

立法會
Legislative Council

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Finance Committee of the Legislative Council

Minutes of the 36th meeting
held at Conference Room 1 of the Legislative Council Complex
on Friday, 5 July 2013, at 3:45 pm

Members present:

Hon Tommy CHEUNG Yu-yan, SBS, JP (Chairman)
Hon Emily LAU Wai-hing, JP (Deputy Chairman)
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon James TO Kun-sun
Hon CHAN Kam-lam, SBS, JP
Hon LEUNG Yiu-chung
Dr Hon LAU Wong-fat, GBM, GBS, JP
Hon TAM Yiu-chung, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon Frederick FUNG Kin-kee, SBS, JP
Hon Vincent FANG Kang, SBS, JP
Hon WONG Kwok-hing, MH
Dr Hon Joseph LEE Kok-long, SBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon Ronny TONG Ka-wah, SC
Hon Cyd HO Sau-lan
Hon Starry LEE Wai-king, JP
Dr Hon LAM Tai-fai, SBS, JP
Hon CHAN Kin-por, BBS, JP
Dr Hon Priscilla LEUNG Mei-fun, JP

Dr Hon LEUNG Ka-lau
Hon CHEUNG Kwok-che
Hon IP Kwok-him, GBS, JP
Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon Alan LEONG Kah-kit, SC
Hon Albert CHAN Wai-yip
Hon Claudia MO
Hon Michael TIEN Puk-sun, BBS, JP
Hon James TIEN Pei-chun, GBS, JP
Hon NG Leung-sing, SBS, JP
Hon Steven HO Chun-yin
Hon Frankie YICK Chi-ming
Hon WU Chi-wai, MH
Hon YIU Si-wing
Hon Gary FAN Kwok-wai
Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK
Hon CHAN Chi-chuen
Hon CHAN Han-pan
Dr Hon Kenneth CHAN Ka-lok
Hon CHAN Yuen-han, SBS, JP
Hon LEUNG Che-cheung, BBS, MH, JP
Hon Kenneth LEUNG
Hon Alice MAK Mei-kuen, JP
Dr Hon KWOK Ka-ki
Hon KWOK Wai-keung
Hon Dennis KWOK
Hon Christopher CHEUNG Wah-fung, JP
Dr Hon Fernando CHEUNG Chiu-hung
Hon SIN Chung-kai, SBS, JP
Dr Hon Helena WONG Pik-wan
Hon IP Kin-yuen
Dr Hon Elizabeth QUAT, JP
Hon Martin LIAO Cheung-kong, JP
Hon POON Siu-ping, BBS, MH
Hon TANG Ka-piu
Dr Hon CHIANG Lai-wan, JP
Ir Dr Hon LO Wai-kwok, BBS, MH, JP
Hon Christopher CHUNG Shu-kun, BBS, MH, JP
Hon Tony TSE Wai-chuen

Members absent:

Hon CHAN Hak-kan, JP
Hon WONG Kwok-kin, BBS
Hon LEUNG Kwok-hung
Hon WONG Yuk-man
Hon CHUNG Kwok-pan

Public officers attending:

Professor K C CHAN, GBS, JP	Secretary for Financial Services and the Treasury
Ms Elizabeth TSE Man-ye, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Ms Esther LEUNG, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 1
Ms Elsie YUEN	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Prof Anthony CHEUNG, GBS, JP	Secretary for Transport and Housing
Mr Joseph LAI Yee-tak, JP	Permanent Secretary for Transport and Housing (Transport)
Mr Andy CHAN Shui-fu	Deputy Secretary for Transport and Housing (Transport) 2
Mr Josiah TAU Chung-hong	Principal Assistant Secretary for Transport and Housing (Transport) Financial Review
Mrs Ingrid YEUNG HO Poi-yan, JP	Commissioner for Transport
Mr Albert SU Yau-on	Assistant Commissioner for Transport (Management and Paratransit)
Ms Christine LOH Kung-wai, JP	Under Secretary for the Environment
Mr Andrew LAI Chi-wah, JP	Deputy Director of Environmental Protection (3)
Mr Henry CHIN Chi-pang	Senior Environmental Protection Officer (Mobile Source) 4, Environmental Protection Department
Mr Kevin YEUNG Yun-hung, JP	Under Secretary for Education
Mrs Betty IP TSANG Chui-hing, JP	Deputy Secretary for Education (3)
Miss Hera CHUM Chui-chi	Principal Assistant Secretary for Education (Special Education and Kindergarten Education)

Clerk in attendance:

Mr Andy LAU

Assistant Secretary General 1

Staff in attendance:

Mr Derek LO

Chief Council Secretary (1)5

Mr Daniel SIN

Senior Council Secretary (1)7

Mr Ken WOO

Council Secretary (1)5

Mr Frankie WOO

Senior Legislative Assistant (1)3

Ms Christy YAU

Legislative Assistant (1)7

Item No. 1 – FCR(2013-14)25

**RECOMMENDATIONS OF THE PUBLIC WORKS
SUBCOMMITTEE MADE ON 5 AND 11 JUNE 2013**

The Chairman advised that the item sought the Committee's approval of the recommendations of the Public Works Subcommittee made at its meetings on 5 and 11 June 2013.

