

**For discussion on
20 December 2019**

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

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 Government is considering the applications. Representatives of the two companies will brief Members on the details at the Panel meeting on 20 December 2019. This paper provides information on the mechanism that the Government would follow in assessing franchised bus fare adjustment applications, as well as the operation of the two franchised bus companies.

The Fare Increase Applications

2. Citybus (Franchise 1) and NWFB each submitted an application on 9 August 2019 for fare increases at an average rate of 12.0%. Citybus (Franchise 1) and NWFB last increased their fares on 20 January 2019 by an approved overall average rate of 9.9%. Taking into account the mitigating effect brought by the Franchised Bus Toll Exemption Funds of the two franchised bus companies, the actual weighted average fare increases shouldered by passengers of Citybus (Franchise 1) and NWFB were 7.0% and 5.6% respectively.

3. As mentioned in the Legislative Council Brief issued by the Government in January this year regarding the last fare increase of the two companies, although their financial positions were expected to improve slightly following the approval of the last fare increases, our financial forecasts at that time already indicated that they would still incur losses and their financial positions would remain unsatisfactory after the fare increase. Hence, they would likely submit applications for further fare increase to maintain their

financial sustainability for the continuous provision of a safe, proper and efficient franchised bus service. In fact, Citybus (Franchise 1) recorded an after-tax loss of \$88.83 million in 2018-19, whereas NWFB recorded an after-tax loss of \$71.19 million in 2018-19. If the fare levels remain unchanged, the deficits will persist and worsen.

Bus Fare Adjustment Arrangement

4. 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 adjustment application –

- (a) changes in operating costs and revenue since the last fare adjustment¹;
- (b) forecast of future costs, revenue and return;
- (c) the need to provide the bus company with a reasonable rate of return²;

¹ In 2018-19, Citybus (Franchise 1) recorded a total revenue of \$1.390 billion, expenditure of \$1.496 billion, and an after-tax loss of \$88.83 million. In 2018-19, NWFB recorded a total revenue of \$1.232 billion, expenditure of \$1.317 billion, and an after-tax loss of \$71.19 million.

² 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 company. The current WACC is 8.7%.

- (d) public acceptability and affordability³;
- (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:

$$0.5 \times \text{Change in Wage Index for the Transportation Section ("WI")} \\ + 0.5 \times \text{Change in CCPI} - 0.5 \times \text{Productivity Gain}^4$$

5. Meanwhile, when assessing the financial performance of bus companies, the Government's consideration is to ensure that the bus companies will have sound financial capability in maintaining efficient and safe public bus service.

6. 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 recommendations to the Executive Council. When making

³ The Government would make reference to the changes in Median Monthly Household Income ("MMHI") and Composite Consumer Price Index ("CCPI"). Before the fare increase early this year, the two companies last increased their fares in June 2008. According to the latest figures published, MMHI has increased by 58.33% and CCPI has increased by 38.06% since June 2008. During the same period, the rate of fare increase shouldered by passengers of the two companies were only 7.0% (Citybus (Franchise 1)) and 5.6% (NWFB) respectively. Since the last fare increase in January 2019, MMHI has decreased by 3.06% and the change in CCPI is +2.68%.

⁴ The relevant formula outcome is only for reference, and the fare level will not be adjusted automatically according to it. For example, in the last fare increase of Citybus (Franchise 1) and NWFB in January 2019, the formula outcome was +33.05%, but the overall average increase eventually approved was 9.9% (the magnitude of which has yet to take into account the mitigating effect of the respective Franchised Bus Toll Exemption Funds). If it is calculated from the fare increase in 2008, the outcome of the fare adjustment formula would be +38.39%, and during such period the two companies were each approved with a fare increase of 9.9% in January 2019 (the magnitude of which has yet to take into account the mitigating effect of the respective Franchised Bus Toll Exemption Funds). And if it is calculated from the fare increase in January 2019, the outcome of the fare adjustment formula would be +3.85%.

recommendations to the Executive Council, we would report to it the latest figures available by then.

