

**立法會**  
**Legislative Council**

LC Paper No. CB(1)208/00-01  
(These minutes have been seen  
by the Administration)

Ref : CB1/PL/TP/1

**Legislative Council**  
**Panel on Transport**

**Minutes of Meeting held on**  
**Friday, 27 October 2000, at 10:45 am**  
**in Conference Room A of the Legislative Council Building**

**Members present** : Hon Mrs Miriam LAU Kin-yee, JP (Chairman)  
Hon Abraham SHEK Lai-him, JP (Deputy Chairman)  
Ir Dr Hon Raymond HO Chung-tai, JP  
Hon CHAN Kwok-keung  
Hon Andrew WONG Wang-fat, JP  
Hon LAU Chin-shek, JP  
Hon LAU Kong-wah  
Hon Andrew CHENG Kar-foo  
Dr Hon TANG Siu-tong, JP  
Hon Tommy CHEUNG Yu-yan, JP  
Hon Albert CHAN Wai-yip  
Hon WONG Sing-chi  
Hon LAU Ping-cheung

**Members absent** : Hon David CHU Yu-lin  
Hon Albert HO Chun-yan  
Hon Mrs Selina CHOW LIANG Shuk-yee, JP  
Hon TAM Yiu-chung, GBS, JP

**Public officers** : **Agenda Item IV**  
**attending**

Transport Bureau

Mr Nicholas NG Wing-fui  
Secretary for Transport  
Mr Patrick HO

Principal Assistant Secretary for Transport (1)

Ms Rhoda CHAN  
Chief Treasury Accountant (Transport)

Transport Department

Mr Robert FOOTMAN  
Commissioner for Transport

Ms Zina WONG  
Assistant Commissioner for Transport/  
Bus Development

Ms Carolina YIP  
Principal Transport Officer/Bus Development

**Agenda Item V**

Transport Bureau

Miss Margaret FONG  
Deputy Secretary for Transport (3)

Mr Brian LO  
Principal Assistant Secretary for Transport (2)

Transport Department

Mr Robert FOOTMAN  
Commissioner for Transport

Mr Thomas THUMB  
Assistant Commissioner for Transport/  
Technical Services

Hong Kong Police Force

Mr William TANG  
Chief Superintendent, Traffic

**Clerk in attendance :** Mr Andy LAU  
Chief Assistant Secretary (1)2

**Staff in attendance** : Ms Alice AU  
Senior Assistant Secretary (1)5

---

Action

**I Confirmation of minutes and matters arising**

(LC Paper No. CB(1)97/00-01 - Minutes of meeting held on 10 October 2000)

The minutes of meeting held on 10 October 2000 were confirmed.

**II Information papers issued since last meeting**

(LC Paper No. CB(1)98/00-01 - Traffic proposals for Discovery Bay;  
and  
LC Paper No. CB(1)99/00-01 - Traffic conditions in Tseung Kwan O)

2. Members noted the above information papers issued since the last meeting. At Mr Andrew WONG's suggestion, members agreed to include the item on "Traffic conditions in Tseung Kwan O" in the list of outstanding items for discussion.

**III Items for discussion at the next meeting scheduled for 24 November 2000**

(LC Paper No. CB(1)100/00-01(01) - List of outstanding items; and  
LC Paper No. CB(1)100/00-01(02) - List of follow-up actions)

3. Members agreed that the following items would be discussed at the next meeting scheduled for 24 November 2000:

- (a) Improvement to mass transit railway service after privatization; and
- (b) Measures to improve traffic signs and road markings.

4. Members also agreed to include the following items as proposed by Mr Albert CHAN and the Administration respectively in the list of outstanding items for discussion:

- (a) Policy on public light buses; and
- (b) Progress report on the implementation of the package of measures to enhance road safety.

Action

Overseas visits

5. The Chairman reminded members that each year, funds would be earmarked by the Legislative Council Commission for Panels to conduct overseas duty visits and all bids for such funds would be considered by the House Committee. In response to the Chairman's invitation for suggestions, Mr LAU Kong-wah proposed that consideration could be given to visiting countries like Japan to study their application of Global Positioning Systems. Noting the suggestion, the Chairman said that the matter should be kept in view and any member who had other proposals could forward them to the Panel Clerk.

**IV Review of the basis for considering bus fare adjustments**

(LC Paper No. CB(1)100/00-01(03) - Information paper provided by the Administration)

6. At the invitation of the Chairman, the Commissioner for Transport (C for T) introduced the Administration's information paper on the subject (LC Paper No. CB(1)100/00-01(03)). He advised that in assessing bus fare adjustment applications, the Administration would take into account a number of general criteria known as the Basket of Factors (BOF) which included:

- (a) changes in operating costs and revenue since the last fare adjustment;
- (b) forecasts of future costs, revenue and return;
- (c) the need to provide the operator with a reasonable rate of return;
- (d) public acceptability and affordability; and
- (e) the quality and quantity of service provided.

