

**For discussion on
15 June 2018**

Legislative Council Panel on Transport

Fare Increase Applications from Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network) and New World First Bus Services Limited

Purpose

The Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network) (“Citybus (Franchise 1)”) and New World First Bus Services Limited (“NWFB”) submitted applications for fare increases. The applications are being considered by the Government. Representatives from the companies will brief Members on the details at the Panel meeting on 15 June 2018. This paper provides information on the mechanism that the Government would follow in assessing bus fare adjustment applications, as well as the operation of the two franchised bus operators.

The Fare Increase Applications

2. Citybus (Franchise 1) and NWFB submitted applications on 24 August 2017 for fare increases at an average rate of 12%. Citybus (Franchise 1)¹ and NWFB last increased their fares on 8 June 2008 by an overall average rate of 2.0% and 5.0% respectively.

Bus Fare Adjustment Arrangement

3. Under section 13(1) of the Public Bus Services Ordinance (Cap. 230), fares of franchised bus services are to be charged according to a scale of fares determined by the Chief Executive in Council. Under the current Fare

¹ The fare of cross-harbour routes for Citybus (Franchise 1) was last increased on 8 June 2008 while the fare of local routes for Citybus (Franchise 1) was last increased on 1 December 1997.

Adjustment Arrangement for franchised buses (“FAA”)², the Government should take into account the following factors in assessing a bus fare increase application

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- (a) changes in operating costs and revenue since the last fare adjustment;
- (b) forecast of future costs, revenue and return;
- (c) the need to provide the operator with a reasonable rate of return. The Government would make reference to the Weighted Average Cost of Capital of the bus industry in considering the reasonable rate of return;
- (d) public acceptability and affordability. The Government would make reference to changes in Median Monthly Household Income (“MMHI”) and Composite Consumer Price Index (“CCPI”);
- (e) the quality and quantity of service provided; and
- (f) a formula for a supportable fare adjustment rate = $0.5 \times \text{Change in Wage Index for the Transportation Section (“WI”) + 0.5 \times \text{Change in CCPI} - 0.5 \times \text{Productivity Gain}$.

4. The Government will make reference to the aforementioned relevant factors, as well as take into account view of Members of the Panel on Transport and the Transport Advisory Committee (“TAC”) before submitting its recommendation to the Executive Council.

5. It is noteworthy that the formula outcome under paragraph 3(f) above is only for reference. The fare level will not be adjusted automatically according to it. Further, when assessing the financial performance of the bus operators, our consideration is to ensure that the operators will have sound financial capability in maintaining quality public bus service.

² As set out in the Public Transport Strategy Study, which was announced in June 2017, the Government is conducting a review on the FAA. The initial findings are that the arrangement should be kept intact, while the Productivity Gain value used in the supportable fare adjustment rate formula may revert from a negative value computed in the last review to a positive value and the triggering threshold for the passenger reward arrangement of 9.7% may be adjusted downwards slightly. The Government expects to conclude the exercise and implement the updated FAA within this year, subject to approval by the Chief Executive in Council.

6. Based on the latest available WI and CCPI³, the formula outcome is +32.85%⁴. In the meantime, the change in MMHI from the last fare increase in June 2008 to the first quarter of 2018 is +56.11%, and the change in CCPI up to April 2018 (figure as of May has yet to be published) is +32.46%. These figures are for illustration only for the time being. When making a recommendation to Executive Council in due course, we would report to it the latest figures available at the time.

Operation of Citybus (Franchise 1)

7. As at end-December 2017, the key information on the operation of Citybus (Franchise 1) was as follows –

	Citybus (Franchise 1) (a)	All franchised bus companies (b)	(a) over (b)
Number of routes	84	599	14%
Fleet	738 buses	5 982 buses	12%
Staff	About 2 315 persons	About 18 040 persons	13%
Average daily patronage in 2017 (as compared with 2016)	0.49 million (-8.4%)	3.97 million (+0.2%)	12%

8. Citybus (Franchise 1) procured 260 new buses from 2015 to 2017 for service improvement. As at end-December 2017, the average age of Citybus (Franchise 1)'s fleet is about 4.1 years old, which is younger than the average age of the franchised bus fleet in Hong Kong (6.6 years old).

