

## **Legislative Council Panel on Transport**

### **Outlying Island Ferry Services**

#### **Purpose**

This paper briefs members on the tender results of the six major outlying island licensed ferry services<sup>1</sup> and relevant follow-up arrangements.

#### **Background**

2. The current licences of these services will expire by the end of March 2008. The current operators have agreed to continue to operate these services under the current licences until the end of June 2008 to allow for the dovetailing of the existing services and the new tenderers.

3. As a result of rising operating costs, in particular fuel cost, and falling patronage of most ferry routes in the recent years, most outlying island ferry services have been operating at a loss. On 20 July 2007, the Government briefed the Panel on Transport (“Panel”) on the preliminary proposed tender arrangements for the operation of the current six services. With a view to enhancing the financial viability and thus reducing the risk of substantial fare increases for these routes, the Transport Department (“TD”) put forward the following preliminary proposals on the tendering arrangements for consultation with the local residents -

- (i) To combine the “Central – Peng Chau” and “Central – Mui Wo” routes into the “Central – Peng Chau – Mui Wo” route during non-peak hours;
- (ii) To suitably reduce the frequency of the “Central – Peng Chau – Mui Wo” route during non-peak hours;
- (iii) To group the “Central – Cheung Chau”, “Inter-island” and “Central – Peng Chau – Mui Wo” routes into one single tender package to be run by a single ferry operator;

---

<sup>1</sup> The six major outlying island ferry services are (i) Central - Cheung Chau, (ii) Central - Peng Chau, (iii) Central - Mui Wo, (iv) Inter-island (Peng Chau - Mui Wo - Chi Ma Wan - Cheung Chau), (v) Central - Yung Shue Wan, and (vi) Central - Sok Kwu Wan routes.

- (iv) To shorten the “Inter-island” route into a shuttle service plying between Mui Wo and Cheung Chau to enhance frequency with some sailings calling at Chi Ma Wan; and
- (v) To permit bidders to propose using fast and ordinary vessels or only ordinary vessels in the “Central – Mui Wo”, “Central – Peng Chau” and “Central – Yung Shue Wan” routes to reduce operating costs.

4. During the consultation with the concerned rural committees, Islands District Council and various local groups, we pointed out repeatedly that route arrangements, service frequency and requirements on different ferry types would have a direct bearing on the operating costs and thus the risk of a fare increase. Therefore, when opting for or against merging ferry routes, lowering frequency during non-peak hours and maintaining both fast and ordinary ferry types and other arrangements, the impact of these options on the fares should be taken into account. Should the residents advocate keeping separate “Central – Mui Wo” and “Central – Peng Chau” routes at all times and the existing service frequency, they would need to recognize and accept the risk of substantial fare increase under such arrangements. Besides, we reiterated that it was not Government’s policy to provide direct subsidy to cover the daily operating costs of ferry services.

5. The results of several rounds of consultation clearly showed that the Mui Wo Rural Committee (“RC”) and those Mui Wo residents who expressed their views strongly objected to the merging of the “Central – Peng Chau” and the “Central – Mui Wo” routes, and using ordinary vessels only on the “Central – Mui Wo” route although they were aware of the risk of substantial fare increases. The Mui Wo and Peng Chau RCs and those Mui Wo and Peng Chau residents who expressed their views also opposed the reduction of service frequency during non-peak hours. Moreover, the Cheung Chau RC and those Cheung Chau residents who expressed their views opposed to the proposal of grouping the “Central – Cheung Chau”, “Central – Mui Wo” and “Central – Peng Chau” routes into one tender package. The Lamma residents also objected to reducing the service frequency of the “Central – Sok Kwu Wan” route and asked for extension of operating hours on the “Central – Yung Shue Wan” route. After carefully considering the above views, we,

fully taking into account the views of the RCs and the locals as service users, revised the arrangements in the tender exercise as follows and reported to the Panel on 29 August 2007 -

- (i) To maintain the existing arrangements of operating separate “Central – Peng Chau” and “Central – Mui Wo” routes;
- (ii) To group the “Central – Cheung Chau” and “Inter-island” routes into one tender package, and group the “Central – Mui Wo” and “Central – Peng Chau” routes into another tender package;
- (iii) To maintain the existing frequency of the “Central – Mui Wo” and “Central – Peng Chau” routes during non-peak hours; and
- (iv) on the vessel type arrangement for the “Central – Peng Chau” route, bidders will be allowed to put forward proposals based on their commercial decisions in the tender documents. As for the “Central – Mui Wo” route, the current mode of operation with both fast and ordinary ferries will be maintained.

