

立法會
Legislative Council

LC Paper No. CB(4)1222/17-18(06)

Ref. : CB4/PL/TP

Panel on Transport
Meeting on 15 June 2018

**Background brief on fare adjustment arrangement
for franchised buses and fare increase applications by Citybus Limited
and New World First Bus Services Limited**

Purpose

This paper provides updated background information on the existing fare adjustment arrangement ("FAA") for franchised buses and summarizes the discussions of Legislative Council ("LegCo") Members on FAA and fare increase applications by Citybus Limited and New World First Bus Services Limited ("NWFB").

Background

2. Under Section 13(1) of the Public Bus Services Ordinance (Cap. 230) ("PBSO"), fares of franchised bus services are to be charged according to a scale of bus fares determined by the Chief Executive-in-Council ("CE-in-Council"). The Administration would take 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.

3. In January 2006, the Administration refined MBOF approach to enhance the objectivity of FAA and enable upward and downward fare adjustments in accordance with economic conditions. These changes included making reference to the Median Monthly Household Income ("MMHI") in addition to change in Composite Consumer Price Index ("CCPI") to reflect public affordability, and introducing a formula as an additional factor in MBOF approach. The Administration applies on a quarterly basis the fare adjustment formula and would proactively initiate a comprehensive fare review if the formula outcome reaches -2%. The revised MBOF approach includes the following factors –

- (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 to franchised bus operators¹,
- (d) public acceptability and affordability – the Administration will make reference to changes in MMHI and CCPI;
- (e) service performance; and
- (f) a formula (supportable fare adjustment rate = $0.5 \times \text{Change in Nominal Wage Index for the Transportation Section ("WI")} + 0.5 \times \text{Change in CCPI} - 0.5 \times \text{Productivity Gain}^2$) – the formula does not operate as an automatic determinant of the 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.

4. In assessing the financial performance of bus operators, the Administration has to consider and ensure that bus operators have sound financial capability in providing efficient and quality public bus services. Under FAA, the Administration does not set any guaranteed minimum level nor ceiling of rate of return for the bus operators. The Administration will make reference to the above basket of factors, as well as the comments made by members of the Panel on Transport ("the Panel") and the Transport Advisory Committee ("TAC") before submitting its recommendations to CE-in-Council. CE-in-Council retains the ultimate power in determining the scale of bus fares in accordance with PBSO.

¹ In considering the rate of reasonable return to franchised bus operators, the Administration will make reference to the Weighted Average Cost of Capital of the bus industry, which is the average cost of debt and equity weighted by their respective proportion in the bus industry as a whole. The Weighted Average Cost of Capital can be regarded as the expected rate of return of the investors in general for the bus industry under the prevailing economic conditions. It is derived based on an established and widely used formula which takes into account financial data of the market reflecting the cost of debt and cost of equity.

² As approved by CE-in-Council in 2009, the value of productivity gain in the formula has been set at zero until the next review.

Review of FAA for franchised buses

5. In October 2009, the Administration completed a review of FAA for franchised buses and reported to the Panel on the outcome at the Panel meeting on 23 October 2009. The Administration advised that the bus fare adjustment formula had provided an objective starting point for considering applications for fare adjustment. It 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. The Panel members in general expressed support for the Administration's decision, 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.

6. In December 2009, CE-in-Council approved that FAA should continue to be adopted pending a review in three years' time. The Panel asked the Administration at the meeting on 14 December 2012 about the schedule of the review on FAA for franchised buses and made several comments on the review.

7. The Administration started a review on FAA under the Public Transport Strategy Study, which commenced in 2014, to explore whether there was still room for improvement in the operation of the six factors. The report of the PTSS was released in June 2017 and the Administration reported to the Panel at the meeting on 16 June 2017. To enhance the existing FAA, the Administration has updated the productivity gain value and passenger reward arrangement according to the latest data.

8. At the Panel meeting held on 16 June 2017, a member asked if the Administration would align the calculation of fare adjustment under FAA for franchised buses with the Fare Adjustment Mechanism ("FAM") of MTR Corporation Limited to appropriately reflect the factors of profitability of the bus operators and public affordability as well. The Administration explained that FAA and FAM were different. In the context of FAA, the outcome of the supportable fare adjustment rate formula under FAA would not serve as the automatic determinant of the rate of fare adjustment. The rate would be determined by the CE-in-Council having regard to a basket of factors. In comparison, the corresponding formula under FAM was a direct-drive formula. Bus fare was subject to both upward and downward adjustment under the existing FAA. Based on the initial review outcome, the Administration had initiated discussions with the franchised bus companies on updating the data of the productivity gain value adopted in the formula and the threshold for triggering the passenger reward arrangement. The new arrangement was expected to be introduced in the mid-2018.

Discussion of the Panel members

Fare increase applications from franchised bus operators in 2007-2008

9. When the Panel was briefed on the fare increase applications from the Kowloon Motor Bus Company Limited, Long Win Bus Company Limited, New Lantao Bus Company (1973) Limited ("NLB"), Citybus Limited 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 would immediately seek to increase bus fare. At the meeting on 22 February 2008, the Panel urged the bus operators to show their social responsibility and refrain from significantly increasing their fares. The Panel then 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."