Performance of Citybus (Franchise 1)

9. In monitoring the quality and quantity of bus services, the Transport Department ("TD") takes into account objective indicators such as the findings of passenger satisfaction surveys and site surveys, complaint figures and accident rates. The assessment is as follows –

³ Change in WI for the period of June 2008 to December 2017 and change in CCPI for the period of June 2008 to April 2018.

⁴ Detailed calculation is as follows: $0.5 \times 33.24\% + 0.5 \times 32.46\% - 0.5 \times 0\% = +32.85\%$

- (a) In terms of safety, Citybus (Franchise 1)'s accident rate was 4.84, 4.64 and 4.90 accidents per million vehicle-km in 2015, 2016 and 2017 respectively, vis-à-vis an industry average rate of 4.33, 4.31 and 4.22 in 2015, 2016 and 2017 respectively. Most of Citybus (Franchise 1) routes are operating in the highly urbanised northern shore of Hong Kong Island, and there might be higher accident rates on busy roads with heavy traffic as well as intensive pedestrian and kerbside activities. Citybus (Franchise 1) is committed to enhance bus safety. Paragraphs 13 – 15 below outlined the various measures implemented / to be implemented by Citybus (Franchise 1) in this regard.
- (b) On the environmental front, 100% (738 buses) of Citybus (Franchise 1)'s fleet were of Euro III or above emission standard. Citybus (Franchise 1) has committed that all new buses placed will be of Euro VI standard. Citybus (Franchise 1) is also participating in the two-year trial scheme of battery-electric buses on three routes (route nos. 11, 12 and 25A) with six battery-electric buses. The first batch commenced in end-2015 and the second batch commenced in early-June 2017.
- (c) According to the passenger satisfaction surveys on Citybus (Franchise 1)'s service, passengers are generally most satisfied with drivers' compliance with traffic regulations, barrier-free facilities on board and bus stop announcement system. They are most dissatisfied with the frequency and reliability of services.
- (d) The Transport Complaints Unit of the TAC received 543, 478 and 395 complaints and suggestions relating to Citybus (Franchise 1) in 2015, 2016 and 2017 respectively (making up about 9%, 8% and 7% of all franchised bus-related complaints and suggestions in 2015, 2016 and 2017 respectively, when Citybus (Franchise 1)'s passenger volume account for around 14%, 14% and 12% of the industry total in 2015, 2016 and 2017 respectively).
- (e) Citybus (Franchise 1)'s lost trip rates were 1.7%, 2.0% and 1.9% in 2015, 2016 and 2017 respectively, vis-à-vis an industry average rate of 1.4%, 1.6% and 2.0% in 2015, 2016 and 2017 respectively, primarily as a result of driver shortage and traffic congestion. The Government has been very concerned about the reliability of franchised bus services and has demanded Citybus (Franchise 1) to take effective actions in bus captain recruitment and make adjustments to scheduled journey time having regard to prevailing traffic condition.

- (f) Citybus (Franchise 1) has achieved good progress on implementing the Estimated Time of Arrival system (“ETA system”) committed under its new franchise starting from 1 June 2016. As at end-May 2018, Citybus (Franchise 1) has fully implemented the ETA system for all of its routes on schedule. Citybus (Franchise 1) is also installing real-time bus arrival display panels at covered bus stops with electrical installation where appropriate under the government subsidy scheme. Subject to site constraints, it targets to complete the installation of such display panels at about 150 bus stops under the scheme by 2019/20.

Operation of NWFB

10. As at end-December 2017, the key information on the operation of NWFB was as follows –

	NWFB (a)	All franchised bus companies (b)	(a) over (b)
Number of routes	93	599	16%
Fleet	702 buses	5 982 buses	12%
Staff	About 2 192 persons	About 18 040 persons	12%
Average daily patronage in 2017 (as compared with 2016)	0.45 million (-2.4%)	3.97 million (+0.2%)	11%

11. NWFB procured 404 new buses from 2015 to 2017 for improvement of service. As at end-December 2017, the average age of NWFB’s fleet is about 5.9 years old, which is younger than the average age of the franchised bus fleet in Hong Kong (6.6 years old).