The Administration had conducted a review of the basis of considering bus fare adjustments, taking into account how bus fare adjustments were determined in other cities. The Administration now proposed to build on the BOF approach and introduce suitable modifications to improve its objectivity and transparency. Under the proposed new arrangement which adopted the Modified Basket of Factors (MBOF) approach, the Administration would continue to take into account all relevant factors in considering bus fare revision applications and make reference to changes in the Composite Consumer Price Index (CCPI) for gauging public acceptability. In order to stabilize future fares to the benefit of passengers, a profit-sharing arrangement would be introduced and any return achieved by a bus operator on top of the historical average rate of the local bus industry would be shared equally on a 50/50 basis between the operator and passengers. Hence, 50% of the relevant portion of the return would be treated as revenue in future fare increase exercises. The average rate of return in the

Action

local bus industry in the past 10 years (1990-1999) would be used as the trigger point for the profit-sharing arrangement. This rate was 13%. He added that the arrangements would be applied flexibly, and not automatically as the Chief Executive (CE) in Council had the final say on any fare increases. C for T stated that the modified approach for considering bus fare adjustments could balance the interests of the passengers and the operators.

7. Ir Dr Raymond HO declared interest as the Chairman of the Transport Advisory Committee from 1995 to 1997. Views expressed by members on the pros and cons of the proposed regime and the Administration's responses were summarized in the following paragraphs.

Perception of guaranteed return

8. Notwithstanding the Administration's explanation, members were generally concerned about whether the proposed regime could rectify the inefficiencies bred by the Profit Control Schemes (PCS) adopted previously. Both Mr LAU Chin-shek and Mr Albert CHAN took the view that the profit-sharing trigger point of 13% would become a de facto guaranteed or permitted rate of return to franchised bus operators. When return fell short of this level, the bus companies would invariably apply for fare increases. Sharing the same concern, Mr CHENG Kar-foo opined that as fare adjustment applications from franchised bus companies were seldom turned down by the Government, he was not assured that the proposed regime could adequately safeguard public interests.

9. In reply, the Secretary for Transport (S for T) emphasized that the 13% was not a guaranteed rate of return. It was only a trigger point for sharing of above-average return to the benefits of passengers. In order to allow for suitable flexibility, the MBOF would not operate as an automatic formula. Thus, any bus companies which failed to achieve this rate of return would not be granted a specific rate of fare increase automatically to make up for the shortfall. Each fare adjustment application would be considered on its own merits taking into account all the relevant factors.

10. The Assistant Commissioner for Transport/Bus Development (AC for T/BD) also pointed out that fare adjustment applications were commercial decisions made by bus companies and in some cases, bus companies might refrain from applying for fare adjustments in view of keen market competition. In considering what constituted a reasonable rate of return to franchised bus operators, the Administration would make reference to their historical rates of return on average net fixed assets. The Administration would examine the implications of a range of possible fare increase rates in assessing each application.

Action

Inclination to inflate fixed assets

11. Referring to another criticism on the PCS, both Mr LAU Chin-shek and Mr LAU Ping-cheung expressed concern about the possibility of bus operators inflating their asset base in the hope of getting a larger return. In response, AC for T/BD advised that other models such as pay-back period and internal rate of return had been examined and were considered not compatible with the operational requirements of franchised bus services. However, she pointed out that as the modified approach did not guarantee a specific rate of return or fare increase, the bus companies would have to be very careful in making investment decisions. On the other hand, under the rolling five year route development plan submitted by the bus companies annually, the Transport Department (TD) would keep a close watch on requests for additional buses and depots which were in fact the companies' major fixed assets. The exact number of buses and depots required for the planned routes would be determined upon consultation with the relevant District Councils. Hence, adequate safeguard had been built in.

Potential disincentives for improving efficiency

12. Mr CHENG Kar-foo was worried that the modified approach would fail to encourage operators to improve their cost efficiency. In view of the dissenting views from some bus companies, he asked whether 13% was a fair return rate in terms of enhancing the operational efficiency of bus companies. AC for T/BD replied that by allowing the operators to take 50% of the above-average return, there would be incentive for the operators to cut costs and improve efficiency. Under the modified approach which took a whole host of factors into account, bus companies would have to operate efficiently in order to maintain a robust financial position.

