

**For discussion on
25 November 2022**

**Legislative Council Panel on Transport
Star Ferry's Application for Fare Increases**

Purpose

The “Star” Ferry Company, Limited (“Star Ferry”) has applied 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 long established and the most economical public transport means to cross the harbour, Star Ferry is also a key icon of Hong Kong and 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 Star Ferry’s service is limited, while its operating costs are on constant rise. Fares have to be adjusted from time to time to maintain the financial viability of the service.

4. The Ferry Services Ordinance (Cap. 104) requires that application for fare increases for franchised ferry routes be determined by the Chief-Executive-in-Council, while the Schedule to the Ferry Services (The “Star” Ferry Company, Limited) (Determination of Fares) Order (Cap. 104C) specifies the maximum fares that Star Ferry may charge for its franchised routes. In the course of processing 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 the Executive Council. The new fares have to go through negative vetting by the LegCo before implementation.

The Application for Fare Increases

5. In February 2022, Star Ferry applied for raising the fares of its two franchised ferry routes by \$1.8 to \$4.2 per trip and replacing the existing free rides offered to elderly with elderly concessionary fares, while eligible elderly can enjoy a concessionary fare of \$2 per trip under the \$2 Scheme¹. Details are set out in the table below –

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

	Existing fares	Star Ferry’s application for fare increases [fares payable under the \$2 Scheme by eligible elderly and disabled persons]
“Central – Tsim Sha Tsui” route		
<i>Monday to Friday – upper deck</i>		
• Adult	\$3.2	\$6.4 (+\$3.2)
• Children and Disabled	\$1.9	\$3.8 (+\$1.9) [\$2.0]
• Elderly	Free	\$3.8 [\$2.0]
<i>Monday to Friday – lower deck</i>		
• Adult	\$2.6	\$5.2 (+\$2.6)
• Children and Disabled	\$1.8	\$3.6 (+\$1.8) [\$2.0]
• Elderly	Free	\$3.6 [\$2.0]
<i>Saturday, Sunday and public holiday – upper deck</i>		
• Adult	\$4.2	\$8.4 (+\$4.2)
• Children and Disabled	\$2.5	\$5.0 (+\$2.5) [\$2.0]
• Elderly	Free	\$5.0 [\$2.0]
<i>Saturday, Sunday and public holiday – lower deck</i>		
• Adult	\$3.6	\$7.2 (+\$3.6)
• Children and Disabled	\$2.4	\$4.8 (+\$2.4) [\$2.0]

¹ Full name of the Scheme is the “Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities”.

	Existing fares	Star Ferry's application for fare increases [fares payable under the \$2 Scheme by eligible elderly and disabled persons]
• Elderly	Free	\$4.8 [\$2.0]
“Wan Chai – Tsim Sha Tsui” route		
<i>Monday to Friday</i>		
• Adult	\$3.2	\$6.4 (+\$3.2)
• Children and Disabled	\$1.9	\$3.8 (+\$1.9) [\$2.0]
• Elderly	Free	\$3.8 [\$2.0]
<i>Saturday, Sunday and public holiday</i>		
• Adult	\$4.2	\$8.4 (+\$4.2)
• Children and Disabled	\$2.5	\$5.0 (+\$2.5) [\$2.0]
• Elderly	Free	\$5.0 [\$2.0]
Bicycle	\$16	\$32 (+\$16)
Monthly Ticket	\$160	\$320 (+\$160)
Tourist Ticket	\$32	\$64 (+\$32)

Note: Under the \$2 Scheme, Hong Kong residents aged 60-64 holding JoyYou Cards, persons aged 65 or above holding Elder Octopus, Personalised Octopus or JoyYou Cards, and eligible persons with disabilities can enjoy a concessionary fare of \$2 per trip on ferry.

Assessment Criteria

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

- (a) the financial position of the ferry operator;
- (b) the forecasts of changes in operating costs, 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) measures implemented by the ferry operator to save cost and generate additional revenue.

Analysis on this application for fare increases based on these considerations are set out in paragraphs 7 to 19 below.

Operation Status

Financial situation

7. Star Ferry's financial situation has been deteriorating in recent years; it has been recording losses since 2018. In 2021, Star Ferry recorded a loss of over \$37 million. Its accumulated loss has exceeded its total assets, meaning the Company has been relying on debt to run its franchised services. Details of Star Ferry's financial performance in recent years are set out below –

Table 2: Star Ferry's financial situation from 2018 to 2021 ^{Note 1}

	Average daily patronage	Farebox revenue	Rental income	Other non- farebox revenue	AEF <small>Note 2</small>	Total revenue		Total operating cost	Profit/ loss (profit margin <small>Note 3</small>)
						<i>With AEF</i>	<i>Without AEF</i>		
						(\$ million)			
2018	53 900	53.07	28.84	14.44	NA	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 (-4.8%)
2020	23 300	21.91	24.71	14.85	22.22	83.69	61.47	100.02	-16.33 (-19.5%)
2021	26 200	28.11	22.70	14.08	0.05	64.94	64.89	102.16	-37.22 (-57.3%)

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

Note 2: Full name is the "Anti-epidemic Fund".

