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Panel on Transport

**Background brief on
Review of the Basis for Considering Bus Fare Adjustments**

Purpose

This paper sets out the background to the review of the basis for considering bus fare adjustments and summarizes major concerns expressed by Members in the past.

Background

2. There has been an incessant call from the public for reduction of public transport fares. The Government has responded to this public aspiration by encouraging public transport operators, having regard to their respective operating conditions and social and economic conditions, to reduce their fares or offer concessions as far as possible to help reduce the travelling expenses of the public.

3. In the past few years, the two railway corporations, the major franchised bus operators, and a number of ferry, public light bus and non-franchised bus operators have, on their own initiatives, introduced different concessionary measures.

4. Whilst public transport operators have introduced different concessionary measures, they are unwilling to agree to long-term fare reduction. The Administration points out that the current bus franchise agreements only set out the relevant factors to be considered by the Administration in assessing bus fare adjustment applications but there is no obligation for bus operators to apply for fare reduction. In addition, given past experience on the difficulties involved in fare increase applications, operators understandably would opt for concessions rather than a fare cut. Hence, the Administration considers that there is a need to review the existing fare adjustment process and mechanism to address the changes in economic conditions and potential market changes. Details of the existing fare adjustment procedures of various public transport modes are summarized in **Annex 1**.

5. The Administration started a study in late 2002 to review the current market and operating conditions and examine ways to develop a more objective and transparent process for the adjustment of railway and bus fares.

6. The objective of the study is to address:-

- (a) the public concerns that transport fares should be affordable and should allow for increase as well as reduction in fares;
- (b) the concern of public transport operators that once fares are reduced, public pressure will render fare increases difficult if not impossible, even when the economy turns around; and
- (c) the common concern of public transport operators and the Government that fare adjustments should not be politicized as it is not conducive to efficiency and harmony.

7. The study focussed on railways and franchised buses because they are the two most patronized public transport modes in Hong Kong, altogether accounting for over 70% of the total public transport patronage in Hong Kong.

8. In August 2003, the Administration briefed the Panel on Transport on the Government's plan to improve the existing adjustment mechanism of bus fares by introducing a formula factor so that prevailing economic conditions and operating costs of the bus companies could be reflected more objectively in the mechanism. The new mechanism would allow increase as well as reduction in bus fares and bring in a more transparent adjustment process.

9. The main features of the price-cap model approach proposed by the Administration in August 2003 are as follows:

- (a) Under the proposed price-cap formula, viz. $p' = w' - k \times t'$, where p' is the fare change, w' is the change in the operator's input price, t' is the operator's growth in productivity and k is a pre-determined number between 0 and 1. The approach is to allow the regulated operator to pass some of the benefits of productivity improvement to passengers and keep the rest as an incentive to innovate.
- (b) With the introduction of an objective trigger mechanism, fare levels would be reviewed regularly, either say on an annual basis or when the cumulative change in the Composite Consumer Price Index (CCPI) since the last fare adjustment is above a certain percentage. In each annual fare review, if the resultant fare adjustment rate is below a certain percentage, there would not be any change to the fare level in the current year to avoid the practical difficulties of making minor fare adjustment. The resultant adjustment percentage would be carried over to the next review.

- (c) To avoid abrupt adjustments of the level of public transport fares, a cap might be set on the maximum year-on-year fare adjustment at a certain percentage to smooth out the impact of fare adjustments. Under this arrangement, any extra adjustment needs on top of that percentage would be carried over to the next review of fare level.
- (d) The selected fare adjustment formula would be reviewed every few years. This would provide certainty to passengers and operators during the relevant period and also give sufficient time for operators to improve efficiency and productivity.
- (e) Given the importance of maintaining fare autonomy of the two railway corporations, the selected fare adjustment formula should serve as a guideline, being one of the factors for the Boards of the two railway corporations to consider in adjusting fares. For the franchised bus companies, the formula could serve as an additional reference factor for the Administration to assess the rate of bus fare adjustments under the Modified Basket of Factors (MBOF) in making recommendations to the Chief Executive-in-Council. Further details of the MBOF approach is set out in **Annex 2**.

