

Public Consultation Document
New Franchise for
The “Star” Ferry Company, Limited

Purpose

The existing franchise of the two ferry routes operated by The “Star” Ferry Company, Limited (“the Star Ferry”) (i.e. “Central – Tsim Sha Tsui” and “Wan Chai – Tsim Sha Tsui” routes) will expire by 31 March 2018. The Government plans to engage Star Ferry for discussion on the arrangements for the new franchise of the two routes. Members of the public are welcome to provide views on matters to be covered under the new franchise.

Background

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. The “Star” Ferry Company, Limited which runs the “Central – Tsim Sha Tsui” and “Wan Chai – Tsim Sha Tsui” routes was established in 1898; the two routes have been in operation since 1898 and 1988 respectively, providing convenient cross-harbour service to citizens at a low fare.

3. In tandem with the commissioning of the three cross-harbour tunnels over the years¹ 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 lowest². Currently, it costs an adult \$9.7 to travel between Central/Wan Chai and Tsim Sha Tsui by MTR with Octopus Card. If the same cross-harbour journey is made on franchised bus services, the cost ranges from \$8.4-9.3.

¹ The Cross Harbour Tunnel, Eastern Harbour Crossing and Western Harbour Crossing was opened in 1972, 1989 and 1997 respectively.

² The Government is processing Star Ferry’s latest application for fare increases. The proposed rate of fare increases is around 25.2%. The Government is handling the application according to the established mechanism. For details, please refer to Legislative Council Paper No. CB(4)578/16-17(07). The Legislative Council document can be downloaded from the website below:

<http://www.legco.gov.hk/yr16-17/english/panels/tp/agenda/tp20170224.htm>

By comparison, for Star Ferry, the lowest single journey adult fare is \$2³ while the highest single journey adult fare is \$3.4⁴. In addition, Star Ferry has already been running ferry services for over a century. It has its unique historical significance and has always been well received by the community and visitors. However, since the relocation of the Wan Chai Pier to the current location in end August 2014, Star Ferry's patronage has declined. The average daily patronage of the two routes in 2016 was around 53 400 passenger trips in total, which was around 10% lower than that in 2013 (59 200 passenger trips). However, according to Star Ferry's forecast, the patronage will become more stable in 2017.

4. Star Ferry's current franchise commenced on 1 April 2008 for a period of 10 years and will expire on 31 March 2018. In accordance with the requirement as set out in the Ferry Services Ordinance ("the Ordinance" (Cap 104)⁵, the Star Ferry submitted to the Government in January 2016 an application for extension of its franchise upon its expiry.

5. Under the Ordinance, the Executive Council may grant a franchise conferring the right to operate a ferry services to any company. The initial period of the franchise should not exceed 15 years. The Executive Council may, at the request of the grantee, extend the franchise for a period or periods not exceeding 15 years, if it is satisfied that the grantee is capable of maintaining a proper and efficient ferry service and it is in the public interest to continue the franchised service. The Ordinance also provides that a grantee shall at all times during the franchise period maintain to the satisfaction of the Commissioner for Transport a proper and efficient ferry service. The Government's key consideration in granting a ferry franchise to a ferry service operator is whether the operator is capable of providing a proper and efficient ferry service.

6. 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. The assessment on the performance of Star Ferry is set out in

³ Weekday lower deck fare for "Central – Tsim Sha Tsui" route.

⁴ Holiday upper deck fare for "Central – Tsim Sha Tsui" route and holiday fare for "Wan Chai – Tsim Sha Tsui" route.

⁵ According to the Ferry Services Ordinance (Cap. 104), the grantee may make a request for extension of its franchise not less than two years before the expiration of the franchise period.

paragraphs 7 to 13 below.

Assessment

(A) Service Performance

7. 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 7:30 a.m. until 11:00 p.m. Star Ferry deploys a total of eight ferries to run these two routes.

8. According to the results of TD's survey on the two ferry routes conducted in November 2016, Star Ferry's adherence rate to the Schedule of Services in provision of service stood at 96% for over 900 trips on the day of survey. The remaining 4% trips were slightly delayed by a range of one to five minutes. Generally speaking, the ferry departure time will depend on factors such as the number of passengers, weather and sea surface conditions. Besides, TD commissioned a consultant to conduct a passenger opinion survey on Star Ferry's service standard on board in September 2016. Among the 518 respondents interviewed, 99% were satisfied with the overall quality of ferry service provided by Star Ferry. Details are set out at **Annex A**.

