

## Legislative Council Panel on Transport

### Adjustment to MTR Fares in 2010

One of the outcomes of the rail merger was the adoption of a more objective and transparent fare adjustment mechanism (FAM). The mechanism, which replaced the fare autonomy of the MTR Corporation Limited (MTRCL), was formulated after extensive discussion in the community and at the Legislative Council.

2. Upon the rail merger, MTRCL made a commitment not to increase fares on or before 30 June 2009. After 30 June 2009, MTRCL's fares are to be adjusted according to a FAM which is objective and transparent. Under the mechanism, fare adjustments will be made in accordance with a direct-drive formula linked to changes in the Composite Consumer Price Index (CCPI), Nominal Wage Index (Transport Services Sector) (Wage Index) and a fixed productivity factor. The CCPI used in the FAM reflects public affordability. Wage index reflects staff cost. Based on the latest data of these objective indices under the FAM, fares will be maintained, or adjusted upward or downward. The formula which determines the overall rate of fare adjustment is :

$$\text{Overall fare adjustment rate} = 0.5 * \Delta \text{CCPI} + 0.5 * \Delta \text{Wage Index} \\ - \text{Productivity Factor,}$$

where  $\Delta \text{CCPI}$  is the year on year percentage change in the CCPI and  $\Delta \text{Wage Index}$  is the year on year percentage change in the Wage Index published by the Census and Statistics Department. The productivity factor is zero for the first five years starting from the rail merger and would have a value of 0.1% starting from the 6<sup>th</sup> year.

3. If, in a given year, the overall fare adjustment rate under the FAM is within the range of  $\pm 1.5\%$ , there shall be no fare adjustment and the unadjusted percentage shall be rolled over to the next annual fare review for implementation.

4. According to the FAM, the overall fare adjustment rate for 2009 was +0.7%. As the rate was smaller than  $\pm 1.5\%$ , the fare adjustment mechanism had not been triggered. Therefore, there was no fare adjustment for MTRCL in 2009. The rate of +0.7% was carried forward to 2010.

5. With the publication of the Wage Index for December 2009 on 25 March 2010, and together with the CCPI for December 2009 released earlier, the outcome of the fare adjustment under the FAM is +1.35%. Together with +0.70% carried forward from 2009, the overall fare adjustment for 2010 is +2.05%.

6. In accordance with the FAM procedures laid down in the Operating Agreement, MTRCL is required to provide the Government with two independent third party certificates certifying that the fare adjustments are in compliance with the FAM. MTRCL is also required to formally notify the Panel on Transport of the Legislative Council and the Transport Advisory Committee three weeks prior to implementation of the new fares.

7. The Government would act in accordance with the mechanism and ensure that MTRCL complies with the requirements as set out in paragraph 6 above. According to the procedures, the new fares would be effected in June. As always, the Government will continue to encourage MTRCL to provide fare concessions to passengers and monitor services provided by MTRCL to ensure quality and safe railway services.

Transport and Housing Bureau  
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