10. Since then, the Government has been discussing with the franchised bus operators on the proposed fare adjustment mechanism. Information about the franchised bus operators are set out in **Annex 3**.

11. As for railway services, the Administration points out that adopting a more objective and transparent fare adjustment mechanism is one of the key parameters set by the Government of the merger discussion between MTR Corporation Limited and Kowloon-Canton Railway Corporation. The Administration is discussing the issue with railway corporations in detail with a view to reaching a consensus as soon as possible.

12. The Administration will brief members on the outcome of the review of the basis for considering bus fare adjustments in November 2005.

Members' views expressed in previous meetings

13. The Council has all along been concerned about the public transport fares. Some members take the view that the Administration should encourage public transport operators to lower their fares or offer fare concessions. They also call on the Administration to introduce a new bus fare adjustment mechanism to alleviate the burden on the traveling public. Some other members take the view that it would be unrealistic to request all public transport operators to adopt a uniform rate of fare reduction without taking into consideration their respective operating conditions. In keeping with the principle and spirit of free enterprise, it would not be appropriate for the Government or the Legislative Council to compel public transport operators to

reduce their fares or offer concession as this was a matter for individual operators to decide.

14. On 14 November 2001, the Council passed the following motion:

“That, as Hong Kong’s economy remains in the doldrums with the unemployment rate rising to 5.3%, the Consumer Price Index falling for three consecutive years, and the worsening deflationary situation, while the fares of various public transport services remain high, and transport expenses account for a large proportion of the public’s living expenses, this Council urges the Government to discuss with various public transport operators and encourage them to take account of their respective operating conditions and reduce their fares or offer concessions to passengers, thereby alleviating the burden on the public.”

15. At the Council meeting on 23 October 2002, during a debate on a motion concerning reduction of transport fares, some members reiterated their concerns about the need for the Government to discuss with various public transport operators with a view to reducing expeditiously the fares of transport services and to request these operators to offer further concessions, including:

- (a) the Kowloon-Canton Railway Corporation and the MTR Corporation Limited taking the lead in reducing fares;
- (b) co-operation of the various transport operators in offering joint concessions;
- (c) the rationalization by bus companies of any unreasonable fare structures of their circular routes, cross-harbour tunnel routes, express routes and those routes served by air-conditioned buses, and the introduction of more section fares for long-distance routes;
- (d) introducing one-day and one-week travel pass schemes and promoting monthly ticket schemes;
- (e) reintroducing half-fare travel concessions for students;
- (f) providing comprehensive fare concessions for the elderly;

and, at the same time, to establish a fare adjustment mechanism, so as to alleviate the burden on people’s livelihood.

16. On 12 November 2003, the Council passed another motion on “Improving public transport fare system”. The wordings of the motion are as follows:

“That, this Council urges the Government to expeditiously discuss with various public transport operators to seek a 10% reduction of fares across the

board and the re-introduction of half-fare travel concessions for students, and to encourage them to co-operate in offering more joint concessions and, in regard to public transport fare system, to:

- (a) discuss with various franchised bus companies ways to improve their existing fare structures, expeditiously revise the scale of fares under the Public Bus Services Ordinance as well as reformulate existing guidelines on the setting of fares, and study the setting of full and sectional fares of each bus route according to the distance of the journey on condition that the burden on long-haul passengers will not be increased, so that the fare structures become more transparent and reasonable and fares paid by each passenger are as fair as possible; and
- (b) examine jointly with various public transport operators the feasibility of issuing daily, weekly and monthly tickets that can be commonly used on various modes of public transport, so as to facilitate local passengers and tourists who need to use them to commute frequently, as well as to alleviate the burden of travelling expenses on them.”

17. When the Panel on Transport was consulted on the price-cap model for fare adjustment in August 2003, members expressed the following concerns:

- (a) the new fare adjustment mechanism should be applicable to both railway corporations and franchised bus companies;
- (b) any bus fare reductions effected through the new fare mechanism should apply to all routes operated by the same franchised bus operator;
- (c) public affordability should be duly taken into account in the proposed price-cap formula; and
- (d) in achieving efficiency gains by public transport operators, employment opportunity and employees' benefits should not be unduly affected.

