

Legislative Council Panel on Transport Fare Increases for Outlying Island Ferry Services

Purpose

This paper reports to members the results of the latest round of tenders for operation of six major outlying island ferry services and the fare adjustment of “Central – Discovery Bay” ferry service.

Tender Results of the Six Major Outlying Island Ferry Services

Background

2. To enhance the long-term financial viability of ferry services, the Government has been providing various measures to enable ferry operators to reduce operating costs and increase non-fare box revenue:

- (a) taking over pier maintenance responsibility;
- (b) waiving fuel duty;
- (c) reimbursing pier rentals and exempting vessel licence fees for ferry services under the Elderly Concessionary Fares Scheme;
- (d) allowing ferry operators to sublet ferry pier areas for commercial concession to generate non-fare box revenue to cross-subsidise the ferry operation; and
- (e) streamlining the subletting approval procedures to help expedite generation of non-fare box revenue.

3. In May 2008, the Government indicated that it would conduct a review on ferry services for outlying islands with a view to enhancing the long-term financial viability of these services and maintaining fare stability. The review was completed in mid-2010 and the Government has consulted the Legislative Council Panel on Transport, the Traffic and Transport Committee of the Islands District Council, relevant Rural

Committees and members of the public. In the review, the Government proposed to provide the following helping measures for the six major outlying island ferry services (namely “Central – Cheung Chau”, “Peng Chau – Mui Wo – Chi Ma Wan – Cheung Chau” (Inter-islands), “Central – Mui Wo”, “Central – Peng Chau”, “Central – Yung Shue Wan” and “Central – Sok Kwu Wan” routes) for the new three-year licence period from 2011 to 2014 -

- (a) extending the special helping measures provided to four major island ferry routes during 2008 to 2011 to all the six routes. Details of the measures are set out in **Annex A**; and
- (b) reimbursing the actual vessel maintenance cost incurred by the operators of the six major routes on an accountable basis to reduce the order of fare increases.

In November 2010, the Finance Committee of the Legislative Council supported a commitment of about \$120 million for the implementation of the above mentioned helping measures.

Tender Exercise

4. To select suitable ferry operators to run the above six major outlying island ferry routes upon expiry of the licences, the Transport Department (“TD”) after taking into account the views collected during the public consultations for the review on ferry services for outlying islands in the second quarter of 2010, consulted again the Traffic and Transport Committee of the Islands District Council and the relevant Rural Committees during September to October 2010 on the proposed arrangement for the tender exercise (including routes packages and service arrangements etc). After consideration of the views collected, the tender exercise was launched on 17 December 2010 and closed on 14 January 2011.

Tender Packages and Submissions Received

5. In response to the feedback from the Traffic and Transport Committee of the Islands District Council and the relevant Rural Committees, TD split the six routes into two tenders in the tender exercise. Under Tender I, there were two route packages, namely package (a) “Central – Cheung Chau” and “Inter-islands” routes and

package (b) “Central – Mu Wo” route. As for Tender II, it included the “Central – Peng Chau”, “Central – Yung Shue Wan” and/or “Central – So Kwu Wan” routes. The tender documents also included requirements for implementation of suggestions for service improvement as set out in paragraph 14 below by the bidders.

6. In this tender exercise, one submission was received from operators for Tender I (i.e. “Central – Cheung Chau”, “Inter-islands” and “Central – Mui Wo” routes). As for Tender II (i.e. “Central – Peng Chau”, “Central – Yung Shue Wan” and “Central – So Kwu Wan” routes), one submission was received for each route.

7. As the expiry of the licence of “Central – Mui Wo” route was 31 March 2011, TD had stated in the tender document that the new licence period would start from 1 April 2011. As for the other five routes of which the licences would expire on 30 June 2011, it was stated in the tender documents that the new licence period would be effective from 1 July 2011, so as to ensure the continuity of those ferry services.

Tender Assessment

8. Assessment of tender submissions was conducted by a tender assessment committee comprised of representatives of TD, Marine Department and Civil Engineering and Development Department. In evaluating the tender submissions, the committee had considered the proposed service arrangements of the concerned ferry routes submitted by the bidders, including fare, service level, vessel quality and the management capability and financial situation of the bidders.