Performance of NWFB

12. The assessment of the quality and quantity of NWFB’s services is as follows –

- (a) In terms of safety, NWFB’s accident rate was 6.06, 6.09 and 6.20 accidents per million vehicle-km in 2015, 2016 and 2017

respectively, vis-à-vis an industry average rate of 4.33, 4.31 and 4.22 in 2015, 2016 and 2017 respectively. Similar to Citybus (Franchise 1), most of NWFB routes are operating in the highly urbanised northern shore of Hong Kong Island. NWFB is committed to enhance bus safety. Paragraphs 13 – 15 below outlined the various measures implemented / to be implemented by NWFB in this regard.

- (b) On the environmental front, as at end-December 2017, there were 84 buses of Euro II emission standard and these buses would be replaced by early 2019. Out of 702 buses of NWFB's fleet, the remaining 618 (88.0%) were of Euro III or above emission standard. NWFB has committed that all new buses placed will be of Euro VI standard. NWFB is also participating in the two-year trial scheme of battery-electric buses on two routes (route nos. 78 and 81) with four battery-electric buses. The first batch of two battery-electric buses commenced in end-2015 and the second batch commenced in early June 2017.
- (c) According to the passenger satisfaction surveys on NWFB's service, passengers are generally most satisfied with drivers' compliance with traffic regulations, barrier-free facilities on board and bus stop announcement system. They are most dissatisfied with the frequency and reliability of services.
- (d) The Transport Complaints Unit of the TAC received 485, 498 and 453 complaints and suggestions relating to NWFB in 2015, 2016 and 2017 respectively (making up about 8%, 8% and 8% of all franchised bus-related complaints and suggestions in 2015, 2016 and 2017 respectively, when NWFB's passenger volume account for around 12%, 12% and 11% of the industry total in 2015, 2016 and 2017 respectively).
- (e) NWFB's lost trip rates were 2.0%, 2.4% and 2.6% in 2015, 2016 and 2017 respectively, vis-à-vis an industry average rate of 1.4%, 1.6% and 2.0% in 2015, 2016 and 2017 respectively, primarily as a result of driver shortage and traffic congestion. The Government has been very concerned about the reliability of franchised bus services and has demanded NWFB to take effective actions in bus captain recruitment and make adjustments to scheduled journey time having regard to prevailing traffic condition.
- (f) As at end-May 2018, NWFB has implemented the ETA system on 61% of all its routes. According to the plan, the ETA system will

be fully implemented by the third quarter of 2018. NWFB is also installing real-time bus arrival display panels at covered bus stops with electrical installation where appropriate under the government subsidy scheme. Subject to site constraints, it targets to complete the installation of such display panels at about 60 bus stops under the scheme by 2019/20.

Improvements on bus safety

13. Citybus (Franchise 1) and NWFB will complete the upgrading of their blackbox systems of their bus fleet in the third quarter of 2018. With a view to enhancing operational safety of franchised buses, the Government, in collaboration with the franchised bus operators and bus manufacturers, is exploring the feasibility of making more use of new technology.

14. Citybus (Franchise 1) and NWFB have also each committed to equipping the new buses to be procured from 2018/19 and 2019/20 with the following safety features -

- (a) electronic stability control - a device for improving the stability of bus by detecting and reducing the loss of traction, e.g. skidding;
- (b) active speeding limiting - capping the maximum bus speed at 70 km/hour on downhill by engaging retarder; and
- (c) seat belts to be equipped on all seats – all passenger seats on lower and upper deck of the bus will be equipped with seat belts.

Moreover, Citybus (Franchise 1) and NWFB have committed to further exploring the technical feasibility and desirability of other new technologies, such as driver monitoring devices, with the Government.

15. Citybus (Franchise 1) and NWFB have also committed to further strengthening their internal monitoring systems in respect of their bus drivers' safe driving skills and service performance, including random checks on operational data recorded in black boxes, on-board monitoring by plain-clothed staff, bus drivers' traffic offences, breath tests conducted on bus drivers. They will also enhance their training programmes for bus captains, including providing customer skills and emotion management training in the induction training for new recruits and refresher training for in-service bus captains.

Advice Sought

16. Members are invited to note the above and comment on the fare increase applications made by Citybus (Franchise 1) and NWFB.

**Transport and Housing Bureau
Transport Department
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