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來函檔號 YOUR REF.:

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18 March 2015

[English translation for reference only]

The Honourable Michael TIEN
Chairman
Legislative Council Panel on Transport
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn.: Ms Sophie LAU)
[Fax no.: 2978 7569]

Dear Mr TIEN,

Pursuant to the Public Bus Services Ordinance (Cap. 230 of Hong Kong Laws), fares of franchised buses are determined by the Chief Executive in Council (“CE-in-Council”). According to the current Fare Adjustment Arrangement for Franchised Buses (“FAA”), the Government would take into account a basket of factors in assessing franchised bus fare adjustment applications for the purpose of making recommendations to the CE-in-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 formula¹.

¹ The fare adjustment formula is 0.5 x Change in Nominal Wage Index for the Transportation Section + 0.5 x Change in Composite Consumer Price Index – 0.5 x Productivity Gain.

The FAA, based on the basket of factors above, has been implemented since 2006. In 2009, we conducted a FAA review and concluded that:

- (i) in assessing franchised bus fare adjustment, the Government would continue to take into account the same basket of factors;
- (ii) the components and their weightings in the fare adjustment formula would be maintained, but the value of productivity gain in the formula would be set at zero until the next review. A separate fuel cost element should not be added to the formula;
- (iii) in assessing the reasonable rate of return to franchised bus operators, reference would continue to be made to the 9.7% rate of return on average net fixed asset;
- (iv) the existing passenger reward arrangement (i.e. the triggering point for sharing of return on a 50:50 basis between bus operators and passengers would be set at 9.7%) would be maintained; and
- (v) the procedure of fare adjustment (i.e. the Government would proactively initiate a comprehensive fare review when the formula outcome reaches the -2% threshold) would be maintained.

The Legislative Council (“LegCo”) Panel on Transport (“Panel”) was consulted on the outcome of the review in October 2009. Subsequently, with the approval of the CE-in-Council on the outcome of the review, the Government issued a LegCo Brief in December 2009 (File Ref.: THB(T) CR 3/5595/00).

We commenced another round of FAA review in 2013 and originally planned to brief the Panel on its outcome in the second quarter of this year. This item is now one of the outstanding items for discussion at the meeting of the Panel in April.

An important feature of the current FAA is that the Government would take into account a basket of factors in assessing the fare increase rate proposed by a franchised bus operator. Costs and revenue are one of the many factors for consideration. Public affordability and acceptability would also be taken into account. With the experience of implementing the FAA over the years and as we pointed out in our LegCo paper to the Panel (LC Paper No. CB(1)409/12-13(03)) on “2013 Policy Address – Transport-related Policy Initiatives of the Transport and Housing Bureau”, we consider that the FAA is in general operating smoothly and has gained public acceptance. Hence, we have no intention to effect any change to its basic operation. The

current review aims at examining whether there is room for improvement regarding the detailed operation of the six individual factors under the FAA. The objective is to ensure that public interests will continue to be best protected and healthy development of franchised bus services can be sustained.

The comparatively substantial and persistent fluctuation in oil prices since mid-2014 may have an impact on the operating costs of franchised bus services. We will continue to keep the situation in view and carefully assess the actual impact of such fluctuation on the annual operating costs of franchised bus services, so as to consider the impact on the operation of the factors as they now feature under the FAA. To this end, we will conduct an in-depth analysis when the operational data for the period from mid-2014 to mid-2015 becomes available in the third quarter of this year. We expect to brief the Panel on the overall outcome of the FAA review in around early next year.

Yours sincerely,

[signed]

(Carrie CHANG)

for Secretary for Transport and Housing

c.c.: Commissioner for Transport (Attn.: Mr Reginald CHAN)