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Panel on Transport
Meeting on 20 January 2017

**Updated background brief on the franchise for the bus network of
The Kowloon Motor Bus Company (1933) Limited**

Purpose

This paper provides updated background information on the franchise for the bus network of The Kowloon Motor Bus Company (1933) Limited ("KMB"). It also summarizes the major views and concerns expressed by Legislative Council Members on the subject in the past discussions.

Background

Service of KMB

2. According to the Administration¹, franchised buses are the largest road-based carriers and account for 31% of the total daily public transport volume in 2015. Bus services in Kowloon and the New Territories are largely provided by KMB. At the end of 2015, KMB was operating 316 bus routes in Kowloon and the New Territories and 61 cross-harbour routes (51 of which were run jointly with another operator). KMB had a licensed fleet of 3 888 buses, of which 3 580 were wheelchair-accessible low-floor vehicles. KMB recorded 969 million passenger trips in 2015 (a daily average of 2.66 million passenger trips) covering 285.59 million kilometres of roads.

¹ Source: Chapter 13 – Transport of the yearbook "Hong Kong 2015"

Bus franchises

3. According to the Administration², there are five grantees operating six bus franchises in Hong Kong. The five grantees are KMB, Citybus Limited, New World First Bus Services Limited ("NWFB"), Long Win Bus Company Limited ("LW") and New Lantao Bus Company (1973) Limited ("NLB"). Citybus Limited is operating two franchises, one for the Hong Kong Island and cross-harbour bus network ("Citybus (Franchise 1)") and the other for the Airport and North Lantau bus network ("Citybus (Franchise 2)").

4. Under section 5 of the Public Bus Services Ordinance ("the Ordinance") (Cap. 230), the Chief Executive in 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 years³. 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 ("C for T") at all times during the franchise period.

5. The Administration'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.

6. The current franchise of KMB commenced on 1 August 2007 and will expire on 1 July 2017. According to the Administration, KMB has indicated an interest to apply for a new 10-year franchise upon the expiry

² Source: The Administration's paper on "New Franchise for Bus Network of The Kowloon Motor Bus Company (1933) Limited" issued in January 2016 [LC Paper No. CB(4)457/15-16(03)]

³ If the Administration has yet to decide on the long-term arrangements for a franchise, the Chief Executive in Council may extend an existing franchise for a further period not exceeding two years as a buffer. Meanwhile, a grantee may request and the Chief Executive in Council may extend an existing franchise for a further period not exceeding five years.

of the existing one. Also, the Administration⁴ had invited views from the public on the requirements of the new franchise for the bus network of KMB between 26 January and 18 April 2016.

Recent discussions by Members on KMB's bus franchise

7. The Panel on Transport ("the Panel") was consulted on the new franchise for the bus network of KMB at the meetings on 15 January and 21 June 2016. Members in general did not have objection to the Administration's plan to engage KMB for discussion on the granting of a new franchise. Members' major views about granting bus franchises are summarized in the ensuing paragraphs.

Fare concessions

8. The Panel had all along been concerned about the level of bus fares and requested the bus companies to offer more fare concessions to better meet passengers' needs. When the Panel discussed the granting of the franchises of Citybus (Franchise 1) and NLB at its meeting on 23 June 2014, the Panel passed a motion requesting that when the Government grants new franchises to any bus companies, the companies concerned must provide interchange concessions at designated bus-bus interchanges in the form of a free ride offered to passengers on the second leg journey upon interchange to bus routes with same fares.

9. When the Panel discussed the franchise for the bus network of KMB at the Panel meetings on 15 January and 21 June 2016, members suggested that KMB should offer more fare concessions under the new franchise and opined that the Administration should coordinate the efforts of different public transport operators to provide inter-company fare concessions. Some members suggested KMB to introduce a distance-based fare system or offer section fares. The Panel passed a motion urging the Administration to review and relax the criteria for approving fare concessions provided by franchised bus companies so that franchised buses and railway could compete on equal footing.

10. The Administration replied that the Transport Department ("TD") had an established mechanism to process fare concession applications

⁴ Source: The Administration's press release on "Consultation on new franchise for Kowloon Motor Bus Company (1933) Limited to end on April 18" issued on 5 April 2016

from bus companies. Currently, passengers travelling a shorter journey could benefit from section fares, which were offered on 70% of the routes operated by KMB. The remaining routes without section fares were mainly short-haul routes.

