

立法會
Legislative Council

LC Paper No. CB(1)481/10-11

Ref. : CB1/PL/TP

Panel on Transport
Meeting on 26 November 2010

Updated background brief on
fare adjustment arrangement for franchised buses

Purpose

This paper provides background information on the existing fare adjustment arrangement for franchised buses and summarizes the discussions held by Legislative Council (LegCo) Members on the fare adjustment arrangement.

Background

2. Under Section 13(1) of the Public Bus Services Ordinance (Cap. 230) (PBSO), the scale of bus fares is determined by the Chief Executive-in-Council (CE-in-Council). As endorsed by CE-in-Council in 2000, the Administration took into account a basket of factors known as the Modified Basket of Factors (MBOF) approach in assessing bus fare adjustment for the purpose of making recommendations to CE-in-Council. These factors included -

- (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 affordability¹; and
- (e) quantity and quality of service provided.

3. However, there had been suggestions that the above bus fare adjustment arrangement should be modified to ensure that bus companies would reduce bus fares in economic downturn. LegCo Members had actively followed up the issue at meetings of the Council and the Panel on Transport (the Panel) since the first LegCo and had called on the Administration to reduce transport fares and improve the bus fare adjustment arrangement to enable upward and downward fare adjustments. The relevant motions and questions moved/raised at Council meetings are in **Appendix I**.

Modifications to the Modified Basket of Factors approach in 2006

4. In order to enhance the responsiveness and objectivity of the bus fare adjustment process, the Administration refined the MBOF approach for considering bus fare adjustment in January 2006. The main objectives of the proposed modifications were to enable upward and downward bus fare adjustments in accordance with the prevailing economic conditions, and to enhance the objectivity of bus fare adjustment while maintaining the flexibility to consider the factors embodied in the MBOF approach.

5. Under the revised arrangement, a formula (supportable fare adjustment rate = 0.5 x Change in Wage Index + 0.5 x Change in Composite Consumer Price Index (CCPI) – 0.5 x Productivity Gain) has been included as an additional factor in the MBOF approach to enable upward and downward fare adjustments. However, the formula does not operate as an automatic determinant of fare adjustment outcome. The Administration uses the outcome of the formula as a reference indicator in considering whether the fare adjustment rate is supportable and justifiable at a given juncture. CE-in-Council retains the ultimate power in determining bus fares and it will take into account all relevant factors including public affordability and the bus operators' financial viability. The modifications made in January 2006 also specified that the new fare adjustment arrangement would be reviewed in three years' time (i.e. 2009).

¹ In considering public acceptability and affordability of bus fare adjustment, reference is made to the magnitude of change in median household income, in addition to change in the Composite Consumer Price Index.

Review of the current fare adjustment arrangement for franchised buses

6. In October 2009, the Administration completed a review of fare adjustment arrangement for franchised buses and reported to the Panel on the outcome. The Administration advised that the bus fare adjustment formula had provided an objective starting point for considering fare adjustment applications. In considering public acceptability and affordability, reference was made to the median monthly household income and also changes in CCPI, which could reflect the macro economic situation. The Administration also decided not to accede to a request from bus operators for inclusion of a fuel price change element to the bus fare adjustment formula which served as the reference indicator in bus fare adjustment.

Discussion of LegCo Members on implementation of the new bus fare adjustment arrangement

Fare increase applications from franchised bus operators in 2007-2008

7. While the objective of the new bus fare adjustment arrangement was to enable downward bus fare adjustments, all franchised bus operators applied for fare increases in 2007-2008 as a result of soaring fuel prices. At the Council meeting on 17 October 2007, Hon LEE Wing-tat moved a motion on the bus fare adjustment arrangement and the bus fare increase applications. Members generally considered the rate of bus fare increase too high, and various suggestions were made during the motion debate –

- (a) more sectional fares and BBI concessions should be provided;
- (b) special elderly concessions on bus services, particularly during Sundays and public holidays should be provided;
- (c) daily, weekly or monthly bus passes should be provided; and
- (d) appropriate assistance to people with disabilities, including the introduction of half-fare concessions to people with disabilities, should be provided.

