

立法會
Legislative Council

LC Paper No. CB(1)66/12-13(03)

Ref : CB1/PL/TP

Panel on Transport
Meeting on 30 October 2012

**Updated background brief on adjustment to MTR fares
and the Fare Adjustment Mechanism of the
MTR Corporation Limited**

Purpose

This paper provides background information on the MTR Corporation Limited ("MTRCL")'s Fare Adjustment Mechanism ("FAM") and summarizes the major concerns and views expressed by members of the Panel on Transport ("the Panel") about MTR fare adjustments and the FAM during discussions from 2010 to 2012.

The FAM of the MTRCL

2. Before the merger of MTRCL and Kowloon-Canton Railway Corporation ("KCRC") which took place in December 2007, 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 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:

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

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. Both indices are published data of the Census and Statistics Department. The productivity factor is zero for the first five years starting from the rail merger in 2007 and would have a value of 0.1% starting from the 6th year in 2013.

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.

5. According to the Operating Agreement between the Government and MTRCL, either party may request a review on the FAM once every five years following the rail merger in December 2007.

Adjustments to MTR fares and fare promotions provided by MTRCL

6. As part of the merger deal, MRTCL's first fare increase could only take place on or after 1 July 2009. 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.

7. In 2010, 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 $\pm 1.5\%$.

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

Adjustments to MTR fares took effect from 13 June 2010. As a result of the fare adjustment, 83.3% of MTR passenger trips had a fare adjustment of 20 cents or less, including about 10% which had not seen any change in their fares.

8. 2011 was the second year of fare increases under the FAM. The overall fare adjustment rate for 2011 was +2.2%. Adjustments to MTR fares took effect from 19 June 2011. As a result of the fare adjustment in 2011, 79% of MTR passenger trips had a fare adjustment of 20 cents or less, including about 6% which had not experienced any fare change.

9. 2012 was the third consecutive year of fare increases under the FAM. The overall fare adjustment rate for 2012 was +5.4%. Fare increase took effect in June 2012. The rate of fare increase is the highest since the implementation of the FAM in 2009. As a result of the fare adjustment in 2012, fares for 61% of all passenger trips had a fare adjustment of 40 cents or below. About 29% of passenger trips would see a 50 to 80 cent increase, and fares for 10% of passenger trips would go up by 90 cents or above.

10. While MTR fares were adjusted in 2010, 2011, and 2012 according to the FAM, MTRCL has been providing fare concessions and promotions to its passengers. Information on MTRCL's major fare promotions and concessions from 2009 to 2011 is in **Appendix I**.

Major views and concerns on MTR fare adjustments and the FAM expressed by Panel members

11. MTR's fare adjustments and issues relating to the FAM were discussed at Panel meetings on 23 April 2010, 29 June 2010, 15 April 2011, 12 April 2012, and 27 June 2012. The Panel also held meetings with deputations to receive views on the subject on 16 May 2011 and 7 May 2012. Major views and concerns expressed by Panel members at these meetings are summarized below.

- (a) Members were dissatisfied that with frequent occurrence of railway incidents and substantial profits recorded, MTRCL still insisted on increasing its fares according to the FAM from 2010 to 2012. They considered that fare increases would add to the pressure of living costs borne by the general public especially during inflation. MTRCL should give due regard to its corporate social responsibility

and shelve the fare adjustments.

