

LEGISLATIVE COUNCIL BRIEF

Ferry Services Ordinance
(Chapter 104)

“STAR” FERRY’S APPLICATION FOR FARE INCREASES

INTRODUCTION

At the meeting of the Executive Council on 8 December 2020, the Council **ADVISED** and the Chief Executive **ORDERED** that the Ferry Services (The “Star” Ferry Company, Limited) (Determination of Fares) (Amendment) Order 2020 (“the Order”) at **Annex A**, which sets out the new maximum fares chargeable by The “Star” Ferry Company, Limited (“Star Ferry”), should be made under section 19(1)(a) of the Ferry Services Ordinance.

2. The Order gives effect to the fare adjustments for Star Ferry’s two franchised ferry routes of “Central – Tsim Sha Tsui¹” and “Wan Chai – Tsim Sha Tsui”. Upon the commencement of the Order at **Annex A**, Star Ferry will adopt the new fare scale, which also reflects the new maximum fares, on 9 February 2021. The concerned fare scale is shown in the tables at **Annex B** for Members’ ease of reference.

JUSTIFICATIONS

Star Ferry’s Application for Fare Increases

3. In April 2019, Star Ferry submitted an application for fare increases to raise the fares of the two ferry services by \$0.3 to \$0.5 per trip, with an average fare increase rate of around 16.5% taking all fare types into consideration. Details of Star Ferry’s application and the Government’s recommendations are set out in Table 1 below –

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

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

	Existing fares	Star Ferry’s application and the Government’s recommendation
“Central – Tsim Sha Tsui” route		
<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%)
“Wan Chai – Tsim Sha Tsui” route		
<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%)
Bicycle	\$14.0	\$16.0 (+\$2.0 ; +14.3%)
Monthly Ticket	\$135.0	\$160.0 (+\$25.0 ; +18.5%)
Tourist Ticket	\$27.5	\$32.0 (+\$4.5 ; +16.4%)

Assessment Criteria on the Application for Fare Increases

4. 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. Star Ferry's operating costs, particularly staff remuneration as well as pier and vessel maintenance costs, are on the rise, and fares have to be suitably adjusted from time to time in order to maintain the financial viability of the service.

5. When considering applications for fare increases for ferry services, we take 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.

6. We have conducted an assessment on Star Ferry's application on the above basis. We find that there is a case for fare increases. Details of our analysis are set out in the ensuing paragraphs.

Financial Performance

7. The existing fares of Star Ferry took effect in July 2017 (i.e. more than three and a half year ago by the time this fare increase takes effect)². Star Ferry's franchised ferry services achieved a profit margin of 7.7%

² Star Ferry has made three rounds of fare adjustments during the last franchise period from 2008 to 2018. The first adjustment was made in 2009 (+\$0.1-\$0.3 for adult fares) and 2010 (+\$0.2-\$0.5 for adult fares) as a two-phase implementation. The second adjustment was made in 2012 (+\$0.4 for adult holiday fares). The last fare adjustment was made in July 2017 (+\$0.2-\$0.3 for adult fares). Since the existing franchise period of Star Ferry commenced in April 2018, no fare adjustment has been made.

(\$7.56 million) in 2017 after the last fare increases, but already recorded a loss of 2.8% (\$2.71 million) in 2018. Its financial situation deteriorated continuously in 2019 and 2020 in light of the public order events and COVID-19 pandemic. Details of Star Ferry's financial performance from 2016 to 2019 are set out in Table 2 below –

Table 2: Star Ferry's financial performance from 2016 to 2019 ^{Note 1}

Year ^{Note 2}	Average daily patronage	Farebox revenue	Rental income	Other non-farebox revenues	AEF	Total revenue		Total operating cost	Profit/loss (profit margin ^{Note 3})
						With AEF	Without AEF		
(\$ million)									
2016	53 400	48.66	29.16	12.68	-	NA	90.51	90.85	-0.34 (-0.4%)
2017	52 800	49.70	34.77	13.68	-	NA	98.14	90.59	+7.56 (+7.7%)
2018	53 900	53.07	28.84	14.44	-	NA	96.35	99.07	-2.71 (-2.8%)
2019	49 200	48.34	28.68	14.84	1.04	92.90	91.86	97.39	-4.50 (-4.9%)

Note 1: Figures of individual items may not add up due to rounding.

