

LEGISLATIVE COUNCIL BRIEF

Ferry Services Ordinance
(Chapter 104)

“STAR” FERRY’S APPLICATION FOR FARE INCREASES

INTRODUCTION

At the meeting of the Executive Council on 11 April 2017, the Council **ADVISED** and the Chief Executive **ORDERED** that the Ferry Services (The “Star” Ferry Company, Limited) (Determination of Fares) (Amendment) Order 2017 (“the Order”) at **Annex A**, setting out the new maximum fares chargeable by The “Star” Ferry Company, Limited (“SF”), should be made under section 19(1)(a) of the Ferry Services Ordinance. This is to give effect to the fare adjustments for SF’s two franchised ferry routes of “Central – Tsim Sha Tsui¹” and “Wan Chai – Tsim Sha Tsui” with a weighted average fare increase rate of 8.9%. The new fare scale to be adopted by SF on the commencement of the Order at **Annex A**, which also reflects the new maximum fares, is shown in the tables at **Annex B**.

JUSTIFICATIONS

SF’s Application for Fare Increases

2. Since the current franchise of the two ferry routes commenced in 2008, there were two rounds of fare increases. The first round was in 2009 (two-phase implementation in 2009 and 2010), covering all ticket types. The second round was in 2012, covering holiday (Saturdays, Sundays and public holidays) fares only, together with the introduction of bicycle fare and reduction of tourist ticket fare upon delinking it with usage for the tram service. In other words, weekday fares were last

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

increased in 2010, while holiday fares were last increased in 2012. Details of these two applications are set out at **Annex C**.

3. In July 2016, SF submitted an application for fare increases². In the application, SF sought to increase the fares of the two ferry services in two phases, viz. an increase of some 17.5% for implementation in February 2017 and a further 6.5% increase for implementation in February 2018 (i.e. cumulative fare increases, with compounding effect, of some 25.2%). Details of SF’s application, compared with the Government’s recommended fare adjustments, are set out in Table 1 below –

Table 1: Details of SF’s application and the Government’s recommendations

	Existing fares	SF’s proposals			Government’s recommendations
		Phase 1	Phase 2	Cumulative changes	
“Central – Tsim Sha Tsui” route					
<i>Monday to Friday – upper deck</i>					
Adult	\$2.5	\$2.9 (+\$0.4; +16.0%)	\$3.1 (+\$0.2; +6.9%)	+\$0.6; +24.0%	\$2.7 (+\$0.2; +8.0%)
Children and Disabled	\$1.5	\$1.6 (+\$0.1; +6.7%)	\$1.8 (+\$0.2; +12.5%)	+\$0.3; +20.0%	\$1.6 (+\$0.1; +6.7%)
<i>Monday to Friday – lower deck</i>					
Adult	\$2.0	\$2.4 (+\$0.4; +20.0%)	\$2.6 (+\$0.2; +8.3%)	+\$0.6; +30.0%	\$2.2 (+\$0.2; +10.0%)
Children and Disabled	\$1.4	\$1.5 (+\$0.1; +7.1%)	\$1.7 (+\$0.2; +13.3%)	+\$0.3; +21.4%	\$1.5 (+\$0.1; +7.1%)
<i>Saturday, Sunday and public holidays – upper deck</i>					
Adult	\$3.4	\$4.0 (+\$0.6; +17.6%)	\$4.2 (+\$0.2; +5.0%)	+\$0.8; +23.5%	\$3.7 (+\$0.3; +8.8%)
Children and Disabled	\$2.1	\$2.2 (+\$0.1; +4.8%)	\$2.4 (+\$0.2; +9.1%)	+\$0.3; +14.3%	\$2.2 (+\$0.1; +4.8%)
<i>Saturday, Sunday and public holidays – lower deck</i>					
Adult	\$2.8	\$3.4 (+\$0.6; +21.4%)	\$3.6 (+\$0.2; +5.9%)	+\$0.8; +28.6%	\$3.1 (+\$0.3; +10.7%)
Children and Disabled	\$2.0	\$2.1 (+\$0.1; +5.0%)	\$2.3 (+\$0.2; +9.5%)	+\$0.3; +15.0%	\$2.1 (+\$0.1; +5.0%)

² SF first submitted an application for fare increase in September 2015. Subsequently, SF submitted a revised proposal in July 2016 to replace the original application.

	Existing fares	SF's proposals			Government's recommendations
		Phase 1	Phase 2	Cumulative changes	
“Wan Chai – Tsim Sha Tsui” route					
<i>Monday to Friday</i>					
Adult	\$2.5	\$2.9 (+\$0.4; +16.0%)	\$3.1 (+\$0.2; +6.9%)	+\$0.6; +24.0%	\$2.7 (+\$0.2; +8.0%)
Children and Disabled	\$1.5	\$1.6 (+\$0.1; +6.7%)	\$1.8 (+\$0.2; +12.5%)	+\$0.3; +20.0%	\$1.6 (+\$0.1; +6.7%)
<i>Saturday, Sunday and public holidays</i>					
Adult	\$3.4	\$4.0 (+\$0.6; +17.6%)	\$4.2 (+\$0.2; +5.0%)	+\$0.8; +23.5%	\$3.7 (+\$0.3; +8.8%)
Children and Disabled	\$2.1	\$2.2 (+\$0.1; +4.8%)	\$2.4 (+\$0.2; +9.1%)	+\$0.3; +14.3%	\$2.2 (+\$0.1; +4.8%)
Bicycle	\$13.0	\$15.0 (+\$2.0; +15.4%)	\$17.0 (+\$2.0; +13.3%)	+\$4.0; +30.8%	\$14.0 (+\$1.0; +7.7%)
Monthly Ticket	\$125.0	\$145.0 (+\$20.0; +16.0%)	\$155.0 (+\$10.0; +6.9%)	+\$30.0; +24.0%	\$135.0 (+\$10.0; +8.0%)
Tourist Ticket	\$25.0	\$30.0 (+\$5.0; +20.0%)	\$35.0 (+\$5.0; +16.7%)	+\$10.0; +40.0%	\$27.5 (+\$2.5; +10.0%)

Assessment Criteria on the Application for Fare Increases

4. Under the established policy, when considering applications for fare increases for ferry services, the Government takes 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.

