

Legislative Council Panel on Transport

Adjustment to MTR Fares in 2012

This paper provides Members with information on the adjustment to MTR fares in 2012 in accordance with the Fare Adjustment Mechanism (“FAM”).

Fare Adjustment Mechanism

2. Adoption of an objective and transparent FAM was one of the five parameters set down by the Government for the rail merger.
3. After detailed discussions with the Government, the MTR Corporation Limited (“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.
4. FAM forms part of the merger agreement between MTRCL and the Government. It is legally binding. The FAM is an open, objective and transparent mechanism that is not impacted by any other external factor. It also aligns fare adjustments to economic conditions and wage levels and addresses previous concerns that the basis on which the MTR adjusted fares was not clear to the public.
5. 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”)’s 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.
6. The formula for calculating each year’s Overall Fare Adjustment Rate is set out as follows:

Overall Fare Adjustment Rate = $(0.5 \times \text{year-on-year percentage change in CCPI})$
+ $(0.5 \times \text{year-on-year percentage change in Nominal Wage Index (Transportation Section)})$ –
productivity factor (0% before 2013, 0.1% from 2013)

7. 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 benefited from different degrees of lower fares. Fare reduction rates ranged from 5% to 20%. MTRCL had also agreed to freeze its fares until June 2009.

8. If the Overall Fare Adjustment Rate calculated in any calendar year is within the range of $\pm 1.5\%$, 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.

9. 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 $+1.5\%$, 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 2012

10. For calculation of the 2012 Overall Fare Adjustment Rate, according to C&SD's publication on 20 January 2012, the year-on-year increase in the CCPI for December 2011 over that for December 2010 is 5.7% .

11. According to C&SD's publication on 26 March 2012, the year-on-year increase in the Nominal Wage Index (Transportation Section) for December 2011 over that for December 2010 is 5.1% .

12. Using the formula set out in paragraph 6 above, the Overall Fare Adjustment Rate of $+5.4\%$ has been calculated for 2012 (see table below for details) which will be used to adjust MTR fares in June 2012.

Year-on-year % change in Composite Consumer Price Index for Dec 2011	Year-on-year % change in Nominal Wage Index (Transportation Section) for Dec 2011	Productivity Factor (0% before 2013, 0.1% from 2013)	2012 Overall Fare Adjustment Rate
(0.5 × 5.7%)	+ (0.5 × 5.1%)	– 0%	= +5.4%

13. The Overall Fare Adjustment Rate is the figure to which the weighted average of all adjustments to individual fares must equal.

14. MTRCL is now in the process of calculating adjustments to individual fares. A formal announcement on new MTR 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

15. 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.

16. In striving to provide a high quality railway service that is good value for money, MTRCL also offers a wide range of fare concessions and promotional schemes each year to thank passengers for their support and encourage different sectors of the community to use the railway including the elderly, children, eligible Hong Kong students and persons with disabilities to participate more in family and community activities. 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 2011, MTR fare concessions and promotions amounted to more than \$1.7 billion. A list of major fare promotions currently offered by the MTRCL is provided at **Appendix**.

17. The promotions offered by MTRCL have been welcomed by passengers and the Corporation will be offering promotions again in 2012. It targets to continue to provide promotions that passengers find attractive. In drawing up its 2012 promotions plan, MTRCL has listened to views from the community, and will continue to do so.

18. MTRCL aims to finalise the promotions package soon and carry out the associated technical and administrative work so as to be able to announce the package in May 2012.

19. 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. It should be noted that MTRCL must operate on a stable financial foundation to ensure that it can continue to invest in its railway assets such that the people of Hong Kong always enjoy a world class service. As part of its ongoing efforts to ensure a high-quality, efficient and sustainable rail service, MTRCL invests more than \$4 billion every year to maintain and upgrade existing railway assets and station facilities.

20. Under a new "Listening • Responding" programme launched in March 2012, MTRCL has committed resources of over \$1 billion for a series of initiatives to further enhance service delivery, including increasing train frequencies to ease crowding and upgrading station facilities to improve the convenience and comfort of travel.