13. Mr Andrew WONG said that he could not support the proposed regime because its spirit was no different from the PCS. He opined that in order to do away with the inefficiencies arising from the PCS, bus operation franchise should be tendered out on a route-by-route basis, instead of a large basket of routes. A heavier tax could then be levied on routes which had excessive profits. Under this model, there would be no need for any control on the rate of return or the asset base of the bus companies. While noting the member's views, the Principal Assistant Secretary for Transport (1) said that the Administration had already examined a spectrum of schemes before deciding on the proposed regime.

Calculation of the historical average rate of return

14. Ir Dr Raymond HO opined that as bus operation was a low risk business, a 13% rate of return might be on the high side. AC for T/BD replied that although bus operation was not a particularly high risk business, franchised bus companies would have to face with increasing competition from other public transport operators, especially with the commissioning of three new railways in the next few years.

Action

15. Mr Albert CHAN was opposed to pitching the historical average rate of return at an absolute rate without taking into account the prevailing rate of inflation. Pointing out that the average rate of inflation between 1990 and 1999 was much higher, he took the view that a 13% rate of return was unreasonably high at times when the inflation rate was low. S for T said that given its impact on the operation of the bus companies, such as on operating costs and service demand, it would be fair to include the rate of inflation as one of the factors to be considered under the new regime. However, none of those factors would be taken in isolation and none was an absolute rule in the Administration's consideration.

16. Mr LAU Kong-wah questioned the fairness of including the period when the PCS was applicable in the calculation of the historical average rate of return of the bus industry because the return achieved by the franchised bus companies under the PCS was on the high side. AC for T/BD explained that out of the financial results from the seven franchises taken into account, only the China Motor Bus Company Limited (CMB) and the Kowloon Motor Bus Company (1933) Limited (KMB) were covered by the PCS which had ceased to apply to these companies in 1993 and 1997 respectively. As such, the Administration took the view that the PCS results would only account for a small proportion of the past results which were taken into account in calculating the 13% historical average rate of return. Moreover, it would be appropriate to consider the financial results of all the bus companies during the period chosen in its totality to reflect the past financial performance of the bus industry as a whole, irrespective of whether the operator was a new entrant or a mature company in the industry, or whether the operator was subject to the PCS or not.

17. Pointing out that the permitted return achieved by KMB from 1990 to 1997 was particularly high, Mr LAU was unconvinced by the Administration's explanation and he requested for supplementary information on the calculation of the historical average rate of return if financial results of KMB and CMB under the PCS years were excluded.

18. While stating support for the proposed regime, Mr Abraham SHEK said that it would be most important to ensure that the bus companies achieved their return out of operational efficiency instead of a guarantee by the Government. Bus companies should be encouraged to make further investments to improve their services and ensure passenger safety. In order to address members' concerns about whether the calculation was biased by the PCS factor, he opined that more information should be provided by the Administration to show that 13% was indeed a reasonable rate of return. The Chairman also asked whether reference had been made to comparable rates of the bus industry in overseas countries for comparison. AC for T/BD responded that no useful parallels could be drawn in this respect as public transport services in most other overseas countries were provided by the public sector and heavily subsidized by taxpayers.

19. S for T said that it was not a question of whether a rate of return of 13% was reasonable or not. The 13% was an objective factor representing the historical rate of

Action

return of the local bus industry in 1990-99 which was proposed to be the trigger point for sharing of above-average return. While acknowledging that the historical average rate of return would be different by taking different variables into account, S for T said that it was more appropriate to take into account the actual rates of return of all the then existing bus franchises in calculating the historical average rate of return of the industry. He said that the modified approach would be reviewed and improved with time and experience. At members' request, the Administration agreed to provide supplementary information on the following:

Admin.

- (a) how the historical average rate of return of 13% was calculated;
- (b) the historical average rate of return if financial results of KMB and CMB under the PCS years were excluded; and
- (c) the reasons for not using shareholders' investment as the basis of calculating the rate of return of the bus companies.

*(Post-meeting note: The requested information was subsequently issued to members vide LC Paper No. CB(1)168/00-01.)*

Refinements to the profit-sharing arrangement

20. Endorsing the principle of profit-sharing with passengers, Mr LAU Kong-wah opined that a sliding scale should be adopted so that passengers would benefit from a higher percentage when huge profits were made by the operator. Ir Dr Raymond HO also suggested that the sharing of profits by the bus operator might be capped when its rate of return exceeded a certain level.

21. In response, AC for T/BD advised that it was the Administration's intention to adopt a simple arrangement initially and the proposed regime would be reviewed after five years. Mr LAU Kong-wah however remarked that the review should be carried out earlier, instead of every five years as proposed by the Administration. AC for T/BD replied that the fare setting process of major industries in many overseas countries were also reviewed every five years. She also pointed out that a five-year review cycle would provide certainty to bus operators to plan and conduct their business.

