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Panel on Transport
Meeting on 15 April 2011

Background brief on adjustment to MTR fares
and request for review of the MTR Corporation Limited's
Fare Adjustment Mechanism

Purpose

This paper provides background information on the MTR Corporation Limited (MTRCL)'s Fare Adjustment Mechanism (FAM) and the outcomes of its operation since adoption.

Background

2. Before the merger of MTRCL and Kowloon-Canton Railway Corporation (KCRC), both MTRCL and KCRC had fare autonomy, and they set their fares in accordance with prudent commercial principles, having regard to, inter alia, economic conditions, competition from other transport modes and whether the services were value for money. In the context of the rail merger exercise, MTRCL and KCRC agreed that the post-merger corporation would adopt a formulaic approach, namely the FAM, for determining future fare adjustments to replace fare autonomy.

3. It was then decided that under the FAM, fare adjustments would 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)¹ and a fixed productivity factor. The CCPI used in the FAM reflects public affordability. Wage

¹ Nominal Wage Index (Transportation) replaced Nominal Wage Index (Transport Services) in 2010.

index reflects staff cost. Based on the latest data of these objective indices under the FAM, fares would be maintained, or adjusted upwards or downwards. 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 ΔCCPI 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 (C&SD). 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 6th year.

4. 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.

Adjustment to MTR fares in 2010

5. The 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.

6. As calculated on the basis of the Wage Index for December 2009 published on 25 March 2010, and the CCPI for December 2009 released earlier, the outcome of the fare adjustment under the FAM was $+1.35\%$. Together with $+0.7\%$ carried forward from 2009, the overall fare adjustment rate for 2010 was $+2.05\%$, greater than $\pm 1.5\%$. Adjustments to MTR fares were therefore proposed and took effect from 13 June 2010. As a result of this $+2.05\%$ overall fare adjustment rate which represented the weighted average figure by which all adjustments to individual fares taken together should equal to, 83.3% of MTR passenger trips had a fare adjustment of 20 cents or less, including about 10% which would not see any change in their fares.

Panel discussion on the 2010 MTR fare adjustment

Concerns about the implications of the 2010 fare adjustment

7. The Panel was gravely concerned about the 2010 fare adjustment. At members' request, the Administration and MTRCL briefed members on the matter at the Panel's regular meeting on 23 April 2010 and its special meeting on 29 June 2010.

8. Panel members considered that the 2010 fare adjustment would add to the pressure of living costs borne by the general public, particularly the grassroots, and would cause public resentment. The fare increase was most inappropriate given that MTRCL had then accumulated a net profit of over \$77 billion, and that in 2009, MTRCL's net profit was over \$9.6 billion. Some members suggested that the Administration should review the FAM which failed to take into account public affordability, or consider using the dividends it received as a MTRCL shareholder to set up a fare stabilization fund to moderate MTRCL's rate of fare increase.

9. The Administration explained that the proposal to set up a fare stabilization fund was not in keeping with the general framework of public finance management, according to which income received for the purposes of the Government should be paid into the general revenue, and withdrawal of money from the general revenue should be subject to the approval of the Finance Committee of the Legislative Council. To mitigate the impacts of the 2010 fare adjustment, the Panel urged MTRCL to provide more fare concessions. In particular, members called upon MTRCL to provide the \$2 concessionary elderly fare then available only on Wednesdays on all days instead, and to introduce monthly and weekly passes for residents of remote new towns. MTRCL subsequently announced a series of additional promotions to be offered, including enhanced \$2 fare promotion for the elderly, extension of the Monthly and Day Pass promotions, enhanced interchange discount in Tung Chung, etc. Details of the new promotions are given in **Appendix I**.

Concerns that for around 100 journeys MTR Single Journey fares were

lower than Octopus fares

10. Members also considered it undesirable and unreasonable that the MTR Single Journey fares for about 100 journeys would be slightly lower than Octopus fares. In response, the Administration drew members' attention to the following principles that had to be applied when MTRCL made adjustment to individual fares:

- (a) Adjustments to Octopus fares were rounded to the nearest 10-cents; and
- (b) Adjustments to Single Journey fares were rounded to the nearest 50-cents.

In calculating individual fares in accordance with the above principles, some Single Journey fares would have a substantial increase if they were to be adjusted by 50 cents. MTRCL had therefore decided not to adjust these Single Journey fares until later. MTRCL also explained to the Panel that only a small number of Single Journey fares were 10 to 20 cents lower than the Octopus fares of the same journeys. Passengers using Octopus would still pay a lower fare than using Single Journey tickets in most journeys and could benefit from a wide variety of promotions offered by MTRCL.

