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Panel on Transport
Meeting on 24 May 2013

Background brief on the major outlying island ferry services

Purpose

This paper provides background information on the major outlying island ferry services in Hong Kong. It also summarizes the major concerns expressed by Members of the Legislative Council ("LegCo") and members of the Panel on Transport ("the Panel") on the subject in the past.

Background

2. At present, there are 13 outlying island ferry routes which provide regular passenger services. These services are licensed and regulated by the Commissioner for Transport under the Ferry Services Ordinance ("FSO"). A license is normally granted for a period of three years and could be extended for a further period or periods of up to three years, with the aggregate continuous period of license not exceeding ten years.

3. Of the 13 outlying island ferry routes, six are major trunk routes. They are –

- (a) Central - Cheung Chau route;
- (b) Inter-Islands route serving Peng Chau, Mui Wo, Chi Ma Wan and Cheung Chau;
- (c) Central - Mui Wo route;
- (d) Central - Peng Chau route;

(e) Central - Yung Shue Wan route; and

(f) Central - Sok Kwu Wan route.

4. Two rounds of tender were conducted between mid-2007 and mid-2008 for the six major ferry trunk routes as the licenses had reached the ten-year maximum term permitted under FSO by mid-2008. The tenders were carried out amidst sharp increase in oil prices. In the face of escalating costs and strong reaction from the residents against service rationalisation, the only bid received for four of the six ferry routes including Central – Mui Wo, Central – Peng Chau, Central – Yung Shue Wan and Central – Sok Kwu Wan proposed to have fare increases of 30% to 50%. As a result, the routes had to be re-tendered with some relaxation of the service requirements as well as helping measures from the Government.

5. The Administration has advised that 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, the Government agreed to implement a number of measures to maintain the viability of ferry operation. These included :

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

6. In anticipation of increasingly high fares for ferry services and the difficulties that will be faced by operators in operating ferry services for outlying islands, the residents of the outlying islands and Members of the LegCo asked the Government to devise measures to ensure the sustainability of outlying island ferry services in the future.

7. In May 2008, the Administration conducted 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.

8. Since ferry services are the only external means of transport for some of these outlying islands, the Government proposed in the review to provide the above-said six major outlying islands routes with further helping measures during the three-year new licensing period from 2011 to 2014 in order to ensure continuous provision of these essential services. These further helping measures include:

- waiving annual vessel survey fee and private mooring fee;
- reimbursing pier cleansing, water and electricity charges;
- reimbursing the balance of revenue forgone due to provision of elderly fare concessions after netting off the amount of pier rental and vessel licence fee; and
- reimbursing the ferry operators of the six major routes the vessel maintenance and repair cost actually incurred in order to reduce the rate of fare increase.

9. In November 2010, the Finance Committee of LegCo approved a commitment of about \$115 million for the implementation of the above mentioned helping measures. The breakdown of the expenditure is as follows:

		2011-12	2012-13	2013-14	2014-15	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
(a)	Provide special helping measures to six major trunk routes	7,285	9,014	9,014	1,729	27,042
(b)	Reimburse vessel maintenance cost in respect of six major trunk routes	23,792	29,307	29,307	5,515	87,921
Total		31,077	38,321	38,321	7,244	114,963

10. According to the Administration, the chronic problems faced by the outlying island ferry services were essentially two-fold: lack of growth in demand and highly volatile fuel cost. On the demand side, patronage has been relatively small. The average daily patronage of the 14 outlying island routes was about 64,000 in 2010, accounting for 0.6% of the total public transport ridership. On the cost side, the major components are staff remuneration, maintenance cost and fuel cost. Whereas fuel cost constitutes a significant portion of the total operating expenditure, it is outside the operators' control and putting the business at high risk. According to the Administration, there is not much room for cost cutting and revenue generation or cost containment. While fare increases could help sustain the financial viability of these services, such increases would need to be above general inflation and would be subject to residents' criticism.

Tender exercise for the operation of the major outlying island licenced ferry services

11. Upon the completion of another round of tender exercise in December 2010 and in March 2011, TD announced that it had awarded new licences for the six major outlying island ferry routes to the following bidders –

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

The new licences were effective from 1 April and 1 July 2011 respectively, with an average fare increase rate of about 10% and the rate of increase on monthly ticket at about 7%.