5. We have conducted an assessment on SF's application on the above basis. We find that there is a case for fare increases. However, the rate should be moderated and the two-phase increases should be replaced by fare increases in one go. Details of our analysis are set out in the ensuing paragraphs.

(A) Financial Performance

6. SF's franchised ferry services achieved an average profit margin of around 9% per annum between 2012 and 2015, after the last fare increases in June 2012. It is noted that the profit in 2013 was exceptionally high, mainly due to unusually high non-farebox revenue³. Leaving out the impact of 2013, the average profit margin for 2012, 2014 and 2015 was around 5.6% per annum. For 2016, SF's escalating cost on various items including staff, repair and maintenance and expenses on piers could not be fully met by reduced revenue. As a result, SF recorded a deficit of around 0.7% (\$0.68 million). However, it is worth noting that a new restaurant opened in the fourth quarter of 2016 at the Wan Chai Pier has been quite popular, contributing to a significant increase in SF's rental income, and it is expected that SF's financial position would be significantly improved. Specifically, mainly attributable to the rental income from that restaurant, SF's full year rental income in 2016 (around \$28.94 million) is around 10% higher than that in 2015 (around \$25.91 million). Assuming that the popularity and business of the restaurant could be sustained, even without fare increases, SF would become profitable again. Although rental income is expected to be high with the good business of the restaurant at the Wan Chai Pier so far, the rental income level is not guaranteed, its sustainability requires further observation. Details of SF's financial performance from 2012 to 2016 are set out in the Table 2 below –

³ The following factors attributed to the exceptional increase in non-fare box revenue in 2013 –

- (i) SF were given a non-recurrent refund of around \$8.7 million of employers' stake arising from the closure of a staff provident fund scheme and after clearing and payment of the staff's share;
- (ii) the Government's exceptional helping measure in connection with SF's last fare increase in June 2012, to fully reimburse SF for the total revenue foregone from the offer of free rides for the elderly for the "Central – Tsim Sha Tsui" ferry service. This amounts to around \$1.0 million in total;
- (iii) advertising income (mainly due to an increase in advertising income from the exterior walls of Tsim Sha Tsui Pier by around \$1.1 million, and pier interior walls by around \$0.5 million; income from ferry hull advertising by around \$0.3 million; and inclusion of *ad hoc* advertising income of around \$0.3 million); and
- (iv) increase in shop rental income by around \$1.6 million.

Table 2: SF’s financial performance from 2012 to 2016

Financial year (1 January to 31 December)	Average daily patronage	Fare box revenue	Rental income	Other Non-fare box revenue	Total revenue	Total operating costs	Profit/ Loss	Profit margin
2012	58 900	51.24	20.39	12.50	84.13	78.36	+5.77	+6.9%
2013	59 200	53.93	21.99	25.01	100.93	81.53	+19.40	+19.2%
2014	57 700	52.59	24.34	15.42	92.35	85.63	+6.72	+7.3%
2015	55 300	50.18	25.91	12.75	88.84	86.53	+2.31	+2.6%
2016	53 400	48.66	28.94	12.67	90.27	90.95	-0.68	-0.7%
Change (Comparison between 2012 and 2016)	-9.3%	-5.0%	+41.9%	+1.4%	+7.3%	+16.1%	Not applicable	Not applicable

(i) Operating Costs

7. The total operating costs of SF increased from \$78.36 million in 2012 by \$12.59 million (+16.1%) to \$90.95 million in 2016. Such increase is mainly attributable to the increase in staff cost and vessel repair and maintenance costs throughout the period. As compared with the actual total costs in 2016, it is estimated that SF’s total operating costs would see further rises of 3.6% and 3.3% in 2017 and 2018 respectively, which are comparable to the inflation rates.

(ii) Revenue

8. Despite fare increases in 2012, revenue growth lasted only for one year (ending in 2013). The total revenue of SF declined by around 8.5% in 2014 and then further dwindled at a rate of around 3.8% in 2015. Overall speaking, SF’s total revenue in 2016 rose by a modest 1.6% compared to that in 2015 and was around 7.3% higher than that in 2012, due to better performing non-farebox businesses (including pier shop rental, advertising income and others). It should be noted that the Composite Consumer Price Index (“CCPI”) inflation between 2012 and 2016 was some 16.4%.

9. SF’s revenue has two components – farebox revenue and non-farebox revenue. The farebox revenue in 2012 (\$51.24 million)

was boosted by the last fare increases which took effect in June 2012, and the increases in patronage. Since 2014, SF's farebox revenue has been decreasing. Overall, the farebox revenue in 2016 decreased by around 5.0% to \$48.66 million, compared to that in 2012. The patronage of the two franchised ferry routes decreased by around 6.1% from 58 900 in 2012 to 55 300 in 2015, and the decline continued in 2016 by around 3.4% to 53 400⁴. Patronage decline was caused mainly by the relocation of the Wan Chai Pier to a less convenient location, and the unsatisfactory walking environment in the vicinity of the new pier due to the construction projects of MTR Shatin to Central Link and Central-Wanchai Bypass in progress. Details on patronage are at **Annex D**. SF forecast that the patronage will become more stable in 2017 and the average daily patronage in 2017 and 2018 is projected to be comparable to that in 2016.

10. In 2016, compared to 2012, SF's non-fare box revenue increased by \$8.72 million (+26.5%)⁵. Pier shop rental income, being the largest component of SF's non-fare box revenue, made up about 24.2% of SF's total revenue in 2012 and about 32.1% of SF's total revenue in 2016. This major source of non-fare box revenue increased from \$20.39 million in 2012 to \$28.94 million in 2016. SF advise that the higher shop rental income is largely attributable to the good business of the new restaurant at the Wan Chai Pier which was opened in the fourth quarter of 2016. Advertising income, accounting for about 8-10% of SF's total revenue, also increased from \$6.88 million in 2012 to \$7.68 million in 2016. While growth has been registered in this source of income, it should be noted that it is a less stable income, more difficult to plan for and predict.