2. The Chairman put the item to vote. The Committee approved the funding proposal.

Item No. 2 – FCR(2013-14)26

HEAD 186 - TRANSPORT DEPARTMENT

Subhead 700 General non-recurrent

New Item "Provision of Special Helping Measures for the Six Major Outlying Island Ferry Routes"

3. The Chairman advised that the item sought the Committee's approval of the creation of a new commitment of \$190,359,000 for the continued provision of special helping measures (SHMs) for the six major outlying island ferry routes.

4. Secretary for Transport and Housing (STH) advised that it was the Government's established policy that public transport services should be run by the private sector in accordance with prudent commercial principles. The Government however considered it appropriate to subsidize the six major outlying island ferry routes as ferry services were basically the only means of transport for outlying islands. There was also a lack of growth in population

of the outlying islands and patronage of those ferry routes. Subsidizing their operations could also avoid increasing the fare substantially and ensure public affordability. The two incumbent operators had indicated interest in applying for extension of their existing ferry service licences for three years if the Government maintained the SHMs policy and offered appropriate upward adjustment of the financial caps for SHMs.

5. STH said that the Administration had consulted the Panel on Transport and was alive to the request made by some Panel members to study other long-term measures to address the perennial problem of financial viability of the outlying island ferry services. The Administration had explored the option of the Government funding the capital cost of vessel procurement and contracting out the services. However, the option would not obviate the need for the special helping measures now being proposed. On top, the option would incur an estimated capital cost of \$1.7 billion (in 2010 prices) along with other recurrent expenditure associated with the management and maintenance of the vessel fleet.

6. STH advised that the Administration was actively planning the construction of additional floors at Central Piers Nos. 4, 5 and 6 to help generate non-fare box revenue for the six ferry routes. This would serve as long-term sustained subsidies to the routes after 2017. The Administration was also actively following up the views expressed by members of the Public Works Subcommittee (PWSC) on the construction of additional floors at the piers, and would re-submit funding proposal in due course.

7. Mr CHAN Kam-lam, Chairman of the Panel on Transport, reported that the Panel discussed the proposal at its meeting on 24 May 2013. Panel members supported the proposal in principle. There was a request for the Administration to replace the reimbursement of vessel maintenance cost with provision of fuel subsidies to the ferry operators to enhance the public's monitoring on the use of the funding. Some members also urged the Administration to consider funding the capital cost of vessel procurement and contracting out the services. At the request of the Panel, the Administration had provided supplementary information on the actual expenses of the six major ferry routes on provision of child fare concessions in the first operating year between mid-2011 and mid-2012.

8. The Chairman instructed that the speaking time for the first round of questions on the item should be no more than four minutes, including the Administration's reply.

Possible fare increase in future

9. Mr LEE Cheuk-yan said that the Labour Party was not opposed to the proposal but it held the view that much could be done to address the perennial problem of financial viability of outlying island ferry services. Pointing out that ferry services were the only means of transport for some outlying islands, and that the high fares charged on holidays had impacted on the tourism and operation of commercial tenants of outlying islands, he opined that further fare increase should not be allowed with the proposed SHMs in place. Mr TANG Ka-piu expressed a similar view.

10. While saying that she could not oppose the proposal given the importance of ferry services to residents of outlying islands, Miss Alice MAK was keen to ensure that future fare increase applications, if any, would be fully justified. Mr LEE Cheuk-yan said that the public had lost confidence in the Government's role as a gate-keeper when handling fare increase applications in view of the unsatisfactory precedents.

11. Mr Frankie YICK opined that it was inappropriate to subsidize the costs of running some of the outlying island routes in the long term by public funding. He considered that a reasonable fare adjustment would be necessary if circumstances warranted.

12. STH explained that taking into account that ferry services were the only means of transport for some outlying islands, the Government had to ensure that such essential services could be provided to the residents. The proposal aimed to subsidize ferry services, the operation of which had been found to be financially unviable without Government's subsidy in a review conducted in 2010. It should however be noted that the subsidy did not mean to fully remove the risk involved in operating ferry business.

13. STH further remarked that, although the proposed SHMs aimed at stabilizing the fare, it would not undermine passengers' responsibility for shouldering the transport cost. Fare increase applications had to however be supported by strong and substantive justifications. The Government would consider factors such as the applicant's financial position, income and expenditure, and cost-saving measures in place when handling fare increase applications.

