

## LEGISLATIVE COUNCIL BRIEF

### Tramway Ordinance (Chapter 107)

### FARE INCREASE APPLICATION FROM HONG KONG TRAMWAYS LIMITED

#### INTRODUCTION

A At the meeting of the Executive Council on 29 May 2018, the Council ADVISED and the Chief Executive ORDERED that consent should be given to the Hong Kong Tramways Limited (HKT) to alter the fares as set out in the Tramway Ordinance (Alteration of Fares) (Amendment) Notice 2018 (the Amendment Notice), at Annex A, to be made under section 51 of the Tramway Ordinance (Cap. 107) (the Ordinance), to give effect to the revised rates of fares as follows with effect from 2 July 2018 –

<b>Passenger Group</b>	<b>Existing fares</b>	<b>Revised fares (Change)</b>
Person aged 12 or above <sup>1</sup>	\$2.3	\$2.6 (+\$0.3)
Child (aged 3 to 11)	\$1.2	\$1.3 (+\$0.1)
Monthly Ticket	\$200.0	\$220.0 (+\$20.0)
Tourist Ticket <sup>2</sup>	\$34.0	\$34.0 (unchanged)

<sup>1</sup> HKT offers concessionary fare for the elderly (aged 65 or above) and HKT will increase the elderly fare from \$1.1 to \$1.2 (+\$0.1) with effect from 2 July 2018 if the fare increase application is approved.

<sup>2</sup> The ticket is valid for unlimited travel on ordinary passenger trams within four consecutive days.

## **JUSTIFICATIONS**

### **Consideration of HKT's Fare Increase Application**

2. The Administration needs to ensure that HKT will have sound financial capability in providing efficient and quality tram services at reasonable fares. In accordance with the established policy and mechanism, the Administration will take 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 costs, revenue, profit and return; and
- (d) the likely public acceptability.

### **HKT's Fare Increase Application**

3. HKT last increased its fares in June 2011, with the fare for persons aged 12 or above (commonly referred to as “adult fare”) increased from \$2.0 to \$2.3, the fare for child (aged 3 to 11) increased from \$1.0 to \$1.2, the fare for the elderly (aged 65 or above) increased from \$1.0 to \$1.1<sup>3</sup>, and the fare for monthly ticket increased from \$170 to \$200. The fare for the tourist ticket remained unchanged.

4. HKT submitted an application for fare increase on 17 August 2017. It proposed to increase the adult fare from \$2.3 to \$2.6 (by 13%), the child fare from \$1.2 to \$1.3 (by 8.3%), the elderly fare from \$1.1 to \$1.2 (by 9.1%), and the fare for the monthly ticket from \$200 to \$220 (by 10%). The fare for the tourist ticket is proposed to remain unchanged.

5. Section 50 of the Ordinance, read together with section 51 of the Ordinance, sets out the tram fares HKT may charge. According to

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<sup>3</sup> In the previous fare increase exercise, HKT proposed and the Administration agreed that the revised fare for the elderly was implemented one year after the revised fares for other groups of passengers took effect, i.e. in June 2012.

section 51, HKT may alter the rates of fare of the tramway subject to the consent of the Chief Executive in Council and any such alteration shall come into force one month after its publication in the Gazette. The current tram fares are set out in the Schedule to the Tramway Ordinance (Alteration of Fares) Notice (Cap. 107, sub. leg. D). Relevant extract of the provisions and the Schedule is at Annex B.

B

## **The Administration's Assessment**

### *HKT's Service Performance*

6. With a fleet of 164 tramcars and about 600 staff, HKT has been providing satisfactory services on the northern part of Hong Kong Island for decades. 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.

### *HKT's Improvement Projects*

7. Veolia Transport China Limited, a French based company, acquired HKT from Wharf Transport Investments Limited in March 2010. It has been re-named as RATP Dev Transdev Asia (RATP DTA) since April 2010. Since RATP DTA took over the management of HKT, HKT has carried out several improvement measures to upgrade and renew the tramway system and has sought to increase its fare once in 2011. Details of these projects and the progress to date are summarised in Annex C.

