

Legislative Council Panel on Transport

MTR Fare Adjustment for 2019 (Information Paper)

This paper briefs Members on the MTR fare adjustment for 2019.

MTRCL needs to maintain an extensive railway network

2. By October 2019, the MTR Corporation Limited (MTRCL) will have served Hong Kong for 40 years since the commissioning of the Kwun Tong Line, our first line, with only nine stations in 1979. The MTRCL has since then developed into an extensive railway network of 11 urban lines (including Airport Express) and 93 stations covering 18 districts and an average patronage of over 5.8 million passenger trips per weekday.

3. It is a challenging task to maintain such mega railway network and continue to provide our passengers with convenient and efficient railway services. We also fully appreciate the rising public expectation on railway services. With our railway assets entering into a mature stage, we must continue to invest in maintaining, upgrading and renewing our assets in order to uphold our efficient and reliable services. From 2014 to 2018, the Corporation has invested more than \$39 billion in maintaining, upgrading and renewing railway assets.

Enhancing Railway Facilities

4. To maintain railway services of high quality, the Corporation has invested an average of more than \$8 billion per year in the past three years (which accounts for more than 40% of the revenue from the Corporation's Hong Kong transport operations) in maintaining, upgrading and renewing railway assets and infrastructure, with over \$9 billion in 2018 alone. Moreover, over 5 000-strong maintenance staff work every day throughout the year and making use of the four-hour window during non-traffic hours to inspect, maintain and repair railway equipment. We also hope that our passengers can see our efforts in improving station facilities. The Corporation has kick-started the installation of toilets and baby care rooms in seven interchange stations¹ along with major station renovations which

¹ The seven interchange stations are Tiu Keng Leng, Yau Tong, Tsim Sha Tsui, Yau Ma Tei, Lai King,

are being constructed by phases. Amongst them, the new toilets and baby care room in Tiu Keng Leng Station has commissioned service in February 2019. On a trial basis, we have also installed a drinking water dispenser at Tung Chung Station in October 2018. We will also install such dispensers in Prince Edward and Tsuen Wan stations in the second quarter of this year. Our programme for replacing the chillers in stations and depots is in progress as well. Additional lifts and escalators in selected stations will also be provided. As electronic payment is getting popular, we have introduced payment by mobile phone in some designated ticket machines. As at end of 2018, 20 ticket machines in eight stations take QR code payment. To further enhance customer experience, QR code-based payment services will be introduced at MTR ticket gates in mid-2020. Furthermore, we have procured 93 new eight-car trains costing \$6 billion and 40 Light Rail vehicles (for replacement and addition to the fleet) costing around \$700 million, which will be put in service progressively.

Fare Adjustment Mechanism (FAM)

5. To continue our investment in maintaining and improving our railway services, we need a healthy financial position, including stable recurrent revenue. Fare revenue is one of the major sources of recurrent revenue of the MTRCL. The current FAM has been adopted since the rail merger in 2007, replacing the fare autonomy the MTRCL then enjoyed. FAM adopts a direct-drive formula that adjusts fares in accordance with the economic figures released by the Government. The mechanism is open, objective and transparent.

6. During the legislative process of the rail merger, FAM and its formula, as one of the conditions of the rail merger, were extensively discussed at the Legislative Council and were approved at the MTRCL's shareholder's meeting after much deliberation and consideration². The FAM is legally binding and forms part of the rail merger agreement between the Government and the MTRCL, and is included in the Operating Agreement ("OA") between the two parties.

7. Since the rail merger, between 2008 and 2018, the average annual increase in MTR fares is 2.6%. The average year-on-year inflation in Hong Kong is 3.0% while the average annual increase in Hong Kong Payroll Index is 4.4% for the same period.

Central and North Point stations.

² As the Government is the single shareholder of the Kowloon-Canton Railway Corporation and the major shareholder of MTRCL, it did not participate in the voting.

FAM Review in 2013 and 2017

8. Pursuant to the OA between the Government and the MTRCL concluded in August 2007, the MTRCL is required to review FAM every five years. The Government and the MTRCL reviewed FAM for the first time in 2012-13, and announced the outcome in April 2013 (Ref: LegCo paper THB(T)CR33/1017/99). The second review was originally due for completion in 2018. Upon the request of the Government in 2016, the MTRCL agreed to bring it forward by one year and jointly conducted the review with the Government, making the new FAM applicable to the following six years between 2017/18 and 2022/23³.

