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來函檔號 YOUR REF.: CB4/PL/TP

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14 April 2015

Secretary General  
Legislative Council Secretariat  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong  
(Attn.: Ms. Sophie LAU)  
[Fax no.: 2978 7569]

Dear Ms. LAU,

Thank you for your letter dated 27 March 2015. I am writing to provide information in response to Hon Tony TSE Wai-chuen's question relating to the Fare Adjustment Arrangement for Franchised Buses ("FAA") raised at the Legislative Council Panel on Transport meeting on 20 March 2015.

According to the FAA, the Government would take into account a basket of factors in considering a franchised bus fare adjustment application for the purpose of making recommendations to the Executive Council. These factors include -

- (i) changes in operating costs and revenue since the last fare adjustment;
- (ii) forecasts of future costs, revenue and return;
- (iii) the need to provide the bus operator with a reasonable rate of return;
- (iv) public acceptability and affordability;
- (v) quality and quantity of service provided; and
- (vi) outcome of a fare adjustment formula.

The above-mentioned formula, introduced since 2006, is -

$$\begin{aligned} & (0.5 \times \text{Change in Nominal Wage Index for the Transportation Section}) \\ & + (0.5 \times \text{Change in Composite Consumer Price Index ("CCPI")}) \\ & - (0.5 \times \text{Productivity Gain}). \end{aligned}$$

The CCPI is an index on consumer prices compiled and published by the Census and Statistics Department regularly. Changes in fuel price is included in CCPI. The current weighting is about 0.59%.

The fare adjustment formula would be applied on a quarterly basis. If the formula outcome reaches -2%, the Government would proactively initiate a fare review. The above-mentioned basket of factors would be taken into account in the review. Because of an inflationary environment, the formula outcome has been staying at the positive level since it was introduced.

As regards the above-mentioned factors (i) and (ii), the operating costs of franchised buses are made up of various components apart from fuel cost. These include wage expense, maintenance and insurance. At present, fuel cost constitutes about 20% of the total costs of franchised bus operation.

Yours sincerely,

(Peggy NG)  
for Secretary for Transport and Housing