

**For information
on 14 June 2005**

**Paper for Bills Committee on the
Revenue (Personalized Vehicle Registration Marks) Bill 2005**

Purpose

This paper provides the Administration's response to the questions raised by Members at the meeting of the Bills Committee on the Revenue (Personalized Vehicle Registration Marks) Bill 2005 (the Bill) held on 24 May.

Income of the Lotteries Fund and the auction proceeds from the existing vehicle registration marks

2. As we have advised Members, the current arrangements for the auctioned vehicle registration marks (VRMs), namely the Special VRMs (SVRMs) and the Ordinary VRMs (OVRMs) will not be affected by the new Personalized VRMs (PVRMs) Scheme. The revenue generated from the auctions of SVRMs and OVRMs will continue to be credited to the Lotteries Fund. As PVRMs are different from the existing SVRMs and OVRMs in terms of features, we expect that PVRMs and SVRMs and OVRMs would appeal to different vehicle owners and have different markets.

3. As requested by Members, a breakdown of the proceeds from the auction of SVRMs and OVRMs in the five financial years starting 2000-01 is submitted at *Annex*. During the period from 2000-01 to 2002-03, the average price of all auctioned VRMs (including both SVRMs and OVRMs) dropped. The trend reversed starting from 2003-04. After the announcement of the proposed PVRMs Scheme in the 2004-05 Budget in March 2004, the average price of all auctioned VRMs remained stable in 2004-05 (\$16,532) compared to 2003-04 (\$16,071). If we look at the average price of SVRMs and OVRMs separately, their average prices also remained at similar levels in 2004-05 compared to 2003-04. The price range of the auctioned VRMs has been quite wide. In 2004-05, the highest auction price of a SVRM was \$7.1

million whilst that of an OVRM was \$220,000.

4. The PVRMs Scheme is new and it is difficult to estimate the precise effects on the auction prices of SVRMs and OVRMs if the Scheme is implemented. Nevertheless, we consider that the above figures have demonstrated, that notwithstanding the announcement of the PVRMs Scheme, SVRMs and OVRMs continue to attract considerable interest from vehicle owners. So any effects will tend to be insignificant.

5. There has been no clear trend in the overall proceeds from the sale of auctioned VRMs. In 2001-02, the overall proceeds dropped compared to 2000-01. The overall proceeds grew in 2002-03 and 2003-04, but dropped again in 2004-05. According to the Transport Department (TD), the fluctuation in overall proceeds mainly related to the number of VRMs sold. The number of VRMs sold peaked in 2002-03 and 2003-04 when TD made extra efforts to clear backlogs of applications from members of the public by increasing the number of VRMs for sale at each auction. TD advises that the backlogs were partly attributable to increases in the number of applications for VRMs with popular prefixes such as "KK" auctioned in 2002-03 and "LA" auctioned in 2003-04. By 2004-05, the number of applications had eased back and the previous backlogs had already been cleared. As a result, the number of VRMs sold was more or less back to the level in 2001-02, as were the overall proceeds.

6. There are various sources of revenue for the Lotteries Fund, including loan repayment, Mark Six Lottery, auction proceeds from VRMs, investment income and interest, and refund of grants and donations. The proceeds from the sale of OVRMs and SVRMs account for around 6% to 7% of the sources of revenue of the Lotteries Fund during the past few years. The major source of revenue is rather the Mark Six Lottery, and the money therefrom has been increasing. During the period from 2000-01 to 2003-04, this source of revenue has risen from \$749 million to \$812 million a year, accounting for around 70% of the Lotteries Fund's revenue. In 2003-04, the total revenue of the Lotteries Fund amounted to \$1,231 million. And by end March 2004, the closing balance of the Lotteries Fund was more than \$4 billion.

