

LEGISLATIVE COUNCIL BRIEF

Ferry Services Ordinance
(Chapter 104)

FERRY SERVICES (THE “STAR” FERRY COMPANY, LIMITED) (DETERMINATION OF FARES) (AMENDMENT) ORDER 2023

INTRODUCTION

A At the meeting of the Executive Council on 31 January 2023, the Council **ADVISED** and the Chief Executive **ORDERED** that the Ferry Services (The “Star” Ferry Company, Limited) (Determination of Fares) (Amendment) Order 2023 at **Annex A**, setting 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.

JUSTIFICATIONS

Star Ferry’s Fare Increase Application and the Government’s Recommendation

2. 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. Across the ferry industry, revenue growth has been slow while the operating costs have been escalating. Under section 19(4) and (5) of the Ferry Services Ordinance, grantees of franchise to operate ferry services may apply in writing to the Chief Executive in Council, through the Commissioner for Transport, for fare increases of franchised ferry routes; under section 19(1), their applications are to be determined by the Chief Executive in Council.

3. Star Ferry submitted an application for fare increases for its two franchised ferry routes of “Central – Tsim Sha Tsui¹” and “Wan Chai – Tsim Sha Tsui¹” to –

- (a) raise the fares of the two franchised ferry services by \$1.8 to \$4.2 per trip²; and
- (b) replace the existing elderly free rides with concessionary fares for the elderly.

4. Having assessed the case as seen in paragraphs 5 to 21 below, the Government recommends allowing Star Ferry to –

- (a) raise the fares of the two franchised ferry services by \$1.0 to \$2.3 per trip (i.e. capping their adult weekday fares at \$5.0 and weekend/public holiday fares at \$6.5³);
- (b) raise the price of monthly tickets from \$160 to \$190⁴, a lower rate of increase than other fare types to cater for the need of frequent commuters; and
- (c) replace its elderly free rides with elderly concessionary fares, while eligible elderly would only need to pay \$2.0 per trip under the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (“\$2 Scheme”).

B

Details of the recommendation are set out in **Annex B**.

Assessment Criteria

5. When considering fare increase applications for ferry services including Star Ferry, we take into account (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

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

² The applied rate of increase is 100%.

³ The average rate of increase is 55.2%.

⁴ The rate of increase is 18.75%.

the provision of the relevant ferry services; (d) public acceptability of the proposed fares; and (e) measures implemented by the ferry operator to save costs and generate additional revenue.

Analysis

6. We have conducted an assessment of Star Ferry's application accordingly and considered that there is a case for fare increases and replacement of elderly free rides with concessionary fares. However, the rate should be moderated. Details of our analysis are set out in the ensuing paragraphs.

Financial position and measures implemented by Star Ferry to save costs and generate additional revenue

7. Star Ferry's revenue comprises farebox revenue and non-farebox revenue. The continuous changes in transport network and travel pattern of passengers have led to decline in Star Ferry's patronage in recent years, and the COVID-19 pandemic has exacerbated the situation, as Star Ferry is a transport mode much patronised by visitors. Star Ferry's non-farebox revenue, which included rental and advertising income, also fell by 15% between 2018 and 2021 owing to the poor business environment. Regarding operating costs, while Star Ferry had managed to limit the rise in costs between 2018 and 2021 to around 3%, given its rather inelastic cost structure which comprises mainly staff cost, vessel maintenance and pier operating costs and fuel cost, Star Ferry has limited room for further compression of costs.

8. Star Ferry has been actively identifying ways to expand its non-farebox income sources, such as 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. To help reduce the operating costs of Star Ferry, the Government has also implemented various measures, including undertaking pier maintenance work, reimbursing pier rental and exempting vessel licence fees under the Elderly Concessionary Fares Scheme ("ECFS"), as well as allowing Star Ferry to sublet pier premises to generate non-farebox revenue. In addition, the Government has provided about \$32 million of one-off pandemic-related subsidies⁵ to Star Ferry under the Anti-epidemic

⁵ Such as fuel subsidy, wage subsidy, one-off non-accountable subsidy and subsidy for regular repair and maintenance.

