

**For discussion on  
14 December 2012**

**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 14 December 2012. This paper provides information on the mechanism that the Administration would follow to assess the fare adjustment application, 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 2012 for an average fare increase of 8.5%. KMB last increased its fare on 15 May 2011 by an overall average rate of 3.6%.

**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 Administration in its Legislative Council Brief issued in January 2006, in assessing franchised bus fare adjustment applications, the Administration would not set any guaranteed minimum level or ceiling of rate of return. Instead, it 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.

The Administration 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 Administration 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 by the Administration:

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

4. The Administration will make reference to the aforementioned basket of 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 by the Administration. The fare level will not be adjusted automatically according to the formula outcome. 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 CCPI<sup>1</sup>, the outcome of the formula is +4.34%<sup>2</sup>. In the mean time, MMHI has since the last fare increase gone up by 7.14%<sup>3</sup> and the change in CCPI is +5.46%<sup>4</sup>. These figures are for illustration only for the time being. When making a recommendation to ExCo,

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<sup>1</sup> Changes in WI for the period of June 2011 to June 2012 and CCPI for the period of May 2011 to October 2012.

<sup>2</sup> Detailed calculation is as follows:

$$0.5 \times 3.22\% + 0.5 \times 5.46\% - 0.5 \times 0\% = +4.34\%$$

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

<sup>3</sup> From the second quarter of 2011 to the third quarter of 2012.

<sup>4</sup> From May 2011 to October 2012.

we would report the latest statistics available at the time.

### **Operation of KMB**

7. As at end September 2012, key information of KMB's operation was as follows:

	<b>KMB (a)</b>	<b>All franchised bus companies (b)</b>	<b>(a) over (b)</b>
<b>Number of Routes</b>	375	567	66%
<b>Fleet</b>	3,841 buses	5,770 buses	67%
<b>Staff</b>	About 12,000 persons	About 18,000 persons	67%
<b>Patronage during the first three quarters in 2012 (as compared with the same period in 2011)</b>	2.56 million (+0.1%)	3.80 million (+1.0%)	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 2.85 accidents per million vehicle-km in 2011, vis-à-vis an industry average rate of 4.08 for the same period. Up to end-September 2012, basically 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, 82% (about 3,100 buses) of KMB's fleet is of Euro II or above emission standard as at end-September 2012. The

remaining 710 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 is working with the Environmental Protection Department on the trial to retrofit these buses with selective catalytic reduction devices to reduce emission of nitrogen oxides. KMB is also testing the use of hybrid and electric buses.

- (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, and most dissatisfied with frequency and reliability of services.
- (d) The Transport Complaints Unit of TAC received 2,100 complaints and suggestions in 2011 on KMB (about 55% of all franchised bus-related complaints and suggestions). The figure in 2012 is 2,504 up till end-September (about 57% of all franchised bus-related complaints and suggestions). About half of the complaints and suggestions received from 2011 to end-September 2012 on KMB are on "regularity of service".
- (e) KMB's lost trip rate was 8.0% in 2011, primarily a result of shortage of bus drivers and more congested traffic situation. The Administration has been very concerned about KMB's lost trip situation and has warned KMB to take effective remedial actions in different areas, including bus captain recruitment. With a more aggressive recruitment drive, the lost trip rate has come down notably. The figure was 3.22% in September 2012. TD will continue to closely monitor the situation.

#### *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 improve its bus network and rationalize bus routes to increase cost effectiveness, reduce wastage, alleviate pressure to increase fare, and lower roadside emission.

10. Whether improvement in bus network and route rationalization could be successfully implemented would hinge on the support of districts and the community. TD together with KMB is working hard to map out appropriate proposals.

**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  
December 2012**