

ITEM FOR FINANCE COMMITTEE

HEAD 186 – TRANSPORT DEPARTMENT

Subhead 000 Operational expenses

Subhead 700 General non-recurrent

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”

Members are invited to approve –

- (a) a new non-recurrent commitment of \$69.85 million under Head 186 Transport Department Subhead 700 General non-recurrent 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 passes for implementing the Public Transport Fare Subsidy Scheme; and
- (b) an increase in the ceiling placed on the total notional annual mid-point salary value of non-directorate posts in the permanent establishment of Transport Department in 2017-18 from \$810,144,000 by \$12,667,380 to \$822,811,380 for the creation of 15 non-directorate civil service posts (including 13 permanent and two time-limited posts) for implementing the Public Transport Fare Subsidy Scheme.

/PROBLEM

PROBLEM

We need to implement the Public Transport Fare Subsidy Scheme (the Scheme) to relieve the fare burden of commuters who travel on local public transport services (including Mass Transit Railway (MTR), franchised buses, public light buses (PLBs), ferries, trams, Kaitos and non-franchised buses (NFBs) providing residents' services (RS) and employee's services (ES)) for daily commuting and whose related expenses are relatively high.

PROPOSAL

2. The Commissioner for Transport (C for T) proposes creating a non-recurrent commitment of \$69.85 million in 2017-18 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 passes. In addition, C for T proposes increasing the ceiling placed on the total notional annual mid-point salary (NAMS) value of all non-directorate posts in the permanent establishment of the Transport Department (TD) in 2017-18 by \$12,667,380 to enable the creation of a total of 15 non-directorate civil service posts (including 13 permanent and two time-limited posts) for undertaking the preparatory work for implementing the Scheme. The Secretary for Transport and Housing supports the above proposals.

JUSTIFICATION**Objective of the Scheme**

3. The Government proposed in the 2017 Policy Address to introduce a non-means tested scheme to relieve the public transport fare burden of the commuters. Under the Scheme, the Government will provide fare subsidy, to an extent, for commuters if the related expenses exceed a specified level. We propose setting the specified level of monthly public transport expenses at \$400. The Government 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 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. The public transport services covered under the Scheme include MTR, franchised buses, PLBs (including green minibuses (GMBs) and red minibuses (RMBs)), ferries, trams, Kaitos, and NFBs providing RS and ES.

/Detailed

Detailed Arrangements

4. Under the Scheme, the fares of the public transport services mentioned above 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.

5. 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.

6. At this stage, we consider that the Scheme should be simple, easy to understand and operate without bringing much inconvenience to commuters during implementation. Since commuters generally use Octopus cards instead of other electronic payment technology for paying expenses of the public transport services mentioned above, we are of the view that it is more appropriate to implement the Scheme through the existing system of the Octopus. The Government all along welcomes the public transport sector to introduce new electronic payment technology or 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, TD issued the relevant guidelines in June 2017. 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 prevailing circumstances then.

Risk-based Monitoring Measures

7. Under the Scheme, the Government will implement a series of monitoring measures to ensure that public funds are properly accounted for and risks of abuse are minimised as far as possible. TD will work with all public transport operators covered by the Scheme to establish a set of audit and assurance standards to strengthen control. The public transport operators will be required to

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submit to the Government reports prepared by independent auditors in accordance with the standards issued by the Hong Kong Institute of Certified Public Accountants before the commencement of the Scheme and annually thereafter. TD will also regularly examine the records and reports submitted by the public transport operators and Octopus Cards Limited. If suspected cases are identified, TD will refer them to the Police for follow-up action.

8. For RS, ES, RMBs and Kaitos, their mode of operation is relatively flexible and their fares do not require TD's approval. Hence, while these four public transport services are covered by the Scheme, TD must adopt risk-based monitoring measures to suitably manage the risks and minimise abuses of the Scheme as far as possible, without compromising the existing regulatory regime. We propose that operators of the above four public transport services who are interested in joining the Scheme in future must fulfill the basic requirements (e.g. an operator must be a legal person holding a business registration, sign a contract with TD and install Octopus payment system) before submitting their applications to TD. They must also undertake to comply with the prescribed operational requirements, including submitting operational data regularly and transaction records in the Octopus payment system in a timely manner, etc. In addition, TD will implement corresponding monitoring measures, including conducting regular transport surveys to gather operational data and passenger statistics, verifying the operational data submitted by the operators and checking the transaction records in Octopus payment system, etc. If an individual operator is found not complying with the prescribed operational requirements, depending on the nature and extent of non-compliance, TD might issue warning letters to the operator or even suspend its participation in the Scheme temporarily or permanently.

Preparation and Implementation Timetable

9. Implementing the Scheme requires substantial preparatory work and involves various service providers. Preparatory work includes developing a new system to calculate, distribute and settle subsidy amount, modifying relevant software and hardware, installing dedicated Octopus readers, etc. TD will also need to examine whether relevant systems and facilities could meet the Government's requirements and approve applications submitted by RS, ES, RMBs, and Kaito operators who are interested in joining the Scheme. Hence, we anticipate that it will take a year (i.e. by the first quarter of 2019) to implement the Scheme after obtaining funding approval for the proposals in this paper. Upon the implementation of the Scheme, the Government will review the Scheme 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. We expect to commence the review around a year upon the Scheme's implementation.

