

Legislative Council Panel on Transport
Review on Ferry Services for Outlying Islands

Purpose

This paper informs Members of the progress of the review on the ferry services for outlying islands and the Administration's proposals.

Background

2. In May 2008, the Government committed to conduct a review on the outlying island ferry services with a view to enhancing the long-term financial viability of these services and maintaining fare stability. We undertook to study the long-term development of outlying islands ferry services taking into account public views and to complete the review before the commencement of the next operating period in 2011.

3. Under the Ferry Services Ordinance, ferry services may be regulated by either franchises or licences. Franchises are granted by the Chief Executive in Council whilst licences are granted by the Commissioner for Transport. Most of the major matters, including provision of new services, determination of calling points and maximum fares, relating to ferry franchises are decided by the Chief Executive in Council whereas matters relating to ferry licences are mostly decided by the Commissioner for Transport. Ferry franchises may be granted for an initial period of up to 15 years and could be extended for a period or periods not exceeding 15 years. A licence is normally granted for a period of 3 years and could be extended for a further period or periods of up to 3 years, with the aggregate continuous period of licence not exceeding 10 years.

4. At present, there are 14 outlying island ferry routes which are regular passenger services licensed under the Ferry Services Ordinance (the 14 routes and their patronage are at the Annex A). Of these, six are major trunk routes:

- (a) Central - Cheung Chau route;
- (b) Inter-Islands route serving Peng Chau, Mui Wo, Chi Ma Wan and Cheung Chau;
- (c) Central - Mui Wo route;

- (d) Central - Peng Chau route;
- (e) Central - Yung Shue Wan route; and
- (f) Central - Sok Kwu Wan route.

5. The average total daily patronage of the 14 outlying island routes is about 64,000, accounting for 0.6% of total public transport riderships. Around 41,000 passenger trips (i.e. 64%) take place on the six major trunk routes. Adult single-trip weekday fares of the 14 routes range from \$9 to \$31. Four of them provide a choice of services between fast and ordinary vessels and charge a higher fare for the former. In addition, six routes (including all the major trunk routes except the Inter-Islands one) charge a higher fare on Sundays and general holidays (the fare differential is about 40%¹ above the fares for weekdays). The fare differential is intended to subsidize the weekday fares for the benefit of daily commuters. The patronage of outlying island ferry services peaked in 1994 with an average daily patronage of about 78,000 with 18 routes at the time. The daily patronage has reduced from the peak by about 20% to the present 64,000 for the 14 routes. The change was mainly due to a decrease in patronage of the routes serving the Lantau Island where road and rail links were opened during this period of time. This decrease was partially offset by an increase in patronage of the Ma Wan routes due to new developments and population intake in that area. The patronage of the past few years was generally steady.

Chronic problems faced by the outlying islands ferry services

6. The chronic problem faced by the outlying islands ferry services is two-fold: lack of growth in demand and highly volatile fuel costs. As such, stagnant operating revenue is not able to sustain increasing recurrent costs. On the demand side, patronage has been relatively small. The population projection of up to 2012 does not support much growth in demand which means that there is little or no prospect for fare revenue increase unless fare levels are allowed to rise further. On the cost side, the major components are staff remuneration, and maintenance and fuel costs. Whereas fuel cost constitutes a significant portion of total operating expenditure, it is outside the operators' control and putting the business at high risk. These are the long-term structural problems faced by the outlying islands ferry services. There is not much room for cost cutting and revenue generation or cost containment. At the same time, we recognize the increasing expectation and demand on these services of the community and the public. While fare increases could help sustain the

¹ Two other routes also charge higher holiday fares but the differences are only about 20% above the fares for weekdays.

financial viability of these services, such increases would need to be above general inflation and would be subject to residents' criticism.

The need for further measures to help sustain financial viability

7. It is the Government's established policy that public transport services should be run by the private sector or public corporations in accordance with commercial principles. The Government would provide the necessary infrastructure e.g. road links, ferry piers and bus termini to support the provision of the services. This policy should equally apply to the provision of ferry services. However, ferry services are unique in that they are the only means of transport for some of these outlying islands. The Government has been providing various measures to enable ferry operators to reduce operating cost and to sublet the piers in order to increase non-fare box revenue. Despite our continuous efforts to help ferry services, four of the six major trunk routes mentioned in paragraph 4 above needed to go through a second round of tender in the 2008 exercise to reduce the magnitude of fare increases during the new licensing term. Besides, special ad hoc helping measures had to be offered for these four routes² at that time (see paragraph (b) of Annex B for details). In view of the characteristics and the chronic problems of the ferry services and having examined their financial situations, we consider that the above measures are not enough to solve the chronic problems faced by the outlying island ferry services. Therefore, there is a need to step up the measures.

