

**For information
on 20 April 2021**

Legislative Council Panel on Transport

MTR Fare Adjustment for 2021

This paper briefs Members on fare adjustment of the MTR Corporation Limited (MTRCL) in 2021.

Fare Reduction under FAM in 2021

2. The Fare Adjustment Mechanism (FAM) is an open, objective and transparent mechanism, adopting a direct-drive formula in determining the fare adjustment rate. The formula takes into account objective figures¹ which reflect the local economic conditions. Details of FAM are at **Annex 1**.

3. According to calculation based on the FAM formula, the MTR fare in 2021 will reduce by 1.7%. Calculation details are at **Annex 2**. New fares will be implemented on 27 June 2021.

4. 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. Since there will be fare reduction this year, the total fare adjustment rate of +1.58%² from 2019 and 2020 to be recouped this year will be carried forward according to the mechanism.

5. The MTRCL is now working out the actual changes to individual fares according to the overall fare adjustment rate (i.e. a reduction of 1.7%). A formal announcement of new MTR fares will be made after completing all required administrative procedures, including submission of two independent experts’ certificates to the Government verifying compliance with the FAM. The fare reduction will result in an estimated fare savings

¹ The FAM formula takes into account the Composite Consumer Price Index and Nominal Wage Index (Transportation Section) compiled by the Census and Statistics Department on a regular basis, and incorporates a Productivity Factor to determine the fare adjustment rate.

² See LegCo paper CB(4)766/18-19(04) and CB(4)467/19-20(03)).

of over \$200 million for passengers in 2021/22.

MTRCL Continues to Provide Fare Concessions

6. Since the past year, Hong Kong has been faced with unprecedented, continuous and tremendous challenges brought by the COVID-19 pandemic. The pandemic has seriously slowed down business activities, while anti-pandemic measures such as school closure and work-from-home arrangements have led to significant drop in MTR patronage. At the same time, the pandemic has seriously affected outbound travel of Hong Kong people and inbound travel of Mainland and overseas tourists, leading to a sharp decrease in patronage for cross-border services (including the East Rail Line)³ and Airport Express of over 90% and around 80% respectively. The overall MTR patronage in 2020 was 600 million passenger trips fewer than that in 2019, which translated into a drop of over 30%. Furthermore, the decrease in customer flow in MTR malls and station shops has hit the MTR's recurrent business hard. The Corporation has even recorded a financial loss.

“5% Rebate for Every Trip” and other special fare concessions

7. Notwithstanding the above, to ride out tough times together with the public, the MTRCL announced on 29 March 2021 a special “5% Rebate for Every Trip” from 1 April to 26 June 2021. All Octopus or QR code ticket users travelling on MTR lines (including trips to and from Lo Wu and Lok Ma Chau Stations, except Airport Express), and all Octopus users travelling on Light Rail and MTR buses can enjoy this promotion. The concession is expected to worth around \$150 million.

8. On the other hand, the fare reduction of 1.7% under FAM will take effect on 27 June 2021. The prices of “MTR City Saver”, “Monthly Pass Extras” and “Tuen Mun – Nam Cheong Day Pass” will also be reduced starting from July 2021. In addition, the MTRCL will introduce various fare concessions, with details as follows –

- (a) the MTRCL will top up the 3% rebate for every trip committed under FAM with additional resources from 27 June 2021 until 1 January 2022, which, together with the fare reduction under

³ Following measures to contain the COVID-2019 pandemic, services at Lo Wu Station and Lok Ma Chau Station of the East Rail Line have been suspended since 4 February 2020, whereas services of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section) and Intercity Through Train have also been suspended since 30 January 2020.

FAM, allow passengers to keep savings of around 5% on actual fares from 1 April 2021 till 1 January 2022. This concession is estimated to worth over \$200 million, \$15 million of which will be funded by the “Service Performance-Linked Arrangement”, while the rest will be funded by additional resources of the MTRCL;

- (b) “MTR City Saver” will be extended for another year. Passengers can also enjoy a \$50 discount for every purchase of “Monthly Pass Extra” from July to December 2021, and of “MTR City Saver” from 1 July 2021 to 1 January 2022. These are worth around \$200 million. Passengers using these tickets to travel between New Territories and urban area can save around 30% to 60% on fare compared to using Adult Octopus⁴; and
- (c) the “Early Bird Discount Promotion” will be extended for one year to 31 May 2022, and the interchange discount with green minibuses will continue to be provided. These are worth around \$200 million.

On-going fare concessions

9. Apart from the above special fare concessions, throughout the years, the MTRCL has been offering 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 \$1.7 billion in 2020.

Total financial commitment by MTRCL

10. Taking into account the fare reduction in 2021 as well as the special and on-going fare concessions mentioned above, the MTRCL will bear a total of around \$2.6 billion for the concessions in 2021. Details of the various fare concessions are at **Annex 3**.