C

8. On top of the above, HKT has continued to improve tram service in terms of safety, service level, passenger comfort and operational efficiency through the implementation of a series of improvement projects without seeking a fare increase. 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 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 trams’ “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 with the Government as well as with third-party mobile application developers (since March 2016); and
- (f) relocating the electricity substation from its existing location inside Times Square to Causeway Road and Morrison Hill Road to ensure stable supply of electricity for the tram service (since January 2018).

D Details of the above on-going improvement projects are at Annex D.

9. To further enhance safety, operational efficiency, service level and passenger comfort with a view to maintaining the competitiveness of the tram services, 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 riding comfort and operational efficiency; and

(f) building a fourth special tram to increase non-fare box revenue.

E Details of the above proposed improvement projects are at Annex E. According to HKT, the capital expenditure for implementing all the proposed projects will amount to a total of around \$110 million from 2017 to 2023.

10. Through the implementation of a series of improvement projects and its plan to continue pursuing new projects, HKT has demonstrated its commitment to improve tram service in terms of safety, service level, passenger riding comfort and customer satisfaction. The Administration supports HKT's initiatives to further improve tram service, as it would help maintain the competitiveness and sustainability of tram operation. Furthermore, some of the projects can reduce the recurrent operating costs (in particular repair and maintenance costs, as well as electricity costs) of HKT in the long run.

### **Changes in Operating Costs and Revenue since the Last Fare Adjustment in June 2011**

11. HKT's total revenue in 2016 was \$254.8 million and is estimated to be around \$254.1 million in 2017. HKT's total revenue mainly comes from passenger fares and non-fare box revenue from advertising on tram bodies and at tram stop shelters.

12. 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 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 \$155.1 million in 2011 to about \$134.1 million in 2016.

13. Advertising on tram body and at tram stop shelter accounts for some 40% of HKT's total revenue in recent years. The advertising revenue in 2016 amounted to about \$107.3 million, representing a growth of about 46% when compared with that in 2011 but a drop of 10.1% when compared with that in 2014. 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 space and non-fare box revenue is rather limited.

14. HKT's total operating costs increased by 9.9% since the last fare increase in 2011. It rose from about \$190.9 million in 2011 to about \$209.8 million in 2016, and it is estimated to be around \$226.6 million in 2017. The increase was mainly attributable to the increases in staff costs, depreciation and permanent-way renewal. The increase in operating costs was partially offset by the decrease in repairs and maintenance costs and decrease in general expenses.

15. Although HKT made profits in all the years between 2011 and 2016, the profit after tax has been decreasing since 2014. In 2016, HKT made an after-tax profit of \$37.6 million, representing a decrease by 35% when compared with that of 2014, and the profit margin was 14.7%. HKT expects that the profit after tax will further decrease to \$22.9 million in 2017, with the profit margin further dropped to about 9%. If the trend of declining patronage continues and there is no further increase in non-fare box revenue, the long-term sustainability of the tramway operation could be affected.

### **Forecasts of Future Costs, Revenue, Profit and Return**

16. The Administration has critically reviewed the assumptions and financial forecasts submitted by HKT. If the proposed fare increase is implemented, it is expected that HKT's patronage will drop by 2.7% in 2018. However, with the implementation of all the proposed improvement projects by phases from 2018 onwards, HKT expects that the patronage will increase by about 0.3% in 2019 compared to 2018, and will become stable with a slight decrease at a rate of 0.2% per annum from 2020 onwards. Fare revenue will follow this trend, while non-fare box revenue will increase by 5.1%. As regards operating costs, we have reviewed HKT's assumptions for projecting the operating costs, including labour costs and capital expenditure from its improvement projects. Noting that HKT has made reference to the projected changes in Composite Consumer Price Index (CCPI) as adopted in the Government's forecast in February 2018, i.e. 2.5% per annum, from 2018 to 2021, we consider HKT's forecasts on operating costs (i.e. an increase of 3.8% for the next two years) acceptable.