Fund (“AEF”) and Employment Support Scheme, with another \$11 million to be disbursed later on.

9. Notwithstanding these measures, Star Ferry has been recording losses since 2018. Aggravated by the COVID-19 pandemic, the accumulated loss of Star Ferry has now exceeded its total assets, meaning it has been relying on debt to run its franchised services. Detailed analysis of Star Ferry’s financial situation between 2018 and 2021 are set out in **Annex C**.

C

Service performance

10. 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 overall been satisfactory. For instance, according to TD’s annual survey conducted in November 2021, Star Ferry’s adherence rate to the Schedule of Service stood at 100%. There have also not been much public complaints on Star Ferry’s service performance⁶ or incidents recorded⁷.

11. In the past few years, Star Ferry has implemented various measures to improve its environmental performance. For example, Star Ferry installed green propulsion systems for the “Morning Star” and “Silver Star” vessels to help improve air quality, and joined the Pilot Scheme for Electric Ferries by the Environmental Protection Department to test the use of electric ferries in Hong Kong, with a view to assisting the Government in achieving carbon neutrality.

Approval of the Star Ferry’s fare increase application

12. As the pace and extent of recovery of tourism sector and business outlook remain uncertain, it is difficult to accurately predict the growth in patronage and non-farebox revenue of Star Ferry. With the easing of anti-

⁶ From 2019 to 2021, TD received on average 14 complaints against Star Ferry per year (including complaints referred by the Transport Complaints Unit of the Transport Advisory Committee (“TAC”)), accounting for less than 0.1% of the complaints against public transport services.

⁷ From 2019 to 2021, the average number of incidents recorded by Star Ferry was about 1.3 cases per year.

epidemic measures, we expect Star Ferry's patronage, as well as farebox and non-farebox revenue to recover gradually. Yet the long-term impact of the pandemic and the increase in competition from other public transport services (such as the commissioning of the cross-harbour section of the East Rail Line) remains to be seen. In terms of operating costs, we estimate that cost items such as staff costs, pier expenses and vessel expenses will continue to rise.

13. In view of the financial situation of the Star Ferry, we consider that there is an urgent need to adjust the fare of the Star Ferry to improve its financial viability. On the other hand, the proposed fare increase of \$1.8 to \$4.2 by Star Ferry would be too drastic for the public. To strike a balance between public acceptability and Star Ferry's financial sustainability, we recommend capping Star Ferry's weekday fares at \$5.0 and weekend/public holiday fares at \$6.5, which would mean the fares increase by \$1.0 to \$2.3 per trip.

14. In addition, to minimise the impact of the fare increase on frequent commuters of Star Ferry, we recommend a lower rate of increase for monthly tickets from the original price of \$160 to \$190. The rate of increase would be around one-third of that for other tickets. A passenger who takes more than 38 trips a month (or 9.5 trips per week) will benefit from lower fare per trip⁸, and may pay as low as \$3.2 per trip if that passenger takes 60 trips a month.

Replacement of elderly free rides with elderly concessionary fares

15. Star Ferry has been offering free rides to elderly passengers aged 65 or above since 1992. The Government has been reimbursing part of the revenue foregone by Star Ferry in offering elderly free rides in the form of reimbursement of pier rental and exemption of vessel licence fees under the ECFS⁹, amounting to about \$0.27 million per annum. The revenue foregone by Star Ferry after netting off government reimbursement was around \$2.6 million in 2021. In other words, Star Ferry has been absorbing most of the revenue foregone.

⁸ The calculations are based on the proposed adult weekday fares of \$5.0 for the "Central – Tsim Sha Tsui" (upper deck) and "Wan Chai – Tsim Sha Tsui" routes.