Proposed Special Helping Measures

14. Noting from the Administration's paper (FCR(2013-14)26) that the Government had been providing various measures to reduce the operating costs

of ferry services, Dr Helena WONG was concerned about the effectiveness of these measures since if they had been successful, the proposed SHMs would not be necessary. In this connection, she asked whether the funding to be sought under the proposal had covered the four helping measures listed under item (a) as detailed in Enclosure 4 to the Administration's paper. Pointing out that ferry services were essential for residents of outlying islands, she said that she had no choice but to support the proposal.

15. STH replied that the measures in the said Enclosure applied to all outlying island ferry routes, while the funding sought would only be used for provision of SHMs, as detailed in paragraph 11 of the Administration's paper, for the six major outlying island ferry routes. The Finance Committee (FC) approved a commitment of \$114,963,000 in 2010 for providing SHMs for the six major outlying island ferry routes during the three-year licence period starting from 2011 to alleviate the pressure of fare increases. The SHMs proposed under the current proposal, which covered the next licence period for the two incumbent operators from 2014 to 2017, were identical to those of the 2010 proposal in scope. The proposed SHMs were implemented through the reimbursement of actual expenses of designated items subject to financial caps. Based on the outcome of the mid-term review, the level of caps for expenses/revenue foregone of reimbursable items as well as the overall financial caps in the next three-year licence period were proposed to be adjusted upwards.

Providing subsidies to ferry passengers

16. Citing the current return tickets to Peng Chau were more than a hundred and ten dollars as an example, Mr LEUNG Che-cheung noted with concern that the fares for outlying island ferry routes were much more expensive on weekends and public holidays. He considered the approach to providing subsidies while allowing fare increase applications peculiar, as this would further deter patronage and hence the tourism development of the outlying islands.

17. STH responded that the proposed SHMs aimed at alleviating the burden of fare increase on passengers who lived on outlying islands not served by other modes of public transport apart from ferry. Subsidizing the ferry fare for the purpose of promoting tourism was not a priority under the proposal. Mr LEUNG Che-cheung was unconvinced of the Administration's reply. He asked why the cost for re-launching the "Visiting Scheme to Outlying Islands" was reimbursable under the proposed SHMs. STH explained that the visiting scheme was only a special measure implemented for a limited period.

18. Responding to Mr LEUNG Che-cheung's further enquiry on why the subsidies were not provided to passengers direct instead, STH advised that in providing subsidies to the ferry operators, the Administration aimed at stabilizing the fare and alleviating the burden of fare increase on passengers. Passengers could save the transport cost through the use of monthly passes.

19. Mr TAM Yiu-chung considered it inevitable to subsidize the operation of outlying island ferry services given its uniqueness, such as high fuel and maintenance costs and high manpower requirement as opposed to other means of public transport. He however queried the sustainability of the subsidy measures in light of the high pressure of fare increase in the future.

20. STH noted Mr TAM Yiu-chung's concern and advised that the proposal was important to maintaining the mobility of residents of outlying islands.

Profit target for operators

21. Noting the Administration's estimate that the amount to be reimbursed to the ferry operators would reach the ceiling of \$114,963,000 by the end of the current licence period, which would mean a profit margin of below 5% for the entire licence period, Mr Michael TIEN asked whether any profit margin exceeding 5% by the end of the next licence period would be deducted against the subsidies approved under the proposal. Mr TIEN said that the Government should set a profit target for the subsidized ferry operators and should stop subsidizing the operators whose profit reached the target. He further enquired whether the target would be based on the rate of return of assets or return on fare revenue. Pointing out that the support of the Legislative Council (LegCo) was required for applications for fare increase previously, Mr Albert HO shared Mr TIEN's concern on the lack of a profit target in subsidizing ferry operations.

22. STH advised that although a profit target was currently not imposed on the ferry operators, the Administration would conduct a mid-term review during the next three-year licence period to ensure that public money was appropriately used. Permanent Secretary for Transport and Housing (Transport) supplemented that as ferry operators would be required to submit quarterly management accounts to facilitate monitoring of its financial position, the Administration might consider measures other than the stoppage of subsidies, such as reducing the fare level, when the financial position of the operators was found to be very favourable. Mr Michael TIEN said that he was unconvinced of the Administration's explanation.

23. Pointing out that ferry services were the only means of transport for some outlying islands, Mr CHAN Han-pan considered it unfair to say that subsidizing the operation of outlying island ferry services was a waste of money. He opined that the provision of public infrastructure, such as the comprehensive networks of roads and bridges in various districts, were also a form of government subsidy. Dr KWOK Ka-ki considered it inappropriate to differentiate the current proposal and the Government's spending on infrastructural projects for new development areas by labelling the former as a "subsidy".

