LegCo Panel on Transport

Mass Transit Railway Corporation (Amendment) Bill 1996
Kowloon-Canton Railway Corporation (Amendment) Bill 1996

Introduction

The Hon SIN Chung-kai has introduced the Mass Transit Railway Corporation (Amendment) Bill 1996 and the Kowloon-Canton Railway Corporation (Amendment) Bill 1996 which seek to amend the two principal Ordinances to provide that fares payable to the MTRC and KCRC shall be determined by subsidiary legislation. The intended effect of the Bills, if enacted, is to enable LegCo to alter or reject the new fares.

2. The Administration considers that the provisions in the principal Ordinances have struck a fine balance between the autonomy and accountability of the two corporations. Any alteration of the existing fare determination mechanism will upset this balance, and will have a negative impact on the corporations, the travelling public, and the taxpayer.

Government policy on public transport services

3. It is Government policy that public transport services should be provided on a commercial basis and without any Government subsidy.

4. The requirement that the two corporations should operate in accordance with prudent commercial principles has been clearly stated in the Mass Transit Railway Corporation Ordinance and the Kowloon-Canton Railway Corporation Ordinance. The corporations are also required to provide a safe, efficient and reliable train service, having regard to the reasonable requirements of the public transport system of Hong Kong.

5. To enable the two corporations to meet their obligations, the governing ordinances provide that they can determine their own fares. Without fare autonomy, it would be unreasonable to require them to operate in the same way as in the past. Also, they would have difficulty in fulfilling their public obligations under their respective Ordinances.

Practical effects of the Bills

6. The enactment of the Bills will create uncertainty for the railway corporations in earning sufficient fare revenue to cover operating costs. It will have an adverse impact on credit ratings and costs of borrowings. It will also discourage long-term investments. Without continued investments in service improvements and expansion of their networks, the two corporations will not be able to meet the rising expectations of the travelling public. A fall in patronage and revenue will reduce the viability of the corporations and lead to deterioration in performance.

Monitoring of railway fares

7. Concern has been expressed by some Members that under existing legislation, the two corporations are allowed to determine their fares without any control by Government or the LegCo. As a matter of fact, both corporations have, in recent years, consulted this Panel and the Transport Advisory Committee (TAC) before deciding on their fare increases. Views of the District Boards and the results of passenger surveys have also been taken into account in their annual fare review.

8. Despite their autonomy in fare determination, the two corporations, as Government-owned and accountable

bodies, have exercised restraint and moderation in their fare adjustments. Over the past decade, their average rate of fare increases has been kept below inflation while average income of the population has increased in real terms. The benefits of cost savings and improved productivity have been passed on to the passengers through improvements in facilities and services.

Proposals to strengthen the monitoring of the railway corporations

9. A number of measures to strengthen the monitoring of the accountability of the two corporations have been put forward in a report prepared by the Research and Library Services Division of the LegCo Secretariat in June 1996. Our views on the proposed measures are set out in the paragraphs that follow. We note that fare determination by subsidiary legislation has not been a recommended measure.

(a) Introducing Direct Competition

10. We agree that the best way of ensuring efficiency of the corporations and safeguarding consumer interest is to enhance open and fair competition. Through this, the railway corporations will be self-motivated to minimize cost, maintain the quality of service and set fares at a competitive level. Indeed, Government has been implementing this strategy in recent years to encourage better transport services for the commuters.

11. We will continue to encourage other transport operators to introduce services to complement and compete with the railways although a right balance has to be struck between healthy competition and wasteful duplication of resources.

(b) <u>Price cap regulation</u>

12. A price cap regulation sets the maximum level that prices can be raised. The purpose of a price cap regulation is to ensure that price increases are set at some level below inflation, taking into account increases in productivity in the regulated firm. This model can only work when there are significant and predictable productivity gains through technological innovations, such as in telecommunication services. It is doubtful whether it is applicable to the public transport sector, and in particular railway services, which are subject to substantial capacity constraints.

(c) <u>Enhancing the TAC's monitoring role</u>

13. The Transport Advisory Committee advises the Governor in Council on major transport policies. Each year, before the two corporations make their fare revisions, the TAC is briefed by the two corporations on their financial performance and the principles and objectives of their annual fare review. In another annual exercise, the TAC examines a comprehensive assessment report on the performance of the two corporations to ensure that they provide a safe, reliable and efficient service. Government will consider how best to strengthen the TAC's role in monitoring railway services.

(d) <u>Profit Control Scheme</u>

14. We agree with the conclusions of the research paper that there are disadvantages in such a scheme, and that significant administrative costs would be incurred by the Government to monitor such a scheme. It is not appropriate to impose such a scheme on the railway corporations, particularly as profits are ploughed back into service improvements.

Concluding Remarks

15. We have two successful railway systems which operate high quality services at no cost to the taxpayer. The MTRC and KCRC are self-financing; they can cover operating costs, raise the required finances and repay loans. The travelling public have enjoyed decreasing railway fares in real terms. At the same time, there have been substantial service improvements. The railway corporations are now in a healthy financial position and are ready to commit themselves to more improvements and network expansion.

16. The success of the two corporations is attributable to the current financial and operating arrangements set out in the governing ordinances. There is no good reason to change the fundamental principles underlining these arrangements. The Bills which seek to alter the present arrangements will have a long term adverse effect on the local railway systems. Loss of fare autonomy by the two corporations will undermine their viability and efficiency, and will eventually bring about a deterioration in their performance. This will have a cost for the travelling public, the taxpayer and indeed the image of Hong Kong.

Transport Branch
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