Note 3: Profit margin is "Profit/loss" over "Total revenue (with AEF)".

Farebox revenue

8. Star Ferry's revenue comprises farebox revenue and non-farebox revenue. In terms of fares, Star Ferry is the most economical cross-harbour public transport mode. Its fares are around 60% to 70% lower than taking the MTR or franchised bus to travel between Central/Wan Chai and Tsim Sha Tsui². Prior to the COVID-19 pandemic, farebox revenue

² By comparing the weekday/weekend upper deck adult fares of the "Central – Tsim Sha Tsui" route (\$3.2/\$4.2) and weekday/weekend adult fares of the "Wan Chai – Tsim Sha Tsui" route (\$3.2/\$4.2), with the Adult Octopus MTR fares (\$10.1) and adult franchised bus fares (\$10.9) between Central/Wan Chai and Tsim Sha Tsui.

accounted for over 50% of Star Ferry's total revenue. Back then, its patronage stood at over 50 000 passenger trips per day, which made up less than 1% of the total public transport patronage.

9. As the railway network expands and cross-harbour public transport services become more comprehensive, coupled with the continuous change in travel pattern of passengers (e.g. the \$2 Scheme launched in 2012 has altered the commuting pattern of some elderly), Star Ferry's patronage has been falling in recent years: its daily average patronage dropped from around 63 000 passenger trips in 2008 to around 53 900 passenger trips in 2018. Moreover, in the fallout of the COVID-19 pandemic, the number of visitors to Hong Kong has dropped significantly, while local patronage has remained at low levels. Even with the new fares that took effect in February 2021³, Star Ferry's farebox revenue in that year still dropped by about 47% when compared with that in 2018. The fifth wave COVID further brought the patronage of Star Ferry to a record low in the first quarter of 2022. The average daily patronage in March 2022 was 10 700 passenger trips, which was 20% of that in the same period of 2018. Despite the subsiding pandemic and gradual easing of anti-epidemic measures, it is expected that Star Ferry's local patronage will hardly return to the pre-COVID level due to the multiple impact of competition from other public transport modes, extension of \$2 Scheme to persons aged 60 to 64 starting from February 2022 and change in work and travel patterns of the public. Meanwhile, the extent and rate of recovery of visitors to Hong Kong, on whom Star Ferry heavily relies on, remain uncertain.

10. On the other hand, Star Ferry has been offering free rides to elderly passengers aged 65 or above since 1992. In recent years, elderly passengers account for around 5% to 10% of Star Ferry's total patronage. The Government has been reimbursing part of the revenue foregone by Star Ferry in offering free rides to elderly passengers in the form of reimbursement of pier rental and exemption of vessel licence fees under the Elderly Concessionary Fares Scheme ("ECFS")⁴, amounting to about \$0.27 million per annum. The revenue foregone by Star Ferry after netting off Government reimbursement was about \$2.6 million in 2021, which accounted for nearly 10% of its farebox revenue.

³ Star Ferry was approved to raise its fares by \$0.3 to \$0.5 per trip at that time.

⁴ The reimbursement is capped by the actual revenue foregone or the sum of pier rentals and vessel licence fees, whichever is less.

11. In the current application, Star Ferry also applied to align itself with other public transport operators by replacing the existing elderly free rides with elderly concessionary fares. In fact, Star Ferry is the only public transport operator that offers free rides to elderly for whom most other operators provide about half-fare concessions. Under the \$2 Scheme, eligible elderly can travel on most public transport modes at \$2 per trip and the Government will reimburse the participating operators the difference between the elderly fares and \$2. Taking this opportunity, Star Ferry would like to rationalise its fare concession arrangement, which would help improve its long-term financial situation.

Non-farebox revenue

12. Star Ferry's non-farebox revenue mainly includes rental income⁵, advertising income⁶ and other income (such as tele-base station income and vessel rental). To alleviate the pressure for fare increases, the Government has allocated the Central Pier No. 7 and Central Terminal Building, Wan Chai Ferry Pier and Tsim Sha Tsui Ferry Pier to Star Ferry for management, and permitted Star Ferry to sub-let premises at those piers for commercial, retail and advertising concessions to generate non-farebox revenue to cross-subsidise its operating expenses.

