

## **LEGISLATIVE COUNCIL BRIEF**

### **REVIEW OUTCOME OF THE FARE ADJUSTMENT MECHANISM OF THE MTR CORPORATION LIMITED**

#### **INTRODUCTION**

The Fare Adjustment Mechanism (“FAM”) of the MTR Corporation Limited (“MTRCL”) was last reviewed in 2013. After the review, a series of key measures were introduced, including the adoption of a new, objective and transparent methodology in the calculation of the Productivity Factor in the FAM formula, enhancement of Monthly Passes and related fare promotion schemes, as well as the introduction of an affordability cap, new City Saver ticket scheme, “Profit Sharing Mechanism” and the “Service Performance Arrangement”. Since then, there is still a view, quite commonly shared in the community, that FAM should be able to better respond to public concern about the relationship between fare adjustment and the Corporation’s profitability, as well as passengers’ affordability. In response, the Government and MTRCL agreed to advance the review of FAM<sup>1</sup> and the review has now been completed after rounds of negotiation, putting forward a new FAM package of proposals. At the meeting of the Executive Council on 21 March 2017, the Council **ADVISED** and the Chief Executive **ORDERED** that the Government accept the package of proposals and that the Government should formally enter into agreement with MTRCL for the new package of proposals to be implemented in 2017/18 to 2022/23<sup>2</sup>. The package of proposals has the following features –

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<sup>1</sup> FAM of MTRCL is reviewed once every five years under the Operating Agreement entered into between the Government and MTRCL in 2007 upon merger of MTRC and the Kowloon-Canton Railway Corporation. The Government and MTRCL announced the first review outcome of FAM in April 2013. The next scheduled review is originally due for completion in 2018.

<sup>2</sup> According to the Operating Agreement signed between the Government and MTRCL upon the rail merger in 2007, MTRCL adjusts its fares in accordance with the fare adjustment mechanism in June every year. The use of “2017/18” in this paper, for instance, refers to the “FAM cycle” from June 2017 to June 2018.

**(a) retaining the existing direct-drive FAM formula and reducing fare increase rate by 0.6 percentage point**

According to the formula –

overall fare adjustment rate =

$0.5 \times \text{change in Composite Consumer Price Index (CCPI) (in December of the previous year)} + 0.5 \times \text{change in Nominal Wage Index (Transportation Section) (in December of the previous year)} - \text{Productivity Factor (PF)}^3$

where –

CCPI = Composite Consumer Price Index

Wage Index = Nominal Wage Index (Transportation Section)

MTR fares will continue to be adjusted according to the formula outcome in June every year without the need of approval by any authorities.

Under the methodology for computing PF value as agreed by the Government and MTRCL in the last review in 2013, the PF is measured as a change in the ratio between output and input in MTRCL's transport operation over the years for sharing between MTRCL and passengers. In the event that the latest PF value as calculated from the above methodology is negative, it should be reset at "zero" in accordance with the Operating Agreement ("OA"), to avoid the situation where the fare increase rate of the FAM formula outcome would be increased as a result of a negative PF value. Please refer to paragraph 10 below for detailed explanation. However, upon the Government's request, MTRCL has carefully examined its operation situation and agreed to lower the fare increase rate by 0.6 percentage point each year in the coming six years (i.e. from 2017/18 to 2022/23), in order to ensure that passengers can still benefit from a moderated fare adjustment to an extent which is consistent with the original PF value (i.e. 0.6%) for 2013/14 to 2016/17;

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<sup>3</sup> PF =  $0.5 \times$  compound annual growth rate of Productivity in the reference period; where Productivity is measured as a ratio between output (i.e. income) and input (i.e. cost) in MTRCL's transport operation.

- (b) **introducing a special one-off 10% discount** for applying on the fare adjustment rate derived from the revised FAM formula in 2017. This discount will benefit all passengers;
- (c) **increasing the provision for sharing under the Profit Sharing Mechanism** by increasing the amount of shared profit in each tier of the existing pre-determined tiered table by \$25 million, as well as raising the profit sharing limit from \$13 billion at present to \$15 billion. Besides, MTRCL will remove the current cap which limits the rebate amount to not more than half of the total additional revenue generated by the corresponding fare increase;
- (d) **improving the existing Service Performance Arrangement** whereby the maximum level of penalty imposed on MTRCL for each incident that causes service disruption of 31 minutes or above will be increased from \$15 million to \$25 million;
- (e) Currently, MTRCL uses the amount set aside for fare concessions under the “Profit Sharing Mechanism” and “Service Performance Arrangement” to fund the “10% Same-Day Second-Trip Discount” promotion offered to Octopus passengers. The duration of the discount depends on the amount set aside for this purpose. It is proposed that the “10% Same-Day Second-Trip Discount” promotion be replaced with a **3% fare discount per journey offered to passengers using Octopus Card for at least six months of each year from 2017/18 to 2022/23 in order to benefit more passengers**;
- (f) **providing interchange discounts to passengers interchanging from Green Minibuses (GMBs) to MTR.** Octopus passengers interchanging from MTR to any GMB route or from any GMB route to MTR will enjoy a discount of \$0.3 per journey. It is estimated that the discount will be implemented by around the second quarter of 2018, after preparation;
- (g) **extending the various Monthly Passes, “Monthly Pass Extras”<sup>4</sup> and “MTR City Saver” promotions to June 2023.**

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<sup>4</sup> The holder of a monthly pass can enjoy a 25% fare discount for onward domestic journeys reaching stations not covered by the pass. “Onward domestic journey” refers to the additional journey to destination by interchanging another railway line while using a certain railway line’s Monthly Pass. For example, setting off at East Rail Line Sheung Shui Station using the Sheung Shui – East Tsim Sha Tsui Monthly Pass, if needed to interchange at Kowloon Tong Station for the Kwun Tong Line to Mong Kok Station, the journey between Kowloon Tong Station and Mong Kok Station will be the “onward domestic journey”.

For 2017/18, the special one-off 10% discount rate mentioned in sub-paragraph (b) above will equally apply to the fare adjustments of these concession tickets<sup>5</sup>. Separately, in 2017, on top of the existing 25% discount on connecting journeys, Monthly Pass Extras holders will also enjoy a 10% discount on the fare increase rate. Meanwhile, having regard to passengers' views, MTRCL will extend the validity of "MTR City Saver" from 30 days to 40 days to enable more flexible use of the pre-paid tickets;

- (h) **retaining the "Affordability Cap"** in FAM so that when implementing fare increase on the basis of the outcome of FAM formula, its rate shall not be higher than the year-on-year change in the median monthly household income ("MMHI") in the fourth quarter of the preceding year; and
- (i) **retaining other concessions including the Early-Bird 25% Discount** so that passengers may enjoy, among various on-going fare concessions such as those for the children and elderly, a 25% discount when exiting any of the 35 designated core urban stations<sup>6</sup> during 7:15 – 8:15 a.m. on weekdays (Monday to Friday, excluding public holidays) when travelling on Adult Octopus cards.

## JUSTIFICATIONS

2. At present, the daily ridership of the MTR at five million passenger trips accounts for about 40% of total patronage of public transport services in Hong Kong. Before the rail merger, MTRCL enjoyed autonomy in setting its fares in accordance with prudent commercial principles and having due regard to, among other things, economic conditions, competition from other public transport modes and whether the service was value for money.

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<sup>5</sup> All monthly passes, Monthly Pass Extras and MTR City Savers are fare concession schemes. FAM is not applicable to the fare adjustment of these concessionary passes. Nevertheless, MTRCL will make comparable adjustments to the fares of these concessionary passes with reference to the adjustment rate derived from FAM every year.

<sup>6</sup> The designated stations are 35 stations along the following lines – East Rail Line: Stations between Hung Hom and Kowloon Tong; Island Line: Stations between Sheung Wan and Tai Koo; Kwun Tong Line: Stations between Whampoa and Kowloon Tong; South Island Line : Stations between Admiralty and South Horizons; Tsuen Wan Line: Stations between Central and Mei Foo; Tung Chung Line: Stations between Hong Kong and Nam Cheong; and West Rail Line: Stations between Hung Hom and Mei Foo.

3. At that time, there was general public concern that the basis on which the rail companies adjusted fares was not clear and transparent. At the time of the rail merger in 2007, the Government and MTRCL agreed to put in place a “Fare Adjustment Mechanism” with **an objective and transparent formulaic approach** in determining future annual fare adjustments, to replace the fare autonomy MTRCL hitherto enjoyed. During the legislative process of the rail merger, FAM was extensively discussed in the Legislative Council (“LegCo”) and approved through voting at MTRCL’s shareholders’ meeting after careful deliberation before being included as a condition for the merger<sup>7</sup>. As such, FAM is an integral part of the rail merger agreement between the Government and MTRCL at that time and has been incorporated into OA. It is legally binding. Pursuant to the OA, either the Government or MTRCL may request a review on FAM every five years following the rail merger. The outcome of the first review was announced in April 2013, the details of which are at **Annex A**. The next review was originally due for completion in 2018. Upon the request by the Government, MTRCL agreed to bring it forward by one year, making the new FAM applicable to the coming six years from 2017/18 to 2022/23.

A

4. Over the years, many members of the community have criticised MTRCL for increasing fares while making handsome profits<sup>8</sup>. Although the fare adjustments were lower than inflation rates<sup>9</sup> on most occasions and the fare adjustment rates were the computation outcome of a direct-drive formula based on the statistics published by the Government, the public generally take a view that MTRCL, being the sole operator of railway service, benefits from Government’s policy that railway is the backbone of our public transport. As such, MTRCL performs important social functions and cannot be regarded as an ordinary profit-making commercial entity. For the construction and operation of new railways, funding gap<sup>10</sup> would also be filled by the Government. All in all, there are calls that MTRCL should strike a better balance between maintaining

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<sup>7</sup> As the Government is both the sole shareholder of KCRC and the majority shareholder of MTRCL, it did not take part in the voting.

