

立法會
Legislative Council

LC Paper No. CB(4)618/18-19(06)

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Panel on Transport
Meeting on 15 March 2019

Background brief on fare increase application
by New Lantao Bus Co. (1973) Limited

Purpose

This paper provides updated background information on the fare adjustment arrangement ("FAA") for franchised buses and summarizes the discussions of members of the Panel on Transport ("the Panel") on FAA and bus services provided by New Lantao Bus Co. (1973) Limited ("NLB") at previous meetings.

Background Information

Financial and Operational Data of NLB

2. According to NLB's Fuller Disclosure of Financial and Operational Data,¹ NLB was operating 23 franchised public bus routes mainly on the Lantau Island and between Yuen Long/Tin Shui Wai and Shenzhen Bay Port, with a fleet of 110 single-deck and 25 double-deck buses as at 31 March 2018. Total fleet has a passenger carriage capacity of 10 343. The average age of the bus fleet was 6.87 years and the percentage of lost trips in the 2017-2018 financial year was 0.43%.

3. In 2017-2018, NLB had carried an average of 77 483 passengers a day and a total of 28 281 000 passengers in the year.

4. For the year ended 31 March 2018, NLB had a total turnover of approximately \$176.9 million, with a loss of about \$3.5 million. Fare revenue had increased by 2.7% as compared to the previous year, while expenditure on staff costs and fuel had increased by 9.7% and 13.9% respectively. Staff costs and fuel constituted 46% and 12% of the operating costs of NLB in the

¹ The Fuller Disclosure can be downloaded at <http://www.newlantaobus.com/info/file>

2017-2018 financial year.

5. Details of NLB's financial and operational data for 2017-2018 are in **Appendices I and II**.

Fare Adjustment Arrangement for franchised buses

6. 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 approach in assessing bus fare adjustment for the purpose of making recommendations to CE-in-Council.

7. Under the current FAA for franchised buses, the Administration 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) forecasts of future costs, revenue and return;
- (c) the need to provide the operator with a reasonable rate of return. The Administration 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 Administration will make reference to changes in Median Monthly Household Income and Composite Consumer Price Index ("CCPI");
- (e) the quality and quantity of service provided; and
- (f) a formula for a supportable fare adjustment rate = $(0.5 \times \text{Change in Nominal Wage Index for the Transportation Section} + 0.5 \times \text{Change in CCPI} - 0.5 \times \text{Productivity Gain}^2)$ – 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

² Under the FAA, productivity is computed from the ratio of the total of fare and non-fare box receipts to the total operating cost over a period of ten years. As the productivity gain in the formula was calculated to be a negative value and as approved by CE-in-Council in 2009, the value was set at zero until the next review.

junction.

8. In assessing the financial performance of bus operators, the Administration has to 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 the rate of return for the bus operators. The Administration will make reference to the above factors, as well as views of Panel members and the Transport Advisory Committee before submitting its recommendations to CE-in-Council, who retains the ultimate power in determining the scale of bus fares in accordance with PBSO.

Review of fare adjustment arrangement for franchised buses

9. The Administration commenced a review on FAA under the Public Transport Strategy Study ("PTSS") in 2014 to explore whether there was room for improvement in the operation of the above-mentioned six factors. The report of the PTSS was released in June 2017.³ The initial findings of the study indicated that FAA should be kept intact, while the Productivity Gain value used in the supportable fare adjustment rate formula might revert from a negative value computed in the last review to a positive value,⁴ and the triggering threshold for the passenger reward arrangement of 9.7% might be adjusted downwards slightly.⁵ The Administration aimed to implement the updated FAA as soon as practicable subject to the approval by CE-in-Council.

Discussions of the Panel members

Review on fare adjustment arrangement conducted under Public Transport Strategy Study

10. When PTSS was discussed 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

³ See LC Paper No. CB(4)1176/16-17(03).

⁴ The consultant of the review recommended updating the value of productivity gain with reference to the information on the operation of franchised bus companies and statistics. The initial data hinted that the value of productivity gain might revert from a negative value computed in the last review to a positive value. This would help moderating the formula outcome on the supportable rate of adjustment as and when franchised bus companies apply for fare increase in future.

⁵ The profit achieved by a franchised bus operator in excess of the 9.7% rate of return on average net fixed assets for an operator shall be shared equally between the operator and passengers. The current rate of 9.7% was set in 2009 based on an analysis of past performance and forward-looking projection made with reference to the economic and investment environment at that time. The consultant recommended that the triggering threshold of 9.7% should be adjusted downwards slightly having regard to the latest changes in the overall economic situation and investment environment.

Mechanism ("FAM") of MTR Corporation Limited to appropriately reflect the factors of profitability of the bus operators and public affordability. The Administration explained that FAA and FAM were different mechanisms. While the formula under FAM was a direct-drive formula, the outcome of the supportable fare adjustment rate formula under FAA would not serve as the automatic determinant of the rate of bus fare adjustment. The rate would be determined by the CE-in-Council having regard to a basket of factors.