- (b) Some members suggested that the Government should use the dividends it received as a shareholder of MTRCL to set up a fare stabilization fund for moderating the rate of MTR fare increases, or consider returning its dividends to MTRCL so as to avert the fare increase.
- (c) The Administration was urged to review the FAM and consider incorporating new factors, such as public acceptability and affordability as well as non-fare items like profits derived by MTRCL from property development, into the FAM formula.
- (d) There was dissatisfaction that MTRCL had not made any compensation to the affected passengers in railway incidents. Members suggested that a demerit point system should be introduced under the FAM whereby MTR's fare adjustments were linked to its standard of service with a view to motivating MTRCL to improve its service and reducing the frequency of railway incidents.
- (e) It was observed that under the current FAM, the higher the inflation rate, the higher the Wage Index and hence the higher the increase in MTR fares. In addition, CCPI reflected to a large extent movement in food prices, which might not be relevant to MTR fares. Moreover, due to inflation, the public might not benefit from any real wage increase. It was more appropriate for the FAM to make reference to real wage increases in its calculation.
- (f) Some members suggested that any adjustment to MTR fares should be subject to the approval of the Chief Executive-in-Council in line with the same arrangement made for fare adjustment applications by other public transport operators such as franchised bus companies.
- (g) Some members expressed concern over some situations where the Octopus fares were higher than their corresponding Single Journey fares after the fare adjustments and urged MTRCL to work out measures to address the problem.

12. At the meeting on 12 April 2012, Panel members passed two motions, one requesting MTRCL to immediately shelve its fare increase in 2012 and the other requesting the Government to return its dividends to MTRCL so as to avert the fare increase. At the meeting on 27 June 2012, some Panel members proposed that the Panel should follow up the review of MTRCL's FAM in 2012-2013 session.

13. At the meeting on 12 April 2012, the Administration advised that it would carry out a review of the FAM together with MTRCL in the second half of 2012, with a view to completing the exercise by end 2012/early 2013. To better prepare for the review, the Administration had engaged a consultant to conduct a study on the existing FAM and how it might be improved.

Relevant questions raised at Council meetings

14. During the legislative sessions from 2009-2010 to 2011-2012, Members raised eight questions relating to MTRCL's FAM and MTR's fares at the Council meetings of 9 June 2010, 16 March 2011, 11 May 2011, 8 June 2011, 2 November 2011, 25 April 2012, 30 May 2012 and 20 June 2012. The hyperlinks to these questions and the Administration's response are given in **Appendix II**.

Latest developments

15. The Administration has served a written notice to MTRCL to conduct a review of the FAM. On 17 September 2012, the Administration launched a public consultation to invite views on the FAM review up to 31 October 2012.

16. At the Panel meeting on 16 October 2012, some members commented that the consultation period on the FAM review was too short for the public to express views and urged that the Administration should consider extending the consultation period.

17. The Panel will hold a special meeting on 30 October 2012 to meet with deputations for views on the review of FAM.

Relevant papers

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

Council Business Division 1
Legislative Council Secretariat
24 October 2012

Major Fare Promotions and Concessions Provided by MTRCL from 2009 to 2011

Major Fare Promotions and Concessions #	2009		2010		2011	
	Passenger trips benefitted (million)	Amount involved (\$million)	Passenger trips benefitted (million)	Amount involved (\$million)	Passenger trips benefitted (million)	Amount involved (\$million)
Fare concession for children	46	168	46	170	48	189
Student Travel Scheme	165	538	183	610	186	645
Fare concession and \$2 fare promotion for the elderly	85	377	90	420	98	462
Fare concession for Persons with Disabilities	0.2	< 0.5	9	40	14	52
Monthly Pass and Day Pass	74	177	82	230	86	230
Free interchange offer and Light Rail Personalised Octopus Frequent User Bonus Scheme	36	130	38	145	38	147
“Ride \$100 Get \$5 MTR Shop Coupon” promotion scheme (Promotional period: 14 June 2010 – 6 August 2010)	N/A	N/A	0.4	2	N/A	N/A
“Ride \$100 Get 1 Free” promotion scheme (Promotional period: 4 July 2011 – 30 December 2011)	N/A	N/A	N/A	N/A	5	65
Total	406.2	1,390.5	448.4	1,617	475	1,790

Excluding Fare Saver discounts provided under commercial promotions

(Source: extract from Administration's reply to a Council question raised by Hon CHAN Hak-kan on MTR fares and the Fare Adjustment Mechanism on 25 April 2012.)