⁴ Elderly passengers are included in the total patronage. Under SF's policy and with some financial help from the Government, elderly passengers are given free rides. Specifically, SF have been offering free rides for elderly passengers aged 65 or above since 1993. The revenue foregone (i.e. the amount of full adult fare) by SF in offering free rides can be reimbursed by the Government, subject to a cap of the lower of the actual revenue foregone and the amount of pier rentals and vessel licence fees. 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 while the total revenue foregone by SF in offering free rides for the elderly is around \$2.6 million (i.e. SF have been absorbing most of the revenue foregone in offering free rides for elderly). There is a decreasing trend in the number of elderly passengers from 2012 to 2016. In 2012, the number of elderly passengers was around 4 100 per day on average. In 2016, elderly passengers enjoying free rides has dropped to 2 600 per day on average, accounting for 4.9% of SF's total daily patronage, of 53 400.

⁵ As to SF's non-farebox revenue, it is accounting for a higher weighting of SF's total revenue in recent years. In 2012, farebox revenue accounted for around 61% of SF's total revenue, while non-farebox revenue accounted for around 39%. In 2016, farebox revenue from passengers accounted for about 54% of SF's total revenue, its non-farebox revenue contributed the remaining 46% and helped cross-subsidise the ferry operation.

(B) Service Performance and Cost Saving Measures

11. The service performance of SF is satisfactory, based on surveys conducted in 2016. On environmental protection and sustainability, SF have been working with the University of Hong Kong to develop a device, known as seawater scrubber, to reduce air pollutants from the ferry engines. Results of the trial running from 2012 to 2014 indicated that the device could effectively reduce sulphur dioxide by around 90%. SF plan to invest \$2.5 million per annum on the installation of such scrubber on vessels over the projection period from 2017 to 2021. Separately, SF are exploring the adoption of diesel-electric propulsion system for the existing ferry fleets with a view to reducing the fuel consumption and hence reducing emissions of nitrogen oxides, particulates and carbon dioxide⁶. SF have also been taking various cost saving measures to mitigate the impact of increasing cost on its financial viability. Cost saving measures implemented by SF include optimising the locations of the entrance turnstiles and automating manual change arrangement by vending machines to save manpower.

12. Details on SF's service performance and cost saving measures are set out at **Annex E**.

13. Based on the assessment above, and taking into accounts the views of the Legislative Council ("LegCo") Members and the Transport Advisory Committee, and the fact that:

- (a) SF suffered a loss (\$0.68 million) in 2016;
- (b) their farebox revenue has shown a downward trend since 2014;
- (c) rental income, while expected to be high with the good business of the restaurant opened in the fourth quarter of 2016 at the Wan Chai Pier, is not guaranteed; and
- (d) SF's weekday and holiday fares were not increased for, respectively, seven and five years,

we find that there is a case for fare increases. However, we consider there is no sufficient ground supporting the application for the proposed two-phase fare increases by SF, with the cumulated weighted average increases of 25.2% (with its first-phase fare increases alone accounting

⁶ To this end, SF are conducting trials on their non-franchised routes. The trials are expected to be completed within 2017. If found technically feasible under the trial and financial position allows, SF will consider whether they could adopt the diesel-electric propulsion system for its franchised ferry fleet.

for 17.5%). Therefore, the Government recommends and the Chief Executive in Council approved the Order at **Annex A** which sets out the maximum fares, so as to allow fare increases by SF in one go by a weighted average rate of fare increase of 8.9%, to take effect on 15 July 2017. Details of SF's proposals and Government's recommendations are at Table 1. The average fare of SF at existing fare levels is \$2.49. With the fare increases recommended by Government, it will rise to \$2.70. SF's current franchise would end on 31 March 2018 and that SF's financial position is expected to be more promising with the better-performing non-farebox income. SF's financial position could be further assessed in the context of considering its franchise renewal in future.

14. This round of actual fare adjustment is illustrated by the fares of the more popular "Central – Tsim Sha Tsui" route as follows –

- (a) on weekdays, single journey adult (upper deck) fares will be increased by \$0.2 from \$2.5 to \$2.7 (as opposed to \$3.1 under application), while that for children and disabled persons will be increased by \$0.1 from \$1.5 to \$1.6 (as opposed to \$1.8 under application). For lower deck fares on weekdays, single journey adult fares will be increased by \$0.2 from \$2.0 to \$2.2 (as opposed to \$2.6 under application), while that for children and disabled persons will be increased by \$0.1 from \$1.4 to \$1.5 (as opposed to \$1.7 under application). These fares were last increased on 1 January 2010, which will have been more than seven years ago when the proposed new fares are implemented;
- (b) on Saturdays, Sundays and public holidays, single journey adult (upper deck) fares will be increased by \$0.3 from \$3.4 to \$3.7 (as opposed to \$4.2 under application), while that for children and disabled persons will be increased by \$0.1 from \$2.1 to \$2.2 (as opposed to \$2.4 under application). For lower deck fares during weekend and public holidays, single journey adult fares will be increased by \$0.3 from \$2.8 to \$3.1 (as opposed to \$3.6 under application), while that for children and disabled persons will be increased by \$0.1 from \$2.0 to \$2.1 (as opposed to \$2.3 under application). These fares were last adjusted in June 2012. By mid-July 2017 when the new fares are proposed to take effect, the fares will have remain unchanged for five years;

- (c) monthly ticket will be increased by \$10 from \$125 to \$135 (as opposed to \$155 under application). The fare for bicycle⁷ will be increased by \$1 from \$13 to \$14 (as opposed to \$17 under application). Tourist ticket will be increased by \$2.5 from \$25 to \$27.5 (as opposed to \$35 under application). Monthly ticket fare was last increased in January 2010. Bicycle fare was first introduced in June 2012. Tourist ticket fare was reduced in 2012 upon de-linking it from usage for tram services, i.e. holders of tourist tickets could no longer use the tickets for tram services (details are at **Annex C**); and
- (d) eligible elderly will continue to enjoy free ride which has been offered by SF since 1993.

