

Legislative Council Panel on Transport

**Application for Fare Increase
Hong Kong and Kowloon Ferry Limited**

Purpose

Further to the discussion with this Panel on 26 January 2007, this paper briefs members on the latest progress in processing the application by Hong Kong and Kowloon Ferry Limited (“HKK”) to increase the fares of its three licensed ferry services¹ for Lamma Island and the measures taken by the Government in assisting ferry operations as a whole.

Factors for Considering Fare Adjustment

2. In accordance with section 33 of the Ferry Services Ordinance (Cap. 104), the maximum fares of licensed ferry services have to be determined by the Commissioner for Transport (“C for T”) by notice in gazette. In considering HKK’s application for fare adjustment, C for T has taken into account a basket of factors, including –

- (a) financial condition of the ferry operator;
- (b) forecasts of changes in operating costs, revenue and return;
- (c) past performance of the ferry operator in provision of the ferry services concerned;
- (d) public acceptability of the proposed fares, and
- (e) other measures by the ferry operator to achieve cost saving and generate additional revenue.

3. Having balanced the Company’s poor financial position and the public concern against its proposed rate of fare increase, HKK will be approved to increase its fare by an average rate of 7.3%, which is 31% lower than the 12.2% it has applied for, with effect from 13 May 2007. This represents an increase of \$0.8 for single journey adult fares on weekdays and an increase of \$1.6 for

¹ The three licensed ferry services for Lamma Island are :

- (a) Central – Yung Shue Wan;
- (b) Central – Sok Kwu Wan; and
- (c) Aberdeen – Yung Shue Wan (via Pak Kok Tsuen).

single journey adult fares on Sundays and public holidays. The new and existing fares are set out in the table enclosed at Annex.

Financial Performance of HKK

Change in cost and revenue since last fare adjustment

4. Having regard to its then unsatisfactory financial situation, HKK last increased its fares for the three ferry routes for Lamma Island in February 2005 at a weighted average rate of 6.2%, with the single journey adult fares on weekdays increased by \$1, while those of Sundays and public holidays (“Sun/PH”) were unchanged. It was then expected that HKK’s loss would be reduced after implementing the new fares.

5. However, the reduction in loss had not materialised due to increase in the price of fuel, which is one of the major cost components for ferry operation. The average fuel price incurred by HKK before its last fare increase in 2004 was \$2.41 per litre. As the fuel price escalated to an average of \$3.35 per litre for the year of 2005, the total fuel cost incurred by HKK in 2005 increased drastically by 34% when compared to that in the preceding year. As a result, HKK still suffered from a loss of over \$7 million in 2005 notwithstanding the fare increase in February 2005. The fuel price maintained at a high level for the year of 2006 despite a drop in the last quarter. The average monthly fuel price procured by HKK in 2006 was around \$4 per litre.

6. The next largest cost item is staff cost which amounts to around 30% of the total operating cost. Having frozen its staff’s salary for five years since 2001, HKK slightly increased its staff’s salary by 3% in April 2006.

7. While the fare box revenue for HKK has little fluctuation due to the stable patronage for the ferry services, its non-fare box revenue fell from 18% of its total revenue in 2004 to 13% in 2006. This was mainly due to the decrease in income from vessel charter-hire services.

8. HKK has been operating at a loss since it commenced operation of the three licensed ferry services in 1998. Given the rising operating cost and the drop in revenue, HKK’s fare increase in February 2005 had not been able to improve the Company’s financial position. Since the last fare increase, the Company experienced a total loss of about \$11 million for the years of 2005 and 2006.

Forecast of Cost and Revenue for 2007 and 2008

9. For the purpose of assessing the fare increase application, HKK has provided us with its forecast in cost and revenue for the years of 2007 and 2008.

10. As regards the operating cost, HKK forecasts that fuel price will maintain at a high level at around \$4 per litre, which is same as the average monthly fuel price procured by HKK in 2006. We consider the estimate acceptable as the level of average monthly fuel price has taken into account the actual fuel price in the last quarter of 2006, which was lower than those in the earlier months in 2006. To ensure that vessels deployed for the Lamma Island ferry services are up to standard and to meet the relevant safety requirements, the cost for repair and maintenance for the coming two years is estimated to increase. In the light of the above, the total operating cost in 2007 is forecasted to increase by more than 5% when compared to that in 2006.