24. STH remarked that it was debatable as to whether Government's expenditure on road building was a form of subsidy. Since the provision of infrastructure would enhance the overall development potential and land value of a district, it could be seen from a different angle apart from being in itself a subsidy.

Suggestion on contracting out ferry services

25. Mr TANG Ka-piu declared that he was a member of the Islands District Council (IDC). While expressing support for the proposal, he was concerned that current ferry operators would use the purchase and operation of the vessel fleet as excuses to raise fares. He reiterated the suggestions made by IDC on Government purchasing the vessels and contracting out the services, as well as setting up a fuel stabilization fund.

26. STH responded that when formulating the proposal, the Administration had struck a balance between the existing policy of engaging the private sector to operate public transport services on commercial principles and the need to ensure that ferry services, which were essential to residents of outlying islands, were provided to the residents and the fares maintained at a stable level. The proposal of Government purchasing the vessels and contracting out the services was not pursued because it went against the established policy.

27. Mr LEE Cheuk-yan suggested that, as a matter of principle, the Government should fund the procurement of the vessels and engage private operators in the management services to control the fare level. He refuted the Administration's claim that the suggestion on contracting out ferry services was against the Government's established policy that public services should be run by the private sector. He pointed out that the mere act of providing subsidy under the present proposal in itself contradicted the above policy.

28. STH explained that the suggestion for the Government to purchase the vessels for contracting out the services was financially unviable. Operators of ferry services, be they public or private, would still face the same problem of operational deficit in running the services in view of the reduced patronage and increasing operating costs. Having balanced the policy for the private sector to run public transport services and the need to provide the services to residents of outlying islands, the Administration considered the present proposal of reimbursing the actual expenses of designated items subject to financial caps an appropriate way to assist the private sector in running ferry services.

29. Responding to the views of the Administration that it was not cost-effective for the Government to fund the capital cost of vessels procurement and contract out the services, Mr LEUNG Yiu-chung said he believed that the current proposal was even less cost-effective. It was because the subsidy could not completely remove the pressure of future fare increase. The high transport cost had caused the migration of population from outlying islands to urban districts. The expensive fare had deterred family members living in urban areas to reunite with their old families on the outlying islands during public holidays. Mr Frankie YICK said that he disagreed with Mr LEUNG's views, and pointed out that ferry services would best be operated by the private sector.

30. STH reiterated the rationale he highlighted in the opening remarks (see paragraph 5), pointing out that any contractors commissioned for the management services would still need the subsidy to make the operations financially viable. Addressing the further concern of Mr LEUNG Yiu-chung, STH advised that the Administration would consider carrying out another review in due course on the cost-effectiveness for the Government to fund the capital cost of vessels procurement and contract out the services.

Construction of additional floors at Central Piers Nos. 4, 5 and 6

31. Mr Frankie YICK declared that he was Managing Director of The "Star" Ferry Company, Limited. In view of the rising operation costs and the need to import engines and parts from overseas, he envisaged that the costs on operating ferry services would continue to rise. He urged the Government to introduce policies to sustain the long-term operations of ferry services and to expedite the proposal on the construction of additional floors at Central Piers Nos. 4, 5 and 6 which, in his own experience, would be conducive to the operators financing their business operations.

32. Dr Helena WONG queried the long time taken for the Administration to plan the construction of additional floors at the Central Piers. Expressing

similar concerns, Mr WONG Kwok-hing pointed out that discussions on outlying island ferry services as well as the construction of additional floors at the Central Piers had dragged on since the last Government term. He urged the Government of this term to display determination in resolving the issue.

33. STH advised that it was the Administration's plan to take forward the proposal as soon as practicable with a view to helping the generation of non-fare box revenue for the six ferry routes and hence reducing the need for government subsidies for their operations. Responding to Dr Helena WONG's further question on whether the construction of the additional floors would be completed within the next licence period, STH advised that the Administration would conduct a detailed assessment on the various parameters and planning for the proposal with a view to securing the support of PWSC at the earliest time possible.

34. Ms Emily LAU noted from the Administration's paper that the six major outlying island ferry routes could hardly benefit from the proposed construction of additional floors at the Central Piers during the next licence period from mid-2014 to mid-2017 due to a lack of support for the relevant funding proposal when it was discussed at the PWSC meeting held in June 2013. She criticized the Administration's late submission of the funding proposal and belief that the proposal would in any case be endorsed. She expressed dissatisfaction that the proposed SHMs would now be made necessary due to the lack of non-fare box revenue to be generated by the above construction project.

35. STH replied that the Administration would follow up members' suggestions made at the PWSC meeting and would seek support of PWSC once ready after the summer recess with a view to completing the works as soon as possible.

