

**For discussion on  
15 February 2019**

**Legislative Council Panel on Transport**

**Fare Increase Applications from  
The Kowloon Motor Bus Company (1933) Limited and  
Long Win Bus Company Limited**

**Purpose**

The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited (“LW”) submitted applications for fare increases. The applications are being considered by the Government. Representatives from the companies will brief Members on the details at the Panel meeting on 15 February 2019. This paper provides information on the mechanism that the Government would follow in assessing bus fare adjustment applications, as well as the operation of the two franchised bus companies.

**The Fare Increase Applications**

2. KWB and LW submitted applications on 7 September 2018 for fare increases at an average rate of 8.5%. KMB<sup>1</sup> and LW last increased their fares on 6 July 2014 and 15 May 2011 by an overall average rate of 3.9% and 3.2% respectively.

**Bus Fare Adjustment Arrangement**

3. Under section 13(1) of the Public Bus Services Ordinance (Cap. 230), fares of franchised bus services are to be charged according to

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<sup>1</sup> The fare increase for the cross-harbour routes jointly operated by KMB and Citybus Limited (Franchise for the Hong Kong Island and Cross-Harbour Bus Network) / New World First Bus Services Limited has been approved by the Chief Executive in Council with effect from 20 January 2019. Since the fare increase application from KMB is still being processed, the additional revenue received by KMB as a result of the fare increase for the above jointly operated cross-harbour routes will be credited to its Franchised Bus Toll Exemption Fund for reducing the magnitude of its current fare increase application.

a scale of fares determined by the Chief Executive in Council. Under the current Fare Adjustment Arrangement for Franchised Buses (“FAA”), the Government should take into account the following factors in assessing a bus fare increase application –

- (a) changes in operating costs and revenue since the last fare adjustment;
- (b) forecast of future costs, revenue and return;
- (c) the need to provide the bus operator with a reasonable rate of return<sup>2</sup>;
- (d) public acceptability and affordability<sup>3</sup>;
- (e) the quality and quantity of service provided; and
- (f) the outcome of the fare adjustment formula (i.e. a formula for a supportable fare adjustment rate), which is:

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

4. The Government will make reference to the aforementioned relevant factors and take into account views of Members of the Legislative Council Panel on Transport and the Transport Advisory Committee (“TAC”) before submitting its recommendation to the Executive Council.

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. Further, when assessing the financial performance of the bus operators, our consideration is to ensure that the operators will have sound financial capability in maintaining efficient and safe public bus service.

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<sup>2</sup> The Government would make reference to the Weighted Average Cost of Capital (“WACC”) of the bus industry in considering the reasonable rate of return of the bus operator. The current WACC is 8.7%.

<sup>3</sup> The Government would make reference to the changes in the Median Monthly Household Income (“MMHI”) and Composite Consumer Price Index (“CCPI”).

6. Based on the latest available WI and CCPI<sup>4</sup>, the outcome of the formula applicable to LW and KMB is +30.49% and +15.86%<sup>5</sup> respectively. Furthermore, up to the third quarter of 2018 (figure as of the fourth quarter last year has yet to be published), the changes in MMHI since the last fare increase of LW in May 2011 and that since the last fare increase of KMB in July 2014 are +47.45% and +22.98% respectively, while up to December 2018, the corresponding changes in CCPI are +25.49% and +10.62% respectively. These figures are for illustration only for the time being. When making recommendations to the Executive Council, we would report to it the latest figures available by then.

7. In addition, the Government has made legislative amendments to exempt the toll for franchised buses using government tolled tunnels and roads<sup>6</sup> with effect from 17 February 2019 with a view to relieving their fare increase pressure. In brief, each franchised bus operator will set up its own dedicated fund account, known as the “Franchised Bus Toll Exemption Fund” (“the Fund”) for keeping the toll saved. The Fund will be used for relieving the fare increase pressure of the corresponding franchised bus operators. The level of fare increase to be approved by the Chief Executive in Council for the franchised bus operators will take into account the mitigating effect of the Fund, so that the magnitude of the fare increase shouldered by passengers will be lowered.

## **Operation of KMB**

8. As at end-December 2018, the key information on the operation of KMB is as follows –

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<sup>4</sup> For LW, reference will be made to the changes in WI for the period between December 2010 and September 2018 and the changes in CCPI for the period between February 2011 and December 2018. For KMB, reference will be made to the changes in WI for the period between December 2013 and September 2018 and the changes in CCPI for the period between April 2014 and December 2018.

<sup>5</sup> Detailed calculation is as follows:

LW :  $0.5 \times 38.27\% + 0.5 \times 27.41\% - 0.3\% \times 94/12 = +30.49\%$

KMB :  $0.5 \times 22.86\% + 0.5 \times 11.65\% - 0.3\% \times 56/12 = +15.86\%$

<sup>6</sup> Including seven government tunnels (namely Aberdeen Tunnel, Cross-Harbour Tunnel, Eastern Harbour Crossing, Lion Rock Tunnel, Shing Mun Tunnel, Tate's Cairn Tunnel and Tseung Kwan O Tunnel) and two government roads (namely the toll area of the Tsing Ma Control Area and the Tsing Sha Control Area).