⁹ The reimbursement is capped by the actual revenue foregone or the sum of pier rental and vessel licence fee, whichever is less.

16. In fact, Star Ferry is the only public transport operator that offers elderly free rides, while most other operators provide about half-fare concessions. Eligible elderly persons would further be able to travel on most public transport modes at \$2.0 per trip under the \$2 Scheme¹⁰. Apart from receiving reimbursement from the Government under the ECFS for providing elderly concessions, other public transport operators participating in the \$2 Scheme would be able to receive reimbursement on the differential fares between the applicable fares and \$2.0.

17. In the current application, Star Ferry seeks to replace the existing elderly free rides with elderly concessionary fares, which would be about 60% of normal adult fares and the same as concessionary fares for children and disabled persons. Under the \$2 Scheme, the elderly will only need to pay \$2.0 for a Star Ferry ride and Star Ferry will receive reimbursement of the differential fare (between the elderly concessionary fares and \$2.0) from the Government. We consider the proposal, which seeks to align Star Ferry's practice with other public transport operators' and helps improve Star Ferry's long-term financial position, justifiable, especially considering Star Ferry's current dire financial situation and the ageing population in Hong Kong.

The Government's Recommendation

18. Based on the assessment outlined above, and taking into account the views of the Legislative Council ("LegCo") Panel on Transport and TAC, we recommend allowing Star Ferry to increase its fares, but moderating the increase from \$1.8 to \$4.2 per trip to \$1.0 to \$2.3 per trip (i.e. capping the weekday fares at \$5.0 and weekend and public holiday fares at \$6.5), and further lowering the rate of increase for monthly tickets (i.e. increase from \$160 to \$190), as well as allowing Star Ferry to replace its elderly free rides with elderly concessionary fares. After the fare increase, Star Ferry will still be the most affordable means of cross-harbour public transport, about 30% to 50% cheaper than taking the MTR or franchised bus.

¹⁰ Starting from 27 February 2022, the eligible age under the \$2 Scheme has been lowered from 65 to 60. Eligible persons aged 60 to 64 must use JoyYou Cards to enjoy the concessionary fare of \$2 per trip.

Impact on Passengers

19. With reference to the 2021 patronage figures, after the implementation of this fare increase, 59.0% of the passengers (i.e. all children passengers and passengers with disabilities¹¹, as well as adult passengers travelling on weekdays) will have to pay \$1.0 to \$1.8 more per trip, while 31.8% of the passengers (i.e. adult passengers travelling on weekends and public holidays) will have to pay \$2.0 or \$2.3 more per trip. Elderly passengers (who took up 9.2% of the total patronage in 2021) eligible under the \$2 Scheme will have to pay \$2.0 per trip. Users of monthly tickets could benefit from a lower rate of increase, while fare increases for bicycle tickets and tourist tickets should have a minimal impact on passengers given the very low utilisation.

Long-term Sustainability of Star Ferry

20. Established in 1898 and running ferry services for over a century, Star Ferry is a key icon of Hong Kong and has been most treasured by the local community and visitors. A multi-pronged approach is required to improve the long-term financial sustainability of Star Ferry, in terms of fare level, non-farebox revenue (including pier commercial facilities rental and advertising income), as well as the existing reimbursements under the ECFS and \$2 Scheme, and ongoing support from the Government in taking 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 to devote more resources to improve and upgrade the service and brand image of this historical icon of our Victoria Harbour.

Transport Advisory Committee's Advice

21. The TAC was consulted on the application for fare increases by Star Ferry on 28 November and 20 December 2022. The TAC considered all the relevant factors and supported the recommendation by the Government. The TAC's detailed advice is set out in its letter to the Secretary for Transport and Logistics at **Annex D**.

D

¹¹ Under the \$2 Scheme, eligible passengers with disabilities will only need to pay \$0.1 to \$0.2 more for travelling on weekdays, and can continue to pay \$2.0 for all other trips.

