

2 March 2017

Professor the Honourable Anthony Cheung, GBS, JP
Secretary for Transport and Housing
22/F, East Wing
Central Government Offices
2 Tim Mei Avenue
Tamar
Hong Kong

Dear Professor Cheung,

**New Franchise for the Bus Network of the
Kowloon Motor Bus Company (1933) Limited**

The current franchise for the bus network of the Kowloon Motor Bus Company (1933) Limited (“KMB”) will expire on 1 July 2017. This Committee discussed at its meetings on 26 January 2016, 28 June 2016 and 16 February 2017 the matters related to the new franchise. This letter sets out this Committee’s advice to the Chief Executive (“CE”) in Council.

Factors for consideration

During the discussions on the matters related to the new franchise, this Committee considered various factors in making a recommendation to CE in Council. These factors include -

- (1) legal and other requirements concerning the grant of bus franchises;
- (2) performance of the grantee concerned;
- (3) passengers’ opinion on the service of the grantee concerned; and

- (4) new franchise terms and commitments agreed to be adopted by the grantee concerned.

(1) Legal and other requirements governing the grant of bus franchises

According to the Public Bus Services Ordinance (“the Ordinance”) (Cap. 230), CE in Council may grant to a registered company a franchise conferring the right to operate public bus service for a period not exceeding 10 years. A grantee is required to maintain a proper and efficient public bus service to the satisfaction of the Commissioner for Transport during the franchise period. As per the established practice, a grantee that 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 of a franchise for a period of 10 years. The new franchise will commence upon the expiry of the current franchise.

(2) Performance of the grantee

This Committee noted that since the commencement of its current franchise in 2007, KMB had been providing proper and efficient services (in respect of service reliability, safety standard, service quality as well as environmental performance) to the satisfaction of the Commissioner. During its current franchise, KMB has actively enhanced its service and rationalised bus routes to meet passenger demand. Meanwhile, KMB is willing to further invest in franchised bus operation, including making an investment of around \$3.8 billion for bus fleet replacement in the coming five years.

(3) Passengers’ opinion on the service of KMB

The Transport Department commissioned an independent survey in November 2015 to gauge passengers’ opinions on the service of KMB. The results show that 85% of the respondents are satisfied with the overall service quality provided by KMB. With regard to the comparatively lower satisfaction level on environmental performance and service regularity, this Committee noted that the new franchise would require KMB to acquire the most environmentally friendly buses in terms of exhaust emissions and deploy low emission buses (buses of emission

standards of EURO IV or above) to operate in the low emission zones delineated by the Environmental Protection Department. As for service reliability, this Committee learnt that KMB's overall lost trip rate has encouragingly decreased from the peak level of 8.0% in 2011 to 1.6% in 2016 (up to November).

(4) New franchise terms and commitments agreed to be adopted by KMB

This Committee noted that according to the established practice, the Government would request a grantee to take on board franchise terms and commitments of the most recently granted franchises, and would introduce new franchise terms and commitments as appropriate, having regard to the changing circumstances as well as the operating situation of an individual grantee and passenger demand. To this end, KMB has agreed to fully take on board the new franchise terms of and commitments on service/facility enhancement made under the two most recently granted franchises (i.e. franchises of Citybus Limited (Franchise for Hong Kong Island and Cross-Harbour Bus Network) and New Lantau Bus Company (1973) Limited granted in 2015). Such terms and commitments are mainly about enhancing service quality, providing more passenger information, improving the environment, and strengthening government regulation.

Moreover, this Committee noted that KMB would further enhance its service quality under the new franchise to meet passengers' needs. The major new measures included offering free Wi-Fi service in bus compartments, enhancing ancillary facilities and passenger waiting environment, upgrading ancillary facilities at bus stops and setting up more shelters, partnering with "Hong Kong eTransport" to provide real-time arrival information, providing information on seat vacancy of the upper deck, and improving transport for persons with disabilities and introducing hospital routes (i.e. "H" routes).

This Committee noted that KMB currently provided a variety of fare concessions to passengers (such as bus-bus interchange ("BBI") concession schemes and section fares) which basically encompassed all of its regular routes, benefitting an average of about 630 000 passenger trips

each day. Under the new franchise, KMB has agreed to introduce a long-haul route fare concession scheme for full-time students, offer more BBI concessions (including inter-modal interchange fare concessions with trams and new BBI concession schemes), and align fares for short-haul trips on cross-district routes and shuttle bus routes. These could benefit more passengers and respond to long-standing requests from the community. This Committee also noted that the Government would continue to explore with KMB the feasibility of introducing more practicable fare concessions initiatives (including monthly passes and enhancing fare concessions for students) after granting the new franchise on the basis that the provision of fare concessions should avoid exerting fare pressure which may eventually affect the basic fare level.

Transport Advisory Committee's advice

Having regard to the abovementioned factors, this Committee supports the Government's recommendation to grant a new ten-year franchise to KMB which shall commence upon the expiry of its current franchise on 1 July 2017.

I should be grateful if the Government would convey this Committee's advice to CE in Council for consideration. I confirm that this letter may be released for public information after CE in Council's decision is announced.

Yours sincerely,



(Larry Kwok)
Chairman

Transport Advisory Committee