11. On the revenue side, HKK forecasts that its fare box revenue for 2007 and 2008 will be the same as that of 2006 taking into account the stagnant population growth on Lamma Island. As regards non-fare box revenue for 2007 and 2008, HKK estimates a continuous downward trend in view of the decrease in vessel charter-hire services by one of its clients.

12. With the increase in total operating costs and slight reduction in revenue, HKK forecasts an additional loss of around \$7 million for year 2007 if it does not increase its fare.

Rate of Fare Increase

13. HKK submitted a fare increase application for its three Lamma Island licensed ferry services at a weighted average rate of 12.2%, i.e. to increase the single journey adult fares by \$1.6 on both weekdays and Sundays / public holidays.

14. Having struck a balance between the poor financial situation of HKK and public acceptability to the increased fares, C for T will approve a weighted average rate of fare increase of 7.3% (i.e. to increase the single adult fares on weekdays by \$0.8, and \$1.6 for fares on Sundays / public holidays) with effect from 13 May 2007.

15. In arriving at the decision of a 7.3% fare increase, C for T has taken into account that HKK has been providing satisfactory ferry services in

accordance with the Schedules of Service as reflected in the passenger opinion survey commissioned by Transport Department (“TD”) in 2006. TD have also solicited comments from members of the Rural Committees of Lamma Island and consulted the Islands District Council Traffic and Transport Committee about HKK’s fare increase application. It is noted that while the locals appreciate HKK’s financial difficulties, they generally consider that the rate of increase of 12.2% proposed by HKK is too high.

16. In view of the local concerns about the high rate of fare increase, C for T has reduced the approved rate of fare increase from 12.2% proposed by HKK to 7.3% by 31%. Since HKK’s last fare increase in February 2005, the yearly average of Median Monthly Household Income (“MMHI”), which is one of the indicators reflecting change in public affordability, has increased by 6.3%. Noting that HKK’s last fare increase could not cover its operating cost, the approved rate of increase of 7.3% is considered necessary and is in line with the positive change in public affordability. While a milder magnitude of fare increase will be implemented on the weekday fares (\$0.8) , it is also the first time that fares on Sundays and public holidays for the two Lamma Island routes connecting “Central to Yung Shue Wan” and “Central to Sok Kwu Wan” are increased since HKK’s commencement of operation in 1998. With a fare increase of 7.3%, it is expected that HKK would still face a loss at about \$5 million for year 2007.

Measures to Assist Ferry Operation

17. The Government acknowledges that the long term financial viability of a ferry operator is vital to ensure proper and efficient services. It is the Government’s established policy that public transport services should be operated by the private sector or by public corporations without direct Government subsidy. Under this arrangement, public transport services can be provided more efficiently and responsively to cater for changing demands. Operators will also have the incentive to enhance their efficiency to minimise cost.

18. In the light of the declining patronage and non-fare box revenue of the outlying island ferry services in general, the Administration will adopt a two-pronged approach to assist outlying island ferry operations.

19. First of all, we will make use of the opportunity of the forthcoming tender exercise in June/July 2007 to modify the requirements on vessel quality and service level so as to optimize the use of ferries, help maintain fares at a

reasonable level and improve the financial viability of the services. In formulating the tender conditions, TD will take into account the expectations of passengers on quality, level and fare of the ferry services obtained by passenger opinion survey. These survey findings will be presented to the District Council in May 2007 for discussion before the tender documents are finalized.

20. Additional measures will be implemented to strengthen the ferry operators' capability to generate non-fare box revenue. Indeed, the Government has all along been taking measures to help reduce operating costs of ferry services. These include taking over the pier maintenance responsibility, reimbursing the pier rental and exempting the vessel licence fee for elderly fare concession provision. Ferry operators are also permitted to generate non-fare box revenue by ways such as sub-letting premises at piers for commercial and retail activities. The non-fare box revenue so generated has to be ploughed back to the accounts of the ferry services to cross-subsidize ferry operations.

21. However, the present sub-letting of spaces at piers to tenants which can generate higher rental income, such as restaurants and larger retail shops, are hindered by the need to obtain approval from the Town Planning Board ("TPB") for each application for sub-letting and the lack of some fire prevention facilities, resulting in pier premises being under-utilized. In order to overcome these constraints, Environment, Transport and Works Bureau and TD have reviewed the situation together with Leisure and Cultural Services Department ("LCSD"), Highways Department ("HyD"), Architectural Services Department ("ArchSD"), Government Property Agency ("GPA") and Fire Services Department. The following additional measures are identified and will be implemented to help improve the situation -

(a) Relax land uses and streamline procedures for approval of sub-letting

Applications to the TPB were submitted in April this year by TD on a variety of compatible commercial concessions, including restaurants, fast food shops, retail shops, service trades etc at piers so that the ferry operators do not need to seek TPB's approval for each application for sub-letting.

