

立法會

Legislative Council

LC Paper No. CB(1)549/05-06

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seen by the Administration)

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Panel on Transport

Minutes of special meeting held on Thursday, 17 November 2005, at 2:30 pm in the Chamber of the Legislative Council Building

- Members present** : Hon LAU Kong-wah, JP (Chairman)
Hon Andrew CHENG Kar-foo (Deputy Chairman)
Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP
Hon LAU Chin-shek, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon LI Fung-ying, BBS, JP
Hon Albert CHAN Wai-yip
Hon WONG Kwok-hing, MH
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Albert Jinghan CHENG
- Member attending** : Hon Emily LAU Wai-hing, JP
- Members absent** : Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP
Hon TAM Yiu-chung, GBS, JP
Hon Abraham SHEK Lai-him, JP
Hon Tommy CHEUNG Yu-yan, JP
Hon LEE Wing-tat
Hon LEUNG Kwok-hung
Hon CHEUNG Hok-ming, SBS, JP

**Public Officers
attending**

: Agenda item I

Dr Sarah LIAO
Secretary for the Environment, Transport and Works

Mr Joshua LAW
Permanent Secretary for the Environment, Transport and
Works

Miss Cathy CHU
Deputy Secretary for the Environment, Transport and Works

Miss Angela LEE
Principal Assistant Secretary for the Environment, Transport
and Works

Mr K M LEE
Chief Treasury Accountant (Transport)
Environment, Transport and Works Bureau

Mr Alan WONG
Commissioner for Transport

Ms Carolina YIP
Deputy Commissioner for Transport/
Transport Services and Management

Mr Albert YUEN
Assistant Commissioner/Bus and Railway
Transport Department

Mr W M WONG
Principal Transport Officer/Bus and Railway
Transport Department

Clerk in attendance : Mr Andy LAU
Chief Council Secretary (1)2

Staff in attendance : Ms Anita SIT
Senior Council Secretary (1)9

Miss Winnie CHENG
Legislative Assistant (1)5

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I Review of the basis for considering bus fare adjustment and application for new franchises

- (LC Paper No. CB(1)309/05-06(01) - Information paper on "Review of the Basis for Considering Bus Fare Adjustments" provided by the Administration
- LC Paper No. CB(1)309/05-06(02) - Information paper on "Application for New Franchises by Citybus Limited (Franchise for Hong Kong Island and Cross Harbour Routes), New Lantao Bus Company (1973) Limited and Kowloon Motor Bus Company (1933) Limited" provided by the Administration
- LC Paper No. CB(1)309/05-06(03) - A set of presentation materials on "Review of the Basis for Considering Bus Fare Adjustments" provided by the Administration (in Chinese only)
- LC Paper No. CB(1)310/05-06 - Background brief on "Review of the Basis for Considering Bus Fare Adjustments" prepared by the Secretariat)

The above papers were tabled at the meeting and were issued vide LC Paper No. CB(1)309/05-06 on 18 November 2005.

2. The Secretary for the Environment, Transport and Works (SETW) briefed members on the Administration's proposed modifications to the existing Modified Basket of Factors (MBOF) approach for considering bus fare adjustments.

3. The Commissioner for Transport (C for T) briefed members on the Administration's assessment on the applications for new franchises by Citybus Limited (Franchise for Hong Kong Island and Cross Harbour Routes), New Lantao Bus Company (1973) Limited and Kowloon Motor Bus Company (1933) Limited.

4. Mr WONG Kwok-hing congratulated SETW for having come up with the new fare adjustment arrangement which would allow bus fares to go upward and downward, though it was somehow overdue. Referring to the fare reduction initiatives agreed to be provided by franchised bus companies, Mr WONG commented that there should be fare reduction for short-distance routes and further fare reduction for medium-distance routes. He asked whether it was possible to provide 10% fare reduction on routes where the single fare was between \$10 and \$14.9 and 5% fare reduction on routes where the single fare was below \$10. He also asked why the opportunity was not taken to provide concessionary fares for persons with disabilities (PwDs).

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5. SETW said that during the past deflationary period, bus companies had spent some \$800 million in total on fare concession initiatives. According to the Administration's research findings, bus fares for short distance routes in Hong Kong were relatively low compared to those of other major cities, and the fares for longer distance routes in Hong Kong were relatively higher than those in some of the overseas cities examined. The research findings also revealed that the high transportation expenses incurred by those affected were one of the factors affecting Hong Kong people's propensity for cross-district employment. Hence, from the angle of promoting employment and assisting those who were most in need, the Administration considered it appropriate to provide greater fare reduction for those who needed to travel longer distances to work.