Review of outlying island ferry services and licence period

36. Pointing out that some outlying islands such as Lamma Island and Peng Chau were currently not served by road-based transport, Mr LEUNG Che-cheung urged the Administration to consider raising subsidies for the operation of ferry services for these islands.

37. Mr CHAN Han-pan said he believed that the patronage of ferry services for some outlying islands should have increased following the rapid development of the tourism industry in recent years. A reduction in patronage might be attributable to the Government's housing policy on these islands. Expressing a similar view, Ms Emily LAU, Mr WONG Kwok-hing and Dr

KWOK Ka-ki agreed that the high ferry fare had discouraged people from residing on outlying islands.

38. STH said that he recognized the development potential of outlying islands. The Administration would conduct housing and development planning for outlying islands as appropriate, and this would have a positive impact on the patronage of the outlying island ferry routes.

39. Mr CHAN Han-pan considered the current three-year licence period too short for the operators in that it might deter them from making long-term investments. He therefore requested the Administration to make available a timetable for its review on the ferry services with a view to creating an enabling environment for ferry operators. Expressing similar concerns, Miss Alice MAK considered extending the current three-year licence period and providing subsidy on fuel cost as more appropriate alternatives to fare increase. Mr WONG Kwok-hing opined that the licence period should be extended to six years to facilitate the development of ferry business.

40. STH advised that the Administration was open to the suggestion of extending the licence period. While the Government currently might extend the period of the licence for a period not exceeding three years each time, and all aggregate licence period not exceeding ten years, the Administration would follow up actively the suggestions made by the Panel on Transport on extending the length of the licence period for ferry operators with a view to facilitating their long-term planning and strategic investments. The Administration would review the policies on ferry operations in the next licence period and would actively explore means of generating non-fare box revenue for the six major outlying island ferry routes, with an emphasis on providing a long-term and sustained revenue base for the ferry operators.

41. Mr Albert HO said that discussions on measures to facilitate the operations of ferry services had long started since 1995 but little progress had been made over the years. Saying that members would have no way of opposing the current proposal as it would affect the livelihood of residents of outlying islands, he was of the view that the Government owed the residents a comprehensive policy in respect of the provision of ferry services and the setting of fare level.

42. Mr WONG Kwok-hing said that he could not oppose the proposal as it would affect the livelihood of residents of outlying islands. He however remarked that the support of the proposal would not get to the root of the problem, which was the absence of a long-term and visionary policy supporting the transport need of residents of outlying islands. Noting the Government's

enormous spending on developing the mass transit railway network, he was disappointed that the Administration had been turning a blind eye to the enhancement of outlying island ferry services.

43. Dr KWOK Ka-ki said that it was hard to oppose the proposal for it would increase the burden of fare increase on residents of outlying islands. He was however concerned that the proposal might not be useful to enhancing the quality of ferry services. Taking the reimbursement of vessel maintenance cost as proposed under SHMs as an example, he said that ferry operators might choose not to procure new vessels with better functions and safety standards as all maintenance costs could well be reimbursed. He suggested that the Government could, as in the case of the mass transit railway, become a major shareholder of the ferry service operators. This in his view would be conducive to improving the performance of the operators, such as enhancing environmental and working standards, the deployment of new vessels for services, and maintaining fare stability.

44. STH reiterated that outlying island ferry services, be they operated by the public or private sector, would still need to face the problem of loss-making operation and hence the issue of addressing its financial sustainability.

45. Ms Emily LAU opined that ferry services could help alleviate congestions on roads and could also be a means of environmentally friendly transport if clean fuel was used. She held the view that the Government should take advantage of the harbour and promote clean sea transport. She urged the Administration to expedite the review on ferry services which in her view had dragged on for years. STH undertook to consider the suggestion on better utilizing the harbour for public transport during the review on the ferry services.

Overall planning of marine transport

46. Dr Priscilla LEUNG expressed support for the proposal and pointed out that the provision of ferry services was not an attractive business from the commercial angle. Referring to the motion passed unanimously by the Panel on Transport in the last LegCo term which urged the Administration to support the sustained operations of existing and decommissioned routes, she criticized the Administration for lacking a macro view in developing marine transport services. She urged the Administration to take heed of public's views on harbourfront planning and sea cruise, and engage in discussion with the Harbourfront Commission on protecting the survival of ferry operators. Expressing similar views, Dr Helena WONG urged the Transport and Housing Bureau (THB) to conduct a review on the provision of ferry services in

collaboration with the Development Bureau with a view to tapping the advantage of the beautiful Victoria Harbour.

47. The Chairman instructed that the speaking time for the second round of questions on the item should be no more than two minutes, including the Administration's reply.