All the recommended fare adjustments, including those for the “Wanchai – Tsim Sha Tsui” route, are shown in Table 1 in paragraph 3. These fare adjustments are reflected in SF’s new fare scale at **Annex B**, charging at the new maximum fare levels stipulated in the Order at **Annex A**.

Impact on Passengers

15. It is estimated that in terms of the total passengers of SF’s franchised services, the recommended fare increases will result in –

- (a) 56% (i.e. adult passengers riding on weekdays) paying \$0.2 more per trip. It should be noted that as mentioned in paragraph 14(a) above, weekday fares were last increased seven years ago, in 2010. In assessing the affordability of passengers, we note that the cumulative change in Median Monthly Household Income (“MMHI”) from the first quarter of 2010 to the fourth quarter of 2016 (the latest figure published by the Census and Statistics Department in March 2017) is 38.9%, and the projected cumulative CCPI inflation rate from January 2010 to July 2017⁸ is around 28.6%, while the weighted average rate of

⁷ The bicycle fare is applicable to the “Wan Chai – Tsim Sha Tsui” route only.

⁸ There is no official forecast on CCPI for a specific month. The projected the cumulative CCPI up till July 2017 is based on the actual situation up to July 2016 and the forecast rate of change of CCPI for 2017 as announced in the 2017-18 Budget.

fare increases of the Government's recommendation is much lower, at 8.9%;

- (b) 34% (i.e. adult passengers riding on Saturdays, Sundays and public holidays) paying \$0.3 more per trip. These fares were last increased five years ago, in 2012. The weighted average rate of fare increases of 8.9% is also much lower than the projected CCPI cumulative inflation rate since last fare increases (i.e. 16.3% from June 2012 to July 2017⁸) as well as the cumulative change of 21.4% in the MMHI from the second quarter of 2012 to the fourth quarter of 2016 (the latest figure published by the Census and Statistics Department in March 2017); and
- (c) 5% (i.e. children or people with disabilities) paying \$0.1 more per trip. Fare increases for monthly tickets, bicycle fare and tourist tickets should have a minimal impact on passengers given the very low utilisation⁹.

Elderly passengers (5% of the total) will not be affected as SF will continue to offer free ride to elderly passengers.

16. After the fare increases proposed by the Government, SF is still the most affordable cross-harbour public transport mode. Currently, it costs an adult \$9.7 with Octopus Card to travel between Central/Wan Chai and Tsim Sha Tsui by MTR train services. If the cross-harbour journey is made on franchised bus services, it costs \$8.4-9.3. After fare adjustments (i.e. \$2.7 (weekday)/\$3.7 (weekend and public holidays) for adult upper deck fare), travelling on SF will still be 56% to 71% cheaper than travelling on the MTR or franchised buses.

17. In operation for over a century since 1898¹⁰, SF is one of Hong Kong's most important heritage and historic icons. The proposed average rate of fare increases is far lower than the projected CCPI

⁹ The users of monthly tickets, tourist tickets and bicycle carriage, account for only less than 0.06% of the total patronage. In 2016, only 220 monthly tickets, 58 tourist tickets and 2 678 bicycle tickets were sold.

¹⁰ The Wharf (Holdings) Limited, then known as The Hong Kong and Kowloon Wharf and Godown Company, Limited, acquired the Kowloon Ferry Company and set up the "Star" Ferry Company Limited in 1898. At that time, the "Central – Tsim Sha Tsui" route was already in operation, while "Wan Chai – Tsim Sha Tsui" route has been in operation since 1988.

cumulative inflation rate and the change in absolute amount in fares is small. Recent passenger survey also shows that SF's performance is considered satisfactory.

Transport Advisory Committee's Advice

18. The Transport Advisory Committee ("TAC") was consulted on the application for fare increases from SF on 1 March 2017. The TAC considered all the relevant factors and supported the rates of fare increases recommended by the Administration. The TAC's detailed advice is set out in their letter to the Secretary for Transport and Housing at **Annex F**.

Implementation

19. The Chief Executive in Council may by order determine the maximum ferry fares, which are subject to negative vetting by the LegCo. For the Order at **Annex A**, which takes effect on 15 July 2017, the Order will be published in the Gazette on 21 April 2017 and lay it before LegCo on 26 April 2017. Accordingly, new fares will be charged as per the new fare scale set out at **Annex B**.

IMPLICATIONS OF THE PROPOSAL

20. The proposal 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, financial, civil service, environmental, competition and gender implications, as well as no significant family implications.

21. Given that ferry fares as a whole have a weighting of only 0.05% to 0.06% in the various Consumer Price Indices ("CPIs"), the average fare increase of 8.9% for the two ferry routes is estimated to have a full-year impact of less than 0.0005 percentage point on each of the CPIs and the inflationary impact will be rather insignificant. The recommendation helps maintain the financial viability of the franchised ferry company and thus its ability to continue to provide proper ferry services. Although the fare increase reaches around 8.9%, absolute amount of fare increase is not high and it is not expected to have

significant sustainability implications.

PUBLIC CONSULTATION

22. We consulted the LegCo Panel on Transport (“the Panel”) on 24 February 2017. The Panel noted that SF had all along been the most affordable cross-harbour public transport mode and asked that such should be maintained. The Panel also considered SF’s proposed two-phase fare increases for implementation within two consecutive years too hefty and frequent, and asked the Government to consider moderating the fare increases. Separately, the Panel also requested SF to continue to enhance their services and facilities. The TAC was consulted on 1 March 2017 as mentioned in paragraph 18 above.