9. In each review, the Corporation sought the views of relevant stakeholders, including Members of the Legislative Council, passengers, shareholders, academics, etc. with a view to achieving a balanced proposal.

10. After the completion of the second review in 2017, the Government and the MTRCL jointly reported the outcome to the Transport Panel in April 2017. The 2017 revised FAM is applicable to the fare adjustment in the six-year period between 2017/18 and 2022/23 (Ref: LegCo paper THB(T)CR 19/5591/00).

Fare Adjustment Rate for 2019

11. The fare adjustment exercise for 2019 follows the FAM as reviewed in 2017. According to the figures released by the Census and Statistics Department (C&SD) on 22 January 2019, the year-on-year increase in the Composite Consumer Price Index (CCPI) for December 2018 over December 2017 is 2.5%. On 28 March 2019, C&SD published the year-on-year increase in the Nominal Wage Index (Transportation Section) for December 2018 over December 2017, which is 5.9%. Applying the FAM formula with the above two published figures, and **subtracting the special annual adjustment of 0.6% offered by MTRCL outside of the FAM formula**, the Overall Fare Adjustment Rate for MTR fares in 2019/20 should be +3.6% (Steps 1 and 2 in **Annex 1**).

12. An “Affordability-Cap” was introduced to the FAM in 2013, where the effective fare increase pursuant to the FAM outcome should not be higher than the year-on-year change in the Monthly Medium Household Income (MMHI) for the fourth quarter of the previous year. The change

³ The next regular FAM review has to be completed by 2023.

in MMHI value between the fourth quarter of 2017 and that of 2018 is +3.3%, which is lower than the overall fare adjustment rate based on the formula (+3.6%); hence triggering the “Affordability-Linked Arrangement” for the first time. The overall adjustment rate for MTR fares in 2019/20 will hence be capped at +3.3% (Step 3 in **Annex 1**). The new rate will take effect in June 2019. The remaining +0.3% fare adjustment which has not been included will be recouped in 2021/22. Please refer to **Annex 1** for details.

13. According to the OA, the MTRCL will announce the details of individual fare adjustment later on before implementation in June 2019.

Offering fare concessions for passengers

14. According to the FAM, the MTRCL will offer fare concessions in 2019/20, including \$225 million from the “Profit Sharing Mechanism” (**Annex 2**) and \$20 million from the “Service Performance Arrangement” (**Annex 3**). Upon the implementation of new fares, the Corporation’s original plan was to make use of additional resources to provide a “3.3% rebate” for a period of six months. Since the MTRCL confirmed the fare adjustment of this year on 28 March, we have been closely monitoring the public concern on fare increase. After discussion with the Government, and to commemorate the 40 years of commissioning of MTR service, the MTRCL decided to set aside further additional resources to extend the “3.3% rebate” promotion to passengers to a total of 40 weeks (i.e. over \$400 million fare concession) (see **Annex 4**), as a token of appreciation for the public support of the MTRCL and to share with passengers our achievements over the past four decades. With the 3.3 % rebate, Octopus passengers will experience no MTR fare increase from June 2019 to early April 2020. The existing prices of the “MTR City Saver”, “Monthly Pass Extras” and “Tuen Mun – Nam Cheong Day Pass” will also remain unchanged until early April 2020. Details of other fare concessions will be announced in due course.

15. Separately, the fare concessions offered by the MTRCL to various passenger groups including the elderly, children, eligible students and persons with disabilities would continue, such as the Fare Concession for the Elderly, Fare Concession for Children, Student Travel Scheme, Day Pass and other interchange discounts. These on-going fare promotions amounted to over \$2.7 billion in 2018. Details of the existing fare concessions offered by MTRCL are at **Annex 4**. Details of other fare concessions will be announced in due course.

Conclusion

16. Members are invited to note this paper.

MTR Corporation Limited
April 2019

Calculations of 2019 Fare Adjustment

The detailed calculations for 2019 fare adjustment are as follows:

Step 1: Basic calculation applying the FAM formula

Year-on-year % change in CCPI for December 2018	Year-on-year % change in Nominal Wage Index (Transportation Section) for December 2018	Productivity Factor value#	Overall Fare Adjustment Rate based on FAM formula
2.5%	5.9%	0%	
$(0.5 \times 2.5\%) + (0.5 \times 5.9\%) - 0\% =$			+4.2%

#A productivity factor of 0% is used in the FAM formula for 2017/18 to 2022/23.

