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Panel on Transport

Meeting on 21 May 2021

Updated background brief on Public Transport Fare Subsidy Scheme

Purpose

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

Background

Details of PTFSS

2. The Government proposed in the 2017 Policy Address to introduce a non-means tested PTFSS to relieve the fare burden of commuters travelling on local public transport services for daily commuting and whose public transport expenses are relatively high. In the first year of the implementation of PTFSS, commuters with public transport expenses exceeding \$400 were eligible for the fare subsidy. The Government provided subsidy amounting to 25% of the actual public transport expenses in excess of \$400, subject to a maximum of \$300 per month.

3. PTFSS covers the Mass Transit Railway ("MTR"), franchised buses, green minibuses, ferries and trams, as well as designated routes of red minibuses ("RMBs"), Kaitos, non-franchised buses ("NFBs") providing residents' services ("RS") and employees' services ("ES") approved by the Transport Department ("TD"). Operators of RS, ES, RMBs and Kaitos are required to apply to TD and comply with the prescribed operational requirements and monitoring measures before they can join the PTFSS, including installation of the Octopus payment system, submitting operational data regularly and uploading transaction records in a timely manner.

4. The subsidy amount of each month will be calculated on the basis of actual monthly public transport expenses recorded on each Octopus. Commuters may collect the subsidy on and after the 16th of each month for the previous month. For collection of subsidy, commuters just need to tap their Octopus at the designated subsidy collection channels¹. The subsidy is valid for collection within three months. Under PTFSS, commuters can continue to benefit from various public transport fare concession schemes provided by the Government and public transport operators.

Implementation and financial arrangements of PTFSS

5. The Finance Committee of the Legislative Council approved the funding application for the implementation of PTFSS in February 2018. A non-recurrent expenditure of \$69.85 million was approved for 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 passes². PTFSS has been implemented since January 2019.

6. Under PTFSS, 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 enhancement of PTFSS

7. To further alleviate commuters' fare burden arising from increasing public transport expenses, the Administration proposed in the 2019 Policy Address to increase the subsidy rate of PTFSS from one-fourth to one-third of public transport expenses in excess of \$400 and raise the subsidy cap from \$300 to \$400 per month effective from 1 January 2020.

¹ According to the information provided by the Administration in January 2020, the channels include the Subsidy Collection Points installed at 94 MTR stations, 5 light rail customer service centres, designated ferry piers and designated public transport interchanges, and also outlets of 7-Eleven, Circle-K and Wellcome supermarket. In addition, commuters may collect the subsidy by tapping their Octopus through the Octopus App or at 50 Octopus Service Points located at designated MTR stations and shopping malls.

² Apart from the non-recurrent expenditure, a recurrent expenditure was also approved for increasing the ceiling placed on the total notional annual mid-point salary value of non-directorate posts in the permanent establishment of TD in 2017-2018 from \$810,144,000 by \$12,667,380 to \$822,811,380 for the creation of 15 non-directorate civil service posts for implementing the PTFSS.

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)).

Latest development

8. To allow more commuters to benefit from PTFSS during the epidemic, the Government has implemented a special measure to temporarily relax the monthly threshold of PTFSS from \$400 to \$200 from 1 July 2020 to 30 June 2021. The Government has decided to extend the aforementioned special measure for another six months till 31 December 2021, and temporarily increase the monthly subsidy cap of PTFSS from \$400 to \$500 from 1 April to 31 December 2021. In other words, during the period from 1 April to 31 December 2021, the Government will provide a subsidy amounting to one-third of the actual public transport expenses in excess of \$200, subject to a maximum of \$500 per month for each Octopus.

Discussions of the Panel

9. The Administration briefed the Panel on PTFSS at the meetings on 20 October 2017, 9 January 2018, 14 December 2018 and 17 January 2020. The major views expressed by Panel members and the Administration's responses are summarized in the ensuing paragraphs.

Coverage of the Scheme

10. Pointing out that many commuters were residing in remote areas outside the coverage of railway and/or franchised bus services, some members called on the Administration to further review the coverage of PTFSS with a view to including as many as possible routes of RMBs and NFBs providing RS and ES. Noting that the overall participation of NFB operators running RS and ES as well as RMB operators were on the low side, members enquired about ways to encourage their participation in PTFSS so that more passengers could benefit. Members also urged the Administration to speed up the vetting process for applications submitted by these operators in joining PTFSS.