We have conducted a sensitivity analysis based on the 2003-04 actual figures. If the auction proceeds of VRMs were to drop by 5%, this would translate into only a 0.3% drop in the overall revenue of the Lotteries Fund. We estimate that any effect of the proposed PVRMs Scheme on the auction proceeds of OVRMs and SVRMs will tend to be insignificant. The effect in turn on the overall income of the Lotteries Fund will be minimal, if any.

7. The Government will continue to keep under review the auction proceeds from OVRMs and SVRMs, and those from PVRMs after the implementation of the proposed Scheme. We will look closely at these figures when preparing the annual Estimates.

Feasibility of crediting PVRM auction proceeds to the Lotteries Fund

8. The Acting Chief Executive announced at the end of May that the Administration had decided to propose using the net proceeds from the sale of PVRMs for poverty-alleviation initiatives. We are studying the details for implementing this proposal and channeling the proceeds to poverty-alleviation initiatives.

Estimation of revenue from PVRM auctions

9. As we have advised Members, as the PVRMs Scheme is new, the revenue to be generated from auctioning PVRMs is difficult to estimate. The ballpark estimate having regard to the likely demand is \$70 million a year. The eventual outturn would depend on the popularity of the Scheme.

10. In 2003-04, the average auction prices of SVRMs and OVRMs were \$58,090 and \$6,497 respectively. Considering the increased flexibility for PVRM combinations on one hand but that the PVRMs will be more tailor-made to individual vehicle owners on the other, we estimated that the average price of PVRMs would be somewhere between SVRMs and OVRMs. We adopted a more conservative approach and considered that the average auction price would be somewhere between \$20,000 and \$25,000, i.e. nearer to the average price of an OVRM, assuming that TD would auction around

3,000 PVRMs a year (which is lower than the number of SVRMs and OVRMs sold in order not to bring pressure to the auction of PVRM itself and to SVRM and OVRM).

11. Accordingly the overall revenue would be around \$70 million a year.

Time limit on recall of PVRM

12. We have considered the feasibility of stipulating a time limit beyond which the Commissioner for Transport (C for T) could not recall a PVRM which has been allocated. We consider that it is necessary to empower C for T to cancel a PVRM any time after allocation, and it would not be in the interest of the general public to set a time limit before which C for T may recall a PVRM. As explained at the Bills Committee meeting on 24 May, some PVRMs may become caught by the vetting criteria in the proposed regulations 12C and 12F in clause 10 of the Bill any time after allocation (e.g. a PVRM may not be used as a triad connotation at the time when it was approved but its usage may change over time) as circumstances change, necessitating a recall. We believe the general public will expect that in such case the PVRM which has become inappropriate for allocation should be recalled expeditiously. The power of recall would therefore be necessary for the smooth administration of the PVRMs Scheme. Upon TD's enquiry, it is understood that some of the overseas jurisdictions (provinces or states in Australia, Canada or USA) have not exercised their power to recall PVRM-type VRMs in the past three years. For those who have done so, only a few recalls were made annually.

13. The acceptance or otherwise of applications for PVRMs would be made in a prudent manner pursuant to a vetting process. A cancellation would have to be based on specific reasons as to why, despite the fact that C for T has considered the PVRM to be suitable for allocation after careful vetting, the PVRM is not or is no longer suitable. C for T cannot lightly exercise this power, and we expect that the incidence of cancellation would be rare. Furthermore, the rights of the PVRM holder are safeguarded by the eligibility to appeal to the Administrative Appeals Board.

Law enforcement and safety

14. The Administration is mindful of the importance of ensuring that the introduction of the PVRMs Scheme will not bring about difficulties in law enforcement or adverse implications on road safety. We have, since the conception of the PVRMs Scheme, closely involved the Hong Kong Police Force and TD in the process to ensure that the law enforcement and road safety angles are satisfactorily addressed in designing the features of the Scheme. We have looked again at the provisions of the Bill and consider that these angles have been addressed by the related proposals in the Bill. The Hong Kong Police Force's position is that the PVRMs Scheme does not give rise to concerns about law enforcement.

