

Legislative Council Panel on Transport**Public Transport Fares – Supplementary Note****PURPOSE**

This paper informs Members of the new initiatives of public transport operators to introduce fare reduction/concession and measures taken by the Government to facilitate introduction of these new initiatives.

DETAILS

2. LC Paper No. CB(1)2291/02-03 which was issued on 28 July 2003 explains inter alia the initiatives of public transport operators in providing fare reduction/concession in the past year. Since then, the two railway corporations have announced further concessionary schemes as follows:

- (a) Kowloon-Canton Railway Corporation: East Rail's "Second Trip Discount Scheme" will be extended for another year to 30 September 2004; and
- (b) Mass Transit Railway Corporation Limited: \$2 flat concessionary fare for elderly and children on the MTR¹ on Saturdays and Sundays will be introduced during 2-31 August 2003.

3. Four franchised bus companies viz. Kowloon Motor Bus Company (1933) Limited ("KMB"), Citybus Limited ("Citybus"), New World First Bus Services Limited ("NWFB") and Long Win Bus Company Limited ("Long Win") announced that they would implement the following new fare reduction measures for all Octopus card users for one year starting from 1 October 2003:

- (a) \$1 flat concession fare for elderly on all routes² on Sundays and public holidays;
- (b) 10% discount on routes³ with fares \geq \$15; and

¹ Exclude Airport Express.

² Exclude racecourse routes and airport 'A' routes.

³ Exclude recreation routes and airport 'A' routes.

(c) 5% discount on routes³ with fares between \$10 and \$14.9.

KMB and Long Win will offer fare discount for (b) and (c) on a per trip basis. For Citybus and NWFB, the fare discount in (b) and (c) above will be offered in the form of day-return fare scheme for the routes solely operated by Citybus or NWFB.

4. New Lantao Bus Company (1973) Limited will provide special elderly concessions on its 11 local routes during weekdays starting from late August 2003. Under this special scheme, a further concession of \$0.3 to \$1.0 in addition to half-fare concession would be offered to elderly passengers.

5. A total of up to about one million bus passengers a day is expected to benefit from the new measures in paragraphs 3-4 above. This figure is in addition to the number of passengers who are benefiting from the various existing concessionary schemes offered by the franchised bus companies, which is estimated to be about 120,000 passengers each day.

6. The Chief Executive in Council has decided that the usage of 50% of the above-average return of the franchised bus companies provided for in the Modified Basket of Factors approach, which is applicable in considering bus fare adjustment applications, should be expanded so that this 50% portion (where available) can be used to facilitate the introduction of bus fare reduction initiatives. A copy of the Legislative Council Brief on the Chief Executive in Council's decision on the matter is attached for Members' reference.

Environment, Transport and Works Bureau
1 August 2003

LEGISLATIVE COUNCIL BRIEF

FRANCHISED BUS FARES

INTRODUCTION

At the meeting of the Executive Council on 22 July 2003, the Council ADVISED and the Chief Executive ORDERED that the usage of 50% of the above-average return provided for in the Modified Basket of Factors (“MBOF”) approach, which is applicable in considering bus fare adjustment applications, should be expanded so that not only can this 50% portion be used to relieve the pressure for future fare increase but it can also be used to facilitate fare reduction as follows:

- (a) 50% of any above-average return available can continue to serve its existing purpose, i.e. it can be deemed as future revenue of the bus operator and taken into account by the Administration in assessing a bus fare adjustment application, thus helping to relieve the pressure for future fare increase; and
- (b) this 50% portion of any above-average return available can also be used to facilitate bus fare reduction, i.e. the loss of revenue to individual franchised bus operators arising from future bus fare reduction measures to be agreed between the Administration and the operator concerned can be counted towards this 50% portion of the operators’ above-average return.

JUSTIFICATIONS

General background

2. In view of the present economic situation, the Government has been encouraging public transport operators to consider reducing their fares or introduce concessionary measures where possible to benefit the travelling public, taking into account their own operating conditions. With continued deflation over the past five years, the public is discontent over transport fare which has remained at the same level when other prices have come down. In keeping with the principle and spirit of free enterprise, it is the Government position that it is the commercial decision of individual operators on whether they would reduce their fares or offer concessions.

3. The three major franchised bus operators, the two railway corporations, and a number of ferry, public light bus and non-franchised bus operators have, on their own initiatives, introduced different concessionary measures. Since July 2002, a total of 39 fare concession schemes including bonus rides, return trip fare discount and bus-bus interchange (“BBI”) schemes have been introduced. These fare concession schemes have resulted in substantial savings for passengers in particular the regular commuters.

Use of Above-Average Return to facilitate bus fare reduction

4. We maintain on-going discussions with the major bus operators to examine the feasibility of further measures by them to reduce their fares or introduce more concessions. They have agreed to implement a total of 33 additional BBI schemes by 2003/04 from their own financial resources. They are also prepared to explore new initiatives on fare reduction.

5. However, the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in March 2003 has weakened the bus operators’ ability to absorb

fully the financial impact of new fare reduction initiatives. In overall terms, the patronage of the major bus operators dropped by some 20% after the outbreak of SARS. Although the bus patronage level has gradually picked up since June 2003 when the SARS problem started to subside, it has not yet returned to the pre-SARS level. There are indications that passengers' travelling pattern might have changed after SARS, e.g. less recreation/night trips by passengers. It would take a longer time before patronage level can be fully recovered.

