

## **Legislative Council Panel on Transport Adjustment to MTR Fares in 2011**

This paper provides Members with information on the adjustment to MTR fares in 2011 in accordance with the Fare Adjustment Mechanism (FAM).

### **Background**

2. The MTR Corporation (MTR) (now the MTR Corporation Limited (MTRCL)) was established in 1975 with a mission to construct and operate, under prudent commercial principles, a safe, reliable and efficient urban metro system to help meet Hong Kong's public transport requirements. At the time, the sole shareholder was the Hong Kong Government. The MTR was listed on the Stock Exchange of Hong Kong through an Initial Public Offering by the Hong Kong Special Administrative Region Government in October 2000. At present, apart from the Hong Kong Government, MTRCL has 250,000 shareholders.

3. Today, MTRCL is recognised internationally as one of the world's safest, most reliable and efficient railways. This is achieved through a responsible approach to asset management and commitment to continuous improvement. To this end, \$4 billion is required to be invested into the network each year to maintain and upgrade existing railway assets and station facilities to ensure a high-quality, sustainable railway for the people of Hong Kong.

4. MTR fares and services are competitive with other modes of transportation in Hong Kong. MTR fares are also competitive when compared internationally although most railways in the world are built by governments and their operations subsidised by governments.

### **Fare Adjustment Mechanism**

5. Adoption of an objective and transparent FAM was one of the five parameters set down by the Government for the Rail Merger.

6. After detailed discussions with the Government, the MTRCL agreed to give up its autonomy to adjust fares and adopt FAM instead. This change was thoroughly debated in the Legislative Council as part of the legislative process for the Rail Merger. It was also approved by independent shareholders of MTRCL, after much consideration and deliberation, as part of the conditions upon which their approval of the Rail

Merger was given.

7. FAM forms part of the merger agreement between MTRCL and the Government. It is legally binding. The FAM is objective and transparent. It also addresses previous concerns that the basis on which the MTR adjusted fares was not clear to the public.

8. Under FAM, MTR fares are reviewed once per calendar year with the Overall Fare Adjustment Rate calculated by a set formula that is based on the Census and Statistics Department (C&SD) published year-on-year percentage changes in the Composite Consumer Price Index (CCPI) and Nominal Wage Index (Transportation Section) for December of the preceding year as well as a pre-determined productivity factor. The productivity factor is 0% before 2013 and 0.1% with effect from 2013.

9. The formula for calculating each year's Overall Fare Adjustment Rate is set out as follows:

Overall Fare Adjustment Rate = (0.5 x year-on-year percentage change in CCPI) + (0.5 x year-on-year percentage change in Nominal Wage Index (Transportation Section) – productivity factor (0% before 2013, 0.1% from 2013).

10. The 0% productivity factor was agreed in consideration of the agreement to lower rail fares on the day of the merger on 2 December 2007, before any synergies could be realised for the merger. After the merger, 2,800,000 passengers have been benefited from different degree of lower fares, the rate of which ranged from 5% to 20%. MTRCL had also agreed to freeze its fares until June 2009.

11. If the Overall Fare Adjustment Rate calculated in any calendar year is smaller than  $\pm 1.5\%$ , there will be no adjustment in fares for the relevant year. The Overall Fare Adjustment Rate will be carried forward to be incorporated into the following year's Overall Fare Adjustment Rate.

12. FAM was implemented for the first time in 2009. At that time, the Overall Fare Adjustment Rate calculated was +0.7%. As it was smaller than  $\pm 1.5\%$ , no fare adjustment was made in 2009 and the +0.7% was carried over to be incorporated into the 2010 Overall Fare Adjustment Rate.

## Overall Fare Adjustment Rate for 2011

13. For calculation of the 2011 Overall Fare Adjustment Rate, according to C&SD's publication on 20 January 2011, the year-on-year percentage change in the CCPI for December 2010 over that for December 2009 is +3.1%.

14. According to C&SD's publication on 24 March 2011, the year-on-year percentage change in the Nominal Wage Index (Transportation Section) for December 2010 over that for December 2009 is +1.5%.

15. Using the formula set out in paragraphs 9 above, the Overall Fare Adjustment Rate of +2.3% has been calculated for 2011 (see table below for details) which will be used to adjust MTR fares in June 2011.

Year-on-year % change in Composite Consumer Price Index for Dec 2010	Year-on-year % change in Nominal Wage Index (Transportation Section) for Dec 2010	Productivity Factor (0% before 2013, 0.1% from 2013)	2011 Overall fare adjustment rate			
<b>(0.5 x 3.1%)</b>	<b>+</b>	<b>(0.5 x 1.5 %)</b>	<b>-</b>	<b>0 %</b>	<b>=</b>	<b>+ 2.3%</b>

16. The Overall Fare Adjustment Rate represents the weighted average figure by which all adjustments to individual fares taken together shall equal to.

17. As a result of this year's overall fare adjustment, it is expected that most fares will be adjusted by 10 cents or 20 cents.

18. MTRCL is now in the process of calculating adjustments to individual fares. A formal announcement on the adjustment to MTR fares and actual changes to individual fares will be made after the MTRCL has gone through the required administrative procedures, including the submission of independent experts' certificates to the Government to certify compliance with FAM.

## **Offering Good Value For Money Service**

19. MTRCL has always been committed to providing a high quality and efficient railway service that offers good value for money.

20. At the time of the Rail Merger in December 2007, MTR passengers benefitted from a general fare reduction that amount to more than \$600 million per year.