9. In fact, during the current franchise period, Star Ferry has been implementing various measures to further improve its service. Examples of such measures include:

- (a) investing around \$4.9 million in 2012 to replace the air-conditioning systems on two vessels;
- (b) investing around \$150,000 in 2016 to upgrade the facilities at piers. These include providing ramps at all piers to connect with ferries' gangways to facilitate the embarkation/disembarkation of wheelchair users, replacing the seats at the Tsim Sha Tsui Pier with new ones for waiting passengers and replacing fluorescent tubes with more efficient and energy-saving ones. Besides, Star Ferry plans to replace the turnstiles at the Tsim Sha Tsui Pier with wider ones later this year; and

- (c) apart from the existing practice of disseminating service information to passengers at the piers and on the Internet, Star Ferry launched a mobile application in 2016 , strengthening its efforts in updating passengers with the latest sailing information, including service arrangements during typhoons and festive occasions.

10. On environmental protection and sustainability, Star Ferry has been working with the University of Hong Kong since 2012 to develop a device, known as seawater scrubber, to reduce air pollutants from the exhaust gas of ferry engines. In 2012, Star Ferry invested some \$1.3 million to install, on a trial basis, the device on a ferry serving the franchised route. Results of the trial running from 2012 to 2014 indicated that the device could effectively reduce sulphur dioxide by around 90%. Star Ferry plans to invest \$2.5 million per annum in installing such water scrubbers on five ferries over the next five years, i.e. from 2017 to 2021. Separately, Star Ferry is going to explore the adoption of diesel-electric propulsion system for its existing ferry fleets with a view to reducing the emission of dark smoke, sulphur dioxide and hydrocarbons. To this end, Star Ferry is conducting trials on its ferry serving the non-franchised routes. The trial is expected to be completed within 2017. If found technically feasible under the trial and its financial situation allows, Star Ferry will consider whether it could adopt the diesel-electric propulsion system for its franchised ferry fleet.

11. In any case, in response to the passenger opinion survey as mentioned in paragraph 8 above, Star Ferry will explore the need to further enhance its service and facilities.

12. Complaint figures concerning Star Ferry are small. From the commencement of the current franchise in 2008 and till 2016, TD received on average 22 complaints against Star Ferry annually⁶. The number of complaints for 2016 is 19, accounting for 0.07% of the complaints against public transport services. As regards safety, the number of accidents involving Star Ferry remains at a consistently low level throughout the current franchise period. From 2008 to 2016, the average number of incidents recorded by the company is four cases per year, with an average of one case per year involving minor injuries on passengers.

⁶ This included the complaints referred to TD for follow-up action by the Transport Complaints Unit of the Transport Advisory Committee.

(B) Financial performance

13. As mentioned above, since the relocation of the Wan Chai Pier in August 2014, Star Ferry's patronage has declined, leading to a reduction in total patronage of 10% in 2016 when comparing with that in 2013. However, according to Star Ferry's forecast, the patronage will become more stable in 2017. At the same time, Star Ferry's operating costs have been increasing. In this regard, Star Ferry has been taking a number of cost saving measures including optimising the locations of the entrance turnstiles and automating the manual change arrangement by vending machines to reduce reliance on manpower, replacing the DC power-generation system of vessels to AC power-generation system to save maintenance expenses, as well as rationalising the fleet deployment to save manpower. To help maintain the financial viability of ferry services, the Government has also been implementing various measures, including allowing Star Ferry to sub-let premises at piers for commercial and retail activities, to generate non-fare box revenue for cross-subsidising the ferry operation⁷. Other measures to help reduce the operating costs of ferry services include taking over the responsibility of pier maintenance by the Government, waiving fuel duty, as well as reimbursing pier rental and exempting vessel licence fees under the Elderly Concessionary Fares Scheme. Details are at **Annex B**. During the current franchise period, the average yearly profit margin of Star Ferry is around 4.1%. Details are at **Annex C**.

14. Star Ferry submitted an application for fare increases with a rate of around 25.2%. The Government is handling the application according to the established mechanism. For details, please refer to Legislative Council Paper No. CB(4)578/16-17(07)⁸.

