

**For discussion
on 16 March 2018**

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

Purpose

Hong Kong Tramways Limited (“HKT”) submitted in August 2017 an application for fare increase to the Government. 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 16 March 2018. Members are invited to comment on HKT’s application.

Background

2. HKT last increased its fares in June 2011, with fare for persons aged 12 or above (commonly referred to as “adult fare”) increased from \$2.0 to \$2.3, fare for children (aged 3 to 11) increased from \$1.0 to \$1.2, fare for the elderly (aged 65 or above) increased from \$1.0 to \$1.1¹, and fare for monthly ticket increased from \$170.0 to \$200.0. The fare for the tourist ticket remained unchanged.

3. In August 2017, HKT submitted an application for fare increase with details as follows –

Passenger Group	Existing Fare	Proposed Fare (Change)²
Person aged 12 or above	\$2.3	\$2.6 (+13.0%)
Elderly (aged 65 or above)	\$1.1	\$1.2 (+9.1%)
Child (aged 3 to 11)	\$1.2	\$1.3 (+8.3%)
Monthly Ticket	\$200.0	\$220.0 (+10.0%)
Tourist Ticket³	\$34.0	\$34.0 (unchanged)

¹ The revised fare for the elderly was implemented one year after the revised fares for other groups of passengers took effect.

² Between June 2011 and September 2017, the Composite Consumer Price Index increased by 20.6% while the Median Monthly Household Income increased by 35.7%.

³ The ticket is valid for unlimited travel on ordinary passenger trams within 4 consecutive days.

Assessment Criteria

4. We need to ensure that HKT will have sound financial capability in providing efficient and quality tram services at reasonable fares. In line with the established policy and mechanism, the Government has all along taken into account the following major criteria in assessing HKT's fare adjustment application –

- (a) the quality and quantity of service provided and the planned improvement projects;
- (b) the changes in operating costs and revenue since the last fare adjustment;
- (c) forecasts of future operating costs, revenue, profit and return; and
- (d) the likely public acceptability.

5. 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 Tramways Ordinance (Cap. 107). The new fares have to go through negative vetting by the Legislative Council before implementation.

Operating Status

Patronage and Revenue

6. With a fleet of 164 tramcars and about 600 staff, HKT has been providing services on the northern part of the Hong Kong Island for decades. At present, HKT is operating a total of 7 routes. HKT's total revenue in 2016 was \$255 million and is estimated to be around \$254 million in 2017.

7. HKT's major revenue source comes from passenger fare and non-fare box revenue from advertising on tram body and at tram stop shelters. Passenger fares accounts for some 50% of HKT's total revenue in recent years. Given the competition from other public transport modes, the patronage for tram has been decreasing. The average daily patronage decreased from about 216 300 in 2011 to about 176 900 in 2016, representing a drop of 18.2%. The drop in patronage has led to a corresponding decrease of about 13.5% in fare revenue, from about \$155 million in 2011 to about \$134 million in 2016. The year-on-year changes in patronage and fare

revenue for the period between 2011 and 2016 are set out in the table below –

	2011	2012	2013	2014	2015	2016
Patronage (Year-on-year change)	216 300	202 300 (-6.5%)	198 000 (-2.1%)	181 500 (-8.3%)	177 700 (-2.1%)	176 900 (-0.5%)
Fare revenue (\$million) (Year-on-year change)	155	155 (-0.3%)	151 (-2.1%)	139 (-8.4%)	135 (-2.5%)	134 (-0.7%)

8. Advertising on tram body and at tram stop shelter accounts for some 40% of HKT's total revenue in recent years. At present, except a few antique sightseeing tramcars, all tram bodies in general are displayed with advertisements. Most tram stop shelters with commercial potential are also fully utilized. According to HKT, the potential to further increase advertising and other non-fare box revenue is rather limited. The year-on-year changes in advertising revenue for the period between 2011 and 2016 are set out in the table below –

	2011	2012	2013	2014	2015	2016
Advertising revenue (\$million) (Year-on-year change)	73	94 (+29%)	107 (+14%)	119 (+12%)	118 (-1%)	107 (-9%)

Operating Costs

9. HKT's total operating costs increased by 9.9% since the last fare increase in 2011. It rose from about \$191 million in 2011 to about \$210 million in 2016, and it is estimated to be around \$227 million in 2017. Staff costs are HKT's major cost item, accounting for about 65% of the total operating costs. Other cost items include repair and maintenance, electricity, replacement of tram tracks and overhead line system, depreciation and miscellaneous expenses. The operating costs are expected to increase because of rising staff costs and increasing depreciation charges for capital investment in implementing the improvement projects. The year-on-year changes in operating costs for the period between 2011 and 2016 are set out in the table below –