Note 2: Star Ferry's financial year is from 1 January to 31 December.

Note 3: Profit margin is "Profit/loss" over "Total revenue (without AEF)". AEF subsidies are excluded as they are one-off in nature and would be offset by the operating cost.

Farebox revenue

8. Star Ferry's revenue comprises farebox revenue and non-farebox revenue. In view of the current fares implemented in July 2017, Star Ferry saw a slight increase in farebox revenue from \$48.66 million in 2016 to \$49.70 million in 2017 (+2.1%). In addition, the daily patronage³ 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 6.8% in farebox revenue to around \$53.07 million in 2018.

³ Elderly passengers who are eligible for free ferry rides are included in the total patronage. 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".

9. At present, under Star Ferry's policy and with some financial help from the Government, elderly passengers are given free rides. The revenue foregone for Star Ferry for implementing this initiative is around \$3 million per annum.

10. However, in the fallout of the public order events in 2019 and COVID-19 pandemic in 2020, Star Ferry, a transport mode much preferred by visitors, saw a drop of about 23% in total patronage between July and December 2019 and a drop of 56% between January and October 2020 as compared to the corresponding periods in 2018. Average daily patronage of Star Ferry's services from 2018 to 2020 are at **Annex C**.

Non-farebox revenue

11. All along, 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 (\$34.77 million) and 2018 (\$28.84 million) accounted for around 35.4% and 29.9% of Star Ferry's total revenue respectively.

12. Compared with that in 2016, Star Ferry's non-farebox revenue saw an increase to \$48.45 million (+15.8%) in 2017. This was mainly attributable to the new restaurant that opened in the fourth quarter of 2016 at the Wan Chai Pier, which had been quite popular, contributing to an increase in the turnover rent from pier shops. This major source of non-farebox revenue once increased from \$29.16 million in 2016 to \$34.77 million in 2017, with an increase of around 20%. However, due to the inaccessibility arising from the construction works nearby and other factors, the rental income of the pier shops dropped to \$28.84 million in 2018, by around 17.0%, and remained at almost the same level in 2019 (\$28.68 million).

13. During 2016 to 2019, advertising income accounts for about 8% to close to 10% of Star Ferry's total revenue⁴. It increased slightly from \$7.68 million in 2016 to \$7.96 million in 2017 (+3.6%), and further to \$8.52 million in 2018 (+7.1%) and \$8.75 million in 2019 (+2.7%). While growth has been registered in the past few years, the prospect of any further growth in advertising income is difficult to plan for and predict, especially in light of the unforeseeable economic outlook.

⁴ AEF subsidies are excluded from the calculation of total revenue in 2019.

14. Combining the farebox revenue and non-farebox revenue above, Star Ferry's total revenue showed a downward trend (declined by 1.8% to \$96.35 million in 2018 and by 3.6% to \$92.90 million in 2019, even taking into account the AEF's effect in the last quarter of 2019).

Operating costs

15. On operating costs, Star Ferry has been implementing a number of cost saving measures, including rationalising the fleet and manpower deployment, as well as adjusting the ferry overhaul schedules to match the retrofitting works of diesel-electric propulsion system on the ferries.

16. Nonetheless, given the rising staff remuneration, pier maintenance and other expenses, Star Ferry's total operating cost rose from \$90.85 million in 2016 to \$99.07 million in 2018, representing an increase of \$8.22 million or around 9.1%. Star Ferry managed to reduce the operating cost by 1.7% to \$97.39 million in 2019, mainly through adjustment to fleet overhaul schedule to save maintenance cost.

17. To help further reduce the operating costs of Star Ferry, the Government has implemented various measures, including assisting Star Ferry in taking up some pier maintenance works, as well as reimbursing the pier rental and exempting the vessel licence fees under the Elderly Concessionary Fares Scheme. In addition, to assist the transport trades in coping with the operating pressure under the current economic situation, the Government has implemented a host of measures under the AEF, including providing fuel subsidy and wage subsidy and reimbursing the repair and maintenance cost and insurance premium for ferry operators. However, AEF subsidies are one-off in nature and will not assist the long-term financial performance of Star Ferry. Details are at **Annex D**.