(b) Streamline procedures for approval of sub-letting

To shorten the processing time for applications by ferry operators to sub-let spaces at piers, GPA and relevant departments have jointly reviewed the guidelines on processing applications for commercial

concessions at piers. Processing time would be reduced to within one month for relatively straightforward applications and to within three months for more complex applications, such as those requiring structural alterations. The new procedures will be adopted in the second quarter of 2007.

(c) Upgrade pier facilities

The piers for outlying island ferry services at Central Pier Nos. 4, 5 and 6 will be retrofitted by ArchSD to enhance fire prevention facilities, including sprinkler system and means of escape. The sprinkler works for Central Pier No. 4 (i.e. for use of Lamma Island ferry routes) will commence in the second quarter of 2007 for completion in the third quarter of 2007. Similar works would be carried out for Central Pier Nos. 5 and 6 (i.e. for routes to Cheung Chau and Mui Wo/Peng Chau) for completion in 2008.

(d) Beautification of the pier area

At present, the covered walkway and the outlook of the vicinity areas of the Central piers are relatively dilapidated and unappealing. A beautification scheme of the covered walkway outside the piers for the outlying island ferry services at Central would therefore be carried out to create a more pleasant and lively environment to attract visitors to the harbour front area. The design to be adopted by HyD and LCSD jointly will blend in with the surrounding environment in terms of colour tone and outlook to create an integrated pier area. The Central and Western District Council will be consulted in May 2007 on the detailed design. It is estimated that the beautification works can be completed in the first quarter of 2008. Similarly, ArchSD will repaint these piers with the same colour tone that will be adopted in the new design.

22. With regard to promoting outlying islands to local and overseas visitors, we have liaised with the Hong Kong Tourism Board and Home Affairs Bureau who have assured us that they will continue to promote outlying islands through various measures such as by publications and use of website etc. They will also continue to promote events with strong cultural or heritage characteristics, including Tin Hau Festival, Cheung Chau Bun Festival, Birthdays of the Lord Buddha and Tam Kung etc.

23. The above measures are intended to enhance operators' capability in generating non-fare box revenue. Ferry operators will be required to plough back the non-fare box revenue so generated to the accounts of the licensed ferry services to cross-subsidize ferry operations so as to alleviate future pressure for fare increase by the ferry operators.

Environment, Transport and Works Bureau
Transport Department
April 2007

New and Existing Fare for Three Lamma Island Ferry Services

(1) Central – Yung Shue Wan				
	Mondays to Saturdays		Sundays and Public Holidays	
	Ordinary Ferry	Fast Ferry	Ordinary Ferry	Fast Ferry
Adult	\$11.8 (\$11)	\$16.8 (\$16)	\$15.6 (\$14)	\$21.6 (\$20)
Elderly / Child / Passenger with disabilities	\$5.9 (\$5.5)	\$8.4 (\$8)	\$7.8 (\$7)	\$10.8 (\$10)
Monthly ticket	\$531 <average \$8.9 per journey> (\$495 <average \$8.3 per journey>)			
(2) Central – Sok Kwu Wan				
	Mondays to Saturdays		Sundays and Public Holidays	
	Ordinary Ferry	Fast Ferry	Ordinary Ferry	Fast Ferry
Adult	\$11.8 (\$11)	\$14.8 (\$14)	\$15.6 (\$14)	\$19.6 (\$18)
Elderly / Child / Passenger with disabilities	\$5.9 (\$5.5)	\$7.4 (\$7)	\$7.8 (\$7)	\$9.8 (\$9)
Monthly ticket	\$531 <average \$8.9 per journey> (\$495 <average \$8.3 per journey>)			
(3) Aberdeen – Yung Shue Wan (via Pak Kok Tsuen) (Fast Ferry)				
Adult	\$12.8 (\$12)			
Elderly / Child / Passenger with disabilities	\$6.4 (\$6)			
<u>Section Fare</u>				
Adult	\$6.4 (\$6)			
Elderly / Child / Passenger with disabilities	\$3.2 (\$3)			
Monthly ticket	\$531 <average \$8.9 per journey> (\$495 <average \$8.3 per journey>)			

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