

**For discussion on  
20 December 2019**

**Legislative Council Panel on Transport  
Star Ferry's application for fare increases**

**Purpose**

The “Star” Ferry Company, Limited (“the Star Ferry”) applies for fare increases for its “Central – Tsim Sha Tsui” and “Wan Chai – Tsim Sha Tsui” routes. This paper invites Members’ views.

**Background**

2. Established in 1898, Star Ferry has been plying for over a century. Apart from serving as a means of public transport, Star Ferry is also a key icon of Hong Kong. With a daily patronage of nearly 54 000 passenger trips<sup>1</sup> on average, Star Ferry has always been well received by the community and visitors.

3. It is the Government’s established policy that public transport services should be run by the private sector in accordance with commercial principles to enhance efficiency and cost-effectiveness. In general, the revenue growth of the Star Ferry’s service is limited, while its operating costs are on the rise. Fares have to be suitably adjusted from time to time to maintain the financial viability of the service.

4. The maximum ferry fares that a grantee may charge are specified in Schedule to the Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares) Order (Cap. 104C). The Ferry Services Ordinance (“the Ordinance”) (Cap. 104) requires that application for fare increases for the franchised ferry routes be determined by the Executive Council (“ExCo”). In the course of assessing the Star Ferry’s application for fare increases, the Government will consult the Legislative Council (“LegCo”) Panel on Transport and the Transport Advisory Committee, before submitting its recommendations to ExCo. The new fares have to go through negative vetting by LegCo before implementation.

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<sup>1</sup> The average daily patronage of 2018.

## The Application for Fare Increases

5. In April 2019, Star Ferry applied for raising the fares of its two ferry routes by an increase of \$0.3 to \$0.5 per trip, with an average fare increase rate of around 16.5% taking all fare types into consideration. Details are in the table below-

Table 1 : Details of Star Ferry's application for fare increases

	Existing fares	Star Ferry's application for fare increases
<b>"Central – Tsim Sha Tsui" route</b>		
<i>Monday to Friday – upper deck</i>		
• Adult	\$2.7	\$3.2 ( +\$0.5 ; +18.5% )
• Children and Disabled	\$1.6	\$1.9 ( +\$0.3 ; +18.8% )
<i>Monday to Friday – lower deck</i>		
• Adult	\$2.2	\$2.6 ( +\$0.4 ; +18.2% )
• Children and Disabled	\$1.5	\$1.8 ( +\$0.3 ; +20.0% )
<i>Saturday, Sunday and public holidays – upper deck</i>		
• Adult	\$3.7	\$4.2 ( +\$0.5 ; +13.5% )
• Children and Disabled	\$2.2	\$2.5 ( +\$0.3 ; +13.6% )
<i>Saturday, Sunday and public holidays – lower deck</i>		
• Adult	\$3.1	\$3.6 ( +\$0.5 ; +16.1% )
• Children and Disabled	\$2.1	\$2.4 ( +\$0.3 ; +14.3% )
<b>"Wan Chai – Tsim Sha Tsui" route</b>		
<i>Monday to Friday</i>		
• Adult	\$2.7	\$3.2 ( +\$0.5 ; +18.5% )
• Children and Disabled	\$1.6	\$1.9 ( +\$0.3 ; +18.8% )
<i>Saturday, Sunday and public holidays</i>		
• Adult	\$3.7	\$4.2 ( +\$0.5 ; +13.5% )
• Children and Disabled	\$2.2	\$2.5 ( +\$0.3 ; +13.6% )
<b>Bicycle</b>	\$14.0	\$16.0 ( +\$2.0 ; +14.3% )
<b>Monthly Ticket</b>	\$135.0	\$160.0 ( +\$25.0 ; +18.5% )
<b>Tourist Ticket</b>	\$27.5	\$32.0 ( +\$4.5 ; +16.4% )

## **Assessment Criteria**

6. Under established policy, when considering applications for fare increases for ferry services including Star Ferry, we take into account the following criteria –

- (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 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.

Analysis on this application for fare increases based on these criteria are in paragraphs 7 to 21 below.

## **Operation status**

### Service Performance

7. Star Ferry's two franchised ferry routes provide regular services on a daily basis, with ferries of the "Central — Tsim Sha Tsui" route running at intervals of 6 to 12 minutes from 6:30 a.m. until 11:30 p.m., and ferries of the "Wan Chai — Tsim Sha Tsui" route running at intervals of 8 to 20 minutes from 7:20 a.m. until 11:00 p.m. Star Ferry deploys a total of eight ferries to run these two routes.