7. In addition, the Government has made legislative amendments to exempt the toll for franchised buses using government tolled tunnels and roads with effect from 17 February 2019, with a view to lowering the rate of fare increase that needs to be shouldered by passengers. In brief, each franchised bus operator has set up its own dedicated fund account, known as the “Franchised Bus Toll Exemption Fund” (“the Fund”) for keeping the toll saved. The levels of fare increase to be approved by the Chief Executive in Council for franchised bus operators will take into account the mitigating effect of the Funds so that the rate of fare increase that needs to be shouldered by passengers will be lowered. As Citybus (Franchise 1) and NWFB have started drawing their Funds since the last fare increases (i.e. they were approved to draw \$2.91 million and \$3.75 million per month respectively from the Funds), the actual weighted average fare increases shouldered by passengers of the two bus companies have been lowered from 9.9% to 7.0% (Citybus (Franchise 1)) and to 5.6% (NWFB) respectively. Since most part of their respective Funds was already used for lowering the rate of the last fare increase shouldered by passengers, the balance of the Funds⁵ will not be sufficient for lowering the rate of fare increase to be shouldered by passengers this time, should the current fare increase applications be approved.

Operation of Citybus (Franchise 1)

8 As at end-September 2019, the key information on the operation of Citybus (Franchise 1) is as follows:

⁵ As of September 2019, the Fund balances of Citybus (Franchise 1) and NWFB were \$1.62 million and \$0.95 million respectively.

	Citybus (Franchise 1) (a)	All franchised bus companies (b)	(a) over (b)
Number of routes	89	634	14.0%
Fleet	745 buses	6 139 buses	12.1%
Staff	2 358 persons	19 168 persons	12.3%
Average daily patronage from October 2018 to September 2019	0.513 million	4.156 million	12.3%

9. Citybus (Franchise 1) procured 365 new buses (accounting for about half of the buses of the entire fleet) from 2015 to 2019 for service improvement. As at end-September 2019, the average age of Citybus (Franchise 1)'s fleet is about 5.6 years old, which is younger than the average age of the franchised bus fleet in Hong Kong (6.2 years old).

Performance of Citybus (Franchise 1)

10. In monitoring the quality and quantity of bus services, the Transport Department 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, Citybus (Franchise 1)'s accident rate was 4.90, 4.49 and 4.38 accidents per million vehicle-km in 2017, 2018 and 2019 (provisional as at September) respectively, showing a downward trend, vis-à-vis an industry average rate of 4.22, 4.39 and 4.01 during the same period. 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 as these routes run through busy roads with heavy traffic as well as intensive pedestrian and kerbside activities. It is noteworthy that most of the accidents only involved slight injury, with no collision of vehicles. Nevertheless, Citybus (Franchise 1) has also implemented/will

implement various measures to enhance bus safety. Details of such work are at paragraphs 14-16 below.

- (b) On the environmental front, the entire fleet (745 buses) of Citybus (Franchise 1) was of Euro III or above emission standard, while 96% of them were even of Euro V or above emission standard. Citybus (Franchise 1) has also committed that all new buses procured will be of Euro VI emission standard. Moreover, Citybus (Franchise 1) has begun the trial use of battery-electric buses since end-2015. At present, all the six battery-electric buses are deployed to serve route no. 11 (Central (Central Ferry Piers) – Jardine’s Lookout (Circular)).
- (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 less satisfied with the frequency and reliability of bus services.
- (d) The Transport Complaints Unit of TAC received 395, 444 and 410 complaints and suggestions relating to Citybus (Franchise 1) in 2017, 2018 and 2019 (as at September) respectively (making up about 6.8%, 6.3% and 4.3% of all franchised bus-related complaints and suggestions received in 2017, 2018 and 2019 (as at September) respectively, while Citybus (Franchise 1)’s passenger volume accounted for around 12% of the industry total during the period).
- (e) Citybus (Franchise 1)’s lost trip rates were 1.9%, 2.0% and 3.0% in 2017, 2018 and 2019 (as at September) respectively, vis-à-vis the respective industry average rate of 2.0%, 2.9% and 2.8% during the same period. The lost trips were primarily a result of driver shortage, traffic congestion and road closure caused by public order events, etc. The Government has been very concerned about the reliability of franchised bus services and has requested Citybus (Franchise 1) to adjust the scheduled journey time and service frequency having regard to the actual prevailing traffic condition, and take effective actions in bus captain recruitment and retention of the existing staff. Citybus (Franchise 1) has also been actively improving the salaries and welfare of its bus captains and staff by

