal, HAD will inspect the hotel for compliance, including the items covered in the AP certificate (as no AP's Certificate will be accompanied with the renewal application)

Point of interest – Break 1 6-year licence into 2 3-year ones

e.g. BCC for a medium size hotel



Discussion on improvement opportunities