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27 March 2012

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

Dear Ms Cheng,

**The “Star” Ferry Company, Limited’s
Fare Increase Application for Franchised Services**

This letter sets out the Transport Advisory Committee (“TAC”)’s advice to the Chief Executive in Council (“CE-in-Council”) on the fare increase application made by The “Star” Ferry Company, Limited (“SF”) in respect of its two franchised ferry services, namely, the “Central – Tsim Sha Tsui” and the “Wan Chai – Tsim Sha Tsui” routes.

When considering and advising on the fare increase application, Members have taken into account all relevant factors, including –

- (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.

Members noted that in line with the projected slight increase in fare paying patronage, SF forecast its fare box revenue at existing fare level for 2012 to be the same as 2011, followed by an increase of 1.2% in 2013. As regards the non-fare box revenue, SF did not include any non-recurrent advertising income in its forecast for 2012 and 2013 in the fare increase application due to market uncertainties. As such, the total revenue for 2012 and 2013 was estimated to be \$76.45 million and \$77.88 million respectively, which would be \$4.10 million (5.1%) and \$2.67 million (3.3%) lower than 2011. The TAC agreed to the Administration's view that SF's projection and assumption are not unreasonable.

SF also forecast that its total operating costs would see further rises of 2.5% and 3.9% in 2012 and 2013 respectively, due to pay increase for all its staff, rising fuel cost, and increase in pier operation expenses as a result of the implementation of the Minimum Wage Ordinance in May 2011 and therefore higher tender prices on contract renewals for cleansing and security services. The TAC agreed to the Administration's view that SF's assumption is generally acceptable.

At the existing fare level, SF would therefore incur a loss of \$3.20 million (i.e. at a profit margin of -4.2%) and \$4.86 million (i.e. at a profit margin of -6.2%) in 2012 and 2013 respectively. Hence, Members considered that SF had grounds to increase the fares of its two franchised ferry services.

With regard to its past performance, Members noted the high service adherence rate of SF's two routes at 98%, the customer satisfaction as reflected in opinion surveys, and the consistently low accident rate. Members also noted the efforts put in by SF on the environment side.

Members agreed that overall, SF had been providing a proper and efficient service to the public.

As regards the cost saving measures, Members noted that SF had implemented in the past ten years a number of measures which produced total savings of about \$5.4 million per annum.

In addition to the financial aspects discussed above, Members also took into account the fact that the local community and overseas visitors generally recognized that the “Central – Tsim Sha Tsui” ferry service, which has been in operation for over a century since 1898, as one of Hong Kong’s most important heritage and historical icons.

Taking into account all relevant factors including those highlighted above, Members considered it justified for the Government to introduce an exceptional helping measure to reimburse SF with the total revenue foregone arising from the offer of the elderly concessions for the “Central – Tsim Sha Tsui” ferry service in 2012 (with effect from the implementation of the new fares) and 2013. The estimated amount of reimbursement to SF would be around \$3.8 million per annum. With this exceptional helping measure, Members noted that the financial position of SF as a whole would be improved, as the franchised account consists of both the “Central – Tsim Sha Tsui” and the “Wan Chai – Tsim Sha Tsui” ferry services.

Members also noted that the Government would continue to facilitate SF to explore new opportunities to generate additional non-fare box revenue. With various potential positive developments such as SF’s proposal to use one of its spare vessels as a floating restaurant which may bring in additional profit starting from early 2013 if successfully launched, the TAC supported the Administration’s plan to conduct a review on the exceptional helping measure in mid-2013 to consider the need for its continuation.

With the exceptional helping measure and the intention to review the situation in mid-2013, Members supported the Administration's recommendation for a fare increase of \$0.4 (+13.3% for upper deck) for the adult holiday fare (i.e. Saturday, Sunday and public holiday) with the weekday fares and monthly ticket remained unchanged. In addition, the TAC supported the introduction of a new bicycle fare of \$13 for the lower deck of the "Wan Chai – Tsim Sha Tsui" route, and reduction of tourist ticket fare to \$25 upon de-linking it with the tram services.

Members noted that the average fares of SF across the board at existing fare level and after the recommended fare increase are \$2.22 and \$2.34 respectively. In terms of the total passengers of SF's franchised services, the recommended fare increase would result in –

- (a) 30% (i.e. adult passengers riding on Saturdays, Sundays and public holidays) paying 40 cents more per trip;
- (b) 2% (i.e. children or people with disabilities riding on Saturdays, Sundays and public holidays) paying 30 cents more per trip; and
- (c) all the other passengers (68% of the total) will not be affected.

The weighted average rate of fare increase of SF would be revised to about 5.6%, as compared with +9.8% in terms of inflation since SF's last fare increase in January 2010 (up to January 2012). The TAC considered that the increase should be acceptable to the passengers.

In conclusion, the TAC considered that the recommended rate of fare increase would have struck an appropriate balance between minimising the impact of fare increase on passengers while ensuring the continuous provision of quality franchised ferry services for the benefit of the community.

I would be grateful if you would kindly convey TAC's advice to the CE-in-Council for consideration. Our advice may be released for public information in due course after the CE-in-Council's decision is announced.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Rimsky Yuen, S.C.', written in a cursive style.

(Rimsky Yuen, S.C.)

Chairman

Transport Advisory Committee