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Panel on Transport

Meeting on 14 December 2018

**Background brief on
Public Transport Fare Subsidy Scheme**

Purpose

This paper provides background information on Public Transport Fare Subsidy Scheme ("the Scheme") and summarizes the major views and concerns expressed by members when the subject was discussed by the Panel on Transport ("the Panel").

Background

Objective of the Scheme

2. Public transport services are closely related to the daily life of the general public. According to the Administration¹, over 12 million passenger trips are made through public transport services every day. Public transport fare is an integral part of the daily living expenses of the general public, which could be a heavier burden to some of the commuters. The Administration proposed in the 2017 Policy Address to introduce a non-means tested scheme to relieve the fare burden of the long distance grassroots commuters.

3. Under the Scheme, the Administration will provide fare subsidy, to an extent, for commuters if the related expenses exceed a specified level. The Administration proposes setting the specified level of monthly public transport expenses at \$400. The Administration will provide a subsidy amounting to 25% of the actual public transport expenses in excess of this level, subject to a maximum of \$300 per month. The proposed subsidy arrangement and level have taken into account the policy objective to relieve the fare burden of

¹ Source: Paragraph 22 of the Administration's paper submitted to the Finance Committee ("FC") in January 2018 (LC Paper No. FCR (2017-18)55)

commuters who relatively spend more on public transport for daily commuting, without imposing any severe impact on the travelling patterns of commuters which may in turn affect the resource allocation of public transport services and aggravate the burden on the public transport system.

Coverage of the Scheme

4. On 20 October 2017, the Administration briefed the Panel on the preliminary proposal of the Scheme and listened to members' view. The Administration initially proposed that the Scheme should cover Mass Transit Railway ("MTR"), franchised buses, green minibuses, ferries and trams. Having noted the views requesting the Administration to cover other public transport services in order to benefit more commuters, the Administration subsequently proposed to expand the Scheme to cover non-franchised buses providing residents' services ("RS") and employees' services ("ES"), red minibuses ("RMBs") as well as Kaitos, on the condition that the operators concerned agreed to comply with some prescribed operational requirements. The Administration further consulted the Panel on the latest proposal of the Scheme, including its coverage and operational arrangements, at the Panel meeting held on 9 January 2018.

Detailed Arrangements

5. Under the Scheme, the fares of the public transport services mentioned above paid by means of Octopus cards and the expenses on monthly/day passes of these public transport services purchased by any payment means will be taken into account in the calculation of the monthly public transport expenses.

6. According to the Administration², from a specific date of each month, commuters can collect the public transport fare subsidy of the previous month through the Octopus App, at some 50 Octopus Service Points or by tapping their Octopus cards on the dedicated Octopus readers set up at 93 MTR stations and five Light Rail Customer Service Centres. The subsidy will then be automatically credited to the Octopus cards. To allow sufficient time for commuters, the subsidy is valid for collection within three months. Besides, the Government has been actively discussing with large convenience stores/supermarkets to enable commuters to collect subsidy by Octopus cards at their outlets. Two chained convenience stores and one large supermarket have indicated their willingness to provide subsidy collection services, involving a total of 1 600 outlets.

² Source: Paragraph 5 of the Administration's paper submitted to FC in January 2018 (LC Paper No. FCR (2017-18)55)

Financial implications and implementation timetable

7. Additional staff are required to ensure that the Scheme can be rolled out and operated smoothly and to process the applications submitted by RS, ES, RMBs and Kaito operators for joining the Scheme and implement monitoring measures.

8. The financial proposal on the new item "Developing a new system to process subsidy amount, modifying relevant software and hardware and installing dedicated readers for subsidy collection and registration of expenses on monthly/day passes for implementing the Public Transport Fare Subsidy Scheme" (LC Paper No. FCR (2017-18)55) was discussed and approved by the FC at the meeting held on 2 February 2018. The proposal to create 15 non-directorate civil service posts for implementing the Scheme was also approved.

