

For discussion  
on 26 November 2010

**Legislative Council Panel on Transport  
Fare Increase Applications from  
the Kowloon Motor Bus Company (1933) Limited and  
the Long Win Bus Company Limited**

**Purpose**

The Kowloon Motor Bus Company (1933) Limited (“KMB”) and the Long Win Bus Company Limited (“LW”) have submitted applications for fare increases. This paper provides information on the bus fare adjustment arrangement (“FAA”) and the franchised bus operations of these two operators. KMB and LW representatives will brief Members on their respective fare increase applications at the meeting on 26 November 2010. Members are invited to comment on these applications.

**Fare Increase Applications from KMB and LW**

2. KMB and LW submitted applications on 30 July 2010 for fare increases of 8.6% and 7.4% respectively. KMB and LW last increased their fares on 8 June 2008 by an overall average rate of 4.5%.

**Bus Fare Adjustment Arrangement**

3. Under section 13(1) of the Public Bus Services Ordinance (“PBSO”) (Chapter 230), fares of franchised bus services are to be charged according to a scale of fares determined by the Chief Executive in Council. Under the current FAA, in assessing franchised bus fare adjustment applications for the purpose of making recommendations to the Chief Executive in Council, the Administration would take into account a basket of 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. In considering the reasonable rate of return to franchised bus operators, reference should be made to the Weighted Average Cost of Capital of the bus industry;

- (d) public acceptability and affordability. Reference should be made to the magnitude of change in median monthly household income and changes in Composite Consumer Price Index (“CCPI”);
- (e) the quality and quantity of service provided; and
- (f) a formula (supportable fare adjustment rate =  $0.5 \times \text{Change in Wage Index} + 0.5 \times \text{Change in CCPI} - 0.5 \times \text{Productivity Gain}^1$ ). It should be noted that the formula does not operate as an automatic determinant of the fare adjustment outcome.

4. To assess the financial performance of the bus operators, our consideration is to ensure that they will have sound financial capability in providing efficient and quality public bus services. Under the FAA, we do not set any guaranteed minimum level nor ceiling of rate of return for the bus operators. The Administration will make reference to the basket of factors, as well as the comments made by Members of the Panel on Transport and the Transport Advisory Committee before submitting its recommendations to the Chief Executive in Council. The Chief Executive in Council continues to retain the ultimate control in determining the scale of bus fares in accordance with the PBSO.

### **Franchised Bus Operations of KMB and LW**

5. In monitoring the quality and quantity of bus services, we take into account objective indicators such as the findings of passenger satisfaction surveys and site surveys, complaint figures and accident rates. In general, both KMB and LW provided satisfactory services to passengers.

#### *KMB*

6. As at end June 2010, KMB operated 375 franchised routes with a fleet of 3,861 buses and employed about 12,000 staff. All KMB buses are equipped with Octopus auto-payment system and bus-stop announcement system. As at end June 2010, the average age of KMB’s fleet was 10.8 years with 96% of the buses air-conditioned. Due mainly to the commissioning of new railways, KMB’s average daily patronage decreased from 2.70 million in 2008 to 2.59 million in 2010 (January to June), representing a drop of about 4%.

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<sup>1</sup> As approved by the Chief Executive in Council on 8 December 2009, the value of productivity gain in the formula has been set at zero until the next review in three years’ time.

7. On the environmental front, as at end June 2010, 95% of KMB's fleet used Euro emission standard engines, and the company is progressively scrapping the remaining 202 pre-Euro buses. To further improve the environmental performance of its fleet, KMB is retrofitting diesel particulate filters ("DPFs") on its buses of Euro II and Euro III emission standards for completion by the end of 2010.

8. As regards bus safety, KMB's accident rate was 3.14 accidents per million vehicle-km for the past three years (2007 – 2009), compared with the average rate of 3.74 for the same period for all franchised bus operators. Before the Chief Executive in Council granted the existing franchise to KMB under the PBSO in January 2006, the company had undertaken to install black boxes<sup>2</sup> on its whole fleet. Up to end June 2010, 94.4% of KMB's buses were equipped with black boxes. The remaining 5.6% (217 buses) will be scrapped and replaced by new buses equipped with black boxes by 2012.

*LW*

9. As at end June 2010, LW operated 19 franchised routes with a fleet of 166 buses and employed about 460 staff. The average age of LW's fleet was 9 years, with all buses air-conditioned and equipped with Octopus auto-payment system and bus-stop announcement system. Due mainly to the outbreak of the global financial crisis in late 2008, LW's average daily patronage decreased from 78,900 in 2008 to 76,800 in 2010 (January to June), representing a drop of about 3%.

10. On the environmental front, all LW's buses are using Euro-II or above emission standard engines. To further improve the environmental performance of its fleet, LW is retrofitting DPFs on all its buses of Euro II and III emission standards for completion by the end of 2010.

11. As regards bus safety, LW's accident rate was below 1.5 accidents per million vehicle-km for the past three years (2007 – 2009). All LW's buses have been installed with black boxes.

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<sup>2</sup> Electronic tachograph installed on vehicles is commonly known as "black box". It records the operational data of the vehicle, such as journey speed, journey time, distance travelled, bus tilting angle, acceleration and deceleration, door opening, etc. It can be used for monitoring the drivers' performance and investigation of accidents.

## **Cost Saving Measures of the Franchised Bus Operators**

12. In the face of the increasingly difficult operating environment in recent years due to rising operating costs like staff costs, fuel costs, tunnel tolls and competition from other public transport modes, the two franchised bus operators have taken various cost saving measures. These include bus rationalisation and improvement of fleet utilisation to enhance network efficiency.

### **Advice sought**

13. Members are invited to comment on the fare increase applications made by KMB and LW.

Transport and Housing Bureau  
Transport Department  
November 2010