

For discussion  
on 23 June 2014

## **Legislative Council Panel on Transport**

### **Franchises of Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network) and New Lantao Bus Company (1973) Limited**

#### **PURPOSE**

This paper informs Members of the Government's plan to engage Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network) ("Citybus (Franchise 1)") and New Lantao Bus Company (1973) Limited ("NLB")<sup>1</sup> for discussion on the granting of new 10-year franchises upon expiry of the current ones on 1 June 2016 and 1 March 2017 respectively. Members' views are invited on the requirements of the new franchises.

#### **BACKGROUND**

2. At present, there are five grantees operating six bus franchises<sup>2</sup> in Hong Kong. The current franchise of Citybus (Franchise 1) commenced on 1 July 2006 and will expire on 1 June 2016. NLB's current franchise commenced on 1 April 2007 and will expire on 1 March 2017. The two grantees have indicated interests to apply for new 10-year franchises and for them to take effect immediately upon expiry of the current ones.

3. Under section 5 of the Public Bus Services Ordinance ("the Ordinance") (Cap. 230), the Executive Council ("ExCo") may grant to a company a franchise conferring the right to operate a public bus service. Section 6 of the Ordinance stipulates that a franchise may be granted for a

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<sup>1</sup> The key operating areas for NLB are on Lantau Island and in Shenzhen Bay Port.

<sup>2</sup> The five grantees are The Kowloon Motor Bus Company (1933) Limited, Citybus Limited, New World First Bus Services Limited, Long Win Bus Company Limited and NLB. Citybus Limited is operating two franchises, one for the Hong Kong Island and cross-harbour bus network and the other for the Airport and North Lantau bus network.

period not exceeding 10 years<sup>3</sup>. Under section 12 of the Ordinance, a grantee of a bus franchise is required to maintain a proper and efficient public bus service to the satisfaction of the Commissioner for Transport (“the Commissioner”) at all times during the franchise period.

4. The Government’s key consideration in granting or extending a bus franchise is whether a grantee is capable of providing a proper and efficient public bus service. According to the established practice, a grantee who is able to prove its ability to provide a proper and efficient service, and is willing to further invest in franchised bus operation may be considered for being granted a new franchise for a period of 10 years. As franchised bus operation is capital and investment intensive, a longer franchise period (say, 10 years) would facilitate a grantee’s long-term planning and service development. These include -

- (a) operating loss-making but socially desirable routes;
- (b) securing more favourable terms on financing to reduce operating costs and hence pressure to increase fare;
- (c) coping with business risks brought about by short-term market volatility; and
- (d) providing a more stable working environment for its staff as bus industry is labour intensive.

All these are conducive to ensuring the provision of a proper and efficient service to passengers.

5. To evaluate whether a grantee is providing a proper and efficient service, the Transport Department (“TD”) has all along been reviewing the operator’s performance regularly through passenger satisfaction surveys, site surveys, vehicle inspections, examination of regular returns and feedback from the public. The assessment on the performance of Citybus (Franchise 1) and NLB is set out in paragraphs 6 to 15 below.

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<sup>3</sup> If the Government has yet to decide on the long-term arrangements for a franchise, ExCo may extend an existing franchise for a further period not exceeding two years as a buffer. Meanwhile, a grantee may request and ExCo may extend an existing franchise for a further period not exceeding five years.

## **ASSESSMENT**

### **(A) Service Performance and Operational Efficiency**

#### ***Citybus (Franchise 1)***

6. As at end-2013, Citybus (Franchise 1) was operating 90 bus routes with 777 buses. Between 2006 (commencement of its current franchise) and 2013 -

- (a) the annual average lost trip rate<sup>4</sup> was 1.8%, lower than the overall industry average of 3.4% during the same period;
- (b) the annual average number of complaints per million passengers received by the Transport Complaints Unit (“TCU”) under the Transport Advisory Committee was 2.56, lower than the overall industry average of 2.95 during the same period;
- (c) the average number of buses involved in accidents per million vehicle-kilometre travelled was 5.23 per annum, higher than the overall industry average of 3.99 per annum during the same period. This is mainly because most routes operated by Citybus (Franchise 1) are plying relatively busier road sections in the urban area. It is thus more likely for accidents to happen. Notwithstanding, most of the accidents are mild in nature. They involved, for example, injuries arising from passenger losing balance inside the bus compartment or on the stairway, rather than collision with other vehicles; and
- (d) on the environmental front, the bus fleet has met the Euro emission standard<sup>5</sup> since 2011. Meanwhile, Citybus (Franchise 1) will deploy two hybrid buses and six electric buses by phases in 2014 for trial.

