Consultation on the Proposed Licence Fees Reduction – Additional information and clarification

On 8 June 2018, the Commerce and Economic Development Bureau and the Communications Authority ("CA") jointly issued a consultation paper ("the Consultation Paper") to invite views from the industry and interested parties on the proposed reduction of licence fees for five types of licences issued under the Telecommunications Ordinance, and the proposed introduction of a new fee component under unified carrier licence ("UCL").

The Office of the Communications Authority ("OFCA") has provided clarification/additional information in response to the request from some UCL holders. For the sake of transparency, the information provided is repeated at Annex.

All submissions in response to the Consultation Paper should be sent by post to the Office of the Communications Authority, 29/F, Wu Chung House, 213 Queen's Road East, Wan Chai, Hong Kong, or by fax to 2834 1797, or by e-mail to consult-licence-fee-reduction-2018@ofca.gov.hk by the extended deadline of 6 August 2018. Submissions made after that date will not be considered.

Commerce and Economic Development Bureau
(Communications and Creative Industries Branch) and
Office of the Communications Authority
16 July 2018

Annex

OFCA has provided the following clarification/additional information in response to requests from some holders of Unified Carrier Licence.

Concerns on notional tax and dividends

2. To give effect to the Court of Final Appeal Judgment in FACV 11/2017, the Secretary for Commerce and Economic Development ("SCED") and the CA have reviewed the licence fees levels in accordance with the revised financial arrangements as advised by the Financial Services and the Treasury Bureau. As clearly shown in Appendices A and C of the Consultation Paper, in working out the proposed reduction in licence fees, while the target return required by the Government pursuant to section 6(6)(c) of the Trading Fund Ordinance ("TFO") (Cap. 430) is included, we have **not** included any notional profits tax or dividends in the financial projections. As seen from Appendix C of the Consultation Paper, almost all the surplus (including interest income) is retained in the Office of the Communications Authority Trading Fund ("OFCATF") as "retained earnings" and subsequently utilised for licence fees reduction.

Basis for Financial Projections

3. The proposed licence fees reduction is based on the financial projections of OFCATF for 2018-19 to 2022-23. The financial projections are prepared with the following key assumptions -

(a) the revenue has taken into account a projected growth rate at 2% for customer connections (for provision of mobile service under UCLs) and a projected growth rate at 0% for mobile stations (for Mobile Radio System Mobile Station Licences and Private Mobile Radio System Licences);

(b) staff cost amounts to over 80% of the total expenditure. Increase in expenditure over the five-year forecast period is mainly due to inflationary adjustment of staff cost at a standard projection rate applicable to all Government departments;

(c) interest income is mainly from short-term fixed-time deposits and placement with the Exchange Fund. The fixed-time deposits are based on bank interest rates while the placement with the Exchange Fund is subject to an interest rate of 4.6% per annum; and

(d) the target rate of return is a percentage of operating surplus before interest income to Average Net Fixed Assets. The financial projections over the five-year forecast period adopt a rate at 5.5% for the target return as determined by the Government pursuant to section 6(6)(c) of the TFO.

4. Licence fees reduction is contingent on the capacity of OFCATF, within a reasonable time, to meet expenses incurred in the provision of the government services. In this context, the capacity is the overall retained earnings of $166.2 million projected over the five-year period of 2018-19 to 2022-23. Licence fee review is conducted on a regular basis. Should there be a substantial variation in the key parameters used for the financial projections, SCED and the CA are prepared to consider whether there is room for further adjustment in licence fees in the next review exercise.