

Legislative Council Panel on Transport
Fare Increase Applications by Citybus Limited and
New World First Bus Services Limited

Purpose

Citybus Limited (“Citybus”) and New World First Bus Services Limited (“NWFB”) have submitted applications for fare increases. This paper provides updated information relating to the bus fare adjustment arrangement and the franchised bus operations of these two companies. Citybus and NWFB representatives will brief Members on their fare increase applications at the meeting of the Panel on Transport on 25 April 2008. Members are invited to comment on these applications.

Background

2. Citybus (Franchise for Hong Kong Island and Cross-harbour Bus Services) (“Citybus (Franchise 1)”), Citybus (Franchise for North Lantau and Chek Lap Kok Airport Services) (“Citybus (Franchise 2)”) and NWFB each applied for a fare increase of 5.8%. Citybus (Franchise 1) last increased its fares on 1 December 1997 by an overall weighted average rate of 6% whereas NWFB last increased its fares on 22 April 2001 by an overall weighted average rate of 2.4%. Citybus (Franchise 2) started to operate a bus network serving the Airport at Chek Lap Kok and North Lantau to and from the urban area since mid 1997. Its fares have not been adjusted since then.

Bus Fare Adjustment Arrangement¹

3. The bus fare adjustment arrangement approved by the Chief Executive-in-Council (“CE-in-Council”) on 10 January 2006 included the following factors for consideration:

- (a) changes in operating costs and revenue since the last fare adjustment;
- (b) forecasts of future costs, revenue and return;

¹ For details about the bus fare adjustment arrangement, please refer to the Legislative Council Brief issued in January 2006.

- (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 (“WACC”) of the bus industry. The WACC calculated for the franchised bus industry is 9.7%;
- (d) public acceptability and affordability. Reference should be made to the magnitude of change in monthly median 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 x Change in Wage Index + 0.5 x Change in CCPI – 0.5 x Productivity Gain).

Fare Adjustment Formula

4. As stated in the Legislative Council Brief issued in January 2006, the formula in paragraph 3(f) above will not operate as an automatic determinant of the bus fare adjustment outcome. We will use the outcome of the formula as a reference indicator in considering whether the fare adjustment rate is supportable and justifiable at a given juncture. The CE-in-Council will continue to retain the ultimate control in determining bus fares as currently provided in the Public Bus Services Ordinance (Chapter 230) to ensure all relevant factors under the bus fare adjustment arrangement will be considered.

5. Based on the CCPI for March 2008 and the wage index for the transport sector in the fourth quarter of 2007, the updated outcome of the formula is +4.67%, details of which is as follows –

$$0.5 \times 6.811\%^2 + 0.5 \times 3.838\%^3 - 0.3\% \times 26/12^4 = 4.67\%$$

The above outcome of the formula is for reference at this juncture. When we continue to process the fare increase applications from the bus companies, we will appropriately update the outcome based on the updated CCPI and nominal wage index for the transport sector to be published.

² Change in CCPI from January 2006 to March 2008.

³ Change in wage index for the transport sector from the first quarter of 2006 to the fourth quarter of 2007.

⁴ Productivity gain for the period from 10 January 2006 to March 2008.

Public Acceptability and Affordability

6. The MMHI has increased by 2.9% from the first quarter of 2006 to the fourth quarter of 2007. Similarly, we will make reference to the updated MMHI when we continue to process the fare increase applications from the bus companies.

Consultation with the Transport Advisory Committee (“TAC”) and Panel on Transport

7. Under the bus fare adjustment arrangement, the Administration would continue the practice of consulting TAC and the Panel on Transport on the bus fare adjustment applications before submitting its recommendation to the CE-in-Council.

Service Performance

Citybus (Franchise 1)

8. As at end 2007, Citybus (Franchise 1) operated 94 franchised routes with a fleet of 747 buses and employed about 2,200 staff. At end 2007, the average age of Citybus (Franchise 1)'s fleet was 11.1 years with 100% buses air-conditioned. Since its last fare adjustment on 1 December 1997, Citybus (Franchise 1)'s average daily patronage increased from 0.47 million in 1998 to its peak of 0.56 million in 2002, and gradually decreased to 0.52 million in 2007.