15. We have proposed in the Bill that any proposed PVRMs which are confusing for the purposes of law enforcement will be disapproved by C for T. When vetting proposed PVRMs, C for T will be assisted by, amongst others, the Hong Kong Police Force and non-officials. We do not propose to allow symbols to be used in PVRM combinations, and only those letters and numerals currently allowed for use in existing VRMs may be used. We have also proposed in the Bill that the letters "I", "O" and "Q" will not be allowed as they resemble the numerals "1" and "0" respectively, and there should be no more than four identical letters or numerals placed side by side in a PVRM. These requirements aim to minimize possible confusion in reading PVRMs.

16. As explained at the Bills Committee meeting, for enforcement reasons we do not propose to relax the existing requirement on the size of the characters in a VRM plate for the purpose of PVRMs. According to information obtained from car dealers by TD, the majority (82.5%) of vehicle models designed to accommodate one-row VRM plates can accommodate an 8-character PVRM. 96.5% could accommodate a 7-character PVRM. The remaining 3.5% (covering 4 car models) could not even accommodate an existing 6-character VRM in one row. According to TD's record, there are only around 40 vehicles of these 4 car models in Hong Kong. According to TD's research, 12 overseas jurisdictions (provinces or states in Australia, Canada or USA)

allow PVRM-type VRMs with 8 or more characters, including spaces, without restriction.

17. We consider that allowing 8 characters will give vehicle owners more room for creativity and more choices. If their vehicles cannot accommodate an 8-character PVRM in a single row, vehicle owners are free to apply for or bid for a PVRM with fewer characters or one displayed in two rows. TD will endeavour to inform PVRM applicants of the requirements on the display of PVRMs. These requirements will be set out clearly in the law. TD will also promulgate them in the application forms, and will remind PVRM applicants to bear in mind the plate size of their vehicles so that they can make an informed decision before application or auction.

18. To allow more choice for vehicle owners and encourage creativity, we do not propose to require separate grouping for our PVRM. With the assistance of the Police, relevant Government departments and non-official members, TD will ensure that those PVRM applications which will likely be confusing for law enforcement or detrimental to road safety will not be approved as per the proposed vetting criteria.

Treasury Branch
Financial Services and the Treasury Bureau
June 2005

Financial Year	Auction proceeds from OVRM and SVRM				
	Marks Sold	Sale Proceeds	Average Price	Price Range	
				OVRM	SVRM
2000-01	3314 (2919 OVRM) (395 SVRM)	\$66,837,000 (\$25,159,000 OVRM) (\$41,678,000 SVRM)	\$20,168 (\$8,619 OVRM) (\$105,514 SVRM)	\$1,000 - \$410,000	\$4,000 - \$1,800,000
2001-02	3221 (2747 OVRM) (474 SVRM)	\$58,523,000 (\$22,496,000 OVRM) (\$36,027,000 SVRM)	\$18,169 (\$8,189 OVRM) (\$76,006 SVRM)	\$1,000 - \$540,000	\$4,000 - \$760,000
2002-03	4278 (3671 OVRM) (607 SVRM)	\$63,636,000 (\$28,565,000 OVRM) (\$35,071,000 SVRM)	\$14,875 (\$7,781 OVRM) (\$57,778 SVRM)	\$1,000 - \$270,000	\$2,000 - \$800,000
2003-04	5130 (4178 OVRM) (952 SVRM)	\$82,446,000 (\$27,144,000 OVRM) (\$55,302,000 SVRM)	\$16,071 (\$6,497 OVRM) (\$58,090 SVRM)	\$1,000 - \$200,000	\$3,000 - \$3,900,000
2004-05	3262 (2639 OVRM) (623 SVRM)	\$53,926,000 (\$17,434,000 OVRM) (\$36,492,000 SVRM)	\$16,532 (\$6,606 OVRM) (\$58,575 SVRM)	\$1,000 - \$220,000	\$3,000 - \$7,100,000