Financial performance of KMB

11. Panel members expressed concern whether the Administration would specify in the new franchise the definition of fare revenue and non-fare box revenue; and whether the Administration would consider the above two kinds of revenue when assessing fare increase applications from franchised bus companies. They urged the Administration to review whether non-fare box revenue relating to the provision of franchised bus services, especially advertising income relating to RoadShow Holdings Limited, would be included in KMB's franchise accounts to safeguard the interests of passengers.

12. The Administration advised that non-fare box revenue, including advertisement revenue derived from the use of fixed assets, had all along been included in the franchise account, which would then be taken into account by the Administration when processing fare increase applications from bus companies. Meanwhile, income generated from the disposal of land would not be taken into account. This was because the depot sites concerned were acquired by KMB with shareholders' funds from the open market for depot uses a long time ago.

Enhancing standard of bus service

13. Members had been urging the Administration to take the opportunity of franchise renewal to require service improvement by bus companies, including provision of real-time bus service information to passengers, provision of priority seats and barrier-free facilities, improvements in bus lost trips as well as bus service frequencies during peak periods.

Provision of real-time bus service information to passengers

14. According to the Administration⁵, TD had all along encouraged franchised bus companies to make use of information technology in providing passengers with service information. The relevant clauses had

⁵ Source: The Administration's press release on "LCQ20: Franchised bus services" issued on 18 December 2013

been updated in the new franchises of NWFB, LW and Citybus (Franchise 2) commencing in 2013 to enhance the regulatory power of C for T over the type, form and manner through which service information was provided by bus companies to passengers. Revised franchise clauses specifically required the provision of service information by bus companies at their websites in accordance with the requirements of C for T. Furthermore, these companies had committed to provide passenger information and enquiry system via the Internet and smartphone applications, and to further enhance the system as necessary in future. The Administration planned to include similar clauses and request the franchisees to make similar service commitments in the other three franchises, i.e. Citybus (Franchise 1), NLB and KMB, when they were due to expire in 2016/2017.

15. In addition, the Administration⁶ also advised that franchised bus companies were providing information on service hours, frequencies, termini, en route stops, full and section fares, etc. of individual bus routes for passengers through their websites and smartphone applications. Furthermore, KMB and LW had started to provide passengers with real time arrival information through their websites and smartphone applications since early 2015. Real time arrival information was available for over 420 routes (or around 80% of the companies' routes) so far, and the service would be extended to the remaining routes progressively.

16. Besides, most of the bus service information display panels at public transport interchanges/bus termini as well as all panels at bus-bus interchanges and bus shelters were provided by KMB and LW. According to the 2016 Policy Agenda, the Administration would provide subsidy to franchised bus companies for their installation of real-time arrival information display panels at sheltered bus stops with electrical installation on a matching basis⁷. The Administration estimates that the installation of 550 display panels would be completed within the first phase of about three years.

⁶ Source: The Administration's press release on "LCQ22: Bus service information" issued on 6 January 2016

⁷ This means that for every display panel (inclusive of protective case and data receiver) which a franchised bus company has committed to install, the Administration will provide funding for the installation of another display panel.

Provision of priority seats and barrier-free facilities

17. In response to Members' concern, the Administration⁸ explained that major public transport modes, such as franchised buses, had designated priority seats for priority use by people in need, including the elderly, people with disabilities, pregnant women and commuters travelling with young children. As regards franchised buses, except for a small number of single-deck buses with only two priority seats, all franchised buses had four priority seats near the exit door.

18. Furthermore, an additional clause had been included in the three franchises, i.e. NWFB, LW and Citybus (Franchise 2), commencing in mid-2013 to empower TD to require bus companies to enhance safety facilities and design. This included purchasing new buses with barrier-free and elderly-friendly design. The Administration would incorporate a similar provision to promote barrier-free facilities in the other three bus franchises, i.e. Citybus (Franchise 1), NLB and KMB, after the current ones expired in 2016/2017.

19. According to the information provided by the Administration⁹ in April 2016, among the 5 865 licensed franchised buses that are operating in Hong Kong, about 5 340 or 91% of them are wheelchair-accessible with low-floor. The Administration estimates that all franchised buses (except those operated by NLB in South Lantau¹⁰) will be replaced by low-floor wheelchair-accessible buses by 2017 according to the current bus replacement programmes.