Service Performance

18. 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. The service performance of Star Ferry has been satisfactory. For instance, 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%.

19. All along, there have not been many public complaints on Star Ferry's service performance. From 2016 to 2019, TD received on average 11 complaints against Star Ferry annually⁵, 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 2019, the average number of incidents recorded by the company is 2.5 cases per year, with an average of 1.3 cases per year involving minor injuries on passengers.

20. Moreover, when Star Ferry was granted a new franchise⁶ in 2018, it undertook to take forward new measures to enhance service and generate additional revenue, including replacing pier facilities, enhancing the green performance of its fleet and consolidating pier management. The details and implementation progress of the measures are at **Annex E**. In particular, notwithstanding its dire financial situation, Star Ferry continues to press ahead with its commitment to promote green ferry services, by investing and converting its first franchised ferry to more environmental propulsion system for operation since mid-2020.

21. Based on the assessment above, and taking into account the views of the Legislative Council ("LegCo") Panel on Transport ("the Panel") and the Transport Advisory Committee ("TAC"), we find that there is a case for fare increases. Major considerations are summarised as follows –

- (a) Star Ferry already suffered losses of \$2.71 million and \$4.50 million in 2018 and 2019 respectively;
- (b) Star Ferry suffered from a significant drop in patronage and thus farebox revenue, which would unlikely return to previous level in the short to medium run;
- (c) non-farebox revenue (including rental and advertising income) could not be guaranteed in light of the uncertain economic situation; and

⁵ This includes the complaints referred to TD for follow-up action by the Transport Complaints Unit of the Transport Advisory Committee.

⁶ In March 2018, the Chief Executive in Council approved the grant of 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.

- (d) operating costs would likely continue to increase.

Impact on Passengers

22. It is estimated that the fare increases will affect about 95% of the total passengers of Star Ferry's franchised services, but the absolute amount in fare increases is relatively small, ranging between **\$0.3 and \$0.5**. Specifically –

- (a) 70% adult passenger trips would pay \$0.5 more per trip for travelling on the upper deck of the “Central – Tsim Sha Tsui” route on weekdays, the “Central – Tsim Sha Tsui” route on Saturdays, Sundays and public holidays and the “Wan Chai – Tsim Sha Tsui” route on all days;
- (b) 19% adult passenger trips would pay \$0.4 more per trip for travelling on the lower deck of the “Central – Tsim Sha Tsui” route on weekdays; and
- (c) 6% child passenger trips or people with disabilities would pay \$0.3 more per trip.

23. As for elderly passengers who take up around 5% of the total patronage, Star Ferry will continue to offer free rides to them hence they will **not** be affected. Fare increases for monthly tickets, bicycle tickets and tourist tickets should have a minimal impact on these passengers given the very low utilisation⁷.

24. After the fare adjustments, Star Ferry is still the most affordable cross-harbour public transport mode. Currently, it costs an adult \$10.3 with Octopus Card⁸ 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 \$8.8-\$9.8. Upon the fare adjustments (i.e. \$3.2 (weekday)/\$4.2 (weekend and public holidays) for adult upper deck fares),

⁷ The users of monthly tickets, tourist tickets and bicycle carriages account for about 0.04% of the total patronage.

⁸ This does not take into account the time-limited 20% discount for Octopus users which is valid from 1 July 2020 to 31 March 2021.

travelling on Star Ferry will still be about 50% to 70% cheaper than travelling on the MTR or franchised buses.

TAC's Advice

25. The TAC was consulted on the application for fare increases from Star Ferry on 21 January 2020. The TAC considered all the relevant factors and supported the rates of fare increases recommended by the Government. The TAC's detailed advice is set out in its letter to the Secretary for Transport and Housing at **Annex F**.

Implementation

26. The Chief Executive in Council may by order determine the maximum ferry fares, which are subject to negative vetting by the LegCo. The Order at **Annex A**, which takes effect on 9 February 2021, will be published in the Gazette on 11 December 2020 and tabled before LegCo on 16 December 2020. Accordingly, new fares will be charged as per the new fare scale set out at **Annex B**.

THE ORDER

27. The Schedule to the Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares) Order (Cap. 104C) sets out the maximum fares that a grantee of a franchise to operate a ferry service may charge. The Order amends the Schedule to give effect to the proposed fare increases set out in paragraph 3 above.