10. 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 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 and so on.

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

Franchises of Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network) and NLB

12. At the Panel meeting held on 23 June 2014, when members were briefed on the Administration's plan on the grating of new 10-year franchises to Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network) ("Citybus (Franchise 1)") and NLB upon the expiry in 2016 and 2017 respectively, members had expressed concern over the lost trip problem of Citybus (Franchise 1) and suggested electronic display panels should be installed at bus terminus to provide better information on bus frequencies and to facilitate monitoring of the lost trip problem.

13. Another member expressed concern that NLB had focused its resources to provide services for tourists and that the bus service provided for local residents of Lantau Island was far from sufficient, particularly during weekends and public holidays. The member opined that TD had failed to duly monitor the NLB bus services.

14. Another member asked if TD had conducted any surveys and could provide information on whether NLB had duly discharged its duty to deliver adequate bus services to meet passengers' demand, in particular during weekends and public holidays. He also asked whether the Administration had considered opening up the franchise through tender in the public's interest. In response, the Administration advised that TD had been closely monitoring NLB's bus service through examining the operational data and conducting spot checks on site. In view of the great passenger demand for bus service during weekends, NLB had dispatched special bus departures to serve passengers at intermediate bus stops and deployed additional vehicles which were non-franchised buses to cope with passenger demand during the weekends and public holidays.

15. A member expressed concern that NLB had taken the advantage of its franchise to facilitate business development of Kwoon Chung Motors Company Limited, which provided non-franchised bus service and was a related company of NLB. In response, the Administration advised that the deployment of non-franchised buses by NLB on weekends and public holidays in Lantau was a long established arrangement. This could enable NLB to meet the upsurge in transport demand during the periods concerned, without the need of maintaining a large bus fleet when the passenger demand on the other days was comparatively lower. Such arrangement was considered more cost-effective for NLB and could help reduce the pressure to increase fare.

16. A member noted that although NLB bus service might not be the most adequate during weekends and public holidays, passengers were generally satisfied with NLB's service according to the survey result. In response to the

member's enquiry about NLB's measures to further improve its service, the Administration advised that NLB planned to further acquire a total of 54 new buses, amounting to around 50% of its bus fleet, between 2014 and 2018. These vehicles would be used to replace the old buses and to meet rising passenger demand.

17. At the above meeting, the Panel has passed the following motion:

"That this Panel requests that while the Government grants new franchises to any bus companies, the companies concerned must provide interchange concessions at designated bus-bus interchanges in the form of a free ride offered to passengers on the second leg journey upon interchange to bus routes with same fares."

18. The CE-in-Council decided on 22 September 2015 to grant new 10-year franchises to Citybus (Franchise 1) and NLB. The new franchise for Citybus (Franchise 1) would run from 1 June 2016 to 1 June 2026 and that for NLB from 1 March 2017 to 1 March 2027. Citybus (Franchise 1) mainly operates Hong Kong Island and cross-harbour routes, whereas NLB primarily serves Lantau and the Shenzhen Bay Port. Citybus Limited also operated a bus network serving the Airport at Chek Lap Kok and North Lantau to and from the urban area since mid 1997.

Relevant motions/questions moved/raised at Council meetings and other relevant papers

19. The hyperlinks to relevant motions and questions moved/raised at Council meetings and other relevant papers are in **Appendices I and II** respectively.

Latest development

20. In August 2017, Citybus (Franchise 1) and NWFB have applied to the Transport Department for a fare increase of 12%. The Administration will consult the Panel on the above fare increase applications at the Panel meeting to be held on 15 June 2018.

Appendix I

Relevant motions and questions moved/raised at Council meetings

2.11.2011	Hon Starry LEE raised a question on fare concession of public transport http://www.info.gov.hk/gia/general/201111/02/P201111020220.htm
4.2.2015	Hon Emily LAU Wai-hing raised a question on reduction in bus fares and retail prices of auto-fuel in response to drop in oil prices http://www.info.gov.hk/gia/general/201502/04/P201502040413.htm
6.5.2015	Hon Frederick Fung Kin-kee raised a question on fuel prices and public transport fares http://www.info.gov.hk/gia/general/201505/06/P201505050737.htm
24.6.2015	Hon WONG Kwok-hing raised a question on fare payment system of franchised buses http://www.info.gov.hk/gia/general/201506/24/P201506240416.htm
24.2.2016	Hon WONG Kwok-kin raised a question on interchange discount for public transport http://www.info.gov.hk/gia/general/201602/24/P201602240438.htm
1.6.2016	Hon TANG Ka-pui raised a question on Fare adjustment Arrangement for franchised buses and MTR Fare adjustment mechanisms http://www.info.gov.hk/gia/general/201606/01/P201606010457.htm
22.6.2016	Hon Frederick Fung Kin-kee raised a question on fuel prices and public transport fares http://www.info.gov.hk/gia/general/201606/22/P201606220563.htm)