**FERRY SERVICES (THE “STAR” FERRY COMPANY, LIMITED)
(DETERMINATION OF FARES) (AMENDMENT) ORDER 2023
(THE ORDER)**

22. The Schedule to the Ferry Services (The “Star” Ferry Company, Limited) (Determination of Fares) Order 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 4 above. The existing provisions being amended are at **Annex E**.

E

LEGISLATIVE TIMETABLE

23. The legislative timetable will be as follows –

Publication in the Gazette	3 February 2023
Tabling at the LegCo for negative vetting	8 February 2023
Commencement date	3 April 2023

IMPLICATIONS OF THE PROPOSAL

24. 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 and gender implications and no significant sustainability and family implications. The economic and financial implications of the proposal are set out at **Annex F**.

F

PUBLIC CONSULTATION

25. We consulted the LegCo Panel on Transport on 25 November 2022. Members were generally supportive of Star Ferry given its iconic value, and agreed that there would be a need to increase fares. However, they were concerned about the magnitude of the fare increases proposed by Star Ferry. Some Members also suggested reducing the impact on frequent commuters by freezing or lowering the

rate of increase for monthly tickets. As abovementioned, we also consulted the TAC on 28 November and 20 December 2022.

PUBLICITY

26. We will issue a press release on 31 January 2023. A spokesperson will be available to answer media enquiries.

ENQUIRIES

27. Any enquiries on this brief can be directed to Mr Honson YUEN, Assistant Commissioner for Transport/Management & Paratransit (Tel: 3842 5513).

Transport and Logistics Bureau
31 January 2023

**Ferry Services (The “Star” Ferry Company, Limited)
(Determination of Fares) (Amendment) Order 2023**

(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 3 April 2023.

**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

“\$3.2”

Substitute

“\$5.0”.

(2) The Schedule, item 1(a)—

Repeal

“\$4.2”

Substitute

“\$6.5”.

(3) The Schedule, item 1(b)—

Repeal

“\$1.9”

Substitute

“\$2.9”.

(4) The Schedule, item 1(b)—

Repeal

“\$2.5”

Substitute

“\$3.9”.

(5) The Schedule, item 1(d)—

Repeal

“\$2.6”

Substitute

“\$4.0”.

(6) The Schedule, item 1(d)—

Repeal

“\$3.6”

Substitute

“\$5.6”.

(7) The Schedule, item 1(e)—

Repeal

“\$1.8”

Substitute

“\$2.8”.

(8) The Schedule, item 1(e)—

Repeal

"\$2.4"

Substitute

"\$3.7".

(9) The Schedule, item 2(a)—

Repeal

"\$3.2"

Substitute

"\$5.0".

(10) The Schedule, item 2(a)—

Repeal

"\$4.2"

Substitute

"\$6.5".

(11) The Schedule, item 2(b)—

Repeal

"\$1.9"

Substitute

"\$2.9".

(12) The Schedule, item 2(b)—

Repeal

"\$2.5"

Substitute

"\$3.9".

(13) The Schedule, item 2(d)—

Repeal

"\$16"

Substitute

"\$25".

(14) The Schedule, item 3—

Repeal

"\$160"

Substitute

"\$190".

(15) The Schedule, item 4—

Repeal

"\$32"

Substitute

"\$50".

Clerk to the Executive Council

COUNCIL CHAMBER

2023

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.