17. Although HKT expects to earn a profit even without a fare increase, the profit margin of HKT in 2018 and 2019 will continue to drop to 2.5% and 1.0% respectively and may even risk resulting in a loss when there is a drop in revenue or an increase in operating costs. Even with the proposed fare increase implemented, HKT projects that its profit margin from 2018 to 2020 will range between 4.5% and 6.1%, which will still be much lower than HKT's profit margin in the period of 2011 to 2016. Moreover, the weighted average fare increase of 12.6% under HKT's proposal is lower than the change in CCPI and Median Monthly Household Income (MMHI) since HKT's last fare increase in June 2011. Specifically, the CCPI and MMHI increased by a cumulative 21.5% and 39.3% respectively between the second quarter of 2011 and the fourth quarter of 2017.

### **Public Acceptability**

18. HKT has been conducting public engagement exercise with major stakeholders (including relevant District Council Members, Legislative Council (LegCo) Members, academics, representatives from conservation groups, and tram fans groups) in the form of depot visits and briefings. According to HKT, the feedback has so far been generally positive.

### **THE AMENDMENT NOTICE**

19. The Amendment Notice amends the Schedule to the Tramway Ordinance (Alteration of Fares) Notice (Cap. 107, sub. leg. D) to give effect to the revised fares set out in paragraph 1 above.

### **IMPLEMENTATION AND LEGISLATIVE TIMETABLE**

20. The legislative timetable will be as follows –

Publication in the Gazette	1 June 2018
Tabling at the LegCo for negative vetting	6 June 2018
Commencement date	2 July 2018

## **IMPLICATIONS OF THE PROPOSAL**

21. The proposal is in conformity with the Basic Law, including provisions concerning human rights. It has no financial, civil service, competition, productivity, environmental or gender implications, as well as no significant family implications. The proposal will not affect the current binding effect of the Ordinance and its subsidiary legislation. The sustainability implications and economic implications are set out at Annex F.

F

## **PUBLIC CONSULTATION**

22. The Transport Panel of the LegCo was consulted on HKT's fare increase application on 16 March 2018. Members generally considered the magnitude of proposed fare increase mild and supported HKT's proposal to increase the tram fares.

23. The Transport Advisory Committee (TAC) was also consulted on 27 March 2018. TAC Members generally considered it justified for HKT to increase its fares, especially in recognition of its environment-friendly performance and heritage value. Having regard to all the relevant factors of consideration, Members supported HKT's proposed rate of fare increase. Members also welcomed HKT's proposed improvement projects for enhancing safety and service quality. The detailed advice of TAC is set out in its letter to the Secretary for Transport and Housing at Annex G.

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## **PUBLICITY**

24. We will issue a press release on 29 May 2018. A spokesman will be available to handle public enquiries.



## **ENQUIRIES**

25. Any enquiries on this brief can be addressed to the following officer –

Mr Patrick WONG  
Assistant Commissioner for Transport  
Telephone No.: 2829 5210

**Transport and Housing Bureau**  
**29 May 2018**

**Tramway Ordinance (Alteration of Fares)  
(Amendment) Notice 2018**

(Made by the Hong Kong Tramways Limited under section 51 of the  
Tramway Ordinance (Cap. 107) with the consent of the Chief Executive in  
Council)

**1. Tramway Ordinance (Alteration of Fares) Notice amended**

The Tramway Ordinance (Alteration of Fares) Notice (Cap. 107 sub. leg. D) is amended as set out in section 2.

**Note—**

The amendments set out in section 2 come into force one month after the publication of this Notice in the Gazette (see section 51(2) of the Tramway Ordinance (Cap. 107)).

**2. Schedule amended (rates of fares)**

(1) The Schedule, item 1—

**Repeal**

“\$2.30”

**Substitute**

“\$2.60”.

(2) The Schedule, item 2—

**Repeal**

“\$1.20”

**Substitute**

“\$1.30”.

