

Legislative Council Panel on Transport

MTR Fare Adjustment for 2020 (Information Paper)

This paper briefs Members on the matters under Fare Adjustment Mechanism (FAM) of the MTR Corporation Limited (“MTRCL”) in 2020.

Fare Adjustment Mechanism in 2020

2. The Census and Statistics Department (C&SD) of the Government publicised the year-on-year change in the Composite Consumer Price Index (CCPI) for December 2019 (+2.9%) on 21 January 2020. Subsequently, C&SD publicised the year-on-year change in the Nominal Wage Index (Transportation Section) for December 2019 (+3.4%) on 26 March 2020. Having regard to these two figures, after subtracting the special annual adjustment of -0.6% offered by the Corporation outside of the FAM formula, the overall fare adjustment rate for the year 2020/21 should be +2.55% (Please see Steps 1 & 2 in **Annex 1** for details).

3. An “Affordability Cap” has been introduced into FAM since 2013, whereby the effective fare increase pursuant to the FAM outcome should not be higher than the year-on-year change in the Median Monthly Household Income (MMHI) for the fourth quarter of the previous year. The year-on-year change in MMHI value in the fourth quarter of 2019 compared to the same period in 2018 is -2.48%, which should be deemed as 0% according to the mechanism. Since the overall fare adjustment rate calculated this year (+2.55%) is greater than 0%, the “Affordability Cap” has been triggered. After discussion with the Government, generally like that of last year, the MTRCL has decided to simplify the arrangement by recouping the overall fare adjustment rate (+2.55%) in two subsequent years (i.e. +1.28% in 2021/22 and +1.27% 2022/23), rather than making an adjustment right away this year and giving out rebates in the subsequent two years. In other words, there will be no adjustment for MTR fares in 2020/21¹. Details are set out at **Annex 1**.

4. FAM adopts an objective and transparent direct-drive formulae in determining the fare adjustment rate. The FAM formula takes into account objective figures² which reflect the local economic conditions. Taking the fare adjustment in 2020 as an example, calculation based on the

¹ Normally, the MTRCL adjusts its fare in June every year.

² The FAM formula takes into account the CCPI and Nominal Wage Index (Transportation Section) compiled by C&SD on a regular basis, and incorporates a Productivity Factor.

relevant figures has arrived at a result that leads to no actual fare increase this year. The Corporation's substantial investment in recent years in maintaining, upgrading and renewing the railway assets (such as an increase of 17.3%³ in operating costs in 2019) has not impacted on the fares borne by our passengers. The details of the FAM are at **Annex 2**.

5. Since the Rail Merger, from 2008 up to 2019, the average annual increase in MTR fares has been 2.7%. The average year-on-year inflation in Hong Kong has been 3.0% while the average annual increase in Hong Kong Payroll Index has been 4.3% over the same period.

MTRCL Faces Challenge of Pandemic Together with Hong Kong People

On-going fare concessions

6. MTRCL is rooted in Hong Kong and has been walking together with Hong Kong people for over 40 years, overcoming challenges one by one. Throughout the years, MTRCL has, through its own resources, offered fare concessions to various passenger groups including the elderly, children, eligible students and persons with disabilities. These include Fare Concession for the Elderly, Fare Concession for Children, Student Travel Scheme and other interchange discounts. These on-going fare concessions amounted to over \$2.6 billion every year (calculated on the basis of 2019/20).

2020/21 fare concession

7. The work and daily living of Hong Kong people as well as the operation of the Corporation have been hard hit by the COVID-19 pandemic. MTRCL is determined to face the challenges and ride out the tough times together with Hong Kong people by way of reducing their living expenses. MTRCL announced fare promotions on 20 February and 26 March this year respectively, providing fare concession this year through its own resources, resulting in no actual adjustment on MTR fares for the passengers in 2020⁴. Details are as follows:

- a) the "3.3% Rebate for Every Octopus Trip" will be maintained from 5 April 2020 until 1 Jan 2021. This worths more than

³ This does not include the cost of repair and replacement of equipment incurred due to vandalism.

⁴ This includes extending the 2019/20 fare concessions, which will end in the period of April to June 2020 respectively, to the end of 2020. As for Octopus passengers, the actual fares paid by passengers will have remained unchanged for two consecutive years since January 2019.

\$400 million;

- b) no price adjustment for “Monthly Pass Extras”, “MTR City Saver” and “Tuen Mun – Nam Cheong Day Pass” until 1 January 2021; “MTR City Saver” will be extended for a year. These worth more than \$200 million; and
- c) the “Early Bird Discount Promotion” will be extended for one year to 31 May 2021, and interchange fare concession with Green Minibus will be provided. These worth more than \$200 million.