Annex B**Star Ferry's Fare Increase Application and
the Government's Recommendation**

	Existing fares	Star Ferry's application [fares payable under the \$2 Scheme by eligible elderly and disabled persons]	Government's recommendation [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)	\$5.0 (+\$1.8)
Children and Disabled	\$1.9	\$3.8 (+\$1.9) [\$2.0]	\$2.9 (+\$1.0) [\$2.0]
Elderly	Free	\$3.8 [\$2.0]	\$2.9 [\$2.0]
<i>Monday to Friday – lower deck</i>			
Adult	\$2.6	\$5.2 (+\$2.6)	\$4.0 (+\$1.4)
Children and Disabled	\$1.8	\$3.6 (+\$1.8) [\$2.0]	\$2.8 (+\$1.0) [\$2.0]
Elderly	Free	\$3.6 [\$2.0]	\$2.8 [\$2.0]
<i>Saturday, Sunday and public holiday – upper deck</i>			
Adult	\$4.2	\$8.4 (+\$4.2)	\$6.5 (+\$2.3)
Children and Disabled	\$2.5	\$5.0 (+\$2.5) [\$2.0]	\$3.9 (+\$1.4) [\$2.0]
Elderly	Free	\$5.0 [\$2.0]	\$3.9 [\$2.0]
<i>Saturday, Sunday and public holiday – lower deck</i>			
Adult	\$3.6	\$7.2 (+\$3.6)	\$5.6 (+\$2.0)
Children and Disabled	\$2.4	\$4.8 (+\$2.4) [\$2.0]	\$3.7 (+\$1.3) [\$2.0]
Elderly	Free	\$4.8 [\$2.0]	\$3.7 [\$2.0]
“Wan Chai – Tsim Sha Tsui” route			
<i>Monday to Friday</i>			
Adult	\$3.2	\$6.4 (+\$3.2)	\$5.0 (+\$1.8)

	Existing fares	Star Ferry's application [fares payable under the \$2 Scheme by eligible elderly and disabled persons]	Government's recommendation [fares payable under the \$2 Scheme by eligible elderly and disabled persons]
Children and Disabled	\$1.9	\$3.8 (+\$1.9) [\$2.0]	\$2.9 (+\$1.0) [\$2.0]
Elderly	Free	\$3.8 [\$2.0]	\$2.9 [\$2.0]
<i>Saturday, Sunday and public holiday</i>			
Adult	\$4.2	\$8.4 (+\$4.2)	\$6.5 (+\$2.3)
Children and Disabled	\$2.5	\$5.0 (+\$2.5) [\$2.0]	\$3.9 (+\$1.4) [\$2.0]
Elderly	Free	\$5.0 [\$2.0]	\$3.9 [\$2.0]
Bicycle	\$16	\$32 (+\$16.0)	\$25 (+\$9.0)
Monthly Ticket	\$160	\$320 (+\$160)	\$190 (+\$30)
Tourist Ticket	\$32	\$64 (+\$32)	\$50 (+\$18)

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 \$2.0 per trip on ferry.

Annex C

Financial Situation of Star Ferry between 2018 and 2021

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 even after taking into account government subsidies, including AEF, and the new fares implemented in February 2021¹. The 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 from 2018 to 2021 are set out in Table 1 below –

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

Financial year (1 Jan to 31 Dec)	Average daily patronage	Farebox revenue	Rental income	Other non-farebox revenue	AEF	Total revenue		Total operating costs	Profit/loss (profit margin) ^{Note 2}
						With AEF	Without AEF		
(\$ 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: Profit margin is "Profit/loss" over "Total revenue (with AEF)".

Farebox revenue

2. 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 (\$3.2 (weekdays)/\$4.2 (weekends and public holidays) for adults taking the "Central – Tsim Sha Tsui" (upper deck) and "Wan Chai – Tsim Sha Tsui" routes) are around 60% to 70% lower than taking the MTR (\$10.1 for adult Octopus fares) or

¹ Star Ferry raised its fares by \$0.3 to \$0.5 per trip, or 16.5% on average, at that time.

franchised bus (\$10.9 for adult fares) to travel between Central/Wan Chai and Tsim Sha Tsui. Prior to the COVID-19 pandemic, farebox revenue 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.