Review of Fare Adjustment Mechanism

21. When the FAM was established, there is a provision for it to be reviewed for the first time in the second half of 2012. When there is a review, MTRCL will cooperate and participate in the exercise under the provision of the FAM together with the Government.

MTR Corporation
March 2012

Appendix

Major Fare Promotions Currently Provided by MTRCL (As at March 2012)

Promotion	Details
Student Travel Scheme	<ul style="list-style-type: none">• MTRCL is the only public transport company in Hong Kong to provide fare concessions to eligible students studying full-time at local recognised institutions.• 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).• Currently about 540 000 students benefit from this promotion.
Fare Concession for the Elderly	<ul style="list-style-type: none">• Elderly persons aged 65 or above can enjoy about half-fare concessions using Elder Octopus or Concessionary Single Journey Tickets.
\$2 Fare Promotion for the Elderly	<ul style="list-style-type: none">• Senior citizens can enjoy \$2 per journey on Wednesdays, Saturdays and public holidays (excluding Sundays) using Elder Octopus (not applicable on journeys to/from Lo Wu and Lok Ma Chau stations, Airport Express, East Rail Line First Class, Light Rail, MTR Bus and MTR Feeder Bus).• Valid until 31 August 2012.
Fare Concession for Children	<ul style="list-style-type: none">• Children aged 3 to 11 can enjoy about half-fare concessions using Child Octopus or Concessionary Single Journey Tickets.
Fare Promotion for	<ul style="list-style-type: none">• MTRCL is one of few public transport companies in

Promotion	Details
Eligible Persons with Disabilities	<p>Hong Kong that provides concessions to eligible persons with disabilities.</p> <ul style="list-style-type: none"> • Eligible persons with disabilities are defined as recipients aged 12 to 64 under the Comprehensive Social Security Assistance Scheme with 100% disability or recipients of Disability Allowance. • Currently, about 92 000 persons with disabilities have applied for a Personalised Octopus encoded with Persons with Disabilities Status which enables them to enjoy about half-fare concessions.
Monthly Pass, Day Pass Promotions	<ul style="list-style-type: none"> • Tuen Mun – Nam Cheong Monthly Pass • Tuen Mun – Hung Hom Monthly Pass • Sheung Shui – East Tsim Sha Tsui Monthly Pass • Tuen Mun – Nam Cheong Day Pass • 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. • All valid until 30 June 2012.
Fare Savers	<ul style="list-style-type: none"> • Currently there are 33 fare savers available offering discounts at pre-designated MTR stations. • Expiry dates vary.
Light Rail Personalised Octopus Frequent User Bonus Scheme	<ul style="list-style-type: none"> • Adults, children or senior citizens who travel on Light Rail using a Personalised Octopus can accumulate bonus points for discounted travel on Light Rail.

Promotion	Details
	<ul style="list-style-type: none"> • Valid until 30 June 2012.
Interchange between West Rail Line and Light Rail/MTR Bus	<ul style="list-style-type: none"> • Passengers using the same Octopus to transfer between designated West Rail Line stations and designated Light Rail stops/MTR Bus routes within a specified time period can enjoy free rides on Light Rail (applicable on journeys with an Adult Octopus fare of \$4.1 or less) or MTR Bus routes. • Valid until 30 June 2012.
Interchange between Light Rail and MTR Bus	<ul style="list-style-type: none"> • 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. • Valid until 30 June 2012.
Interchange between MTR and MTR Feeder Bus	<ul style="list-style-type: none"> • 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 \$3.6, or the MTR fare, whichever is lower. • Valid until further notice.
Interchange between MTR and New Lantao Bus	<ul style="list-style-type: none"> • 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. • Valid until further notice.
Interchange discount with Green Minibuses	<ul style="list-style-type: none"> • Passengers using the same Octopus to transfer between MTR and designated Green Minibus routes at designated MTR stations within a specified time

Promotion	Details
	<p>period can enjoy interchange discounts ranging from \$0.3 to \$3.0 depending on the individual route.</p> <ul style="list-style-type: none"><li data-bbox="576 495 903 533">• Expiry dates vary.