Improvement in bus lost trips

20. Members expressed grave concern over the problem of bus lost trips. According to the Administration¹¹, TD had reviewed the sanction regime in respect of bus lost trips in response to the Ombudsman's recommendations of its investigation on TD's mechanism of monitoring

⁸ Source: The Administration's press release on "LCQ5: Priority seats and barrier-free facilities provided by public transport modes" issued on 9 July 2014

⁹ Source: Replies to initial written questions raised by the Finance Committee members in examining the Estimates of Expenditure 2016-2017 (Session No.: 14) (Question Serial No. 6542)

¹⁰ This is because there are technical limitations over the use of low-floor buses on some road sections with steep gradient and sharp bends in South Lantau.

¹¹ Source: The Administration's paper on "Public Transport Strategy Study – Franchised Bus Service" issued in March 2015 [LC Paper No. CB(4)655/14-15(04)]

the frequency of franchised bus services in 2014. As far as the statutory mechanism under the Ordinance was concerned, if a franchised bus company failed to comply with the Ordinance or franchise requirements or failed to provide a proper and efficient service, the Chief Executive in Council might impose penalty on the company concerned. The Chief Executive in Council might also revoke its operating right on individual routes or the entire franchise.

21. As for the administrative arrangements, TD would normally follow up the matter with the franchised bus companies in writing or by issuing warning letters. The circumstances warranting the issue and the number of such warning letters would be taken into consideration when a franchise was due for renewal. Past experience suggested that the above mechanism had been working well. The franchised bus companies would take letters or warning letters from TD seriously and take active follow-up actions on those letters.

Improvement in bus service frequencies during peak periods

22. In response to Members' suggestion about improving bus service frequencies of certain routes during peak periods, the Administration¹² advised that when adjusting bus service frequencies, TD and bus companies would make reference to TD's Guidelines on Service Improvement and Reduction in Bus Route Programme ("the Guidelines") released in 2010. According to the Guidelines, a reference indicator for frequency improvement was that the occupancy rate of the route reached 100% during the busiest half-hour of the peak period and 85% during that one hour, or reached 60% during the busiest one hour of the off-peak period. Besides, TD and bus companies would take into consideration other factors such as changes in population and passenger demand, and infrastructure development. If there is persistently a longer queue for an individual route and the waiting time for that route is also longer, TD would request bus companies to increase service frequencies with certain flexibilities as appropriate, having regard to cost-effectiveness.

Occupational safety and health of bus captains

23. Members were concerned about the occupational safety and health of bus captains and requested the bus companies to provide more rest time for them. Some members requested that toilets and kiosks

¹² Source: The Administration's press release on "LCQ1: Bus services during peak periods issued on 22 October 2014

should be provided at every bus terminus for use by bus captains.

24. According to the Administration¹³, TD met with the franchised bus companies from time to time and discussed with them bus services and related matters, such as route planning, service frequency, service level, operational safety and working environment of bus captains. TD also met with the representatives of bus captain unions to understand and discuss issues of their concern. They were mainly on work arrangements, measures for improving operational safety, working environment of bus captains, etc. TD, together with franchised bus companies, had taken appropriate and feasible follow-up actions on the comments and requests raised by bus captain unions. Examples included the provision of mobile toilets or facilities such as microwave ovens and refrigerators for use by staff at a number of bus termini.

25. In addition, according to the information provided by the Administration¹⁴, the franchised bus companies would ensure bus captains to have sufficient rest time by arranging their duty schedules in accordance with the Guidelines on Bus Captain Working Hours, Rest Times and Meal Breaks promulgated by TD. Moreover, having regard to actual operational needs and passenger demand, the bus companies would flexibly deploy their bus captains and buses. Whenever such flexible deployment was required, the bus companies would endeavour to help their bus captains get prepared.

Environmental improvement measures

26. At the Panel meetings on 20 March 2015 and 15 January 2016, members expressed concern on the emission of franchised buses and urged the Administration to expedite the bus replacement programme for further improvement to roadside air quality. In response, the Administration explained that it had all along been encouraging the franchised bus companies to deploy more environment-friendly buses with a view to reducing the emission. For franchises commencing in 2013, the franchised bus companies were required to procure new buses which were the most environment-friendly. Further, the Administration

¹³ Source: The Administration's press release on "LCQ5: Facilities at bus termini" issued on 12 February 2014

¹⁴ Source: The Administration's paper on its response to the letter from Hon Gary FAN Kwok-wai on the duty schedule system and pre-employment training arrangements for drivers of franchised bus companies issued in August 2015 [LC Paper No. CB(4)1397/14-15(01)]

explained that with funding support from the Environmental Protection Department, KMB would progressively launch trials involving hybrid and electric buses. Separately, KMB planned to acquire a total of 1 680 new buses, which would be of the most environmentally-friendly models that were technology proven and commercially available, to replace its old buses.