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<sup>4</sup> This refers to the percentage of trips not meeting the number as agreed with TD over the total number of trips.

<sup>5</sup> Euro emission standards define the acceptable limits for exhaust emissions of new vehicles sold in European Union member states. With reference to the prevailing Euro emission standards and vehicle supply situation in Hong Kong, the Environmental Protection Department specifies and periodically updates the requirements on newly registered heavy duty vehicles (including franchised buses) under the Air Pollution Control (Vehicle Design Standards) (Emission) Regulation (Cap. 311J). The exhaust emission requirements are updated from time to time. Buses meeting Euro emission standards are Euro I to V buses.

7. The daily patronage of Citybus (Franchise 1) increased from about 512,000 passenger journeys in 2006 to about 572,000 passenger journeys in 2013 (an increase of about 12%). To cope with passenger growth, its fleet size increased from 741 buses to 777 buses during the same period. Under the Ordinance, a grantee has to submit its five-year Forward Planning Programme (“FPP”) on an annual basis. FPP includes proposals for service improvement and rationalisation, as well as vehicle purchase and replacement programme. Since 2006, Citybus (Franchise 1) has acquired a total of about 384 new buses<sup>6</sup>, implemented 144 service improvement items<sup>7</sup> and 286 service rationalisation items<sup>8</sup> to enhance service and network efficiency. According to its latest FPP (covering 2014 to 2018), Citybus (Franchise 1) plans to further acquire a total of about 343 new buses (amounting to around 44% of its bus fleet) to replace its old buses and further improve its services.

### **NLB**

8. As at end-2013, NLB was operating 23 bus routes with 108 buses. Between 2007 (commencement of its current franchise) and 2013 -

- (a) the annual average lost trip rate was 0.1%, substantially lower than the overall industry average of 3.7% during the same period;
- (b) the annual average number of complaints per million passengers received by TCU was 2.07, lower than the overall industry average of 3.03 during the same period;
- (c) the average number of buses involved in accidents per million vehicle-kilometre travelled was 1.46 per annum, substantially lower than the overall industry average of 4.05 per annum during the same period; and
- (d) on the environmental front, the bus fleet has met the Euro emission standard since the commencement of its current franchise. Meanwhile, NLB will deploy introduce four electric buses in 2015 for trial.

9. The daily patronage of NLB increased from about 44,200 passenger journeys in 2007 to about 64,700 passenger journeys in 2013 (an

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<sup>6</sup> These include the replacement of old buses and purchase of new additional buses.

<sup>7</sup> Service improvement items mainly include introduction of new routes, frequency enhancement, extension of service hours and extension of routeing.

<sup>8</sup> Service rationalisation items mainly include route cancellation, frequency reduction, route truncation and re-routeing.

increase of about 46%). To meet passenger demand arising from the development of Lantau Island and introduce routes serving Shenzhen Bay Port, its fleet size increased from 94 buses to 108 buses during the same period. Since 2007, NLB has acquired a total of about 84 new buses, implemented 43 service improvement items and six service rationalisation items. According to its latest FPP (covering 2014 to 2018), NLB plans to further acquire a total of about 54 new buses (amounting to around 50% of its bus fleet) to replace its old buses and further improve its services.

## **(B) Safety and Service Enhancement Measures**

10. Citybus (Franchise 1) and NLB have all along been taking measures to further enhance safety. For example, the two grantees have -

- (a) since the fourth quarter of 2012 fully implemented a new set of working hour and rest time arrangements for the bus captains. This provides the bus captains with longer rest time when they are on duty;
- (b) strengthened bus captains' driving skills, improved their driving attitude and enhanced their safety awareness by providing enhancement, refresher and remedial training courses on safe driving;
- (c) required bus captains aged 50 years or above to undergo annual health checks. Those aged 60 or more have to undergo an electrocardiogram ("ECG") as well. With effect from August 2013, bus captains of 50, 54 and 57 years old also have to undergo an ECG during their annual health checks; and
- (d) completed the retrofit of black boxes and speed limiters basically on all buses to facilitate the monitoring of bus captains' driving performance.