12. At the Panel meeting on 2 June 2011, members discussed the results of the latest round of tenders for operation and the fare increases for the outlying island ferry services with representatives of local residents and the Administration. Panel members expressed deep regret that the Administration had considered the fares of the six major outlying island ferry services mainly in

¹ Subsidiaries of Hong Kong and Kowloon Ferry Holdings Limited.

the light of their operating costs, and that substantial increase rates of about 7% for monthly tickets and of 9.63% to 12.5% for single journey adult fare had been approved. Pointing out that ferry services were the only means of transport for some outlying islands, Panel members were strongly of the view that the Administration should ensure that such essential services were provided to the residents and the fare be maintained at a stable level. With a view to enhancing assistance to the ferry operators so as to improve the financial viability of the ferry services and maintain fare stability, the Panel urged the Administration to consider introducing fuel cost stabilizing fund or providing fuel subsidy, and to explore the option of the Government to purchase vessels for the operators.

13. The Administration explained that it understood 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 three years thereafter was around 8%. Moreover, the population of these outlying islands was not expected to increase substantially in the near future to enhance fare box revenue and the fuel price was then at a high level. In addition, the statutory minimum wage which was effective from 1 May in 2011 also had significant impact on the staff costs of ferry operators, who employed a high proportion of junior staff. These factors had led to a great pressure on fare increase.

14. In order to monitor the proper spending of public funds, the ferry operators of the six major outlying islands services are required to submit their quarterly management accounts during the new licence period for TD to assess its financial position, and to provide its annual audited financial statements to the Government to certify its actual expenditure on vessel maintenance and repair. The Government will reimburse the ferry operators such costs incurred subject to the cap as approved by the Finance Committee of LegCo.

Mid-term review

15. In accordance with the outcome of the review on ferry services for outlying islands, the Government will conduct a mid-term review during the three-year licensing period to ensure that the fare level can be appropriately adjusted when there is a reduction in operating costs.

Latest development

16. The Administration will report the outcome of the mid-term review on the performance and financial position of the six major outlying island ferry

routes at the Panel meeting to be held on 24 May 2013.

Relevant papers

17. A list of relevant papers is in **Appendix**.

Council Business Division 1
Legislative Council Secretariat
21 May 2013

Major outlying island ferry services
List of relevant papers
(since 2009)

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
25.2.09	Council meeting	Hon Miriam LAU raised a question on outlying island ferry services	http://www.info.gov.hk/gia/general/200902/25/P200902250166.htm
23.4.10	Panel on Transport	Administration's paper on review on ferry services for outlying islands	CB(1)1648/09-10(04) http://www.legco.gov.hk/yr09-10/english/panels/tp/papers/tp0423cb1-1648-4-e.pdf
		Minutes of meeting	CB(1)2320/09-10 http://www.legco.gov.hk/yr09-10/english/panels/tp/minutes/tp20100423.pdf
		Administration's paper on review on ferry services for outlying islands (follow-up paper)	CB(1)2765/09-10(01) http://www.legco.gov.hk/yr09-10/english/panels/tp/papers/tp0423cb1-2765-1-e.pdf
5.11.10	Finance Committee	Administration's paper on helping measures to assist the operation of six major outlying island ferry trunk routes	FCR(2010-11)44 http://www.legco.gov.hk/yr10-11/english/fc/fc/papers/f10-44e.pdf
		Minutes of meeting	FC71/10-11 http://www.legco.gov.hk/yr10-11/english/fc/fc/minutes/fc20101105.pdf

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
2.6.11	Panel on Transport	Administration's paper on fare increases for outlying island ferry services	CB(1) 2275/10-11(07) http://www.legco.gov.hk/yr10-11/english/panels/tp/papers/tp0602cb1-2275-7-e.pdf
		Updated background brief on the development of major outlying island licensed ferry services prepared by the Legislative Council Secretariat	CB(1)2302/10-11 http://www.legco.gov.hk/yr10-11/english/panels/tp/papers/tp0602cb1-2302-e.pdf
		Minutes of meeting	CB(1)2867/10-11 http://www.legco.gov.hk/yr10-11/english/panels/tp/minutes/tp20110602.pdf
11.7.11	Panel on Transport	Administration's paper on outlying island ferry services	CB(1)2647/10-11(02) http://www.legco.gov.hk/yr10-11/english/panels/tp/papers/tp0711cb1-2647-2-e.pdf
		Minutes of meeting	CB(1)220/11-12 http://www.legco.gov.hk/yr10-11/english/panels/tp/minutes/tp20110711.pdf
1.6.11	Council meeting	Hon Wong Sing-chi raised a question on fares of outlying island ferry services	http://www.info.gov.hk/gia/general/201106/01/P201106010180.htm