LEGISLATIVE TIMETABLE

28. The legislative timetable is as follows –

Publication in the Gazette	11 December 2020
Tabling at the LegCo for negative vetting	16 December 2020
Commencement date	9 February 2021

IMPLICATIONS OF THE PROPOSAL

29. 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, civil service, environmental, gender implications and no significant sustainability and family implications.

30. The economic and financial implications of the proposal are set out at **Annex G**.

PUBLIC CONSULTATION

31. We consulted the Panel on 20 December 2019. The Panel noted that Star Ferry had all along been the most affordable cross-harbour public transport mode and had no objection to the proposed fare increases. Separately, the Panel also requested Star Ferry to continue to enhance its services and facilities. As mentioned above, we consulted the TAC on 21 January 2020.

PUBLICITY

32. We will issue a press release on 8 December 2020. A spokesman will be available to answer media enquiries.

BACKGROUND

33. Star Ferry has its unique historical significance and has always been well received by the community and visitors. Established in 1898, Star Ferry has already been running ferry services for over a century. Currently, Star Ferry's two 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 7:20 a.m. until 11:00 p.m. A total of eight vessels are deployed to run these two routes.

34. In tandem with the commissioning of the three cross-harbour tunnels over the years⁹ 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, Star Ferry's fares are the lowest.

35. It is the Government's long-standing policy to let public transport services be 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 sections 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 Council¹⁰. The two Star Ferry routes, namely the "Central – Tsim Sha Tsui" and "Wan Chai – Tsim Sha Tsui" routes, are the only franchised ferry services in Hong Kong. Star Ferry's current franchise started in April 2018 for a period for 15 years.

⁹ Cross Harbour Tunnel, Eastern Harbour Crossing and Western Harbour Crossing were opened in 1972, 1989 and 1997 respectively.

¹⁰ The Chief Executive in Council determines the maximum fares applicable to the ferry services concerned through the Schedule to the Ferry Services (The "Star" Ferry Company, Limited) (Determination of Fares) Order (Cap. 104C), and Star Ferry has been charging at these maximum fares. Therefore, to enable fare increases by Star Ferry, approval from the Chief Executive in Council is required to revise the Order.

36. The two Star Ferry routes are amongst the eight in-harbour routes in Hong Kong¹¹. The established policy is that the eight 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, the details of which are set out in **Annex D**.

37. In addition, the Government allows ferry operators to sub-let premises at piers for commercial and retail activities to generate non-farebox revenue for cross-subsidising the ferry operation so as to alleviate pressure for fare increases. Star Ferry has sub-let almost all areas at its pier premises in Tsim Sha Tsui, Central and Wan Chai approved for commercial and retail activities.

38. In order to encourage the use of green transport technologies in marine vessels, the Environmental Protection Department will launch a pilot scheme for electric ferries to subsidise operators of in-harbour routes, including Star Ferry, to purchase one electric ferry for a specific route under them, and conduct a two-year trial on the electric ferries to test the relevant technologies and business viability.

ENQUIRIES

39. Any enquiries on this brief can be directed to Ms Candy KWOK, Assistant Commissioner for Transport/Management & Paratransit (Tel: 3842 5513).

Transport and Housing Bureau 8 December 2020

¹¹ The remaining six in-harbour routes are the “North Point – Hung Hom”, “North Point – Kowloon City”, “Sai Wan Ho – Kwun Tong”, “Sai Wan Ho – Sam Ka Tsuen”, “North Point – Kwun Tong” and “Central – Hung Hom” routes.

¹² In normal times, the Government does not offer subsidies for private operators to run public transport services in Hong Kong, save for the Special Helping Measures (“SHM”) provided to outlying island ferry services. 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.

**Ferry Services (The "Star" Ferry Company, Limited)
(Determination of Fares) (Amendment) Order 2020**

(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 9 February 2021.

**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

"\$2.7"

Substitute

"\$3.2".

(2) The Schedule, item 1(a)—

Repeal

"\$3.7"

Substitute

"\$4.2".

(3) The Schedule, item 1(b)—

Repeal

"\$1.6"

Substitute

"\$1.9".