Step 2: After counting the Special Adjustment

Overall Fare Adjustment Rate based on FAM formula	Special Adjustment	Fare Adjustment Rate Calculated for 2019/20
+4.2%	- 0.6%	= +3.6%

Step 3: With the “Affordability Cap” calculated, the Fare Adjustment Rate Calculated for 2019/20 is:

The original Fare Adjustment Rate Calculated for 2019/20	Year-on-year % change in MMHI in the fourth quarter of 2018	Overall Fare Adjustment Rate for 2019/20
+3.6%	> +3.3%	→ +3.3%

“Affordability-Cap”

An “Affordability-Cap” has been introduced since the FAM review in 2013 with passengers’ affordability taken into account. The fare increase pursuant to the FAM should not be higher than the change in the MMHI for the corresponding period. The Government and the MTRCL have agreed to maintain this arrangement during the second FAM review in 2017.

According to the prevailing FAM arrangement, the fare adjustment rate for MTR fares in 2019/20 is +3.6% (Steps 1 & 2). In view of the year-on-year change in MMHI value in the fourth quarter of 2018 compared to the same period in 2017 is +3.3%, the overall adjustment rate for MTR fares in 2019/20 will be +3.3% instead. As to the remaining +0.3%, if we were to treat it in accordance with the prevailing FAM arrangement (Ref: LegCo paper THB(T)CR33/1017/99, 3(c) of Annex F), it will be effective in the first year (mid-2019 to mid-2020) (i.e. fare table will be adjusted by +3.6%). The MTRCL would then provide a fare discount of +0.3% for Octopus passengers (“affordability discount”) to offset the increase. The affordability discount will then be halved (0.15%) in the second year (mid-2020 to mid-2021), and be removed entirely in the third year (mid-2021 to mid-2022) (0%).

Both the Government and the MTRCL consider that should the original arrangement be applied, many passengers taking trips of lower fares may not be able to benefit from the affordability discount considering that the values (0.3% in the first year and 0.15% in the second year) are very small. The arrangement would also be very complicated. The Government and the MTRCL agreed after discussion to simplify the 2019 fare adjustment arrangement, i.e. the MTRCL will not implement the +0.3% fare adjustment in the first and second year (between mid-2019 and mid-2021). (i.e. difference between the original fare increase of 3.6% and the “Affordability Cap” of 3.3%). The remaining +0.3% fare adjustment will be recouped in year 2021/22. Hence, **the overall adjustment rate for MTR fares in 2019/20 will be +3.3% .**

The following table shows a comparison of the “Affordability-Cap” under the prevailing FAM arrangement and the simplified arrangement:

Year	Prevailing FAM Arrangement	Simplified Arrangement for 2019/20
First year (2019-20)-	<ul style="list-style-type: none"> • Fare tables will be adjusted by +3.6% • MTRCL will provide an affordability discount in terms of fare discount of 0.3% to Octopus passengers to offset the increase • Overall adjustment rate will be +3.3% 	<ul style="list-style-type: none"> • Fare tables will be adjusted by +3.3% • MTRCL will not effect the difference of 0.3% fare increase
Second year (2020-21)-	<ul style="list-style-type: none"> • Fare tables will be adjusted according to the results of FAM in mid-2020, with an extra 0.15% increase (to remove half of the affordability discount) 	<ul style="list-style-type: none"> • Fare tables will be adjusted according to the results of FAM in mid-2020 (No additional increase of 0.15%) • MTRCL will not effect the difference of 0.3% fare increase
Third year (2021-22)-	<ul style="list-style-type: none"> • Fare tables will be adjusted according to the results of FAM in mid-2021, with an extra 0.15% increase (to remove the affordability discount removed entirely 	<ul style="list-style-type: none"> • Fare tables will be adjusted according to the results of FAM in mid-2021, with an extra 0.3% increase

Existing arrangement of “Profit Sharing Mechanism”

The MTRCL will set aside the amount to be shared with passengers each year under different profit levels according to a pre-determined tiered table. Details of the pre-determined tiered table are as follows:

