

For discussion
on 17 December 2010

**Legislative Council Panel on Transport
Fare Increase Application from Hong Kong Tramways Limited**

Purpose

Hong Kong Tramways Limited (HKT) submitted in August 2010 an application for fare increase. This paper provides information on HKT's operation and proposed improvement projects. HKT representatives will brief Members on its fare increase application at the meeting on 17 December 2010. Members are invited to comment on HKT's application.

Background

2. HKT last increased its fares in March 1998 by 25%, with fare for persons aged 12 or above increased from \$1.6 to \$2.0, and fares for children aged 3 to 12 and the elderly increased from \$0.8 to \$1.0. In August 2010, HKT submitted an application for fare increase with details as follows -

	Existing Fare	Proposed Fare
Person aged 12 or above	\$2.0	\$2.5
Elderly (aged 65 or above)	\$1.0	\$1.1 (implementation to be postponed by one year)
Children (aged 3 to 12)	\$1.0	\$1.3
Monthly Ticket	\$170.0	\$210.0
Tourist Ticket	\$34.0 ¹	\$34.0 (unchanged)

3. We need to ensure that HKT will have sound financial capability in providing efficient and quality tramway services at reasonable fares. In assessing HKT's fare adjustment application, we shall take into account the

¹ The fare of the tourist ticket was increased from \$30.0 to \$34.0 in conjunction with the fare increase of the "Star" Ferry Company, Limited in March 2009.

changes in operating costs and revenue; forecasts of future costs and revenue; the financial position of HKT; public acceptability; and the quality and quantity of service provided. We shall make reference to the views of the Members of the Panel on Transport and the Transport Advisory Committee before submitting recommendations to the Chief Executive in Council for consideration in accordance with the Tramway Ordinance (Chapter 107).

Patronage and Revenue

4. HKT's total revenue in 2009 was \$195 million and is estimated to be around \$203 million in 2010. About three-quarters of HKT's revenue comes from passenger fares. However, patronage has been on a declining trend since the 1980s. The average daily patronage decreased from 240,400 in 1999 to 231,200 in 2009, representing a drop of 3.8% during the 10-year period. In the first seven months of 2010, the average daily patronage was 227,500, representing a drop of 1.6% against the daily average in 2009. The declining patronage has led to a corresponding decrease in fare revenue. Advertising on tram body and tram stop shelter, which constitutes about 20% of the total revenue, is the main source of HKT's non-fare box revenue. However, according to HKT, the potential to further increase advertising and other non-fare box revenue is rather limited.

Operating Costs

5. HKT's total operating costs in 2009 was \$184 million and is estimated to be around \$192 million in 2010. Staff costs are HKT's major cost item, accounting for about 65% of the total operating costs. The other cost items include repair and maintenance, traction power, replacement of tram track and overhead line system, depreciation and miscellaneous expenses. The operating costs are expected to increase because of the rising staff costs and depreciation charges for capital investment in implementing the planned improvement projects.

Service Performance and Improvement Projects

6. With a fleet of 163 tram cars and about 670 staff, HKT has been providing a satisfactory service on the northern part of Hong Kong Island for decades. The frequent service with cheap fares and convenient tram stops are appreciated by passengers. During the 3-year period from 2007 to 2009, the

number of complaints received by the Transport Department against HKT decreased by 60% from 116 in 2007 to 46 in 2009. The total number of traffic accidents involving trams remained at about 70 per annum during the 3-year period.

7. To enhance safety, operational efficiency and level of service, HKT has embarked on the following improvement projects in April and November this year -

- (a) Improving the overhead line system by using better quality and more durable span wires (since April 2010);
- (b) Improving maintenance of tram track by using better rail welding and grinding machines so as to enhance riding comfort and safety, reduce noise during normal operation and maintenance, and cut maintenance costs (since April 2010); and
- (c) Adjusting the tram routes and service frequencies to better meet passenger demand (since November 2010).

8. To further enhance safety, operational efficiency, passenger comfort and services, HKT has planned to implement the following projects in the next few years -

- (a) Installing electromagnetic brake to improve braking performance on the tram fleet (trial completed in Q4, 2010);
- (b) Replacing the existing DC traction motor system with AC traction motor system on the tram fleet to enhance passenger riding comfort and reduce electricity consumption (trial completed in Q4, 2010);
- (c) Improving the interior design of tram cars to enhance passenger comfort and customer service (a mock-up tram car completed for trial and consultation since September 2010); and
- (d) Providing passenger information at tram stops and on tram cars.

9. According to HKT, the capital expenditure for implementing all the aforesaid projects will amount to a total of around \$200 million, including an estimate of around \$89 million for the 3-year period from 2010 to 2012.

10. Through capital investment in the improvement projects, HKT aims to maintain the sustainability of the tramway operation. By offering a more attractive tram service in terms of safety, service level, passenger comfort and customer satisfaction, HKT expects to reverse the declining trend of patronage. Furthermore, some of the projects can reduce the recurrent operating costs (especially maintenance and electricity costs) of HKT in the long term.

11. HKT made an after-tax profit of \$8.8 million in 2009 and expects to reach a similar profit level in 2010. With the increase in total operating costs and the planned implementation of the improvement projects, HKT forecasts an operating loss from 2011 onwards. The proposed fare increase is considered essential by HKT to enable its continuous investment in the tramway system and maintenance of a sustainable operation.

Advice Sought

12. Members are invited to comment on HKT's fare increase application.

**Transport and Housing Bureau
Transport Department
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