	<b>KMB (a)</b>	<b>All franchised bus companies (b)</b>	<b>(a) over (b) in %</b>
<b>Number of routes</b>	410	626	65.5%
<b>Fleet</b>	4 094 buses	6 151 buses	66.6%
<b>Staff</b>	12 111	18 306	66.2%
<b>Average daily patronage (as compared with 2017)</b>	2.801 million (+1.7%)	4.054 million (+2.2%)	69.1%

9. KMB procured 1 364 new buses in the period between 2016 and 2018 for service improvement. As at end-November 2018, the average age of KMB's fleet is about 6.77 years old, which is comparable to the average age of the franchised bus fleet in Hong Kong (6.07 years old).

#### *Performance of KMB*

10. In monitoring the quality and quantity of bus services, the Transport Department ("TD") takes 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 rates were 2.71, 2.96 and 3.90 accidents per million vehicle-km in 2016, 2017 and 2018 (as at November 2018) respectively, which were generally lower than the industry average rates of 4.31, 4.22 and 4.35 in 2016, 2017 and 2018 (as at November 2018) respectively. However, it was noted that KMB's accident rate in 2018 (as at November 2018) is higher than the accident rates for previous years and it includes a serious traffic accident involving a large number of casualties in February 2018. To enhance its operational safety, various measures have been/will be implemented by KMB as outlined in paragraphs 14 to 16 below.
- (b) On the environmental front, among KMB's entire fleet (4 094 buses), 4 012 buses (98.0%) have met Euro III or above emission standard. KMB has committed that all newly-procured buses will meet Euro VI standard. KMB is also participating in the two-year trial scheme of battery-electric buses on five routes (route nos. 284, 7M, 11D, 43M and 203C) with 14 battery-electric buses. The first batch commenced in end-2015 and the

second batch commenced in early June 2017.

- (c) According to the passenger satisfaction surveys on KMB's service, passengers are generally most satisfied with drivers' compliance with traffic regulations, barrier-free facilities on board and bus stop announcement system. They are most dissatisfied with the frequency and reliability of services.
- (d) The Transport Complaints Unit of the TAC received 3 088, 3 118 and 4 258 complaints and suggestions relating to KMB in 2016, 2017 and 2018 respectively (making up about 51.8%, 54.0% and 60.1% of all franchised bus-related complaints and suggestions in 2016, 2017 and 2018 respectively, while KMB's passenger volume accounting for around 68.4%, 69.5% and 69.2% of the industry total in 2016, 2017 and 2018 respectively).
- (e) KMB's lost trip rates were 1.5%, 2.0% and 3.3% in 2016, 2017 and 2018 respectively, vis-à-vis the industry average rates of 1.6%, 2.0% and 2.9% in 2016, 2017 and 2018 respectively, primarily as a result of driver shortage and traffic congestion. The Government has been very concerned about the reliability of franchised bus services and has demanded KMB to take effective actions in bus captain recruitment and make adjustments to the scheduled journey time having regard to the actual traffic condition.
- (f) KMB has provided a number of fare concessions under its new franchise, including the KMB-Tram interchange discount, the long-haul route (i.e. with an adult fare of \$12 or above) fare concession scheme for full-time students, under which students can enjoy concessionary half fare on their return trips, as well as 13 new bus-bus interchange concession schemes introduced on 1 July 2017. Moreover, KMB launched a monthly pass scheme on 1 March 2018 to offer a certain degree of concession to passengers who frequently use KMB routes, as well as those who frequently use the longer-haul routes charging a higher fare.

As at end-2018, the entire fleet of KMB has been equipped with the Estimated Time of Arrival system. Under a subsidy scheme introduced by the Government, KMB is installing real-time bus arrival information display panels at suitable covered bus stops with electricity supply. Subject to the site constraints, KMB

targets to complete the installation of such display panels at about 1 000 bus stops under the scheme by 2019-20. Under its new franchise, KMB has also undertaken to offer free Wi-Fi service in the bus compartments of 2 000 buses, and to conduct a trial scheme to provide passengers in the lower deck of the bus compartment with information on seat vacancy of the upper deck. At present, KMB has provided free Wi-Fi service in 2 500 buses, and is conducting tests on the display units providing information on seat vacancy of the upper deck.

## **Operation of LW**

11. As at end-December 2018, the key information on the operation of LW is as follows –

	<b>LW (a)</b>	<b>All franchised bus companies (b)</b>	<b>(a) over (b) in %</b>
<b>Number of routes</b>	34	626	5.4%
<b>Fleet</b>	261 buses	6 151 buses	4.2%
<b>Staff</b>	741	18 306	4.0%
<b>Average daily patronage (as compared with 2017)</b>	0.114 million (+6.2%)	4.054 million (+2.2%)	2.8%

12. LW procured 103 new buses from 2016 to 2018 for service improvement. As at end-November 2018, the average age of LW's fleet is about 4.73 years old, which is younger than the average age of the franchised bus fleet in Hong Kong (6.07 years old).

