

## NOTE FOR FINANCE COMMITTEE

### Helping Measures to Assist the Operation of Six Major Outlying Island Ferry Trunk Routes

#### PURPOSE

This note informs Members of the utilisation of the approved commitment for providing further helping measures to six major outlying island ferry trunk routes during the new licence period from April/July 2011 to March/June 2014 for three years<sup>Note</sup> in order to enhance their long-term financial viability and maintain fare stability.

#### BACKGROUND

2. On 5 November 2010, the Finance Committee (FC) approved a new commitment of \$114,963,000 for providing further helping measures to six major outlying island ferry trunk routes.

3. At the time of seeking funding approval, the further helping measures we contemplated include –

(i) to extend the following special helping measures originally provided to the four major trunk routes to six major outlying island ferry trunk routes during the new licence period –

(a) waiving annual vessel survey fee and private mooring fee;

(b) reimbursing pier water charge;

/(c) .....

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<sup>Note</sup> The licence period for the Central – Mui Wo route commenced on 1 April 2011, and those for the other five major outlying island ferry trunk routes (namely Central – Cheung Chau route; Inter-Islands route serving Peng Chau, Mui Wo, Chi Ma Wan and Cheung Chau; Central – Peng Chau route; Central – Yung Shue Wan route; and Central – Sok Kwu Wan route) commenced on 1 July 2011. All licences will last for a period of three years until end March and end June 2014 respectively.

- (c) reimbursing pier cleansing and electricity charges subject to caps imposed by the Commissioner for Transport (the Commissioner); and
  - (d) reimbursing the balance of revenue foregone due to provision of elderly fare concessions after netting off the amount of pier rental reimbursement and vessel licence fee exemption under the established arrangement subject to a cap imposed by the Commissioner; and
- (ii) to reimburse the actual vessel maintenance cost incurred by the operators of the six major outlying island ferry trunk routes whenever there is still a justified case for fare increase during the new licence period, after taking into account the helping measures in (i) above, in order to reduce the order of fare increases.

#### **IMPLEMENTATION OF THE HELPING MEASURES**

4. To select suitable ferry operators to run the six major outlying island ferry trunk routes, the Transport Department launched a tender exercise in December 2010. The results of the tenders were announced on 25 March 2011.

5. As reported to the Panel on Transport in June 2011, there is a great pressure on fare increases since the recent fuel price is at a high level. In addition, the implementation of the statutory minimum wage in May this year has significant impact on the staff costs of ferry operators, who employ a large proportion of frontline staff. However, the population of these outlying islands is not expected to increase substantially in the near future to enhance fare revenue. At the same time, there is a need to ensure the continued provision of efficient and quality ferry services, and to reduce the impact of fare increase on transport cost borne by commuters of the islands.

6. In the light of above circumstances and after careful examination of the financial information and data submitted by the bidders, we have decided to include the following items for reimbursement to the ferry operators to fully utilise the resources approved by FC for the stated purpose of providing further helping measures to the six major outlying island ferry trunk routes and reduce the rate of fare increase as far as possible –

- (a) the vessel insurance cost incurred by those operators subject to a cap imposed by the Commissioner;

/(b) .....

- (b) the revenue foregone due to provision of child fare concessions by those operators subject to a cap imposed by the Commissioner; and
- (c) re-launch the “visiting scheme to outlying islands” in the last quarter of 2011 by providing fare subsidy to encourage institutions such as schools, non-governmental organisations, community and local groups to organise activities to those outlying islands.

7. As a result, the rate of increase for monthly tickets is about 7% and the overall average rate of increase is about 10%. The cumulative inflation since the previous fare increases in 2008 is around 8%.

### FINANCIAL IMPLICATIONS

8. We estimate that the total expenditure of implementing the helping measures to assist the operation of the six major outlying island ferry trunk routes, including reimbursement of the further helping measures in paragraph 6 above, will not exceed the approved commitment of \$114,963,000. The breakdown is as follows –

	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	Total \$'000
Provide special helping measures	7,285	9,014	9,014	1,729	27,042
Reimburse vessel maintenance cost	19,321	24,341	24,341	5,021	73,024
Reimburse vessel insurance cost	750	1,000	1,000	250	3,000
Reimburse revenue forgone due to provision of child fare concessions	2,585	3,299	3,299	714	9,897
Re-launch the “visiting scheme to outlying islands”	111	1,333	556	–	2,000
<b>Total</b>	<b>30,052</b>	<b>38,987</b>	<b>38,210</b>	<b>7,714</b>	<b>114,963</b>

9. We shall review the effectiveness of these measures before the expiry of the new three-year licence period.

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Transport and Housing Bureau  
September 2011