

LEGISLATIVE COUNCIL BRIEF

Ferry Services Ordinance
(Chapter 104)

THE “STAR” FERRY COMPANY, LIMITED: APPLICATION FOR FARE INCREASE FOR FRANCHISED SERVICES

INTRODUCTION

At the meeting of the Executive Council on 17 April 2012, the Council ADVISED and the Acting Chief Executive ORDERED that The “Star” Ferry Company, Limited (SF)’s application for a fare increase for its two franchised ferry routes, viz. “Central – Tsim Sha Tsui¹” and “Wan Chai – Tsim Sha Tsui” should be approved as follows –

- (a) under section 19(1)(a) of the Ferry Services Ordinance, the Ferry Services (The “Star” Ferry Company, Limited) (Determination of Fares) (Amendment) Order 2012 (the Order) at **Annex A**, setting out the new maximum fares chargeable by SF, should be made;
- (b) the new fare scale proposed for SF after the Order comes into operation at **Annex B** be approved; and
- (c) an exceptional helping measure be introduced to reimburse SF with the total revenue foregone arising from the offer of the elderly concessions for “Central – Tsim Sha Tsui” ferry service in 2012 (upon the implementation of the new fares) and 2013. The amount of reimbursement to SF is estimated to be around \$5.67 million in total for 2012 and 2013.

JUSTIFICATIONS

SF’s Fare Increase Application

¹ The wording used in the existing franchise is “Kowloon Point”.

2. The fares of SF's franchised ferry routes were last increased by phases on 29 March 2009 and 1 January 2010 by weighted average rates of 8.5% and 13.3% respectively. SF first submitted an application for fare increase in July 2011, followed by updated figures provided to the Administration on a number of occasions up to late December 2011. SF's two proposals to increase the fares of its two franchised ferry services are as follows –

(a) **Proposal I**

- (i) Weekday (i.e. Monday to Friday) (Adult fare): to increase by \$0.2 to \$0.3
- (ii) Holiday (i.e. Saturday, Sunday and public holiday) (Adult fare): to increase by \$0.5 to \$0.6
- (iii) Monthly ticket: to increase by \$15; or

(b) **Proposal II**

(subject to the Government reimbursing to SF in full the revenue foregone by SF in offering fare concessions to the elderly passengers)²

- (i) Weekday (i.e. Monday to Friday) (Adult fare): fares remain unchanged
- (ii) Holiday (i.e. Saturday, Sunday and public holiday) (Adult fare): to increase by \$0.3
- (iii) Monthly ticket: fare remains unchanged

3. In both Proposals I and II, SF has suggested to delink the four consecutive day unlimited travel tourist ticket with trams, and to reduce the fare from \$34 to \$27 (Proposal I) or \$25 (Proposal II)³. SF also proposed to introduce a new fare of \$20 for the carriage of each bicycle on “Wan Chai – Tsim Sha Tsui” ferry service. The weighted average fare increase rate is 14.9% for Proposal I and 4.2% for Proposal II.

4. SF has provided all relevant financial information to support its application. This has been verified and, where necessary, adjusted by the Transport Department (TD) and the Transport and Housing Bureau. The adjusted figures are used in this paper.

² SF has been offering free rides for the elderly aged 65 or above since October 1992. It is reimbursed with pier rental and exempted from vessel licence fees under the Elderly Concessionary Fares Scheme. The amount of reimbursement by Government (around \$0.27 million per year) is much smaller than the amount of revenue foregone by SF in offering the elderly free rides (around \$5.45 million per year after fare increase based on SF's Proposal II). SF now suggests to have the remaining revenue foregone reimbursed in full by the Government (i.e. around \$5.18 million per year).

³ At present, a holder of a tourist ticket may have unlimited travel for four consecutive days on both franchised ferry services operated by SF and trams operated by Hong Kong Tramways, Limited.

Consideration of the Fare Increase Application

5. When considering fare increase applications for ferry services, we take into account the following factors –

- (a) the financial position of the ferry operator;
- (b) the forecasts of changes in operating cost, revenue and return of the ferry operator;
- (c) past performance of the ferry operator in the provision of the relevant ferry services;
- (d) public acceptability of the proposed fares; and
- (e) the measures implemented by the ferry operator to save cost and generate additional revenue.