9. On the environmental front, as at end 2007, 93.6% of Citybus (Franchise 1)'s fleet was using Euro emission standard engines and the company will progressively retire the remaining pre-Euro buses. To further improve the environmental performance of its fleet, Citybus (Franchise 1) has retrofitted diesel particulate filters (“DPFs”) on its buses of Euro III emission standard at end 2007, and will complete retrofitting buses of Euro II emission standard by end 2009.

10. On safety, Citybus (Franchise 1)'s average accident rate was 4.75 accidents per million vehicle-km for the past three years. Before the CE-in-Council granted the existing franchise to Citybus (Franchise 1) in January 2006, the company had undertaken to install black boxes⁵ on its whole fleet. Up to end 2007, 17.5% of Citybus (Franchise 1)'s buses have

⁵ Electronic tachograph installed on vehicles is commonly known as "black box". It records the operation 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 accident investigation.

been equipped with black boxes. It plans to complete the installation exercise by September 2008.

11. Citybus (Franchise 1) has also improved its fleet since its last fare adjustment by installing Octopus auto-payment system on all of its buses. It plans to complete the installation of bus-stop announcement system on its entire bus fleet by September 2008.

Citybus (Franchise 2)

12. As at end 2007, Citybus (Franchise 2) operated 18 franchised routes with a fleet of 172 buses and employed about 672 staff. The average age of Citybus (Franchise 2)'s fleet was 9.3 years, with 100% buses air-conditioned. Citybus (Franchise 2)'s average daily patronage since the commencement of its operation increased from 31,200 in 1998 to 60,600 in 2007.

13. On the environmental front, 98% of Citybus (Franchise 2)'s fleet was using Euro II emission standard engines as at end 2007. Only four buses of its fleet were of Euro I emission standard equipped with diesel catalytic converters and Citybus (Franchise 2) plans to retire them in 2009/10. To further improve the environmental performance of its fleet, Citybus (Franchise 2) plans to retrofit DPFs on all its buses of Euro II emission standards where technically feasible by end 2009⁶.

14. As regards safety, Citybus (Franchise 2)'s accident rate has remained below 2.1 accidents per million vehicle-km for the past three years. Up to end 2007, 3% of Citybus (Franchise 2)'s buses have been equipped with black boxes. It plans to complete the installation exercise by end 2009.

15. Citybus (Franchise 2) has also improved its fleet by installing Octopus auto-payment system on its entire fleet and bus-stop announcement system on 42% of its fleet. It plans to complete the installation of the bus-stop announcement system on its entire fleet by end 2009.

NWFB

16. As at end 2007, NWFB operated 98 franchised routes with a fleet of 694 buses and employed about 2,200 staff. The average age of NWFB's fleet was 9.3 years with 100% buses air-conditioned. Since its last fare adjustment in April 2001, NWFB's average daily patronage increased from 0.53 million in 2001 to its peak of 0.54 million in 2002, and gradually decreased to 0.51 million in 2007.

⁶ Citybus (Franchise 2) does not have any buses of Euro III emission standard.

17. On the environmental front, as at end 2007, 93.2% of NWFB's fleet was using Euro emission standard engines and the company will progressively retire the remaining pre-Euro buses. To further improve the environmental performance of its fleet, NWFB has retrofitted DPFs on the buses of Euro III emission standard at end 2007, and will complete retrofitting buses of Euro II emission standard by end 2009.

18. As regards safety, NWFB's average accident rate was 5.8 accidents per million vehicle-km for the past three years. Up to end 2007, 4.9% of NWFB's buses have been equipped with black boxes. It plans to complete the installation exercise by end 2009.

19. NWFB has also improved its fleet by completing the installation of Octopus auto-payment system on its entire fleet since its last fare adjustment. It plans to install bus-stop announcement system on its entire fleet by end 2009.

Cost Saving Measures of the Franchised Bus Companies

20. In the face of the increasingly difficult operating environment in recent years due to rising operating costs like fuel and staff costs as well as tunnel tolls and competition from other public transport modes, Citybus (Franchise 1), Citybus (Franchise 2) and NWFB have taken various cost saving measures. These include bus rationalisation and improvement of fleet utilisation to improve network efficiency. Besides, Citybus and NWFB have undergone corporate re-structuring since March 2004, which helps enhance the efficient use of the depot, staff and management resources, etc. of the two companies.

Advice sought

21. Members are invited to provide comments on the fare increase applications made by Citybus (Franchise 1), Citybus (Franchise 2) and NWFB.