enhancing the salary structure (including incorporating the service performance bonus, safety bonus and attendance bonus into the basic salary), raising the amount of new-join bonus and providing more rest facilities for bus captains at bus stops and depots, etc., so as to reduce the turnover of bus captains and attract new bus captains. From January to September 2019, Citybus (Franchise 1) has successfully employed over 160 new full-time bus captains to alleviate the manpower shortage and cope with the new passenger demands.

- (f) Since May 2018, Citybus (Franchise 1) has been providing the estimated arrival time information for all of its routes, and since 6 August 2019, it has also been displaying on its website and mobile application the arrival time of all departures of routes jointly operated with The Kowloon Motor Bus Company (1933) Limited (“KMB”). Citybus (Franchise 1) is also installing real-time bus arrival information display panels at covered bus stops with electrical installation where appropriate under the Government’s subsidy scheme. Subject to site constraints, Citybus (Franchise 1) targets to complete the installation of such display panels at about 150 bus stops within 2020.
- (g) Regarding technological applications, Citybus and NWFB were the first two franchised bus operators agreed to open up the real-time arrival data of their bus routes to the Government’s Public Sector Information Portal (DATA.GOV.HK). The relevant data have been made open for use by the public for free since August 2019. Moreover, the two bus companies have introduced a system for automatic setting of section fares, thereby preventing human errors in fare collection, and allowing bus captains to focus on their driving duty. In addition, the two bus companies have installed tablets on their fleets, and the control centre can have real-time communications with the bus captains by sending them text or voice messages, thereby enhancing the efficiency of bus operation management and the capability of handling contingencies.

Operation of NWFB

11. As at end-September 2019, the key information on the operation of NWFB is as follows-

	NWFB (a)	All franchised bus companies (b)	(a) over (b)
Number of routes	93	634	14.7%
Fleet	680 buses	6 139 buses	11.1%
Staff	2 162 persons	19 168 persons	11.3%
Average daily patronage from October 2018 to September 2019	0.464 million	4.156 million	11.2%

12. NWFB procured 425 new buses (i.e. accounting for over 60% of the buses of the entire fleet) from 2015 to 2019 for service improvement. As at end-September 2019, the average age of NWFB's fleet is about 4.1 years old, which is younger than the average age of the franchised bus fleet in Hong Kong (6.2 years old).

Performance of NWFB

13. The assessment of the quality and quantity of NWFB's services is as follows -

- (a) In terms of safety, NWFB's accident rate was 6.20, 6.70 and 5.34 accidents per million vehicle-km in 2017, 2018 and 2019 (provisional as at September) respectively, vis-à-vis an industry average rate of 4.22, 4.39 and 4.01 during the same period. Similar to Citybus (Franchise 1), most of NWFB routes are operating in the highly urbanised northern shore of Hong Kong Island, and there might be higher accident rates as these routes run through busy roads with heavy traffic as well as intensive pedestrian and kerbside activities. It is similarly noteworthy that most of the accidents only

involved slight injury, with no collision of vehicles. Nevertheless, NWFB has also implemented/will implement various measures to enhance bus safety. Details of such work are at paragraphs 14-16 below.