48. The Chairman advised that broad policy issues such as those raised by Dr Priscilla LEUNG should be pursued by the Panel on Transport. In response to Dr Priscilla LEUNG's further question on whether inter-departmental coordination was in place for the overall planning on marine transport development, STH advised that THB was taking up the matter.

Other concerns

49. Mr TAM Yiu-chung relayed the concerns of Cheung Chau residents about the current mechanism for busier routes to subsidize less busy routes. He also urged the Administration to tackle the problem of an increased number of elderly travelling during peak hours subsequent to the provision of elderly fare concessions under the "\$2 per trip" scheme.

50. STH advised that the Administration was aware of the impact posed by the increased number of elderly travelling during peak hours on the working population of the outlying islands. It would discuss with the ferry operators to see if anything could be done to improve the situation.

51. Mr TANG Ka-piu said that the Administration could have shown more respect to IDC. Earlier on, it presented only a brief, three-page consultation document to IDC on the proposal.

52. Commissioner for Transport, Transport Department advised that the Administration had reported to IDC the outcome of the mid-term review at its meeting held in April 2013. The Administration had undertaken to report to IDC the progress in taking forward the proposal in due course should it be approved by FC.

53. Pointing out that the Traffic Accident Victims Assistance (TAVA) Scheme only provided financial assistance to victims of road traffic accidents, Miss Alice MAK urged the Administration to extend the coverage of the TAVA Scheme to marine accidents.

54. STH advised that the Marine Department was in the process of discussing with the trade extending the coverage of the TAVA Scheme to marine accidents.

55. The Chairman put the item to vote. The Committee approved the funding proposal.

Item No. 3 – FCR(2013-14)27

HEAD 44 – ENVIRONMENTAL PROTECTION DEPARTMENT

Subhead 700 General non-recurrent

New Item "Retrofitting Franchised Buses with Selective Catalytic Reduction Devices"

56. The Chairman advised that the item sought the Committee's approval of the creation of a new commitment of \$400 million for funding the capital costs of retrofitting selective catalytic reduction (SCR) devices on Euro II and III franchised buses in Hong Kong.

57. Ms Cyd HO, Chairman of the Panel on Environmental Affairs, reported that the Panel discussed the proposal at its meeting held on 14 June 2013. Panel members in general supported the proposal and considered that it would help improve roadside air quality. Some members were concerned about the adequacy of the maintenance of retrofitted SCR devices on normal bus operations. They requested the Administration to put in place an appropriate mechanism to monitor the installation of the devices and maintenance of the retrofitted franchised buses. Some members were also concerned about the cost implications of the retrofitting programme and its impact on bus fares. Noting that the retrofit programme would be fully funded by the Government and the fact that franchised bus companies had made considerable profits, these members were of the view that the franchised bus companies should, under the "user pays" principle, bear the additional costs incurred under the programme and the costs for maintenance without reflecting them in the bus fares. Expressing concern about the high cost of the retrofit programme which would amount to \$400 million, a member was opposed to the proposal and considered that there might be more cost-effective alternatives on improving roadside air quality.

Identification of bus models for the retrofit programme

58. Mr Frankie YICK noted that only some 1 400 buses were selected for retrofitting the SCR devices. He said from his understanding that the total number of buses was far more than this number, and asked why not all the buses

owned by the franchised bus companies were retrofitted with the device. Noting further that the retrofitted Euro II and III buses would be deployed to routes serving the pilot low emission zones, he was concerned whether the some 1 400 buses proposed to be retrofitted was sufficient to meet the operational need.

59. Deputy Director of Environmental Protection (3) (DDEP(3)) advised that after discounting those buses with a remaining service life less than two years and bus models that were not technically feasible for retrofit or with a relatively small number, i.e. below 100 buses for each model, the Administration had identified six bus models suitable for the large-scale retrofit, involving a total of some 1 400 buses. The franchised bus companies would deploy the retrofitted Euro II and III buses together with new Euro V buses to routes serving the pilot low emission zones in three districts to help meet the target of having only low emission franchised buses operating there by end 2015. To this end, the Administration needed to raise the emission performance of Euro II and III buses to make them comparable to that of Euro IV buses. Together with some 3 000 buses scheduled for replacement in the next five years under the bus replacement programme, there should be sufficient buses serving the pilot low emission zones by end 2015.

60. Dr KWOK Ka-ki expressed support for the proposal. Noting that The Kowloon Motor Bus Company (1933) Limited (KMB), Citybus Limited (CTB), New World First Bus Services Limited (NWFB) and Long Win Bus Company Limited (LW) were the participating franchised bus companies of the retrofit programme, he enquired the reason for the absence of the New Lantao Bus Co. (1973) Limited (NLB) in the programme.