11. To further enhance service standards and quality, the two grantees have made continuous improvement on the provision of passenger information, including installation of bus stop announcement system on all buses, setting up customer service centres, and providing route information panels at bus termini and stops. In addition, Citybus (Franchise 1) is providing free Wi-Fi services on some buses. It is also procuring new buses with electronic panels inside the compartment for display of route information.

12. The two grantees have been offering bus-bus interchange ("BBI") schemes with fare concessions. As at end-2013, Citybus (Franchise 1) and NLB were providing 86 and two BBI schemes respectively. Citybus

(Franchise 1) and NLB have since August 2012 and March 2013 respectively participated in the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities to enable elderly people and eligible persons with disabilities to enjoy a concessionary fare of \$2 per bus trip.

**(C) Public Opinions on Bus Services**

13. TD and the grantees conduct regular passenger satisfaction surveys to gauge passengers' opinions on the bus service. The findings of the passenger satisfaction surveys are used as the basis for TD and the grantee to monitor service performance, keep track of passenger satisfaction, and identify areas for improvement.

14. Further, given the current franchises of Citybus (Franchise 1) and NLB will soon expire, TD commissioned an independent survey during November to December 2013 to gauge passengers' overall opinions on their service. The results show that 88% of the respondents are satisfied with the overall service quality provided by the two grantees. The summary of the survey findings is at **Annexes A and B**.

**A and B**

**(D) Financial Performance**

15. According to the franchise requirements, all grantees have to publish a booklet of "Fuller Disclosure" annually to present their operational and financial information over the past year. Information on the financial performance of Citybus (Franchise 1) and NLB during their current franchise period is at **Annex C**.

**C**

**NEW FRANCHISES**

16. Based on the assessment in paragraphs 6 to 15 above, the Commissioner is of the view that Citybus (Franchise 1) and NLB have all along been providing a proper and efficient bus service and are willing to continue to invest for further enhancement of bus service. Meanwhile, the two grantees have indicated interests to apply for new 10-year franchises as mentioned in paragraph 2. Taking all things into account, the Government plans to commence the discussion with Citybus (Franchise 1) and NLB shortly for new 10-year franchises to ensure the continuation of public bus service which is essential to the passengers. The new franchises will take effect immediately upon expiry of the current ones in 2016 and 2017 respectively. This would facilitate a smooth transition between the current and new franchises without service disruption. We shall also invite views from the public on the

requirements of the new franchises (see paragraph 19 below).

17. Although the two grantees have in-principle indicated interests to continue to provide franchised bus service, the operating environment of the bus industry in the foreseeable future is expected to remain rather difficult owing to rising operating costs (especially staff costs and a fluctuating fuel price) and keen competition from other public transport modes. With the opening of new railway lines<sup>9</sup> in the coming few years, the market share of franchised buses is expected to continue to shrink. The grantees have to actively rationalise existing service to reduce wastage and explore new service areas to keep their operation sustainable. The Government would strive for the most favourable franchise terms for the public as far as possible in a pragmatic manner. We would endeavour to enhance the quality of bus service, improve the dissemination of passenger information and environmental performance, as well as implement reasonable fare concessions. Yet, we would not underestimate the difficulty of the discussion and would have to take into account the actual operating environment in the process. We aim to conclude the discussion by early 2015 and shall report to this Panel.

18. Since the enactment of the Ordinance in 1975, a total of four public tender exercises for new franchises were carried out between 1991 and 1998. Three of them were conducted for the purpose of bringing in new operators in view of the unsatisfactory performance of the then China Motor Bus Company Limited. The other one was to introduce a new bus network to meet the transport demand arising from the new developments in North Lantau and opening of Chek Lap Kok Airport. Apart from these occasions, it has been the practice since late 1990s for an existing grantee to be granted a new 10-year franchise near the expiry of its existing one as long as it is able to prove its ability to provide a proper and efficient public bus service and is willing to further invest in franchised bus operation. The new franchise will take immediate effect upon expiry of the existing one. This practice has been applied to all of the six existing franchises for a number of times. Since Citybus (Franchise 1) and NLB have all along been providing a proper and efficient service, they have a legitimate expectation that they would be granted new franchises upon expiry of the current ones.

