

Executive Council approves review of Fare Adjustment Arrangements for franchised buses and bus fare increase of CTB(F1) and NWFB

The Chief Executive in Council today (January 8) endorsed the review outcome of the Fare Adjustment Arrangements for franchised buses (FAA), and approved that the factors which make up the FAA should remain intact, while the Productivity Factor value used in the supportable fare adjustment rate formula and the weighted average cost of capital (WACC) should be adjusted. The Chief Executive in Council also approved, with the mitigating effect from the Franchised Bus Toll Exemption Funds under the two franchisees, overall weighted average fare increases of 7.0 per cent and 5.6 per cent for passengers of Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network) (CTB(F1)) and New World First Bus Services Limited (NWFB) respectively. The new fares will take effect on January 20 this year.

As regards the review of the FAA, under the current mechanism, the Government will take into account a basket of factors in assessing a bus fare adjustment, which include:

- (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 operator 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 for a supportable fare adjustment rate. The formula is only for reference and the fare level will not be adjusted automatically according to the formula outcome.

"The Government has looked into the existing FAA and considered that it can basically strike a balance between the sound operation of franchised bus services as well as public affordability and acceptability. The Executive Council approves that the factors which make up the FAA be kept intact and that these factors continue to be considered holistically. At the same time, based on the updated financial market data, the Government updated the Productivity Factor value used in the formula for a supportable fare adjustment rate from zero to +0.3 per cent per annum, as well as updated the WACC from 9.7 per cent to 8.7 per cent so that any profit achieved by a franchised bus operator exceeding the rate of return on average net fixed assets of 8.7 per cent shall be shared on a 50:50 basis between the franchised bus operator and passengers through fare concessions. The new arrangement will apply to all franchised bus operators with effect from today," a Government spokesman said.

In order to update the data more frequently to reflect the latest market situation and operating environment of the franchised bus operators, the Government will review the FAA at a regular interval of, say, once every three years, focusing in particular on the updating of Productivity Gain and the WACC.

As for the fare increase for CTB(F1) and NWFB, in vetting and approving the applications, the Executive Council has, based on the above-mentioned arrangement, considered the case holistically and fully considered the views of the Panel on Transport of the Legislative Council and the Transport Advisory Committee.

"CTB(F1) and NWFB last increased their fares in June 2008. Since the commissioning of various railway lines, the patronage of the two bus operators has dropped. Their operating costs on the other hand have been rising due to the annual pay rise and increase in fuel costs. CTB(F1) and NWFB are both running a deficit. In 2017-18, CTB(F1) incurred a loss of \$2.6 million while NWFB incurred a loss of \$5.1 million. If the fare levels remain unchanged, the two bus operators will continue to run a deficit of a much larger magnitude in the coming years," a Government spokesman said.

"According to the financial forecast of the Government, both CTB(F1) and NWFB will still incur losses even if the increase rate is at 12.0 per cent as proposed by the two franchisees. The Government acknowledges the importance of financial viability of a bus franchisee for providing proper and efficient public bus service. That said, we also need to balance the passengers' affordability and acceptability. Gradual fare increases would be more acceptable to the general public at large," the Government spokesman added.

Having taken into account and balanced all factors under the FAA, the Executive Council approved that an overall weighted average fare increase rate for CTB(F1) and NWFB be 9.9 per cent. With the mitigating effect from the Franchised Bus Toll Exemption Funds announced by the Chief Executive in her 2018 Policy Address, the fare increase required to be borne by passengers after the mitigating effect brought by the Franchised Bus Toll Exemption Funds will reduce from 9.9 per cent to about 7.0 per cent for CTB(F1) and 5.6 per cent for NWFB respectively. The approved rates of increase are lower than the changes in the Composite Consumer Price Index (+34.20 per cent) and Median Monthly Household Income (+60.56 per cent) since the last fare increase, as well as the formula outcome of a supportable fare adjustment rate (+33.05 per cent) under the FAA. Should the financial situation remain weak after the fare increase, the two companies may consider, as necessary, to submit applications for another fare increase.

At the same time, the Executive Council approved the fare of cross-harbour routes jointly operated by CTB(F1) and the Kowloon Motor Bus Company (1933) Limited (KMB) be increased by about 7.0 per cent, and those jointly operated by NWFB and KMB be increased by about 5.6 per cent. The additional revenue generated from such fare increase by KMB would be saved under its Franchised Bus Toll Exemption Fund for reducing the magnitude of its fare increase application being processed.

Under the new fares, about 90 per cent of CTB(F1)'s passengers and 97 per cent of NWFB's passenger will either not be affected at all or will need to pay not more than \$1 extra per trip. About 10 per cent and 3.3 per cent of CTB(F1)'s and NWFB's passengers respectively will have to pay more than \$1 extra per trip. For KMB, about 94 per cent of KMB's passengers will not be affected at all while about 6.1 per cent of KMB's passengers will have to pay 20 cents extra or more per trip. Eligible persons enjoying a concessionary fare of \$2 per trip under the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities will not be affected by the fare increase.

The Government will continue to encourage all the franchised bus operators to take measures in the coming years to improve the financial situation through ongoing service improvement measures to increase patronage and continuous rationalisation of low-utilised bus routes. The Government will also continue to process fare increase applications in accordance with the established mechanism.