6. As regards the provision of concessionary public transport fares for PwDs, SETW said that the subject involved welfare issues. She understood that the House Committee would set up a subcommittee to study the subject.

7. Ms Miriam LAU clarified that the proposal for setting up a subcommittee to study the provision of concessionary public transport fares for PwDs would be considered by the House Committee on 18 November 2005. Hence, there was not yet a decision on the proposal.

8. Regarding the arrangement whereby any return achieved by a franchised bus company exceeding a certain rate of return would be shared equally on a 50/50 basis between the company and passengers, Mr WONG Kwok-hing enquired how the new triggering point, i.e. 9.7% of the Weighted Average Cost of Capital (WACC), for the sharing of return had been determined. The Permanent Secretary for the Environment, Transport and Works (PS/ETW) advised that the new triggering point had been derived by the Government's consultant taking into account relevant financial data (including the prevailing risk-free return rate, debt risk premium, equity risk premium etc.) of the market reflecting the costs of debt and equity for the bus industry.

9. Mr CHENG Kar-foo said that the accumulative deflation rate over the past deflationary period was some 15%. Now the fare reduction initiatives would benefit only about one-fourth of the total daily bus patronage, and the fare reduction was provided on condition of advance payment of the day return fare. Moreover, if inflation persisted upon the implementation of the new fare adjustment arrangement, bus passengers would have to face a fare increase very soon. As such, a majority of bus passengers would have to suffer from a fare increase before they could benefit at all from the new fare adjustment arrangement. This was grossly unfair to bus passengers. He therefore urged SETW to continue to negotiate with bus companies for a more favourable package of fare reduction initiatives. He considered that at least, there should be 10% reduction on all routes. Secondly, he was concerned that bus companies would be quick in initiating a fare increase while the Administration would be slow in initiating a fare reduction upon implementation of the new arrangement. To avoid this scenario and to ensure that public interest was safeguarded, the Legislative Council (LegCo) should have a role in initiating fare adjustment. He opined that the new bus

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fare adjustment arrangement and the role of LegCo in initiating fare adjustment should be enshrined in the Public Bus Services Ordinance (Cap. 230) (PBSO).

10. SETW remarked that it would not be appropriate or justifiable to implement a new arrangement that was simply meant to recoup the “loss” sustained in the past. Hence, the accumulative deflation rate should not form the basis for the new fare adjustment arrangement. She appealed to members’ understanding that the Administration had made strenuous efforts to reflect the public’s needs and in return had secured the bus companies’ agreement to implement fare reduction initiatives. She believed that the present package of fare reduction initiatives was reasonable and could serve the objective of benefiting those who were most in need of transportation cost relief.

11. As regards the concern that the Administration would be slow in initiating fare reduction, SETW pointed out that the wage index and the Composite Consumer Price Index (CCPI), which were the two major components of the formula for initiating changes in bus fares, were open data published by Census and Statistics Department on a quarterly and monthly basis respectively. Any changes in the outcome of the formula was open to the public and could be easily monitored. The Administration would monitor the supportable fare change by applying the fare adjustment formula on a quarterly basis and would consider initiating a downward fare adjustment after having considered the outcome of the formula and all relevant factors under the MBOF approach. On the other hand, any application for fare increase by bus companies was subject to the approval of the Chief Executive-in-Council (CE-in-Council). As it had been provided in the PBSO that the scale of bus fares was determined by CE-in-Council and the proposed modification to MBOF approach would be adequately reflected in the new franchises to be granted to bus companies, the Administration did not see the need to resort to legislative measures to effect the new arrangement.

12. Noting that the formula for initiating changes in bus fares was only a starting point for considering bus fare adjustment, and a number of other factors would still need to be considered in determining fare adjustment, Ms Miriam LAU commented that strictly speaking, the proposed new fare adjustment arrangement could not be regarded as a new “mechanism” and somehow fell short of her expectation for a highly responsive and objective fare adjustment mechanism. Notwithstanding, she accepted that introduction of the formula for initiating fare changes was an improvement to the existing arrangement. She also considered it an achievement of the Administration that the franchised bus companies had agreed to lower the existing triggering point for activating the passenger reward arrangement from 13% return on average net fixed asset to a WACC of 9.7%. On the fare reduction initiatives, she commented that the condition of advance payment of the day return fare was rather harsh and asked whether the condition could be relaxed. She also sought clarification on whether the fare reduction initiatives would apply to jointly operated cross harbour routes.