⁴ Assume taking 50 trips per month by using “Monthly Pass Extra”, or 40 trips by using “MTR City Saver” within the designated stations, and collecting subsidy under the Government’s Public Transport Fare Subsidy Scheme.

Conclusion

11. Although the Corporation is faced with decreased patronage amid continuously rising operating costs, as a company rooted in Hong Kong, the MTRCL will continue to offer different measures and fare concessions, in addition to reducing fares in accordance with the FAM, to ride out tough times together with the public.

MTR Corporation Limited
April 2021

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. The FAM formula is as follows –

$$\begin{aligned} & \text{Overall fare adjustment rate} = \\ & (0.5 \times \text{change in Composite Consumer Price Index in December} \\ & \text{of the previous year}) \\ + & (0.5 \times \text{change in Nominal Wage Index (Transportation Section)} \\ & \text{in December of the previous year}) \\ - & \text{Productivity Factor (PF)*} \end{aligned}$$

**The PF value for the six-year period from 2017/18 to 2022/23 would be set at 0%. The MTRCL has agreed to provide a Special Annual Adjustment of 0.6% to lower the fare adjustment rate according to the FAM formula.*

2. 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 then MTRCL's shareholders meeting after much deliberation and consideration. 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.

FAM Review in 2013 and 2017

3. Pursuant to the OA between the Government and the MTRCL concluded in August 2007, the FAM is required to be reviewed every five years. The Government and the MTRCL reviewed FAM for the first time in 2012-13, and announced the outcome in April 2013 (see LegCo paper THB(T)CR33/1017/99). In particular, the "Affordability Cap" arrangement was introduced into FAM after the review, whereby the

effective fare increase pursuant to the FAM outcome should not be higher than the year-on-year change in the MMHI in the corresponding period, in order to take into account passengers' affordability. The "Service Performance-Linked Arrangement" and "Profitability-Linked Arrangement" were introduced in the same year.

4. The second FAM review was scheduled for completion in 2018. Upon request of the Government in 2016, the MTRCL agreed to bring it forward by one year and jointly conducted the review with the Government. After completion of the second FAM review in 2017, the Government and the MTRCL jointly reported the outcome to the Legislative Council Transport Panel in April 2017 (see LegCo paper THB(T)CR 19/5591/00). In particular, the amount to be shared under the "Profitability-Linked Arrangement" has been increased under the revised FAM, while the "Service Performance-Linked Arrangement" has been enhanced. The 2017 review outcome is applicable to the fare adjustment in the six-year period between 2017/18 and 2022/23.

5. In each review, the Government and the MTRCL would seek the views of relevant stakeholders, including Members of the Legislative Council, passengers, shareholders and academics, with a view to achieving a balanced proposal. The next regular FAM review will be completed by 2023.

“Service Performance-Linked Arrangement”

6. According to the “Service Performance-Linked Arrangement” under the existing FAM, the amount to be set aside by the MTRCL for fare concession for train service disruptions is as follows –

Train Service Disruption	Amount per Incident
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 12 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 “Service Performance-Linked Arrangement”.

“Profitability-Linked Arrangement”

7. According to the “Profitability-Linked Arrangement” under the existing FAM, 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 –

Underlying Business Profit in Previous Year	Amount of Fare Concessions
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.

Calculation of 2021 Fare Adjustment Rate

The calculation of 2021 fare adjustment rate is detailed as follows –

Step 1: Basic calculation applying the FAM formula

Year-on-year % change in CCPI for December 2020	Year-on-year % change in Nominal Wage Index (Transportation Section) for December 2020	Productivity Factor value#	Overall Fare Adjustment Rate based on FAM formula
-0.7%	-1.5%	0%	
$(-0.7\% \times 0.5) + (-1.5\% \times 0.5) - 0\% = -1.1\%$			

#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 2021/22
-1.1%	- 0.6%	= -1.7%

“Affordability-Cap”

As the FAM results in a fare reduction this year, the “Affordability Cap” arrangement will not be triggered. The MTRCL will reduce fares by 1.7% according to the mechanism.

In addition, since fares will be adjusted downward this year, the 1.58% fare increase^{1,2} to be recouped this year under the simplified “Affordability Cap”

¹ The +0.3% fare adjustment rate that was not implemented in 2019/20 due to the “Affordability Cap” arrangement was scheduled to be recouped in 2021/22.

² The +2.55% fare adjustment rate that was not implemented in 2020/21 due to the “Affordability Cap” arrangement was scheduled to be recouped in 2021/22 (+1.28%)

arrangement in 2019/20 and 2020/21 will be carried forward according to the mechanism.

and 2022/23 (+1.27%) respectively.