8. When the Panel was briefed on the fare increase applications from KMB, LWB, New Lantao Bus Company (1973) Limited (NLB), Citybus and NWFB at the meetings on 22 February and 25 April 2008, some

members expressed concern that the rates of bus fare increases were always higher than those worked out according to the bus fare adjustment formula, and that the formula had failed to reflect the actual profit situations of the bus operators. The Panel was keen to ensure that public affordability would be adequately taken into account in any bus fare adjustments. Some members considered it unfair that at time of economic downturn, the bus companies could refuse to adjust the fare downwards whereas, when there was a slight economic recovery, these companies immediately sought bus fare increases. At the meeting on 22 February 2008, the Panel urged the bus operators to, in the spirit of corporate social responsibility, refrain from significantly increasing their fares, and passed the following motion –

"This Panel objects to the applications for substantial fare increases by franchised bus companies, and urges the Government to, when vetting the applications for fare increases by these companies, fully take into account the fact that they had never reduced fares during the period when a cumulative deflation rate of over 11.4% was recorded, and to reject the applications for fare increases by these companies, including the Kowloon Motor Bus Company Limited, on the basis of this fact; this Panel also urges the Government to further improve the relevant fare adjustment formula."

9. At the above meetings in February and April 2008, the Panel also explored various possible measures to stabilize bus fares, including the provision of fuel subsidy and operation subsidy, operation of bus services by the Government, setting up of a fare stabilization fund, granting of property development rights to bus operators, introduction of improvements to network efficiency, relaxation of restrictions on bus body and shelter advertising, etc.

10. At the meeting of the Executive Council on 20 May 2008, the six fare increase applications made by five bus companies were considered. CE-in-Council approved five applications to increase fare level with effect from 8 June 2008. The relevant LegCo Brief [File Ref.: THB(T)L 2/4/120] was issued on 21 May 2008. All the approved fare increase rates, except that of NLB, were lower than the applied fare increase rates. Details are as follows –

Bus Company	Proposed fare increase rate in the application	Approved average fare increase rate
KMB	9%	4.5%
LWB	5.9%	4.5%
NLB	7.24%	7.24%
Citybus (Franchise for Hong Kong Island and Cross-harbour Routes)	5.8%	2%
Citybus (Franchise for North Lantau and Chek Lap Kok Airport)	5.8%	0%
NWFB	5.8%	5%

11. The Administration advised that ExCo had taken balanced consideration of all relevant factors under the new bus fare adjustment arrangement introduced in 2006, including changes in operating costs and revenue since last fare adjustment; forecasts of future costs, revenue and return; the need to provide the operator with a reasonable rate of return; the quality and quantity of service provided; the outcome of the formula; and public acceptability and affordability.

Miscalculation of the wage figures of the transport services sector used in the bus fare adjustment formula

12. With the onset of the financial tsunami towards the end of 2008, there have been calls for reduction of bus fares in consideration of the substantial reduction in operating costs of bus companies as a result of the sustained low level of international oil prices, anticipated increase in bus patronage due to the sustained economic downturn, and general household income decline. The quarterly wage indices are a factor taken into account in the bus fare adjustment formula. The quarterly wage indices for December 2008 released by the Census and Statistics Department (C&SD) on 26 March 2009 raised hopes for bus fare reduction because, based on the relevant nominal wage index for the transport services sector and the CCPI for February 2009, the then quarterly outcome of the bus fare adjustment formula was -3.03%, which exceeded the -2% triggering point for the review of bus fares. However, C&SD announced on 15 April 2009 that there was miscalculation of the wage figures of the transport services sector used in the bus fare adjustment formula. In the light of the rectified nominal wage index for the transport services sector in December 2008, the Government re-calculated the bus fare adjustment formula outcome. The revised quarterly bus fare adjustment formula outcome was

-1.26%. The incident had aroused wide public concern.

13. The Panel discussed the incident of miscalculation of wage figures on 24 April 2009. Members noted that in the Labour Earnings Survey concerned, some establishments provided only raw information which had to be converted by manual computation before they could be used for compiling average wages. The error of C&SD was caused by a mistake committed by its staff concerned in performing manual computation. Members noted that C&SD had implemented a number of enhancement measures, e.g. strengthening the sensitivity of data quality checks as well as enhancing the data verification process and staff training, to avoid recurrence of similar incidents. Some members considered the conversion of raw information by manual computation undesirable and proposed that the Administration should impose a statutory requirement on public transport operators to provide C&SD with computed figures in place of raw information. A member opined that given the economic environment, bus fare adjustment should still be introduced in consideration of such other factors as public affordability and the economic situation.

Review outcome of the existing fare adjustment arrangement for franchised buses

14. The Panel discussed the review outcome of fare adjustment arrangement for franchised buses at its meeting on 23 October 2009. Panel members in general expressed support for the Administration's decision not to include a fuel price change element as the reference indicator in bus fare adjustment, as passengers would otherwise have to bear frequent and drastic fare adjustments due to short-term changes in fuel costs and that bus operators might pass their fuel cost to passengers. The Panel also called for measures to help alleviate the heavy financial burden arising from public transport expenses on the grassroots. In particular, the Panel urged the Administration to encourage bus companies to offer section fares and greater interchange discounts.