<sup>8</sup> From 2013 to 2016, the underlying business profits of MTRCL were \$8.6 billion, \$11.6 billion, \$10.9 billion and \$9.4 billion respectively.

<sup>9</sup> From 2013 to 2016, the annual fare adjustment rates for MTRCL were +2.7%, +3.6%, +4.3% and +2.65% respectively. The change in Composite Consumer Price Index (CCPI) adopted by the fare adjustment formula (i.e. the inflation rate in December of the previous year compared with that in the same period of the year preceding the previous year) from 2013 to 2016 were +3.7%, +4.3%, +4.9% and +2.4% respectively.

<sup>10</sup> A railway is considered not financially viable if the present value of all its projected revenues net of projected expenditures falls short of the expected return on capital. For any new railway project, the return required by MTRCL would ordinarily be between 1% and 3% above the weighted average of cost of capital. This shortfall is known as the funding gap.

financial prudence and fulfilling social function, in its handling of the relationship between profit and fare. Although, with the last FAM review in 2013, a number of measures were put in place to moderate the impact of fare increases and to establish some linkage between MTRCL's profit levels and the fare concessions it offered to passengers, such criticisms have persisted.

5. Accordingly, the Government requested MTRCL to advance the review of FAM<sup>11</sup> by a year in order to address the views of the community early. During the review period, we have been mindful of the need to ensure that MTRCL would continue to operate in accordance with prudent commercial principles. The Government has also publicly stated that the review should be conducted on the premise that a transparent mechanism based on open and objective data and a direct-drive formula would be retained. The Government and MTRCL have reviewed the measures implemented after the last review in 2013 in a pragmatic approach. Both sides agreed that measures considered desirable should be retained or where possible improved.

6. The Government consulted the public on the current review of FAM for three months from 20 May to 19 August in 2016. A total of 408 submissions, of which 349 emails with identical content, were received from individuals, organisations and groups in the community, including Members of the Legislative Council and District Councils, political parties, think-tanks, residents' groups and individual citizens. The majority views considered that FAM should be improved. In particular, the operation of FAM should duly reflect the profitability of MTRCL. Key views received during the consultation period are set out in **Annex B**.

B

## **THE PROPOSAL**

7. We started the review with MTRCL in August 2016. After several rounds of negotiations, the two parties reached an agreement on the proposal in late February 2017 which would meet the review objectives outlined in paragraph 5 above. The salient points of the proposal are set out in paragraphs 8 to 28 below.

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<sup>11</sup> This review of FAM is originally scheduled to be conducted in 2018. The Government and MTRCL agreed to advance the review. The review outcome is applicable to the fare adjustment of the six-year period from 2017/18 to 2022/23. The next scheduled review is due for completion in 2023.

## **(A) Direct-drive FAM formula and Productivity Factor**

8. An outcome of the rail merger in December 2007 was the adoption of an objective and transparent FAM to replace the fare autonomy hitherto enjoyed by the former MTRC. The OA, as agreed between the Government and MTRCL at that time, provides for the adoption of a direct-drive formula (see paragraph 1 above) for determining the overall fare adjustment rate. The FAM formula takes into account the Composite Consumer Price index and the Nominal Wage Index (Transportation Section) compiled by the Census and Statistics Department on a regular basis, and incorporated the Productivity Factor. During the present review, the Government and MTRCL agreed that the FAM formula as well as its direct-drive nature are both objective and transparent. FAM should be retained as the public can easily understand and monitor its implementation. In fact, as mentioned in paragraph 3 above, FAM is an integral part of the rail merger agreement between the Government and MTRCL at that time and has been incorporated into OA. It is legally binding. The Government made this point clear in the paper for public consultation on the FAM review in 2016.

9. In the last review on FAM in 2013, the Government and MTRCL agreed to adopt a new, objective methodology to compute the PF value for the FAM formula. Productivity is measured as a ratio between output (i.e. income) and input (i.e. cost) in MTRCL's transport operation. The Government and MTRCL agreed in 2013 that the ratio should be arrived at based on historical financial data of the Corporation over the previous five years. Once a ratio was computed, a PF value would be arrived at, for application for the following five years (i.e. for the purpose of the 2013 FAM review, from 2013/14 to 2017/18). The value would be updated once every five years, using the same methodology. With the adoption of this methodology, and using the data from 2008 to 2012, the PF value for the five years starting from 2013/14 is 0.6%.

10. In this review, the Government and MTRCL have examined the PF computation methodology. It has been found that this methodology continues to be able to objectively reflect the input and output of MTRCL's transport operation and should be retained. Based on this methodology, the compound annual growth rate of the ratio between the output and input of MTRCL's transport operation over the five years from 2012 to 2016 is -0.7% per year, representing a loss of productivity rather than a productivity gain. Half of it (as shared between MTRCL and the passengers) would be -0.3% (rounded to the nearest one tenth of a percent), becoming the PF value. According to MTRCL, the railway

system has been in use for close to 40 years after its commissioning in 1979. It is a sophisticated railway system comprising tens of thousands of components. To ensure service quality, MTRCL has been renewing its railway assets (including trains and tracks) continuously. The decade spanning from the past few years to the coming few years sees the peak of large-scale renewal and replacement of the railway system<sup>12</sup>. As such, the input has increased at a faster rate than the output for MTRCL over the past five years, hence a negative PF. In accordance with the outcome of the FAM review in 2013 between the Government and MTRCL, the PF value should be the outcome of the above computation (i.e. half of the compound annual growth rate of the ratio between output and input in MTRCL's transport operation); or in the event that the PF value is negative, it should be reset at "zero", to avoid the situation where the fare increase rate of the FAM formula outcome would be increased as a result of a negative PF value. Accordingly, the PF value for the six-year period from 2017/18 to 2022/23 should be set at zero<sup>13</sup>.

11. Nevertheless, MTRCL understands that if the PF value is set at zero for the coming six years, only the changes in the Composite Consumer Price index and the Nominal Wage Index (Transportation Section) would be taken into account when adjusting MTR fare in accordance with the formula. In other words, the PF value would not be able to play any role in moderating any fare increase. As such, at the request of the Government, MTRCL has carefully examined its operation situation over the past few years and its operating forecast in the coming six years (2017/18 to 2022/23), and agreed to, based on the fare adjustment outcome as per the FAM formula for the six years from 2017/18 to 2022/23, lower its fare increase rate by 0.6 percentage point each year to ensure that passengers can still benefit from a moderated fare adjustment to an extent which is consistent with the prevailing PF value of 0.6%. This arrangement will lower the fare base by 0.6 percentage point every year. As this arrangement will be adopted for the coming six years, it will have a compound effect on the fare base while the actual compounded fare reduction rate will depend on the formula outcome of each year. This is made in response to public concern about the relationship between fare adjustment and the Corporation's profitability,

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12 In 2016, MTRCL has invested more than \$8 billion in maintaining, upgrading and renewing railway assets. This includes recurrent expenses on staff and materials cost incurred in daily maintenance of railway assets and capital investment in purchasing any necessary new railway equipment and components. In 2015, MTRCL also awarded a \$6 billion contract for replacement of 93 8-car trains operating in urban lines and set aside \$3.3 billion in upgrading the signalling systems of seven railway lines.

13 Had there not been the present FAM review, the PF value for 2017/18 would have remained at 0.6% based on the result of the last review in 2013.



as well as passengers' affordability. The details for calculating PF value are at **Annex C**. The PF value will be subject to review again when the next scheduled FAM review is conducted in 2022 (for completion in 2023).

12. It should be noted that, under existing arrangements, when the overall adjustment rate determined by the FAM formula falls within the range of -1.5% and +1.5%, the fare adjustment will be deferred and rolled over to the following year, i.e. the FAM rate will be added onto that for the next year for implementation. After the present review, it has been agreed that this arrangement should be retained. Octopus fares have to be set in steps of 10 cents. Thus, it is not feasible to have fare adjustments involving very small magnitude. Keeping the roll-over arrangement is necessary.

### **(B) Special one-off discount for the fare adjustment for 2017**

13. In further response to community concerns about fare adjustment and public affordability, MTRCL has agreed that, in 2017, an additional 10% discount will be applied to the adjustment rate as per the FAM formula outcome. For illustration, this would mean that if the outcome of the formula, after the reduction of 0.6 percentage point, is say +2.00%, the actual overall increase rate after the special 10% discount would be +1.80%. This discount will benefit all passengers, including users of Octopus Cards, Single Journey Tickets and Monthly Passes. This special one-off discount cannot be recouped in future fare adjustment. In other words, the fare base will be reduced by this special one-off discount permanently which will then form the new base for future fare adjustments. The special one-off discount would thus have a perpetual financial implication for MTRCL, rendering it different from other time-limited fare concessions.

### **(C) Profit sharing**

14. MTRCL introduced a "Profit Sharing Mechanism" in the last review in 2013 to address public concern on there being an absence of linkage between MTRCL's profitability and fare adjustments. Under this mechanism, MTRCL would, based on its underlying business profits each year, provide fare concessions so as to share the Corporation's success with passengers and lessen the burden of fare increase on passengers. The underlying business profits include profits from **all**

**MTRCL businesses**, i.e. profits from Hong Kong transport operations, Hong Kong station commercial business, Hong Kong property rental and management businesses, property developments, as well as profit from the Corporation's overseas ventures<sup>14</sup>. Such financial data were highly transparent and available to the public in MTRCL's annual reports.