3. 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. Worse still, in the outbreak of the COVID-19 pandemic, Star Ferry, which is a transport mode much patronised by visitors, saw a significant drop in its total patronage. The average daily patronage in 2021 (around 26 200 passenger trips) decreased by 51.4% when compared to that in 2018. Under the fifth wave of COVID-19 pandemic, the patronage of Star Ferry in the first quarter of 2022 further declined. In March 2022, the average daily patronage was around 10 700 passenger trips, which was only about 20% of the 2018 level.

4. Therefore despite the last fare increase in February 2021, Star Ferry's farebox revenue in that year (\$28.11 million) was still around 47% lower than that in 2018 (\$53.07 million).

Non-farebox revenue

5. Non-farebox revenue, including rental income, advertising income and other income (such as tele-base station income and vessel rental), is an important source of revenue for Star Ferry to cross-subsidise its ferry operation and alleviate the pressure for fare increases. To this end, 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 sublet premises at those piers for commercial, retail and advertising concessions to generate non-farebox revenue.

6. However, since non-farebox income highly depends on the overall economic situation, Star Ferry's non-farebox revenue saw a decrease to

around \$36.78 million in 2021, a decrease of 15% compared to that in 2018 (around \$43.28 million). This significant drop was mainly attributable to the decline in rental income, which accounted for over 60% of Star Ferry's non-farebox revenue. Specifically, Star Ferry's rental income decreased from around \$28.84 million in 2018 to around \$22.70 million in 2021 (-21.3%), owing to the challenging business environment under the COVID-19 pandemic.

7. Advertising income accounted for about 22% of Star Ferry's non-farebox revenue in 2021. This source of income is often unstable and hence difficult to plan for and predict, especially in light of the unforeseeable economic outlook. It decreased from around \$8.52 million in 2018 to around \$8.09 million in 2021 (-5.0%).

8. Other non-farebox revenue, such as vessel rental and tele-base station income, accounts for less than 20% of Star Ferry's non-farebox revenue, and had been relatively stable throughout the past years.

9. Taking into account the farebox revenue and non-farebox revenue, although Star Ferry's total revenue (excluding AEF) was boosted by the fare adjustment in 2021 and subsided pandemic and increased to around \$64.89 million in 2021 (+5.6% vs 2020), this only represented 67.3% and 70.6% respectively of that in 2018 and 2019.

Operating costs

10. On operating costs, Star Ferry's cost structure is relatively inelastic. In 2021, staff cost, vessel maintenance and pier operating costs, as well as fuel cost already took up about 65%, 20% and 5% of Star Ferry's total costs, while the remaining 10% comprised depreciation, insurance premium and other expenses. Star Ferry therefore has limited room for compressing its costs. Notwithstanding these, Star Ferry has been trying hard to lower its operating expenses. The total operating costs between 2018 (around \$99.07 million) and 2021 (around \$102.16 million) had only risen by around 3%.

11. To help reduce the operating costs of Star Ferry, the Government has implemented various measures, including undertaking pier

maintenance work and reimbursing pier rental and exempting vessel licence fees under the ECFS. In addition, to assist the transport trade in coping with the operating pressure arising from the pandemic, the Government has provided about \$32 million of pandemic-related subsidies² to Star Ferry under the AEF and Employment Support Scheme, with another \$11 million to be disbursed later on.

² Such as fuel subsidy, wage subsidy, one-off non-accountable subsidy and subsidy for regular repair and maintenance.



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5 January 2023

The Honourable LAM Sai-hung, GBS, JP
Secretary for Transport and Logistics
22/F, East Wing, Central Government Offices
2 Tim Mei Avenue
Tamar
Hong Kong

Dear Mr LAM,

Star Ferry's Application for Fare Increases

The “Star” Ferry Company, Limited (“Star Ferry”) submitted an application to the Government for increasing the fares of its two franchised ferry routes, namely, the “Central – Tsim Sha Tsui” and “Wan Chai – Tsim Sha Tsui” routes, by \$1.8 to \$4.2 per trip; and replacing the existing elderly free rides with concessionary fares for elderly. The application was considered by the Transport Advisory Committee (“TAC”) at the meetings held on 28 November and 20 December 2022. This letter sets out TAC’s advice on the application.