## **Tender Results**

6. TD has completed the tender exercise for these six routes. Only one bid has been received for each package.

7. For the “Central – Cheung Chau” and “Inter-island” ferry routes (Package 1), TD has received a bid from New World First Ferry Services Limited (“NWFF”) which is the incumbent operator of these routes. Having considered its proposed service level and other related arrangements, TD decides to grant new licences for operating these two routes to NWFF with effect from 1 July 2008. The service arrangements of the two routes will be similar to the existing ones. For the “Central – Cheung Chau” route, new fares for weekdays for ordinary ferry will be \$11.5 (Ordinary Class) and \$18 (Deluxe Class) whereas that for fast ferry will be \$22.5. The new fares for Sundays and public holidays for ordinary ferry will be \$16.8 (Ordinary Class) and \$26.2 (Deluxe Class) whereas that for fast ferry will be \$32.2. The rates of fare increases for this route will be about 0.5% to 2%. As for the “Inter-island” route, the new adult fares will go up by about 21% to \$11.1 to maintain the viability of the operation due to high operating cost and low patronage of the service.

8. As regards the other two packages, i.e. Package 2 (“Central – Mui Wo” and “Central – Peng Chau” routes) and Package 3 (“Central – Yung Shue Wan” and “Central – Sok Kwu Wan” routes), the proposed fare increases in the only bid received for the two routes in Package 2 are up to about 30% and those in the only bid received for Package 3 are up to about 35% for the “Central – Yung Shue Wan” route and to almost 50% for the “Central – Sok Kwu Wan” route. In view of the proposed drastic fare increases put forward in the bids for Packages 2 and 3, which we consider would not be acceptable to the passengers, TD has decided to conduct a re-tender exercise for these four routes.

### **Re-tender Exercise**

9. In order that the successful tenderers will be able to commence operation of the four routes from 1 July 2008 under the new licences, TD plans to re-tender them in the first week of March 2008 with a view to commencing the services from 1 July 2008.

10. 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 not provide direct subsidy for their daily operating expenditure. Nevertheless, in order to reduce the magnitude of fare increases during the new licence period, we intend to proceed along the following direction:

### **Waiving of vessel-related fees**

11. To help further reduce the operating costs of these ferry services, the Government has decided to waive the vessel-related fees of the “Central – Mui Wo”, “Central – Peng Chau”, “Central – Yung Shue Wan” and “Central – Sok Kwu Wan” ferry services during the three-year term of the new licences with effect from 1 July 2008.

### **Service Level Adjustment**

12. In order to further reduce the possible magnitude of fare

increases during the new licence period, we will discuss with the Mui Wo, Peng Chau and Lamma RCs and request them to re-consider whether the service headways during non-peak hours could be suitably adjusted from 40/45 minutes to 60 minutes and some overnight sailings be cancelled to help reduce the operating costs. This, on the one hand, would not affect the peak hour service to cater for the transport needs of passengers, and on the other hand, would help reduce the fuel costs which constitute a significant portion of the operating costs. Moreover, it is expected that the patronage of these services will remain static in the coming several years<sup>2</sup>. Specifically, TD proposes the following off-peak arrangements for consideration-

**(a) Reduction of non-peak service headways**

13. The non-peak headway of the “Central – Mui Wo”, “Central – Peng Chau” and “Central – Yung Shue Wan” routes is proposed to be reduced from 40/45 minutes to 60 minutes. The patronage for the three routes during the non-peak hours is relatively low, so even with a reduced service level, the demand should be adequately catered for. The details are as follows:

<b>Route</b>	<b>Non-peak service headways</b>	<b>Existing frequency</b>	<b>Proposed frequency</b>
Central – Mui Wo	for Central bound : 10 am – 11.30 pm for Mui Wo bound : 10.30 am – 5 pm, & 8.30 pm – 11.50 pm	40 minutes	60 minutes
Central – Peng Chau	for Central bound : 8.30 am – 11.30 pm for Peng Chau bound : 8.30 am – 5.30 pm, & 8.30 pm – 11.30 pm	45 minutes	60 minutes

<sup>2</sup> The population projection of Mui Wo, Peng Chau and Lamma Island in the coming several years is as follows -

	2007	2008	2009
Mui Wo	5,600	5,500	5,600
Peng Chau	5,300	5,300	5,300
Lamma Island	5,400	5,400	5,400

Route	Non-peak service headways	Existing frequency	Proposed frequency
Central – Yung Shue Wan	for Central bound : 9.30 am – 11.30 pm for Yung Shue Wan bound : 11 am – 5 pm, & 8 pm – 12.30 am	45/60 minutes	60 minutes

14. At present, the “Central – Sok Kwu Wan” route is operating at one hour headway during peak hours and two-hour headway during non-peak hours. In order to reduce operating costs with a view to containing the fare increase, we will also ask the Lamma RC to suggest how the service level and vessel requirements of this route can be adjusted.