Latest developments

27. The Administration plans to brief members on the outcome of discussion with KMB on arrangements for a new franchise commencing in July 2017 at the Panel meeting to be held on 20 January 2017.

Relevant papers

28. A list of relevant papers is in the **Appendix**.

Council Business Division 4
Legislative Council Secretariat
12 January 2017

Appendix

Franchise for the bus network of The Kowloon Motor Bus Company (1933) Limited

List of relevant papers

Date of meeting	Panel/ Committee	Minutes/Paper	LC Paper No.
17.11.2005	Panel on Transport ("TP")	Administration's paper	CB(1)309/05-06(02) http://www.legco.gov.hk/yr05-06/english/panels/tp/papers/tp1117cb1-309-2e.pdf
		Minutes of the meeting	CB(1)549/05-06 http://www.legco.gov.hk/yr05-06/english/panels/tp/minutes/tp051117.pdf
25.11.2005	TP	Minutes of the meeting	CB(1)694/05-06 http://www.legco.gov.hk/yr05-06/english/panels/tp/minutes/tp051125.pdf
16.12.2005	TP	Minutes of the meeting	CB(1)713/05-06 http://www.legco.gov.hk/yr05-06/english/panels/tp/minutes/tp051216.pdf
--	--	Legislative Council brief	ETWB(T) CR 2/5591/99 http://www.legco.gov.hk/yr05-06/english/panels/tp/papers/etwb_t_cr_2_5591_99e.pdf
1.3.2006	Council Meeting	Minutes of meeting	CB(3) 426/05-06 http://www.legco.gov.hk/yr05-06/english/counmtg/minutes/cm060301.pdf

Date of meeting	Panel/ Committee	Minutes/Paper	LC Paper No.
11.7.2011	TP	Administration's paper	CB(1)2647/10-11(04) http://www.legco.gov.hk/yr10-11/english/panels/tp/papers/tp0711cb1-2647-4-e.pdf
		Minutes of the meeting	CB(1)220/11-12 http://www.legco.gov.hk/yr10-11/english/panels/tp/minutes/tp20110711.pdf
7.11.2011	TP	Administration's paper	CB(1)227/11-12(03) http://www.legco.gov.hk/yr11-12/english/panels/tp/papers/tp1107cb1-227-3-e.pdf
		Minutes of the meeting	CB(1)1363/11-12 http://www.legco.gov.hk/yr11-12/english/panels/tp/minutes/tp20111107.pdf
5.12.2011	TP	Administration's paper	CB(1)464/11-12(04) http://www.legco.gov.hk/yr11-12/english/panels/tp/papers/tp1205cb1-464-4-e.pdf
		Minutes of the meeting	CB(1)1482/11-12 http://www.legco.gov.hk/yr11-12/english/panels/tp/minutes/tp20111205.pdf
9.3.2012	TP	Administration's paper	CB(1)1157/11-12(05) http://www.legco.gov.hk/yr11-12/english/panels/tp/papers/tp0309cb1-1157-5-e.pdf
		Background brief	CB(1)1161/11-12 http://www.legco.gov.hk/yr11-12/english/panels/tp/papers/tp0309cb1-1161-e.pdf

Date of meeting	Panel/ Committee	Minutes/Paper	LC Paper No.
		Administration's follow-up paper	CB(1)1481/11-12(01) http://www.legco.gov.hk/yr11-12/english/panels/tp/papers/tp0309cb1-1481-1-e.pdf
		Minutes of the meeting	CB(1)2490/11-12 http://www.legco.gov.hk/yr11-12/english/panels/tp/minutes/tp20120309.pdf
29.5.2013	Council Meeting	Dr Hon KWOK Ka-ki raised a question on bus route rationalization	http://www.info.gov.hk/gia/general/201305/29/P201305280641.htm
4.12.2013	Council Meeting	Hon WU Chi-wai raised a question on improvement to the services provided for bus passengers	http://www.info.gov.hk/gia/general/201312/04/P201312040450.htm
18.12.2013	Council Meeting	Dr Hon CHIANG Lai-wan raised a question on franchised bus services	http://www.info.gov.hk/gia/general/201312/18/P201312180270.htm
12.2.2014	Council Meeting	Hon WONG Kwok-hing raised a question on facilities at bus termini	http://www.info.gov.hk/gia/general/201402/12/P201402120303.htm
14.5.2014	Council Meeting	Hon Mrs Regina IP LAU Suk-yea raised a question on public transport services	http://www.info.gov.hk/gia/general/201405/14/P201405130964.htm
11.6.2014	Council Meeting	Hon MA Fung-kwok raised a question on lost trips of franchised buses	http://www.info.gov.hk/gia/general/201406/11/P201406110345.htm
23.6.2014	TP	Administration's paper	CB(1)1621/13-14(04) http://www.legco.gov.hk/yr13-14/english/panels/tp/papers/tp0623cb1-1621-4-e.pdf

