

**For discussion on
11 April 2014**

Legislative Council Panel on Transport

Fare Increase Application from The Kowloon Motor Bus Company (1933) Limited

Purpose

The Kowloon Motor Bus Company (1933) Limited (“KMB”) has submitted an application for a fare increase. Representatives from KMB will brief Members on the details at the panel meeting on 11 April 2014. This paper provides information on the mechanism that the Government would follow to assess bus fare adjustment applications, as well as KMB’s service performance since its last fare increase and the focus of its service development in the future.

Fare Increase Application from KMB

2. KMB submitted an application on 29 November 2013 for an average fare increase of 4.3%. KMB last increased its fare on 17 March 2013 by an overall average rate of 4.9%. KMB will explain the reasons for it to seek a fare increase at the panel meeting.

Bus Fare Adjustment Arrangement

3. According to section 13(1) of the Public Bus Services Ordinance (Cap. 230), the scale of fare of franchised bus service is determined by the Executive Council (“ExCo”). As pointed out by the Government in its Legislative Council Brief issued in January 2006, in assessing franchised bus fare adjustment applications, the Government would not set any guaranteed minimum level or ceiling of rate of return. Instead, it would take into account relevant factors which include:

- (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. The Government would make reference to the Weighted Average Cost of Capital of the bus industry in considering the reasonable rate of return;
- (d) public acceptability and affordability. The Government would make reference to changes in Median Monthly Household Income (“MMHI”) and Composite Consumer Price Index (“CCPI”);
- (e) service performance; and
- (f) a formula for a supportable fare adjustment rate for reference:

$$0.5 \times \text{Change in Nominal Wage Index for the Transportation Section (“WI”) + 0.5 x Change in CCPI} \\ - 0.5 \times \text{Productivity Gain}$$

4. The Government will make reference to the aforementioned relevant factors, as well as take into account view of Members of the Panel on Transport and the Transport Advisory Committee (“TAC”) before submitting its recommendation to ExCo.

5. It is noteworthy that the formula outcome under paragraph 3(f) above is only for reference. The fare level will not be adjusted automatically according to it. Separately, to assess the financial performance of the bus operators, our consideration is to ensure that they will have sound financial capability in maintaining quality public bus service.

6. Based on the latest available WI and CCPI¹, the outcome of the formula is +3.99%². In the meantime, the change in MMHI from the last fare increase in March 2013 to the fourth quarter of 2013 is +1.82% (figure for the first quarter of 2014 has yet to be published) and the change in CCPI up to February 2014 (figure as of March has yet to be published) is +4.21%. These figures are for illustration only for the time being. When making a recommendation to ExCo, we would report to it the latest statistics available at the time.

¹ Change in WI for the period of March 2013 to December 2013 and change in CCPI for the period of March 2013 to February 2014.

² Detailed calculation is as follows:

$$0.5 \times 3.77\% + 0.5 \times 4.21\% - 0.5 \times 0\% = +3.99\%$$

As approved by ExCo in 2009, the value of productivity gain in the formula has been set at zero until the next review.

Operation of KMB

7. As at end-December 2013, key information of KMB's operation was as follows:

	KMB (a)	All franchised bus companies (b)	(a) over (b)
Number of Routes	371	559	66%
Fleet	3,844 buses	5,791 buses	66%
Staff	About 12,200 persons	About 18,300 persons	67%
Average Daily Patronage in 2013 (as compared with 2012)	2.61 million (+1.3 %)	3.91 million (+2.0 %)	67%

The average age of KMB's fleet is about 11 years old, which is similar to that of the franchised bus fleet in Hong Kong.