8. To assess whether Star Ferry has been providing proper and efficient ferry services, the Transport Department ("TD") regularly reviews Star Ferry's service performance through site surveys, examination of regular returns by the company and collection of public feedback, etc. According to the results of TD's survey on the two ferry routes conducted in November 2019, Star Ferry's average adherence rate to the Schedule of Services in provision of service stood at 95%. Its service performance was satisfactory.

9. Complaint figures concerning Star Ferry are small. From 2016 to 2018, TD received on average 12 complaints against Star Ferry annually<sup>2</sup>, accounting for less than 0.1% of the complaints against public transport services. As regards safety, the number of accidents involving Star Ferry remains at a consistently low level. From 2016 to 2018, the average number of incidents recorded by the company is 2.3 cases per year, with an average of 1.3 cases per year involving minor injuries on passengers.

10. Moreover, when Star Ferry was granted a new franchise<sup>3</sup> in 2018, it undertook to take forward new measures for service enhancement, including replacing pier facilities and enhancing the green performance of its fleet, the details and implementation progress of which are at **Annex 1**.

### Operation and financial situation

11. Star Ferry's revenue comprises farebox revenue and non-farebox revenue. For farebox revenue, Star Ferry's charge is the lowest among the cross-harbour public transport modes, which is 60% to 70%<sup>4</sup> cheaper than those of the Mass Transit Railway ("MTR") or franchised buses plying between Central/Wan Chai and Tsim Sha Tsui.

#### *Farebox revenue*

12. The existing fares of Star Ferry took effect in July 2017<sup>5</sup>. In view of the new fares, Star Ferry saw a slight increase (+2.1%) in farebox

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<sup>2</sup> This included the complaints referred to TD for follow-up action by the Transport Complaints Unit of the Transport Advisory Committee.

<sup>3</sup> In March 2018, the Chief Executive in Council has decided to grant a new franchise to Star Ferry for continued operation of the two franchised ferry routes, "Central - Tsim Sha Tsui" and "Wan Chai - Tsim Sha Tsui", for a period of 15 years from 1 April 2018 to 31 March 2033.

<sup>4</sup> The weekday/holiday upper deck fares for the "Central – Tsim Sha Tsui" route (\$2.7/\$3.7) and the weekday/holiday fares for the "Wan Chai – Tsim Sha Tsui" route (\$2.7/\$3.7) are compared with those for travelling between Central/Wan Chai and Tsim Sha Tsui by MTR (\$10.3) or by franchised buses (\$8.8-\$9.8) with an adult Octopus Card.

<sup>5</sup> Star Ferry has made three rounds of fare adjustments during the last franchise period. The first adjustment was made in 2009 and 2010 with a two-phase implementation. The second adjustment was made in 2012. The last fare adjustment was made on 15 July 2017. Since the existing franchise period of Star Ferry commenced in April 2018, no fare adjustments have been made.

revenue from around \$48.66 million in 2016 to around \$49.70 million in 2017. In addition, the patronage<sup>6</sup> of the ferry routes increased slightly by around 2.1% from about 52 800 passenger trips in 2017 to 53 900 passenger trips in 2018, resulting in an increase of around 6.8% in farebox revenue to around \$53.07 million in 2018.

13. However, in the fallout of the recent social events, Star Ferry, which is a transport mode much preferred by visitors normally, saw a year-on-year drop of nearly 20% in its total patronage between July and October this year. In particular, the average daily patronage in August this year (around 38 500 passenger trips) dropped by over 30%, compared with that in August last year (around 56 800 passenger trips). It is expected that the patronage will hardly return to the previous level in the short term.

#### *Non-farebox revenue*

14. To alleviate the pressure for fare increases, the Government allows Star Ferry to sub-let premises at its piers for commercial and retail purposes to generate non-farebox revenue to cross-subsidise the ferry operation. The rental income in 2017 (around \$34.77 million) and that in 2018 (around \$28.84 million) accounted for around 35.4% and 29.9% of its total revenue respectively.