22. Responding to Mr LAU Ping-cheung's enquiry, the Chief Treasury Accountant (Transport) advised that interest payments on the shared return of the passengers would also be treated as revenue of the bus companies. In reply to Mr LAU's further question about setting up a fund for the shared return, AC for T/BD advised that as money could also be transferred out of the fund, it was considered not the best option for the purpose of stabilizing future fares.

Objective standards for gauging public acceptability and affordability as well as the quality and quantity of service provided

Action

23. Mr Albert CHAN was concerned about the standards to be used for assessing the quality and quantity of service provided by the bus operators and the weighting of this factor in the Administration's determination of fare adjustment applications. AC for T/BD replied that while no formula was adopted for the purpose, reference would be made to the findings of passenger satisfaction surveys conducted by the three major bus companies through independent parties. TD would also closely monitor relevant operational data of the bus companies to ensure that a satisfactory service was maintained. In this connection, the Chairman remarked that it would be important to have an objective and measurable standard on service so as to convince the public that such factor had been duly considered. Mr Albert CHAN suggested that independent opinion polls might be undertaken by the Administration.

24. Responding to Mr LAU Kong-wah, AC for T/BD advised that according to past experience, bus fare increases in line with the rate of inflation would be more readily accepted by the public. Thus, reference would be made to changes in CCPI when the acceptability of the rate of fare adjustments to the public was considered. However, both Mr LAU and the Chairman opined that independent survey should be undertaken by TD for an impartial assessment. In reply, AC for T/BD agreed to consider whether relevant questions in the passenger satisfaction surveys could be refined.

**V Report on the progress of the review of speed limit and installation of road markings and warning signs at identified road sections**

(LC Paper No. CB(1)100/00-01(04) - Information paper provided by the Administration)

25. The Assistant Commissioner for Transport/Technical Services (AC for T/TS) briefed members on the background and findings of the review of speed limit and installation of road markings and warning signs at identified road sections as set out in the information paper provided by the Administration (LC Paper No. CB(1)100/00-01(04)).

26. Members generally welcomed the findings of the speed limit review as well as the Administration's decisions to relax the speed limit of four road sections to 70 km/h. Responding to Mr LAU Kong-wah, AC for T/TS advised that the review of speed limit would be carried out on a regular basis in view of the changes in the accident rates of the road sections. Progress reports would be provided to the Panel on an annual basis.

27. The Chairman agreed that on-going review would be necessary and follow-up actions should be taken by the Administration where possible to tackle the problems identified for individual road sections so that their speed limit could be relaxed without impairing road safety. She pointed out that in cases like Texaco Road and Tai Po Road (Tai Wai Section) where the personal injury accident rate was relatively low, the speed

Action

limit might be relaxed if appropriate measures could be taken to prevent the occurrence of head-on collisions and the problem of jaywalking in the respective road sections.

28. Responding to questions from Mr LAU Kong-wah and Mr Andrew WONG about the Administration's policy on the speed limit structure, the Deputy Secretary for Transport (DS for T) explained that a three tier system would apply basically, i.e. 50 km/h for roads in the urban areas, 80 km/h for roads in areas outside the urban areas and 100 km/h for high standard expressways. All new road sections to be constructed would be designed accordingly. Although the speed limit of some existing road sections was still 70 km/h, it would be reviewed when suitable road improvement works had been carried out. In reply to Mr CHENG Kar-foo's enquiry, DS for T advised that the review criteria set out in paragraph 6 of the paper would generally apply in such cases and the Administration would consider improvements made to the geometry and environment of the road sections concerned.

29. While supporting the 50/80/100 speed limit structure, Mr Andrew WONG asked whether the speed limit of those road sections relaxed under the present exercise might be further reviewed and reverted back to 50 km/h. DS for T assured members that the speed limit so relaxed would not be reverted back unless there were significant changes in the accident rates or road environment of the road section concerned. Responding to a further question from Mr WONG, DS for T said that in setting the general speed limit at 50 km/h, consideration had been given to the prevailing practice commonly adopted by many overseas countries, as well as the special road conditions of Hong Kong.

**VI Any other business**

(LC Paper No. CB(1)100/00-01(05) - Proposed amendments to the terms of reference of the Panel)

30. Members noted and endorsed the proposed amendments to the terms of reference of the Panel as set out in LC Paper No. CB(1)100/00-01(05).

31. There being no other business, the meeting ended at 12:50 pm.

Legislative Council Secretariat

22 November 2000