Expiry of franchise

15. Based on the analysis in paragraphs 7 to 13, overall speaking, Star Ferry has been providing proper and efficient ferry service to the public. As mentioned in paragraph 4, Star Ferry submitted to the Government an application for extension of franchise. The Government plans to engage Star Ferry for discussion on the arrangements for the new

⁷ In 2016, rental income (around \$28.94 million) accounted for around 32.1% of Star Ferry's total revenue.

⁸ The Legislative Council document can be downloaded from the website below:
<http://www.legco.gov.hk/yr16-17/english/panels/tp/agenda/tp20170224.htm>

franchise of its two franchised ferry routes. The Government would strive for the most favourable franchise terms for the public as far as possible in a pragmatic manner. We aim to conclude the discussion within 2017.

Public consultation

16. We welcome views from members of the public on the matters to be covered under the new franchise for the Star Ferry. Such views may be submitted to the TD in writing on or before 22 April 2017:

By Post: Management and Paratransit Branch
Transport Department
Room 4036, 40/F, Immigration Tower,
7 Gloucester Road,
Wanchai, Hong Kong

By Fax: 2824 2176

By Email: starferry-franchise@td.gov.hk

Please mark “Arrangements of Star Ferry’s franchise” on the envelope or in the submission. Please call 2804 2600 for any enquiries on this document.

17. Any person/organisation making a submission may provide personal data on a voluntary basis. Such personal data will only be used for this consultation exercise. Unless otherwise specified, the name of the person/organisation making the submission as well as the views so provided may be made available to the public after the consultation period.

**Transport and Housing Bureau
Transport Department
February 2017**



**The Public Opinion Survey for
the Ferry Services of
the "Star" Ferry Company Limited**

Executive Summary

Aristo Market Research & Consulting Company Limited

1. Background & Objective

In order to collect public views on the performance of the “Star” Ferry Company, Limited (“Star Ferry”) as perceived by passengers, the Transport Department (“TD”) has commissioned Aristo Market Research & Consulting Company Limited to conduct a Public Opinion Survey for Star Ferry in September 2016.

2. The Survey

The respondents of the Survey covered passengers aged 12 or above who took Star Ferry service of Tsim Sha Tsui – Central (“Central Route”) or Tsim Sha Tsui – Wan Chai (“Wan Chai Route”) and was capable of speaking Cantonese, Putonghua or English.

Face-to-face interviews on board of Star Ferry’s vessels were employed to obtain public opinion on Star Ferry’s performance. To select a random and representative sample of passengers of Star Ferry on board, a two-stage random selection approach was employed via sampling of trips and sampling of passengers on selected trips. The sampled trips covered all operating hours of the survey period. The representative sample of passengers was then selected randomly from each sampled ferry trip for interviews.

The questionnaire includes 9 core questions covering the following aspects of the service performance:

- 1) Overall satisfaction on the services provided
- 2) Frequency of ferry services
- 3) Reliability of frequency of ferry services
- 4) Comfort of ferry
- 5) Fare of ferry services
- 6) Facilities on board
- 7) Facilities at the pier
- 8) Passenger information
- 9) Staff performance and attitude

The respondents were asked to rate their satisfaction level on each service aspect in a scale of (i) Very satisfied (ii) Satisfied (iii) Dissatisfied (iv) Very dissatisfied (v) No comment (vi) Refused to answer.

In total, 518 passengers were successfully interviewed during the survey period between 18 and 27 September 2016, representing an overall response rate of 65.9%