## *Performance of LW*

13. The assessment on the quality and quantity of bus services provided by LW is as follows –

- (a) In terms of safety, LW's accident rates were 0.93, 1.28 and 1.48 accidents per million vehicle-km in 2016, 2017 and 2018 (as at November 2018) respectively, which were generally lower than the industry average rates of 4.31, 4.22 and 4.35 in 2016, 2017 and 2018 (as at November 2018) respectively. To enhance its operational safety, various measures have been/will be implemented by LW as outlined in paragraphs 14 to 16 below.
- (b) On the environmental front, as at end-December 2018, among LW's entire fleet of 261 buses, 247 buses (94.6%) have met Euro IV or above emission standard. LW has committed that all newly-procured buses will meet Euro VI emission standard. LW is also participating in the two-year trial scheme of battery-electric buses on two routes (route nos. E31 and S64) with four battery-electric buses. The first batch commenced in early July 2017 and the second batch commenced in early February 2018.
- (c) According to the passenger satisfaction surveys on LW's service, passengers are generally most satisfied with drivers' compliance with traffic regulations, barrier-free facilities on board and bus stop announcement system. They are most dissatisfied with the frequency and reliability of bus services.
- (d) The Transport Complaints Unit of the TAC received 214, 269 and 269 complaints and suggestions relating to LW in 2016, 2017 and 2018 respectively (making up about 3.6%, 4.7% and 3.8% of all franchised bus-related complaints and suggestions in 2016, 2017 and 2018 respectively, while LW's passenger volume accounting for around 2.6%, 2.7% and 2.8% of the industry total in 2016, 2017 and 2018 respectively).
- (e) LW's lost trip rates were 0.7%, 1.4% and 1.0% in 2016, 2017 and 2018 respectively, vis-à-vis the industry average rates of 1.6% and 2.0% and 2.9% in 2016, 2017 and 2018 respectively, primarily as a result of driver shortage. The Government has been very concerned about the reliability of franchised bus services and has demanded LW to take effective actions in bus captain recruitment.
- (f) As at end-2018, the entire fleet of LW has been equipped with the Estimated Time of Arrival system. Under a subsidy scheme introduced by the Government, LW is installing real-time bus

arrival information display panels at suitable covered bus stops with electricity supply. Subject to the site constraints, LW targets to complete the installation of such display panels at about 10 bus stops under the scheme by 2019-20.

### **Improvements on bus safety**

14. KMB and LW have completed the upgrading of the blackbox systems of their bus fleets in the third quarter of 2018. At present, they have real-time alerts through the blackbox for speeding, excessive deceleration and acceleration. With a view to enhancing the operational safety of franchised buses, the TD has set up a Working Group on the Enhancement of Safety of Franchised Buses and meets with the franchised bus operators and bus manufacturers regularly to discuss, study, implement, and promote various measures to enhance the safety of franchised buses. The TD will, in conjunction with the franchised bus operators and relevant experts, continue to actively follow up on the work concerned, including the application of technologies/installation of in-vehicle devices to assist safe driving, enhancing the training and working environment for bus captains, strengthening bus accident analyses and safety performance management, as well as enhancing the general road and infrastructure safety and introducing more bus-friendly measures.

15. In this regard, KMB and LW have taken forward the trial of bus monitoring and control system and geo-fencing technology. KMB and LW have also each committed to equipping the new buses to be procured from July 2018 with the following safety features -

- (a) electronic stability control - this device can detect and reduce the loss of traction, e.g. skidding, so as to enhance the stability of a bus;
- (b) active speeding limiting - the maximum bus speed is capped at 70 km/hour downhill by engaging a retarder; and
- (c) seat belts to be equipped on all seats – all passenger seats on the lower and upper decks of the bus will be equipped with seat belts.

The Government will follow up with the franchised bus operators (including KMB and LW) on the feasibility and cost-benefit analysis of retrofitting the above three safety features on in-service franchised buses and discuss with them details of the retrofitting programmes. Moreover,



KMB and LW have committed to further exploring the technical feasibility and desirability of other new technologies, such as driver monitoring devices, with the Government.

16. KMB and LW have also committed to further strengthening their internal monitoring systems in respect of their bus drivers' safe driving skills and service performance, including random checks on the operational data recorded in black boxes, on-board monitoring by plain-clothed staff, monitoring bus drivers' traffic offences, and breath tests conducted on bus drivers. They will also enhance their training programmes for bus captains, including providing customer skills and emotion management training in the induction training for new recruits and refresher training for in-service bus captains.

17. Regarding the various recommendations put forward by the Independent Review Committee on Hong Kong's Franchised Bus Service for enhancing the safety of franchised buses, including reporting of accident data, bus captain training and the arrangements on bus captains' working hours and rest time, etc, the Government will continue to actively follow up with the franchised bus operators (including KMB and LW).

### **Advice Sought**

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

**Transport and Housing Bureau  
Transport Department  
February 2019**