	2011	2012	2013	2014	2015	2016
Operating costs (\$million) (Year-on-year change)	191	190 (-1%)	203 (+7%)	196 (-3%)	204 (+4%)	210 (+3%)

Profits

10. In the light of the continuously decreasing fare revenue and rising operating costs, HKT's profit after tax remained at around \$30 million to \$50 million in recent years while the profit margin at about 15% to 20%, and there appears a decreasing trend. The profit after tax and profit margin for the period between 2011 and 2016 are set out in the table below –

	2011	2012	2013	2014	2015	2016
Profit after tax (\$million)	35.5	54.9	50.8	58.2	49.0	37.6
Profit margin	15.1%	21.5%	19.3%	21.8%	18.6%	14.8%

Service Performance

11. HKT has been providing satisfactory service to passengers at the northern part of the Hong Kong Island over the years. The frequent service with cheap fares and convenient at-grade tram stops are appreciated by passengers. From 2013 to 2017, the number of complaints received by the Transport Department against HKT decreased by 39.5% from 152 in 2013 to 92 in 2017. The total number of traffic accidents involving trams remained at about 50 per annum during that 5-year period.

Improvement Projects

12. In order to enhance the tram operation for providing more comfortable services and raising the service level to passengers, HKT has embarked on the following improvement projects in recent years –

- (a) purchasing new equipment for its permanent way maintenance team to improve the overall track condition for the sake of raising riding comfort, operation safety and reducing traffic noise (since July 2017);
- (b) replacing tram tracks at the key bends and junctions with the use of new rail jacket technology (since December 2017);
- (c) launching the trial of air-conditioned “cooler tram” to improve passenger riding comfort (introduced since June 2016);

- (d) revamping its company logo and visual identity to highlight tram's "Hong Kong" identity and enhance corporate image (since May 2017);
- (e) providing real-time tram arrival data on its website and mobile application, and sharing the data to the Government as well as to third-party mobile application developers (since March 2016); and
- (f) relocating the electricity substation from its existing location inside Time Square to Causeway Road and Morrison Hill Road to ensure stable supply of electricity for the tram service (the relocation works commenced in January 2018).

13. To further enhance the safety, operational efficiency, service level and passenger comfort with a view to maintaining the competitiveness of the tram service, HKT has planned to implement the following six improvement projects in the next few years –

- (a) installing a newly designed bogie to the modified tramcars to strengthen safety and improve passenger riding comfort;
- (b) upgrading the tram tracking system in its control room to better monitor the real-time location of tramcars;
- (c) developing a speed limit alert system to improve safety;
- (d) adopting new systems to capture more reliable real-time data information, so as to facilitate analysing and improving tram operation, optimising the dispatching of fleet and drivers, and sharing such information with the Government, passengers and third party mobile application developers;
- (e) continuing the modification of tramcars (including replacing the wooden tram body with aluminum structure, installing electronic destination display panels, and enhancing the ventilation and lighting systems in the compartment, etc.) to enhance passenger comfort and operational efficiency; and
- (f) building the fourth special tram to increase non-fare box revenue.

14. According to HKT, the capital expenditure for implementing all the aforesaid projects will amount to a total of around \$110 million from 2017 to 2023. Through capital investment in the improvement projects, HKT aims to maintain the sustainability of the tramway operation. By offering better tram service in terms of safety, service level, passenger comfort and customer satisfaction, HKT expects to maintain the competitiveness of tram service in the market. Furthermore, some of the projects can reduce the recurrent operating costs (in particular repair and maintenance, and electricity costs) of HKT in the long run.

15. HKT made an after-tax profit of \$37.6 million in 2016 (profit margin was about 14.8%) and the profit level in 2017 is expected to decrease with the profit margin dropping to about 9%. Although HKT expects that it can still earn a profit without fare increase, HKT estimates that its profit margin will drop to a lower level (below 2.6%) from 2018 and beyond, mainly because introducing the above improvement projects will involve considerable amount of capital investment. If there is a drop in revenue or rise in operating costs, there may even be loss. HKT considers the above proposed fare increase vital to enable its continuous investment in the tramway system and maintenance of a sustainable operation of tram services.

Advice Sought

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

**Transport and Housing Bureau
Transport Department
March 2018**