Basis of TAC’s consideration

2. In considering Star Ferry’s fare increase application, TAC noted that, in line with the established policy and mechanism, the Government has taken 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) measures implemented by the ferry operator to save cost and generate additional revenue.

Financial performance

3. Members noted that Star Ferry's financial situation has been deteriorating in recent years, with a loss of over \$37 million in 2021. The accumulated loss of Star Ferry has exceeded its total assets, meaning the Company has been relying on debt to run its franchised services.

4. Members further noted that the COVID-19 pandemic has dealt a great blow to Star Ferry's patronage, which relied heavily on tourists. The average daily patronage in 2021 decreased by 51.4% when compared to that in 2018. As a result, Star Ferry's farebox revenue in 2021 was around 47% lower than that in 2018. Members considered that given the uncertainty in the pace and extent of recovery of tourist patronage, increasing competition from alternative cross-harbour public transport modes and continuous change in travel pattern of passengers, Star Ferry's future patronage level might not be able to fully recover to pre-COVID level.

5. In addition, Members noted that Star Ferry's non-farebox revenue, which highly depended on the overall economic situation, dropped by 15% between 2018 and 2021. Notwithstanding the difficult business environment, Members appreciated Star Ferry's efforts in improving its non-farebox revenue, 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.

6. As regards operating costs, while Star Ferry had managed to contain the rise in total operating expenditures between 2018 and 2021 to around 3%, the room for compression would be limited given that its cost structure is relatively inelastic.

Service performance and green measures

7. Members agreed that the service performance of Star Ferry has all along been satisfactory. On environmental performance, Members were pleased to note the continuous efforts put in by Star Ferry to protect the environment, including the installation of green propulsion systems in its fleets and participation in the Government's Pilot Scheme for Electric Ferries.

Replacement of elderly free rides with elderly concessionary fares

8. Regarding Star Ferry's application to replace the existing elderly free rides with elderly concessionary fares, Members noted that Star Ferry was the only public transport operator that offered elderly free rides and has been absorbing most of the revenue foregone on its own. Meanwhile, under the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, elderly would be able to travel on most public transport modes at \$2.0 per trip, and participating operators would receive reimbursement from the Government on the differential fares between the elderly concessionary fares and \$2.0.

TAC's recommendation

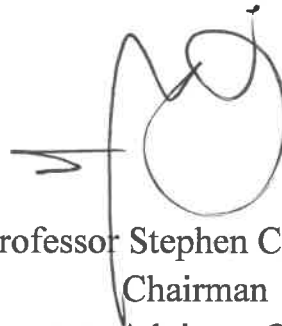
9. Against the above, Members generally considered it justifiable for Star Ferry to increase its fares and replace the existing elderly free rides with elderly concessionary fares. However, Members agreed that the proposed fare increase rate of \$1.8 to \$4.2 per trip by Star Ferry exceeded the level acceptable by the public, and considered that there would be a need to lower the impact of fare increases on frequent commuters. To this end, the TAC agreed with the Government's recommendations to moderate the fare increase to \$1.0 to \$2.3 per trip (i.e. capping the weekday fares at \$5.0 and weekend or public holiday fares at \$6.5), and further lower the rate of increase for monthly tickets (i.e. from \$160 to \$190) to cater for the need of frequent commuters. Members noted that even with the proposed fare increases, Star Ferry would remain the most economical cross-harbour public transport mode.

10. Members suggested that the Government should continue to explore with Star Ferry ways to enhance its long-term financial sustainability in a holistic manner, including improving its non-farebox businesses and strengthening its position as a tourist attraction (vis-à-vis a public transport mode), as well as continuing to improve its services and environmental

performance in order to maintain this historical icon of Hong Kong.