8. The series of fare concessions and promotions in paragraph 7 worth a total sum of more than \$800 million. This is funded by – \$200 million from “Profitability-Linked Arrangement” (**Annex 3**), \$86.5 million from “Service Performance-Linked Arrangement” (**Annex 4**) and additional resources to be provided by MTRCL.

Offering One-off Fare Concessions outside of FAM

9. Considering the unprecedented, continuous and tremendous challenges facing the community amid the pandemic, MTRCL announced one-off special relief measures on 8 April 2020, after striking a balance among various considerations and discussion with the Government. These concessions would benefit MTR passengers of different sectors, as follows:

- a) the “3.3% Rebate for Every Octopus Trip” will be enhanced to “20% Rebate for Every Octopus Trip” for 6 months from 1 July 2020 to 1 January 2021; and
- b) during the six months from July to December 2020, passengers will enjoy a flat reduction of \$100 for each purchase of “MTR City Saver” and five types of “Monthly Pass Extras.

10. It is estimated that the fare concessions in paragraph 9 worth about \$1.6 billion, depending on the actual MTR patronage during the six-month period. The Government has agreed to bear half of the total actual revenue forgone with a cap of \$0.8 billion, while the Corporation will shoulder the remainder.

Total amount of fare concessions and details

11. Taking into account all the fare concessions and promotions as mentioned above in paragraph 6-10, MTRCL will bear a total sum of more than \$4.2 billion. Details of the various fare concessions are at [Annex 5](#).

Conclusion

12. MTRCL always adheres to the FAM, which is jointly developed by the Corporation and the Government, and has been functioning effectively over the years. Considering the hard time facing the Hong Kong society, the Corporation has decided to roll out these special one-off fare concessions outside of the existing FAM, with a view to riding out the economic difficulties hand-in-hand with the general public. MTRCL has launched various relief measures in the past few months including fare concession and rental abatement to certain tenants in our malls and stations. At the same time, our transport operations have suffered from heavy revenue loss, with a significant patronage drop of railway lines in time of the pandemic. In the first quarter of 2020, average daily patronage was approximately 3 million, representing a drop of about 40% as compared to the figure of the same period last year. Furthermore, the High Speed Rail (Hong Kong Section) service has been suspended since 30 January 2020, and Lo Wu and Lok Ma Chau stations have been closed since 4 February 2020, inevitably affecting MTRCL's revenue from cross-boundary railway services.

13. Railway requires substantial resources for maintenance and renewal, the Corporation has to ensure the continued investment in maintaining and improving our railway services. To this end, the Corporation needs a healthy financial position, including a stable recurrent revenue. Fare revenue is one of the major sources of recurrent revenue of MTRCL. The purpose of FAM is to make a proper balance between stable MTR fare revenue and the affordability of the public. When the special fare concessions come to the end, of which starting from 2 January 2021, the actual Octopus fares to be paid by the passengers will reflect the fare adjustment rate of 2019/20⁵, and the new prices of "Monthly Pass Extras" and "MTR City Saver" as announced in 2019 will take effect from January 2021 and 2 January 2021 respectively.

⁵ The overall adjustment rate of MTR fares according to the FAM should be +3.3%.

14. Members are invited to note this paper.

MTR Corporation Limited
April 2020

Calculation of 2020 Fare Adjustment Rate

The calculation of 2020 fare adjustment rate is detailed as follows:

Step 1: Basic calculation applying the FAM formula

Year-on-year % change in CCPI for December 2019	Year-on-year % change in Nominal Wage Index (Transportation Section) for December 2019	Productivity Factor value#	Overall Fare Adjustment Rate based on FAM formula
+2.9%	+3.4%	0%	
$(+2.9\% \times 0.5) + (+3.4\% \times 0.5) - 0\% = +3.15\%$			

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

Step 2: After counting the Special Annual Adjustment

Overall Fare Adjustment Rate based on FAM formula	Special Annual Adjustment	Fare Adjustment Rate Calculated for 2020/21
+3.15%	- 0.6%	= +2.55%

“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 2020/21 is originally +2.55% (Steps 1 & 2). The year-on-year change in MMHI value in the fourth quarter of 2019 compared to the same period in 2018 is -2.48% which should be deemed as 0% according to the mechanism. Therefore, the “Affordability Cap” has to be triggered this year. In accordance with the prevailing FAM arrangement (Ref: LegCo paper THB(T)CR33/1017/99, 3(c) of Annex F), the fare adjustment will be effective in the first year (mid-2020 to mid-2021) (i.e. fare table will be adjusted by +2.55%), together with the provision of a fare discount for Octopus passengers (“affordability discount”) to offset the increase. The affordability discount will then be halved in the second year (mid-2021 to mid-2022), and be removed entirely in the third year (mid-2022 to mid-2023).