(4) The Schedule, item 1(b)—

Repeal

"\$2.2"

Substitute

"\$2.5".

(5) The Schedule, item 1(d)—

Repeal

"\$2.2"

Substitute

"\$2.6".

(6) The Schedule, item 1(d)—

Repeal

"\$3.1"

Substitute

"\$3.6".

(7) The Schedule, item 1(e)—

Repeal

"\$1.5"

Substitute

"\$1.8".

(8) The Schedule, item 1(e)—

Repeal

- "\$2.1"
Substitute
"\$2.4".
(9) The Schedule, item 2(a)—
Repeal
"\$2.7"
Substitute
"\$3.2".
(10) The Schedule, item 2(a)—
Repeal
"\$3.7"
Substitute
"\$4.2".
(11) The Schedule, item 2(b)—
Repeal
"\$1.6"
Substitute
"\$1.9".
(12) The Schedule, item 2(b)—
Repeal
"\$2.2"
Substitute
"\$2.5".
(13) The Schedule, item 2(d)—
Repeal

- "\$14"
Substitute
"\$16".
(14) The Schedule, item 3—
Repeal
"\$135"
Substitute
"\$160".
(15) The Schedule, item 4—
Repeal
"\$27.5"
Substitute
"\$32".

Clerk to the Executive Council

COUNCIL CHAMBER

2020

Explanatory Note

This Order increases the maximum fares for the following items which may be charged by The "Star" Ferry Company, Limited for the routes that it operates under franchise—

- (a) the carriage of a passenger (other than one under 3 years old);
- (b) the carriage of a bicycle;
- (c) a monthly ticket;
- (d) a tourist ticket.

New Fare Scale
(with effect from 9 February 2021)

(1) Central – 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	\$2.7	\$2.2	\$3.7	\$3.1	\$3.2 (+\$0.5)	\$2.6 (+\$0.4)	\$4.2 (+\$0.5)	\$3.6 (+\$0.5)
Child (between 3 and 12 years old) and passenger with disabilities	\$1.6	\$1.5	\$2.2	\$2.1	\$1.9 (+\$0.3)	\$1.8 (+\$0.3)	\$2.5 (+\$0.3)	\$2.4 (+\$0.3)
Child aged under 3 and passenger aged 65 or above ^{Note 1}	Free				Free			
Monthly Ticket ^{Note 2}	\$135				\$160(+\$25)			
Tourist Ticket ^{Note 3}	\$27.5				\$32(+\$4.5)			

Note 1: Upon production of HKID card or senior citizen card.

Note 2: It can be used on both ferry routes.

Note 3: Unlimited travel permitted for four consecutive days on the two ferry routes.

(2) Wan Chai – 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	\$2.7	\$3.7	\$3.2 (+\$0.5)	\$4.2 (+\$0.5)
Child (between 3 and 12 years old) and passenger with disabilities	\$1.6	\$2.2	\$1.9 (+\$0.3)	\$2.5 (+\$0.3)
Child aged under 3 and passenger aged 65 or above ^{Note 1}	Free		Free	
Monthly Ticket ^{Note 2}	\$135		\$160(+\$25)	
Tourist Ticket ^{Note 3}	\$27.5		\$32(+\$4.5)	
Bicycle (per bicycle) ^{Note 4}	\$14		\$16(+\$2)	

Note 1: Upon production of HKID card or senior citizen card.

Note 2: It can be used on both ferry routes.

Note 3: Unlimited travel permitted for four consecutive days on the two ferry routes.

Note 4: 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 around 5:00 p.m. to 7:45 p.m. on sailings from Wan Chai to Tsim Sha Tsui on weekdays;
- (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 ten bicycles or six bicycles and four wheelchairs are allowed on board. Priority will be given to wheelchair users.

Average Daily Patronage from 2018 to 2020

	First half (Jan - Jun)	Second half (Jul – Dec)	Whole year
2018	51 800	55 900	53 900
2019	55 700 (+8%)	42 900 (-23%)	49 200 (-9%)
2020	24 500 (-56%)	23 800# (-45%)	24 200# (-51%)

Figures in bracket are % change from previous year

Projected figures based on actual patronage in July to October 2020 and forecast of remaining months

Details of the Government's Helping Measures for Star Ferry

(A) Long-term helping measures

The measures implemented by the Government to help reduce 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 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 2018 and 2019, the average daily patronage of elderly passengers enjoying the free ride concession were 2 900 and 2 800 passenger trips respectively, accounting for around 5.4% and 5.7% of Star Ferry's total daily patronage.

