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Panel on Transport
Meeting on 20 December 2019

**Updated background brief on fare increase applications from
Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus
Network) 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 the Panel on Transport ("the Panel") on fare increase applications by Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network ("Citybus (Franchise 1)")) and New World First Bus Services Limited ("NWFB").

Background

2. Citybus (Franchise 1) and NWFB last increased their fares by 7% and 5.6% respectively in January 2019. Fares of Citybus North Lantau and Airport routes have remained unchanged.¹ The new fares took effect on 20 January 2019.

Fare Adjustment Arrangement ("FAA") for franchised buses

3. 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.

¹ Citybus (Franchise 1) and NWFB originally sought for an average fare increase rate of 12% in August 2017.

4. 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 to franchised bus operators²,
- (d) public acceptability and affordability – the Administration will 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 = $(0.5 \times \text{Change in Nominal Wage Index for the Transportation Section ("WI")} + 0.5 \times \text{Change in CCPI} - 0.5 \times \text{Productivity Gain}^3)$ – 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.

5. 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 views of members of the Panel and the Transport Advisory Committee 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.

² 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.

³ 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.

Review of FAA for franchised buses

6. 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 2017.⁴ 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,⁵ and the triggering threshold for the passenger reward arrangement of 9.7% might be adjusted downwards slightly.⁶ The Administration aimed to implement the updated FAA as soon as practicable subject to the approval by CE-in-Council.

Waiving the toll of Government tunnels and roads on franchised buses

7. In the 2018 Policy Agenda, the Administration set out a new initiative to waive the toll of Government tunnels and roads charged on franchised buses to relieve fare increase pressure. Each franchised bus operator should set up a dedicated fund account, known as the "Franchised Bus Toll Exemption Fund" for keeping the toll saving. When the franchised bus operator applies for fare increase, the magnitude of fare increase would be suitably reduced through the application of the Fund. A cap would be set for the Fund such that when the amount of the Fund reaches the cap and the franchised bus operator is still financially healthy without the need to apply for fare increase, the concerned franchised bus operator would need to use the toll saving exceeding the cap to provide passengers with fare concession.⁷

Discussions of the Panel members

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

⁵ 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.

⁶ 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.

⁷ The waiving of the toll of Government tunnels and roads would involve amendments to subsidiary legislation. The Administration gazetted three Regulations to exempt the toll for franchised buses using Government tunnels as well as the Tsing Ma and Tsing Sha Control Areas on 30 November 2018 and tabled them before the Legislative Council on 5 December 2018 for negative vetting. The three Regulations came into operation on 17 February 2019.

Review on FAA conducted under PTSS

8. 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 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.

Fare increase application by Citybus (Franchise 1) and NWFB

9. When the Panel was briefed on the fare increase application by Citybus (Franchise 1) and NWFB at the Panel meeting on 15 June 2018, a majority of members did not support the fare increase and expressed that the proposed 12% fare increase rate too substantial. In response, the representative from Citybus Limited and NWFB said that the commissioning of new railway lines, in particular the MTR West Island Line ("WIL") and South Island Line ("SIL") had led to a substantial drop in bus patronage and adversely affected their fare revenue. In this connection, members asked whether the Administration had taken forward any measures to balance the role played by different transport modes.

10. The Administration advised that the Transport Department ("TD") would assess the impact of new railway lines on other public transport modes in devising a public transport re-organization plan to cater for the travelling needs of commuters and also to improve the operational efficiency of the public transport network. Bus rationalization plans would be worked out whenever there was commissioning of new railway lines. Regarding the WIL and SIL, having consulted the District Councils ("DCs") concerned, a total of 122 buses were saved with the implementation of the bus service rationalization.

Performance of Citybus (Franchise 1) and NWFB

11. Some members pointed out that when deciding bus routes rationalization, Citybus Limited and NWFB had not taken heed of comments from District Councils, and passenger demand for new routes and point-to-point service at certain destinations was not addressed. They also urged both operators to improve service frequency and quality.

12. The Administration advised that TD would review the rationalization proposal stringently in order to meet passenger demand and improve bus network efficiency. In addition, TD attached great importance to views of DC members and would continue to strengthen communication with local community with a view to addressing their transport needs.

Remuneration of bus captains and franchised bus safety

13. Members expressed concern about the low salary of bus captains, and opined that it would be difficult to hire and retain manpower in the industry. Some members also expressed that the long working hours of bus captains would adversely affect the safety of bus in operation, and urged franchised bus operators to further reduce the maximum working hours in a special shift duty.

14. In reply to members' enquiry, the representative from Citybus Limited and NWFB said that the average monthly salary of their bus captain was around \$20,000, which was higher than the median monthly wage of around \$18,000 of the land transport industry. As regards working hours of bus captains, Citybus Limited and NWFB had devised internal guidelines in accordance with the Guidelines on Bus Captains Working Hours, Rest Times and Meal Breaks ("the Guidelines") issued by TD, and that special shift duty only accounted for about 10% of all their work shifts. On the issue of working hours of bus captains, the Administration added that following a comprehensive review of the Guidelines, the maximum duty hours and driving hours in a shift would be shortened from not exceeding 14 hours and 11 hours to not exceeding 12 hours and 10 hours respectively. In addition, a rest time of not less than three consecutive hours should be provided for bus captains in a special shift for ensuring that they could have enough rest when carrying out their driving duties.

