

**For discussion
on 15 January 2016**

Legislative Council Panel on Transport
New Franchise for
Bus Network of The Kowloon Motor Bus Company (1933) Limited

PURPOSE

This paper informs Members of the Government's plan to engage The Kowloon Motor Bus Company (1933) Limited ("KMB") for discussion on the granting of a new 10-year franchise for its bus network upon expiry of the current one on 1 July 2017. Members' views are invited on the requirements of the new franchise.

BACKGROUND

2. At present, there are five grantees operating six bus franchises¹ in Hong Kong. The current franchise of KMB commenced on 1 August 2007 and will expire on 1 July 2017. KMB has indicated an interest to apply for a new 10-year franchise upon the expiry of the existing one.

3. Under section 5 of the Public Bus Services Ordinance ("the Ordinance") (Cap. 230), the Executive Council may grant to a company a franchise conferring the right to operate a public bus service. Under section 6 of the Ordinance, a franchise may be granted for a period not exceeding 10 years². Section 12 of the Ordinance prescribes that 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.

¹ The five grantees are KMB, Citybus Limited, New World First Bus Services Limited, Long Win Bus Company Limited and New Lantao Bus Company (1973) Limited. 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 Lantao bus network.

² If the Government has yet to decide on the long-term arrangements for a franchise, the Executive Council may extend an existing franchise for a further period not exceeding two years as a buffer. Meanwhile, a grantee may request and the Executive Council may extend an existing franchise for a further period not exceeding five years.

4. The Government's key consideration in granting a bus franchise is whether an operator is capable of providing a proper and efficient public bus service. According to the established practice, an incumbent operator which 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 certain loss-making but socially desirable routes on broader considerations over the long term;
- (b) securing more favourable terms on financing to reduce operating costs and hence pressure to increase fare;
- (c) being more resilient to business risks brought about by short-term market volatility; and
- (d) providing a more stable working environment for its staff as bus industry is also labour intensive.

The aforesaid factors 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 grantee's performance regularly through passenger satisfaction surveys, site surveys, vehicle inspections, examination of regular returns and feedback from the public, etc. The assessment on the performance of KMB is set out in paragraphs 6 to 13 below.

ASSESSMENT

(A) Service Performance and Operational Efficiency

6. As at end September 2015, KMB was operating 374 bus routes using 3 874 buses. Between August 2007 (commencement of its existing franchise) and September 2015 –

- (a) the average lost trips rate³ of KMB was 4.0%, higher than the overall industry average of 3.4% during the same period. In view of relatively higher lost trip rates in 2011 (8.0%) and 2012 (4.6%), KMB has implemented a series of improvement measures. The implementation of such measures had brought the lost trip rate down to 2.8% in 2013 and 2.6% in 2014⁴. In the first three quarters of 2015, KMB's lost trip rate was at a low level of 1.4%, which was slightly better than the industry average of 1.5%;
- (b) the average number of complaints against KMB per million passengers received by the Transport Complaints Unit under the Transport Advisory Committee was 2.69, lower than the overall industry average of 3.44 during the same period;
- (c) the average number of KMB buses involved in accidents per million vehicle-kilometre travelled was 2.95, lower than the overall industry average of 4.16 during the same period; and
- (d) on the environment front, KMB's fleet has met the prevailing EURO emission standards at those times when they were purchased (currently set at EURO V emission standards). In addition, with funding support from the Government, KMB launched a trial involving three hybrid buses in late 2014 and will start another trial involving 18 single-deck electric buses (including eight supercapacitor buses and 10 battery-electric buses) progressively starting from the first quarter of 2016. Both trials will last for two years.

7. The average daily patronage of KMB decreased from about 2 762 000 passenger journeys in 2007 to about 2 632 000 passenger journeys in the first three quarters of 2015, representing a drop of about 5%. In tandem with the patronage drop, its fleet size decreased by about 4%, from 4 027 buses to 3 874 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 2013, KMB has pursued proposals of service rationalisation with greater

³ This refers to the percentage of trips not meeting the number as agreed with TD over the total number of trips.