13. SETW responded that the proposed new fare adjustment arrangement was not meant to be applied in a mechanical manner. The Administration believed that the

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public at large and LegCo Members would prefer an arrangement which would allow flexibility so that all relevant factors could be taken into account in determining fare adjustment. Under the proposed new arrangement, CE-in-Council would retain the ultimate control in determining bus fares and the Administration would continue to consult this Panel on fare adjustment proposals.

14. SETW confirmed that the franchised bus companies had agreed that the fare reduction initiatives would apply to jointly operated cross harbour routes. Due to the need to resolve the technical issues relating to upgrading of software/hardware of the Octopus system, the implementation date of the fare reduction initiatives on these routes would be announced by the bus companies separately.

15. As regards the condition of advance payment of the day return fare, SETW said that the Administration had discussed this aspect with the bus companies at length. The bus companies refused to provide fare reduction on the single-trip basis. The Administration appreciated that from the bus companies' angle, they would wish to restrict the fare reduction to those passengers who constantly patronized their services.

16. Ms Miriam LAU expressed concern on whether the new fare adjustment arrangement could duly take into account any loss of fare revenue incurred by franchised bus companies as a result of Government's policies such as the implementation of railway projects. SETW advised that Government's transport policy with regard to the respective roles of various public transport modes and railway development plans had been clearly stated in the Railway Development Strategy 2000. The Strategy had also set out the long-term vision of the market share of railway and other public transport modes. Given the very clear Government policy, it would be up to franchised bus companies to decide how they would operate their services to achieve their target returns.

17. Mr Albert CHAN said that SETW's sincerity and efforts on formulating an objective and transparent fare adjustment mechanism should be recognized. He also took the opportunity to thank SETW on behalf of the residents in Tung Chung and Tin Shui Wai for the fare reduction initiatives. He however commented that at this point in time, it was difficult to assess whether the new mechanism could adequately safeguard public interest. A major shortcoming of the new mechanism was that it did not apply to the two railway corporations. He considered that being the sole owner of the Kowloon-Canton Railway Corporation (KCRC) and majority shareholder of MTR Corporation Limited (MTRCL), the Government should not delay the implementation of meaningful fare reduction and a new fare adjustment mechanism which allowed upward and downward adjustment for railways. The Administration should take this up as a matter of urgency without awaiting the materialization of the merger of the two railway corporations.

18. Mr Albert CHAN was concerned that franchised bus companies would be able to use financial techniques to circumvent the new mechanism. He asked how the Administration would ensure that upon implementation of the new mechanism, public

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interest would not be jeopardized through the use of financial techniques or other unscrupulous means by franchised bus companies.

19. SETW responded that as the current franchises of the three franchised bus companies were due to expire in one to two years' time and the bus companies had applied for the granting of new franchises, the Administration could take the opportunity to negotiate with the companies for modifications to the existing approach for bus fare adjustments and for fare reduction. Similarly, for railways, the Administration considered it appropriate to take the opportunity of the merger of the two railway corporations to introduce the mechanism. The two corporations were required by law to operate according to prudent commercial principles and the Government must abide by the respective agreements with the corporations. She remarked that the "adoption of a more objective and transparent fare adjustment mechanism" and "abolition of the second boarding charge and review of the fare structure with the objective of reducing fares" were two of the five key parameters set by the Government for the merger discussion between MTRCL and KCRC. She appealed for members' understanding and patience on the matter.

20. As regards the concern about possible technical loopholes of the proposed new arrangement, SETW said that the Administration came up with the new arrangement only after very detailed research and extensive consultation with experts. The Administration believed that the new arrangement did not have technical loopholes that could be exploited by franchised bus companies.

21. Ms Emily LAU said that the proposed new fare adjustment arrangement was indeed overdue. She considered that apart from franchised bus services, the fare adjustment mechanisms for other public transport services particularly railway services should also be rectified to allow upward and downward adjustment. She shared other members' concern that the fare reduction initiatives would benefit only one-fourth of the total daily bus patronage and that advance payment of the day return fare as a condition for fare reduction was too harsh to be acceptable. She asked whether there was any room to improve the fare reduction initiatives. She also urged the Administration to satisfactorily address the demand of the disabled community for the provision of concessionary public transport fares, which was supported by LegCo Members.