- (b) On the environmental front, as at end-September 2019, the entire fleet (680 buses) of NWFB was of Euro III or above emission standard, while 93% of them were even of Euro V or above emission standard. NWFB has also committed that all new buses procured will be of Euro VI emission standard. Moreover, NWFB has begun the trial use of battery-electric buses since end-2015. At present, all the four battery-electric buses are deployed to serve route no. 13 (Central (City Hall) - Kotewall Road).
- (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 less satisfied with the frequency and reliability of services.
- (d) The Transport Complaints Unit of TAC received 453, 477 and 391 complaints and suggestions relating to NWFB in 2017, 2018 and 2019 (as at September) respectively (making up about 7.8%, 6.7% and 4.1% of all franchised bus-related complaints and suggestions received in 2017, 2018 and 2019 (as at September) respectively, while NWFB's passenger volume accounted for around 11% of the industry total during the period).
- (e) NWFB's lost trip rates were 2.6%, 2.9% and 3.4% in 2017, 2018 and 2019 (as at September) respectively, vis-à-vis the respective industry average rate of 2.0%, 2.9% and 2.8% during the same period. The lost trips were primarily a result of driver shortage, traffic congestion and road closure caused by public order events, etc. The Government has been very concerned about the reliability of franchised bus services and has requested NWFB to adjust the scheduled journey time and service frequency having regard to the actual prevailing traffic condition, and take effective actions in bus captain recruitment and retention of existing staff. NWFB has also

been actively improving the salaries and welfare of its bus captains and staff by enhancing the salary structure (including incorporating the service performance bonus, safety bonus and attendance bonus into the basic salary), raising the amount of new-join bonus and providing more rest facilities for bus captains at bus stops and depots, etc., so as to reduce the turnover of bus captains and attract new bus captains. From January to September 2019, NWFB has successfully employed over 150 new full-time bus captains to alleviate the manpower shortage and cope with the new passenger demands.

- (f) Since September 2018, NWFB has been providing the estimated arrival time information for all of its routes, and since 6 August 2019, it has also been displaying on its website and mobile application the arrival time of all departures of routes jointly operated with KMB. NWFB is also installing real-time bus arrival information display panels at covered bus stops with electrical installation where appropriate under the Government's subsidy scheme. Subject to site constraints, NWFB targets to complete the installation of such display panels at about 60 bus stops within 2020.
- (g) Regarding technological applications, please refer to paragraph 10(g) above.

Enhancing bus safety

14. With a view to enhancing the operational safety of franchised buses, the Government, in collaboration with the franchised bus companies and bus manufacturers, is exploring the feasibility of applying technology further. In particular, Citybus (Franchise 1) and NWFB are making continuous efforts in upgrading the blackbox system of their bus fleets. Since September 2018, the system has been able to give real-time alerts to bus captains in case of speeding on road sections subject to a 50 km/hour or 70 km/hour speed limit.

15. In addition, all new buses procured by Citybus (Franchise 1) and NWFB from July 2018 are equipped with the following safety features —

- (a) electronic stability control - this device can detect and reduce the loss of traction, e.g. skidding, so as to enhance the stability of a bus;

- (b) speed limiting retarders - capping the maximum bus speed at 70 km/hour on downhill sections by engaging the 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.

The first batch of new buses equipped with the above safety features have been put into service since October 2019. Citybus (Franchise 1) and NWFB have also committed to retrofitting the above safety devices on appropriate existing buses and are discussing with the Government on the arrangements of the retrofitting works. Citybus (Franchise 1) and NWFB will also continue to study other technological devices (such as driving-assistance devices), and examine the applicability of the extensive use of these devices under the traffic condition in Hong Kong.

16. Furthermore, 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 and analyses of the operational data recorded in black boxes, on-board monitoring by plain-clothed staff, monitoring of bus drivers' traffic offences, and breath tests conducted on bus drivers, etc. The two companies will also enhance their training programmes for bus drivers, including providing customer skills and emotion management training in the induction training for new recruits and refresher training for in-service bus drivers, and set up an internal monitoring mechanism in order to oversee the implementation and effectiveness of bus drivers' training.

Advice Sought

17. 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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