Tender Results

9. Upon receipt of the recommendations from the tender assessment committee after thorough consideration of the tender submissions, the Commissioner for Transport decided to award the licences for operation of the six ferry routes to the following bidders in accordance with the Ferry Services Ordinance. The validity period of all licences is three years -

Ferry Routes	Bidders granted with the licences
“Central – Cheung Chau”	New World First Ferry Services Limited
“Inter-islands”	
“Central – Mui Wo”	
“Central – Peng Chau”	Hong Kong and Kowloon Ferry Limited ¹
“Central – Yung Shue Wan”	Islands Ferry Company Limited ¹
“Central – Sok Kwu Wan”	Winnertex Limited ¹

10. TD announced the results of the tenders on 25 March 2011 and, in accordance with the Ferry Services Ordinance, the fares of the concerned ferry routes under the new licences were published in the gazette on the same day. The new fares for the “Central – Mui Wo” route were effective on 1 April 2011 while those for the other five routes will be effective from 1 July 2011. Representatives of TD attended the meeting of the Traffic and Transport Committee of the Islands District Council on 28 March 2011 to brief the District Council members and the committee members on the results of the tenders and the fares and service arrangements of the concerned ferry routes under the new licences.

11. The Government understands residents’ concern on the fares of the outlying island ferry services. While the last fare adjustment for the six outlying island ferry routes took place in 2008, the accumulative inflation rate for the past three years is around 8%. Moreover, the population of these outlying islands is not expected to increase substantially in the near future to enhance fare box revenue. The recent fuel price is at a high level. In addition, the statutory minimum wage which was effective from 1 May this year also has significant impact on the staff costs of ferry operators, who employ a high proportion of junior staff. These factors have led to a great pressure on fare increase.

12. After careful examination of the financial information and data submitted by the bidders, and taking into account the need to ensure efficient and quality ferry services, and to reduce the impact of fare increase on transport cost borne by commuters of the islands, TD, when granting the new licences of the six major routes, had made the best endeavour to reach an agreement with the bidders to substantially reduce the rate of fare increase by providing a package of helping measures. As a result, the increase rate for monthly tickets was about 7% and the overall average increase rate was about 10%. According to the tender mechanism, TD could not announce the fares before reaching an agreement with the bidders.

¹ Subsidiaries of Hong Kong and Kowloon Ferry Holdings Limited.

13. The fare increase of the six major outlying island ferry services are summarised as follows -

Ferry Route	New single journey adult weekday fare	Increase rate of single journey adult fare	New fare for monthly ticket	Increase rate of fare for monthly ticket
“Central – Cheung Chau”	\$12.6 - \$24.6	9.33 - 9.63%	\$489	7%
“Inter-islands”	\$12.2	9.91%	N.A.	N.A.
“Central – Mui Wo”	\$14.5 - \$28.4	11.06 - 11.54%	\$507.8	7%
“Central – Peng Chau”	\$14.4 - \$26.8	9.39 - 12.5%	\$542	7.11%
“Central – Yung Shue Wan”	\$16.1	11.03 - 11.5%	\$621	7.07%
“Central – Sok Kwu Wan”	\$19.8	11.86 - 12%	\$665	7.09%

Details of the fares of the six routes are set out in **Annex B**.

Service Enhancement

14. The current service levels of the six major outlying island ferry routes will be maintained. In light of the views collected in the earlier consultation with the locals conducted by TD, some service enhancement has been / will be carried out on individual routes as follows -

- **“Central – Mui Wo” route** – the new licence was effective from 1 April 2011 with an additional fast ferry departing from Central at around 10 p.m. on every Monday to Saturday. The ordinary trips departing from Central at 10:30 p.m. and departing from Mui Wo at 11:30 p.m. will be operated by fast ferries. The departure times of ferry services during this period will be slightly adjusted for the convenience of passengers.
- **“Central – Peng Chau” route** – the new licence will be effective from 1 July 2011. Fast ferry with a capacity of about 400 seats will be deployed to replace the existing fast ferry with about 200 seats with an additional ordinary ferry departing from

Peng Chau at 5:30 a.m. on every Monday to Saturday to cater for the need of residents who leave Peng Chau to work in the early morning.