22. Ms LI Fung-ying commented that with the condition of advance payment of the day return fare, a large portion of bus passengers would not be able to benefit from the fare reduction initiatives at all. This was unfair to them.

23. SETW said that Hong Kong had not experienced deflation for a very long period until the aftermath of the Asian financial crisis in the late 1990s. Thus, the existing public transport fare adjustment arrangements, when designed, had not taken into account the circumstances under a deflationary period. The Administration had encountered substantial difficulties in the course of working out the new arrangement for bus fare adjustment. While she understood that the public wanted a greater extent of

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fare reduction, the Administration must balance various considerations, including the need to enable the franchised bus companies to maintain viable operation, in formulating the new arrangement. Indeed, the present package was a result of lengthy negotiation with the bus companies. As regards the condition of advance payment of the day return fare, she said that the position of the bus companies was understandable though the condition was not satisfactory for some passengers.

24. Ms LI Fung-ying was concerned whether the fare reduction initiatives were applicable to selected routes based on bus companies' preferences. PS/ETW clarified that under the fare reduction initiatives, 15% fare reduction would apply to all routes where the single fare was \$15 or above and 5% fare reduction would apply to all routes where the single fare was between \$10 and \$14.9 (except airport "A" routes, recreation routes and racecourse routes where the 15% and 5% fare reduction would not apply).. He also informed members that about one-third and 38% of these two groups of routes respectively were operating at a loss.

25. SETW assured members that franchised bus companies had the obligation to provide bus service for areas in need notwithstanding that they might incur losses on certain routes. The routings and bus schedules of franchised bus companies required the approval of the Transport Department, which would consult the relevant District Councils in determining the routings and schedules.

26. The Chairman sought clarification on a statement in the Administration's presentation notes that "the fare reduction initiatives would be maintained for three years and would be reviewed in conjunction with the new fare adjustment arrangement thereafter." He specifically asked whether the Administration would consider any fare increase application within the next three years.

27. SETW confirmed that the bus companies were not allowed to withdraw the fare reduction initiatives within the next three years. Upon implementation of the new fare adjustment arrangement, any fare adjustment application would be handled according to the new arrangement. Moreover, each fare application would be considered independently from previous applications.

28. Mr Albert Jinghan CHENG said that although the proposed new fare adjustment arrangement was long overdue, he found the new arrangement acceptable. In his view, the Government had strong bargaining power in the negotiation with franchised bus companies on the granting of new franchises, particularly in respect of issues relating to environmental improvement measures and the provision of concessionary fares for PwDs. He pointed out that PwDs used public transport services mainly during non-peak hours. Providing concessionary fares for PwDs would boost the patronage of bus services during non-peak hours and hence would also benefit bus companies. He urged the Administration to include this aspect in the negotiation with bus companies on new franchises. He asked whether the Government would require bus companies to use liquefied petroleum gas (LPG) buses, which were widely used in overseas countries to help reduce roadside emission, for those routes plying on level roads. He also sought

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clarification on whether revenue from bus related ancillary/add-on services, such as on-bus advertisements, would be taken into account for determining bus fare adjustment.

29. Ms Emily LAU also urged the Administration to take the opportunity of the granting of new franchises to implement vigorous environmental improvement measures.

30. SETW advised that the Administration had been very concerned about the implementation of environmental improvement measures by franchised bus companies and had been encouraging them to increase the number of buses that used less polluting fuels such as LPG and hydrogen.

31. C for T said that under the new franchises, bus companies were required to deploy buses of Euro II or above standards and rationalize routings to reduce the number of bus trips in busy corridors to help reduce roadside emission. The various environmental improvement measures that would be implemented under the new franchises were set out in the Administration's paper on the applications for new franchises (LC Paper No. CB(1)309/05-06(02)). He also advised that revenue from bus related ancillary/add-on services, such as on-bus advertisements, would be included in the franchised account and taken into account in determining bus fare adjustment under the new arrangement. In the past, non-fare box revenue accounted for about 2% of the total revenue of franchised bus companies.

32. The Chairman said that the subjects of review of the basis for considering bus fare adjustments and applications for new franchises would be further discussed at the Panel meeting on 25 November 2005.

II Any other business

33. There being no other business, the meeting ended at 3:40 pm.