<u>Underlying Business Profit in previous Year</u>	<u>Amount for Fare Concessions</u>
Below \$5 billion	0
\$5 billion to <\$6 billion	\$75 million
\$6 billion to <\$7 billion	\$100 million
\$7 billion to <\$8 billion	\$125 million
\$8 billion to <\$9 billion	\$150 million
\$9 billion to <\$10 billion	\$175 million
\$10 billion to <\$11 billion	\$200 million
\$11 billion to <\$12 billion	\$225 million
\$12 billion to <\$13 billion	\$250 million
\$13 billion to <\$14 billion	\$275 million
\$14 billion to <\$15 billion	\$300 million
>=\$15 billion	\$325 million

Note: The underlying business profits include profits from all the 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. Profit arising from investment property revaluation is excluded.

**Current calculation method of
“Service Performance Arrangement” (SPA)**

The amount to be set aside for fare concession for each serious service disruption under the SPA is as follows:

<u>Train Service Disruption</u>	<u>Amount per Incident</u>
Equal to or more than 31 minutes but less than or equal to one hour	\$1 million
More than one hour but less than or equal to two hours	\$2 million
More than two hours but less than or equal to three hours	\$3 million
More than three hours but less than or equal to four hours	\$5 million
Each additional hour (or part thereof) exceeding four hours	\$2.5 million
Maximum amount per incident	\$25 million (i.e. covering a disruption of twelve hours or more)

Note: Service disruption is defined as disruptions and suspensions caused by equipment failure or human factor within the MTRCL’s control. “Exemption Events” (i.e. events which are outside the control of the MTRCL such as passenger behaviours and adverse weather) are excluded under the SPA.

Existing fare concessions offered by MTRCL

“3% Rebate for Every Octopus Trip” Increased to 3.3% Rebate and Extended to 40 Weeks

The MTRCL will set aside a total of over \$400 million for the “3.3% Rebate for Every Octopus Trip” promotion for 40 weeks under the “Profit Sharing Mechanism”, “Service Performance Arrangement” and the top-up in 2019. Details are set out below:

(i) “Profit Sharing Mechanism”

Since 2013, MTRCL has been sharing its yearly underlying business profit⁴ with passengers by way of fare concessions. For this purpose, a pre-determined tiered table is used to decide on the amount to be shared with passengers under different profit levels with such amount being put into a fare concession account. According to the tiered table, an amount of \$225 million will be shared with passengers in 2019/20 through the “3% Rebate for Every Octopus Trip” promotion.

(ii) “Service Performance Arrangement”

According to the FAM review in 2017, the “Service Performance Arrangement” has been enhanced whereby the MTRCL will set aside an amount, ranging from \$1 million to \$25 million, for each serious service disruption, defined as disruptions of 31 minutes or above which are within the control of the MTRCL. There were 12 such disruptions in 2018. Passengers will receive additional fare concessions of \$20 million through the “3% Rebate for Every Octopus Trip” promotion.

(iii) The MTRCL is also committed to topping up where necessary the concession amount set aside for the 3% rebate to ensure it would last for at least six months. For 2019, MTRCL will provide an additional over \$200 million for the 3.3% rebate for every Octopus Trip, with the promotion extended to 40 weeks.

⁴ 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. Profit arising from investment property revaluation is excluded.

“MTR City Saver”

In June 2014, the MTRCL introduced a new “MTR City Saver” to benefit medium- and long-distance frequent travellers commuting within the urban area, i.e. essentially the zone not covered by the existing “Monthly Pass Extras”. Holders of “MTR City Saver” tickets are entitled to 40 rides within 40 days between the designated stations in the urban area. The coverage of “MTR City Saver” is set out below. The price in 2019 would remain unchanged until early April 2020, i.e. \$435.



“Monthly Pass Extras”

After purchasing “Monthly Pass Extra”, passengers are entitled to unlimited rides between the specified stations within a month. In addition, passengers can enjoy a 25% discount for connecting domestic journeys beyond the specified stations. Current prices are set out below:

Pass	Current Price
Tung Chung – Hong Kong Monthly Pass Extra	\$635
Tung Chung – Nam Cheong Monthly Pass Extra	\$405
Sheung Shui – East Tsim Sha Tsui Monthly Pass Extra	\$485
Tuen Mun – Nam Cheong Monthly Pass Extra	\$515
Tuen Mun – Hung Hom Monthly Pass Extra	\$600

The prices of “Monthly Pass Extras” in 2019 would remain unchanged until April 2020.