9. As for the subsidy amount, the estimated annual subsidy will be around \$2.3 billion and over 2.2 million commuters will benefit from the Scheme. If the Scheme is to be implemented in the first quarter of 2019, the subsidy amount in 2018-2019 will be around \$575 million. This amount does not include the additional annual recurrent expenditure of \$69 million and non-recurrent expenditure of \$69.85 million incurred by the Scheme. The breakdown of the required recurrent and non-recurrent expenditure and cash flow requirements are set out at **Appendix I**.

10. Under the Scheme, the Administration will implement a series of monitoring measures³ to ensure that public funds are properly accounted for and risks of abuse are minimized as far as possible. The Administration will also review the Scheme upon its implementation to examine its effectiveness and impact on the travelling pattern of commuters, the overall strategic arrangement of public transport services, as well as its financial implications. The review was expected to commence around a year upon the Scheme's implementation.

Discussions of the Panel

11. The major concerns and views expressed by Panel members and the Administration's responses are summarized in the ensuing paragraphs.

³ The Administration has briefed the Panel on the proposed risk-based monitoring measures, including the initial proposal of the prescribed operational requirements and monitoring measures for RS, ES, RMBs and Kaitos. The details are set out in paragraphs 11-14 of the Administration's paper submitted to the Panel in January 2018 (LC Paper No. CB(4)360/17-18(01)).

Subsidy level of the Scheme

12. At the meetings held on 20 October 2017 and 9 January 2018, members suggested the Administration to consider lowering the public transport expense threshold of \$400 and raising the maximum amount of subsidy per person per month. A member opined that subsidy should be provided for commuters who spent over \$10 daily on public transport, and the member therefore asked the Administration to consider lowering the monthly threshold to \$300.

13. The Administration advised that the Administration's policy objective of introducing the Scheme was to relieve the fare burden of commuters who travelled on local transport services for daily commuting and whose public transport expenses were relatively high, for instance, commuters who resided in remote areas. Having regard to the policy objective mentioned above, the monthly threshold of \$400 was considered appropriate. The Administration would closely monitor the operation of the Scheme upon its implementation, including the collection of data related to the Scheme, analysis on the travelling pattern of commuters and investigation of abuse cases, if any.

Coverage of the Scheme

14. At the meeting held on 9 January 2018, members welcomed the Administration's proposal of expanding the Scheme to cover more public transport services, in particular the non-franchised buses providing RS and RMBs. Some members urged the Administration to review the coverage of the Scheme with a view to including the "five groups (six routes)"⁴. A member pointed out that there were currently around 50,000 commuters using the coach services of the "five groups (six routes)" daily. The majority of these commuters were Hong Kong residents who had to travel to the Mainland daily for work or study. The member further pointed out that the "five groups (six routes)" were operating on fixed-schedule under the regulation of the Transport Department ("TD") and that Octopus payment system had been installed on the coaches providing the services of these routes. In light of the above, the member opined that it was unfair to exclude the "five groups (six routes)" from the Scheme while MTR trips to and from Lo Wu or Lok Ma Chau were covered.

15. Members noted that the Administration had decided not to cover the above mentioned routes having regard to the Administration's policy to confine the scope of the Scheme to public transport services running within the

⁴ Five groups (six routes) refers to the cross-boundary coach services plying between the Huanggang Control Point and various parts of Hong Kong which included Mong Kok, Kwun Tong, Wan Chai, Tsuen Wan.

boundary of Hong Kong. Any cross-boundary services, including the coach services operating via Huanggang (which was outside the boundary of Hong Kong) would not be covered by the Scheme. The Administration explained that since Lo Wu and Lok Ma Chau stations were within the boundary of Hong Kong and thus MTR trips to and from these two stations would be covered under the Scheme.

16. When discussing the coverage of the Scheme, members also expressed views and concern about the regulation of RMB operation, in particular fare regulation. A member suggested the Administration to set a cap for the fare of each RMB trip, say fare in excess of \$20 or \$25 would not be covered by the Scheme. The Administration undertook to review the monitoring measures as appropriate in response to members' request and discuss with the RMB operators on the relevant details.