15. For the purpose of this "Profit Sharing Mechanism" introduced in 2013, a pre-determined tiered table (see Table 2 below) is used to decide on the amount to be shared with passengers each year under different profit levels. The sum would go to a fare concession account each year, and triggered for sharing with passengers when there is fare increase under FAM for that particular year. Under the existing arrangement, the fare concession MTRCL offers every year is subject to a cap being half of the total additional revenue generated by the corresponding fare increase for that year<sup>15</sup>. The fare concession amount is used to fund a time-limited "10% Same Day Second Trip Discount" scheme. The sums credited by MTRCL to the fare concession account under this scheme from 2013/14 to 2016/17 are set out in Table 1.

Table 1: Profits shared with passengers by MTRCL from 2013/14 to 2016/17

<b>Year</b>	<b>"Profit Sharing Mechanism"</b>		<b>Together with the amount set aside under "Service Performance Arrangement" (See Table 4), the duration of the "10% Same-Day Second-Trip Discount" promotion</b>
	<b>MTRCL's underlying business profit in the previous year</b>	<b>Sharing Amount</b>	
2013/14	\$9.775 billion	\$150 million	4 months
2014/15	\$8.600 billion	\$125 million	3.5 months
2015/16	\$11.571 billion	\$200 million	5 months
2016/17	\$10.894 billion	\$175 million	4 months
<b>Total:</b>		<b>\$650 million</b>	-

14 Profit arising from investment property revaluation is excluded.

15 For illustration, if the fare increase for a particular year will generate an additional revenue of \$400 million, under the existing arrangement, the fare concession for that particular year would be capped at half of that amount, i.e. \$200 million.

16. During the public consultation on the current FAM review, a view canvassed is that the profitability of MTRCL should be more closely reflected in FAM. In particular, MTRCL should increase the amount set aside for fare concessions under the “Profit Sharing Mechanism”. After detailed studies, MTRCL proposed –

- (a) a flat increase of \$25 million for every tier under the existing pre-determined tiered table; and
- (b) an increase of the upper limit for the profits counted towards the “Profit Sharing Mechanism” should be increased by over 15%, from \$13 billion to \$15 billion. In practical terms, this means that the upper limit for the amount set aside for fare concessions according to the pre-determined tiered table would be increased from \$250 million to \$325 million. MTRCL’s underlying business profit in 2016 was \$9.45 billion. Using this as an example, the profits shared with passengers will be increased from \$150 million to \$175 million, or from 1.6% to 1.9% of the total profits of the company. The existing and new tiered tables are shown at Table 2 below.

Table 2: “Profit Sharing Mechanism”: existing and new arrangements

<b>Underlying Business Profit in the previous year</b>	<b>Profits shared with passengers (existing arrangements)</b>	<b>Profits shared with passengers (new arrangements)</b>
Below \$5B	0	0
\$5B to <\$6B	\$50M	\$75M
\$6B to <\$7B	\$75M	\$100M
\$7B to <\$8B	\$100M	\$125M
\$8B to <\$9B	\$125M	\$150M
\$9B to <\$10B	\$150M	\$175M
\$10B to <\$11B	\$175M	\$200M
\$11B to <\$12B	\$200M	\$225M
\$12B to <\$13B	\$225M	\$250M
\$13B to <\$14B	\$250M	\$275M
\$14B to <\$15B	\$250M	\$300M
$\geq$ \$15B	\$250M	\$325M

17. Furthermore, according to the existing arrangement, the amount returned to the passengers in any given year shall not be more than half of the total additional revenue generated by the corresponding fare increase. With a view to providing passengers with fare concessions in the same year, MTRCL has agreed to remove this cap. MTRCL has also agreed that even if there would be no fare increase in a certain year (for example, as per the FAM formula outcome, the rate of change is less than +1.5% and the fare increase should be postponed to the following year), MTRCL would still, within that year, return to passengers the total amount set aside for fare concessions under the “Profits Sharing Mechanism” in accordance with the profits in the previous year.

#### **(D) Service performance**

18. While MTRCL’s service reliability has been ranked very high amongst leading metro system operators in the world<sup>16</sup>, given that railway is our largest public transport mode (accounting for some 40% of daily commuting), the public has high expectation of MTRCL’s service performance as any prolonged service disruptions will create inconvenience to many members of the travelling public. Thus, arising from the last review of FAM in 2013, “Service Performance Arrangement” has been put in place whereby a fine would be imposed on MTRCL for serious service disruptions, defined as disruptions of 31 minutes or above caused by factors within MTRCL’s control. The amount of fine will be in accordance with a pre-determined tiered table, shown at Table 3 below.

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<sup>16</sup> MTRCL has achieved a very high ranking (ranked top three) in terms of operational safety and train reliability in the benchmark comparison of the Community of Metros, a 16-member-strong international body promoting benchmarking among large metro systems in the world.

**Table 3: Tiered table for the “Service Performance Arrangement” introduced after the 2013 FAM Review**

<b>Train Service Disruptions</b>	<b>Level of Penalty per Incident (subject to a maximum of \$15M per incident)</b>
Equal to or more than 31 minutes but less than or equal to one hour	\$1M
More than one hour but less than or equal to two hours	\$2M
More than two hours but less than or equal to three hours	\$3M
More than three hours but less than or equal to four hours	\$5M
Each additional hour (or part thereof) exceeding four hours	\$2.5M

Any fine imposed will be credited to a fare concession account for fare concessions through the time-limited “10% Same Day Second Trip Discount” scheme (see paragraph 15 above). From 2012 to 2015, there were a total of 33 cases of such serious service disruption. MTRCL offered in total \$71.5 million in fare concessions to passengers in the next years (i.e. from 2013/14 to 2016/17) under this arrangement. Details are set out in Table 4.

**Table 4: The amount set aside by MTRCL under the “Service Performance Arrangement” from 2013/14 to 2016/17, arising from the incidents happened in 2012 – 2015**

	<b>“Service Performance Arrangement”</b>	
<b>Year</b>	<b>Number of serious service disruptions within MTRCL’s control</b>	<b>Amount set aside for fare concession in the subsequent year</b>
2012	8	\$13 million
2013	5	\$27.5 million
2014	12	\$20 million
2015	8	\$11 million
<b>Total:</b>		<b>\$71.5 million</b>

Note: the amount set aside depends on the number of incidents and the length of service disruption (by making reference to the tiered table at Table 3).

19. Among the submissions received during the public consultation, some consider that the existing financial penalty and the calculation of duration of service disruption under the “Service Performance Arrangement” should be reviewed. We have examined this feedback with MTRCL. We find that, overall, the “Service Performance Arrangement” has been operating smoothly over the past few years. While MTRCL should be held accountable for serious service disruptions, it should not be fined for disruptions of a shorter duration (i.e. below 31 minutes) in order not to put undue pressure on MTRCL’s frontline staff, who otherwise might be tempted or pressurised to rush their repair works, putting railway safety at risk. We consider it appropriate to retain the existing arrangement of only penalising MTRCL for serious service disruptions, i.e. disruptions which last for 31 minutes or above.

20. The penalty amount, however, can and should change. Under the prevailing arrangement, the penalty per incident is subject to a maximum of \$15 million. According to the pre-determined tiered table, it is equivalent to the penalty for service disruption lasting up to eight hours (a disruption of more than eight hours is regarded as an eight-hour disruption because of the cap). Having regard to public views and in response to the Government’s request, MTRCL has agreed to raise the maximum penalty per incident from \$15 million to \$25 million. As a result, this will enable service disruption lasting up to twelve hours to be captured (a disruption of more than twelve hours will be regarded as a twelve-hour disruption because of the cap)<sup>17</sup>. Proposed change to the existing pre-determined tiered table is shown at Table 5 below.

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<sup>17</sup> We note that there was only one service disruption incident that lasted for more than eight hours during the four years from 2013 to 2016, which resulted in MTRCL being penalised the maximum amount of \$15 million. The duration of the disruption incident was 727 minutes, that was slightly more than 12 hours.

**Table 5: Proposed change to the tiered table on “Service Performance Arrangement”**

<b>Train Service Disruptions</b>	<b>Level of Penalty per Incident</b>	
	<b>Existing arrangement</b>	<b>Proposed arrangement</b>
Equal to or more than 31 minutes but less than or equal to one hour	\$1M	\$1M
More than one hour but less than or equal to two hours	\$2M	\$2M
More than two hours but less than or equal to three hours	\$3M	\$3M
More than three hours but less than or equal to four hours	\$5M	\$5M
Each additional hour (or part thereof) exceeding four hours	\$2.5M	\$2.5M
Maximum amount of financial penalty per incident	\$15M (i.e. covering a disruption of eight hours or more)	\$25M (i.e. covering a disruption of twelve hours or more)

### **(E) Fare Discount Mechanism**

21. Currently, MTRCL uses the proceeds set aside under the “Profit Sharing Mechanism” and the “Service Performance Arrangement” to fund the time-limited<sup>18</sup> “10% Same Day Second Trip Discount” scheme. According to MTRCL, the scheme benefits on average 1.7 million passenger trips per day. We note that the community generally considers that it is inadequate for MTRCL to offer only same day second trip discounts but not discounts per trip. There is a considerable number of passengers who take only one MTR ride per day, and they will not be able to benefit from the “10% Same Day Second Trip Discount”. During the present review, we asked MTRCL to consider providing fare concessions to passengers through more direct means. MTRCL has agreed that fare discounts be provided on a per trip basis in lieu of the “10% Same Day Second Trip Discount” scheme. Specifically, a 3% fare discount per trip

<sup>18</sup> The duration of the fare discount scheme depends on the proceeds under the “Profit Sharing Mechanism” and “Service Performance Arrangement”. In 2013, 2015 and 2016, the fare discount scheme lasted for 4-5 months. In 2014, the fare discount scheme originally lasted for 3.5 months. To celebrate its 35<sup>th</sup> Anniversary in that year, MTRCL earmarked additional resources to extend the scheme for 6.5 months to 10 months.

will be offered to passengers every year, from 2017/18 to 2022/23. The scheme will last at least six months<sup>19</sup> every year. If the proceeds under the “Profit Sharing Mechanism” and “Service Performance Arrangement” in any given year is sufficient to fund the operation of 3% fare discount for more than six months in that year, MTRCL will offer the 3% fare discount for a period longer than six months, until the said proceeds are exhausted. Conversely, if the proceeds cannot sustain the provision of 3% fare discount for six months in any given year, MTRCL will top up the funding difference to ensure that the 3% fare discount can be offered to passengers for six months in that year. All passengers who travel on any MTR journey using Octopus cards for fare payment (including the connecting journeys of monthly passes) will enjoy the fare discount. This would mean that some 5 million passenger trips will benefit every day<sup>20</sup>, more than doubling the beneficiaries of 1.7 million passenger trips a day of the existing “10% Same Day Second Trip Discount” scheme. It should be noted that, because of the increased size of beneficiaries and the “topping up” arrangement, this new scheme could cost MTRCL more than under the existing scheme.