8. In the course of the review and formulation of the proposals, our principles and concepts are as follows -

(a) Public transport services should be operated by the private sector on commercial principles

Our basic premise is to follow as far as possible the existing policy of allowing the private sector to operate public transport services on commercial principles as this is the best way to provide efficient public transport services. However, taking into account that ferry services are the only means of transport for some of these outlying islands, we have to ensure that such essential services could be provided to the residents. Therefore, we have to provide special measures.

² The four routes are Central - Mui Wo route, Central - Peng Chau route, Central - Yung Shue Wan route and Central - Sok Kwu Wan route.

(b) Long-term financial viability and maintain fare stability

In view of the uniqueness of ferry services, we have to ensure that these essential services could be provided to the residents and the fare could be maintained at a stable level. However, the outlying islands ferry services are faced with chronic problems of a lack of growth in demand and highly volatile fuel costs which lead to the pressure of continued fare increase. Therefore, we need to provide further measures to tackle the chronic problems faced by the outlying islands ferry services in order to ensure their long-term financial viability and to maintain fare stability.

(c) Prudent use of public funds and the responsibility of individuals

In formulating the proposals, we have borne in mind the need for prudent use of public funds. We have struck a balance between the need to support essential services which otherwise would not be financially viable and the need to let those individuals shoulder the appropriate responsibility for choosing to live on the outlying islands. Therefore, we propose to provide further support to the six major trunk routes when such a need arises in order to share some of the burden of the commuters.

(d) Harbour planning

We have all along been providing measures to enhance the non-fare box revenue of ferry operators. We also plan to construct one-and-a-half additional floors at each of Central Piers No. 4 to 6 for subletting by the ferry operators for commercial or retail activities in order to generate more non-fare box revenue to cross-subsidize the ferry operation. However, construction of more additional floors or a change of land use of the additional floors to office development to enhance the non-fare box revenue that could be generated will be against the Harbour Planning Principles and not be acceptable to the public.

Proposals

9. In view of the above principles, our proposals are as follows:

(a) Six major trunk routes

We will support the six major trunk routes mentioned in paragraph 4 above when such a need arises. In effect, this would mean one

route for each of the major islands except for Lamma Island where we propose to support two routes because of the geographical distance between Yung Shue Wan and Sok Kwu Wan.

(b) Maintaining the existing service level

We will maintain the existing service levels of the six major trunk routes in the next tender.

(c) Reducing holiday fare differential

We will narrow the holiday differential to a maximum of 20% in the next tender to address calls by residents for reducing the holiday fare differential.

(d) Extending the special helping measures introduced in 2008

We will extend the special ad hoc helping measures currently provided to the four routes (see Annex B) to all the six routes.

(e) Reducing the magnitude of fare increases

When a fare increase is still justified, we propose to share some of the burden of the commuters so that the rate of fare increase could be reduced by half (after netting of the rate of general inflation) by reimbursing to the operators the vessel maintenance cost that has been incurred.

Therefore, when there is a need to increase fare, passengers will bear the fare increase up to the rate of general inflation since the previous fare increase as well as half of the residual rate of the fare increase. The other half will be subsidized by the Government.

(f) Mid-term review

In order to monitor the proper spending of public funds and ensure that fare levels should be appropriately adjusted when operating costs are projected to be reduced, a mid-term review will be conducted during the 3-year licensing period.

10. We will consider providing further assistance to needy groups to alleviate the pressure of fare increase on them.

Financial Implication

11. The total financial implications of our proposals, including extending the special ad hoc helping measures for the four major trunk routes to all the six routes and reimbursing vessel maintenance cost that has been incurred by the operators, is about \$40 million per annum, representing a total of about \$120 million for the three-year licensing period. For example, for a fare of \$15, assuming that ferry operators have to increase fare by 10% (i.e. the proposed fare is \$16.5) due to an increase in cost, and assuming that the rate of general inflation is 3%, passengers will first bear the rate of fare increase up to the rate of general inflation (i.e. 3%), then we will share half of the 7% residual rate of the fare increase (i.e. 3.5%) for the passengers. Therefore, the fare increase of a passenger will be reduced to 6.5% (i.e. the proposed fare is \$16). In this example, we have shared one third of the fare increase for the passengers.

12. We will review the effectiveness and appropriateness of these measures before the expiry of the three-year licensing period.

Other options explored but found not acceptable

13. We have explored the following options which we found to be not feasible:

(a) Reducing cost through route and service rationalization

We have examined whether some of the routing could be combined or if a hopper service could be provided so that patronage could be strengthened by channeling passengers to a couple of main routes. The geographical location of the islands, however, makes such options infeasible. It would either require the use of extra vessels or would result in longer journey time. It also appears that the present routing has evolved over many years and passengers may not prefer major changes which would affect their travelling patterns, particularly journey time.

We have also looked into the possibility for service rationalization for those sailings with patronage less than 35%. While there are sailings at off-peak hours in the morning, mid-afternoon and late evening which contain room for frequency reduction, the cost savings that could be achieved is not significant.

