

**For discussion on  
15 March 2019**

**Legislative Council Panel on Transport**

**Fare Increase Application from  
New Lantao Bus Company (1973) Limited**

**Purpose**

New Lantao Bus Company (1973) Limited (“NLB”) submitted application for fare increase. The application is being considered by the Government. Representatives from NLB will brief Members on the details at the Panel meeting on 15 March 2019. This paper provides information on the mechanism that the Government would follow in assessing franchised bus fare adjustment application, as well as the operation of NLB.

**The Fare Increase Application**

2. NLB submitted application on 28 September 2018 for fare increase at an average rate of 9.8%. NLB last increased its fares on 8 June 2008 by an average rate of 7.24%.

**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 Adjustment Arrangement for Franchised Buses (“FAA”), the Government should take into account the following factors in assessing a bus fare increase application –

- (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 bus operator with a reasonable rate of return<sup>1</sup>;
- (d) public acceptability and affordability<sup>2</sup>;
- (e) the quality and quantity of service provided; and
- (f) the outcome of the fare adjustment formula (i.e. a formula for a supportable fare adjustment rate), which is:

$$0.5 \times \text{Change in Wage Index for the Transportation Section ("WI")} + 0.5 \times \text{Change in CCPI} - 0.5 \times \text{Productivity Gain.}$$

4. The Government will make reference to the aforementioned relevant factors and take into account views of Members of the Legislative Council 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 efficient and safe public bus service.

6. Based on the latest available WI and CCPI<sup>3</sup>, the outcome of

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<sup>1</sup> The Government would make reference to the Weighted Average Cost of Capital ("WACC") of the bus industry in considering the reasonable rate of return of the bus operator. The current WACC is 8.7%.

<sup>2</sup> The Government would make reference to changes in Median Monthly Household Income ("MMHI") and Composite Consumer Price Index ("CCPI").

<sup>3</sup> Reference is made to the change in WI for the period between December 2007 and September 2018 and the change in CCPI for the period between March 2008 and January 2019.

the formula applicable to NLB is +35.82%<sup>4</sup>. In the meantime, up to the fourth quarter of 2018, the change in MMHI from the last fare increase of NLB in June 2008 is +56.67%, while up to January 2019, the corresponding change in CCPI is +34.45%. These figures are for illustration only for the time being. When making a recommendation to the Executive Council in due course, we would report to it the latest figures available at the time.

7. In addition, legislative amendments have been made to exempt the toll for franchised buses using government tolled tunnels and roads<sup>5</sup> with effect from 17 February 2019 with a view to relieving the bus operators' fare increase pressure. However, unlike the other five franchised bus operators, NLB currently has only one holiday route<sup>6</sup> using government tolled road, and the amount of toll involved is negligible. It is thus expected that the initiative of exempting the toll for franchised buses using government tolled tunnels and roads has no material impact on NLB.

### **Operation of NLB**

8. As at end-December 2018, the key information on the operation of NLB is as follows –

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<sup>4</sup> Detailed calculation is as follows:

$$0.5 \times 41.30\% + 0.5 \times 36.84\% - 0.3\% \times 130/12 = +35.82\%$$

<sup>5</sup> Including seven government tunnels, namely, Aberdeen Tunnel, Cross-Harbour Tunnel, Eastern Harbour Crossing, Lion Rock Tunnel, Shing Mun Tunnels, Tate's Cairn Tunnel and Tseung Kwan O Tunnel, and two government roads, namely, the toll area of the Tsing Ma Control Area and the Tsing Sha Control Area.

<sup>6</sup> The route is no. 1R, which has three departures from Hung Hom to Ngong Ping via Tsing Ma Control Area on Sunday and public holidays.

	<b>NLB (a)</b>	<b>All franchised bus companies (b)</b>	<b>(a) over (b) in %</b>
<b>Number of routes</b>	27	626	4.3%
<b>Fleet</b>	155 buses	6 151 buses	2.5%
<b>Staff</b>	298	18 306	1.6%
<b>Average daily patronage (as compared with 2017)</b>	84 000 (+7.6%)	4.054 million (+2.2%)	2.1%

9. NLB procured 50 new buses in the period between 2016 and 2018 with a view to increasing resources for the provision of services to new housing developments in Tung Chung, introduction of new bus routes serving Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge and replacing old buses in the fleet for service improvement. As at end-December 2018, the average age of NLB's fleet is about 5.9 years old, which is slightly lower than the average age of the franchised bus fleet in Hong Kong (6.2 years old).

#### *Performance of NLB*

10. 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 –

- (a) In terms of safety, NLB's accident rates were 1.60, 2.69 and 4.40<sup>7</sup> accidents per million vehicle-km in 2016, 2017 and 2018 respectively, while the industry average rates were 4.31, 4.22 and 4.31<sup>8</sup> accidents per million vehicle-km in 2016, 2017 and 2018 respectively. The TD noted that NLB's accident rate in 2018 was higher than that of the previous two years, and has

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<sup>7</sup> Accident rate of 2018 is provisional.