## **(F) Expanded Interchange Scheme with GMBs**

22. Railway is the backbone of Hong Kong’s public transport system, complemented by other public transport modes. Railway trips account for more than 40% of the total public transport passenger trips. There are views in the community that MTRCL should offer interchange discounts with other public transport modes, to facilitate interchange between transport modes and to benefit passengers. Amongst various non-heavy rail public transport modes, Green Minibuses (“GMBs”) have the most significant interchange function with the railway. Currently, MTRCL offers interchange discounts for 62 GMB routes<sup>21</sup>, benefiting an average of about 51 000 passenger trips every day. The interchange discounts of these 62 GMB routes range from \$0.3 to \$3 per trip,

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<sup>19</sup> According to OA, MTRCL adjusts the fares in accordance with FAM in June every year. MTRCL now commits to providing 3% fare discount per trip to passengers for at least six months. In other words, from June to December every year, the actual fares paid by passengers are the fares adjusted according to FAM with a further 3% discount.

<sup>20</sup> The number refers to Octopus card users. Other tickets are all pre-paid in nature. They include single journey tickets, MTR City Savers and tourists’ tickets. The 3% discount fare concession does not apply to these pre-paid tickets.

<sup>21</sup> Passengers using the same Octopus Card can enjoy the interchange discounts by leaving the MTR at designated MTR stations and interchange to designated GMB routes within an hour, or interchange from designated GMB routes to the MTR at designated MTR stations within an hour.



equivalent to about 13% discount on average. Details are set out at **Annex D**.

23. In response to Government's request, MTRCL has agreed to offer interchange concessions with all GMB routes to benefit more passengers. Specifically, MTRCL will expand the current interchange discount scheme from the existing 62 GMB routes to some 530 routes. The discount will be \$0.3 per trip. For those GMB routes currently enjoying interchange discounts of more than \$0.3, the existing higher discounts will be retained and will not be adjusted downward to \$0.3. Passengers can benefit from the scheme when they interchange from MTR to GMBs, or vice versa<sup>22</sup>.

24. MTRCL will need to take time to liaise with GMB operators (totalling over 160) on details and alteration of the fare collection systems. It is expected that the new interchange concession can be implemented within around one year after the announcement. (i.e. by around the second quarter of 2018). This arrangement will be good for five years, until June 2023. The Government and MTRCL will review this interchange discount arrangement in end-2022, in the context of the next scheduled FAM review due in 2022/23.

### **(G) Monthly Pass Schemes and related fare promotions**

25. Taking into account the needs and affordability of medium and long-distance frequent travellers, MTRCL enhanced the Monthly Pass Schemes and relevant fare promotions after the last review of FAM in 2013 by launching a number of new fare promotion schemes. Details are at **Annex A**. The various Monthly Pass Schemes have basically covered, among them, all remote districts currently served by the MTR system in the New Territories, while the MTR City Saver covers all stations in urban areas and provides fare discount to medium to long distance cross-harbour commuters. Frequent and long-distance passengers can all benefit. Originally, these fare promotion schemes will expire in June 2018. On completion of this review, MTRCL has agreed to extend them for another five years to June 2023. This will benefit some 0.39 million passenger trips per day (the fare discounts enjoyed by passengers per trip range from 11 to 43%). At the same time, in view of passengers' comments, MTRCL will extend the validity

<sup>22</sup> Currently, the patronage of GMBs is more than 1.5 million passenger trips per day.

of the MTR City Saver from 30 days to 40 days to enable more flexible use of the pre-paid tickets.

### **(H) Affordability cap**

26. An affordability cap over the fare adjustment has been introduced since the fare adjustment in 2013, such that the fare increase pursuant to the FAM formula outcome should not be higher than the change in the MMHI for the corresponding period. The fare increase not made because of the cap would not be effective until after the economy subsequently improves to the extent that the MMHI rises above the FAM result for the subsequent year(s). Any fare increase not made because of the cap will be recouped over two years, but always subject to the cap of the change in MMHI in the subsequent years. Further details on the affordability cap are set out at **Annex E**. After the present review, we and MTRCL have agreed to maintain this arrangement. This would enable the future fare increase rates to continue to be capped by the increase in MMHI, although the cap has not been triggered since introduction in 2013.

E

### **(I) Other fare concessions including the Early Bird Scheme**

27. On top of the schemes outlined in paragraph 25 above, MTRCL has been offering a wide range of fare concessions and promotional schemes every year (such as the Fare Concession for the Elderly, Fare Concession for Children, Student Travel Scheme, Day Pass and other interchange discounts) to benefit and encourage different sectors of the community (including the elderly, children, eligible students and persons with disabilities) to use the railways. These on-going fare promotions amounted to about \$2.5 billion in 2016. MTRCL has agreed to continue with these concessions.

28. Besides, MTRCL has been operating the Early Bird Scheme since September 2014 whereby passengers may enjoy a 25% discount when exiting any of the 35 designated core urban stations during 7:15 – 8:15 a.m. on weekdays (Monday to Friday, excluding public holidays). The scheme is found useful in that it is able to shift 3.7% of trip in peak hours to non-peak hours in the morning<sup>23</sup>, while, for illustration,

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<sup>23</sup> Singapore operates an Early Bird Scheme for its metro starting in August 2014. The Scheme charges no fares for passengers exiting designated stations before a specified time in the morning. According to the press release of the Land Transport Authority, the scheme has only been able to

benefiting approximately 130 000 passenger trips per day. After the present review, MTRCL has agreed to retain this discount scheme. Details of these on-going fare concessions as well as a system map showing the stations covered by the Early-Bird Discount are at **Annex F**.

F

29. A comparison of the key features of the review outcomes in 2013 and 2017 is at **Annex G**.

G

### **Impact on MTR Fares in 2017/18**

30. As the changes in Nominal Wage Index (Transportation Section) as at December 2016 have yet to be announced, full data for computation of the fare adjustment rate for 2017/18 as per the FAM formula are not ready. When the changes in the Nominal Wage Index are available on 27 March 2017, the fare adjustment rate for 2017/18 will be known. In any event, MTRCL will also offer a 10% special one-off discount on any FAM outcome. Through the moderation of various improved measures and discounts (see paragraphs 8-28) implemented upon the FAM review, the effective fare increase could be mild, benefiting all passengers. In addition, MTRCL will also extend various monthly tickets and relevant promotion schemes, to benefit the medium to long-haul passengers from remote districts, and the frequent medium to long-haul passengers who commute within the urban areas, to different extent. Because of this, MTRCL estimates that its income in 2017/18 will be reduced by \$587 million, excluding the various on-going, “regular” fare concession schemes outlined in paragraphs 27-28. With the various fare promotion schemes, the actual fare increase borne by certain passenger groups in 2017, particularly passengers who are frequent medium to long-haul commuters, will be lower than the rate of the FAM formula outcome.

### **FARES OF THE AIRPORT EXPRESS**

31. According to OA, the Airport Express is not a public transport mode for daily commuting, but mainly for business and travelling<sup>24</sup>. The fare adjustment of Airport Express is determined by MTRCL after

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shift 7% of the peak hour trips to non-peak hours, since the launch in 2014.

<sup>24</sup> In light of the traffic expenses incurred by airport staff travelling between urban areas and the airport, MTRCL has put in place an "Airport Staff Discount Travel Scheme". Airport staff can use Airport Staff Octopus Card to take the Airport Express at a concessionary fare at the current level of around 57% off.

consulting the LegCo Panel on Transport and the Transport Advisory Committee. FAM mentioned in this paper is not applicable. Since the commissioning in July 1998, the Airport Express has not adjusted its fares in the past 19 years<sup>25</sup>. MTRCL plans to appropriately adjust the fares of Airport Express shortly. According to the OA, MTRCL will make reference to the results of passenger surveys when adjusting the fares of Airport Express. Besides, MTRCL will also consider factors including the overall economic conditions, growth in number of tourists and competitiveness of the Airport Express. When there is concrete adjustment proposal, MTRCL will consult the LegCo Panel on Transport and the Transport Advisory Committee.

## **IMPLICATIONS OF THE PROPOSAL**

32. The proposal may involve a potential revenue loss of some \$587 million for MTRCL in 2017/18. The revenue for subsequent years would also be reduced. The profits tax payable by MTRCL to Inland Revenue Department will drop by \$82 million. In addition, the potential dividend income to Government which holds about 75% of MTRCL's shares will be reduced, of around \$222 million (assuming a 71% dividend payout ratio based on past average of dividend payout ratios on recurrent business profit from 2012 to 2016).