PUBLICITY

23. A press release will be issued on 11 April 2017. A spokesman will be available to answer media enquiries.

BACKGROUND

24. It is the Government’s long-standing policy to let public transport services run by the private sector on commercial principles, in the interest of efficiency and cost-effectiveness. Across the ferry industry, revenue growth has been slow while the operating costs continue to escalate. Ferry operators may submit applications for fare increases. Under section 19(4) and (5) of the Ferry Services Ordinance (Cap. 104), applications by grantees of franchise to operate ferry services for fare increases of franchised ferry routes are to be determined by the Chief Executive in Council¹¹. The two SF routes are the only franchised ferry services in Hong Kong.

¹¹ To be more precise, the Chief Executive in Council determines the maximum fares applicable to the ferry services concerned. In practice, SF has been charging at the maximum fares as set out in Ferry Services (The “Star” Ferry Company, Limited) (Determination of Fares) Order (Cap. 104C). Therefore, to enable fare increases by SF, approval from the Chief Executive in Council is required to revise the maximum fares.

25. The established policy is that the seven in-harbour routes should not be subsidised¹² as there are a variety of land (and railway) transport alternatives available. 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, where applicable. Besides, SF can be reimbursed for the difference between the fare for disabled persons and \$2 under the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities. The reimbursement amount is around \$2,000 per annum.

26. 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 the pressure for fare increases. 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. For instance, in 2016, rental income accounted for around 32.1% (\$28.94 million) of SF's total revenue.

27. The two SF routes, namely the "Central – Tsim Sha Tsui" and "Wan Chai – Tsim Sha Tsui" routes, are amongst the seven in-harbour routes in Hong Kong¹³. The "Star" Ferry Company, Limited was established in 1898. In tandem with the commissioning of the three cross-harbour tunnels over the years¹⁴ and the continuous expansion of the railway network, the cross-harbour public transport network has become more comprehensive nowadays. Among the various public transport modes providing cross-harbour services, SF's fares are the lowest. In addition, SF have already been running ferry services for over a century. SF have their unique historical significance and have always been well received by the community and visitors. SF's two

¹² There is basically no subsidy for public transport services save for the six major outlying ferry routes. Special Helping Measures ("SHM") are provided to these routes because for the islands in question there is basically no alternative to the ferry services as a means of public transport, and short of the SHM, the ferry services will not be commercially viable without periodic hefty fare increases. SHM is granted to keep fare increases moderate, while keeping the services commercially viable.

¹³ The remaining five in-harbour routes are namely "North Point – Hung Hom"; "North Point – Kowloon City"; "Sai Wan Ho – Kwun Tong"; "Sai Wan Ho – Sam Ka Tsuen"; and "North Point – Kwun Tong".

¹⁴ Cross Harbour Tunnel, Eastern Harbour Crossing and Western Harbour Cross was opened in 1972, 1989 and 1997 respectively.

franchised ferry routes provide regular service on a daily basis, with the “Central – Tsim Sha Tsui” route operating every 6 to 12 minutes from 6:30 a.m. until 11:30 p.m., and the “Wan Chai – Tsim Sha Tsui” route operating every 8 to 20 minutes from 7:30 a.m. until 11:00 p.m. A total of eight vessels are deployed to run these two routes.

28. SF’s current franchise started in April 2008 for a period for ten years. During the current franchise, SF have been profitable in most of the years in this franchise, save for 2008, 2009 and 2016, when SF recorded a loss of around 1-8% (some \$1-5 million). As stated in the LegCo Panel paper number CB(4)578/16-17(07) issued on 17 February 2017, SF had applied for extension of its franchise for 15 years after the expiry of the current franchise in end March 2018. SF have provided proper and efficient service throughout the current franchise period. As well, based on a passenger opinion survey conducted in September 2016, 99% of passengers were satisfied with SF’s overall service quality. We informed the Panel on our plan to enter into direct negotiation with the operator on the terms of franchise renewal. The Panel raised no objection, while making suggestions on service improvements. We are also conducting a two-month public consultation ending in end April 2017. We will take into account views canvassed in the Panel discussion and through public consultation in our upcoming negotiation with SF. We will seek Members’ views on the outcome of the negotiation in due course. Under the law, a new franchise is to be granted by the Chief Executive in Council.

ENQUIRIES

29. Any enquiries can be directed to the following officer of the Transport Department –

Ms Stella Lee
Assistant Commissioner for Transport/Management &
Paratransit
(Tel. No.: 2829 5208)

**Transport and Housing Bureau
April 2017**

**Ferry Services (The "Star" Ferry Company, Limited)
(Determination of Fares) (Amendment) Order 2017**

(Made by the Chief Executive in Council under section 19(1) of the Ferry Services Ordinance (Cap. 104))

1. Commencement

This Order comes into operation on 15 July 2017.

**2. Ferry Services (The "Star" Ferry Company, Limited)
(Determination of Fares) Order amended**

The Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares) Order (Cap. 104 sub. leg. C) is amended as set out in section 3.

3. Schedule amended (maximum fares that grantee may charge)

(1) The Schedule, item 1(a)—

Repeal

"\$2.5"

Substitute

"\$2.7".

(2) The Schedule, item 1(a)—

Repeal

"\$3.4"

Substitute

"\$3.7".

(3) The Schedule, item 1(b)—

Repeal

"\$1.5"

Substitute

"\$1.6".

(4) The Schedule, item 1(b)—

Repeal

"\$2.1"

Substitute

"\$2.2".

(5) The Schedule, item 1(d)—

Repeal

"\$2.0"

Substitute

"\$2.2".

(6) The Schedule, item 1(d)—

Repeal

"\$2.8"

Substitute

"\$3.1".

(7) The Schedule, item 1(e)—

Repeal

"\$1.4"

Substitute

"\$1.5".