9.11.2016	Hon Frankie Yick Chi-ming raised a question on Government public transport fare concession scheme for elderly and eligible persons with disabilities http://www.info.gov.hk/gia/general/201611/09/P2016110900348.htm?fontSize=1
28.6.2017	Hon Michael TIEN puk-sun raised a question on encouraging members of public to use public transport http://www.info.gov.hk/gia/general/201706/28/P2017062800498.htm?fontSize=1
21.3.2018	Hon Jeremy Tam man-ho raised a question on public transport fare concession scheme for the elderly and eligible persons with disabilities http://www.info.gov.hk/gia/general/201803/21/P2018032100722.htm?fontSize=1

Appendix II

Fare adjustment arrangement for franchised buses and fare increase applications by Citybus Limited and New World First Bus Services Limited

List of relevant papers

Date of meeting	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

Date of meeting	Minutes/Paper	LC Paper No.
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
	Minutes of the meeting	CB(1)922/09-10 http://www.legco.gov.hk/yr09-10/english/panels/tp/minutes/tp20091023.pdf
26.11.2010	Administration's paper on fare increase applications from the Kowloon Motor Bus Company (1933) Limited and the Long Win Bus Company Limited	CB(1)482/10-11(06) http://www.legco.gov.hk/yr10-11/english/panels/tp/papers/tp1126cb1-482-6-e.pdf
	Updated background brief on "fare adjustment arrangement for franchised buses"	CB(1)481/10-11 http://www.legco.gov.hk/yr10-11/english/panels/tp/papers/tp1126cb1-481-e.pdf
	Minutes of the meeting	CB(1)1159/10-11 http://www.legco.gov.hk/yr10-11/english/panels/tp/minutes/tp20101126.pdf
-	Press release published by the Kowloon Motor Bus Company (1933) Limited on its fare increase application on 29 November 2012	http://www.kmb.hk/en/news/press/archives/news201211291802.htm <u>1</u>
14.12.2012	Administration's paper on fare increase application from the Kowloon Motor Bus Company (1933) Limited	CB(1)249/12-13(05) http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tp1214cb1-249-5-e.pdf

Date of meeting	Minutes/Paper	LC Paper No.
	Updated background brief on "fare adjustment arrangement for franchised buses"	CB(1)249/12-13(06) http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tp1214cb1-249-6-e.pdf
	Administration's response to the motions passed and supplementary information on fare increase application from The Kowloon Motor Bus Company (1933) Limited (Follow-up paper)	CB(1)763/12-13(01) http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tp1214cb1-763-1-e.pdf
	Minutes of the meeting	CB(1)689/12-13 http://www.legco.gov.hk/yr12-13/english/panels/tp/minutes/tp20121214.pdf
-	Press release published by the Kowloon Motor Bus Company (1933) Limited on its fare increase application on 29 November 2013	http://www.kmb.hk/en/news/press/archives/news201311291972.html
-	Administration's response to the letter from Hon TANG Ka-piu on the fare increase application from the Kowloon Motor Bus Company (1933) Limited as set out in LC Paper No. CB(1)468/13-14(01)	CB(1)590/13-14(01) http://www.legco.gov.hk/yr13-14/english/panels/tp/papers/tpcb1-590-1-e.pdf
11.4.2014	Administration's paper on fare increase application from The Kowloon Motor Bus Company (1933) Limited	CB(1)1208/13-14(05) http://www.legco.gov.hk/yr13-14/english/panels/tp/papers/tp0411cb1-1208-5-e.pdf
	Minutes of the meeting	CB(1)1802/13-14 http://www.legco.gov.hk/yr13-14/english/panels/tp/minutes/tp20140411.pdf

Date of meeting	Minutes/Paper	LC Paper No.
23.6.2014	Administration's paper on franchises of Citybus Limited (Franchise for Hong Kong Island and Cross Harbour Bus Network) and New Lantao Bus Company (1973) Limited	CB(1)1621/13-14(04) http://www.legco.gov.hk/yr13-14/english/panels/tp/papers/tp0623cb1-1621-4-e.pdf
	Minutes of the meeting	CB(1)79/14-15 http://www.legco.gov.hk/yr13-14/english/panels/tp/minutes/tp20140623.pdf
16.6.2017	Administration's paper on Public Transport Strategy Study	CB(4)1176/16-17(03) http://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170616cb4-1176-3-e.pdf
	Minutes of the meeting	CB(4)177/17-18 http://www.legco.gov.hk/yr16-17/english/panels/tp/minutes/tp20170616.pdf
	Press release published by the Citybus Limited and New World First Bus Services Limited on the fare increase applications on 25 August 2017	http://www.nwstbus.com.hk/en/uploadedPressRelease/10030_25082017_eng.pdf
22.6.2018	Administration's paper on Transport Public Transport Strategy Study - Implementation Progress of Measures	CB(4)490/17-18(01) http://www.legco.gov.hk/yr17-18/english/panels/tp/papers/tp20180122cb4-490-1-e.pdf