(b) **Replacing ferry service licence with franchise to extend the licensing period**

There have been suggestions that as franchises have a longer tenure, franchisees could find more lucrative tenants thus generating more rental from subletting pier premises. Nonetheless, since rental income only comprises a small percentage of the total revenue, a franchised ferry service will not improve the long-term financial viability of the ferry services.

Despite our plan to construct one-and-a-half additional floors at each of Central Piers No. 4 to 6 for subletting by the ferry operators for commercial or retail activities in order to generate more non-fare box revenue to cross-subsidize the ferry operation, construction of more additional floors or a change of land use of the additional floors to office development to enhance the non-fare box revenue that could be generated will be against the Harbour Planning Principles and not be acceptable to the public.

(c) **Government to purchase vessels for operators**

We have looked into the option of the Government providing hardware. It would involve a very huge capital expenditure but would not reduce pressure on fare increases because it would not help enhance revenue or reduce operating costs except for depreciation.

(d) **Contracting out**

It is against our policy that public transport services should be run by the private sector or public corporations in accordance with commercial principles and would have wide read-across implications.

(e) **Fuel-related mechanisms**

We have also considered various fuel-related mechanisms including fuel surcharge or fuel subsidy. As it is difficult to predict the fluctuation in oil price, we do not wish to see a complete and direct shift of the fluctuation onto the public. A fuel subsidy would violate the principles of free market economy and have wide read-across implications.

Way forward

14. We will launch a series of consultations immediately after our briefing to the Legislative Council Panel on Transport, including consulting the Transport Advisory Committee, the Islands District Council as well as relevant Rural Committees and stakeholders with a view to finalizing the measures as soon as possible so that funding approval could be sought from the Finance Committee of the Legislative Council before the next tendering exercise begins.

Transport Branch
Transport and Housing Bureau
April 2010

Patronage of the 14 outlying island ferry routes in 2009

| Outlying island ferry routes | Average daily patronage in 2009 |
|--|--|
| 1. Central - Cheung Chau | 20,458 |
| 2. Inter-islands (Peng Chau - Mui Wo – Chi Ma Wan - Cheung Chau) | 985 |
| 3. Central - Mui Wo | 5,828 |
| 4. Central - Peng Chau | 5,290 |
| 5. Central - Yung Shue Wan | 7,815 |
| 6. Central - Sok Kwu Wan | 997 |
| 7. Hei Ling Chau - Peng Chau | 451 |
| 8. Aberdeen - Yung Shue Wan via Pak Kok Tsuen | 749 |
| 9. Aberdeen - Sok Kwu Wan via Mo Tat | 523 |
| 10. Tuen Mun – Tung Chung - Sha Lo Wan - Tai O | 461 |
| 11. Discovery Bay – Central | 12,122 |
| 12. Discovery Bay - Mui Wo | 276 |
| 13. Ma Wan – Central | 3,829 |
| 14. Ma Wan - Tsuen Wan | 4,173 |

Existing helping measures

The Government has been providing various helping measures to enhance the viability of ferry services, including –

- (a) for all ferry routes –
 - (i) taking over pier maintenance responsibility;
 - (ii) waiving fuel duty;
 - (iii) reimbursing pier rentals and exempting vessel licence fees for ferry services under the Elderly Concessionary Fares Scheme;
 - (iv) obtaining the Town Planning Board's approval to relax land uses at Central Piers No. 4, 5 and 6 so that the operators can sublet the upper deck of these piers for commercial activities such as restaurants, fast food shops, retail shops and service trades; and
 - (v) streamlining the subletting approval procedures to help generate non-fare box revenue for cross-subsidizing the ferry operation so as to alleviate pressure for fare increase;
- (b) for the Central - Mui Wo route, Central - Peng Chau route, Central - Yung Shue Wan route and Central - Sok Kwu Wan route, special helping measures have been offered for the licensing period from July 2008 - June 2011 -
 - (i) waiving annual vessel survey fee and private mooring fee;
 - (ii) waiving pier water charge;
 - (iii) reimbursing pier cleansing and electricity charge subject to a cap prescribed by the Government;
 - (iv) reimbursing the balance of revenue forgone due to provision of elderly fare concessions after netting off the amount of pier rental reimbursement and vessel licence fee exemption under the current arrangement subject to a cap prescribed by the Government; and

- (v) a one-off \$2 million scheme of providing free ferry tickets to encourage organizations such as schools, non-government organizations and community and district groups to organize activities to these outlying islands.
- (c) we have retrofitted Central Piers No. 4 and 6 with fire prevention facilities so that ferry operators can sublet pier premises for more diversified commercial and retail activities. The project has been completed in February 2010; and
- (d) work is in hand on the construction of one-and-a-half additional floors at Central Piers No. 4 to 6, so that ferry operators could use that floor for commercial or retail activities to generate more non-fare box revenue for cross-subsidizing the ferry operation. Tender for the design consultancy is being conducted. The project is subject to the approval of the Town Planning Board and the Finance Committee of the Legislative Council.