(8) The Schedule, item 1(e)—

Repeal

- “\$2.0”
Substitute
“\$2.1”.
(9) The Schedule, item 2(a)—
Repeal
“\$2.5”
Substitute
“\$2.7”.
(10) The Schedule, item 2(a)—
Repeal
“\$3.4”
Substitute
“\$3.7”.
(11) The Schedule, item 2(b)—
Repeal
“\$1.5”
Substitute
“\$1.6”.
(12) The Schedule, item 2(b)—
Repeal
“\$2.1”
Substitute
“\$2.2”.
(13) The Schedule, item 2(d)—
Repeal

- “\$13”
Substitute
“\$14”.
(14) The Schedule, item 3—
Repeal
“\$125”
Substitute
“\$135”.
(15) The Schedule, item 4—
Repeal
“\$25”
Substitute
“\$27.5”.

Clerk to the Executive Council

COUNCIL CHAMBER

2017

Explanatory Note

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

- (a) the maximum fares for passengers (other than those under 3 years old);
- (b) the maximum fare for the carriage of bicycles;
- (c) the maximum fare for a monthly ticket;
- (d) the maximum fare for a tourist ticket.

New Fare Scale
(with effect from 15 July 2017)

(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	\$3.4	\$2.8	\$2.7 (+\$0.2)	\$2.2 (+\$0.2)	\$3.7 (+\$0.3)	\$3.1 (+\$0.3)
Child (between 3 and 12 years old) and passenger with disabilities	\$1.5	\$1.4	\$2.1	\$2.0	\$1.6 (+\$0.1)	\$1.5 (+\$0.1)	\$2.2 (+\$0.1)	\$2.1 (+\$0.1)
Child aged under 3 and passenger aged 65 or above ^{Note 1}	Free				Free			
Monthly Ticket	\$125.0				\$135.0 (+\$10.0)			
Tourist Ticket ^{Note 2}	\$25.0				\$27.5 (+\$2.5)			

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.

(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	\$3.4	\$2.7 (+\$0.2)	\$3.7 (+\$0.3)
Child (between 3 and 12 years old) and passenger with disabilities	\$1.5	\$2.1	\$1.6 (+\$0.1)	\$2.2 (+\$0.1)
Child aged under 3 and passenger aged 65 or above ^{Note 1}	Free		Free	
Monthly Ticket	\$125.0		\$135.0 (+\$10.0)	
Tourist Ticket ^{Note 2}	\$25.0		\$27.5 (+\$2.5)	
Bicycle (per bicycle) ^{Note 3}	\$13.0		\$14.0 (+\$1.0)	

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.

Note 3: At present, bicycle carriage is allowed upon payment of fares 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.

Details of SF's previous fare adjustments during the current franchise period

SF have made two rounds of fare adjustments during the current franchise period. The first adjustment in 2009 covered all ticket types with a two-phase implementation, namely in 2009 and 2010. The second adjustment was made in 2012, under which the holiday (Saturdays, Sundays and public holidays) fares were increased, a bicycle fare was introduced for the lower deck of the “Wan Chai - Tsim Sha Tsui” route, and the fare of tourist tickets was reduced upon de-linking its usage from tram services.

The First Fare Adjustment (made by phases in 2009 and 2010 respectively, involving various ticket types)

2. SF initially applied for fare increases by around 23% in one go. In the light of the prevailing economic situation and with approval from the Executive Council, SF implemented fare increases in two phases. The first being a smaller fare increase (all weekday fares increased by \$0.1 and holiday fares increased by \$0.2 to \$0.3, with an average rate of increases of 8.5%) that took effect in March 2009. The second being a full fare increase (all weekday fares increased by \$0.2 to \$0.3 cumulatively and holiday fares increased by \$0.5 to \$0.8 cumulatively, with an average rate of increases of 13.3%) that took effect in January 2010. The projected cumulative inflation rate from January 2010 to July 2017 is around 28.6%, while the increase in MMHI from the first quarter of 2010 to the fourth quarter of 2016 (the latest figure published by the Census and Statistics Department in March 2017) is 38.9%.

The Second Fare Adjustment (made in 2012)

3. SF put up two options for fare adjustments: one was to increase the fares of all ticket types with an average increase rate of 14.9%; and the other was to increase the holiday fares only, with an average increase rate of 4.2%, on the condition that the Government would fully reimburse SF with its revenue foregone in offering free rides to the elderly. Under both options, SF suggested cancellation of tourist ticket and introduction

of a charge for bicycle.

4. To alleviate the impact of fare increase on passengers travelling on weekdays, the Government considered that the weekday fares and monthly tickets for the two routes should remain unchanged, while the holiday fares were approved to be increased by \$0.3 to \$0.4 with effect from June 2012. Apart from the holiday fare adjustments, the Government also approved SF's introduction of a new fare for bicycle of \$13 for the lower deck of the "Wan Chai - Tsim Sha Tsui" route, and reduction of tourist ticket fare from \$34 to \$25 upon de-linking its usage from tram services. The average rate of increases was 5.6%.

5. The Government has also adopted an exceptional measure to fully reimburse SF with its revenue foregone in offering free rides to the elderly for the "Central - Tsim Sha Tsui" route in 2012 (upon implementation of new fares) and 2013. The amount of reimbursement was around \$2.9 million.

6. The projected cumulative inflation rate from June 2012 to July 2017 is around 16.3%, and the increase in MMHI from the second quarter of 2012 to the fourth quarter of 2016 (the latest figure published by the Census and Statistics Department in March 2017) is around 21.4%.

Details on patronage of the two franchised ferry routes

The total average daily patronage (including free rides for elderly passengers) of “Central – Tsim Sha Tsui” route increased by around 2.8% from 38 600 in 2012 to 39 700 in 2015. The total average daily patronage declined slightly by around 1.3% to 39 200 in 2016.

2. The total average daily patronage (including free rides for elderly passengers) of “Wan Chai – Tsim Sha Tsui” route decreased by around 23.5% from 20 400 in 2012 to 15 600 in 2015. The total average daily patronage declined further by around 9% to 14 200 in 2016.

