

LCQ6: Fares of outlying island ferry services

Following is a question by the Hon Wong Sing-chi and a reply by the Secretary for Transport and Housing, Ms Eva Cheng, in the Legislative Council today (June 1):

In March this year, the Transport Department announced that it had awarded new licences for six major outlying island ferry routes. The new licences have been/will be effective from April 1 and July 1 this year respectively, with an average fare increase rate of about 10%. Regarding the fares and operation of outlying island ferry services, will the Government inform this Council:

(a) as some members of the public have relayed to me that outlying island ferry services are the only means of transport for some of the outlying islands, and the Government must ensure that the fares of ferry services are maintained at a level affordable by residents of the outlying islands, whether the Government will study the imposition of a restriction that the rates of increase proposed by outlying island ferry operators must not exceed the inflation rate; if it will, of the details; if not, the reasons for that;

(b) as the Government has pledged to reduce the holiday fare differential of outlying island ferry services to a maximum of 20% to address the dissatisfaction of residents of the outlying islands with the holiday fare differential, of the holiday fare differentials of the aforesaid six outlying island ferry routes after the new licences come into effect; in case the holiday fare differentials of some of the routes exceed 20%, whether it has assessed if the Government has breached its pledge to residents of the outlying islands; whether the Government will negotiate with the ferry operators regarding the weekday and holiday fare differentials so as to narrow the difference between them; and

(c) as the Government has adopted a series of measures to help improve the financial viability of outlying island ferry services, e.g. providing a subsidy of about 120 million dollars to the aforesaid six outlying island ferry routes through reimbursing the ferry operators the vessel maintenance fee incurred and waiving the annual vessel survey fee and the private mooring fee of the vessels, etc., whether the Government has put in place a mechanism to review the effectiveness of such measures; if it has, of the details; if not, the reasons for that; whether it has assessed the impact of such measures on the setting and adjustment of the fares of ferry services by the ferry

operators; if it has, of the details?

Reply:

President,

(a) To enhance the long-term financial viability of ferry services, the Government has been providing various measures to enable ferry operators to reduce operating costs and increase non-fare box revenue:

- taking over the responsibility of pier maintenance;
- waiving fuel duty;
- reimbursing pier rentals and exempting vessel licence fees for ferry services under the Elderly Concessionary Fares Scheme;
- allowing ferry operators to sublet ferry pier areas for commercial concession to generate non-fare box revenue to cross-subsidise the ferry operation; and
- streamlining the subletting approval procedures to help expedite generation of non-fare box revenue.

In May 2008, the Government indicated that it would conduct a review on ferry services for outlying islands with a view to enhancing the long-term financial viability of these services and maintaining fare stability. The review was completed in mid-2010 and consultations were conducted with the Legislative Council Panel on Transport, the Traffic and Transport Committee of the Islands District Council, the relevant Rural Committees and members of the public in the course of the review.

The Government's basic principle for ferry services is to maintain the established policy of allowing the private sector to operate these services on commercial principles. Since ferry services are the only external means of transport for some of these outlying islands, the Government proposed in the review to provide the six major outlying islands routes with further helping measures during the three-year new licensing period from 2011 to 2014 in order to ensure continuous provision of these essential services. The six major trunk outlying islands routes include "Central-Cheung Chau", "Peng Chau-Mui Wo-Chi Ma Wan-Cheung Chau" (Inter-islands), "Central-Mui Wo", "Central-Peng Chau", "Central-Yung Shue Wan" and "Central-Sok Kwu Wan" routes. These helping measures include:

- waiving annual vessel survey fee and private mooring fee;

- reimbursing pier cleansing, water and electricity charges;
- reimbursing the balance of revenue forgone due to provision of elderly fare concessions after netting off the amount of pier rental and vessel licence fee; and
- reimbursing the ferry operators of the six major routes the vessel maintenance and repair cost actually incurred in order to reduce the rate of fare increase.