- **“Central – Yung Shue Wan” route** – the new licence will be effective from 1 July 2011 with an additional overnight ferry departing from Central at 2:30 a.m. on every Saturday and Sunday to cater for the need of residents who return home late.
- **“Central – Cheung Chau” route** – the new licence will be effective from 1 July 2011 with an additional fast ferry departing from Central at 7:15 p.m. on every Monday to Friday. The departure time of the existing ordinary ferry departing at 7:30 p.m. will be slightly adjusted for the convenience of passengers.

Ferry Service Licence

15. According to the Ferry Services Ordinance, the Commissioner for Transport may grant a ferry service licence for a period not exceeding 3 years, and may extend the period of the licence for a further period or periods not exceeding 3 years at any one time at the request of the licensee, and the period for which the licence is granted together with all extensions shall not exceed a period of 10 years. TD considers that ferry operators are able to carry out long-term planning under the above requirement so as to achieve a fair return.

Fare differential between holidays and weekdays

16. In response to the views collected during the consultation period, the Government proposed narrowing the fare differential between holidays and weekdays to a maximum of 20% in the review on ferry services for outlying islands. With a view to evaluating the long-term financial viability of the concerned ferry routes and the impact on the weekday fare, the tender documents have required bidders to submit proposed fares for holidays and weekdays under various levels of fare differential, including those with fare differential be narrowed to not exceeding 20% and with existing fare differential be maintained.

17. In light of the upsurge of operating cost mentioned in paragraph 11 above, it was shown in tender submissions that if the fare differential between holidays and weekdays was narrowed, the fare increase for weekdays would far exceed the current approved level. In order to ensure efficient and quality ferry services, and to reduce the travelling expenses of daily commuters and taking into account the generally higher affordability of holiday passengers, we consider that maintaining the existing holiday fare differential is a practical and balanced approach.

18. Besides, the Government is actively considering to re-launch “visiting scheme to outlying islands” by providing fare subsidy to encourage institutions, such as schools, non-governmental organisations, community and local groups to organise activities to outlying islands to boost the local economy.

Mid-term review

19. In order to monitor the proper spending of public funds and ensure that fare levels of the six major outlying island ferry routes should be appropriately adjusted when operating cost is projected to be reduced, a mid-term review will be conducted during the 3-year licence period in accordance with the outcome of the review on ferry services for outlying islands.

Fare Adjustment of “Central – Discovery Bay” Ferry Service

Background

20. Discovery Bay Transportation Services Limited (“DBTPL”) has been operating the “Central – Discovery Bay” licensed ferry service (the “Ferry Service”) since 1982. The financial situation of the Ferry Service is unsatisfactory with operating loss over the past few years. As a result of increasing operating costs and persistent drop in patronage in recent years, the revenue of the Ferry Service is insufficient to cover its operating costs. According to the information provided by DBTPL, the annual patronage of the Ferry Service dropped from about 4.71 million in the 2007-08 financial year² to about 4.33 million in the 2009-10 financial year. Despite the fare increase and service rationalisation exercise in

² Financial year begins in April and ends in March of the following year.

May 2009, the Ferry Service suffered a loss of around \$10 million in the 2009-10 financial year.

21. DBTPL anticipates that there will not be any significant increase in patronage. If no fare adjustment is made, an accumulated loss of about \$85 million will be incurred from the 2010-11 financial year to the 2012-13 financial year. In order to improve the financial viability so as to enable the provision of sustainable Ferry Service, DBTPL, after consultation with the City Owners' Committee ("COC") and the Passenger Liaison Group ("PLG") of Discovery Bay in January 2011, applied to TD to increase the fares of the Ferry Service by an average rate of about 9%.