3. The patronage of the “Wan Chai – Tsim Sha Tsui” route has reduced significantly since the pier relocation to the new waterfront in Wan Chai North in August 2014. As compared with the site of the former Wan Chai Pier, the new pier is farther away from the major business area and MTR station. Besides, the construction works being carried out by the Civil Engineering and Development Department and the MTR Corporation Limited for the Central – Wan Chai Bypass and the Shatin to Central Link respectively has affected the walking environment in the vicinity of the new Wan Chai Pier. It is observed that since the relocation of the Wan Chai Pier in August 2014, the average daily patronage of the “Wan Chai – Tsim Sha Tsui” route has decreased by 18%, from some 20 000 passenger trips (2013-2014) to around 16 500 passenger trips (2014-2015) on a year-on-year comparison. The situation in 2015-2016 continued to deteriorate by a slightly milder rate though, with passenger trips decreasing by 14%, from 16 500 to 14 200 in the period. The overall drop in patronage of the “Wan Chai – Tsim Sha Tsui” route since the relocation of the Wan Chai Pier in 2014 is around 30% as at end 2016. The patronage of this route has become more stable recently, after the opening of a new restaurant at the Wan Chai Pier. However, it takes time to observe whether such trend will be sustained.

SF's Service Performance and Cost Saving Measures

(A) Service Performance

To assess whether SF have been providing proper and efficient ferry services, the Transport Department (“TD”) regularly reviews SF’s service performance through site surveys, examination of regular returns by the company and collection of public feedback. According to the results of TD’s survey on the two ferry routes conducted in November 2016, SF’s adherence rate to the Schedule of Services in provision of service stood at 96% for over 900 trips on the day of survey. The remaining 4% trips were slightly delayed by a range of one to five minutes. Generally speaking, the ferry departure time will depend on factors such as the number of passengers, weather and sea traffic conditions. Besides, TD commissioned a consultant to conduct a passenger opinion survey on SF’s service standard on board in September 2016. Among the 518 respondents interviewed, 99% were satisfied with the overall quality of ferry service provided by SF.

2. In fact, during the current franchise period, SF have been implementing various measures to further improve its service. Examples of such measures include:

- (a) investing around \$4.9 million in 2012 to replace the air-conditioning systems on two vessels;
- (b) investing around \$150,000 in 2016 to upgrade the facilities at piers. These include providing ramps at all piers to connect with ferries’ gangways to facilitate the embarkation/disembarkation of wheelchair users, replacing the seats at the Tsim Sha Tsui Pier with new ones for waiting passengers and replacing fluorescent tubes with more efficient and energy-saving ones. Besides, SF plan to replace the turnstiles at the Tsim Sha Tsui Pier with wider ones later this year; and
- (c) apart from the existing practice of disseminating service information to passengers at the piers and on the Internet, SF launched a mobile application in 2016, strengthening its

efforts in updating passengers with the latest sailing information, including service arrangements during typhoons and festive occasions.

3. On environmental protection and sustainability, SF have been working with the University of Hong Kong since 2012 to develop a device, known as seawater scrubber, to reduce air pollutants from the exhaust gas of ferry engines. In 2012, SF invested some \$1.3 million to install, on a trial basis, the device on a ferry serving the franchised route. Results of the trial running from 2012 to 2014 indicate that the device could effectively reduce sulphur dioxide by around 90%. SF plan to invest \$2.5 million per annum in installing such water scrubbers on five ferries over the next five years, i.e. from 2017 to 2021. Separately, SF are going to explore the adoption of diesel-electric propulsion system for their existing ferry fleets with a view to reducing the fuel consumption and hence reducing emissions of nitrogen oxides, particulates and carbon dioxide. To this end, SF are conducting trials on its ferry serving the non-franchised routes. The trial is expected to be completed within 2017. If found technically feasible under the trial and its financial situation allows, SF will consider whether it could adopt the diesel-electric propulsion system for its franchised ferry fleet.

4. In any case, in response to the passenger opinion survey as mentioned in paragraph 1 above, SF will explore the need to further enhance its service and facilities.

5. Complaint figures concerning SF are small. From the commencement of the current franchise in 2008 and till 2016, TD received on average 22 complaints against SF annually¹. The number of complaints for 2016 is 19, accounting for 0.07% of the complaints against public transport services.

6. As regards safety, the number of accidents involving SF remains at a consistently low level throughout the current franchise period. From 2008 to 2016, the average number of incidents recorded by the company is four cases per year, with an average of one case per year involving minor injuries on passengers.

7. Overall, SF have been providing a proper and efficient service to the public.

¹ This included the complaints referred to TD for follow-up action by the Transport Complaints Unit of the Transport Advisory Committee.

(B) Cost Saving Measures

8. SF have been taking a number of cost saving measures including optimising the locations of the entrance turnstiles and automating the manual change arrangement by vending machines to reduce reliance on manpower, 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.

9 March 2017

Professor the Honourable Anthony Cheung, GBS, JP
Secretary for Transport and Housing
22/F, East Wing, Central Government Offices
2 Tim Mei Avenue
Tamar
Hong Kong

Dear Professor Cheung,

Star Ferry's application for fare increases

The “Star” Ferry Company, Limited (“SF”) submitted an application to the Government in July 2016 for increasing fares of their two franchised ferry routes, namely, the “Central – Tsim Sha Tsui” and the “Wan Chai – Tsim Sha Tsui” routes¹. In the application, SF seek to increase the fares of the two ferry services in two phases, viz. an increase of some 17.5% for implementation in February 2017 and a further 6.5% increase for implementation in February 2018 (i.e. cumulative fare increases, with compounding effect, of some 25.2%). The application was considered by the Transport Advisory Committee (“TAC”) at the meeting held on 1 March 2017. This letter sets out TAC’s advice on the application.