In November 2010, the Finance Committee of the Legislative Council approved a commitment of about \$120 million for the implementation of the above mentioned helping measures.

To select suitable operators to run the six major outlying islands ferry services upon expiry of the licences, the Transport Department (TD), after taking into account the views collected during the public consultations on the review on ferry services for outlying islands, consulted the Traffic and Transport Committee of the Islands District Council and the relevant Rural Committees during September to October 2010 on the proposed arrangement for the tender exercise (including routes packages and service arrangements etc).

After consideration of the views collected, the tender exercise was launched in December 2010 and the tender results were announced on March 25, 2011. Representatives of TD attended the meeting of the Traffic and Transport Committee of the Islands District Council on March 28, 2011 to brief the committee on the results of the tender, as well as the fares and service arrangements of the concerned ferry routes under the new licences.

The Government understands residents' concern on the fares of the outlying island ferry services. While the population of these outlying islands is not expected to increase substantially in the future to help enhance fare box revenue; the recent fuel price is at a high level. The statutory minimum wage which was effective from May 1 this year also has significant impact on the staff costs of ferry operators. These factors have led to a great pressure on fare increases.

After careful examination of the financial information and data submitted by the bidders, the need to ensure efficient and quality ferry services and to reduce the impact of fare increase on daily commuters of the concerned islands, when granting the new licences of the six major routes, TD had made the best endeavour to reach agreement with the bidders to adjust the fare increase substantially downwards by providing a package of helping measures.

Comparing with the existing of increase of monthly tickets of the concerned routes, the rate of increase of monthly ticket was about 7% and the overall average rate of increase was about 10%. In fact, the cumulative inflation for the past three years is around 8%.

In order to alleviate the impact of fare increase on island residents who regularly use these ferry services, the Government has endeavoured to lower the rate of increase for monthly tickets. At present, the rate of increase of monthly ticket is about 7%, which is lower than the average rate of increase.

TD will continue to select suitable operators to run the outlying islands ferry services through public tender in accordance with the relevant legal requirements. We believe that the long-term financial viability of the ferry services can be improved, while keeping fares at an affordable level to the members of the public, through market competition and providing helping measures to the operators. If we set up restrictions on fare in the tender, it may discourage potential and interested ferry operators to make submissions, and may lead to reduction in service level or even the risk of having that no operator willing to operate the ferry services.

(b) In response to the views collected during the consultation period, the Government proposed narrowing the fare differential between holidays and weekdays to a maximum of 20% in the review on ferry services for outlying islands. With a view to evaluating the long-term financial viability of the concerned ferry routes and the impact on the weekday fare, TD required bidders to submit in the tender document proposed fares for holidays and weekdays under various levels of fare differential, including those with fare differential be narrowed to not exceeding 20% and those with the existing fare differential be maintained.

In light of the upsurge of operating costs, it was shown in the tender submissions that if the fare differential between holidays and weekdays were narrowed, the fare increase for weekdays would far exceed the current approved level. To ensure efficient and quality ferry services and in order to alleviate the impact of fare increase on island residents who regularly use these services, we consider it a practical and balanced arrangement to maintain the existing holiday fare differential of about 38% to 48% taking into account the generally higher acceptability of holiday passengers.

The Government is actively considering the re-launch of the "visiting scheme to

outlying islands" by providing fare subsidy to encourage institutions such as schools, non-governmental organisations, community and local groups to organise activities to outlying islands to boost the local economy.

(c) In order to monitor the proper spending of public funds, the ferry operators of the six major outlying islands services are required to submit their quarterly management accounts during the new licence period for TD to assess its financial position, and to provide its annual audited financial statements to the Government to certify its actual expenditure on vessel maintenance and repair. The Government will reimburse the ferry operators such costs incurred subject to the cap as approved by the Finance Committee of the Legislative Council. In accordance with the outcome of the review on ferry services for outlying islands, the Government will conduct a mid-term review during the three-year licensing period to ensure that the fare level can be appropriately adjusted when there is a reduction in operating costs.

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