Processing of DBTPL's Fare Increase Application

22. After careful examination of the operational and financial information and data submitted by DBTPL, TD concurs that there is a need to increase the fares of the Ferry Service so as to enable the operator to provide a proper and efficient ferry service to meet passengers' need. However, after consideration of relevant factors including the existing operating environment, the accumulated inflation rate from last fare increase (about 7.5%), the sustained high fuel price, views from representatives of Discovery Bay and passengers' acceptability, TD considers it appropriate to adjust the rates of fare increase applied by DBTPL downwards, including reducing the rate of increase of Transport Card (i.e. multi-trip ticket) to 6.6% to 7.0% and the average rate of fare increase from about 9% to about 7.5%. The proposed new fares are set out in **Annex C**.

Consultation

23. Since February 2011, TD has been exchanging views on the issue of fare adjustment with representatives of Discovery Bay. It has also conducted consultation via Islands District Office in late April 2011 to collect local views, and discussed the issue at a meeting with the Islands District Office, DBTPL and representatives of Discovery Bay residents on 9 May 2011.

24. After consideration of the views collected, as well as the need to ensure the financial viability of the Ferry Service so as to enable the operator to provide a proper and efficient ferry service, TD will approve DBTPL's fare adjustment application. To alleviate the impact of fare

increase on passengers, DBTPL has agreed, in response to the views from resident representatives, to extend the validity period of Transport Card from 120 days to 180 days and waive the charge for re-activation of an expired Transport Card loaded with store-points until end-2012. New fares will be effective from early June 2011.

25. Members are invited to note the results of the tender exercises for the six major outlying island ferry services and the fare adjustment of “Central – Discovery Bay” ferry route.

Transport and Housing Bureau
May 2011

**Special helping measures to
the six major outlying island ferry routes
during the new three-year licence period from 2011-2014**

The following special helping measures will be offered by the Government to the ferry operators during the three-year licence period (from 1 April 2011 to 31 March 2014 for “Central – Mui Wo” route; and from 1 July 2011 to 30 June 2014 for “Central – Cheung Chau”, “Peng Chau – Mui Wo – Chi Ma Wan – Cheung Chau” (“Inter-islands”), “Central – Peng Chau”, “Central – Yung Shue Wan” and “Central – Sok Kwu Wan” routes) -

- (a) waiving annual vessel survey fee and private mooring fee;
- (b) reimbursing pier water charge;
- (c) reimbursing pier cleansing and electricity charge subject to caps prescribed by the Commissioner for Transport; and
- (d) 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 established arrangement subject to a cap prescribed by the Commissioner for Transport.

Annex B

Fares of the six major outlying island ferry routes under the new licences

“Central – Mui Wo” route (Effective from 1 April 2011)

	Mondays to Saturdays except public holidays			Sundays and public holidays		
	Ordinary Ferry Service		Fast Ferry Service	Ordinary Ferry Service		Fast Ferry Service
	Ordinary Class	Deluxe Class		Ordinar y Class	Deluxe Class	
<u>Single Journey</u>						
Adult	\$14.5	\$24.1	\$28.4	\$21.4	\$35.3	\$40.8
Monthly Ticket	\$507.8	--	--	\$507.8	--	--
Licence Period	1 April 2011 to 31 March 2014					

“Central – Cheung Chau” route (Effective from 1 July 2011)

	Mondays to Saturdays except public holidays			Sundays and public holidays		
	Ordinary Ferry Service		Fast Ferry Service	Ordinary Ferry Service		Fast Ferry Service
	Ordinary Class	Deluxe Class		Ordinary Class	Deluxe Class	
<u>Single Journey</u>						
Adult	\$12.6	\$19.7	\$24.6	\$18.4	\$28.7	\$35.3
Monthly Ticket	\$489	--	--	\$489	--	--
Licence Period	1 July 2011 to 30 June 2014					

“Peng Chau – Mui Wo – Chi Ma Wan – Cheung Chau” route (Effective from 1 July 2011)

Adult	\$12.2
Licence Period	1 July 2011 to 30 June 2014

“Central – Peng Chau” route (Effective from 1 July 2011)