11. The Administration explained that TD would actively follow-up with operators of RS, ES and RMB for their joining of PTFSS. However, ES, RS and RMB operators had to go through certain application procedures and to comply with prescribed operation requirements if they wished to join PTFSS. For instance, applications made by ES and RS operators had to be substantiated by service contracts signed with representatives of the employers and the management/residents/owners of the residential development respectively and that the applications for joining PTFSS had to be supported by the respective representatives. Also, operators would have to install Octopus payment system, submit operational data regularly and upload transaction records in a timely manner. The Administration assured members that the application process was relatively simple, and that manpower had been deployed to provide assistance for interested operators to submit their applications with a view to

speeding up the vetting process as far as practicable. As regards RMBs, the Administration had been taking measures to encourage them to join the Scheme and would provide technical assistance on matters relating to the installation of Octopus payment system.

12. Some members urged the Administration to include the "five groups (six routes)"⁴ under PTFSS as there were currently around 50,000 commuters using such coach services daily. As the majority of these commuters were Hong Kong residents who had to travel to the Mainland daily for work or study, members opined that it was unfair to exclude the "five groups (six routes)" from PTFSS while MTR trips to and from Lo Wu or Lok Ma Chau were covered.

13. The Administration explained that the above mentioned routes were not covered in PTFSS having regard to the Administration's policy to confine the scope of the Scheme to public transport services running within the boundary of Hong Kong. Since Lo Wu and Lok Ma Chau stations were within the boundary of Hong Kong, trips to and from these two stations would be covered under PTFSS. As far as coach service was concerned, it was observed that there was no significant shift of passenger from coach service to MTR service since the launch of PTFSS. However, the Administration would keep in view relevant statistics and monitor the situation closely.

Subsidy collection arrangement

14. Some members opined that it took too long for commuters to collect the subsidy of the previous month and urged the Administration to shorten the processing time so as to advance the date for subsidy collection. Another member also called upon the Administration to explore extending the period for collecting the subsidy from three months to at least 12 months.

15. In response to members' suggestion, the Administration said that it was necessary for uploading the operational data to the database of Octopus system by public transport operators and that verification of information and calculation of subsidy would take time. As the Octopus system was not operating in a "real-time" mode and downloading of relevant data to the devices of various subsidy collection channels would take time, the Administration considered the proposed timeframe for subsidy collection appropriate. In addition, having considered the capability of the system in storing such huge amount of data, it was appropriate to set the subsidy collection period to be within three months.

Concerns about parallel traders benefiting from the Scheme

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.

16. Members suggested the Administration considering mandating the entitlement to subsidy by each commuter under one designated Personalized Octopus card only to avoid abuse by parallel traders. Despite the number of Octopus users with average monthly public transport expenses exceeding \$2,000 was few, some members pointed out that these traders might use more than one Octopus card to evade the Administration's monitoring. They urged the Administration to formulate effective measures to prevent their abuse of PTFSS.

17. Noting members' concern about the prudent use of public money, the Administration advised that it would be difficult for the Administration to distinguish parallel traders solely on the basis of their commuting patterns or actual public transport expenses. 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 \$2,000 was relatively low based on the actual statistics for the first year of the implementation of PTFSS. Despite a marginal increase in the number of this group of users in 2019, they still constituted an insignificant percentage of the total number of active Octopus users or the total number of beneficiaries of the Scheme. 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. The Administration would closely monitor the operation of PFTSS and undertake to review around a year after its implementation to examine its various aspects.

Electronic payment system

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

19. 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 would endeavour to lower the administrative cost as far as possible.

20. 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.

21. 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. The Administration would keep an open mind in exploring the feasibility of the participation of other new electronic payment systems having regard to prevailing circumstances in the future. Advice from the Competition Commission would be sought in this regard as appropriate.

Motions

22. At the meeting on 14 December 2018, the Panel passed three motions relating to the implementation of PTFSS. Wordings of the three motions and the Administration's response to the motions are in **Appendices I and II** respectively.

Latest position

23. The Administration will brief members on the progress of implementation as well as the review outcome of the operational arrangements of PTFSS at the meeting on 21 May 2021.