Adjustment to MTR fares and the Fare Adjustment Mechanism of the MTR Corporation Limited

List of relevant papers

Date	Meeting	Paper
23.4.2010 (Item VI)	Panel on Transport	Agenda http://www.legco.gov.hk/yr09-10/english/panels/tp/agenda/tp20100423.htm Minutes (LC Paper No. CB(1)2320/09-10) http://www.legco.gov.hk/yr09-10/english/panels/tp/minutes/tp20100423.pdf
9.6.2010	Council Meeting	Question No. 6 – MTR fares and station facilities http://www.info.gov.hk/gia/general/201006/09/P201006090142.htm
29.6.2010	Panel on Transport	Agenda http://www.legco.gov.hk/yr09-10/english/panels/tp/agenda/tp20100629.htm Minutes (LC Paper No. CB(1)442/10-11) http://www.legco.gov.hk/yr09-10/english/panels/tp/minutes/tp20100629.pdf
16.3.2011	Council Meeting	Question No. 6 – MTR fare structure and fare concessions http://www.info.gov.hk/gia/general/201103/16/P201103160128.htm
15.4.2011 (Item IV)	Panel on Transport	Agenda http://www.legco.gov.hk/yr10-11/english/panels/tp/agenda/tp20110415.htm Minutes (LC Paper No. CB(1)2544/10-11) http://www.legco.gov.hk/yr10-11/english/panels/tp/minutes/tp20110415.pdf

Date	Meeting	Paper
11.5.2011	Council Meeting	Question No. 14 – Fare concessions offered by MTR for cross-boundary students http://www.info.gov.hk/gia/general/201105/11/P201105110106.htm
16.5.2011	Panel on Transport	Agenda http://www.legco.gov.hk/yr10-11/english/panels/tp/agenda/tp20110516.htm Minutes (LC Paper No. CB(1)340/11-12) http://www.legco.gov.hk/yr10-11/english/panels/tp/minutes/tp20110516.pdf
8.6.2011	Council Meeting	Question No. 3 – MTR services and fares http://www.info.gov.hk/gia/general/201106/08/P201106080147.htm
2.11.2011	Council Meeting	Question No. 2 – Measures to alleviate the burden of travelling expenses on the public http://www.info.gov.hk/gia/general/201111/02/P201111020220.htm
12.4.2012	Panel on Transport	Agenda http://www.legco.gov.hk/yr11-12/english/panels/tp/agenda/tp20120412.htm Minutes (LC Paper No. CB(1)2491/11-12) http://www.legco.gov.hk/yr11-12/english/panels/tp/minutes/tp20120412.pdf
25.4.2012	Council Meeting	Question No. 3 – Fare Adjustment Mechanism of the MTR Corporation Limited http://www.info.gov.hk/gia/general/201204/25/P201204250277.htm
7.5.2012	Panel on Transport	Agenda http://www.legco.gov.hk/yr11-12/english/panels/tp/agenda/tp20120507.htm

Date	Meeting	Paper
		Minutes (LC Paper No. CB(1)2629/11-12) http://www.legco.gov.hk/yr11-12/english/panels/tp/minutes/tp20120507.pdf
30.5.2012	Council Meeting	Question No. 19 – Fare Adjustment Mechanism and fare concession schemes of the MTR Corporation Limited http://www.info.gov.hk/gia/general/201205/30/P201205300231.htm
20.6.2012	Council Meeting	Question No. 12 – Increase in MTR fares http://www.info.gov.hk/gia/general/201206/20/P201206200247.htm
27.6.2012	Panel on Transport	Agenda http://www.legco.gov.hk/yr11-12/english/panels/tp/agenda/tp20120627.htm Minutes (LC Paper No. CB(1)2544/11-12) http://www.legco.gov.hk/yr11-12/english/panels/tp/minutes/tp20120627.pdf
17.9.2012	--	Consultation paper on Review of the Fare Adjustment Mechanism of the MTR Corporation Limited http://www.td.gov.hk/filemanager/en/util_uarticle_cp/consultation%20paper%20(eng)%20(17.9.2012)%20final.pdf