⁴ The Occupy Movement protest which happened in the fourth quarter of 2014 had impacted on the service and frequency of franchised bus service. We have excluded the data of that quarter in the calculation of lost trip rates to eliminate such impact.

vigour. An “Area Approach” is adopted to review its bus service holistically for a district as a whole, with a view to maximising the overall benefits for the district. Between August 2007 and September 2015, KMB acquired a total of about 1 510 new buses⁵, implemented 247 service improvement⁶ items and 304 service rationalisation⁷ items to enhance service and network efficiency. According to its latest FPP (covering the period of 2016 to 2020), KMB plans to further acquire a total of about 1 680 new buses (amounting to around 40% of its bus fleet) to replace its old buses and further improve its bus service. As at September 2015, close to 90% of KMB’s fleet are low-floor buses for the convenience of wheelchair passengers. KMB is expected to operate with a fully low-floor bus fleet by mid-2017.

(B) Safety and Service Enhancement Measures

8. KMB has all along been taking measures to further enhance safety. For example, KMB has –

- (a) fully implemented a new set of working hour and rest time arrangements for the bus captains since the fourth quarter of 2012. This provides the bus captains with longer rest time when they are on duty. For example, the time that a bus captain spends at a terminal point preparing for the next departure will not be regarded as rest time. The break between successive working days is increased from not be less than 9.5 hours to not less than 10 hours;
- (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

⁵ These include the replacement of old buses and purchase of new additional buses.

⁶ Service improvement items mainly include introduction of new routes, frequency enhancement, extension of service hours and extension of routeing.

⁷ Service rationalisation items mainly include route cancellation, frequency reduction, route truncation and re-routeing.

- (d) completed the retrofit of black boxes and speed limiters on all buses to facilitate the monitoring of bus captains' driving performance.

9. To further enhance service standards, KMB has implemented a number of measures for continuous improvement on service quality during the current franchise period. They include :

- (a) provision of real-time bus arrival information through mobile phone application and website, as well as by showing the information on display panels at major bus stops and bus interchanges (see also paragraph (b)(i) below);
- (b) enhancement of passenger facilities at bus termini/stops and bus interchanges, including :
 - (i) as at September 2015, installation of a total of 182 display panels to at major bus termini/stops and bus interchanges⁸ to show the estimated bus departure time or real-time arrival information;
 - (ii) provision of conspicuous bus route maps, seats and free Wi-Fi at major bus termini/stops and bus interchanges;
 - (iii) set up customer service centres at nine major locations⁹; and
- (c) installation of bus stop announcement system inside the compartment of all its buses.

10. As at end September 2015, KMB was offering 171 bus-bus interchange (“BBI”) concession schemes. Of these, 143 schemes were offered solely by KMB. The remaining 28 scheme were jointly offered by KMB and another franchised bus company. These concession schemes cover 283 routes (amounting to about half of all bus routes in Hong Kong). In general, with the

⁸ They include Tuen Mun Road Bus Interchange, Tai Lam Tunnel Bus Interchange and Tsing Sha Highway Bus Interchange.

⁹ They include customer service centres at Cross Harbour Tunnel Bus Interchange, Tsim Sha Tsui Star Ferry Pier Public Transport Interchange (“PTI”), Mei Foo PTI, Lam Tin Station Bus Terminus (“BT”), Tuen Mun Town Centre (Tuen Mun Heung Sze Wui Road) BT, Sha Tin Central BT, Tsuen Wan Station PTI, Tin Shui Wai Tin Heng Estate PTI and Tai Lam Tunnel Bus Interchange (Yuen Long bound).

BBI concession, passengers may take the trip of lower fare free of charge. Separately, since August 2012, KMB has been participating in the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities funded by the Government. Under the scheme, elderly passengers and eligible persons with disabilities may ride on KMB's routes at a concessionary fare of \$2 per trip¹⁰.

(C) Public Opinions on Bus Services

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

12. Further, TD commissioned a consultancy firm to conduct an independent survey in November 2015 to collect passengers' overall opinions on KMB's bus service. The results show that 85% of the respondents are satisfied with the overall service quality. Survey findings are summarised at **Annex A**.

(D) Financial Performance

13. 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 KMB during its current franchise period is at **Annex B**.

NEW FRANCHISE

14. Based on the assessment in paragraphs 6 to 13 above, the Commissioner is of the view that KMB has all along been providing a proper and efficient bus service and is willing to continue to invest for further enhancement of the bus service. Meanwhile, KMB has indicated an interest to apply for a new 10-year franchise as mentioned in paragraph 2 above. Taking all things into account, the Government plans to discuss with KMB on a new 10-year franchise so that KMB can continue to operate its existing bus network. The new franchise will take effect immediately upon expiry of the current one in 2017. We shall also invite views from the public on the requirements of the new franchise (see paragraph 16 below).