Forecast of Patronage

6. The total average daily patronage of “Central – Tsim Sha Tsui” route declined by about 30% from 54 300 in 2001 to 37 500 in 2010. This is mainly attributed to the continuous improvement in the cross-harbour public transport service network over the years, and the relocation of the Star Ferry Pier in Central in 2006. On the other hand, the total average daily patronage of “Wan Chai – Tsim Sha Tsui” route increased by 17.2% from 16 900 in 2001 to 19 800 in 2010 as a result of increase in commercial activities in Wan Chai North. Taken together, the total average daily patronage of the two franchised ferry routes operated by SF declined by 19.5% from 71 200 in 2001 to 57 300 (which represented about 0.5% of the total public transport patronage) in 2010. In 2011, as a result of the cessation of “Hung Hom – Central” and “Hung Hom – Wan Chai” ferry services since 1 April 2011, and the increase in convention activities held at the Hong Kong Convention and Exhibition Centre, the fare paying patronage of the two franchised ferry services, “Central – Tsim Sha Tsui” and “Wan Chai – Tsim Sha Tsui”, increased slightly.

7. As the fare paying patronage of “Central – Tsim Sha Tsui” route is forecast to be increased slightly in 2011, SF estimated that the patronage for this route would remain stable in 2012 and might increase by 2.0% in 2013 due to the opening of the Hong Kong Maritime Museum at Central Pier No. 8. Similarly, the fare paying patronage for “Wan Chai – Tsim Sha Tsui” route, after a slight increase in 2011, was forecast to remain the same in 2012 and 2013. As a whole, SF estimated the total patronage for the franchised ferry services to remain at the same level for 2012 with a slight increase of 1.3% in 2013.

Forecast of Revenue

8. During the years from 2008 to 2011, SF's average total revenue per year was around \$70 million. While fare box revenue from passengers accounted for about 60% of SF's total revenue, its non-fare box revenue comprising pier shop rental, advertising income and other income together contributed the remaining 40% and helped cross-subsidise the ferry operation. Fare box revenue in 2010 was boosted by the two-phase fare increases which took effect on 29 March 2009 and 1 January 2010 respectively, but partly offset by continued drop in fare paying patronage. As mentioned in paragraph 6 above, 2011 saw the fare paying patronage rebounding, thereby lifting the fare box revenue.

9. In line with the projected slight increase in fare paying patronage, SF forecast its fare box revenue at existing fare level for 2012 to be the same as 2011, followed by an increase of 1.2% in 2013.

Forecast of Operating Costs

10. The total operating costs of SF gradually decreased from 2008 to 2010, before bouncing back in 2011 due to the volatility in fuel costs and non-recurrent vessel repair and maintenance costs throughout the period. Based on increasing staff costs, fuel price and pier operation expenses, it is estimated that SF's total operating costs would see further rises of 2.5% and 3.9% in 2012 and 2013 respectively.

Projected Financial Position

11. At the existing fares, SF will have a financial loss in 2012 and 2013.

Service Performance

12. Overall, SF has been providing a proper and efficient service to the public. The surveys conducted by TD on the two ferry routes in 2011 revealed that the average adherence rate to the Schedule of Services was 98%. On safety, the number of accidents remained at a consistently low level. The average number of accidents per million passenger trips for SF was 0.05 in 2010, while the average number of accidents per million passenger trips for the whole domestic ferry industry⁴ was 0.14 in the same year. In 2010, the average

⁴ This refers to the two ferry routes under SF's franchise and the 22 regular passenger ferry routes under licences in Hong Kong in 2010.

number of complaints per million passenger trips for SF received by TD was 0.77, while the average number of complaints per million passenger trips for the whole domestic ferry industry⁴ was 2.84 in 2010.