Date of meeting	Panel/ Committee	Minutes/Paper	LC Paper No.
		Minutes of the meeting	CB(1)79/14-15 http://www.legco.gov.hk/yr13-14/english/panels/tp/minutes/tp20140623.pdf
9.7.2014	Council Meeting	Hon Michael TIEN Puk-sun raised a question on priority seats and barrier-free facilities provided by public transport modes	http://www.info.gov.hk/gia/general/201407/09/P201407090695.htm
22.10.2014	Council Meeting	Hon Michael TIEN Puk-sun raised a question on bus services during peak periods	http://www.info.gov.hk/gia/general/201410/22/P201410220465.htm
9.2.2015	TP	Administration's paper	CB(1)238/14-15(06) http://www.legco.gov.hk/yr14-15/english/panels/tp/papers/tp20141125cb1-238-6-e.pdf
		Minutes of the meeting	CB(4)1040/14-15 http://www.legco.gov.hk/yr14-15/english/panels/tp/minutes/tp20150209.pdf
20.3.2015	TP	Administration's paper	CB(4)655/14-15(04) http://www.legco.gov.hk/yr14-15/english/panels/tp/papers/tp20150320cb4-655-4-e.pdf
		Minutes of the meeting	CB(4)1293/14-15 http://www.legco.gov.hk/yr14-15/english/panels/tp/minutes/tp20150320.pdf

Date of meeting	Panel/ Committee	Minutes/Paper	LC Paper No.
1.4.2015	Finance Committee (Special meeting)	Replies to initial written questions raised by Finance Committee Members in examining the Estimates of Expenditure 2015-16 (Session No.: 12) (Questions Serial Nos. 0819, 0821, 4800, 6126 and 6139)	http://www.legco.gov.hk/yr14-15/english/fc/fc/w_q/thb-t-e.pdf
17.7.2015	TP	Administration's paper	CB(4)1306/14-15(01) http://www.legco.gov.hk/yr14-15/english/panels/tp/papers/tp20150717cb4-1306-1-e.pdf
		Minutes of the meeting	CB(4)228/15-16 http://www.legco.gov.hk/yr14-15/english/panels/tp/minutes/tp20150717.pdf
2.12.2015	Council Meeting	Hon TANG Ka-piu raised a question on bus service information	http://www.info.gov.hk/gia/general/201512/02/P201512020538.htm
6.1.2016	Council Meeting	Hon WU Chi-wai raised a question on bus service information	http://www.info.gov.hk/gia/general/201601/06/P201601060325.htm
15.1.2016	TP	Administration's paper	CB(4)457/15-16(03) http://www.legco.gov.hk/yr15-16/english/panels/tp/papers/tp20160115cb4-457-3-e.pdf
		Background brief	CB(4)457/15-16(04) http://www.legco.gov.hk/yr15-16/english/panels/tp/papers/tp20160115cb4-457-4-e.pdf

Date of meeting	Panel/ Committee	Minutes/Paper	LC Paper No.
		Administration's follow-up paper	CB(4)697/15-16(01) http://www.legco.gov.hk/yr15-16/english/panels/tp/papers/tp20160115cb4-697-1-e.pdf
		Minutes of the meeting	CB(4)1298/15-16 http://www.legco.gov.hk/yr15-16/english/panels/tp/minutes/tp20160115.pdf
20.4.2016	Council Meeting	Hon Alice MAK Mei-kuen raised a question on bus route rationalization	http://www.info.gov.hk/gia/general/201604/20/P201604200171.htm
21.6.2016	TP	Administration's paper	CB(4)1124/15-16(05) http://www.legco.gov.hk/yr15-16/english/panels/tp/papers/tp20160621cb4-1124-5-e.pdf
		Updated background brief	CB(4)1124/15-16(06) http://www.legco.gov.hk/yr15-16/english/panels/tp/papers/tp20160621cb4-1124-6-e.pdf
		Minutes of the meeting	CB(4)1315/15-16 http://www.legco.gov.hk/yr15-16/english/panels/tp/minutes/tp20160621.pdf