/FINANCIAL

FINANCIAL IMPLICATIONS

Recurrent Expenditure

10. To commence the preparatory work as soon as possible, TD needs to create 15 non-directorate civil service posts (including 13 permanent and two time-limited posts) from 2017-18 for implementing the Scheme. The additional staff are required to ensure that the Scheme can be rolled out and operated smoothly, to process the applications submitted by RS, ES, RMBs and Kaito operators for joining the Scheme and implement monitoring measures. To meet this need, C for T proposes increasing the ceiling placed on the total NAMS value of all non-directorate posts in the permanent establishment of TD in 2017-18 from \$810,144,000 by \$12,667,380 to \$822,811,380. If Members approve the proposal, the Financial Services and the Treasury Bureau will, under delegated authority, include a supplementary provision of \$2.16 million in Head 186 TD under Subhead 000 in 2017-18 for meeting the additional staff cost mentioned above.

11. If the Scheme can be implemented in the first quarter of 2019, we estimate that the required recurrent expenditure in 2018-19 will be around \$45 million which will cover manpower and administrative cost (e.g. expenditure required for conducting transport surveys, auditing fee of internal control systems, 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.

12. For the subsidy amount, the Government estimates that the annual subsidy will be around \$2.3 billion and over 2.2 million Octopus card holders will benefit from the Scheme. If the Scheme can be implemented in the first quarter of 2019, the subsidy amount in 2018-19 will be around \$575 million.

13. The annual recurrent expenditure for the Scheme in 2018-19 and beyond will be reflected in the Estimates of the respective years.

Non-recurrent Expenditure

14. As mentioned in paragraph 9 above, implementing the Scheme requires developing a new system to calculate, distribute and settle subsidy amount, modifying relevant software and hardware and installing dedicated Octopus readers. C for T therefore proposes creating a non-recurrent commitment of \$69.85 million to cover the expenses of the above work. The cost breakdown is as follows –

/(a)

	(\$'000)
(a) Development of a new system to calculate, distribute and settle subsidy amount	30,000
(b) Modification of 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 items (a) to (c) above)	6,350
Total	69,850

15. On paragraph 14(a) above, the estimated expenditure of \$30 million is for the development of a new system to calculate, distribute and settle the monthly subsidy amount of each Octopus card.

16. On paragraph 14(b) above, the estimated expenditure of \$12.5 million is for system modification of relevant public transport operators and convenience stores/supermarkets to support the Scheme.

17. On paragraph 14(c) above, the estimated expenditure of \$21 million is for procurement and installation of the Octopus readers to enable commuters to collect subsidy and link up the expenses on monthly/day passes with the Octopus card records.

18. On paragraph 14(d) above, the estimated expenditure of \$6.35 million represents a 10% contingency on items (a) to (c) set out in paragraph 14 above.

19. The estimated cash flow requirements are as follows –

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

/PUBLIC

PUBLIC CONSULTATION

20. The Government proposed in the 2017 Policy Address to introduce the Scheme to relieve the fare burden of the commuters. The Government initially proposed that the Scheme should cover MTR, franchised buses, GMBs, ferries and trams. On 20 October 2017, the Government briefed the Legislative Council Panel on Transport (Transport Panel) on the preliminary proposal of the Scheme and listened to Members' views. The Government also noted the views of the public and public transport trades on the proposed Scheme. Overall speaking, the public welcome the introduction of the Scheme and consider that the Scheme could relieve their fare burden. However, we note that there are views to request the Government to expand the Scheme to cover RS and RMBs, in order to benefit commuters who travel on these two public transport services frequently.

21. Having regard to the policy objective of introducing the Scheme and views of various stakeholders, the Government has decided to expand the Scheme to cover RS, ES, RMBs and Kaitos on the condition that operators of these public transport services will undertake to comply with the prescribed operational requirements. We consulted the Transport Panel on the latest proposal for the Scheme on 9 January 2018 and Members generally supported it. The Transport Panel supported the submission of the proposal to the Finance Committee so that preparatory work for the Scheme can commence as soon as possible.

BACKGROUND

22. Public transport services are closely related to the daily life of the public. Every day, over 12 million passenger trips are made through public transport services. The Government proposed in the 2017 Policy Address to introduce a non-means tested scheme to relieve the fare burden of the commuters.

23. In principle, the Scheme can cover all relevant public transport services, viz. MTR, franchised buses, GMBs, RMBs, ferries, trams, RS, ES and Kaitos upon implementation. For RS, ES, RMBs and Kaito, operators will be subject to the operational requirements mentioned in paragraph 8 above and have to meet the basic requirements before submitting their applications to TD. Depending on the timing of their applications and whether they can provide adequate and accurate information, we expect that the Scheme may not cover all operators at the initial stage of implementation. Some of these operators may join the Scheme by phases, while some others may not apply for joining the Scheme having regard to various considerations.