Granting of new franchise to NLB

11. The franchise of NLB expired on 1 March 2017. The Panel discussed the granting of a new franchise to NLB at its meetings on 23 June 2014 and 17 July 2015. Members expressed concern at the meetings about the adequacy of bus services provided by NLB on the Lantau Island, particularly during weekends and public holidays. They noted that passengers had to wait for a long time to get on a bus during peak hours on weekends and urged NLB to strengthen its bus service.

12. The Administration responded that in view of the great passenger demand during weekends, NLB had deployed additional non-franchised buses on weekends and public holidays as well as dispatched special bus departures to serve passengers at intermediate bus stops to cope with passenger demand. In this way, NLB would not need to maintain a large bus fleet when the passenger demand on the other days was comparatively lower. Such arrangement was considered more cost-effective and could help reduce the pressure of a fare increase. That said, NLB also had plans to acquire new buses to replace the old ones and to strengthen its service.

13. Members also discussed ways to enhance service provision by NLB, including the provision of real time bus arrival information, seating facilities and passenger shelters at bus termini, and offering bus-bus interchange concessions to passengers. Members also urged NLB to take measures to enhance the safety of bus service.

14. On 22 September 2015, CE-in-Council granted a 10-year franchise to NLB. The new franchise took effect from 1 March 2017 to 1 March 2027. The new franchise had incorporated new conditions and commitments in respect of adopting barrier-free and friendly features for the elderly and people with disabilities in newly purchased buses, acquiring environmental friendly buses and strengthening regulation over financial and accounting arrangements. Further, NLB would provide real-time bus arrival information, fare concessions to passengers and accept new conditions for enhancing regulation of bus services under the new franchise.

Fare increase application from NLB in 2008

15. NLB last applied for a fare increase rate of 7.24% in 2008. The Panel discussed NLB's as well as two other franchised bus operators' fare increase applications at the meeting held on 22 February 2008.⁶ In general, members raised strong objection to the fare increase applications by the bus operators. They pointed out that the formula used under FAA was incomprehensive, failing to take into account public affordability as well as the profit situation of the bus companies. Members were also dissatisfied that, while one of the bus companies had not increased bus fare since 1997, it had neither reduced its fare between 1998 and 2003 when the deflation rate had accumulated to about 11.4%. With regard to the fare increase application from NLB, members opined that the Administration should review its overall public transport policy with a view to improving the operating environment of NLB. A member remarked that it was unreasonable to charge a high fare for one of the short-haul route of NLB for the sake of subsidizing the other non-profit making routes of NLB.

16. The Administration replied that any bus fare adjustment would not be purely based on the outcome of the formula, but instead would take into account a basket of factors in the Modified Basket of Factors approach, including financial situation of the bus companies and public affordability. The rate of fare increase approved by the CE-in-Council would be an average increase rate for the whole network of service operated by a company. As regards the issue of high fare for one of the short-haul route of NLB, the Administration explained that interchange concession had been provided to passengers of the concerned bus route.

17. The Panel subsequently passed the following motion at the meeting:

(Translation)

"That 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 increase 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 increase 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."

⁶ The two franchised bus operators were the Kowloon Motor Bus Company (1933) Limited and the Long Win Bus Company Limited, who sought a fare increase rate of 9% and 5.9% respectively.

18. On 20 May 2008, the CE-in-Council approved an average fare increase rate of 7.24% for NLB, which took effect on 8 June 2008.

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 III and IV** respectively.

Latest development

20. NLB submitted a fare increase applications of 9.8% in September 2018. According to NLB,⁷ issues including difficulties in recruiting bus captains, renewal of bus stop facilities, purchase of new bus model for replacement, renovation of maintenance depot and upgrading of the value added facilities had imposed heavy financial burden to the company, and NLB had suffered a loss after-tax in the 2017-2018 financial year.

21. The Administration will consult the Panel on the fare increase application from NLB at the Panel meeting to be held on 15 March 2019.