13. On the environment side, SF had conducted trials on the use of an emission reduction device known as the sea water scrubber. The results indicated that the device could reduce emission of sulfur dioxide and visible smoke. SF has also been working with the University of Hong Kong to develop a prototype device on reduction of nitrogen oxide (NO_x) emission, and the test result revealed that the device could remove NO_x emission by 70%. SF will continue to work with the University with a view to adopting this technology to reduce NO_x emission from its vessels. SF plans to apply to the Pilot Green Transport Fund under the Environmental Protection Department for the installation of sea water scrubbers with NO_x emission reduction devices.

Cost Saving Measures

14. In the past ten years, SF implemented a number of cost saving measures which produced total savings of about \$5.40 million per annum. These measures included optimising the locations of the entrance turnstiles and automating the manual change arrangement by vending machines to save manpower, outsourcing the cleansing work, replacing the DC power-generation system of vessels to AC power-generation system to save maintenance expenses, as well as rationalising the fleet deployment to save manpower.

Existing Helping Measures Provided to SF by the Government

15. To help reduce the operating costs of ferry services, the Government has implemented various measures, including taking over the responsibility of pier maintenance, waiving fuel duty, as well as reimbursing pier rental and exempting vessel licence fees under the Elderly Concessionary Fares Scheme. In this regard, the amount of Government's reimbursement to SF due to offering of fare concessions to the elderly passengers is around \$0.27 million per annum. In addition, the Government allows ferry operators to sub-let premises at piers for commercial and retail activities to generate non-fare box revenue for cross-subsidising the ferry operation so as to alleviate pressure for fare increase. SF has sub-let almost all areas at its pier premises in Tsim Sha Tsui, Central and Wan Chai approved for commercial and retail activities.

The Approved Fare Scale

16. Taking into consideration the views of the Legislative Council (LegCo) Members, as well as the general recognition by the local community and overseas visitors that “Central – Tsim Sha Tsui” ferry service, which has been in operation for over a century since 1898⁵, is one of Hong Kong’s most important heritage and historical icons, the Government is prepared to introduce an exceptional helping measure to reimburse SF with the total revenue foregone arising from the offer of free rides for the elderly for “Central – Tsim Sha Tsui” ferry service in 2012 (upon the implementation of the new fares) and 2013. The amount of reimbursement to SF is estimated to be around \$3.78 million per annum after the fare increase. With this exceptional helping measure, the financial position of SF as a whole will be improved, as the franchised account consists of both “Central – Tsim Sha Tsui” and “Wan Chai – Tsim Sha Tsui” ferry services. It will also address the public call for conservation of an important heritage and historical icon of Hong Kong. The Government plans to conduct a review on the exceptional helping measure in mid-2013 to consider the need for its continuation.

17. Having considered the aforementioned factors and taking into account the advice of the Transport Advisory Committee (TAC) mentioned in paragraph 19 below, the Acting Chief Executive in Council approved the new fare scale at **Annex B**. The weighted average rate of fare increase of SF would be about 5.6%, as compared with the cumulative increase of 9.8% in terms of inflation since SF’s last fare increase in January 2010 (up to January 2012).

18. The average fares of SF across the board at existing fare levels and after the fare increase are \$2.22 and \$2.34 respectively. It is estimated that in terms of the total passengers of SF’s franchised services, the recommended fare increase will result in –

- (a) 30% (i.e. adult passengers riding on Saturdays, Sundays and public holidays) paying 40 cents more per trip; and
- (b) 2% (i.e. children or people with disabilities riding on Saturdays, Sundays and public holidays) paying 30 cents more per trip.

All the other passengers (68% of the total) will not be affected.

⁵ “Wan Chai – Tsim Sha Tsui” ferry service has been in operation since 1988.

Transport Advisory Committee's Advice

19. The TAC was consulted on the fare increase application from SF on 24 February 2012. The TAC considered all the relevant factors and supported the rates of fare increase recommended by the Administration, together with the introduction of an exceptional helping measure to reimburse SF with the total revenue foregone arising from the offer of free rides for the elderly for "Central – Tsim Sha Tsui" ferry service in 2012 (upon the implementation of the new fares) and 2013. The TAC also supported the delinking of SF's existing tourist ticket with the tram service, and the introduction of the new bicycle fare. The TAC's detailed advice is set out in its letter to the Secretary for Transport and Housing at **Annex C**.

