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24 September 2018

Ms Anita SIT
Clerk to Finance Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Fax no.: 2869 6794)

Dear Ms SIT,

**Legislative Council Finance Committee
Follow-up item arising from the meeting on 2 February 2018**

At the Legislative Council Finance Committee meeting on 2 February 2018, Members requested the Government to provide supplementary information on the Public Transport Fare Subsidy Scheme (the Scheme) (FCR (2017-18)55). Our reply is set out as follows.

Subsidy collection arrangement

When designing the Scheme, we have explored with the Octopus Cards Limited (OCL) and relevant operators the feasibility of allowing the commuters to collect subsidy automatically via the Octopus readers at the ticket gates or at the entrance or exit of the public transport. However, the proposal has not been adopted owing to actual operation considerations.

To provide fast and convenient services to customers, the Octopus system is currently operated in offline mode. All Octopus transactions (including automatic add-value) involve only data transmission between the Octopus cards and the Octopus readers without connecting to the network. Therefore, if we have to provide the automatic subsidy collection service via the Octopus readers at the ticket gates or at the entrance or exit of the public transport, the Octopus readers need to first download data files related to the subsidy (e.g. Octopus numbers and subsidy amounts) from the Octopus central server each month before the Octopus numbers can be verified for entitlement to subsidy when the commuters tap their cards and

that the subsidy amounts can then be credited to the corresponding Octopus cards.

In this connection, as far as we understand from the OCL, the MTR Corporation Limited and the franchised bus operators, since it is anticipated that more than 2.2 million Octopus cards may receive subsidy each month, the hardware currently used by the relevant operators (including the Octopus readers at the ticket gates of MTR and on franchised buses) does not have enough memory space for storage and processing of the data files related to the subsidy. Significant hardware and administrative costs will be involved if the hardware equipment of the operators would be enhanced to facilitate subsidy collection. Besides, the installation and testing work involved cannot tie in with the target of implementing the Scheme within one year after funding has been approved.

In addition, Octopus readers on the public transport need to process the fare calculation under different concessionary schemes within a very short period of time. If subsidy collection function is added, the Octopus readers will require longer time to process and verify each Octopus card to see whether it is entitled to the subsidy. This will substantially extend the time required for completing the transactions, thus hindering the daily operation of public transport. In view of the fact that the electronic payment systems of public transport need to deal with the huge passenger flow during peak hours while maintaining smooth operation, we consider such an arrangement is undesirable.

We consider that the subsidy collection arrangement should facilitate the commuters as far as practicable. Upon the implementation of the Scheme, commuters can collect the subsidy amount of the previous month (if any) through the Octopus App, around 50 Octopus Service Points, and by tapping their Octopus cards on the dedicated Octopus readers set up at 94 MTR stations across the territory and five Light Rail Customer Service Centres, as well as the Octopus readers of designated convenience stores/supermarket's outlets (around 1 600 in total). The subsidy will be credited to the Octopus cards. After the implementation of the Scheme, we will review whether it is necessary to provide more locations to facilitate commuters collecting the subsidy, taking into account the actual situation.

Additional manpower required under the Scheme

Given the enormous scale of the Scheme and a great deal of administrative work involved, the Transport Department (TD) needs to create 15 non-directorate civil service posts (including 13 permanent and two time-limited posts) to assist in implementing the Scheme and monitoring measures as early as possible, and monitoring the operation of the Scheme upon implementation as well as reviewing the Scheme in a timely manner.

During the implementation stage of the Scheme, the TD needs to maintain close communication with the public transport operators and the OCL, examine

whether relevant systems, hardware and software and operational processes could meet the Government's requirements, and monitor the implementation progress of the Scheme to ensure its early implementation within one year upon funding approval. The TD also needs to implement a series of monitoring measures to ensure that public funds are properly accounted for and the risks of abuse are minimised as far as possible. These measures include establishing a set of audit and assurance standards with the public transport operators covered by the Scheme to strengthen the internal control system, examining reports prepared by independent auditors and submitted by the operators to the Government before the commencement of the Scheme, etc. For non-franchised buses providing residents' services and employees' services, red minibuses and Kaitos, given the vast number of operators involved (around 950), apart from explaining the operational requirements under the Scheme to the operators, it also takes time for the TD to approve the applications submitted by operators who are interested in joining the Scheme.

Upon commencement of the Scheme, the TD will also implement corresponding monitoring measures, including conducting regular transport surveys to gather operational data and passenger statistics, verifying the operational data submitted by the public transport operators, examining reports prepared by independent auditors and submitted by the operators annually, reviewing the data and reports submitted by the OCL, etc. Among these, abnormal transactions will also be examined. Any suspected fraudulent or illegal cases will be referred to the Police for follow-up action. If an individual operator is found not complying with the prescribed operational requirements, depending on the nature and extent of non-compliance, the TD might issue warning letters to the operator or even suspend its participation in the Scheme temporarily or permanently.

Upon one year after the implementation of the Scheme, the Government will commence a review of the Scheme to examine its operation and effectiveness, the impact on the travelling pattern of commuters and the overall strategic arrangement of public transport services as well as its financial implications.

The TD has critically examined the possibility of redeploying existing officers of the Public Transport Fare Concession Scheme Section (PTFCSS) under the Ferry and Paratransit Division to take up the above-mentioned work. The incumbents of the PTFCSS are already fully engaged in their respective work schedules, including monitoring the implementation of the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (Concession Scheme), processing refunds to the reimbursement-based accounts of the relevant public transport operators, and implementing a series of monitoring measures so as to ensure smooth operation of the Concession Scheme and prudent use of public funds, as well as prevention of abuse. Therefore, it is operationally not feasible for them to take up the implementation, monitoring and review of the Scheme without adversely affecting the discharge of their current

duties.

Participation of other new electronic payment systems in the Scheme

In view of that the Scheme should be simple, easy to understand and operate without bringing much inconvenience to commuters during implementation and the fact that, at present, commuters generally use Octopus cards instead of other electronic payment systems for paying expenses of the public transport services, we consider that it is more appropriate to implement the Scheme through the existing system of the Octopus at the current stage.

We understand that with the advent of new technologies, different electronic payment systems have become increasingly common in Hong Kong. The Government welcomes the public transport sector to introduce new electronic payment systems for fare collection, provided that the payment systems are reliable, user-friendly and efficient and would not cause disruption to the operation of public transport and the road or traffic conditions. To this end, the TD issued the “Guidelines on the introduction of a new electronic payment system for the collection of fares in the public transport sector” in June 2017 for the trade’s reference. If the public transport trade introduces any new electronic payment system for fare collection in accordance with the guidelines in future, the Government will keep an open-mind in exploring the feasibility of the participation of the new electronic payment system in the Scheme having regard to the prevailing situation circumstances then. Meanwhile, the contractual agreement on the Scheme to be entered into between the Government and the OCL will retain certain flexibility to ensure that the OCL will accede to government’s requirements in future to allow the participation of other appropriate electronic payment systems in the Scheme as the market develops while ensuring the smooth operation of the Scheme at the same time.

Yours sincerely,



(Angus WAT)

for Secretary for Transport and Housing

c.c.:

Commissioner for Transport (Attn: Ms Stella LEE)