Both the Government and the MTRCL consider that the original arrangement would be quite complicated for implementation. The Government and the MTRCL agreed after discussion, generally like that of last year, to simplify the arrangement by recouping the 2020 calculated fare adjustment arrangements (+2.55%) in the subsequent two years (i.e. +1.28% in 2021/22 and +1.27% in 2022/23). Hence, **there is no adjustment for MTR fares in 2020/21.**

Fare Adjustment Mechanism

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.

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 consideration⁶. 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.

⁶ 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

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 2022/23⁷.

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.

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, which 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).

⁷ The next regular FAM review has to be completed by 2023.

Annex 3

Existing Arrangement of “Profitability – Linked Arrangement”

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 non-local ventures. Profit arising from investment property revaluation is excluded.

**Current calculation method of
“Service Performance Linked 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

(1) Fare concessions and promotional schemes

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
(a) 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 380,000.
(b) 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.

Promotion	Details
	<ul style="list-style-type: none"> The average daily number of passenger trips in the MTR network enjoying the elderly fare concession is about 537,000.
(c) 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 185,000.
(d) 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 70,000.
(e) Fare Savers	<ul style="list-style-type: none"> Currently, there are 40 fare savers. By waving Adult Octopus over the machines, passengers can enjoy \$2 discount for their next train trip at designated MTR stations.
(f) 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.
(g) Interchange between West Rail Line and	<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

Promotion	Details
Light Rail/MTR Bus	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 \$5.2 and \$2.5 respectively) or MTR Bus routes.
(h) 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.
(i) 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, or the MTR fare, whichever is lower.
(j) 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.
(k) 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.

(2) 2020/21 fare concessions (including the fare concessions announced in February and March of 2020 and the one-off special fare concessions announced in April 2020)

(a) “3% Rebate for Every Octopus Trip” Increased to 3.3% Rebate

The MTRCL will set aside resources for the “3.3% Rebate for Every Octopus Trip” promotion until 1 January 2021 under the “Profitability – Linked Arrangement”, “Service Performance Linked Arrangement” and the additional resources from MTRCL in 2020. Details are set out below:

(i) “Profitability – Linked Arrangement”

Since 2013, MTRCL has been sharing its yearly underlying business profit⁸ 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 \$200 million will be shared with passengers in 2020/21 through the “3% Rebate for Every Octopus Trip” promotion.

(ii) “Service Performance Linked 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 10 such disruptions in 2019. Passengers will receive additional fare concessions of \$86.5 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. As announced on 26 March 2020, MTRCL will provide an additional resources again to top-up the committed rebate for every trip from 3% to 3.3% for Octopus passengers until 1 January 2021. Under such arrangement, the Octopus fares paid by passengers will stay unchanged for two consecutive years since January 2019.

⁸ 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.

(b) Six-month Topped-up “20% Rebate for Every Octopus Trip” from 1 July 2020

As MTRCL announced new relief initiatives on 8 April 2020, the original topped-up “3.3% Rebate for Every Octopus Trip” in the second half of 2020 will increase to 20% for six months, effective from 1 July 2020. The revenue forgone⁹ will be jointly borne by the Corporation and the Government.

(c) “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 as \$435 until 30 June 2020. The price will be reduced by \$100 from 1 July 2020 to 1 January 2021, i.e. \$335. The revenue forgone will be jointly borne by the Corporation and the Government.



⁹ The total revenue forgone depends on the actual MTR patronage during the six-month period.

(d) “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	Promotional from July to December 2020
Tung Chung – Hong Kong Monthly Pass Extra	\$635	\$535
Tung Chung – Nam Cheong Monthly Pass Extra	\$405	\$305
Sheung Shui/Wu Kai Sha – East Tsim Sha Tsui Monthly Pass Extra	\$485	\$385
Tuen Mun – Nam Cheong Monthly Pass Extra	\$515	\$415
Tuen Mun – Hung Hom Monthly Pass Extra	\$600	\$500

The prices of “Monthly Pass Extras” in 2019 would remain unchanged until June 2020. Each purchase for “Monthly Pass Extra” will enjoy a flat reduction of \$100 from July 2020 to December 2020. The revenue forgone will be jointly borne by the Corporation and the Government.

(e) Day Pass Promotion

The existing promotion period for “Tuen Mun – Nam Cheong Day Pass” will last until 30 June 2021. Current price of the Day Pass is \$28 and would remain unchanged in 2019 until 1 January 2021.

(f) “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. Existing “Early Bird Discount Promotion” Programme will be extended to 31 May 2021, in which commuters holding Adult Octopus can enjoy a 35% fare discount when they exit from any of the 45 core urban stations (set out below) between 7:15 a.m. and 8:15 a.m. from Mondays to Fridays (except Public Holidays).