21. Each year, the Corporation offers a wide range of fare concessions and promotional schemes to thank passengers for their support and encourage different sectors of the community to use the railway including the elderly, children, eligible students and persons with disabilities. In fact, the Corporation is the only public transport company to offer concessions of about 50 percent discount to students and one of very few operators to offer similar concessions to persons with disabilities. In 2010, MTR fare concessions and promotions amounted to more than \$1.6 billion, benefitting some 1.2 million passenger trips each day. A list of major fare promotions currently offered by the MTRCL is provided in Appendix 1. MTRCL is actively considering the provision of a series of fare concessions.

22. MTRCL is committed to continue providing a world-class railway service at competitive fares.

MTR Corporation  
April 2011

**Major Fare Promotions Currently Provided by MTRCL  
(As at March 2011)**

<b>Promotion</b>	<b>Details</b>
<b>Student Travel Scheme</b>	<ul style="list-style-type: none"> <li>• MTRCL is the only public transport company in Hong Kong that provides fare concessions to eligible students studying full-time at local recognised institutions.</li> <li>• Eligible full-time students aged between 12 and 25 can enjoy about half-fare concessions with their Personalised Octopus encoded with Student Status (not applicable on journeys to/from Lo Wu and Lok Ma Chau stations, East Rail Line First Class, MTR Feeder Bus and Airport Express).</li> <li>• Currently about 540,000 students benefit from this promotion.</li> </ul>
<b>Fare Concession for the Elderly</b>	<ul style="list-style-type: none"> <li>• Elderly persons aged 65 or above can enjoy about half-fare concessions using Elder Octopus or Concessionary Single Journey Tickets.</li> </ul>
<b>\$2 Fare Promotion for the Elderly</b>	<ul style="list-style-type: none"> <li>• Senior citizens can enjoy \$2 per journey on Wednesdays, Saturdays and public holidays (excluding Sundays) using Elder Octopus (not applicable on Airport Express, East Rail Line First Class, journeys to/from Lo Wu and Lok Ma Chau stations, Light Rail, MTR Bus and MTR Feeder Bus).</li> <li>• Valid until 31 August 2011.</li> </ul>
<b>Fare Concession for Children</b>	<ul style="list-style-type: none"> <li>• Children aged 3 to 11 can enjoy about half-fare concessions using Child Octopus or Concessionary Single Journey Tickets.</li> </ul>

<p><b>Fare Promotion for Eligible Persons with Disabilities</b></p>	<ul style="list-style-type: none"> <li>• MTRCL is one of few public transport companies in Hong Kong that provides concessions to eligible persons with disabilities.</li> <li>• Eligible persons with disabilities are defined as recipients aged 12 to 64 under the Comprehensive Social Security Assistance (CSSA) Scheme with 100% disability or recipients of Disability Allowance.</li> <li>• Currently, about 80,000 persons with disabilities benefit from about half-fare concessions using their Personalised Octopus encoded with Persons with Disabilities status.</li> </ul>
<p><b>Monthly Pass, Day Pass Promotions</b></p>	<ul style="list-style-type: none"> <li>• Tuen Mun- Nam Cheong Monthly Pass</li> <li>• Tuen Mun- Hung Hom Monthly Pass</li> <li>• Tuen Mun –Nam Cheong Day Pass</li> <li>• Sheung Shui–East Tsim Sha Tsui Monthly Pass</li> <li>• Purchased each month/day and encoded in Octopus cards for Monthly Pass/magnetic tickets for Day Pass, users are entitled to unlimited rides between the specified stations within the month/day purchased.</li> <li>• All valid until 30 June 2011.</li> </ul>
<p><b>Fare Savers</b></p>	<ul style="list-style-type: none"> <li>• Currently there are 29 fare savers available offering discounts at pre-designated MTR stations.</li> <li>• Expiry dates vary.</li> </ul>
<p><b>Light Rail Personalised Octopus Frequent User Bonus Scheme</b></p>	<ul style="list-style-type: none"> <li>• Adults, children or senior citizens who travel on Light Rail using a Personalised Octopus can accumulate bonus points for discounted travel on Light Rail.</li> <li>• Valid until 30 June 2011.</li> </ul>
<p><b>Interchange between West Rail Line and Light Rail/MTR Bus</b></p>	<ul style="list-style-type: none"> <li>• Passengers using the same Octopus to transfer between designated West Rail Line stations and designated Light Rail stops/MTR Bus routes within a specified</li> </ul>

	<p>time period can enjoy free rides on Light Rail (applicable on journeys with an Adult Octopus fare of \$4.0 or less) or MTR Bus routes.</p> <ul style="list-style-type: none"> <li>• Valid until 30 June 2011</li> </ul>
<b>Interchange between Light Rail and MTR Bus</b>	<ul style="list-style-type: none"> <li>• Passengers using the same Octopus to transfer between Light Rail and designated MTR Bus routes within a specified time period can enjoy the MTR Bus ride for free.</li> <li>• Valid until 30 June 2011.</li> </ul>
<b>Interchange between MTR and MTR Feeder Bus</b>	<ul style="list-style-type: none"> <li>• Passengers using the same Octopus to transfer between MTR and MTR Feeder Bus routes at designated MTR stations within a specified time period can enjoy interchange discounts equal to \$3.4, or the MTR fare, whichever is lower</li> <li>• Valid until further notice.</li> </ul>
<b>Interchange between MTR and New Lantao Bus</b>	<ul style="list-style-type: none"> <li>• Passengers using the same Octopus to transfer between MTR and designated New Lantao Bus routes at Tung Chung Station within a specified time period can enjoy an interchange discount of \$1.0.</li> <li>• Valid until further notice.</li> </ul>
<b>Interchange discount with Green Minibuses</b>	<ul style="list-style-type: none"> <li>• Passengers using the same Octopus to transfer between MTR and designated Green Minibus routes at designated MTR stations within a specified time period can enjoy interchange discounts ranging from \$0.3 to \$3.0 depending on the individual route.</li> <li>• Expiry dates vary.</li> </ul>