## **PUBLIC CONSULTATION**

19. The Government plans to invite views from the public on the

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<sup>9</sup> They include the West Island Line, South Island Line (East), Kwun Tong Line Extension and Shatin-Central Link.

requirements of new franchises for Citybus (Franchise 1) and NLB between end-June and September 2014. The relevant information will be uploaded to the websites of the Transport and Housing Bureau and TD as well as the Public Affairs Forum website of the Home Affairs Bureau for reference by and comments from the public. Besides, TD will invite views from members of the Traffic and Transport Committees of the District Councils concerned.

### **ADVICE SOUGHT**

20. Members are invited to note the Government's plan to engage Citybus (Franchise 1) and NLB for discussion on granting new franchises. Members are welcome to offer views on the requirements of the new franchises.

**Transport and Housing Bureau  
Transport Department  
June 2014**



# Transport Department

## **Passenger Opinion Survey for Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network)**

**- Summary of Survey Results -**

Conducted and Prepared by



*December 2013*

## **Background & Objective**

In order to collect passenger views on the service performance of the Citybus Limited (Franchise for Hong Kong Island and Cross Harbour Bus Network) (“Citybus (Franchise 1)”), the Transport Department has commissioned the Mercado Solutions Associates Limited to conduct passenger opinion survey through telephone interviews between November and December 2013.

## **The Survey**

The target respondents of the survey are the passengers aged 12 or above who use Citybus (Franchise 1) service at least once a week. In order to ensure the findings of the survey are representative, a random sample of household telephone numbers were selected. Within the selected households, all individuals aged 12 or above who used Citybus (Franchise 1) service at least once a week were listed. After that, one target respondent of each selected household would be picked by a random selection process.

The questionnaire includes eight core questions covering the following aspects of the service performance -

- (1) overall quality of service
- (2) level of comfort of buses
- (3) facilities on buses
- (4) passenger information
- (5) reliability of bus service
- (6) driving performance of bus captains
- (7) service attitude of bus captains or staff
- (8) performance of buses on environmental protection

The respondents were asked to rate their satisfaction level in each service aspect on a five-point scale of (i) very satisfied (ii) satisfied (iii) dissatisfied (iv) very dissatisfied (v) no comment.

In total, 600 individuals were successfully interviewed during the survey period between 19 November and 15 December 2013, representing an overall response rate of 85.3%.

## Survey Results

1. Overall speaking, 87.9% of the respondents indicated that they were very satisfied/satisfied with the overall quality of service provided by Citybus (Franchise 1). The percentage was much higher than the 12.1% who were dissatisfied/very dissatisfied.
2. 85.3% of the respondents indicated that they were very satisfied/satisfied with the level of comfort of buses of Citybus (Franchise 1). The percentage was much higher than the 14.4% who were dissatisfied/very dissatisfied.
3. 91.2% of the respondents indicated that they were very satisfied/satisfied with the facilities on buses of Citybus (Franchise 1). The percentage was much higher than the 7.4% who were dissatisfied/very dissatisfied.
4. 86.4% of the respondents indicated that they were very satisfied/satisfied with the passenger information provided by Citybus (Franchise 1). The percentage was much higher than the 11.8% who were dissatisfied/very dissatisfied.
5. 70.5% of the respondents indicated that they were very satisfied/satisfied with the reliability of bus service provided by Citybus (Franchise 1). The percentage was higher than the 29.3% who were dissatisfied/very dissatisfied.
6. 92.5% of the respondents indicated that they were very satisfied/satisfied with the driving performance of bus captains of Citybus (Franchise 1). The percentage was much higher than the 6.8% who were dissatisfied/very dissatisfied.
7. 91.9% of the respondents indicated that they were very satisfied/satisfied with the service attitude of bus captains or staff of Citybus (Franchise 1). The percentage was much higher than the 6.8% who were dissatisfied/very dissatisfied.
8. 71.7% of the respondents indicated that they were very satisfied/satisfied with the performance of buses of Citybus (Franchise 1) on environmental protection. The percentage was higher than the 16.6% who were dissatisfied/very dissatisfied. Besides, 11.7% of the respondents indicated no comment.