11. 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,

A handwritten signature in black ink, consisting of a large, stylized 'S' followed by a circular flourish.

(Professor Stephen CHEUNG)
Chairman
Transport Advisory Committee

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

Schedule

S-2

Cap. 104C

Schedule

[para. 2]

Maximum Fares that Grantee may Charge

Column 1 Route	Column 2 Service	Column 3 Fare	
		per trip on Monday to Friday (except public holiday)	per trip on Saturday, Sunday and public holiday
1. Between Kowloon Point and Central	(a) Upper Deck Passenger	\$3.2	\$4.2
	(b) Upper Deck Child Passenger of 3 years of age or more	\$1.9	\$2.5
	(c) Upper Deck Child Passenger under 3 years of age (accompanied by a person of 12 years of age or more)	\$0	\$0
	(d) Lower Deck Passenger	\$2.6	\$3.6

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

Schedule

S-4

Cap. 104C

Column 1 Route	Column 2 Service	Column 3 Fare	
		per trip on Monday to Friday (except public holiday)	per trip on Saturday, Sunday and public holiday
	(e) Lower Deck Child Passenger of 3 years of age or more	\$1.8	\$2.4
	(f) Lower Deck Child Passenger under 3 years of age (accompanied by a person of 12 years of age or more)	\$0	\$0
2. Between Kowloon Point and Wan Chai	(a) Upper or Lower Deck Passenger	\$3.2	\$4.2
	(b) Upper or Lower Deck Child Passenger of 3 years of age or more	\$1.9	\$2.5

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

Schedule

S-6

Cap. 104C

Column 1 Route	Column 2 Service	Column 3 Fare	
		per trip on Monday to Friday (except public holiday)	per trip on Saturday, Sunday and public holiday
	(c) Upper or Lower Deck Child Passenger under 3 years of age (accompanied by a person of 12 years of age or more)	\$0	\$0
	(d) Bicycle		per trip
			\$16
			per ticket
3. All routes	Monthly Ticket (valid for current month only)		\$160

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

Schedule

S-8

Cap. 104C

Column 1 Route	Column 2 Service	Column 3 Fare per ticket
4. All routes	Tourist Ticket (valid for unlimited travel on any route 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))	\$32

(Schedule replaced L.N. 57 of 2012. L.N. 59 of 2017; L.N. 253 of 2020)

Economic and Financial Implications of the Proposal

ECONOMIC IMPLICATION

Given that ferry fares as a whole have a weighting of only 0.02% to 0.04% 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 fare increase for the two ferry routes is estimated to have an impact of 0.003 to 0.006 percentage point on each of the CPIs in 2023, and 0.001 to 0.002 percentage point on the CPIs in 2024.

FINANCIAL IMPLICATION

2. Under the \$2 Scheme, the Government reimburses the revenue forgone (i.e. the difference between the applicable fare and \$2.0) to the participating public transport operators. At present, Star Ferry offers free rides (viz. a fare lower than \$2.0) to passengers aged 65 or above; hence, it cannot claim any reimbursement for concessions for passengers aged 65 or above. In other words, only the revenue forgone for eligible persons with disabilities and persons aged 60-64 is reimbursed under the \$2 Scheme at the moment. With the recommended fare increases and replacement of elderly free rides with elderly concessionary fares, the reimbursement from the Government to Star Ferry would marginally increase.

3. The non-means-tested Public Transport Fare Subsidy Scheme (“PTFSS”) was implemented on 1 January 2019. Commuters with monthly public transport expenses exceeding \$400 are eligible for the public transport fare subsidy. Star Ferry is only one of the many means of public transport services covered by the PTFSS. With the recommended fare increases, the government subsidies required under the PTFSS may increase only marginally given that the expenses relating to the affected routes of Star Ferry should not form the majority of most

passengers' total public transport expenses, and the subsidy is only provided for one-third of the actual public transport expenses in excess of \$400, subject to a maximum of \$400 per month for each Octopus card.