Fare Concessions offered by MTRCL

(1) 2021/22 fare concessions and other special fare arrangements

(a) “5% Rebate for Every Trip”

The MTRCL offers a special “5% Rebate for Every Trip” from 1 April to 26 June 2021. All Octopus or QR code ticket users travelling on MTR lines (including trips to and from Lo Wu and Lok Ma Chau Stations, except Airport Express), and all Octopus users travelling on Light Rail and MTR buses can enjoy this concession. The concession is expected to worth around \$150 million.

(b) Top up the “3% Rebate for Every Trip” committed under FAM

The MTRCL will further set aside resources to top up the “3% Rebate for Every Trip”¹ for half a year committed under the FAM, which, together with the fare reduction, allows passengers to continue to save around 5% on the actual fares from 27 June 2021 until 1 January 2022. The MTRCL is expected to set aside an additional \$200 million for the fare concessions.

(c) “MTR City Saver”

In June 2014, the MTRCL introduced the “MTR City Saver” to benefit medium-and long-distance frequent travellers commuting within the urban area, i.e. the zone not covered by the existing “Monthly Pass Extras”.

¹ According to the existing FAM, the MTRCL needs to provide 3% rebate to passengers for at least six months each year using the concession amount set aside under the “Service Performance-Linked Arrangement” and “Profitability-Linked Arrangement”. If the proceeds cannot sustain the provision of 3% fare discount for six months in any given year, the 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.

In 2020, the underlying business profit of the MTRCL was \$4.381 billion. According to the pre-determined tiered table, profitability-linked sharing with passengers will not be required. On the other hand, there were eight serious service disruptions which were within the control of the MTRCL in 2020. According to the “Service Performance-Linked Arrangement”, the MTRCL needs to set aside \$15 million for fare concessions. As the amount would not be sufficient to fund the 3% rebate for six months, the MTRCL needs to commit additional resources to provide such concession.

Passengers can save around 60% on fare as compared to using Adult Octopus (with an existing fare of \$22.3). Prices of “Monthly Pass Extras” are set out below –

Pass	Original Price²	New Price after Adjustment³	Promotional Prices⁴
Sheung Shui/Wu Kai Sha – East Tsim Sha Tsui Monthly Pass Extra	\$500	\$485	\$435
Tuen Mun – Nam Cheong Monthly Pass Extra	\$530	\$515	\$465
Tuen Mun – Hung Hom Monthly Pass Extra	\$615	\$600	\$550
Tung Chung – Nam Cheong Monthly Pass Extra	\$415	\$405	\$355
Tung Chung – Hong Kong Monthly Pass Extra	\$655	\$635	\$585

(e) “Tuen Mun – Nam Cheong Day Pass”

The promotion period for “Tuen Mun – Nam Cheong Day Pass” will be extended until 30 June 2022. Ticket holders of the “Tuen Mun - Nam Cheong Day Pass” can enjoy unlimited travel between Tuen Mun and Nam Cheong stations, Light Rail and MTR buses on the day of purchase. The new price of “Tuen Mun - Nam Cheong Day Pass” (i.e. \$29) announced in 2019 will be effective starting from 1 July 2021, while the selling price will be reduced to \$28 on the same day.

(f) “Early Bird Discount Promotion”

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 now 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

² New prices announced in 2019; effective starting from July 2021.

³ Price reduction starting from July 2021.

⁴ Passengers can enjoy a \$50 discount for every purchase of “Monthly Pass Extras” from July to December 2021.

Fridays (except Public Holidays). The “Early Bird Discount Promotion” Programme will be extended to 31 May 2022.



(g) Interchange discount with Green Minibuses

Passengers using the same Octopus to transfer between MTR and over 500 green minibus routes within a specified time period can enjoy interchange discounts of \$0.3 or above. The discount lasts for five years, from 3 June 2018 until June 2023.

(2) On-going fare concessions and promotional schemes

Apart from the above fare promotions, the MTRCL continues to offer a wide range of fare concessions and promotional schemes to benefit different passenger groups. Details are set out below -

Promotion	Details
(a) Student Travel Scheme	<ul style="list-style-type: none"> 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 to 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 176 000.
(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,

Promotion	Details
	<p>Personalised Octopus or Concessionary Single Journey Tickets.</p> <ul style="list-style-type: none"> • 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 the Government funds the other days. • In addition, the \$2 fare concession to and from Racecourse Station enjoyed by Elderly Octopus holders is funded by the MTRCL. • The average daily number of passenger trips in the MTR network enjoying the elderly fare concession is about 426 000.
(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 81 000.
(d) Fare Concession for Persons with Disabilities#	<ul style="list-style-type: none"> • The MTRCL funds with its own resources half-fare concessions for persons aged 64 or below under the Comprehensive Social Security Assistance Scheme with 100% disability or recipients of Disability Allowance, 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 55 000.
(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.

Promotion	Details
(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 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 \$5.2 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 with 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 \$4.3, or the MTR fare, whichever is lower.
(j) Interchange discount with 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 \$0.6 or above

Under the Government 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.