Implementation

20. Ferry fares are subject to negative vetting by the LegCo. The Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares) (Amendment) Order 2012 at **Annex A** will be gazetted on 27 April 2012 and laid before LegCo on 2 May 2012.

IMPLICATIONS OF THE APPROVED FARE INCREASE

21. The approved fare increase is in conformity with the Basic Law, including the provisions concerning human rights, and does not affect the current binding effect of the Ferry Services Ordinance and its subsidiary legislation. The proposal has no productivity, civil service and environmental implications.

22. The average fare increase of 5.6% for the two ferry routes is estimated to have a full-year impact of less than 0.0005 percentage point on each of the Consumer Price Indices (CPIs) and should have rather insignificant inflationary impact. The recommended Government reimbursement is estimated to be around \$5.67 million in total for 2012 and 2013, being at the level of revenue foregone by SF arising from the offer of the elderly concessions for "Central – Tsim Sha Tsui" ferry service from 2012 (upon the implementation of the new fares) to December 2013. The fare increase helps maintain the financial viability of the franchised ferry company and thus its ability to continue to provide proper ferry services.

PUBLIC CONSULTATION

23. We consulted the LegCo Panel on Transport on 5 December 2011. The TAC was also consulted as mentioned in paragraph 19 above.

PUBLICITY

24. A press release will be issued on 17 April 2012. A spokesman will be available to answer media enquiries.

ENQUIRIES

25. Any enquiries can be directed to the following officer of TD –

Mr Albert Su
Assistant Commissioner for Transport/Management & Paratransit
(Tel. No.: 2829 5208)

Transport and Housing Bureau
April 2012

Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares)
(Amendment) Order 2012

Section 3

3

Column 1 Route	Column 2 Service	Column 3 Fare	
		per trip on Monday to Friday (except public holiday)	per trip on Saturday, Sunday and public holiday
2. Between Kowloon Point and Wan Chai	(a) Upper or Lower Deck Passenger	\$2.5	\$3.4
	(b) Upper or Lower Deck Child Passenger of 3 years of age or more	\$1.5	\$2.1
	(c) Upper or Lower Deck Child Passenger under 3 years of age (accompanied by a person of 12 years of age or more)	\$0	\$0
	(d) Bicycle		per trip \$13
3. All routes	Monthly Ticket (valid for current month only)	\$125	per ticket

Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares)
(Amendment) Order 2012

Section 3

4

Column 1 Route	Column 2 Service	Column 3 Fare per ticket
4. All routes	Tourist Ticket (valid for unlimited travel on any route for 4 consecutive days counting from (and including) the day of issue of the ticket, and available only to a person having permission to land in Hong Kong as a visitor under the Immigration Ordinance (Cap. 115))	\$25".

Clerk to the Executive Council

COUNCIL CHAMBER

2012

Explanatory Note

This Order amends the maximum fares chargeable by The "Star" Ferry Company, Limited for the routes that it operates under franchise by—

- (a) increasing certain maximum fares for Saturdays, Sundays and public holidays;
- (b) decreasing the maximum fare for a tourist ticket; and
- (c) introducing a maximum fare for the carriage of bicycles.

New Fare Scale
(with effect from 24 June 2012)

(1) Central to Tsim Sha Tsui

Fare Type	Existing Fare				New Fare			
	Mon to Fri		Sat, Sun and Public Holiday		Mon to Fri		Sat, Sun and Public Holiday	
	Upper Deck	Lower Deck	Upper Deck	Lower Deck	Upper Deck	Lower Deck	Upper Deck	Lower Deck
Adult	\$2.5	\$2.0	\$3.0	\$2.4	\$2.5 (no change)	\$2.0 (no change)	\$3.4 (+\$0.4)	\$2.8 (+\$0.4)
Child (between 3 and 12 years old) and passenger with disabilities	\$1.5	\$1.4	\$1.8	\$1.7	\$1.5 (no change)	\$1.4 (no change)	\$2.1 (+\$0.3)	\$2.0 (+\$0.3)
Child aged under 3 and passenger aged 65 or above ^{Note 1}	Free				Free			
Monthly Ticket	\$125.0				\$125.0 (no change)			
Tourist Ticket ^{Note 2}	\$34.0				\$25.0 (-\$9.0)			

Note 1: Upon production of HKID card or senior citizen card.