Latest development

15. The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited have separately submitted fare increase applications. The Administration has proposed to consult the Panel on these applications at the meeting on 27 November 2010.

16. A list of relevant papers is in **Appendix II**.

Council Business Division 1
Legislative Council Secretariat
22 November 2010

Relevant motions and questions moved/raised at Council meetings

Motions

At the Council meeting on 14 November 2001, Hon LAU Kong-wah moved a motion urging the Government to discuss with various public transport operators with a view to expeditiously reducing the fares of public transport services.

(<http://www.legco.gov.hk/yr01-02/english/counmtg/hansard/cm1114ti-translate-e.pdf>)

2. At the Council meeting on 23 October 2002, Hon Andrew CHENG moved a motion urging the Administration to discuss with various public transport operators with a view to reducing expeditiously the fares of transport services and, at the same time, establishing a fare adjustment mechanism, so as to alleviate the burden on people's livelihood. (<http://www.legco.gov.hk/yr02-03/english/counmtg/hansard/cm1023ti-translate-e.pdf>)

3. At the Council meeting on 12 November 2003, Hon Andrew CHENG moved a motion urging the Administration to refine the public transport fare system. (<http://www.legco.gov.hk/yr03-04/english/counmtg/hansard/cm1112ti-translate-e.pdf>)

4. At the Council meeting on 14 December 2005, Hon Andrew CHENG moved a motion urging the Administration to expeditiously implement a fare adjustment mechanism that allowed the fares to go upward and downward. (<http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm1214ti-translate-e.pdf>)

5. At the Council meeting on 4 November 2009, Hon CHEUNG Hok-ming moved a motion urging the Government to discuss with various public transport operators and adopt effective measures to alleviate the burden of travelling expenses on the public. (<http://www.legco.gov.hk/yr09-10/english/counmtg/hansard/cm1104-translate-e.pdf>)

Questions

5.3.2003	Hon Abraham SHEK raised a written question on the progress of the Administration's study on public transport fare adjustment mechanism (http://www.legco.gov.hk/yr02-03/english/counmtg/hansard/cm0305ti-translate-e.pdf)
5.5.2004	Hon Andrew CHENG raised an oral question on measures to alleviate the burden of traveling expenses on students (http://www.legco.gov.hk/yr03-04/english/counmtg/hansard/cm0505ti-translate-e.pdf)
8.6.2005	Hon TAM Yiu-chung raised an oral question on public transport fare adjustment mechanism (http://www.legco.gov.hk/yr04-05/english/counmtg/hansard/cm0608ti-translate-e.pdf)
22.6.2005	Hon LAU Kong-wah raised an oral question on fare concessions offered by public transport operators (http://www.legco.gov.hk/yr04-05/english/counmtg/hansard/cm0622ti-translate-e.pdf)
22.3.2006	Hon CHEUNG Hok-ming raised a written question on the delayed implementation of fare discounts on jointly operated cross-harbour routes (http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm0322ti-translate-e.pdf)
25.4.2007	Hon CHEUNG Hok-ming raised a written question on bus fare concession initiatives (http://www.legco.gov.hk/yr06-07/english/counmtg/hansard/cm0425-translate-e.pdf)
2.5.2007	Hon Andrew CHENG raised an oral question on fare adjustments of public transport (http://www.legco.gov.hk/yr06-07/english/counmtg/hansard/cm0502-translate-e.pdf)

19.12.2007	Hon Albert CHAN raised a written question on sectional fares for franchised bus routes (http://www.legco.gov.hk/yr07-08/english/counmtg/hansard/cm1219-translate-e.pdf)
11.3.2009	Hon Frederick FUNG raised a written question on fares of KMB and fare adjustment mechanism (http://www.legco.gov.hk/yr08-09/english/counmtg/hansard/cm0311-translate-e.pdf)
13.1.2010	Hon CHEUNG Hok-ming raised an oral question on measures to alleviate economic pressure on members of the public (http://www.legco.gov.hk/yr09-10/english/counmtg/hansard/cm0113-translate-e.pdf)

Fare adjustment arrangement for franchised buses

List of relevant papers

Date of meeting of Panel on Transport	Minutes/Paper	LC Paper No.
27.10.2000	Minutes of the meeting	CB(1)208/00-01 http://www.legco.gov.hk/yr00-01/english/panels/tp/minutes/tp271000.pdf
	Administration's paper on Review of the basis for considering bus fare adjustments	http://www.legco.gov.hk/yr00-01/english/panels/tp/papers/a100e03.pdf
23.2.2001	Minutes of the meeting	CB(1)1260/00-01 http://www.legco.gov.hk/yr00-01/english/panels/tp/minutes/tp230201.pdf
	Administration's paper on New World First Bus Services Limited's Application for Fare Increase - Background Information	http://www.legco.gov.hk/yr00-01/english/panels/tp/papers/a622e03.pdf
14.1.2003	Minutes of the meeting	CB(1)940/02-03 http://www.legco.gov.hk/yr02-03/english/panels/tp/minutes/tp030114.pdf