33. How FAM should work and what its financial implications for Government would be beyond the next six years would be subject to the next scheduled FAM review due for implementation in 2023.

34. The recommendation is in conformity with the Basic Law, including the provisions concerning human rights. The proposal has no productivity, civil service, environmental and Mainland relations implications, but has economic, family and sustainability implications, which are set out at **Annex H**.

H

## **PUBLIC CONSULTATION**

35. The Government issued a document on the FAM review for public consultation from May to August 2016. A total of 408 written submissions were received, of which 349 are emails with identical content. These submissions were submitted by different individuals,

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<sup>25</sup> The ex-MTRC removed the special discounts, which were introduced when the Airport Express commissioned, in July 2000 and July 2001 in phrases.

organisations and groups in the community, including Members of the Legislative Council and District Councils, political parties, think tanks, residents' groups and individual citizens. We also consulted the Transport Advisory Committee and the LegCo Panel on Transport on 31 May 2016 and 21 June 2016 respectively. The Government noted that the key views received during the consultation period suggested that the existing FAM should be improved. In particular, the operation of FAM should duly reflect the profitability of MTRCL. Key views received during the consultation period are set out at **Annex B**.

B

## **PUBLICITY**

36. A LegCo brief is issued in the afternoon of 21 March 2017, after the closing of the stock market. A joint press conference of the Government and MTRCL will be held in the afternoon of the same day to introduce the enhanced FAM package and answer media enquiries.

## **ENQUIRIES**

37. Any enquiry can be directed to the following officer of the Transport and Housing Bureau –

Mr Philip Har  
Principal Assistant Secretary for Transport and Housing  
(Transport)  
(Tel. No. : 3509 8174)

**Transport and Housing Bureau  
March 2017**

**Outcome of review of FAM in 2013**

	<b>Measures introduced</b>	<b>Benefits to passengers from 2013/14 – 2016/17 (four years)</b>
<b>Productivity Factor (PF) value</b>	Set at 0.6% for 2013/14 to 2017/18 (the original value was 0.1%).	This enhanced PF value reduced fare increase by 0.5 percentage point each year, benefiting all passengers (more than five million passenger trips per day), reducing MTRCL's revenue by some \$75 million each year.
<b>Profit Sharing Mechanism</b>	Introduced a tiered table to determine the amount which should be set aside by MTRCL, making reference to the MTRCL's profits in the previous year.	A total of \$650 million was shared with passengers through the "10% Same Day Second Trip Discount", benefiting passengers paying fares with Octopus Cards in four years. Around 95% of MTR passengers (some 4.7 million passenger trips per day) use Octopus Cards.
<b>Service Performance Arrangement (SPA)</b>	Introduced the SPA to require MTRCL to be penalised financially for major service disruptions, i.e. 31 minutes or above, and to enable passengers to benefit from the sum payable through fare concession.	A total of \$71.5 million was shared with passengers through the "10% Same Day Second Trip Discount", benefiting passengers paying fares with Octopus Cards. Around 95% of MTR passengers (some 4.7 million passenger trips per day) use Octopus Cards.

	<b>Measures introduced</b>	<b>Benefits to passengers from 2013/14 – 2016/17 (four years)</b>
<b>Other fare promotion schemes</b>	<p>Introduced the following schemes to alleviate the fare burden of medium-and-long-haul passengers:</p> <ul style="list-style-type: none"> <li>• Monthly Pass Extras; and</li> <li>• MTR City Saver.</li> </ul>	<p>These schemes benefited frequent and medium-and-long-haul passengers. In 2016 alone, some 390 000 passenger trips per day were made on these pre-paid tickets. These passengers enjoyed a discount of 11-43% off the original Octopus fares.</p>
<b>Affordability Cap</b>	<p>Introduced an affordability cap whereby any fare increase rate, as per the FAM formula outcome, will not be higher than the change in the Median Monthly Household Income (“MMHI”) for the corresponding period.</p>	<p>Affordability cap was not triggered.</p>

**Key views received during public consultation period**

We consulted the public on the review of FAM during the period 20 May – 19 August 2016. During the three-month consultation period, we totally received 408 submissions, of which 349 are emails with identical content. These submissions were submitted by different individuals, organisations and groups in the community, including Members of the Legislative Council and District Councils, political parties, think tanks, residents' groups and individual citizens.

2. We note that the mainstream views received during the consultation period suggest that the existing FAM should be improved. Particularly, the operation of FAM should duly reflect the profitability of the MTRCL.

3. Key views received during the consultation period, which were announced in October 2016, are set out below.

**A. The FAM formula and its components**

- views on whether the direct-drive formula should be retained are diverse. While there are some submissions supporting that the current approach is transparent, or that the formula should be retained with certain enhancements, there are also submissions suggesting that adjustments of MTR fares should be subject to the approval of at least the Executive Council; and
- weighting of different elements now in the direct-drive formula should be reviewed to enhance the formula.

**B. Profitability of the MTRCL**

- the majority of the submissions request that the profitability of the MTRCL should be duly reflected in the FAM;
- when the underlying profit of the MTRCL in a particular year reaches certain pre-determined level, the MTRCL should not increase fare;
- a new “profit factor”, which reflects the underlying profit made by the MTRCL in a particular year, should be added to the existing



FAM formula to reduce fare increase; and

- the amount set aside for fare concessions under the existing “Profitability-linked Arrangement” should be increased.

#### C. Public affordability

- a significant number of the submissions suggest that the FAM should better reflect public affordability; and
- the current “affordability cap” (i.e. Median Monthly Household Income) should be reviewed, particularly in view that such cap has never been triggered since its introduction after the review of FAM in 2013. Other indicators should be explored.

#### D. Fare level or fare concessions offered by the MTRCL

- quite a number of submissions suggest that as the sole railway operator in Hong Kong and a company with the Government as the majority shareholder, the MTRCL has its social responsibility to fulfill. MTRCL should not increase fares while making handsome profits;
- the majority of the submissions ask for more fare concessions to be offered by the MTRCL under the FAM; major examples are –
  - the periods of various fare concession programmes should be extended;
  - more intermodal discounts should be provided;
  - more “MTR Fare Savers” should be set up; and
- the MTRCL should also consider direct fare reduction rather than providing fare concession schemes which are conditional and not applicable to all passengers.

#### E. Service performance

- the financial penalty under the “Service Performance Arrangement” should be reviewed;
- the calculation of duration of service disruption should be reviewed; and

- inclusion of a new factor to the FAM should be explored to better reflect MTRCL's service performance level.

#### F. Others

- some submissions suggest that the Government should not use the dividends received from the MTRCL, which is public money, to subsidise MTR fares, because this goes against the Government's established principles of public finance. But, there are quite a number of submissions suggesting that the dividends should be used to set up a fare stabilisation fund to reduce fare increase rate;
- a couple of submissions suggest that the MTRCL should review the current fare structure and revise it from a "distance based" to a "regional based" one; and
- a couple of submissions suggest that the Government should buy back the MTRCL, while there are views to the contrary.

**Productivity Factor**

For the purpose of determining the productivity gain of its railway operation, MTRCL has provided the historical financial data of its output and input, as follows –

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Output (\$M)	14,523	15,166	16,223	16,916	17,655
Input (\$M)	8,017	8,449	9,236	9,702	10,022
<b>Output/Input Ratio</b>	<b>1.812</b>	<b>1.795</b>	<b>1.756</b>	<b>1.744</b>	<b>1.762</b>

“Output” is defined as the revenue from the Corporation’s Hong Kong transport operations, as set out in the Corporation’s audited financial statements.

“Input” is defined as the operating expenses (before depreciation, amortisation and variable annual payment expenses) relating to Hong Kong transport operations, as set out in the Corporation’s audited financial statements<sup>1</sup>.

2. Over the past five years, to ensure service quality, the input of the Hong Kong transport operations of the Corporation has increased at a faster rate than the output. Hence, the output/input ratio has dropped from 1.812 (of 2012) to 1.762 (of 2016) by 2.75% in four years with compound annual growth rate of -0.7% per year. Half of it is -0.3% (rounded to the nearest one tenth of a percent). According to the Operating Agreement (“OA”), the productivity factor (“PF”) value should be the outcome of the computation (i.e. half of the compound annual growth rate of the ratio between output and input in MTRCL’s transport operation); or in the event that the PF value is negative, it should be reset at “zero”, to avoid the situation where the fare increase rate of the FAM formula outcome would be increased as a result of a negative PF value. Therefore, the PF value for the six-year period from 2017/18 to 2022/23

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<sup>1</sup> In 2013, the Corporation changed its accounting policy with respect to defined benefit plans as a result of the adoption of the Revised Hong Kong Accounting Standard 19 “Employee Benefits”, as with other corporations. The revised standard requires immediate recognition of past service cost, whether vested or not. The increase in input and drop in output/input ratio for 2013 was partly attributable to this change in accounting policy. As such, the operating expenses (before depreciation, amortisation and variable annual payment expenses) relating to Hong Kong transport operations in 2012 was restated as \$8,017 million, instead of \$7,829 million before the restatement.

should be set at zero<sup>2</sup>. However, upon the request of the Government, the MTRCL has carefully examined its operation situation over the past few years and its forecast of operation conditions in the coming six years (2017/18 to 2022/23), and agreed to, based on the fare adjustment outcome as per the FAM formula for the six years from 2017/18 to 2022/23, lower its fare increase rate by 0.6 percentage point each year to ensure that passengers can still benefit from a moderated fare adjustment to an extent which is consistent with the prevailing PF value of 0.6 percentage point. This arrangement is made in response to public concern about the relationship between fare adjustment and the Corporation's profitability, as well as passengers' affordability.