6. In the circumstances, we have to find a way to facilitate the introduction of new fare reduction initiatives. A practical arrangement is to make use of a portion of the above-average return of Kowloon Motor Bus Company (1933) Limited ("KMB") and Citybus Limited's Franchise for Hong Kong Island and cross harbour routes ("Citybus (Franchise 1)") to provide the incentive. The above-average return is calculated in accordance with the MBOF approach.

The MBOF approach

7. On 12 December 2000, the Chief Executive in Council ("CE-in-Council") decided that the Administration should adopt the MBOF approach in assessing and making recommendations on bus fare adjustment applications to the CE-in-Council. Under this approach, any return of a bus operator in a given year in excess of the historical average rate of return on average net fixed assets ("ANFA") of the franchised bus industry (viz. 13% on ANFA) should be shared equally on a 50/50 basis between the operator and passengers. This means that 50% of the above-average return of the operator would be deemed as future revenue when the Administration assesses a bus fare adjustment application. The purpose is to help relieve the pressure for future bus fare increases.

8. The existing 50% portion of the above-average return is about \$340 million for KMB and about \$50 million for Citybus (Franchise 1). The other bus operators do not have above-average return.

The Proposal

9. Under our proposal, the actual loss of revenue arising from new fare reduction initiatives would be offset by a reduction of the same amount from the 50% portion of the above-average return of the operator concerned that would otherwise be deemed as future revenue to help relieve the pressure for future fare increases. The loss figure would be agreed between the Administration and the operator after the implementation of the initiatives and would be based on actual loss of revenue as reflected in the Octopus report of the operator. If the actual revenue loss turns out to be higher than the 50% portion of the above-average return that is available, the operator would bear the amount of difference.

Further bus fare reduction initiatives

10. Based on the proposal in paragraph 9 above, KMB and Citybus (Franchise 1) have agreed to introduce further bus fare reduction initiatives. As for the other franchised bus operators:

- (a) New World First Bus Services Limited (“NWFB”), Long Win Bus Company Limited (“Long Win”) and Citybus (Franchise 2) for Airport and North Lantau routes do not have any above-average return at present. Nevertheless, on the basis that the proposal for KMB and Citybus (Franchise 1) is accepted, they are prepared to pursue the same bus fare reduction package; and

(b) New Lantao Bus Company (1973) Limited (“NLB”), which operates a small bus network on Lantau Island, is not in a position to implement this package given the unsatisfactory outlook for 2003 and 2004. Nevertheless, NLB has agreed to provide special elderly concessions on its local services during weekdays.

11. On the basis of the arrangement set out in paragraph 9 above, the bus operators (except NLB) plan to implement the following package for Octopus card users for one year:

(a) \$1 flat concession fare for elderly on all routes⁴ on Sundays and public holidays;

(b) 10% discount on routes⁵ with fares \geq \$15; and

(c) 5% discount on routes² with fares between \$10 and \$14.9.

KMB and Long Win will offer fare discount for (b) and (c) on a per trip basis. For Citybus and NWFB, since only Citybus (Franchise 1) has a relatively small amount of above-average return, they plan to offer the fare discount in (b) and (c) above in the form of day-return fare scheme for the routes solely operated by Citybus or NWFB in order to reduce the financial impact of fare reduction on their operation.

12. A total of up to about one million passengers a day is expected to benefit from these proposed new measures. This figure is in addition to the

⁴ These exclude racecourse routes and airport ‘A’ routes.

number of passengers who are benefiting from the various existing concessionary schemes offered by the bus operators, which is estimated to be about 120,000 passengers each day.

13. The bus operators concerned indicated that the necessary preparations to implement these measures will take about 2 months to complete. The preparations entail modification to the software of the Octopus card readers on each of their buses and amendments to the fare notice at each of the bus stops concerned. Accordingly, we believe that the proposed fare reduction measures could be implemented with effect from October 2003.

IMPLICATIONS OF THE PROPOSAL

14. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. It has no productivity, sustainability, financial or civil service implications.

Economic Implications

15. About 16% of bus passengers are expected to benefit from the fare reduction package on an average daily basis. Whilst the proposal will reduce the 50% portion of the above-average return of franchised bus operators which is used to help stabilise future bus fares, the fare reduction package will bring immediate benefits to passengers.

Environmental Implications

16. The proposed fare reduction may generate more bus ridership. Since the existing bus services should have adequate capacity to meet additional

⁵ These exclude recreation routes and airport 'A' routes.

demand, the proposal is not expected to have any significant environmental implications.

PUBLIC CONSULTATION

17. We will brief the Legislative Council Panel on Transport on 1 August 2003 on the use of the 50% portion of the above-average return to facilitate the introduction of bus fare reduction measures. We will brief the Transport Advisory Committee on the same day.

PUBLICITY

18. A spokesman will be available to answer enquiries.

ENQUIRIES

19. Any enquiries concerning this brief can be directed to the following officer:

Ms Carolina Yip
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Tel. No.: 2829 5206

Environment, Transport and Works Bureau

1 August 2003