Relevant papers

24. A list of relevant papers is in **Appendix III**.

**Three motions passed at the meeting on 14 December 2018 under
"Implementation of the Public Transport Fare Subsidy Scheme"**

Motion 1

"In respect of improving the payment facilities on public light buses operating on non-scheduled routes (red minibuses ("RMBs")), this Panel urges the Government to:

- (1) provide incentives such as financial assistance to assist RMB owners to install Octopus card processors in view that the Government will introduce a non-means tested Public Transport Fare Subsidy Scheme next year to provide fare subsidy to commuters who use Octopus cards to travel on designated modes of public transport, including RMBs, but most RMBs are currently not equipped with Octopus card processors, rendering their passengers unable to benefit from the Scheme;
- (2) extend the application of the \$2 concessionary fare enjoyed by the elderly to RMBs when all or most RMBs are installed with Octopus card processors; and
- (3) establish a mechanism for investigating and following up complaints and conduct regular inspection to see if Octopus card processors on RMBs have been abused, and step up publicity against such abuse."

Moved by : Dr Hon CHIANG Lai-wan and Hon CHAN Han-pan

Motion 2

"As the current eligibility threshold for the Public Transport Fare Subsidy Scheme ("Scheme") is high with the percentage and maximum amount of subsidy being set, rendering short-haul and medium-haul commuters unable to benefit much from the Scheme, I call upon the Government to enhance the Scheme by lowering the monthly public transport expense threshold for commuters to \$300 or below, and raising the percentage of

subsidy to 33% or more and increasing the maximum amount of subsidy with a view to benefitting more commuters."

Moved by : Hon LUK Chung-hung

Motion 3

"As the Administration has stated in its paper that if commuters fail to collect the public transport fare subsidy within a period of three months, they cannot claim the subsidy after that period, and such arrangement may render some commuters who have forgotten to collect the subsidy unable to do so, this Panel requests that the Administration should study the extension of the period for collecting the public transport fare subsidy to 12 months so as to enable more commuters who might have forgotten to collect the subsidy within 3 months to collect the relevant subsidy."

Moved by : Hon CHAN Chi-chuen

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1 April 2019

[English translation for reference only]

Secretary General
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn.: Ms. Sophie LAU)
[Fax no.: 2840 0716]

Dear Ms. LAU,

**Motions passed at the meeting
of Panel on Transport on 14 December**

Thank you for your letter dated 18 December to the Secretary for Transport and Housing regarding the captioned subject. Our reply is set out below.

The non-means tested Public Transport Fare Subsidy Scheme (“the Scheme”) has been implemented on 1 January 2019 to relieve the fare burden of the commuters who travel on local public transport services for daily commuting and whose public transport expenses are relatively high.

Under the Scheme, commuters with public transport expenses exceeding \$400 are eligible for the public transport fare subsidy. The Government will provide subsidy amounting to 25% of the actual public transport expenses in excess of \$400, subject to a maximum of \$300 per month. Besides, commuters can also continue to benefit from various public transport fare concession schemes provided by the Government and public transport operators. For the first month of the Scheme’s implementation (i.e. January 2019), based on the actual public transport expenses of commuters, the Government handed out a total subsidy of around \$186 million, involving

over 2.3 million of beneficiaries. Around 90% of the beneficiaries can collect a subsidy equal to or below \$200, and around 10% can collect a subsidy over \$200. Among the beneficiaries collecting over \$200 of subsidy, approximately 20% can collect \$300. The amount of the subsidy for February which has been handed out from 16 March 2019 onwards is around \$120 million, involving over 1.9 million of beneficiaries.

The Scheme covers the Mass Transit Railway, franchised buses, green minibuses (“GMBs”), ferries and trams, as well as designated routes of red minibuses (“RMBs”), Kaitos, non-franchised buses providing residents’ services (“RS”) and employees’ services (“ES”) approved by the Transport Department (“TD”).

As regards RS, ES, RMBs and Kaitos, their operation modes are relatively flexible and their fares do not require TD’s approval. Hence, while these four public transport services are covered by the Scheme, the Government must adopt risk-based monitoring measures to suitably manage the risks and minimise abuses of the Scheme as far as possible.

Operators of these services who are interested in joining the Scheme must observe the basic requirements, including being the Passenger Service Licence/the Ferry Service Licence holders with business registration, installing the Octopus payment system on the vehicles, registering with TD the information of the routes participating in the Scheme, etc., followed by submitting an application to TD. The operators must also comply with a set of prescribed operational requirements, including displaying clear signage of the Scheme at a conspicuous location of the vehicles/vessels, submitting operational data regularly, uploading transaction records of the Octopus payment system in a timely manner, submitting assurance reports on systems of internal control punctually, etc.