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<sup>2</sup> Had there not been the present FAM review outcome, the PF value for 2017/18 would have remained at 0.6 percentage point based on the result of the last review in 2013.

## **Annex D**

### **Interchange scheme with GMBs**

Currently, MTRCL offers interchange discount for 62 GMB routes, benefiting an average of about 51 000 passenger trips every day. The 62 GMB routes and the existing interchange discounts are as follows –

<b>GMB Route No.</b>	<b>Route</b>	<b>Designated MTR Station for Interchange</b>	<b>Fare Applicable for Discount</b>	<b>Discount</b>
4M	Shek Pai Wan Estate, Aberdeen <-> Wong Chuk Hang Station	Wong Chuk Hang	\$4.2	\$0.5
5M	Grantham Hospital <-> Wong Chuk Hang Station	Wong Chuk Hang	\$4.2	\$0.5
8M	Ho Man Tin (Sheung Wo Street) <-> Ho Man Tin Station	Ho Man Tin	\$4.5	\$1.5
14M	Lan Fong Road, Causeway Bay <-> Moorsom Road (Circular)	Causeway Bay	\$5.7 or below	\$0.5
15M	Po Lam Station <-> Hong Sing Garden	Po Lam	\$4.2 or below	\$0.5
17M	Po Lam Station <-> Tsui Lam	Po Lam	\$3.7	\$0.5
21A	Lan Fong Road, Causeway Bay < - > Lai Tak Tsuen (Circular)	Causeway Bay	\$4.2	\$0.4

<b>GMB Route No.</b>	<b>Route</b>	<b>Designated MTR Station for Interchange</b>	<b>Fare Applicable for Discount</b>	<b>Discount</b>
23	Kennedy Town Station <-> Pok Fu Lam (Circular)	Kennedy Town	\$5.5 or below	\$0.5
23M	Kennedy Town Station <-> Chi Fu Fa Yuen	Kennedy Town	\$5.5 or below	\$0.5
24A	Drake Street, Admiralty Station <-> Shiu Fai Terrace (Circular)	Admiralty/ Wan Chai	\$5.0	\$0.5
24M	Mount Butler<-> Drake Street, Admiralty Station	Admiralty/ Wan Chai	\$7.0 or below	\$0.5
25	Upper Braemar Hill <-> Causeway Bay (Circular)	Causeway Bay	\$5.0 or below	\$0.5
27M	Lok Man Sun Chuen (Maidstone Road) <-> Mong Kok Station	Ho Man Tin	\$4.6	\$0.5
28MS	Kowloon City (Wlyer Gardens) <-> Ho Man Tin Station	Ho Man Tin	\$4.6	\$0.5
33	Tai Fung Street, Yuen Long <-> Ha Pak Nai	Tin Shui Wai	\$11.0 or below	\$0.5
34	Tai Fung Street, Yuen Long <-> Lau Fau Shan	Tin Shui Wai	\$6.3 or below	\$0.5
34A	Ha Tsuen, Yuen Long <-> Lau Fau Shan	Tin Shui Wai	\$6.3 or below	\$0.5

<b>GMB Route No.</b>	<b>Route</b>	<b>Designated MTR Station for Interchange</b>	<b>Fare Applicable for Discount</b>	<b>Discount</b>
35	Tai Fung Street , Yuen Long <-> Tsim Bei Tsui, Sha Kiu	Tin Shui Wai	\$8.8 or below	\$0.5
40M	Stanley Prison, Stanley <-> Ocean Park Station	Ocean Park	\$7.3	\$1.0
44A	Cheung Sha Wan Plaza <-> Hoi Lai Estate (Circular)	Lai Chi Kok	\$3.6	\$0.5
45	Tai Hing Garden <-> Tuen Mun Town Centre (Circular)	Tuen Mun	\$3.4	\$0.3
46	Tuen Mun Fu Tai Estate <-> Tuen Mun Town Centre (Circular)	Siu Hong	\$4.7	\$1.0
47	Shun Lee <-> Fuk Tong Road, Tsui Ping (Circular)	Kwun Tong	\$5.2 or below	\$0.3
49	Shun Tin <-> Kowloon City Ferry (Circular)	Choi Hung	Above \$3.9/ \$3.9	\$0.5/ \$0.3
49M	Tin Hau Station <-> Braemar Hill (Circular)	Tin Hau/ Fortress Hill	\$5.6	\$0.5
49M	Shun Tin <-> Ping Shek (Circular)	Choi Hung	\$4.2	\$0.3
50	Yiu Tung Estate <-> Sai Wan Ho (Circular)	Sai Wan Ho	\$4.0	\$0.5
52	Stanley Prison <-> Shek Pai Wan, Aberdeen	Ocean Park	\$7.3 or above	\$1.0

<b>GMB Route No.</b>	<b>Route</b>	<b>Designated MTR Station for Interchange</b>	<b>Fare Applicable for Discount</b>	<b>Discount</b>
54	Shun Tin <-> Lok Fu	Choi Hung	\$4.2	\$0.3
54M	Shun Tin <-> Ping Shek (Circular)	Choi Hung	\$4.2	\$0.3
59	Tsui Ping Estate South <-> Hip Wo Street (Circular)	Kwun Tong	\$3.7/ \$3.0	\$0.5/ \$0.3
59M	Tsui Ping Estate South <-> Fuk Tong Road	Kwun Tong	\$3.0	\$0.3
59A	Tung Sing Road, Aberdeen <-> Shum Wan Road Public Transport Terminus	Wong Chuk Hang	\$3.9	\$0.3
69A	Cyberport <-> Wong Chuk Hang Station	Wong Chuk Hang	\$6.0	\$0.5
71A	Po Tat Estate <-> Lam Tin Station (Circular)	Lam Tin	\$4.0	\$0.6
71B	Phase 5, Sau Mau Ping Estate <-> Lam Tin Station	Lam Tin	\$4.0	\$0.6
76B	United Christian Hospital <-> Yau Tong Public Transport Interchange / Lam Tin Public Transport Interchange (Circular)	Lam Tin	\$5.5	\$0.5



<b>GMB Route No.</b>	<b>Route</b>	<b>Designated MTR Station for Interchange</b>	<b>Fare Applicable for Discount</b>	<b>Discount</b>
77	Lok Ma Chau (San Tin) Public Transport Interchange <-> Tin Shui Wai	Yuen Long	\$9.3	\$1.0
78	Lok Ma Chau (San Tin) Public Transport Interchange <-> Tai Lam Tunnel Bus Interchange	Kam Sheung Road	\$8.0 or below	\$2.5 (adult)/ \$1.5 (child/elder)
78A	Pat Heung Road (near Tai Lam Bus-bus Interchange) <-> Kam Sheung Road Station	Kam Sheung Road	\$5.5	\$2.5 (adult)/ \$1.5 (child/elder)
79K	Park Avenue, Mong Kok <-> Mong Kok East Station (Circular)	Mong Kok/ Olympic/ Mong Kok East	\$4.7 or below	\$0.5
79M	King Tung Street <-> Wong Tai Sin Station	Wong Tai Sin	\$3.7/ \$2.6	\$0.5/ \$0.3
79S	King Tung Street <-> Diamond Hill Station (Circular)	Diamond Hill	\$3.7	\$0.5
81K	Mei Foo Station <-> Hoi Lai Estate Sham Shui Po (Circular)	Mei Foo	\$4.2 (adult/ child)/ \$2.9 (elder)	\$3.0 (adult/ child)/ \$2.5 (elder)
95K	Tsuen Wan West Station <-> Tsuen Wan Station	Tsuen Wan West	\$3.7	\$2.8

<b>GMB Route No.</b>	<b>Route</b>	<b>Designated MTR Station for Interchange</b>	<b>Fare Applicable for Discount</b>	<b>Discount</b>
99	Nina Tower, Tsuen Wan <-> Riviera Gardens (Circular)	Tsuen Wan West	\$3.3	\$0.4
101M	Hang Hau Station <-> Sai Kung	Hang Hau	\$9.0	\$1.0
106	Po Lam <-> Kowloon Bay	Ngau Tau Kok	\$7.2 or below	\$0.5
112M	LOHAS Park Station Public Transport Interchange <-> Tseung Kwan O Industrial Estate (Chun Cheong Street)	LOHAS Park	\$4.5 or below	\$0.5
301M	Tsuen Wan West Station Public Transport Interchange <-> Tsuen Wan Station (Circular)	Tsuen Wan West	\$3.3	\$0.3
407A	Hing Ning Road, Kwai Fong Station <-> Princess Margaret Hospital	Kwai Fong/ Lai King	\$4.7	\$0.5
409K	Tsuen Wan West Station <-> Cheung Hang Estate, Tsing Yi (Circular)	Tsuen Wan West	\$6.2	\$2.0
501A	Luen Wo Hui <-> Yung Shing Court (Circular)	Fanling	\$4.5	\$0.5
501K	Fanling Station <-> Yan Shing Court (Circular)	Fanling	\$4.5	\$0.5

<b>GMB Route No.</b>	<b>Route</b>	<b>Designated MTR Station for Interchange</b>	<b>Fare Applicable for Discount</b>	<b>Discount</b>
611	Shan Pui Road <-> Fau Tsoi Street (Circular)	Yuen Long	\$3.6	\$0.3
611A	Yuen Long Station <-> Shan Pui Road (Circular)	Yuen Long	\$3.6	\$0.3
611B	Kwan Lok Lane <-> Yuen Long Station (Circular)	Yuen Long	\$3.6	\$0.3
803	Hin Keng <-> Lee On	Ma On Shan	\$7.2 or below	\$0.5
804	Kwong Yuen <-> Hin Keng	City One	\$5.2 or below	\$0.5
807B	University Station <-> Wong Chuk Wan (Circular)	Wu Kai Sha/ Ma On Shan	\$8.0 or below	\$0.5
807K	University Station <-> Tseng Tau	Wu Kai Sha/ Ma On Shan	\$7.5 or below	\$0.5
810	Sha Tin Central <-> Villa Athena, Ma On Shan (Circular)	Sha Tin/Tai Shui Hang	\$5.9 or below	\$0.5

**Affordability Cap**

The Median Monthly Household Income (“MMHI”) represents the average monthly domestic household income so calculated that 50% of the total number of domestic households had income above that figure and the other 50% had income below it. The year-on-year change in MMHI for the fourth quarter of the prior year is adopted as a cap on the FAM rate to address the issue of public affordability.