(3) The Schedule, item 4—

**Repeal**

“\$200”

**Substitute**

“\$220”.

Managing Director,  
Hong Kong Tramways Limited

2018

The Chief Executive in Council consented to the above alteration of  
fares on 2018.

Clerk to the Executive Council

COUNCIL CHAMBER

2018

### **Explanatory Note**

The purpose of this Notice is to increase certain fares payable for travelling on the tramway.

Section 50 and 51 of the Tramway Ordinance

50. Fares for passengers

- (1) The company may demand and take for every passenger travelling upon the tramway or any portion thereof fares not exceeding the following rates—

From any point on the  
tramway to the  
terminus indicated on the car. } Thirty cents\*.

*(Amended 41 of 1972 s. 2; 78 of 1975 s. 3)*

- (2) A list printed in the English and Chinese languages of all the fares for the time being authorized to be taken shall be exhibited in a conspicuous place at the offices of the company, and inside every car used upon the tramway:

Provided that if there be any variation between the English and Chinese prints of the said list, the English print thereof shall prevail.

*(Replaced 32 of 1946 s. 3. Amended 20 of 1948 s. 4)*

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Editorial Note:

\* For new rates - See Tramway Ordinance (Alteration of Fares) Notice (Cap. 107 sub. leg. D)

**51. Alteration of the rates of fares**

- (1) Subject to the consent of the Chief Executive in Council it shall be lawful for the company to alter the rates of fares for the time being authorized in respect of the whole or any portion of the tramway.
- (2) Any such alteration shall come into force one month after its publication in the Gazette or within such shorter period after such publication as the Chief Executive in Council may order.

*(Replaced 32 of 1946 s. 4. Amended 62 of 1999 s. 3)*

**Schedule to  
the Tramway Ordinance (Alteration of Fares) Notice (Cap. 107D)**

**RATES OF FARES**

		per trip
1.	Person of 12 years or more	\$2.3
2.	Person under 12 years (other than a person under 3 years accompanied by a person of 12 years or more)	\$1.2
3.	Person under 3 years and accompanied by a person of 12 years or more	Nil
		per ticket
4.	Monthly ticket (valid for current calendar month only)	\$200
5.	Tourist ticket (valid for unlimited travel for 4 consecutive days counting from (and including) the day of issue of the ticket, and available only to a person having permission to land in Hong Kong as a visitor under the Immigration Ordinance (Cap. 115)) (L.N. 33 of 2009)	\$34

*(L.N. 537 of 1996; L.N. 186 of 1997; L.N. 95 of 1998; L.N. 63 of 2011)*

**Improvement Projects Committed by HKT  
in 2011 Fare Increase Application**

<b>Project</b>	<b>Details and Benefits</b>	<b>Progress</b>
<b>1. Track Maintenance Enhancement</b>	<ul style="list-style-type: none"> <li>• The new maintenance equipment and method enhanced riding comfort and safety, and reduced noise during operation and maintenance. Maintenance costs have also been lowered.</li> </ul>	<p style="text-align: center;">Completed</p>
<b>2. Overhead Line System Enhancement</b>	<ul style="list-style-type: none"> <li>• The replacement of span wires with more durable material improved the reliability and safety of the system, and also reduced the frequency of replacement.</li> </ul>	<p style="text-align: center;">Completed</p>
<b>3. New Emergency Braking System</b>	<ul style="list-style-type: none"> <li>• The additional braking system improved the braking performance of the tram.</li> </ul>	<p style="text-align: center;">On-going</p> <ul style="list-style-type: none"> <li>• To facilitate the installation of the newly designed braking system, HKT is improving the track conditions, which will be completed by 2020.</li> <li>• Meanwhile, HKT has maintained regular inspections of tramcars to ensure that the efficiency of the main braking system meets the required safety standards.</li> </ul>

