

## **Legislative Council Panel on Transport**

### **Adjustment to MTR Fares in 2012 and Fare Adjustment Mechanism of MTR Corporation Limited**

This paper briefs Members on the adjustment to MTR fares in 2012 and the fare adjustment mechanism (“FAM”) of MTR Corporation Limited (“MTRCL”).

#### **FAM of MTRCL**

2. Since the merger of the railway networks in December 2007, an objective and transparent FAM has been adopted to replace the fare autonomy of pre-merger MTRCL.

3. The FAM is a direct-drive formula that takes into account the year-on-year percentage change in Composite Consumer Price Index (“CCPI”) in December of the previous year (which has reflected the macroeconomic environment and public affordability to a certain extent), and the year-on-year percentage change in Nominal Wage Index (Transportation Section) (“Wage Index”) in December of the previous year (which has reflected staff cost):

$$\text{Overall fare adjustment rate} = 0.5 \times \text{Change in CCPI} + 0.5 \times \text{Change in Wage Index} - \text{Productivity Factor}$$

According to the Operating Agreement signed between the Government and MTRCL in August 2007, the productivity factor is set at zero for the first five years starting from the rail merger and will have a value of 0.1% starting from the 6<sup>th</sup> year.

4. Based on the data of these objective indices under the FAM, fares will be maintained, or adjusted upward or downward. 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 calculation.

#### **Adjustment of MTR Fares in 2012**

5. With reference to the CCPI and Wage Index for December 2011 published by the Census and Statistics Department on 20 January and 26 March

2012 respectively, the MTR overall fare adjustment rate for 2012 under the FAM is +5.4%. It is estimated that the fare increase will lift the CCPI by 0.044 percentage point in 2012 and another 0.036 percentage point in 2013.

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 (“LegCo”) and the Transport Advisory Committee three weeks prior to implementation of the new fares.

7. The Government will 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 will take effect in June.

8. In view of the relatively high level of inflation recently and the financial burden borne by the public at large, the Government has urged MTRCL to take into account the overall economic environment and introduce various additional and effective fare concessions to address the specific needs of the passengers and lessen their expenditure on public transport, in order to strike a balance between MTRCL’s commercial interests and its corporate social responsibility.

## **Review of the FAM of MTRCL**

9. Notwithstanding that the FAM and its components in the formula were thoroughly discussed and considered by the community and the LegCo during the rail merger, the Government is alive to the views that factors such as public acceptability and affordability, MTRCL’s profit level and service performance should be taken into account when considering whether MTRCL should adjust its fares annually.

10. The Operating Agreement between the Government and MTRCL stipulates that either party may request a review on the FAM once every five years. We shall carry out such a review together with MTRCL in the second half of 2012, with a view to completing the exercise by end 2012/early 2013.

11. To better prepare for the review, the Government has engaged a consultant to conduct a thorough and objective study on the existing FAM and how it may be improved. The consultant has been asked to consider, inter alia, whether and how new components, such as MTRCL’s operational costs and profit level, its operational efficiency and service performance, as well as the

affordability of general public should be introduced to the formula. Recommendations made therein will serve as our reference in the upcoming review.

**Transport and Housing Bureau**  
**March 2012**