Performance of KMB

8. The Transport Department ("TD") has been monitoring the quality and quantity of KMB's bus service, taking into account objective indicators such as the findings of passenger satisfaction surveys and site surveys, complaint figures and accident rates. The assessment is as follows:

- (a) In terms of safety, KMB's accident rate was 3.18 accidents per million vehicle-km in 2013, vis-à-vis an industry average rate of 4.43 for the same period. All KMB's buses have already been equipped with black boxes to help monitor drivers' performance and investigate accidents when they happen.
- (b) On the environmental front, 89% (3,421 buses) of KMB's fleet was of Euro II or above emission standard as at end-December 2013. The remaining 423 Euro I buses will all be phased out by end-2015, and the Euro II ones by end-2019. To further cut particulate emission, KMB has completed retrofitting diesel particulate filters on all its Euro II and Euro III buses. KMB has also been working with the Environmental

Protection Department to retrofit eligible Euro II and III buses with selective catalytic reduction devices so as to meet the Euro IV nitrogen oxides emission standard. Meanwhile, KMB will conduct trials using three hybrid buses and 18 electric buses (including eight supercapacitor buses and ten battery-electric buses) so as to assess their operational efficiency and performance under local conditions in Hong Kong. The trials of hybrid buses and electric buses will commence in the second half of 2014, and will last for two years.

- (c) According to the passenger satisfaction surveys on KMB's service, passengers are generally most satisfied with drivers' compliance with traffic regulations, travelling speed and driving skills. They are most dissatisfied with frequency and reliability of services.
- (d) The Transport Complaints Unit of TAC received 3,631 complaints and suggestions relating to KMB in 2012 (making up about 58% of all franchised bus-related complaints and suggestions). The figure in 2013 is 4,196 (making up about 57% of all franchised bus-related complaints and suggestions). About half of the complaints and suggestions received on KMB in these two years are on "regularity of service".
- (e) The Government has all along been very concerned about the reliability of KMB services and has demanded KMB to take effective actions in bus captain recruitment and make adjustments to scheduled journey time having regard to prevailing traffic condition. With these efforts, the lost trip rate of KMB dropped to 2.8% in 2013. TD will continue to closely monitor the situation and will review the current monitoring mechanism with a view to enhancing the quality of franchised bus services.³

Focus of future service development

9. With a growing operating cost and competition from other public transport modes, KMB has implemented various measures to enhance efficiency. Key tasks are to increase its bus network efficiency and rationalise bus routes to increase cost effectiveness, reduce wastage, and lower roadside emission. Through effective route rationalisation, fare increase pressure arising from the

³ On 23 January, the Ombudsman released the report on its direct investigation into TD's mechanism for monitoring the frequencies of franchised bus services and put up a number of recommendations to enhance the mechanism. TD is now formulating practicable enhancement measures.

cost effectiveness of the operation may also be somewhat alleviated.

10. The Government and franchised bus companies have pursued bus route rationalisation more vigorously since 2013. In addition to the ongoing annual route development programmes (“RDPs”), bus routes are rationalised through the “Area Approach”. Under this approach, the entire district, instead of individual routes, is used as the basis for reviewing and re-organising bus services in a holistic manner. Bus routes which are under-utilised will be cancelled or amalgamated, and new routes will be introduced to meet new demand. Meanwhile, feeder and external routes as well as interchange arrangements will be strengthened, and bus companies will be encouraged to offer interchange concessions as far as possible. These arrangements can enable bus services to better meet the needs of local residents in overall terms, while alleviating traffic congestion and reducing roadside air pollution. They can help bring a win-win situation to the community. TD and franchised bus companies will make reference to the “Guidelines on Service Improvement and Reduction in Bus Route Development Programmes” in formulating rationalisation proposals. Rationalisation proposals under the “Area Approach” for North District and Tuen Mun have been implemented by phases since August and September 2013 respectively and their operation has generally been satisfactory. Drawing on the experience in these two districts, the Government and KMB will continue to rationalise bus services under the “Area Approach”. The bus services of Yuen Long/Tin Shui Wai, Tai Po, Tsing Yi and Sha Tin/Ma On Shan will be rationalised this year. The proposals have been included in the 2014-2015 RDPs, and will be implemented after consultation with the district councils. The consultation has started since January 2014.

Advice Sought

11. Members are invited to note the above and comment on the fare increase application made by KMB.

**Transport and Housing Bureau
Transport Department
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