<b>Project</b>	<b>Details and Benefits</b>	<b>Progress</b>
<b>4. Modernisation of Tramcar</b>	<ul style="list-style-type: none"> <li>• It improved the body and interior design of tramcars to enhance passenger riding comfort and ancillary passenger services, whilst retaining the traditional tram appearance.</li> <li>• With the installation of AC traction motors, it enhanced the motor reliability, and reduced its maintenance costs and electricity consumption.</li> </ul>	<p style="text-align: center;">On-going</p> <ul style="list-style-type: none"> <li>• Modification of 60 tramcars was completed by mid-March 2018.</li> </ul>
<b>5. New Service Timetable</b>	<ul style="list-style-type: none"> <li>• The re-scheduling of the frequencies of different tram routes better met passenger needs.</li> </ul>	<p style="text-align: center;">Completed</p>
<b>6. Provision of Passenger Information</b>	<ul style="list-style-type: none"> <li>• The newly designed network maps and tram stop names displayed at tram stop shelters improved customer experience.</li> </ul>	<p style="text-align: center;">Completed</p>

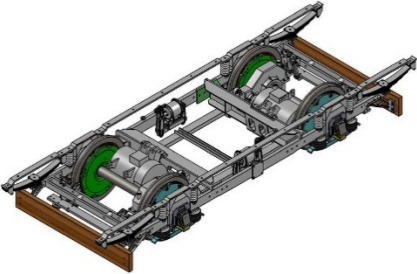
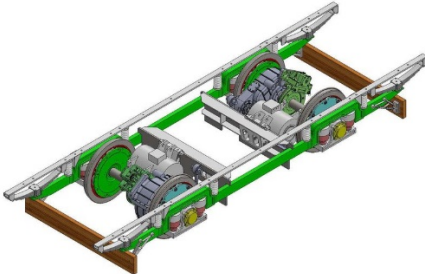


## Improvement Projects Embarked by HKT in Recent Years

Project	Details and Benefits	Progress
<b>1. Acquisition of New Equipment for Permanent-Way Maintenance Team</b>	<ul style="list-style-type: none"> <li>The new equipment improved the overall track condition for the sake of riding comfort, operating safety and reducing traffic noise.</li> </ul>	Completed
<b>2. Tram Track Replacement with New Rail Jacket Technology</b>	<ul style="list-style-type: none"> <li>The new technology can reduce the duration of the track replacement works, extend the track life and effectively enhance the tracks to absorb vibration, as well as reduce the noise of tram operation and provide passengers with more comfortable service.</li> <li>HKT adopted this new rail jacket technology to replace the tram tracks at its Shau Kei Wan Terminus in December 2015.</li> <li>In order to expedite the tram track replacement of the key bends and junctions with the use of new rail jacket technology given its benefits mentioned above, the Government provides a subsidy to HKT on a matching basis for a period of three years from 2017-18 to 2019-20.</li> </ul>	<p>On-going</p> <ul style="list-style-type: none"> <li>As at end-April 2018, about 450 metres of tram tracks (about 20% of the tracks under the subsidy scheme) have been replaced. The replacement work is expected to complete by 2020.</li> </ul>
<b>3. Trial of Air-conditioned “Cooler Tram”</b>	<ul style="list-style-type: none"> <li>With a view to improving passenger riding comfort, a tramcar equipped with an air-conditioning system has been put into trial operation.</li> <li>HKT is exploring the possibility for introducing more “cooler tram”.</li> </ul>	Completed

<b>Project</b>	<b>Details and Benefits</b>	<b>Progress</b>
<b>4. Revamp of Company Logo and Visual Identity</b>	<ul style="list-style-type: none"> <li>The new company logo and visual identity highlighted tram's "Hong Kong" identity and enhanced HKT's corporate image.</li> </ul>	Completed
<b>5. Sharing of Real-time Tram Arrival Data</b>	<ul style="list-style-type: none"> <li>HKT has been providing real-time tram arrival data on its website and mobile application, and sharing the data to the Government and third-party mobile application developers.</li> </ul>	Completed
<b>6. Relocation of Electricity Substation</b>	<ul style="list-style-type: none"> <li>The existing electricity substation inside Time Square will be relocated to Causeway Road and Morrison Hill Road to ensure stable supply of electricity for the tram service.</li> </ul>	<p>On-going</p> <ul style="list-style-type: none"> <li>The relocation is expected to be completed by early 2019.</li> </ul>