15. Compared with that in 2016, Star Ferry's non-farebox revenue saw an increase to \$48.45 million (+15.8%) in 2017. This is mainly attributable to the new restaurant opened in the fourth quarter of 2016 at the Wan Chai Pier, which has been quite popular, contributing to an increase in the turnover rent from pier shops. This major source of non-farebox revenue once increased from around \$29.16 million in 2016 to around \$34.77 million in 2017, with an increase of around 20%. However, owing to the construction works near the Wan Chai Pier and the fact that people became less interested in visiting the pier restaurant as enthusiasm for the newly-opened restaurant subsided, and given an intensely competitive business environment, growth in the income failed to sustain. As a result, the rental income of the pier shops dropped significantly to around \$28.84 million in 2018, by around 17.0%.

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<sup>6</sup> Elderly passengers are included in the total patronage. Under Star Ferry's policy and with some financial help from the Government, elderly passengers are given free rides. Since 2008, Star Ferry has offered free rides for holders of "registration cards for people with disability" and one accompanying person on the "International Day of Disabled Person".

16. Advertising income accounts for about 8-9% of Star Ferry's total revenue. It increased slightly from around \$7.68 million in 2016 to around \$7.96 million in 2017 (year-on-year increase of 3.6%), and further to around \$8.52 million in 2018 (year-on-year increase of 7.1%). While growth has been registered in this source of income, it should be noted that it is a less stable income, which is difficult to plan for and predict.

17. Taking into account the farebox revenue and non-farebox revenue, although Star Ferry's total revenue was boosted by the fare adjustment and better performing non-farebox revenue in 2017, such revenue growth only lasted for one year. Compared with that in 2017, the total revenue of Star Ferry in 2018 declined by around 1.8% to around \$96.35 million.

### *Operating costs*

18. On operating costs, Star Ferry has been implementing a number of cost saving measures, including optimising the locations of the entrance turnstiles, automating the manual change arrangement by vending machines and rationalising the fleet deployment to save manpower, as well as replacing the DC power-generation system of vessels by an AC power-generation system to save maintenance expenses.

19. Furthermore, to help reduce the operating costs of Star Ferry, the Government has implemented various measures, including taking over the responsibility of pier maintenance, as well as reimbursing the pier rental and exempting the vessel licence fees under the Elderly Concessionary Fares Scheme. Details are at **Annex 2**.

20. Nonetheless, given the rising expenses on staff remuneration, fuels and piers, Star Ferry's total operating cost rose from around \$90.85 million in 2016 to \$99.07 million in 2018, representing an increase of \$8.22 million or around 9.1%.

21. Details of financial position of Star Ferry are tabulated below:

Table 2: Star Ferry's financial situation from 2016 to 2018

Financial Year (1 January to 31 December)	Average Daily Patronage	Farebox Revenue	Rental Income	Other Non-farebox revenues	Total Revenue	Total Operating Cost	Profit/Loss (Profit Margin)
2016	53 400	48.66	29.16	12.68	90.51	90.85	-0.34 (-0.4%)
2017	52 800	49.70	34.77	13.68	98.14	90.59	+7.56 (+7.7%)
2018	53 900	53.07	28.84	14.44	96.35	99.07	-2.71 (-2.8%)

Note: Figures of individual items in the table above may not add up due to rounding.

The above table shows that Star Ferry recorded a profit in 2017 upon the fare increase in July that year, together with the increase in rental income brought about by the restaurant business at the Wan Chai Pier in the year. However, with the decrease in rental income from restaurants and shops at the pier, in addition to the continuous increase in various cost items (including staff remuneration, fuel and pier expenses), Star Ferry recorded a loss of about 2.8% (about \$2.71 million) in the year after the fare increase, and the average profit margin of its franchised ferry services from 2016 to 2018 was around 1.6% per annum only. Given the limited growth in its patronage, coupled with rising operating costs and the foreseeable unstable economy of Hong Kong, Star Ferry has submitted the application for fare increases to maintain its financial viability.

22. Based on the analysis in paragraphs 7 to 10, overall speaking, Star Ferry has been providing proper and efficient ferry services to the public. In considering the application for fare increases, the Government will conduct assessment based on the various criteria set out in paragraph 6 above and take into account the views of this Panel and the Transport Advisory Committee. We will carefully process the application with a view to ensuring the financial viability of the franchised ferry services and effectively performing for the public our gate-keeper role on fares.