Latest developments

11. On 24 March 2011, following the publication by C&SD of the change in the Wage Index for December 2010 over the same month in the previous year, MTRCL announced that MTR fares would be adjusted by an overall +2.3% upon implementation of the FAM in June 2011. The relevant FAM calculation is as follows:

Year-on-year percentage change in CCPI for December 2010	Year-on-year percentage change in the Wage Index for December 2010	2011 overall fare adjustment rate
(0.5 x 3.1%)	+ (0.5 x 1.5 %)	= + 2.3%

12. Members expressed grave concern about the proposed 2011 MTR fare adjustments at the Panel meeting on 28 March 2011. Certain members also highlighted again the need to review the FAM. At members' request, the Administration and MTRCL would brief the Panel on the proposed 2011 MTR fare adjustments at the Panel's April regular meeting.

Relevant papers

13. A list of relevant papers is in **Appendix II**.

Council Business Division 1
Legislative Council Secretariat
13 April 2011

MTR Promotions - New promotions for 2010

Enhanced \$2 Fare Promotion for the Elderly

The current promotion whereby Elder Octopus cardholders enjoy paying a flat fare of only \$2 for each MTR journey taken on Wednesdays and public holidays (excluding Sundays) to any destination in the MTR network¹ is due to expire on 31 August 2010.

MTR has decided to extend the promotion for one year to 31 August 2011. Furthermore, this promotion scheme will be enhanced. Starting from 1 September 2010 to 31 August 2011, Elder Octopus cardholders will also enjoy \$2 travel on the MTR on Saturdays as well. It is believed the promotion will encourage senior citizens to get out and involve more in community activities.

Ride MTR for Summer Spending

Between 14 June and 8 August 2010, Adult Octopus cardholders will be able to redeem a \$5 MTR Shops cash coupon for every \$100 of MTR's fares deducted from the same Octopus card from Monday to Friday of each week. Child and Elder Octopus cardholders, as well as holders of Personalised Octopus cards encoded with "Student" or "Persons with Disabilities" status will be able to redeem the same \$5 MTR Shops cash coupon for every \$50 deducted.

Monthly and Day Pass Promotion Extended

The Monthly and Day Pass promotions, due to expire on 30 June 2010, will be extended for one more year from 1 July 2010 to 30 June 2011 at new prices² as follows:

¹ Not applicable on the Airport Express, East Rail Line First Class, journeys to and from Lo Wu and Lok Ma Chau stations, Light Rail, MTR Bus and MTR Feeder Bus.

² New prices for the current \$300/\$370 Monthly Pass will be \$315/\$390.

Pass	New Price
Sheung Shui – East Tsim Sha Tsui Monthly Pass	\$390
Tuen Mun – Nam Cheong Monthly Pass	\$410
Tuen Mun – Hung Hom Monthly Pass	\$480
Tuen Mun – Nam Cheong Day Pass	\$21

To thank Monthly Pass users for their past support, those who purchase Monthly Passes for use in July or August 2010 will also receive a \$20 supermarket shopping voucher.

Enhanced Interchange Discount in Tung Chung

With effect from 9 July 2010, passengers will be able to enjoy a higher discount when using the same Adult Octopus card to interchange between MTR and several New Lantao Bus routes in Tung Chung including 37/37P (Yat Tung Estate - Caribbean Coast), 38/38P and N38 (Yat Tung Estate-Tung Chung Bus Terminus) within one hour. The interchange discount will be raised from \$1 to \$1.5 for six months.

New Fare Saver at Metro Harbour Plaza

From mid-July, Adult Octopus cardholders who start their journey from Olympic or Nam Cheong stations will be able to enjoy a \$1 discount off their fare to any MTR destination (except Airport Express and the Free MTR Connections journeys offered by the Airport Express) via a new Fare Saver machine at Metro Harbour Plaza. To take advantage of the offer, all passengers have to do is swipe their Octopus card at the Fare Saver before entering through the ticket gates of Olympic or Nam Cheong stations at any time on the same day.

Light Rail and MTR Bus

The Light Rail Personalised Octopus Frequent User Bonus Scheme, Free Light Rail / MTR Bus Connection to MTR, and Free MTR Bus Connection to Light Rail using Octopus which are due to expire on 30 June 2010, will be extended for one year to 30 June 2011.

Appendix II

Adjustment to MTR fares and request for review of the MTR Corporation Limited's Fare Adjustment Mechanism

List of relevant papers

Committee	Date of meeting	Paper
Panel on Transport	23.4.2010 (Item VI)	<u>Agenda</u> <u>Minutes</u>
Panel on Transport	29.6.2010	<u>Agenda</u> <u>Minutes</u>