Improvement Projects Proposed by HKT

Project	Details and Benefits	Progress
<p><b>1. New Bogie Design</b></p> <p>Existing Bogie:</p>  <p>Modified Bogie (with modified frame and gearbox):</p> 	<ul style="list-style-type: none"> <li>• The existing bogie was built in 1950s. Its maintenance is labour-intensive.</li> <li>• The new bogie includes a stronger frame, new gearboxes with bearings, new primary suspension and braking systems.</li> <li>• The new bogie will improve the braking performance, riding comfort and rail/wheel flange life. It will also improve safety, service quality and maintenance efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>• HKT completed a test on the new frame, gearbox and suspension system in 2016 and is now finalising the design of the braking system.</li> <li>• HKT plans to install the new bogie to the modified tramcars at a rate of 12 tramcars per year starting from 2019 to 2023.</li> </ul>

Project	Details and Benefits	Progress
<p><b>2. Tram Tracking System</b></p> <p>Staff in control room can monitor the real-time location of tramcars through the system.</p>	<ul style="list-style-type: none"> <li>• The current tram tracking system uses RFID technology on each tramcar while passive tags are embedded in the track-way. It allows HKT's control room to monitor real-time location of tramcars to facilitate dispatching of fleet and motormen.</li> <li>• System upgrading is necessary for improving the performance of the system (including reliability, availability and maintainability) since the system is becoming obsolete and the maintenance cost is increasing.</li> <li>• The new system will provide exhaustive, accurate and reliable real-time location data for enhancing service quality.</li> </ul>	<ul style="list-style-type: none"> <li>• To be completed by 2019</li> </ul>
<p><b>3. Tram Speed Limit Alert System</b></p>	<ul style="list-style-type: none"> <li>• With the deployment of the tram tracking technology, the system on-board will alert motormen to comply with tram speed limit on sensitive track sections (e.g. sharp curves and S curves).</li> <li>• This will improve safety and mitigate the risk of over-speeding.</li> </ul>	<ul style="list-style-type: none"> <li>• To be completed by 2019.</li> </ul>

<b>Project</b>	<b>Details and Benefits</b>	<b>Progress</b>
<p><b>4. New Systems to Capture More Reliable Real-time Data and Application of Real-time Traffic Information</b></p>	<ul style="list-style-type: none"> <li>• New systems will be developed and implemented to capture more data from the tramcar components for data analysis. Together with the upgrading of the tram tracking system mentioned in item 2 above, more reliable real-time data will be available.</li> <li>• An “artificial intelligence” tool will also be developed to optimize the dispatching of fleet and motormen based on real-time data.</li> <li>• Besides, HKT will upgrade its server to share the information with the Government, passengers and third party mobile application developers.</li> <li>• The above could facilitate smoother tram operation and better service.</li> </ul>	<ul style="list-style-type: none"> <li>• To be completed by 2019.</li> </ul>
<p><b>5. Modification of Tramcars</b></p>	<ul style="list-style-type: none"> <li>• HKT will continue to modify the tramcars with aluminum body and modernized interior design.</li> <li>• The modified tramcars are more durable and can enhance passenger comfort and operating efficiency. Maintenance costs will also be reduced.</li> </ul>	<ul style="list-style-type: none"> <li>• Implemented since October 2010, with modification of 60 tramcars completed by mid-March 2018.</li> <li>• To modify tramcars at a rate of 10 tramcars per year starting from 2018.</li> </ul>
<p><b>6. Fourth Special Tram</b></p>	<ul style="list-style-type: none"> <li>• HKT will build an additional special “premium party tram” to increase non-fare box revenue.</li> </ul>	<ul style="list-style-type: none"> <li>• To be launched in 2018</li> </ul>

## **Sustainability and Economic Implications**

### **Sustainability Implications**

The proposal helps maintain the financial viability of HKT and thus its ability to continue to provide quality, efficient, cheap and environmentally-friendly transport services to the public. It also allows HKT to implement its service improvement projects. Nevertheless, the proposed fare increases would bring extra cost to tram passengers, in particular to those in the low income group who spend a relatively bigger portion of their income on public transport.