¹⁰ Excluding racecourse routes.

15. Although KMB has in-principle indicated an interest to continue to provide franchised bus service, the operating environment of the bus industry in the foreseeable future will continue to be rather difficult owing to rising operating costs (especially staff costs) and keen competition from other public transport modes. The market share of franchised buses will shrink in the coming few years upon the completion and opening of new railway lines¹¹. A grantee has to actively rationalise its existing service to reduce wastage and explore new service areas in response to public demand so as to maintain the overall sustainability of its operation. The Government would strive for the most favourable franchise terms for the public as far as possible in a pragmatic manner. We aim to conclude the discussion with KMB within 2016 and will brief this Panel.

PUBLIC CONSULTATION

16. The Government plans to invite views from the public on the requirements of the new franchise for the bus network of KMB in the first quarter of 2016. 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 the Traffic and Transport Committees of all District Councils.

ADVICE SOUGHT

17. Members are invited to note the Government's plan to engage KMB for discussion on the granting of a new franchise, and are welcome to offer views on the requirements of the new franchise.

**Transport and Housing Bureau
Transport Department
January 2016**

¹¹ Including the Kwun Tong Line Extension, South Island Line (East) and Shatin-Central Link.

Transport Department

Passenger Opinion Survey for The Kowloon Motor Bus Company (1933) Limited

- Summary of Survey Results -

Conducted and Prepared by



December 2015

Background & Objective

In order to collect views on the performance of the Kowloon Motor Bus Company (1933) Limited ("KMB"), the Transport Department has commissioned the Mercado Solutions Associates Limited ("MSA") to conduct passenger opinion survey via telephone in November 2015.

The Survey

The target population is the regular passengers aged 12 or above who take KMB 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 the service of KMB at least once a week were listed. After that, one target respondent of the selected household would be randomly 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 services
- (6) Driving performance of bus drivers
- (7) Service attitude of bus drivers or staff
- (8) Performance of the bus on environmental protection

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

In total, 2,600 individuals were successfully interviewed during the survey period between 11 and 30 November 2015, representing an overall response rate of 82.1%.

Survey Results

1. Overall speaking, 85.1% of the respondents indicated that they were very

satisfied/satisfied with the overall quality of the service provided by KMB. The percentage was much higher than the 14.9% who were dissatisfied/very dissatisfied.

2. 85.5% of the respondents indicated that they were very satisfied/satisfied with the level of comfort of the buses of KMB. The percentage was much higher than the 13.5% who were dissatisfied/very dissatisfied.
3. 90.8% of the respondents indicated that they were very satisfied/satisfied with the facilities on the buses of KMB. The percentage was much higher than the 8.3% who were dissatisfied/very dissatisfied.
4. 81.2% of the respondents indicated that they were very satisfied/satisfied with the passenger information provided by KMB. The percentage was much higher than the 14.6% who were dissatisfied/very dissatisfied.
5. 63.6% of the respondents indicated that they were very satisfied/satisfied with the reliability of bus services of KMB. The percentage was higher than the 35.5% who were dissatisfied/very dissatisfied.
6. 87.7% of the respondents indicated that they were very satisfied/satisfied with the driving performance of KMB. The percentage was much higher than the 11.0% who were dissatisfied/very dissatisfied.
7. 89.0% of the respondents indicated that they were very satisfied/satisfied with the service attitude of drivers or staff of KMB. The percentage was much higher than the 9.0% who were dissatisfied/very dissatisfied.
8. 73.3% of the respondents indicated that they were very satisfied/satisfied with the performance of the buses of KMB on environmental protection. The percentage was higher than the 19.9% who were dissatisfied/very dissatisfied. For information, 6.8% of the respondents indicated "No comment".

Annex B**Financial performance of KMB under the current franchise**

Accounting Year	Average Daily Patronage (passenger journeys)	Total Revenue (\$ million)	Total Cost (\$ million)	Profit / Loss after Tax (\$ million)
2007	2,762,000	6,008	5,769	239
2008	2,695,000	6,163	6,060	104
2009	2,644,000	5,964	5,534	431
2010	2,594,000	5,991	5,695	296
2011	2,565,000	6,091	6,053	38
2012	2,576,000	6,178	6,221	-43
2013	2,610,000	6,388	6,401	-12
2014	2,617,000	6,534	6,329	205