**(b) Cancellation of Overnight Sailings**

15. In view of the low patronage<sup>3</sup> of the overnight sailings of the “Central – Mui Wo” and “Central – Peng Chau” routes, the sailings at 3 a.m. from Central, 3.25 a.m. from Peng Chau and 3.40 a.m. from Mui Wo are proposed to be cancelled. Besides, the additional overnight sailings for the “Central – Yung Shue Wan” route at 2.30 a.m. from Central on weekends and public holidays, and from Yung Shue Wan at 5.30 a.m. daily included in the last tender in response to local requests will be withdrawn from the requirements in the re-tender.

**(c) Vessel Type**

16. The bidders will be allowed to propose using only ordinary vessels for the “Central – Yung Shue Wan”, “Central – Sok Kwu Wan” and “Central – Peng Chau” routes to reduce operating costs.

---

<sup>3</sup> On Mui Wo and Peng Chau bound, the sailing at 3 a.m. to Mui Wo carried less than 30 passengers (about 10% of carrying capacity of the vessel) and that to Peng Chau only carried about 15 passengers (about 6%). On Central bound, the sailing at 3.25 a.m. from Peng Chau carried less than 10 passengers (3%) and that at 3.40 a.m. from Mui Wo carried 2 passengers (less than 1%) on average.

**(d) Tendering the four ferry routes as separate packages**

17. At present, the “Central – Sok Kwu Wan” and “Central – Peng Chau” routes require relatively fewer vessels to operate. We therefore intend to tender out the four ferry routes viz “Central – Sok Kwu Wan”, “Central – Yung Shue Wan”, “Central – Mui Wo” and “Central – Peng Chau” as four separate packages in the coming re-tender exercise with a view to enabling more operators, in particular, those with fewer vessels, to bid for these routes to make the tender process more competitive.

**Longer-term helping measure: Allowing the ferry operators to sublet the rooftop level of Central Piers No. 4, 5 and 6 for commercial and retail activities**

18. We note that the Planning Department is undertaking an Urban Design Study for the New Central Harbourfront, covering Central Ferry Piers No. 4, 5 and 6 among other adjacent sites. In view of its prominent location by the harbour, Central Ferry Piers No. 4, 5 and 6 will provide a new landmark in the Central harbourfront alongside the adjacent International Financial Centre II. A facelift of the existing Central Piers No. 4 to 6 with the addition of one retail/commercial floor is proposed in the study. We are considering the feasibility of taking opportunity of the proposed development in this study to enhance the financial viability of the six essential outlying island ferry services by, for example, allowing the operators of the six essential routes to sublet this rooftop level for commercial or retail activities while requiring them to continue to use non-fare box revenue to cross-subsidize the ferry operation. At present, ferry operators of these routes sub-let the pier premises for commercial and retail activities, such as bakeries and snack bars. The non-fare box revenue so generated is required to be ploughed back to its ferry account to cross-subsidize the ferry operation.

19. Should this be pursued, the financial viability of the ferry services in the longer term would become much more certain as this would provide substantial steady income to cross-subsidize the ferry operation. This would in turn help keeping the fares at a reasonable level to the passengers. We shall work closely with relevant bureaux and

departments to pursue this longer-term measure in the context of the Study.

### **Continuation of Existing Measures to Assist Ferry Operation**

20. In addition to the above, we will continue to implement the existing measures to help reduce the operating costs and increase non-fare box revenue of these ferry services. These include taking over pier maintenance responsibility, waiving fuel duty, reimbursing pier rentals and exempting the vessel licence fees for ferry services under the Elderly Concessionary Fares Scheme and allowing ferry operators to sub-let premises at piers for commercial and retail activities. Ferry operators are required to use non-fare box revenue to cross-subsidize the ferry operation so as to alleviate pressure for fare increase.

21. In mid-2007, the Government introduced additional new measures to help ferry operators enhance their ability to generate non-fare box revenue. These measures include 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 first floor of these piers for commercial activities such as restaurants, fast food shops, retail shops and service trades; streamlining the procedures for approval of applications for sub-letting premises at the piers; and retrofitting these piers with fire prevention facilities.

### **Advice Sought**

22. Members' views on the above are welcomed.

Transport and Housing Bureau  
Transport Department  
February 2008