Financial implications and implementation timetable

17. At the meeting held on 9 January 2018, members raised questions on the implementation timetable and the reason why no means tests would be applied to the Scheme. In reply, the Administration advised that while introducing means test to the Scheme would have its own merits, it would inevitably increase the administrative costs and would cause inconvenience to the public. The Administration further explained that the main consideration when designing the Scheme was to make it simple, easy to understand and operate so that the Scheme could be rolled out as soon as possible to benefit the commuters. Moreover, commuters would not have to apply for subsidy under the Scheme and that the collection of subsidy would be simple. Measures would also be introduced to minimize the risks of abuse, for example, the Administration would analyze the usage data under the Scheme and follow-up on abuse cases, if any.

18. At the meeting on 23 February 2018, during the discussion of staffing proposals in the TD, a member enquired about the manpower resources required for implementing the Scheme. Members were advised that in February 2018, FC had approved the creation of 15 non-directorate civil service posts for implementing the Scheme. Incumbents of these posts would help ensure that the Scheme could be rolled out and operated smoothly; process the applications for joining the Scheme submitted by RS, ES, RMB and Kaito operators; and implement the monitoring measures.

Concerns about parallel traders benefiting from the Scheme

19. A member suggested the Administration to consider mandating the entitlement to subsidy by each commuter under one designated Personalised

Octopus card only to avoid abuse by parallel traders. Members also pointed out that each commuter could apply for subsidy by using several Octopus cards. A member also requested the Administration to provide statistics on the number of Octopus cards with more than two daily trips to and from Lo Wu or Lok Ma Chau stations before and after the implementation of the Scheme for comparison so as to ascertain the impact of the Scheme on the travelling pattern of commuters.

20. Noting members' concern about the prudent use of public money, the Administration advised that even if it was assumed that the actual public transport expenses of parallel traders were the highest among all, the number of Octopus card users with monthly public transport expenses exceeding \$2000 was still minimal, i.e. around 3000 cards. Moreover, the subsidy was subject to a maximum of \$300 per month and hence, the maximum amount of monthly subsidy for the above mentioned 3000 card holders would only be \$900,000. Therefore, the Administration took the view that additional restrictions should not be imposed to exclude a small group of people, as any additional restrictions would complicate the operation of the Scheme and unnecessarily increase the administrative cost while creating inconvenience to the majority of the beneficiaries.

Electronic payment system

21. Members noted that the latest estimated administrative fee to be charged by Octopus Cards Limited ("OCL") (including other third-party service providers entrusted by OCL) in relation to the implementation of the Scheme would be around 1% of the subsidy amount. The above mentioned administrative fee would cover, among others, data analysis and regular submission of reports by OCL to the Administration for monitoring purpose.

22. Having noted that the cost for system development and procurement and installation of Octopus readers had been included in the budget, some members expressed that any cost incurred for hardware development should be borne by OCL, not to mention that an administrative fee would also be charged.

23. The Administration responded that the proposed hardware development, including installation of dedicated Octopus readers in MTR stations and modification of the system at convenience stores/supermarkets, mainly aimed at facilitating the commuters to collect subsidy. The Administration explained that separate budget was prepared for recurrent expenditure (which included the administrative fee for data analysis and submission of exceptional reports by OCL for monitoring purpose) and non-recurrent expenditure (which included the one-off cost for system development/modification and installation of Octopus readers) so as to distinguish the nature of the items clearly. The Administration would endeavour to lower the administrative cost as far as possible.

24. Members noted that the collection of subsidy through the services provided by OCL would be convenient for commuters. However, a member was of the view that OCL had been monopolizing the electronic payment market in Hong Kong. Some members urged the Administration to open up the electronic payment market and to explore means to provide more diversified electronic payment platforms under the Scheme. A member also requested the Administration to seek advice from the Competition Commission on the issues related to the participation of other electronic payment systems in the Scheme.