### **Economic Implications**

2. Given that tram fares only have a tiny 0.01% weighting in the Composite Consumer Price Index, the inflationary impact of the proposed fare increase is insignificant.



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2 Tim Mei Avenue, Tamar, Hong Kong  
電話 Telephone 3509 8198  
傳真 Fax 3904 1774

16 April 2018

The Honourable Frank Chan, JP  
Secretary for Transport and Housing  
22/F, East Wing, Central Government Offices  
2 Tim Mei Avenue  
Tamar  
Hong Kong

Dear Mr Chan,

**Fare Increase Application**  
**from Hong Kong Tramways Limited**

Hong Kong Tramways Limited (“HKT”) submitted an application for fare increase on 17 August 2017 with details as follows –

<b>Passenger Group</b>	<b>Existing Fare</b>	<b>Proposed Fare (Change)</b>
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 Ticket	\$34.0	\$34.0 (unchanged)

2. The Transport Advisory Committee (“TAC”) considered HKT’s application at its meeting held on 27 March 2018. This letter sets out TAC’s advice on HKT’s application.

*Basis of TAC’s consideration*

3. When assessing HKT’s fare adjustment application, Members have taken into account the following –

- (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 costs, revenue, profit and return; and
- (d) the likely public acceptability.

*Financial performance and service improvements*

4. Since HKT’s last fare increase in June 2011, HKT has been experiencing a continuous reduction in patronage due to the competition from other public transport modes. The average daily patronage decreased by 18.2% from 2011 to 2016, which led to a corresponding decrease of about 13.5% in fare revenue. Members noted that non-fare box revenue from advertising on tram body and at tram stop shelters accounted for some 40% of HKT’s total revenue in recent years. However, the potential for further increasing advertising space and other non-fare box revenue is rather limited. Members also noted the rising operating costs of HKT, in particular, increases in staff costs, depreciation, and permanent-way renewal. HKT’s profit level has been on a declining trend in the recent three years.

5. Members noted that HKT had been providing satisfactory service over the years. HKT also strived and would continue to improve



tram service in terms of safety, service level, passenger comfort and operational efficiency through the implementation of various improvement projects. In particular, Members noted that HKT planned to launch a series of new projects in the coming years to further maintain the competitiveness and sustainability of the tram operation.

6. Members were informed that the capital expenditure for implementing all the proposed improvement projects would amount to a total of around \$110 million in the period of 2017 to 2023. HKT made an after-tax profit of \$37.6 million in 2016 and expected to further decrease to \$22.9 million in 2017. Due to the considerable amount of capital investment involved in introducing various projects, HKT estimated that the profit margin would further drop to about 9% in 2017 and to a lower level (below 2.6%) from 2018 and beyond.

#### *Public acceptability*

7. Members considered the magnitude of the proposed fare increase generally acceptable, as compared to the changes in Composite Consumer Price Index and Median Monthly Household Income since HKT's last fare increase in June 2011. Members also noted that the public generally welcomed HKT's proposed improvement projects for enhancing safety and service quality.

#### *TAC's recommendations*

8. Against the above, Members generally considered it justified for HKT to increase its fares, especially in recognition of its environment-friendly performance and heritage value.

9. Having regard to all the relevant factors, Members agreed to the Administration's recommendation to accept HKT's proposed rate of increase (as set out in paragraph 1 above). TAC considered that the proposed fare increase could strike a balance between the interests of the tram passengers for economical, quality and efficient transport service on

the one hand, and the incentive for HKT to continue to invest for service provision and sustainability on the other.

10. I would 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,



( Larry Kwok )

Chairman

Transport Advisory Committee