2. When the FAM rate falls within the range of -1.5% and +1.5%, MTRCL’s fare adjustment will be deferred with the FAM rate rolled over to the next year, i.e. the FAM rate will be added onto that for the next year for implementation (as per existing arrangements). For situations where fare increase is to take effect in accordance with the FAM, the affordability cap will become the gatekeeper and will be triggered under scenario (c) below –

- (a) when FAM results in fare reduction, the FAM reduction rate will be used. Accordingly, the travelling public will benefit from fare reduction;
- (b) when FAM results in fare increase and such increase rate is lower than the change in MMHI, the FAM increase rate will be used; and
- (c) when FAM results in fare increase and such increase rate is higher than the change in MMHI, the FAM increase rate will be used to adjust the fare table, but effective fares will be capped at the change in MMHI rate by offering discounts to Octopus fares. When the rate of change in MMHI is negative, the MMHI change will be deemed as 0%.

3. To enforce the affordability cap under paragraph 2(c) above by adopting the change in MMHI rate for fare increases, the following steps will be taken –

- (a) an “affordability discount” will be introduced to effectively reduce the rate of fare increase for that year to the rate of change in MMHI (zero as floor). For example, if the FAM rate is +3.2% and the rate of change in MMHI is +1.2%, a 2%

affordability discount will be introduced in Year 1. In other words, the effective fare increase rate in Year 1 will be 2% point off the original +3.2%, i.e. +1.2%;

- (b) subject to (c) below, this discount will be halved in the second year and removed entirely in the third year. Using the same example as in paragraph 3(a) above, the affordability discount will be 1% in Year 2 and 0% in Year 3. In other words, the effective fare increase rate for each of Year 2 and Year 3 will be 1% point on top of the original rate derived from the FAM;
- (c) the discount will not be withdrawn if, when combined with the increase in fares calculated under the FAM for the second and third year, such withdrawal would result in an effective increase in fares which was higher than the rate of change in MMHI for those years. In such circumstances, the effective increase in fares would be capped at the rate of change in MMHI for that year by deferring the withdrawal of the whole or a portion of the discount to following years; and
- (d) the discount will also not be withdrawn if no change or a reduction in fares for subsequent years is triggered under the FAM.

4. An example on how affordability discount of 2% will apply is illustrated below –

<b>Year</b>	<b>FAM Rate</b>	<b>MMHI Change</b>	<b>Process</b>	<b>Effective Change in Fares over Previous Year</b>
1	+3.2%	+1.2%	<ul style="list-style-type: none"> <li>Fare table will be adjusted by +3.2%</li> <li>As a promotion, fares will be increased by +1.2% by offering affordability discounts to Octopus fares, i.e. 2% points (difference between FAM Rate and MMHI Change) off the FAM Rate; the 2%</li> </ul>	+1.2% (i.e. +3.2% – 2%)

<b>Year</b>	<b>FAM Rate</b>	<b>MMHI Change</b>	<b>Process</b>	<b>Effective Change in Fares over Previous Year</b>
			points discount will be recouped, where permissible, by half in Year 2 and the remaining half in Year 3 respectively	
2	+2.5%	+4.0%	<ul style="list-style-type: none"> <li>Fare table will be adjusted by +2.5%</li> </ul>	<p>+3.5% (i.e. +2.5% + 1%)</p> <p>To recoup half of the fare discount for Year 1, Octopus fares will be increased +1%, on top of the FAM Rate</p>
3	+2.5%	+4.0%	<ul style="list-style-type: none"> <li>Fare table will be adjusted by +2.5%</li> </ul>	<p>+3.5% (i.e. +2.5% + 1%)</p> <p>To recoup half of the fare discount for Year 1, Octopus fares will be increased +1%, on top of the FAM Rate</p>

**Other fare concessions (including Early Bird Scheme)**

MTRCL has been offering a wide range of fare concessions and promotional schemes every year to benefit different sectors of the community, including –

**On-going Fare Concessions**

<b>Promotion</b>	<b>Details</b>
Student Travel Scheme	<ul style="list-style-type: none"><li>• The MTRCL is the only public transport operator in Hong Kong providing full-year fare concessions to eligible local students.</li><li>• 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).</li><li>• The average daily number of passenger trips in the MTR network enjoying the student fare concession is about 495 000.</li></ul>
Fare Concession for the Elderly#	<ul style="list-style-type: none"><li>• Elderly persons aged 65 or above can enjoy about half-fare concessions using Elderly Octopus, Personalised Octopus or Concessionary Single Journey Tickets.</li><li>• On top, the MTRCL funds the difference between half-fare and \$2 for Elderly Octopus users travelling in the domestic network on Wednesdays, Saturdays and public holidays (except Sundays) while that for the other days are funded by Government.</li><li>• In addition, the \$2 fare concession to and from Racecourse Station enjoyed by Elderly Octopus holders is funded by the MTRCL.</li></ul>

Promotion	Details
	<ul style="list-style-type: none"> <li>The average daily number of passenger trips in the MTR network enjoying the elderly fare concession is about 400 000.</li> </ul>
Fare Concession for Children	<ul style="list-style-type: none"> <li>Children aged 3 to 11 can enjoy about half-fare concessions using Child Octopus or Concessionary Single Journey Tickets.</li> <li>The average daily number of passenger trips in the MTR network enjoying the child fare concession is about 164 000.</li> </ul>
Fare Concession for Persons with Disabilities#	<ul style="list-style-type: none"> <li>Eligible persons with disabilities are defined as recipients aged 64 or below under the Comprehensive Social Security Assistance Scheme with 100% disability or recipients of Disability Allowance.</li> <li>The MTRCL funds with its own resources half-fare concessions for Persons with Disabilities while the Government pays for the difference between half fare and \$2.</li> <li>The average daily number of passenger trips in the MTR network enjoying the fare concession for persons with disabilities is about 59 000.</li> </ul>
Light Rail Personalised Octopus Frequent User Bonus Scheme	<ul style="list-style-type: none"> <li>Adults, children or senior citizens who travel on Light Rail using a Personalised Octopus can accumulate bonus points for discounted journey on Light Rail.</li> </ul>
Interchange between West Rail Line and Light Rail/MTR Bus	<ul style="list-style-type: none"> <li>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 Light Rail journeys with Adult and Concession Octopus</li> </ul>



Promotion	Details
	fares lower than or equal to \$4.8 and \$2.4 respectively) or MTR Bus routes.
Interchange between Light Rail and MTR Bus	<ul style="list-style-type: none"> <li>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.</li> </ul>

# Under the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities implemented by the Government since 28 June 2012, Elderly and eligible Persons with Disabilities enjoy the concessionary fare of \$2 per trip for MTR domestic service.