Note 2: Unlimited travel permitted for four consecutive days on the two ferry routes and trams. Proposed fare will not be applicable to trams.

(2) Wan Chai to Tsim Sha Tsui

Fare Type	Existing Fare		New Fare	
	Mon to Fri	Sat, Sun and Public Holiday	Mon to Fri	Sat, Sun and Public Holiday
Adult	\$2.5	\$3.0	\$2.5 (no change)	\$3.4 (+\$0.4)
Child (between 3 and 12 years old) and passenger with disabilities	\$1.5	\$1.8	\$1.5 (no change)	\$2.1 (+\$0.3)
Child aged under 3 and passenger aged 65 or above ^{Note 1}	Free		Free	
Monthly Ticket	\$125.0		\$125.0 (no change)	
Tourist Ticket ^{Note 2}	\$34.0		\$25.0 (-\$9.0)	
Bicycle (per bicycle) ^{Note 3}	Free		\$13.0	

Note 1: Upon production of HKID card or senior citizen card.

Note 2: Unlimited travel permitted for four consecutive days on the two ferry routes and trams. Proposed fare will not be applicable to trams.

Note 3: At present, bicycle carriage is allowed free of charge on the lower deck of vessels in “Wan Chai – Tsim Sha Tsui” ferry service during non-peak hours, except the following circumstances:

- (a) at the peak hour from 5 p.m. to 6 p.m. on sailings from Wan Chai to Tsim Sha Tsui;
- (b) when the lower deck is open for carrying passengers to cater for upsurge in demand; or
- (c) cyclists carrying goods on their bicycles.

For each sailing, a maximum of 10 bicycles or 8 bicycles and 2 wheelchairs are allowed on board. Priority will be given to wheelchair users.



交通諮詢委員會
TRANSPORT ADVISORY COMMITTEE

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本會檔號 Our Ref.

來函檔號 Your Ref.

27 March 2012

The Honourable Eva Cheng, GBS, JP
Secretary for Transport and Housing
22/F, East Wing
Central Government Offices
2 Tim Mei Avenue
Tamar
Hong Kong

Dear Ms Cheng,

**The “Star” Ferry Company, Limited’s
Fare Increase Application for Franchised Services**

This letter sets out the Transport Advisory Committee (“TAC”)’s advice to the Chief Executive in Council (“CE-in-Council”) on the fare increase application made by The “Star” Ferry Company, Limited (“SF”) in respect of its two franchised ferry services, namely, the “Central – Tsim Sha Tsui” and the “Wan Chai – Tsim Sha Tsui” routes.

When considering and advising on the fare increase application, Members have taken into account all relevant factors, including –

- (a) the financial position of the ferry operator;
- (b) the forecasts of changes in operating cost, revenue and return of the ferry operator;
- (c) past performance of the ferry operator in the provision of the relevant ferry services;

- (d) public acceptability of the proposed fares; and
- (e) the measures implemented by the ferry operator to save cost and generate additional revenue.

Members noted that in line with the projected slight increase in fare paying patronage, SF forecast its fare box revenue at existing fare level for 2012 to be the same as 2011, followed by an increase of 1.2% in 2013. As regards the non-fare box revenue, SF did not include any non-recurrent advertising income in its forecast for 2012 and 2013 in the fare increase application due to market uncertainties. As such, the total revenue for 2012 and 2013 was estimated to be \$76.45 million and \$77.88 million respectively, which would be \$4.10 million (5.1%) and \$2.67 million (3.3%) lower than 2011. The TAC agreed to the Administration's view that SF's projection and assumption are not unreasonable.

SF also forecast that its total operating costs would see further rises of 2.5% and 3.9% in 2012 and 2013 respectively, due to pay increase for all its staff, rising fuel cost, and increase in pier operation expenses as a result of the implementation of the Minimum Wage Ordinance in May 2011 and therefore higher tender prices on contract renewals for cleansing and security services. The TAC agreed to the Administration's view that SF's assumption is generally acceptable.