	Mondays to Saturdays except public holidays		Sundays and public holidays	
	Ordinary Ferry Service	Fast Ferry Service	Ordinary Ferry Service	Fast Ferry Service
<u>Single Journey</u>				
Adult	\$14.4	\$26.8	\$20.7	\$39.4
Monthly Ticket	\$542	--	\$542	--
Licence Period	1 July 2011 to 30 June 2014			

“Central – Yung Shue Wan” route (Effective from 1 July 2011)

	Mondays to Saturdays except public holidays		Sundays and public holidays	
<u>Single Journey</u>				
Adult	\$16.1		\$22.3	
Monthly Ticket	\$621			
Licence Period	1 July 2011 to 30 June 2014			

“Central – Sok Kwu Wan” route (Effective from 1 July 2011)

	Mondays to Saturdays except public holidays		Sundays and public holidays	
<u>Single Journey</u>				
Adult	\$19.8		\$28	
Monthly Ticket	\$665			
Licence Period	1 July 2011 to 30 June 2014			

Annex C

**Existing and Proposed Fares for
“Central – Discovery Bay” Licensed Ferry Service**

Fare Type	Current Fare	Proposed Fare Adjusted Downward by TD
Day Service		
(A) Single Journey		
(i) Octopus		
Adult	\$31.0	\$33.8 (+9.0%)
Child/Elderly/Full time student under 18 years old residing in Discovery Bay	\$15.5	\$16.9 (+9.0%)
(ii) Cash		
Adult	\$31.0	\$34.0 (+9.7%)
Child/Elderly/Full time student under 18 years old residing in Discovery Bay	\$15.5	\$17.0 (+9.7%)
(B) Transport Card		
(i) Transport Card (A)		
Adult (\$1,310 (stored with 1 550 points))	31 points (equals to \$26.2 per trip)	33.1 points (equals to about \$28.0 per trip) (+6.9%)
Child/Elderly/Full time student under 18 years old residing in Discovery Bay (\$655 (stored with 775 points))	15.5 points (equals to \$13.1 per trip)	16.6 points (equals to about \$14.0 per trip) (+6.9%)
(ii) Transport Card (B)		
Adult (\$858 (stored with 930 points))	31 points (equals to \$28.6 per trip)	33.1 points (equals to about \$30.5 per trip) (+6.6%)
Child/Elderly/Full time student under 18 years old residing in Discovery Bay (\$429 (stored with 465 points))	15.5 points (equals to \$14.3 per trip)	16.6 points (equals to about \$15.3 per trip) (+7.0%)

Fare Type	Current Fare	Proposed Fare Adjusted Downward by TD
Overnight Service (Sailings at or after 12:00 a.m. and before 6:00 a.m.)		
(A) Single Journey		
(i) Octopus		
Adult	\$44	\$48 (+9.1%)
Child/Elderly/Full time student under 18 years old residing in Discovery Bay	\$28.5	\$31 (+8.8%)
(ii) Cash		
Adult	\$44	\$48.5 (+10.2%)
Child/Elderly/Full time student under 18 years old residing in Discovery Bay	\$28.5	\$31.5 (+10.5%)
(B) Transport Card		
(i) Transport Card (A)		
Adult (\$1,310 (stored with 1,550 points))	31 points + \$13 (equals to \$39.2 per trip)	48.7 points (equals to about \$41.2 per trip) (+5.1%)
Child/Elderly/Full time student under 18 years old residing in Discovery Bay (\$655 (stored with 775 points))	15.5 points + \$13 (equals to \$26.1 per trip)	32.2 points (equals to about \$27.2 per trip) (+4.2%)
(ii) Transport Card (B)		
Adult (\$858 (stored with 930 points))	31 points + \$13 (equals to \$41.6 per trip)	48.7 points (equals to about \$44.9 per trip) (+7.9%)
Child/Elderly/Full time student under 18 years old residing in Discovery Bay (\$429 (stored with 465 points))	15.5 points + \$13 (equals to \$27.3 per trip)	32.2 points (equals to about \$29.7 per trip) (+8.8%)
Overnight Surcharge (if paid separately)		
Octopus / Cash	\$13	\$14.5 (+11.5%)