



交通諮詢委員會
TRANSPORT ADVISORY COMMITTEE

15 May 2008

Ms Eva Cheng, JP
Secretary for Transport and Housing
2/F Main and East Wings
Central Government Offices
Lower Albert Road
Central
Hong Kong

Dear Ms Cheng,

Franchised Bus Fare Increase Applications

This letter sets out the Transport Advisory Committee (“TAC”)’s advice to the Chief Executive in Council (“CE-in-Council”) on the fare increase applications from The Kowloon Motor Bus Company (1933) Limited (“KMB”), Long Win Bus Company Limited (“LW”), New Lantau Bus Company (1973) Limited (“NLB”), Citybus Limited (Franchise for Hong Kong Island and Cross-harbour Routes) (“Citybus (Franchise 1)”), Citybus (Franchise for North Lantau and Chek Lap Kok Airport Routes) (Citybus (“Franchise 2”)) and New World First Bus Services Limited (“NWFB”).

In advising on the franchised bus fare increase applications, Members have taken into account all relevant factors under the bus fare adjustment arrangement approved by CE-in-Council on 10 January 2006, including –

- (a) changes in operating costs and revenue since the operator’s last fare adjustment or commencement of operation if the operator has not increased its fares before;
- (b) forecasts of future costs, revenue and return;
- (c) the need to provide the operators with a reasonable rate of return;
- (d) public acceptability and affordability;
- (e) the quality and quantity of service provided; and

- (f) the outcome of the formula (supportable fare adjustment rate = $0.5 \times \text{Change in Wage Index} + 0.5 \times \text{Change in Composite Consumer Price Index ("CCPI")} - 0.5 \times \text{Productivity Gain}$). This formula does not operate as an automatic determinant of the bus fare adjustment outcome. The outcome serves as a reference indicator in considering whether the fare adjustment rate is supportable and justifiable at a given juncture.

Members noted that based on the latest indices published by the Census and Statistics Department (i.e., the CCPI for the period from January 2006 to March 2008 and the nominal wage index for the transport sector from the first quarter of 2006 to the fourth quarter of 2007) and the productivity gain, the outcome of the formula is +4.67%. As regards the magnitude of change in the Median Monthly Household Income (MMHI), it has increased by 2.9% from the first quarter of 2006 to the fourth quarter of 2007.

Members noted that both the formula outcome and the change in MMHI are positive and that the franchised bus operators have been providing proper, efficient and quality services to the travelling public. They have also launched various service improvement initiatives, ranging from fleet management to environmental performance, in accordance with the commitments they had made before the grant of their existing franchises.

Members noted that KMB, NLB, Citybus (Franchise 1) and NWFB last increased their bus fares on 1 December 1997, 1 April 1998, 1 December 1997 and 22 April 2001 respectively. LW and Citybus (Franchise 2) have not increased their fares since the commencement of their full operation in July 1998.

As regards the changes in the franchised bus operators' costs, revenue and return, Members noted that their operating costs are not fully elastic. For those companies which had not increased fares after 1998, their operating costs had increased considerably, ranging from about 20% to 50% despite deflation in some of the years during this period. For KMB, NLB and Citybus (Franchise 1), their operating costs cumulatively increased more than their revenues. For LW and Citybus (Franchise 2), the growth in their revenues is faster than that in their operating costs. For NWFB, although there was minor decrease in its operating costs since its last fare increase, its revenue has decreased at a faster pace.

As regards returns during the past relevant period, KMB's financial performance was very positive in the major part of the past ten

years. But in recent years its return has started to drop significantly from its peak. LW has negative return in its early years of operation, but has improved in the past few years. NLB's financial performance has fluctuated significantly and has been suffering losses in recent years. Citybus (Franchise 1)'s and NWFB's returns have been quite stable since their last fare increase whereas Citybus (Franchise 2)'s financial performance has remained rather strong in recent years.

As regards the forecasts of future costs, revenue and return, Members noted that, in the light of the general trend of inflation and the recent fuel price hike, the operating costs of the franchised bus operators are forecast to continue to rise while the growth in revenue at existing fares will be limited in the coming two years. NLB is forecast to have negative returns even if its proposed 7.24% fare increase is approved. KMB, LW and NWFB are forecast to have rather low returns in the coming years at the existing fare levels. Citybus (Franchise 1)'s return will drop considerably if no fare increase is made whereas Citybus (Franchise 2)'s financial performance is forecast to remain strong.

Taking into account all the relevant factors, TAC considers that it is justified to allow KMB, LW, NLB, Citybus (Franchise 1) and NWFB to increase fares by 4.5%, 4.5%, 7.24%, 2% and 5% respectively and supports no fare increase be approved for Citybus (Franchise 2). TAC considers that these fare increase rates would be able to strike a balance between minimizing the impact of bus fare increases on passengers while at the same time allowing bus operators to have reasonable rates of return to enable them to sustain the provision of proper and efficient services to the public as well as to continuously improve their services.

I would be grateful if you would kindly convey TAC's advice to the CE-in-Council for consideration. TAC's advice may be released for public information in due course after the CE-in-Council's decision is announced.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Teresa Cheng', with a stylized flourish at the end.

(Teresa Cheng)
Chairman

Transport Advisory Committee