At the existing fare level, SF would therefore incur a loss of \$3.20 million (i.e. at a profit margin of -4.2%) and \$4.86 million (i.e. at a profit margin of -6.2%) in 2012 and 2013 respectively. Hence, Members considered that SF had grounds to increase the fares of its two franchised ferry services.

With regard to its past performance, Members noted the high service adherence rate of SF's two routes at 98%, the customer satisfaction as reflected in opinion surveys, and the consistently low accident rate. Members also noted the efforts put in by SF on the environment side.

Members agreed that overall, SF had been providing a proper and efficient service to the public.

As regards the cost saving measures, Members noted that SF had implemented in the past ten years a number of measures which produced total savings of about \$5.4 million per annum.

In addition to the financial aspects discussed above, Members also took into account the fact that the local community and overseas visitors generally recognized that the “Central – Tsim Sha Tsui” ferry service, which has been in operation for over a century since 1898, as one of Hong Kong’s most important heritage and historical icons.

Taking into account all relevant factors including those highlighted above, Members considered it justified for the Government to introduce an exceptional helping measure to reimburse SF with the total revenue foregone arising from the offer of the elderly concessions for the “Central – Tsim Sha Tsui” ferry service in 2012 (with effect from the implementation of the new fares) and 2013. The estimated amount of reimbursement to SF would be around \$3.8 million per annum. With this exceptional helping measure, Members noted that the financial position of SF as a whole would be improved, as the franchised account consists of both the “Central – Tsim Sha Tsui” and the “Wan Chai – Tsim Sha Tsui” ferry services.

Members also noted that the Government would continue to facilitate SF to explore new opportunities to generate additional non-fare box revenue. With various potential positive developments such as SF’s proposal to use one of its spare vessels as a floating restaurant which may bring in additional profit starting from early 2013 if successfully launched, the TAC supported the Administration’s plan to conduct a review on the exceptional helping measure in mid-2013 to consider the need for its continuation.

With the exceptional helping measure and the intention to review the situation in mid-2013, Members supported the Administration's recommendation for a fare increase of \$0.4 (+13.3% for upper deck) for the adult holiday fare (i.e. Saturday, Sunday and public holiday) with the weekday fares and monthly ticket remained unchanged. In addition, the TAC supported the introduction of a new bicycle fare of \$13 for the lower deck of the "Wan Chai – Tsim Sha Tsui" route, and reduction of tourist ticket fare to \$25 upon de-linking it with the tram services.

Members noted that the average fares of SF across the board at existing fare level and after the recommended fare increase are \$2.22 and \$2.34 respectively. In terms of the total passengers of SF's franchised services, the recommended fare increase would result in –

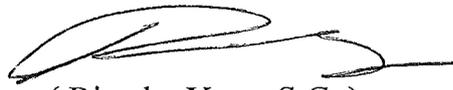
- (a) 30% (i.e. adult passengers riding on Saturdays, Sundays and public holidays) paying 40 cents more per trip;
- (b) 2% (i.e. children or people with disabilities riding on Saturdays, Sundays and public holidays) paying 30 cents more per trip; and
- (c) all the other passengers (68% of the total) will not be affected.

The weighted average rate of fare increase of SF would be revised to about 5.6%, as compared with +9.8% in terms of inflation since SF's last fare increase in January 2010 (up to January 2012). The TAC considered that the increase should be acceptable to the passengers.

In conclusion, the TAC considered that the recommended rate of fare increase would have struck an appropriate balance between minimising the impact of fare increase on passengers while ensuring the continuous provision of quality franchised ferry services for the benefit of the community.

I would be grateful if you would kindly convey TAC's advice to the CE-in-Council for consideration. Our advice may be released for public information in due course after the CE-in-Council's decision is announced.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Rimsky Yuen, S.C.', written in a cursive style with a long horizontal stroke at the end.

(Rimsky Yuen, S.C.)

Chairman

Transport Advisory Committee