Day Pass promotion

The existing promotion period for “Tuen Mun – Nam Cheong Day Pass” will last until 30 June 2019. Current price of the Day Pass is \$28 and would remain unchanged in 2019 until early April 2020.

“Early Bird Discount Promotion” Programme

To address the relatively high train loading situation during the morning peak period, the 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 (set out below) between 7:15 a.m. and 8:15 a.m. from Mondays to Fridays (except Public Holidays). Existing “Early Bird Discount Promotion” Programme will last until 31 May 2019.



Apart from the above promotion, MTRCL continues to offer a wide range of fare concessions and promotional schemes to benefit and encourage different sectors of the community to ride on MTR. Details are set out below:

Promotion	Details
Student Travel Scheme	<ul style="list-style-type: none"> • MTRCL is the major public transport operator in Hong Kong providing full-year fare concessions for every trip to eligible local students. • 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). • The average daily number of passenger trips in the MTR network enjoying the student fare concession is about 447,000.
Fare Concession for the Elderly#	<ul style="list-style-type: none"> • Elderly persons aged 65 or above can enjoy about half-fare concessions using Elderly Octopus, Personalised Octopus or Concessionary Single Journey Tickets. • 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 the other days are funded by Government. • In addition, the \$2 fare concession to and from Racecourse Station enjoyed by Elderly Octopus holders is funded by MTRCL. • The average daily number of passenger trips in the MTR network enjoying the elderly fare concession is about 524,000.

Promotion	Details
Fare Concession for Children	<ul style="list-style-type: none"> • Children aged 3 to 11 can enjoy about half-fare concessions using Child Octopus or Concessionary Single Journey Tickets. • The average daily number of passenger trips in the MTR network enjoying the child fare concession is about 195,000.
Fare Concession for Persons with Disabilities#	<ul style="list-style-type: none"> • 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. • 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. • The average daily number of passenger trips in the MTR network enjoying the fare concession for persons with disabilities is about 72,000.
Fare Savers	<ul style="list-style-type: none"> • Currently, there are 39 fare savers. By waving Adult Octopus over the machines, passengers can enjoy \$2 discount for their next train trip at designated MTR stations.
Light Rail Personalised Octopus Frequent User Bonus Scheme	<ul style="list-style-type: none"> • Adults, children or senior citizens who travel on Light Rail using a Personalised Octopus can accumulate bonus points for discounted journey on Light Rail.
Interchange between West Rail Line and Light Rail/MTR Bus	<ul style="list-style-type: none"> • Passengers using the same Octopus to transfer between designated West Rail Line stations and designated Light Rail stops/MTR Bus routes within a specified time period can enjoy free rides on Light Rail (applicable on Light Rail journeys with Adult and Concession Octopus fares lower than or equal to \$5 and \$2.5 respectively) or MTR Bus routes.

Promotion	Details
Interchange between Light Rail and MTR Bus	<ul style="list-style-type: none"> • Passengers using the same Octopus to transfer between Light Rail and designated MTR Bus routes within a specified time period can enjoy the MTR Bus ride for free.
Interchange between MTR and MTR Feeder Bus	<ul style="list-style-type: none"> • Passengers using the same Octopus to transfer between MTR and MTR Feeder Bus routes at designated MTR stations within a specified time period can enjoy interchange discounts equal to \$4.0, or the MTR fare, whichever is lower.
Interchange discount between MTR and Franchised Bus	<ul style="list-style-type: none"> • Adult passengers using the same Octopus to transfer between MTR and designated Franchised Bus routes within a specified time period can enjoy an interchange discount of \$1.0.
Interchange discount with Green Minibuses	<ul style="list-style-type: none"> • Passengers using the same Octopus to transfer between MTR and designated Green Minibus routes at designated MTR stations within a specified time period can enjoy interchange discounts at \$0.3 or above, depending on the individual route. • Since 3 June 2018, over 500 General Minibus routes have been providing passengers with \$0.3 intermodal discount for five years until June 2023. The discounts for current routes remain unchanged.

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.