**Transport Department**

**Passenger Opinion Survey for**  
**New Lantao Bus Company (1973)**  
**Limited**

**- Summary of Survey Results -**

**Conducted and Prepared by**



***December 2013***

## **Background & Objective**

In order to collect passenger views on the service performance of the New Lantao Bus Company (1973) Limited (“NLB”), the Transport Department has commissioned the Mercado Solutions Associates Limited to conduct passenger opinion survey through face-to-face interviews on buses between November and December 2013.

## **The Survey**

The target respondents of the survey are the passengers aged 12 or above who use NLB service. The sample size required for different NLB routes was allocated according to each route’s ridership. Target respondents were picked by a random process with reference to passengers’ seating position on buses.

The questionnaire includes eight core questions covering the following aspects of the service performance -

- (1) overall quality of service
- (2) level of comfort of buses
- (3) facilities on buses
- (4) passenger information
- (5) reliability of bus service
- (6) driving performance of bus captains
- (7) service attitude of bus captains or staff
- (8) performance of buses on environmental protection

The respondents were asked to rate their satisfaction level in each service aspect on a five-point scale of (i) very satisfied (ii) satisfied (iii) dissatisfied (iv) very dissatisfied (v) no comment.

In total, 512 individuals were successfully interviewed during the survey period between 19 November and 10 December 2013, representing an overall response rate of 88.0%.

## Survey Results

1. Overall speaking, 87.5% of the respondents indicated that they were very satisfied/satisfied with the overall quality of service provided by NLB. The percentage was much higher than the 12.5% who were dissatisfied/very dissatisfied.
2. 85.4% of the respondents indicated that they were very satisfied/satisfied with the level of comfort of buses of NLB. The percentage was much higher than the 13.4% who were dissatisfied/very dissatisfied.
3. 89.0% of the respondents indicated that they were very satisfied/satisfied with the facilities on buses of NLB. The percentage was much higher than the 9.4% who were dissatisfied/very dissatisfied.
4. 77.9% of the respondents indicated that they were very satisfied/satisfied with the passenger information provided by NLB. The percentage was higher than the 16.8% who were dissatisfied/very dissatisfied.
5. 72.4% of the respondents indicated that they were very satisfied/satisfied with the reliability of bus service provided by NLB. The percentage was higher than the 26.2% who were dissatisfied/very dissatisfied.
6. 89.2% of the respondents indicated that they were very satisfied/satisfied with the driving performance of bus captains of NLB. The percentage was much higher than the 9.4% who were dissatisfied/very dissatisfied.
7. 87.3% of the respondents indicated that they were very satisfied/satisfied with the service attitude of bus captains or staff of NLB. The percentage was much higher than the 10.2% who were dissatisfied/very dissatisfied.
8. 68.2% of the respondents indicated that they were very satisfied/satisfied with the performance of buses of NLB on environmental protection. The percentage was higher than the 13.0% who were dissatisfied/very dissatisfied. Besides, 18.8% of the respondents indicated no comment.

**Financial performance of  
Citybus (Franchise 1) and NLB under the current franchises****Citybus (Franchise 1)**

<b>Accounting Year (Note)</b>	<b>Average Daily Patronage (passenger journeys)</b>	<b>Total Revenue (\$ million)</b>	<b>Total Costs (\$ million)</b>	<b>Profit after Tax (\$ million)</b>
2006/07	513,600	1,213	1,092	121
2007/08	512,800	1,234	1,176	58
2008/09	513,800	1,260	1,177	83
2009/10	511,300	1,264	1,132	132
2010/11	527,500	1,289	1,195	94
2011/12	544,600	1,345	1,257	88
2012/13	564,600	1,407	1,285	122

Note: The accounting year of Citybus (Franchise 1) ends on 30 June each year.

**NLB**

<b>Accounting Year (Note)</b>	<b>Average Daily Patronage (passenger journeys)</b>	<b>Total Revenue (\$ million)</b>	<b>Total Costs (\$ million)</b>	<b>Profit after Tax (\$ million)</b>
2007/08	46,200	104	99	5
2008/09	47,700	102	102	0
2009/10	49,600	112	104	8
2010/11	53,300	120	112	8
2011/12	58,600	137	128	9
2012/13	61,900	146	136	10

Note: The accounting year of NLB ends on 31 March each year.