25. The Administration explained that Octopus system was the most appropriate choice to implement the Scheme in view of the prevailing habit of commuters for using Octopus cards to pay transport expenses. OCL had been providing reliable and convenient services for commuters which was an important factor in implementing the Scheme. The Administration would keep an open mind in exploring the feasibility of the participation of other new electronic payment systems in the Scheme having regard to prevailing circumstances in the future. Advice from the Competition Commission would be sought in this regard as appropriate.

Latest position

26. The Administration will brief members on the operational details of the Scheme at the Panel meeting to be held on 14 December 2018.

Relevant papers

27. A list of relevant papers is in **Appendix II**.

Recurrent Expenditure and Non-recurrent Expenditure of the Public Transport Fare Subsidy Scheme

Recurrent Expenditure

The Public Transport Fare Subsidy Scheme (“the Scheme”) will incur additional manpower and administrative cost. To commence the preparatory work as soon as possible, the Transport Department (“TD”) will require additional staff cost of \$2.16 million in 2017-18 for the creation of 15 non-directorate civil service posts (i.e. 13 permanent and 2 time-limited) for implementing the Scheme¹. They will have to ensure that the Scheme can be rolled out and operated smoothly, process the applications submitted by residents’ service, employee’s service, red minibus and Kaito operators for joining the Scheme, and implement monitoring measures.

2. We estimate that the Scheme will require recurrent expenditure of around \$45 million in 2018-19 for manpower and administrative cost (e.g. expenditure required for conducting transport surveys, auditing fee of systems of internal control, service fee for subsidy calculation and collection, relevant system operating and maintenance fee, etc.). From 2019-20 onwards, the full year recurrent expenditure will be around \$69 million which will also include the manpower and administrative cost mentioned above.

Non-recurrent Expenditure

3. The Scheme will require non-recurrent expenditure of \$69.85 million. The detailed breakdown is as follows –

	\$'000
(a) Develop a new system to calculate, distribute and settle subsidy amount	30,000

¹ TD proposes to increase the ceiling placed on the total notional annual mid-point salary value of non-directorate posts in the permanent establishment of TD in 2017-18 from \$810,144,000 by \$12,667,380 to \$822,811,380 to create 15 non-directorate civil service posts.

(b)	Modify the systems of relevant public transport operators, and convenience stores/supermarkets	12,500
(c)	Procurement and installation of Octopus readers	21,000
(d)	Contingency (10% of item (a)-(c) above)	6,350
Total		69,850

4. On paragraph 3(a) above, the estimated expenditure of \$30 million is for the development cost of a new system to calculate, distribute and settle the monthly subsidy amount of each Octopus card.

5. On paragraph 3(b) above, the estimated expenditure of \$12.5 million is for system modification cost of relevant public transport operators and convenience stores/supermarkets to support the Scheme.

6. On paragraph 3(c) above, the estimated expenditure of \$21 million is for procurement and installation cost of the Octopus readers to enable commuters to collect subsidy and link up the expenses on monthly/day passes with the Octopus card records.

7. On paragraph 3(d) above, the estimated expenditure of \$6.35 million represents a 10% contingency on item (a)-(c) set out in paragraph 3.

8. The estimated cash flow requirement is as follows –

Financial Year	\$'000
2017-18	34,000
2018-19	35,850
Total	69,850

9. We will submit the relevant funding proposal for 2017-18 for the Finance Committee of the Legislative Council's approval. Other required funding will be reflected in the Estimates of relevant years.

Public Transport Fare Subsidy Scheme

List of relevant papers

Date	Meeting/Event	References
20 October 2017	Panel on Transport	<u>Administration's paper</u> <u>Minutes</u>
9 January 2018		<u>Administration's paper</u> <u>Minutes</u>
2 February 2018	Finance Committee	<u>Administration's paper</u> <u>Finance Committee (Results)</u>
23 February 2018	Panel on Transport	<u>Administration's paper</u> <u>Minutes</u>