3. Besides, under the Government 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.

(B) AEF measures

4. In addition, to assist the transport trades in coping with the operating pressure under the current economic environment, the Government has been providing subsidies to public transport operations under the AEF. Major subsidy items Star Ferry is eligible for include –

(a) reimbursement of one-third of the actual fuel cost for one year between July 2019 and June 2020;

- (b) reimbursement of 100% of the actual regular repair and maintenance costs and insurance premium for six months between 1 April and 30 September 2020; and
- (c) Employment Support Scheme and wage subsidy for ferry operators for hiring of eligible employees aged 65 or above for the six-month periods between 1 June and 30 November 2020.

As these subsidies are one-off in nature, they will not affect the long-term financial performance of Star Ferry.

Details and Implementation Progress of Service Enhancement and Revenue Generating Measures of Star Ferry

When the Government granted a new franchise to the Star Ferry in 2018, Star Ferry undertook to take forward new measures for service enhancement and revenue generation, 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 with the attendance of about 150 pier and ferry staff 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 the 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 their 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 their staff remuneration packages and fringe benefits.

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

- Star Ferry began converting its first franchised ferry to “diesel-electric propulsion system” in the third quarter of 2019. The ferry has already resumed its daily ferry service since mid-2020. The retrofitting work to the second ferry has commenced in the third quarter of 2020 and is expected to complete in early 2021. Star Ferry has also committed that, so long as its financial position permits, and 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. 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.
- To make better use of Central Pier No. 7 and the Central Terminal Building, Star Ferry has been planning concrete proposals for revitalising the harbourfront, with a view to generating more non-farebox revenue by bringing in commercial elements, as well as providing the public with a better harbourfront environment. 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 economic downturn. 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 of operation.



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19 February 2020

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,

Star Ferry's Application for Fare Increases

The "Star" Ferry Company, Limited ("Star Ferry") submitted an application to the Government in April 2019 for increasing the fares of its two franchised ferry routes, namely, the "Central – Tsim Sha Tsui" and the "Wan Chai – Tsim Sha Tsui" routes, by \$0.3 to \$0.5 per trip, with an average fare increase rate of around 16.5% taking all fare types into consideration. The application was considered by the Transport Advisory Committee ("TAC") at the meeting held on 21 January 2020. This letter sets out TAC's advice on the application.

Basis of TAC's consideration

2. When considering Star Ferry's application for fare increases, TAC noted that the Government took into account the following factors in 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.

Financial performance

3. The existing fares of Star Ferry took effect in July 2017. Star Ferry's franchised ferry services achieved a profit margin of around 7.7% (\$7.56 million) in 2017 after the last fare increases, but recorded a loss of around 2.8% (\$2.71 million) in 2018.

4. With the new fares and increase in patronage, there was a continuous growth in the farebox revenue of Star Ferry in 2017 and 2018. TAC members noted, however, that very much due to the recent (and on-going) public order events, Star Ferry, which was a transport mode much preferred by visitors, saw a year-on-year drop of nearly 20% in total patronage between July and October in 2019, and that this situation would unlikely be corrected in the short term.

5. Members also noted that whilst there was continuous growth in advertising income, the earlier increase in rental income mainly brought by the new restaurant at the Wan Chai Pier could not be sustained, due to the inaccessibility arising from the construction works nearby and the subsided enthusiasm for the restaurant. As a result, the non-farebox revenue of Star Ferry dropped to around \$43.28 million in 2018 (year-on-year decrease of 10.7%).

6. Compounded with the escalating operating costs (including staff remuneration, fuels and pier-related expenses), Star Ferry recorded a loss of around 2.8% (\$2.71 million) in 2018. While Star Ferry expects that the rental income at the Central Pier could rise in view of the synergy effect brought by the unified management arrangement upon the earlier renewal of franchise, the uncertain economic outlook for Hong Kong as a whole means that limited growth in non-farebox revenue (including rental income) is expected.