## **Advice sought**

23. Members are invited to offer views on the application for fare increases as set out in paragraph 5 above.

**Transport and Housing Bureau  
Transport Department  
December 2019**



**Details and Implementation Progress of Service Enhancement Measures of The “Star” Ferry Company, Limited**

When the Government granted a new franchise to The “Star” Ferry Company, Limited (“the Star Ferry”) in 2018, Star Ferry undertook to take forward new measures for service enhancement, the details and implementation progress of which are set out below:

- (a) To strengthen training for enhancing the service quality of staff
- Since the second half of 2018, Star Ferry has arranged a total of 20 training courses for about 230 members of pier staff and sailors to enhance their proficiency in English and Putonghua. As regards enhancement of service attitude, Star Ferry also arranges relevant courses on customer service for frontline staff each year.
- (b) To provide the Government and public with information for passengers available on its website and mobile applications for free use through the application programming interface
- Since December 2018, Star Ferry has been uploading the datasets of its ferry schedules and fare information to “data.gov.hk” to facilitate third-party development of other mobile applications.
- (c) To provide free Wi-Fi services at the passenger waiting area at Star Ferry piers in Central, Wan Chai and Tsim Sha Tsui
- Since May 2018, Star Ferry has been providing free Wi-Fi services to passengers at the three ferry piers.
- (d) To take suitable measures for attracting and retaining manpower
- In January 2018, Star Ferry conducted a special review and adjustment of the remuneration package for its crew (especially for the sailors working on board the ferries or at piers), and the staff remuneration was increased by an average of 8.6%. Star Ferry will continue to regularly review its staff remuneration packages and fringe benefits.

(e) To introduce the green propulsion system to the entire franchised ferry fleet by batches

- Star Ferry began installing a “diesel-electric propulsion system” to the first ferry in the third quarter of 2019, and a newly designed exhaust gas system will also be retrofitted to it. The ferry is expected to resume service by early 2020 upon completion of the retrofitting works and testing. The retrofitting works to the second ferry are expected to commence in the second half of 2020. Star Ferry has also committed that, so long as its financial position permits, with due consideration given to the prevailing technological standards, the Company will introduce the green propulsion system to the remaining six ferries by batches within the franchise period.

(f) To consolidate pier management and enhance the harbourfront

- Since the new franchise came into effect in 2018, Star Ferry has carried out renovation or improvement works to the facilities at Tsim Sha Tsui Pier, such as replacement of the turnstiles, directional signs, curtains for keeping out the rain, boarding/alighting ramps and seating facilities, etc. Meanwhile, Star Ferry has managed to bring in a number of quality tenants to different piers, thereby increasing the customer flow and vibrancy of the piers.
- Moreover, Star Ferry plans to submit an application to the Town Planning Board for re-alignment of the existing restaurant area and public land area located at the public viewing deck level of Central Pier No. 7, with a view to providing visitors with a more direct and convenient access to enjoy the harbourview, as well as improving the business environment thereat.
- To make better use of Central Pier No. 7 and the Central Terminal Building, Star Ferry has been planning out concrete proposals for revitalising the harbourfront, with a view to generating more non-farebox revenue by bringing in commercial elements. However, as such proposals would engage a number of shops and eateries of larger scale, the general response was lukewarm in the fallout of recent public events. In view of this, it takes time for Star Ferry to review and re-formulate the details of the proposals, including the scale and mode, etc.

## Annex 2

### **Details of the Government's helping measures for Star Ferry**

The measures implemented by the Government to help reduce the operating costs of ferry services (including Star Ferry) include taking over the responsibility of pier maintenance, reimbursing pier rental and exempting vessel licence fees under the Elderly Concessionary Fares Scheme.

2. Star Ferry has been offering free rides to elderly passengers aged 65 or above since 1993. The revenue foregone (i.e. the amount of full adult fare) by Star Ferry in offering free rides has been reimbursed by the Government, capped by the actual revenue foregone or the sum of pier rentals and vessel licence fees, whichever is the less. In this connection, the Government's reimbursement to Star Ferry for offering free rides to elderly passengers amounts to around \$0.27 million per annum while the level of total revenue foregone by Star Ferry in offering free rides to the elderly is some \$3.04 million (i.e. Star Ferry has been absorbing most of the revenue foregone in offering free rides to the elderly). In 2016, the average daily patronage of elderly passengers was around 2 600 passenger trips. In 2018, the average daily patronage of elderly passengers enjoying the free ride concession on ferry increased slightly to around 2 900 passenger trips, accounting for around 5.4% of Star Ferry's total daily patronage of 53 800 passenger trips.

3. Besides, under the Government's Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, Star Ferry is also reimbursed for the difference between fares for persons with disabilities and \$2.