Date of meeting of Panel on Transport	Minutes/Paper	LC Paper No.
21.3.2003	Minutes of the meeting	CB(1)1456/02-03 http://www.legco.gov.hk/yr02-03/english/panels/tp/minutes/tp030321.pdf
	Administration's paper on the progress of the implementation of bus-bus interchange schemes	http://www.legco.gov.hk/yr02-03/english/panels/tp/papers/tp0321cb1-1132-3e.pdf
	Administration's information note on deduction of bus-bus interchange fares	http://www.legco.gov.hk/yr02-03/english/panels/tp/papers/tp0321cb1-26-1e.pdf
1.8.2003	Minutes of the meeting	CB(1)2435/02-03 http://www.legco.gov.hk/yr02-03/english/panels/tp/minutes/tp030801.pdf
	Administration's paper on public transport fares	http://www.legco.gov.hk/yr02-03/english/panels/tp/papers/tp0801cb1-2291-2e.pdf
	Administration's supplementary note on public transport fares	http://www.legco.gov.hk/yr02-03/english/panels/tp/papers/tp0801cb1-2335-2e.pdf
28.11.2003	Minutes of the meeting	CB(1)589/03-04 http://www.legco.gov.hk/yr03-04/english/panels/tp/minutes/tp031128.pdf
14.1.2004	Minutes of the meeting	CB(1)1021/03-04 http://www.legco.gov.hk/yr03-04/english/panels/tp/minutes/tp040114.pdf

Date of meeting of Panel on Transport	Minutes/Paper	LC Paper No.
17.11.2005 25.11.2005 16.12.2005	Minutes of the meetings	<p>CB(1)549/05-06 http://www.legco.gov.hk/yr05-06/english/panels/tp/minutes/tp051117.pdf</p> <p>CB(1)694/05-06 http://www.legco.gov.hk/yr05-06/english/panels/tp/minutes/tp051125.pdf</p> <p>CB(1)713/05-06 http://www.legco.gov.hk/yr05-06/english/panels/tp/minutes/tp051216.pdf</p>
	Administration's paper on review of the basis for considering bus fare adjustments	http://www.legco.gov.hk/yr05-06/english/panels/tp/papers/tp1117cb1-309-1e.pdf
	Administration's 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"	http://www.legco.gov.hk/yr05-06/english/panels/tp/papers/tp1117cb1-309-2e.pdf
	Background brief on "Review of the basis for considering bus fare adjustments"	http://www.legco.gov.hk/yr05-06/english/panels/tp/papers/tp1117cb1-310-e.pdf
1.2006	Legislative Council brief on "Review of the basis for considering bus fare adjustments"	http://www.legco.gov.hk/yr05-06/english/panels/tp/papers/etwb0601e.pdf

Date of meeting of Panel on Transport	Minutes/Paper	LC Paper No.
22.2.2008	Administration's paper on fare increase applications by franchised bus companies	CB(1)828/07-08(01) http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp0222cb1-828-1-e.pdf
	Minutes of the meeting	CB(1)1123/07-08 http://www.legco.gov.hk/yr07-08/english/panels/tp/minutes/tp080222.pdf
25.4.2008	Administration's paper on fare increase applications by Citybus Limited and New World First Bus Services Limited	CB(1)1317/07-08(05) http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp0425cb1-1317-5-e.pdf
	Minutes of the meeting	CB(1)1975/07-08 http://www.legco.gov.hk/yr07-08/english/panels/tp/minutes/tp080425.pdf
24.4.2009	Administration's paper on rectification of the wage indices and consequential revision to fare adjustment formula outcomes	CB(1)1337/08-09(06) http://www.legco.gov.hk/yr08-09/english/panels/tp/papers/tp0424cb1-1337-6-e.pdf
	Minutes of the meeting	CB(1)2541/08-09 http://www.legco.gov.hk/yr08-09/english/panels/tp/minutes/tp20090424.pdf
23.10.2009	Administration's paper on review of fare adjustment arrangement for franchised buses	CB(1)65/09-10(03) http://www.legco.gov.hk/yr09-10/english/panels/tp/papers/tp1023cb1-65-3-e.pdf

Date of meeting of Panel on Transport	Minutes/Paper	LC Paper No.
	Minutes of the meeting	CB(1)922/09-10 http://www.legco.gov.hk/yr09-10/english/panels/tp/minutes/tp20091023.pdf

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