

Legislative Council Panel on Transport

Adjustment to MTR Fares in 2011

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

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, the overall 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 (Transportation Section) ("Wage Index") and a productivity factor.

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

The CCPI and the Wage Index are regularly 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.

3. The FAM takes into account the year-on-year percentage change in CCPI in December of the previous year which has reflected the macroeconomic environment and public affordability to a certain extent. The year-on-year percentage change in Wage Index in December of the previous year has reflected staff cost. As such, it can be said that the economy and wage precedes the activation of any fare adjustment. Based on the latest data of these objective indices under the FAM, fares will be maintained, or adjusted upward or downward.

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 calculation.

5. As regards the fare adjustment mechanism and factors that should be included in the formula, these have been thoroughly discussed and considered during the rail merger. At that time, the arrangement for review of the mechanism every five years has also been laid down. The FAM was implemented since 2009 and fares were increased for the first time in 2010. Therefore, we consider it appropriate to review the mechanism after it has been implemented for some time with experience accumulated.

6. With C&SD's publication of the Wage Index for December 2010 on 24 March 2011, and together with the CCPI for December 2010 released earlier, the rate of the fare adjustment under the FAM for 2011 is +2.3%. It is estimated that the fare increase will lift the CCPI by 0.018 percentage point in 2011 and another 0.015 percentage point in 2012.

7. In accordance with the FAM procedures laid down in the Operating Agreement between the Government and MTRCL, 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.

8. The Government would act in accordance with the mechanism and ensure that MTRCL complies with the requirements as set out in paragraph 7 above. According to the procedures, the new fares would take effect in June. As always, the Government will actively encourage MTRCL to provide fare concessions to passengers and closely monitor railway services provided by MTRCL to ensure they are safe, of good quality and efficient.

Transport and Housing Bureau
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