Application for Renewal of Bus Franchises
(i) Citybus Limited (Franchise for Airport and North Lantau routes) ("Citybus (Franchise 2)")
(ii) Long Win Bus Company Limited ("Long Win")
(iii) New World First Bus Services Limited ("NWFB")
- Supplementary Information

## Introduction

At the last Panel meeting on 24 May 2002, Members discussed the Administration's assessment of the applications from Citybus (Franchise 2), Long Win and NWFB to renew their franchises for 10 years to take effect upon expiry of their current franchises in 2003, and the major changes to the terms of the proposed new franchises. In response to views expressed by Members at the meeting, this paper provides supplementary information on measures proposed by the three bus operators to enhance the efficiency of their operation and on a number of proposed changes to the terms of the franchises.

## Measures to enhance efficiency of operation

2. Efficiency of bus operation can be enhanced through the implementation of the following measures:

(a) introduction of bus-bus interchange ("BBI") schemes to reduce the need for new or long haul routes to meet passenger demand;

(b) redeployment of surplus buses from existing routes to better match changing demand;

(c) rerouting of existing bus routes to meet new demand;

(d) truncation of existing routes where appropriate to reduce operating mileage and save bus and other resources; and

(e) cancellation of low-demand routes where appropriate.

Bus operators make plans for implementing any of these measures mainly through their 5-Year Route Development Programmes ("RDP") submitted to Transport Department ("TD") every year. Under the current RDPs which cover the period 2002-2006, Citybus (Franchise 2), Long Win and NWFB have plans to introduce BBI schemes, redeploy surplus buses from existing routes, reroute existing routes, and truncate/cancel low demand routes. The operators would also work with TD to plan and introduce additional measures in response to changes in passenger demand or the operating environment.

3. In addition to the above measures, the three operators also have plans to introduce other efficiency measures such as better administration of operation to reduce fuel consumption. The above measures are aimed to help the operators keep their costs down and relieve pressure for bus fare increase.

## Fare Adjustments

4. We have considered the suggestion to include a new clause in the proposed new franchises stipulating the requirement for the grantees to consider various relevant factors such as public affordability and the companies' operating conditions when applying for increasing or reducing their fares.

5. Under the Public Bus Services Ordinance (the Ordinance), the Chief Executive in Council may determine the scale of bus fares. This Panel was consulted in October 2000 on the Administration's proposals to improve the bus fare setting mechanism, and in December 2000 the Chief Executive in Council promulgated the "Modified Basket of Factors' ("MBOF") Approach which provides the basis for considering bus fare adjustment applications. A key element of the MBOF Approach is that in considering bus fare adjustment applications, the Administration would take into account a basket of factors[Note].

6. Taking into account Members' views, we are prepared to introduce a clause in the proposed new franchises to the effect that the grantees would take into account a basket of factors when applying for adjustment to bus fares. These factors would include public affordability and the operating conditions of the grantees.

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[Note] The basket of factors 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;
(d) public acceptability and affordability; and
(e) the quality and quantity of service provided.

Investment on Securities

7. We informed Members at the last meeting that we would introduce a new provision in the proposed new franchises requiring the grantees to seek prior consent from the Commissioner for Transport ("the Commissioner") for investment in securities. A question was asked as to whether this new requirement would be inconsistent with the free market principle advocated in Hong Kong.

8. The Administration has no intention to impose unnecessary interference in the commercial operation of bus companies. Basically, only if the investment on securities is to be made from funds generated from the grantees' franchise account, prior consent from the Commissioner would be required. Such consent would not be unreasonably withheld or delayed. The new requirement is aimed to safeguard passengers' interest by minimizing any possible negative impact of operators' investment in securities on fares.

Bus-Bus Interchange ("BBI") Schemes

9. We have considered the suggestion to add a provision in the proposed new franchises to require the grantees to implement concessionary BBI schemes as instructed by the Commissioner. As Members are aware, one of our priority tasks is to encourage bus operators to introduce more BBI schemes. 21 new schemes were introduced in 2001 and another 19 schemes have been introduced since January this year. These include sole-operator schemes as well as joint-operator schemes.

10. The introduction of a BBI scheme involves a number of considerations. These include the feasibility of the scheme, its commercial viability, efficiency in the use of resources, selection of routes, traffic impact, and impact on passengers and other public transport operators which will all need to be examined carefully. We do not consider it appropriate to add a rigid provision in the proposed new franchises on the introduction of BBI schemes. However we will continue to encourage and facilitate bus operators to introduce more BBI schemes as a matter of priority.

Transport Bureau
24 June 2002