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2 March 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 2 February 2015 enclosing the Hon. TANG Ka-piu's letter of 27 January 2015 to the Chairman of the Legislative Council Panel on Transport regarding the impact of the drop in oil prices on the fares of franchised bus and ferry services.

The Government is aware of the concerns that the public has over the fares of public transport services. We are of the view that fares should be set at a reasonable level, having regard to the acceptability and affordability of the public on the one hand, and the long-term financial sustainability of public transport operators on the other hand. This is to ensure that the public can continue to enjoy quality and cost-effective services as well as modal choices.

Franchised buses

In respect of franchised bus service, the Government would take into account a basket of factors in considering the need for any fare adjustment and the rate of the adjustment, according to the Fare Adjustment Arrangement for Franchised Buses ("FAA"). These factors include:-

- (i) outcome of the formula for supportable fare adjustment rate (“the formula”)¹;
- (ii) changes in operating costs and revenue since the last fare adjustment;
- (iii) forecasts of future costs, revenue and return;
- (iv) the need to provide the bus operators with a reasonable rate of return;
- (v) public acceptability and affordability; and
- (vi) quality and quantity of service provided.

The formula reflects the marco-economic situation, particularly with respect to the changes in the wage for the transportation section and Composite Consumer Price Index (“CCPI”). Changes in fuel price are included in CCPI. According to the established arrangement, the formula would be applied on a quarterly basis. If the formula outcome reaches -2%, the Government would proactively initiate a fare review. The factors mentioned under (ii) to (vi) above would be taken into account in the review.

Moreover, there is a passenger reward arrangement under the FAA. According to the current arrangement, the passenger reward arrangement would be triggered when the rate of return for an operator reaches or exceeds the threshold of 9.7% as a result of changes in the overall costs and revenue. The operator would then have to share the profit above the threshold as fare concessions with the passengers on an equal basis. Some franchised buses have been offering fare concessions to passengers under this arrangement over the past few years.

Six major outlying island ferry routes

In 2015/16, the Government will conduct a mid-term review on the provision of special helping measures (“SHMs”) for the six major outlying island ferry routes² during the three-year licence period from mid-2014 to mid-2017. The purpose of the review is to examine the effectiveness of the SHMs.

The Government has been providing the SHMs for the six major outlying island ferry routes since 2011. The reason for providing SHMs is

¹ The formula is $(0.5 \times \text{Change in Nominal Wage Index for the Transportation Section}) + (0.5 \times \text{Change in Composite Consumer Price Index}) - (0.5 \times \text{Productivity Gain})$.

² The six major outlying island ferry routes are “Central – Cheung Chau”; “Inter-islands” serving Peng Chau, Mui Wo, Chi Ma Wan and Cheung Chau; “Central – Mui Wo”; “Central – Peng Chau”; “Central – Yung Shue Wan”; and “Central – Sok Kwu Wan”.

that ferry is basically the only means of external mode of transport for these outlying islands³. These ferry services are indispensable. Nor is there any suitable alternative transport service. Without the provision of SHMs by the Government, either there will be huge fare increases, or these ferry services will have to be terminated due to financial losses. The policy objectives of the SHMs are to enhance the long-term financial viability of these ferry services and alleviate the pressure of fare increase. When launching the SHMs, the Government has stated clearly that the SHMs have to take into account the need to support essential services which otherwise would not be financially viable, but also the considerations that outlying island residents should bear appropriate fare responsibility. Issues to be covered in the review include whether the SHMs have achieved the above policy objectives, and whether adjustments to the SHMs are necessary.

When conducting the Topical Study of the Public Transport Strategy Study, the Government will also examine the role of ferries vis-à-vis other public transport services and possible ways to maintain their long-term financial viability. The Government will report to the Legislative Council as appropriate.

In any event, any fare adjustment should take into account changes in the overall costs and revenue. It must be pointed out that although changes in fuel prices would inevitably affect the operating costs of public transport services, the operating costs are made up of various components, including wage expense, maintenance and insurance. The expenditure on various cost components (particularly the labour cost) have basically been increasing in recent years.

The Government will continue to keep the situation in view and handle matters relating to the fares of public transport services according to the established mechanisms.

Yours sincerely,

(Peggy NG)
for Secretary for Transport and Housing

c.c. Commissioner for Transport (Attn.: Mr. KWONG Ka-yin)

³ Mui Wo is the only outlying island area also linked by a road network, but its cross-district land-based public transport services are limited.