Basis of TAC’s consideration

2. When considering SF’s application for fare increases, TAC took note that the Government took into account the following factors in

¹ SF first submitted an application for fare increases in September 2015. Subsequently, SF submitted a revised proposal in July 2016 (i.e. the current proposal being considered).

accordance with established policy for processing application for fare increases for ferry services –

- (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.

3. Since the current franchise of the two ferry routes commenced in 2008, there were two rounds of fare increases. The first round was in 2009 (two-phase implementation in 2009 and 2010), covering all ticket types. The second round was in 2012, covering holiday (Saturdays, Sundays and public holidays) fares only, together with the introduction of bicycle fare and reduction of tourist ticket fare upon delinking it with usage for the tram service. In other words, weekday fares were last increased in 2010 (seven years ago), while holiday fares were last increased in 2012 (five years ago).

Financial Performance

4. SF's franchised ferry services achieved an average profit margin of around 9% per annum between 2012 and 2015, after the last fare increases in June 2012. It is noted that the profit in 2013 was exceptionally high, mainly due to unusually high non-farebox revenue. Leaving out the impact of 2013, the average profit margin for 2012, 2014 and 2015 was around 5.6% per annum. SF's revenue has two components – farebox revenue and non-farebox revenue. Overall, the farebox revenue in 2016 decreased by around 5.0% to \$48.66 million,

compared to that in 2012. TAC noted that there was a decline in patronage which was mainly attributable to the relocation of the Wan Chai Pier to a less convenient location, and the unsatisfactory walking environment in the vicinity of the new pier. Members also noted that SF's non-fare box revenue in 2016 had increased by around \$8.72 million (+26.5%) when comparing with that in 2012. This was mainly attributable to the new restaurant opened in the fourth quarter of 2016 at the Wan Chai Pier, which had been quite popular, contributing to an increase in SF's rental income. Overall, for 2016, SF's escalating cost on various items including staff, repair and maintenance and expenses on piers could not be fully met by reduced revenue. As a result, SF recorded a small deficit, of around 0.7% (\$0.68 million), in 2016.

5. Members noted that, assuming that the popularity and business of the restaurant could be sustained, even without fare increases, SF would become profitable again.

Service Performance and Cost Saving Measures

6. Members agreed that the service performance of SF was satisfactory, with high service adherence rate of SF's ferry service and customer satisfaction rate as reflected in surveys, as well as low complaint and incident figures. Members also noted the continuous efforts put in by SF on environmental protection and sustainability as well as cost savings.

TAC's recommendation

7. Members agreed that there should be a case for fare increases, taking into account the fact that –

- (a) SF suffered a loss (\$0.68 million) in 2016;
- (b) their farebox revenue showed a downward trend since 2014;

- (c) rental income, while expected to be high with the good business of the restaurant at the Wan Chai Pier, was not guaranteed; and
- (d) SF's weekday and weekend fares were not increased for, respectively, seven and five years.

However, noting that SF's current franchise would end on 31 March 2018 and that SF's financial position was expected to be more promising with the better-performing non-farebox income, the TAC agreed with the Government's recommendation of substantially moderating fare increases to a weighted average rate of 8.9%, to take effect in one go (as opposed to SF's proposed two-phase fare increases).

8. TAC noted that in case it would turn out that the profit margin would be lower than the projected level because of, for example, a significant drop in the business of the restaurant, so much so that SF would be struggling to ensure financial sustainability, SF might consider applying for a new round of fare increases. There was no restriction on when and how frequent applications for fare increases that could be submitted.

9. TAC noted that in terms of the total passengers of SF's franchised services, the recommended fare increases would result in –

- (a) 56% (i.e. adult passengers riding on weekdays) paying \$0.2 more per trip. It should be noted that weekday fares were last increased seven years ago, in 2010. In assessing the affordability of passengers, we noted that, the cumulative change in Median Monthly Household Income ("MMHI") from the first quarter of 2010 to the third quarter of 2016 (the latest published figure) was 44.4%, and the projected cumulative inflation rate from January 2010 to July 2017 was around 28.6%, while the weighted average rate of fare increases of the Government's recommendation was much lower, at 8.9%;

- (b) 34% (i.e. adult passengers riding on Saturdays, Sundays and public holidays) paying \$0.3 more per trip. These fares were last increased five years ago, in 2012. The weighted average rate of fare increases of 8.9% was also much lower than the projected cumulative inflation rate since last fare increases (i.e. 16.3% from June 2012 to July 2017) as well as the cumulative change of 26.2% in the MMHI from the second quarter of 2012 to the third quarter of 2016 (the latest published figure); and
- (c) 5% (i.e. children or people with disabilities) paying \$0.1 more per trip. Fare increases for monthly tickets, bicycles and tourist tickets should have a minimal impact on passengers given the very low utilisation².

Elderly passengers (5% of the total) would not be affected (Star Ferry will continue to offer free ride to elderly passengers).

10. TAC considered that the Government's recommended average rate of fare increases should be acceptable to the public, noting that the rate was far lower than the projected cumulative inflation rate, and that the change in absolute amount in fares was small.

11. Separately, TAC Members noted that SF had submitted an application to the Government for extension of its franchise upon expiry on 31 March 2018 and the Government planned to engage SF for discussion on the arrangements for the new franchise. Members noted that with the improvement of the connectivity between the Wan Chai Pier and its surrounding areas in the next few years, particularly with the addition of the Exhibition Station in due course, the patronage of SF should improve. Members suggested that, during discussion with SF on new franchise, the Government should explore how SF's services and facilities could be enhanced to further benefit the passengers.

² The users of monthly tickets, tourist tickets and bicycle carriage, accounted for only less than 0.06% of the total patronage. In 2016, only 220 monthly tickets, 58 tourist tickets and 2 678 bicycle tickets were sold.

12. I should be grateful if you would convey TAC's advice to the Chief Executive in Council for consideration. I confirm that TAC's advice as contained in this letter may be released for public information after the Chief Executive in Council's decision is announced.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Larry Kwok', is positioned above the printed name.

(Larry Kwok)

Chairman

Transport Advisory Committee