Council Business Division 4
Legislative Council Secretariat
12 March 2019

⁷ See the website of NLB at <http://www.newlantaobus.com/news/detail/166>

New Lantao Bus Company (1973) Limited

Operational Data

Year ended 31 March

	<u>2017/2018</u>	<u>2016/2017</u>
1. <u>Total number of bus routes operated</u>		
(i) Franchised normal routes	12	12
(ii) Airbus routes	1	1
(iii) Overnight routes	3	3
(iv) Special routes	6	6
(v) Alignment external recreational route	1	1
	<hr/>	<hr/>
	23	23
2. <u>Fleet size at end of reporting period</u>		
(i) Registered buses	135	124
(ii) Licensed buses	131	123
3. <u>Total fleet capacity</u>	10,343	8,827
4. <u>Operational capability</u>		
(i) Mondays to Saturdays (except Public Holidays)	111.4%	110.5%
(ii) Sundays and Public Holidays	114.9%	116.0%
5. <u>Achievement of schedule</u>	100%	100%
6. <u>Fleet utilization</u>	88.8%	86.8%
7. <u>Average age of bus fleet (licensed fleet)</u>	6.87	7.31
8. <u>Total number of passengers carried</u>		
(i) Annual total (to nearest thousand)	28,281,000	27,157,000
(ii) Average daily passengers on weekdays	75,344	71,960
(iii) Average daily passengers on Sundays and Public Holidays	86,339	85,466
9. <u>Paid bus km (to nearest thousand)</u>	8,695,000	8,678,000
10. <u>Percentage of lost trips</u>	0.43%	0.30%
11. <u>Number of cases forwarded by TCU and handled by NLB per million passengers in a year</u>	2.97	3.06
12. <u>No. of Passenger Liaison Group meeting convened</u>	6	6
13. <u>Other customer services</u>		
(i) Bus stop shelter	247	247
(ii) Website and mobile app		
(iii) Customer service hotline		
14. <u>Average number of bus defects detected per vehicle examination (during spot checked by TD)</u>	2.51	0.97
15. <u>Number of bus accidents involving injury to person per million vehicle-km</u>		
(i) Slight accidents	2.82	1.69
(ii) Serious accidents	0.34	0.23
(iii) Fatal accidents	0.00	0.00
16. # <u>Mechanical reliability</u>		
Average No. of km operated before a bus would experience one all breakdown on the road while passengers are on board	94,514	77,479
17. <u>Service improvement items</u>		
(i) Number of new routes / new supplementary routes introduced	0	2
(ii) Frequency improvement	2	2
(iii) Quality improvements	3	6
18. <u>Service rationalization items</u>		
(i) Number of bus routes cancelled	0	0
(ii) Frequency reduction, vehicle reduction and routes reorganization to save bus resources	0	0

Note: The definition of mechanical reliability takes into account all types of defects leading to vehicle breakdown during passenger services

New Lantao Bus Company (1973) Limited

Statement of Comprehensive Income

(Expressed in HK\$'000)

	2016/2017	2017/2018
REVENUE		
Fare Revenue	169,767	174,494
Advertising Income	87	20
Sundry Income	2,795	2,371
	172,649	176,885
OPERATING COSTS		
Staff Costs	76,054	83,506
Fuel and oil	19,098	21,764
Repair & Maintenance	15,063	17,713
Depreciation	16,624	17,332
Interest Expenses	793	818
Other Expenses	35,203	39,907
	162,835	181,040
OPERATING PROFIT / (LOSS)	9,814	(4,155)
Loss on disposal of fixed assets	(540)	(55)
PROFIT / (LOSS) BEFORE TAX	9,274	(4,210)
Income tax	(1,569)	739
PROFIT / (LOSS) FOR THE YEAR	7,705	(3,471)
AVERAGE NET FIXED ASSETS ("ANFA")	105,238	124,872
RETURN ON ANFA (%)	7.95%	-2.23%
Accumulated balance of passenger reward as at 31 March (Note)	1,529	1,529

Note :

Under the revised Modified Basket of Factors (MBOF) approach, which is the existing basis for the Administration to assess bus fare adjustment application, 50% of any return of a franchised bus operator in a given year in excess of a prescribed triggering point of return on its average net fixed assets would be shared with passengers to relieve the pressure for future fare increase and to facilitate the offer of bus fare concessions. The prescribed triggering point of return for the period from 1 April 2010 to 31 March 2018 was 9.7% per annum.

Appendix III

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
25.4.2018	Hon IP Kin-yuen raised a question on fare concessions for students offered by public transport operators https://www.info.gov.hk/gia/general/201804/25/P2018042500273.htm

Appendix IV

Fare increase application by New Lantao Bus Co. (1973) 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
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
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

Date of meeting	Minutes/Paper	LC Paper No.
-	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.htm <u>1</u>
-	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
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

Date of meeting	Minutes/Paper	LC Paper No.
	Minutes of the meeting	CB(4)177/17-18 http://www.legco.gov.hk/yr16-17/english/panels/tp/minutes/tp20170616.pdf
22.1.2018	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
	Minutes of meeting	CB(4)1465/17-18 https://www.legco.gov.hk/yr17-18/english/panels/tp/minutes/tp20180122.pdf
19.10.2018	Administration's paper on Transport-related Policy Initiatives in 2018 Policy Address	CB(4)19/18-19(01) https://www.legco.gov.hk/yr18-19/english/panels/tp/papers/tp20181019cb4-19-1-e.pdf

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