3. Summary Findings

Overall

1. Overall speaking, 99.0% of the respondents indicated that they were very satisfied/satisfied with the overall quality of ferry service provided by Star Ferry. The percentage was much higher than the 1.0% who were dissatisfied/very dissatisfied.
2. 91.9% of the respondents indicated that they were very satisfied/satisfied with the frequency of ferry services. The percentage was much higher than the 5.6% who were dissatisfied/very dissatisfied.
3. 89.6% of the respondents indicated that they were very satisfied/satisfied with the reliability of frequency of ferry services. The percentage was much higher than the 3.7% who were dissatisfied/very dissatisfied.
4. 93.2% of the respondents indicated that they were very satisfied/satisfied with the comfort of ferry. The percentage was much higher than the 4.1% who were dissatisfied/very dissatisfied.
5. 95.6% of the respondents indicated that they were very satisfied/satisfied with the fare of ferry services. The percentage was higher than the 3.1% who were dissatisfied/very dissatisfied.
6. 82.6% of the respondents indicated that they were very satisfied/satisfied with the facilities on board. The percentage was much higher than the 6.0% who were dissatisfied/very dissatisfied.
7. 79.7% of the respondents indicated that they were very satisfied/satisfied with the facilities at the pier. The percentage was much higher than the 13.5% who were dissatisfied/very dissatisfied.
8. 67.2% of the respondents indicated that they were very satisfied/satisfied with the passenger information. The percentage was higher than the 8.1% who were dissatisfied/very dissatisfied.
9. 87.3% of the respondents indicated that they were very satisfied/satisfied with the staff performance and attitude. The percentage was higher than the 2.5% who were dissatisfied/very dissatisfied.

Wan Chai Route

1. Specifically for Wan Chai route, 98.1% of the respondents indicated that they were very satisfied/satisfied with the overall quality of ferry service provided by Star Ferry. The percentage was much higher than the 1.9% who were dissatisfied/very dissatisfied.
2. 84.3% of the respondents indicated that they were very satisfied/satisfied with the frequency of ferry services. The percentage was much higher than the 13.2% who were dissatisfied/very dissatisfied.
3. 87.4% of the respondents indicated that they were very satisfied/satisfied with the reliability of frequency of ferry services. The percentage was much higher than the 5.0% who were dissatisfied/very dissatisfied.
4. 93.7% of the respondents indicated that they were very satisfied/satisfied with the comfort of ferry. The percentage was much higher than the 3.8% who were dissatisfied/very dissatisfied.
5. 93.1% of the respondents indicated that they were very satisfied/satisfied with the fare of ferry services. The percentage was higher than the 5.7% who were dissatisfied/very dissatisfied.
6. 84.3% of the respondents indicated that they were very satisfied/satisfied with the facilities on board. The percentage was much higher than the 7.5% who were dissatisfied/very dissatisfied.
7. 75.5% of the respondents indicated that they were very satisfied/satisfied with the facilities at the pier. The percentage was much higher than the 17.0% who were dissatisfied/very dissatisfied.
8. 74.2% of the respondents indicated that they were very satisfied/satisfied with the passenger information. The percentage was higher than the 6.9% who were dissatisfied/very dissatisfied.
9. 89.9% of the respondents indicated that they were very satisfied/satisfied with the staff performance and attitude. The percentage was higher than the 1.3% who were dissatisfied/very dissatisfied.

Central Route

1. Specifically for Central route, 99.4% of the respondents indicated that they were very satisfied/satisfied with the overall quality of ferry service provided by Star Ferry. The percentage was much higher than the 0.6% who were dissatisfied/very dissatisfied.
2. 95.3% of the respondents indicated that they were very satisfied/satisfied with the frequency of ferry services. The percentage was much higher than the 2.2% who were dissatisfied/very dissatisfied.
3. 90.5% of the respondents indicated that they were very satisfied/satisfied with the reliability of frequency of ferry services. The percentage was much higher than the 3.1% who were dissatisfied/very dissatisfied.
4. 93.0% of the respondents indicated that they were very satisfied/satisfied with the comfort of ferry. The percentage was much higher than the 4.2% who were dissatisfied/very dissatisfied.
5. 96.7% of the respondents indicated that they were very satisfied/satisfied with the fare of ferry services. The percentage was higher than the 1.9% who were dissatisfied/very dissatisfied.
6. 81.9% of the respondents indicated that they were very satisfied/satisfied with the facilities on board. The percentage was much higher than the 5.3% who were dissatisfied/very dissatisfied.
7. 81.6% of the respondents indicated that they were very satisfied/satisfied with the facilities at the pier. The percentage was much higher than the 12.0% who were dissatisfied/very dissatisfied.
8. 64.1% of the respondents indicated that they were very satisfied/satisfied with the passenger information. The percentage was higher than the 8.6% who were dissatisfied/very dissatisfied.
9. 86.1% of the respondents indicated that they were very satisfied/satisfied with the staff performance and attitude. The percentage was higher than the 3.1% who were dissatisfied/very dissatisfied.