61. DDEP(3) responded that the retrofit programme was open to all franchised bus companies. The estimated number of buses selected for the SCR retrofit were 1 103 buses for KMB, 18 buses for CTB, 254 buses for NWFB, and nine buses for LW. NLB was not included in the programme because its bus fleet did not meet the required technical and fleet size considerations.

62. Dr KWOK Ka-ki was unconvinced of the Administration's explanation. He pointed out that it was unfair to exclude NLB for reason of small fleet size, as he noted that the estimated number of buses selected for the SCR retrofit for LW was only nine. He opined that it was inappropriate to make the fleet size of the franchised bus companies a main factor to consider under the broad policy direction to reduce vehicle emissions. He urged the Administration to include NLB into the retrofit programme with a view to reducing vehicle emissions also on Lantau Island.

63. DDEP(3) advised that of the 108 buses owned by NLB, 69 were Euro II and III buses. The Administration would focus on retrofitting bus models with larger numbers in order to economize the cost on taking forward the proposal and to expedite the retrofitting programme.

Other concerns

64. Dr KWOK Ka-ki asked whether the proposal was a one-off measure. DDEP(3) replied that the proposal would be a one-off measure as franchised bus companies were currently required to purchase buses with an emission standard at Euro V or even higher in any procurement exercises, meaning that the environmental performance and emission standards would be much better than the existing Euro II and III buses.

65. In response to Mr Kenneth LEUNG's question on whether all Euro II and III buses would have been retired and replaced by Euro V and VI buses by the end of the service lives of the SCR devices, DDEP(3) advised that some 1 400 buses had been identified for the retrofit programme and their remaining service lives ranged from two to eight years after retrofit while the expected life of the filters of SCR could be about five to six years. Hence, some 130 buses might require another round of SCR filter replacement as their remaining service lives were six years or more.

66. Mr Kenneth LEUNG enquired the reduction in emission levels of respirable suspended particulates (RSP) and nitrogen dioxide to be brought about by the proposal.

67. DDEP(3) advised that RSP and nitrogen oxides were the key air pollutants from vehicles. All franchised bus companies had already retrofitted Euro II and III buses, where technically feasible, with diesel particulate filters. As regards nitrogen oxides, since buses of Euro III and earlier models were not equipped with devices to reduce nitrogen oxides emissions, the proposed retrofitting of SCR devices would reduce the emissions of nitrogen oxides by at least 60%. The proposal was a one-off measure having regard to the fact that Euro IV and above bus models had already been equipped with built-in devices to reduce the emissions of RSP and nitrogen oxides.

68. Dr KWOK Ka-ki asked whether the proposal would result in a reduction in the operating costs of the participating franchised bus companies, and if so, whether this would be a factor for consideration in reducing the level of future fare increase.

69. DDEP(3) explained that the Government would only fund the capital costs of retrofitting SCR devices. The franchised bus companies would have to absorb the costs of urea consumption and extra fuel as well as the maintenance costs as part of their operating costs. However, since these would account for only about 0.1% to 0.2% of their annual operating costs, the impact of the proposal on fare increase should be insignificant.

70. The Chairman put the item to vote. The Committee approved the funding proposal.

Item No. 4 – FCR(2013-14)30

HEAD 156 – GOVERNMENT SECRETARIAT :

EDUCATION BUREAU

Subhead 700 General non-recurrent

New Item "One-off School Development Grant for Kindergartens under the Pre-primary Education Voucher Scheme"

71. The Chairman advised that the item sought the Committee's approval of the creation of a new commitment of \$165.5 million for the provision of a one-off cash grant to kindergartens under the Pre-primary Education Voucher Scheme (PEVS).

72. Dr LAM Tai-fai, Chairman of the Panel on Education, reported that the Panel discussed the proposal at its meeting held on 10 June 2013. Panel members supported the proposal. There was however concern whether the grant, which would be capped at \$250,000 per kindergarten, was sufficient for improving school premises, facilities and learning resources, and for alleviating the pressure on kindergartens to charge high school fees and miscellaneous fees. Noting that kindergartens provided with the grant could spend the amount over a period of three years, there were views that the Administration should require these kindergartens to enhance the transparency of their financial reports so as to ensure the proper use of the grant. The Administration advised that the income and expenditure of these kindergartens should be recorded under a separate ledger account and properly reflected in their audited accounts submitted to the Education Bureau (EDB). The Panel was also gravely concerned that the grant would serve as a form of delaying tactic for not taking forward the implementation of free kindergarten education expeditiously in the next three years or so. The Administration explained that the grant to kindergartens and the implementation of free kindergarten education were two separate issues. The three-year period as proposed was to provide flexibility for kindergartens to deploy the funding to meet their needs.

73. The Chairman instructed that the speaking time for the first round of questions on the item should be not more than five minutes, including the Administration's reply.