TD will implement corresponding monitoring measures, including conducting regular transport surveys to gather operational information and passenger statistics of relevant services, verifying the reports submitted by public transport operators and examining the relevant records of the Scheme submitted by the Octopus Cards Limited. Abnormal transactions are under TD’s inspection. Any suspected fraudulent or illegal cases will be referred to the Police for follow-up actions. If an individual operator is found not complying with the prescribed operational requirements, depending on the nature and the extent of the non-compliance, TD might issue warning letters to the operator or even suspend its participation in the Scheme temporarily or permanently.

For the above four modes of public transport services, the Government

welcomes and encourages the operators to join the Scheme. TD has been maintaining close communication with the operators of these four modes of public transport services in answering their enquiries and providing them with assistance for joining the Scheme. TD will also continue to accept and process applications from the operators of these four modes of public transport services for allowing the relevant operators to join the Scheme as soon as possible. As previously mentioned, operators of RS, ES, RMBs and Kaitos joining the Scheme must first observe the basic requirements, which include installing the Octopus payment system on the vehicles. Currently, the Octopus payment system is installed by the operators at their own costs. Nevertheless, the Octopus Cards Limited has been offering special concessions to operators which apply for joining the Scheme for the first time and use the Octopus payment system. They can procure the Octopus processors and other relevant devices and services at discounted prices. In addition, if the operators choose the rental option of Octopus processors, the Octopus Cards Limited has also offered the rent free concession for the first year.

The Government will closely monitor the operation of the Scheme. We will commence the first review of the Scheme around a year after the Scheme's implementation to examine its effectiveness, impacts on the travelling patterns of commuters and the overall strategic arrangement of public transport services, as well as its financial implications having regard to actual data.

The Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (“\$2 Concession Scheme”) falls within the policy portfolio of the Labour and Welfare Bureau (“LWB”). LWB is conducting a review of the \$2 Concession Scheme. The review will take into account the views of members of the public.

Yours sincerely,
[signed]
(Anson WAN)
for Secretary for Transport and Housing

**Updated background brief on
Public Transport Fare Subsidy Scheme**

List of relevant papers

Date	Meeting/Event	References
20 October 2017	Panel on Transport	<p><u>Administration's paper</u> CB(4)54/17-18(03) https://www.legco.gov.hk/yr17-18/english/panels/tp/papers/tp20171020cb4-54-3-e.pdf</p> <p><u>Minutes</u> CB(4)417/17-18 https://www.legco.gov.hk/yr17-18/english/panels/tp/minutes/tp20171020.pdf</p>
9 January 2018		<p><u>Administration's paper</u> CB(4)360/17-18(01) https://www.legco.gov.hk/yr17-18/english/panels/tp/papers/tpcb4-360-1-e.pdf</p> <p><u>Minutes</u> CB(4)1562/17-18 https://www.legco.gov.hk/yr17-18/english/panels/tp/minutes/tp20180109.pdf</p>
2 February 2018	Finance Committee	<p><u>Administration's paper</u> FCR(2017-18)55 https://www.legco.gov.hk/yr17-18/english/fc/fc/papers/f17-55e.pdf</p> <p><u>Minutes</u> FC75/18-19 https://www.legco.gov.hk/yr17-18/english/fc/fc/minutes/fc20180202.pdf</p>

23 February 2018	Panel on Transport	<p><u>Administration's paper</u> CB(4)613/17-18(05) https://www.legco.gov.hk/yr17-18/english/panels/tp/papers/tp20180223cb4-613-5-e.pdf</p> <p><u>Minutes</u> CB(4)180/18-19 https://www.legco.gov.hk/yr17-18/english/panels/tp/minutes/tp20180223.pdf</p>
14 December 2018		<p><u>Administration's paper</u> CB(4)288/18-19(03) https://www.legco.gov.hk/yr18-19/english/panels/tp/papers/tp20181214cb4-288-3-e.pdf</p> <p><u>Minutes</u> CB(4)1186/18-19 https://www.legco.gov.hk/yr18-19/english/panels/tp/minutes/tp20181214.pdf</p>
17 January 2020		<p><u>Administration's paper</u> CB(4)245/19-20(04) https://www.legco.gov.hk/yr19-20/english/panels/tp/papers/tp20200117cb4-245-4-e.pdf</p> <p><u>Minutes</u> CB(4)849/19-20 https://www.legco.gov.hk/yr19-20/english/panels/tp/minutes/tp20200117.pdf</p>