**Details of Government's helping measures
for ferry services (including Star Ferry)¹**

The Government's measures to help reduce the operating costs of ferry services (including Star Ferry) include taking over the responsibility of pier maintenance, waiving fuel duty, as well as reimbursing pier rental and exempting vessel licence fees under the Elderly Concessionary Fares Scheme.

2. Star Ferry has been offering free rides for 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 can be reimbursed by the Government, subject to a cap of the lower of the actual revenue foregone and the sum of pier rentals and vessel licence fees. In this regard, the amount of Government's reimbursement to Star Ferry due to offering of fare concessions to the elderly passengers is around \$270,000 per annum while the total revenue foregone by Star Ferry in offering free rides for the elderly is around \$2.6 million (i.e. Star Ferry has been absorbing most of the revenue foregone in offering free rides for elderly). In 2012, the number of elderly passengers was around 4 100 passenger trips per day on average. In 2016, elderly passengers enjoying free rides has dropped to around 2 600 passenger trips per day on average, accounting for around 4.9% of Star Ferry's total daily patronage, of 53 400.

3. Besides, under the Government's 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.

¹ According to policy, there is basically no direct subsidy from the Government for public transport services save for the six major outlying ferry routes. These six routes are "Central – Cheung Chau", "Inter-islands" serving Peng Chau, Mui Wo, Chi Ma Wan and Cheung Chau, "Central – Mui Wo", "Central – Peng Chau", "Central – Yung Shue Wan", "Central – Sok Kwu Wan". The Government provides Special Helping Measures ("SHM") to these routes because for the islands in question there is basically no alternative to the ferry services as a means of public transport (only Mui Wo is also linked by an external road network, but its cross-district land-based public transport services are very limited). Short of SHM, the ferry services will not be commercially viable without periodic hefty fare increases. The seven in-harbour routes should not be subsidised as there are a variety of land (and railway) transport alternatives available.

Annex C

Star Ferry's financial performance in the current franchise period

Financial Year (1 January to 31 December)	Average Daily Patronage ¹	Farebox Revenue	Rental Income	Other Non- farebox revenue	Total Revenue	Total Operating Costs	Profit/ Loss	Profit Margin
2008	63 000	41.63	19.94	9.35	70.92	76.41	-5.49	-7.7%
2009	59 500	41.83	18.36	8.42	68.61	72.72	-4.11	-6.0%
2010	57 300	46.38	18.55	11.76	76.69	71.17	+5.52	+7.2%
2011	59 400	48.46	20.02	14.92	83.40	76.78	+6.62	+7.9%
2012	58 900	51.24	20.39	12.50	84.13	78.36	+5.77	+6.9%
2013	59 200	53.93	21.99	25.01	100.93	81.53	+19.402	+19.2%
2014	57 700	52.59	24.34	15.42	92.35	85.63	+6.72	+7.3%
2015	55 300	50.18	25.91	12.75	88.84	86.53	+2.31	+2.6%
2016	53 400	48.66	28.94	12.67	90.27	90.95	-0.68	-0.7%
Change (Comparison between 2008 and 2016)	-15.24%	+16.89%	+45.14%	+35.51%	+27.28%	+19.03%	Not applicable	Not applicable

Note: 2016 financial figures are subject to external audit

¹ Elderly passengers are included in the total patronage.

² The following factors attributed to the exceptional increase in non-fare box revenue in 2013 –

- (i) Star Ferry was given a non-recurrent refund of around \$8.7 million of employers' stake arising from the closure of a staff provident fund scheme and after clearance and payment of the staff's share;
- (ii) the Government's exceptional helping measure in connection with SF's last fare increase in June 2012, to fully reimburse SF for the total revenue foregone from the offer of free rides for the elderly for the "Central – Tsim Sha Tsui" ferry service. This amounts to around \$1.0 million in total;
- (iii) advertising income (mainly due to an increase in advertising income from the exterior walls of Tsim Sha Tsui Pier by around \$1.1 million, and pier interior walls by around \$0.5 million; income from ferry hull advertising by around \$0.3 million; and inclusion of ad hoc advertising income of around \$0.3 million); and
- (iv) increase in shop rental income by around \$1.6 million.