Opening-up of real-time information

15. Some members called on the franchised bus operators to open up data, including the real-time arrival information, and make the information available publicly under one platform so as to facilitate the development of innovative services and promoting Hong Kong as a smart city. The Administration responded that it would explore means to encourage bus companies to open up transport data as far as possible.

Motions

16. At the meeting on 25 July 2018, the Panel passed the following two motions relating to the fare increase application by Citybus (Franchise 1) and NWFB:

"Opening up of data involves public interest and can also create economic benefits. However, the policy and the supporting measures on opening up of data in Hong Kong are grossly inadequate. Transport is a public utility. The Citybus Limited ("Citybus") and the New World First Bus Services Limited ("NWFB") currently provide real-time arrival information through their own applications which, however, cannot be used by a third party. This Panel urges the Government to impose conditions to require Citybus and NWFB to open up real-time arrival information while vetting and approving the fare increase applications of the two franchised bus companies, and to strengthen the coordination of the Application Programming Interfaces ("APIs") through which various operators of franchised buses can release real-time schedule information to the public so that real-time arrival information and other information such as time schedules and fares will be disseminated in "machine-readable" digital formats to facilitate application developers to provide the public with more innovative services creatively and to promote the development of Hong Kong as a smart city."

"This Panel calls upon the Citybus Limited and the New World First Bus Services Limited to adjust downwards the rates of fare increases and undertake to improve the remuneration of bus captains and safety of buses in operation."

17. The Administration responded in its supplementary information paper provided to the Panel (LC Paper No.CB(4)215/18-19(01)) that the Citybus Limited and NWFB had been providing passengers with real-time bus arrival information on their regular bus routes through their websites and smartphone applications. They were also working with TD in providing real-time arrival information on TD's "HKeMobility" smartphone application and website to facilitate users. The Administration was actively encouraging the opening up of the bus companies' traffic data in machine-readable format on the Office of the Government Chief Information Officer's "data.gov.hk" portal in the light of the Government's open data policy for enabling the wider use of the relevant data.

18. In respect of remuneration packages for bus captains, the Administration had been calling on the franchised bus operators to maintain effective communication with their staff regarding the remuneration arrangements. The Citybus Limited and NWFB had improved the wage structure of their frontline staff by increasing the bus captains' basic wages starting from March 2018. Besides, both bus companies had reached a consensus with their staff that full-time bus captains would receive a wage increase of 5% or at least \$1,100 in 2018.

19. As for driving safety, the Citybus Limited and NWFB had upgraded the black box functions of their bus fleet in September 2018 to monitor the real-time bus speed and issue immediate speeding alert to the bus captains. Also, seat belts on all passenger seats had been installed for their newly procured buses. Other devices such as Electronic Stability Control as well as speed limiters with a retarder functions had also been equipped in newly procured fleet to further enhance the safety and reliability of bus services.

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

20. 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

21. In August 2019, Citybus (Franchise 1) and NWFB have applied to TD 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 20 December 2019.

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 |

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| 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 |
| 12.12.2018 | Hon WU Chi-wai raised a question on provision of ancillary facilities for bus captains and regulators https://www.info.gov.hk/gia/general/201812/12/P2018121200225.htm |
| 09.1.2019 | Hon HO Kai-ming raised a question on Road safety of non-franchised buses https://www.info.gov.hk/gia/general/201901/09/P2019010800834.htm |

Appendix II

Fare increase applications from Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network) 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 1 |

| Date of meeting | Minutes/Paper | LC Paper No. |
|------------------------|---|--|
| 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 |
| | 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.htm 1 |
| - | 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 |

| Date of meeting | Minutes/Paper | LC Paper No. |
|------------------------|---|--|
| | 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 |
| | 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 |
| 15.6.2018 | Administration's paper on fare increase applications from Citybus Limited (franchise for the Hong Kong Island and Cross-Harbour Bus Network) and New World First Bus Services Limited | CB(4)1222/17-18(05) https://www.legco.gov.hk/yr17-18/english/panels/tp/papers/tp20180615cb4-1222-5-e.pdf |

| Date of meeting | Minutes/Paper | LC Paper No. |
|------------------------|--|---|
| | Administration's follow-up paper to the motions passed at the meeting on 25 July 2019 regarding fare increase applications by the Citybus Limited (Franchise 1) and the New World First Bus Services Limited | CB(4)215/18-19(01) https://www.legco.gov.hk/yr17-18/english/panels/tp/papers/tp20180725cb4-215-1-e.pdf |
| | Minutes of meeting | CB(4)358/18-19 https://www.legco.gov.hk/yr17-18/english/panels/tp/minutes/tp20180615.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 |
| 8.1.2019 | Press release published by the Citybus Limited and New World First Bus Services Limited on fare adjustment approved to take effect on 20 January 2019 | https://www.nwstbus.com.hk/en/uploadedPressRelease/11431_08012019_fare_eng.pdf |
| 9.8.2019 | Press release published by the Citybus Limited and New World First Bus Services Limited on fare adjustment application 9 August 2019 | http://www.nwstbus.com.hk/en/uploadedPressRelease/12893_09082019_F_eng.pdf |