#### Other Fare Promotions

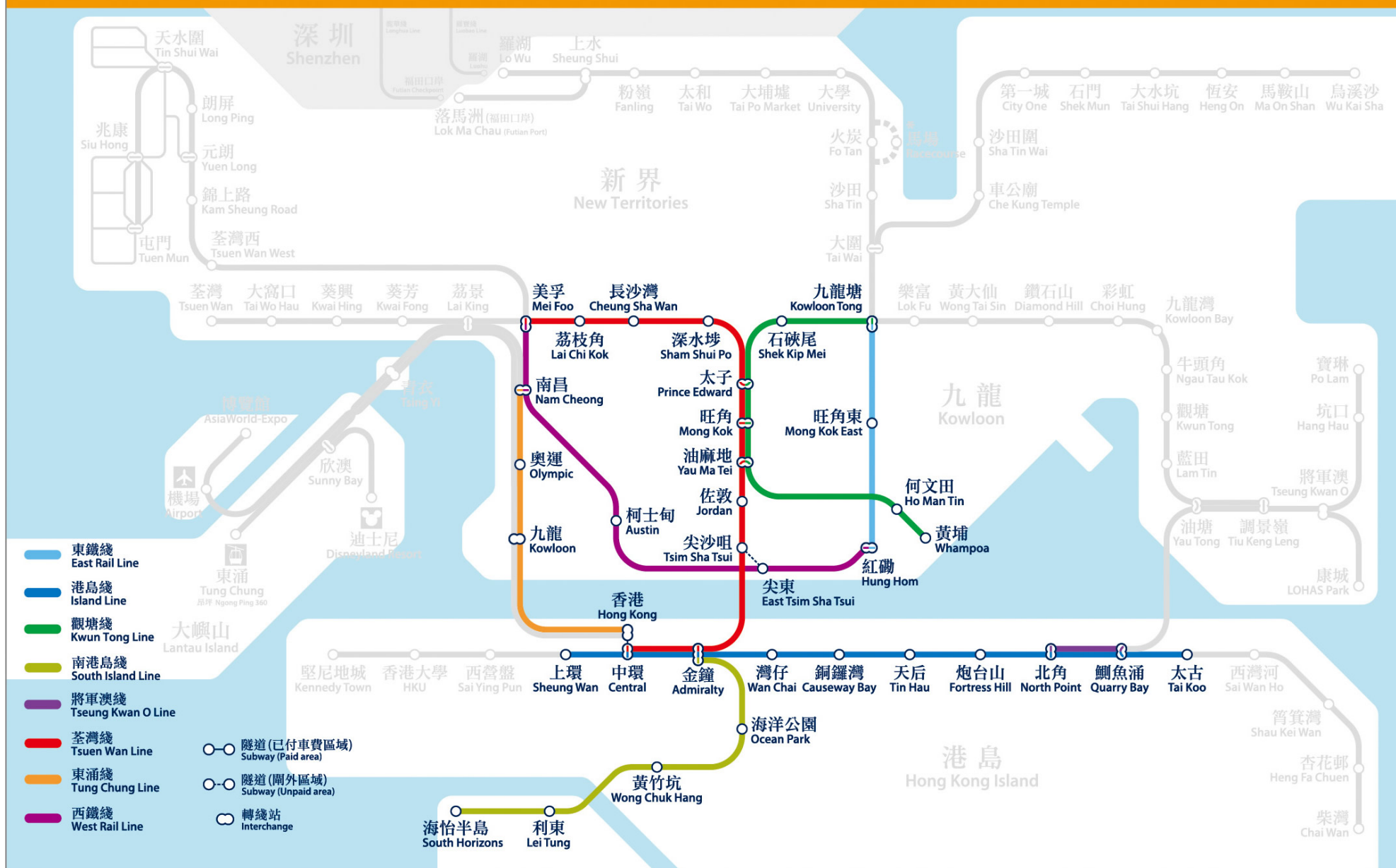
Interchange between MTR and MTR Feeder Bus	<ul style="list-style-type: none"> <li>Passengers using the same Octopus to transfer between MTR and MTR Feeder Bus routes at designated MTR stations within a specified time period can enjoy interchange discounts equal to \$4.0, or the MTR fare, whichever is lower.</li> </ul>
Interchange discount between MTR and New Lantau Bus	<ul style="list-style-type: none"> <li>Adult passengers using the same Octopus to transfer between MTR and designated New Lantau Bus routes at Tung Chung Station within a specified time period can enjoy an interchange discount of \$1.0.</li> </ul>
Interchange discount with Green Minibuses	<ul style="list-style-type: none"> <li>Passengers using the same Octopus to transfer between MTR and designated Green Minibus routes at designated MTR stations within a specified time period can enjoy interchange discounts ranging from \$0.3 to \$3.0, depending on the individual route.</li> </ul>
No extra fares for specified trips on selected KMB morning routes for designated MTR Monthly Pass Extra holders	<ul style="list-style-type: none"> <li>Passengers who use the designated MTR Monthly Pass Extra can enjoy no extra fares for specified trips on selected KMB morning routes from Monday to Friday (Saturday, Sunday and Public Holidays excluded).</li> </ul>

### Early Bird Scheme

2. MTRCL launched the “Early Bird Discount Promotion” Trial Programme in 2014. Commuters holding Adult Octopus can enjoy a 25% fare discount when they exit from any of the 35 core urban stations between 7:15am and 8:15am from Mondays to Fridays (except Public Holidays).

3. The 35 designated MTR stations are shown in the following system map.

# 早晨折扣優惠適用範圍 The Early Bird Discount Promotion Coverage



## Annex G

### Comparison of review outcomes in 2013 and 2017

	<b>Measures introduced after the FAM review in 2013</b>	<b>Measures introduced after the FAM review in 2017</b>	<b>Areas of improvement</b>
<b>Productivity Factor (PF) value</b>	Set at 0.6 percentage point (the original value was 0.1 percentage point).	To be set at 0 as per the established methodology, but MTRCL will still reduce the fare adjustment rate by 0.6 percentage point nonetheless.	Passengers can continue to benefit from a moderated fare adjustment to an extent which is consistent with the prevailing PF value.
<b>Special one-off fare discount</b>	Nil.	To introduce a special one-off fare discount of 10% of fare adjustment rate for 2017/18.	This would directly lower the fare adjustment rate for 2017/18 and make the MTR trips more affordable. Effect on the basic fare (i.e. the fare table) is permanent.
<b>Profit Sharing Mechanism (PSM)</b>	(a) Introduced a tiered table to determine the amount which should be set aside by MTRCL, making reference to the MTRCL's profits in the previous year; Set the limit of the profit subject to sharing at \$13 billion;	The mechanism is retained with the following enhancements –  (a) the amount of shared profit in each tier of the pre-determined tiered table will be increased by \$25 million;	The enhancement will be able to –  (a) address more appropriately public concerns about MTR fares and MTRCL's profitability; and  (b) set aside a larger sum for fare concession.

	<b>Measures introduced after the FAM review in 2013</b>	<b>Measures introduced after the FAM review in 2017</b>	<b>Areas of improvement</b>
	<p>(b) set the cap on the amount of profit sharing at half of the total revenue generated by corresponding fare increase; and</p> <p>(c) the total amount set aside would be returned to passengers through “10% Same Day Second Trip Discount” Scheme if there is fare increase as per FAM in a particular year.</p>	<p>(b) the limit of the profit subject to sharing will be raised from \$13 billion at present to \$15 billion;</p> <p>(c) the current profit sharing cap of half the total additional revenue generated by corresponding fare increase will be removed; and</p> <p>(d) the total amount set aside for fare concessions under the Profit Sharing Mechanism will be returned to passengers in the same year even if there would be no fare increase in a certain year.</p>	

	<b>Measures introduced after the FAM review in 2013</b>	<b>Measures introduced after the FAM review in 2017</b>	<b>Areas of improvement</b>
<b>Service Performance Arrangement (SPA)</b>	Introduced the SPA under which MTRCL will be penalised financially for major service disruptions, i.e. 31 minutes or above. The money will go to a fund to finance the “10% Same Day Second Trip Discount” Scheme.	The mechanism is retained, while the maximum penalty amount per incident is raised from \$15 million to \$25 million.	The enhancement will be able to –  (a) address public concerns about the need to improve the SPA to encourage MTRCL to further enhance its service performance; and  (b) set aside a larger sum for fare concession to benefit passengers more.
<b>Fare discount mechanism</b>	Introduced “10% Same Day Second Trip Discount” within a limited period (as determined by the total proceeds under the Profit Sharing Mechanism and SPA).	(a) To replace the existing scheme with a “3% fare discount per journey” for at least six months; and  (b) if the proceeds under PSM and SPA allow the provision of 3% fare discount for more than six months, MTRCL will return all the proceeds to passengers through fare discounts for a period longer than six months accordingly. Conversely, if the proceeds cannot sustain the provision	The enhancement will be able to –  (a) benefit all passengers without regard to whether they are taking the second trip within the same day; and  (b) provide greater certainty to passengers of the duration of the concession period which will last for at least six months.

	Measures introduced after the FAM review in 2013	Measures introduced after the FAM review in 2017	Areas of improvement
		of 3% discount for six months, the MTRCL will top up the funding difference to ensure that the 3% discount can be offered to passengers for six months.	
<b>Other fare promotion schemes</b>	Introduced the following schemes to alleviate the fare burden of medium-and-long-haul passengers:  (a) Monthly Pass Extras; and  (b) MTR City Saver.	Both schemes to be retained. The validity of the MTR City Saver will be extended from 30 to 40 days. The special one-off 10% discount rate for 2017 will equally apply to the fare adjustments of Monthly Pass Extras.	The enhancement will be able to –  (a) continue to benefit medium-and-long-haul passengers, and benefit them more in 2017 through newly introduced discount; and  (b) provides more flexibility to City Saver users with extended validity.
<b>Interchange Scheme with GMBs</b>	Nil.	To introduce a two-way interchange discount of \$0.3 per journey for all GMB routes.	The scheme will strengthen the interchange between MTR and other public transport modes and benefit the passengers by making their connecting trips more affordable.

**Economic, Family and Sustainability Implications**

**(A) Economic Implications**

MTRCL's transport service accounts for about 40% of public transport trips in Hong Kong, and railway service is an important determinant of cross-district labour movements and in turn a series of economic activities. Maintaining a transparent and objective regulatory framework that ensures affordable and high quality railway service would be conducive to higher labour mobility and thus economic growth in the long run.

2. Under the package of proposals, the three existing components of the FAM formula will be maintained and would continue to be based on the changes in CCPI and Wage Index as well as an agreed PF in deriving the fare adjustment rate. While the PF would be reset to zero, MTRCL's reduction of the fare adjustment rate by 0.6 percentage point will ensure that passengers can still benefit from a moderated fare adjustment to an extent which is consistent with the prevailing PF value of 0.6 percentage point. Maintaining the existing arrangement of capping the fare increase by the change in MMHI will also help ensure that fares are affordable to the public.

3. MTR fares constitute 1.46% of average household spending. As the data for computation of the fare adjustment rate for 2017 as per the FAM formula are not yet available, the inflationary impact of the fare adjustment cannot be ascertained at this stage. Yet the various fare concessions covered under the new FAM package should help contain the impact of fare increase (if any) to the passengers.

**(B) Family Implications**

4. The new FAM package will offer a moderated fare adjustment rate and a number of concessions for passengers, and this may encourage more families to travel around and organise more activities. This will in turn enhance the relationship amongst family members, e.g. inter-generational relationships, and enable families to better balance work and family commitments.



### **(C) Sustainability Implications**

5. The new FAM package helps moderate the MTR fare adjustment rate and provides various concessions for long-distance and frequent riders. This may encourage more passengers to take MTR rides and relieve the traffic congestions in some areas. The new FAM package with more concessions will also facilitate better social integration of the needy groups. It may also encourage more people to participate in community activities and enhance social cohesion.