18. During past deliberation, members also urged the Administration to encourage public transport operators to provide special elderly concessions on their services, particularly during Sundays and public holidays, and take appropriate measures to assist people with disabilities, including the introduction of half-fare concessions to people with disabilities.

Mechanisms for Fare Adjustment for Various Public Transport Services

Railways

Under the Operating Agreement pursuant to section 4(2) of the Mass Transit Railway Ordinance (Cap. 556), MTR Corporation Limited may, through its board of directors, resolve to approve proposed fare change after considering the level of public acceptance of any proposed change (based on passenger surveys) and consulting the Transport Advisory Committee and the Legislative Council Panel on Transport.

2. According to section 4(2)(e) of the Kowloon-Canton Railway Corporation Ordinance (Cap. 372), Kowloon-Canton Railway Corporation shall have power to determine its fares. As a general practice, for any fare adjustment proposal, the Corporation will consider public views and consult the Transport Advisory Committee and the Legislative Council Panel on Transport.

Franchised Bus

3. According to section 13(1) of the Public Bus Services Ordinance (“PBSO”)(Cap. 230), the CE-in-Council may determine the scale of fares which may be charged for the carriage of passengers, baggage and goods on any specified franchised route or group of routes. Regarding the temporarily altered specified bus routes or new temporary routes, section 13(2) of the PBSO stipulates that the Commissioner for Transport (“C for T”) shall determine fares of these routes based on the scale of fares determined by the CE-in-Council under section 13(1) of PBSO. According to section 13(4) of PBSO, a franchised bus operator shall not charge a fare exceeding the fare scale determined or, except with the prior permission of C for T, a fare lower than that so determined.

4. Adjustment to the bus fare scales is subject to CE-in-Council’s approval. CE-in-Council endorsed the Modified Basket of Factors (“MBOF”) approach, relating to bus fare adjustment, on 12 December

2000. Under this approach, the Government will consider a basket of factors including changes in operating costs and revenue since the last fare adjustment; forecasts of future costs, revenue and return; the need to provide the operator with a reasonable rate of return; public acceptability and affordability; and the quality and quantity of service provided in assessing bus fare adjustment applications for the purpose of making recommendation to the CE-in-Council in determining the scale of bus fares.

Public Light Bus (“PLB”)

5. There are two types of PLB, viz. green minibus (GMB) and red minibus (RMB). According to section 29(1) of the Road Traffic Ordinance (Cap. 374), C for T may issue a passenger service licence (PSL) for operation of GMB services subject to such conditions as he may specify, which shall include conditions as to the fares to be charged. Any change to the conditions of the PSL, including the fare level, of a particular GMB service is subject to C for T’s approval. Regarding the RMB services, their fares are set by the service operators having regard to factors such as the operating environment and market demand, etc.

Franchised Ferry

6. According to sections 19(1)(a) and (6) of the Ferry Services Ordinance (Cap. 104), the CE-in-Council may by order determine the maximum fares that may be charged for the carriage of passengers on any franchised ferry service and may determine such fares in relation to classes of passengers, times of operation of the franchised services, and standards of ferry vessel accommodation. A franchised ferry operator shall not charge a fare exceeding the maximum fare or, except with the prior permission of C for T, a fare other than that so determined. Increase in the maximum fare is subject to the CE-in-Council’s approval.

Licensed Ferry

7. According to section 33 of the Ferry Services Ordinance (Cap. 104), C for T may by notice in the Gazette determine the maximum fares that may be charged for the carriage of passengers on any licensed ferry

services and that a licensed ferry operator shall not charge a fare exceeding the maximum fare. For ferry services whose fares are specified by C for T in the Gazette, fare increase requires C for T's approval.

Taxis

8. Taxi fare scales are prescribed by the CE-in-Council in the Road Traffic (Public Service Vehicles) Regulations (cap. 374, sub. leg. D). Regulation 47(2) of the Regulations stipulates that no taxi operator shall charge a fare exceeding the appropriate scale of fares. Taxi fare adjustment requires legislative amendment to be made by the CE-in-Council.