Service performance and cost saving and revenue generating measures

7. Members were concerned about the long-term financial sustainability and environmental performance of Star Ferry. In this regard, they took note of the cost saving measures by Star Ferry, as well as efforts to increase non-farebox revenue, such as bringing in more quality tenants to its piers. Members noted the continuous efforts put in by Star Ferry to protect the environment (e.g. installation of green propulsion system in its fleets). Members also agreed that the service performance of Star Ferry had all along been satisfactory, and was an icon of the city.

TAC's recommendation

8. Members agreed that there should be a case for fare increases, taking into account the facts that:

- (a) Star Ferry already suffered a loss (\$2.71 million) in 2018;
- (b) Star Ferry suffered from a significant drop in patronage and thus farebox revenue, which would unlikely return to previous level in the short run;
- (c) non-farebox revenue (including rental and advertising incomes) could not be guaranteed in light of the uncertain economic situation; and
- (d) operating costs (including staff remuneration) would likely continue to increase.

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

- (a) 19% adult passengers paying \$0.4 more per trip for travelling on the lower deck of the “Central – Tsim Sha Tsui” route on weekdays;
- (b) 70% adult passengers paying \$0.5 more per trip for travelling on the upper deck of the “Central – Tsim Sha Tsui” route on weekdays, the “Central – Tsim Sha Tsui” route on Saturdays, Sundays and public holidays and the “Wan Chai – Tsim Sha Tsui” route on all days; and

- (c) 6% children passengers or people with disabilities paying \$0.3 more per trip.

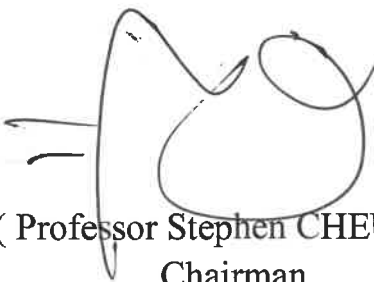
As for elderly passengers who take up 5% of the total patronage, Star Ferry would continue to offer free rides to them and hence they would not be affected. Fare increases for monthly tickets, bicycle tickets and tourist tickets should have a minimal impact on passengers given the very low utilisation¹.

10. TAC considered that the Government's recommended average rate of fare increases should be acceptable to the public, noting that the change in absolute amount in fares was small, and Star Ferry remained the most economical means to cross the Victoria Harbour.

11. Members suggested that the Government should continue to explore with Star Ferry how to enhance its long-term financial sustainability, services and environmental performance.

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,



(Professor Stephen CHEUNG)
Chairman

Transport Advisory Committee

¹ The users of monthly tickets, tourist tickets and bicycle carriages account for about 0.04% of the total patronage.

Economic and Financial Implications of the Proposal

ECONOMIC IMPLICATION

Given that ferry fares as a whole have a weighting of only 0.05% to 0.06% in the Composite Consumer Price Index and its sub-indices (i.e. Consumer Price Index (“CPI”)(A), CPI(B), and CPI(C)), the fare increase for the two ferry routes should have insignificant inflationary impact. Specifically, the average fare increase of 16.5% for the two ferry routes is estimated to have an impact of 0.001 percentage point on each of the CPIs in 2021, and negligible impact on the CPIs in 2022.

FINANCIAL IMPLICATION

2. Currently, under the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, Star Ferry is reimbursed of its revenue forgone for offering fare concessions for eligible persons with disabilities. After the fare adjustments, the reimbursement from the Government to the concerned ferry operator may increase marginally, impact of which is insignificant.

3. The non-means-tested Public Transport Fare Subsidy Scheme was implemented on 1 January 2019¹. Commuters with monthly public transport expenses exceeding \$400 are eligible for the public transport fare subsidy. Star Ferry is one of the many means of public transport services covered by the Scheme. After the fare adjustments, the Government subsidies required under the Scheme may increase marginally given that the expenses relating to the affected routes should not form the majority of most passengers’ total public transport expenses, and that the subsidy is provided for one-third of the actual public transport expenses in excess of \$400.

¹ With a view to further alleviating commuters’ fare burden amidst the pandemic situation, the Government has temporarily relaxed the monthly threshold for calculation of the subsidy from \$400 to \$200 from 1 July 2020 to 30 June 2021.