13. That said, the non-farebox revenue performance largely hinges on the overall economic environment. Hard hit by the pandemic, Star Ferry's non-farebox revenue has been declining in recent years, with the rental income dropping from close to \$29 million in 2018 to about \$23 million in 2021, representing a drop of over 20%. Its advertising income is relatively unstable, with a slight increase in 2020 compared to 2019, but falling back in 2021, down by about 5% from 2018.

14. Star Ferry has been actively identifying ways to expand its non-farebox income sources, such as through collaborating with different brands and organisations in hosting bazaars, ferry wrap campaigns and free-ride days, as well as improving pier facilities to generate more rental and advertising income. In order to increase advertising income, improve pier outlook and inject vibrancy into the harbourfront, Star Ferry is exploring projecting artistic lighting to the façade of the Central Terminal

⁵ From 2018 to 2021, rental income accounted for about 30% to 40% of Star Ferry's total revenue (excluding the AEF).

⁶ From 2018 to 2021, advertising income accounted for about 10% to 15% of Star Ferry's total revenue (excluding the AEF).

Building. It is also considering upgrading the four billboards on the external wall at the Tsim Sha Tsui Ferry Pier to LED ones to attract more clients.

Operating costs

15. On operating costs, Star Ferry's cost structure is relatively inelastic, as staff cost, vessel maintenance and pier operating costs, as well as fuel cost already take up about 65%, 20% and 5% respectively of Star Ferry's total costs, while the remaining 10% comprises depreciation, insurance premium and other expenses. Star Ferry therefore has limited room for compressing its costs. Notwithstanding, Star Ferry has been trying hard to lower its operating expenses. The total operating costs between 2018 and 2021 had only risen by 3%. However, with rising staff cost, increase in vessel maintenance expenses and high fuel cost, Star Ferry's operating costs are expected to continue to rise even with the Government's regular measures including undertaking pier maintenance work, reimbursing pier rentals and waiving vessel licence fees.

16. On the other hand, to assist the ferry trade (including Star Ferry) in coping with the operating pressure arising from the pandemic, the Government has provided various subsidies, such as fuel subsidy, wage subsidy and subsidy for regular repair and maintenance under the AEF and Employment Support Scheme. As at October 2022, Star Ferry has received over \$31 million under the schemes, and is expected to receive another \$12 million later on.

Service performance

17. 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.

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. According to TD's annual survey on the two ferry routes conducted in November 2021, Star Ferry's adherence rate to the Schedule of Service stood at 100%. The service performance has overall been satisfactory.

There have also not been much public complaints on Star Ferry's service performance. From 2019 to 2021, TD received on average 14 complaints⁷ against Star Ferry per year, accounting for less than 0.1% of the complaints against public transport services. As regards safety, the number of incidents involving Star Ferry remained at a consistently low level. From 2019 to 2021, the average number of incidents recorded by the Company was about 1.3 cases per year.

19. In the past few years, Star Ferry has implemented various measures to enhance service and operation. For example, in 2020 and 2021, Star Ferry installed green propulsion systems for the "Morning Star" and "Silver Star" vessels to help improve air quality. Star Ferry has also joined the Pilot Scheme for Electric Ferries spearheaded by the Environmental Protection Department to test the technical and commercial feasibility of using electric ferries in Hong Kong, with a view to reducing carbon emission and assisting the Government in achieving carbon neutrality.

The Government's Preliminary Assessment

20. Based on the analysis in paragraphs 7 to 19, overall speaking, Star Ferry has been providing proper and efficient ferry services to the public. However, the combined effects of the drop in patronage, unstable non-farebox revenue, rise in operating costs and COVID-19 pandemic have resulted in the critical financial situation of Star Ferry. It has been relying on debt to maintain its franchised services, and hence is in an urgent need to adjust its fares in order to improve its financial viability.

21. Nevertheless, the rate of fare increase for the two franchised routes requested by Star Ferry (\$1.8 to \$4.2 per trip) is nowhere low. The Government will listen carefully to Members' views and strike a proper balance taking into account different factors including public acceptance of the proposed fares. The Government's view is that to continuously improve the financial situation of Star Ferry, apart from the need of gradual recovery of local and tourist patronage, a three-pronged approach is required in terms of fare level, non-farebox revenue (including pier commercial facilities rental and advertising income), as well as government subsidy (including the existing reimbursements under the ECFS and \$2 Scheme, and ongoing support from the Government in taking

⁷ Including the complaints referred to TD for follow-up action by the Transport Complaints Unit of the Transport Advisory Committee.

up pier maintenance). This will enable Star Ferry to come up with a long-term and financially viable operating plan to continue to provide efficient and quality services to the public and tourists, and devote more resources to improve and upgrade the service and brand image of this historical icon of our Victoria Harbour.

Advice sought

22. Members are invited to offer views on the fare increase application of Star Ferry.

Transport and Logistics Bureau
Transport Department
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