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requested NLB to conduct analysis and follow up. Over 90% of these accidents were minor ones, most of which did not involve collision. Nevertheless, in order to enhance bus safety, various measures have been/will be implemented by NLB as outlined in paragraphs 11 - 13 below.

- (b) On the environmental front, among NLB's entire fleet (a total of 155 buses), 136 buses (87.74%) have met Euro IV or above emission standard. NLB has committed that all newly-procured buses will meet Euro VI standard. NLB is also participating in the two-year trial scheme of battery-electric buses on route no. 38 (plying between Yat Tung Estate and Tung Chung MTR Station), which commenced in July 2018, with two battery-electric buses. NLB will procure two additional battery-electric buses for trial run under the scheme.
- (c) According to the passenger satisfaction surveys commissioned by NLB on its service, passengers are generally most satisfied with the safety, comfort and frequency of its bus service. They are most dissatisfied with environmental protection, channels for passengers to express their views and value for money.
- (d) The Transport Complaints Unit of the TAC received 90, 83 and 98 complaints and suggestions relating to NLB in 2016, 2017 and 2018 respectively (making up about 1.5%, 1.4% and 1.4% of all franchised bus-related complaints and suggestions in 2016, 2017 and 2018 respectively, with NLB's passenger volume accounting for around 1.8%, 2.0% and 2.1% of the industry total in 2016, 2017 and 2018 respectively).
- (e) NLB's lost trip rates were 0.3%, 0.4% and 0.5% in 2016, 2017 and 2018 respectively, which were lower than the industry average rates of 1.6%, 2.0% and 2.9% in 2016, 2017 and 2018 respectively. The main cause of NLB's lost trips was inclement weather.

- (f) Since its new franchise took effect on 1 March 2017, NLB has provided fare concessions to passengers who frequently travelled on designated South Lantau routes (one complimentary single-journey ticket for the route will be issued for every 30 rides; or two complimentary single-journey tickets for the route will be issued for every 40 rides).

In order to cope with the peak of passenger flow during the initial period of the commissioning of the Hong Kong-Zhuhai-Macao Bridge, NLB has increased the frequency of relevant routes according to passenger demand, and arranged two buses for boarding at the same time at the Tung Chung stop of route B6 during the peak hours of Saturday and Sunday. Additional manpower and mills barriers were also arranged to facilitate more orderly queuing for reducing the boarding time and the impact on local residents. With the adjustments and coordination, the arrangement is now generally smooth.

As at end-2018, all regular routes of NLB have been equipped with the Estimated Time of Arrival system. Display devices showing information on seat vacancy of the upper deck are also provided on about 30 buses. NLB has also installed real-time bus arrival information display panels at two public transport interchanges, and has provided real-time bus arrival information on 17 existing display panels. NLB will continue to install real-time bus arrival information display panels at suitable covered bus stops with electricity supply under the Government's subsidy scheme. Subject to constraints of the locations for installation, NLB aims at installing such display panels at eight bus stops by end of 2020 under the scheme.

### **Improvements on bus safety**

11. With a view to enhancing the operational safety of franchised buses, the TD has set up a Working Group on the Enhancement of Safety of Franchised Buses and met with the franchised bus operators and bus manufacturers regularly to discuss, study, implement, and promote various measures to enhance the safety of franchised buses. The TD will, in

conjunction with the franchised bus operators and relevant experts, continue to actively follow up on the work concerned, including application of technologies/installation of in-vehicle devices to assist safe driving, enhancing the training and working environment of bus captains, strengthening bus accident analyses and safety performance management, and enhancing general road and infrastructure safety as well as introducing more bus-friendly measures.

12. In this regard, NLB has taken forward the trial of bus monitoring and control system and geo-fencing technology. NLB has also committed to equipping the new buses to be procured from July 2018 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 decks of the bus will be equipped with seat belts.

The Government will follow up with the franchised bus operators (including NLB) on the feasibility and cost-benefit analysis of retrofitting the above three safety features on in-service franchised buses and discuss with them details of retrofitting programmes. Moreover, NLB has committed to further exploring the technical feasibility and desirability of other new technologies, such as driver monitoring devices, with the Government.

13. NLB has 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 the operational data recorded in black boxes, on-board monitoring by plain-clothed staff, monitoring bus drivers' traffic offences, and breath tests conducted on bus drivers randomly. It will also enhance its 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. In addition, NLB is planning to appoint a Safety Director in 2019 to oversee the safety and training matters of the company.

14. Regarding the various recommendations put forward by the Independent Review Committee on Hong Kong's Franchised Bus Service for enhancing the safety of franchised buses, including reporting of accident data, bus captain training and the arrangements on bus captains' working hours and rest time, etc., the Government will continue to actively follow up with the franchised bus operators (including NLB).

### **Advice Sought**

15. Members are invited to note the above and comment on the fare increase application made by NLB.

**Transport and Housing Bureau**  
**Transport Department**  
**March 2019**