Discussions on the provision of 15-year free education

74. Dr Helena WONG said that the education sector and parents had long urged the Government to comprehensively subsidize the operations of kindergartens. She expressed support for the proposal, but commented that the proposal was only a piecemeal measure and did not resolve the fundamental issues associated with the operations of kindergartens at all. Pointing out that the Government had set up a committee to examine the feasibility of the provision of 15-year free education, she enquired when the study results would be available. Mr IP Kin-yuen echoed Dr WONG's concerns and urged the Administration to expedite the relevant study.

75. Mr TAM Yiu-chung expressed support for the current proposal and any other future proposals which sought to enhance the education system. He opined that while the implementation of 15-year free education could not be taken forward shortly.

76. Dr LAM Tai-fai said that EDB had set up the Committee on Free Kindergarten Education (the Committee) in April 2013 to examine the various issues relating to the provision of free kindergarten education and make specific and practicable proposals to the Government. The Panel on Education would hold a meeting on 9 July 2013 to discuss the progress of work of the Committee. He remarked that, as the Chairman of the Panel himself, he had repeatedly pointed out to Panel members that discussion on the provision of 15-year free education was totally unrelated to the current funding proposal, which sought the provision of a one-off cash grant to kindergartens under PEVS.

77. The Chairman commented that the concern about 15-year free education deviated from the proposal and he invited the Administration to give a brief response. Under Secretary for Education (US(Ed)) advised that the target of the Administration was to make specific proposals on how to practicably implement free kindergarten education within two years for implementation as soon as practicable.

Government's support for kindergartens-cum-child care centres

78. Noting that the proposed cash grant was only applicable to kindergartens which provided education to children aged from three to below six, Mr IP Kin-yuen expressed concern about the lack of assistance to

whole-day kindergartens-cum-child care centres, which also provided childcare services to children below three years of age.

79. US(Ed) advised that all kindergartens operating under PEVS, irrespective of their mode of operation, would be covered by the proposal and eligible for the grant. As for the case of whole-day kindergartens-cum-child care centres, the child care centres would also benefit indirectly from the proposal due to the financial support received by kindergartens on improving the facilities.

80. Mr IP Kin-yuen remained unconvinced. He pointed out that the proposed grant included a basic grant and an additional grant and the latter was calculated according to the number of pupils enrolled in each kindergarten. As such, children below three years of age would not be considered as "eligible pupil" and would be excluded from the calculation of the additional grant.

81. The Chairman opined that Mr IP Kin-yuen's concern on the assistance to kindergartens-cum-child care centres was outside the scope of the current funding proposal. He suggested that Mr IP should pursue the matter at the relevant meetings of the Panel on Education.

Monitoring the use of the cash grant

82. Dr Priscilla LEUNG relayed the grave concerns expressed by Kowloon City District Council about the collection of miscellaneous fees by kindergartens. She said that her voting decision would hinge on how well a monitoring mechanism would be in place to ensure that the grant received would be fully invested in improving teaching and learning, and whether there was a mechanism for declaration should the grant be spent on products/services provided by an organization affiliated to the kindergartens.

83. US(Ed) advised that kindergartens would be required to account for the use of the grant separately. The income and expenditure should be recorded under a separate ledger account and properly reflected in their audited accounts submitted to EDB. Kindergartens would also be required to draw up a set of procedures on employment, procurement and competitive bidding that were in line with the guidelines issued by EDB. In line with the Government's procurement procedures, kindergartens receiving the grant should make proper declarations if the grant would be spent on products or services provided by an affiliated organization.

84. In response to Mr Frankie YICK's question on stipulating the use of the grant, US(Ed) advised that subject to the funding approval of FC, the

Administration would provide to the kindergartens comprehensive guidelines on the use of the funding and the reporting required in August 2013.

85. The Chairman instructed that the speaking time for the second round of questions on the item should be not more than two minutes, including the Administration's reply.

86. Mr IP Kin-yuen pointed out that he had expressed support for the proposal when it was discussed at the relevant meeting of the Panel on Education. He was however disappointed that EDB had not accorded the education need for children aged below three an appropriate attention, resulting in a lack of support for those kindergartens-cum-child care centres. He expressed dissatisfaction and urged the Social Welfare Department and EDB to better coordinate with a view to more effectively addressing the education needs of these children.

87. Dr Priscilla LEUNG noted with concern about the unreasonably high price charged by some kindergartens on its facilities and services. She urged the Administration to introduce the relevant price indexes which in her view would facilitate the monitoring on the use of the grant. US(Ed) reiterated that the Administration would keep an eye on the relevant accounts and would inspect into doubtful cases.

88. The Chairman put the item to vote. The Committee approved the funding proposal.

89. The meeting was adjourned at 5:28 pm.