Hong Kong Tramways

9. According to section 51 of the Tramway Ordinance (Cap. 107), subject to the consent of the CE-in-Council, it shall be lawful for the company to alter the rates of fares for the time being authorised in respect of the whole or any portion of the tramway. Any such alternation shall come into force one month after its publication in the Gazette or within such shorter period after such publication as the CE-in-Council may order.

Peak Tramway

10. According to section 22 of the Peak Tramway Ordinance (Cap. 265), the Peak Tramways Company Limited may charge such fares for the use of the tramway as it may fix from time to time.

Modified Basket of Factors (MBOF) approach

On 12 December 2000, the Chief Executive in Council (“CE-in-Council”) decided that the Administration should adopt the Modified Basket of Factors approach in assessing and making recommendations on bus fare adjustment applications to the CE-in-Council. Details are as follows:

(a) Consideration would be given to the following factors in considering future bus fare revision applications:

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

(b) reference would be made to changes in the Composite Consumer Price Index when considering the acceptability of the rate of fare adjustment to the public.

(c) 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.

2. In July 2003, the CE-in-Council decided that the usage of 50% of the above-average return of the franchised bus companies provided for in the MBOF 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 (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.

Information about franchised bus operators

There are five franchised bus companies in Hong Kong -

- (a) The Kowloon Motor Bus Company (1933) Limited
- (b) The New World First Bus Services Limited
- (c) Citybus
- (d) Long Win Bus Company Limited
- (e) The New Lantao Bus Company (1973) Limited

2. Their respective franchises will expire on

Franchised bus companies	Franchise period
(a) The Kowloon Motor Bus Company (1933) Limited	1 September 1997 - 31 July 2007
(b) The New World First Bus Services Limited	1 August 2003 - 1 July 2013
(c1) Citybus - Franchise for the Hong Kong Island and cross-harbour bus network	1 September 1996 - 30 June 2006
(c2) Citybus – Franchise for Airport and North Lantau bus network	1 June 2003 - 1 May 2013
(d) Long Win Bus Company Limited	1 June 2003 - 1 May 2013
(e). The New Lantao Bus Company (1973) Limited	1 April 1997 - 31 March 2007

The Kowloon Motor Bus Company (1933) Limited (KMB)

3. KMB operates about 324 bus routes in Kowloon and the New Territories and 63 routes on cross-harbour services. Fares for urban routes range from \$2.4 to \$11.2, and for New Territories routes, from \$1.6 to \$38.

4. With a licensed fleet of 4,191 buses (as at 31 December 2004), mostly double-deckers, KMB is one of the largest road passenger transport operators in southeast Asia. In 2004, the total licensed fleet carried about 2.91 million passengers a day.

The New World First Bus Services Limited (NWFB)

5. NWFB operates about 55 Hong Kong Island routes, 10 Kowloon and Tseung Kwan O routes and 33 cross-harbour routes. Fares for Hong Kong Island routes range from \$3 to \$11.6 and Kowloon and Tseung Kwan O routes range from \$3.2 to \$7.5. In 2004, NWFB had 695 licensed buses, which carried about 504,000 passengers a day.

Citybus

6. Citybus is one of the franchised bus operators on Hong Kong Island. It operates 112 bus routes, including 65 Hong Kong Island routes, 31 cross-harbour routes, and 16 routes to Tung Chung/Airport. Fares range from \$2.5 to \$11.9 for Hong Kong Island routes and \$3.5 to \$45 for Shuttle, External and Airport routes. In 2004, Citybus had 911 licensed buses, which carried about 576,000 passengers a day.

Long Win Bus Company Limited

7. Long Win Bus Company Limited provides bus services to north Lantau and the Airport. It operates 15 routes with a fleet of 144 air-conditioned buses. The average daily patronage is about 61,000 passengers in 2004. Fares range from \$3.5 to \$28.

The New Lantao Bus Company (1973) Limited

8. The New Lantao Bus Company (1973) Limited operates 24 routes on Lantau Island and the fares range from \$2.5 to \$40.0. As at 31 December 2004, the fleet comprises 86 single-deck buses and carries an average of 33,000 passengers daily. The greatest traffic occurs during summer and on Sundays and public holidays due to recreational demands.