

**For information
on 12 April 2024**

Legislative Council Panel on Transport

MTR Fare Adjustment for 2024

This paper briefs Members on the matters relating to the fare adjustment of the MTR Corporation Limited (MTRCL) in 2024.

2024 MTR Fare Adjustment

2. The Fare Adjustment Mechanism (FAM) of the MTRCL is an open, objective and transparent mechanism which adopts a direct-drive formula. The direct-drive formula takes into account objective figures¹ in determining fare adjustment levels to reflect local economic conditions. The mechanism also included the “Affordability Cap” arrangement, whereby any effective rate of fare adjustment should not be higher than the year-on-year change in Median Monthly Household Income (MMHI) in the corresponding period to address public affordability.

3. According to the latest arrangement after the 2023 FAM review (see **Annex 1**) and the latest figures released, the fare adjustment rate calculated by the FAM formula this year is +3.2%. Since the adjustment rate is higher than the year-on-year change in MMHI for the fourth quarter of 2023, the overall fare adjustment rate for 2024 will be capped at +3.09% according to the “Affordability Cap” arrangement. The remaining adjustment rate (+0.11%) will be carried forward to the subsequent two years (+0.06% in 2025 and +0.05% in 2026). The adjustment rate of +1.85% from 2023 will also be carried forward to 2025 (see **Annex 2**).

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.

4. The new fares will take effect in June this year. The MTRCL is now working out the actual changes to individual fares according to the overall fare adjustment rate of +3.09%. A formal announcement of new MTR fares will be made after completing all required administrative procedures, including the submission of two independent experts' certificates to the Government verifying compliance with the FAM.

Various Fare Concessions Provided

5. All along, the MTRCL has been offering a series of fare promotions and on-going concessions to passengers to give back to the community, taking into account the operating environment, social and economic conditions, as well as the financial sustainability of the Corporation.

Fare promotions to be extended

6. The MTRCL continues to provide a series of fare promotions in 2024 including –

- (a) extending the “Monthly Pass 1 - 5” for one year;
- (b) extending the “Tuen Mun - Nam Cheong Day Pass” for one year;
- (c) extending the “Early Bird Discount” for one year;
- (d) continuing to provide the “City Saver”; and
- (e) continuing to provide \$0.5 interchange discount with Green Minibuses (GMB), covering all GMB routes.

On-going fare concessions

7. Apart from the above fare promotions, the MTRCL continues to offer on-going fare concessions to cater for the needs of passenger groups from all walks of life including the elderly, children, eligible students and persons with disabilities. These on-going fare concessions amounted to around \$2.9 billion in 2023. The details of various fare concessions are at **Annex 3**.

Sustainable Financial Arrangement

8. Fare revenue is one of the steady sources of recurrent revenue for the MTRCL, which is instrumental in maintaining, upgrading and renewing the railway system and providing quality, reliable and convenient railway services to the public. The FAM not only ensures the long-term financial sustainability of the MTRCL, but also links the mechanism with economic figures released by the Government and reflects the Corporation's profitability and service performance, while catering for public affordability through the "Affordability Cap" arrangement.

9. Since the rail merger, from 2008 to 2023, the average annual fare increase in MTR fares according to the FAM was 2.0%, which was lower than the average year-on-year inflation in Hong Kong (2.6%) and average annual increase in payroll index (3.7%) over the same period.

Conclusion

10. Members are invited to note this paper.

MTR Corporation Limited
April 2024

The MTR Fare Adjustment Mechanism

The FAM has been adopted since the rail merger in 2007, replacing the fare autonomy the MTRCL then enjoyed. The 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 –

$$\begin{aligned} \text{Overall fare adjustment rate} = & \\ & (0.5 \times \text{change in Composite Consumer Price Index (CCPI) in} \\ & \text{December of the previous year}) \\ + & (0.5 \times \text{change in Nominal Wage Index (Transportation Section)} \\ & \text{(NWI(T)) in December of the previous year}) \\ - & \text{Productivity Factor}^1 \end{aligned}$$

2. During the legislative process of the rail merger, the FAM and its formula, as one of the conditions of the rail merger, were extensively discussed at the Legislative Council and approved at the then MTRCL's shareholders 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.

FAM Review in 2023

3. Pursuant to the OA signed between the Government and the MTRCL, the FAM shall be reviewed every five years. The Government and the MTRCL reviewed the FAM for the first time in 2013 (see LegCo paper THB(T)CR33/1017/99 for details). The second review was advanced one year to 2017 upon the Government's request (see LegCo paper THB(T)CR 19/5591/00 for details).

¹ After the FAM review in 2023, the Productivity Factor is linked to the profit tiers covering "Profit for the year attributable to shareholders of the Company arising from property development in Hong Kong" in the previous financial year.

² The Government, being the sole shareholder of the Kowloon-Canton Railway Corporation and the majority shareholder of the MTRCL, did not participate in the voting.

4. In March 2023, the Government and the MTRCL completed the third FAM review and announced the outcome as follows (see LegCo paper TLB CR 19/5591/00 for details) –

- (a) retaining the existing direct-drive FAM formula, with the calculation of the Productivity Factor being directly linked to the Hong Kong Property Development (HKPD) profit of MTRCL according to the table below –

HKPD Profit in the Previous Year	Productivity Factor
<\$5 billion	0.6%
≥\$5 billion to <\$10 billion	0.7%
≥\$10 billion	0.8%

Note: HKPD profit refers to the “profit for the year attributable to shareholders of the Company arising from property development in Hong Kong”;

- (b) offering a special fare reduction of 1.2% in 2023 and deferring a total fare adjustment rate of 1.85% to 2024 in order to support the economic recovery after the pandemic;
- (c) retaining and simplifying the “Affordability Cap” arrangement in the FAM;
- (d) under the Service Performance Rebate (SPR) arrangement, increasing the amount to be set aside by the MTRCL for service disruptions and introducing a peak hour multiplier³. Once the amount set aside under the SPR funding pool reaches \$25 million, the MTRCL will arrange a Special Fare Day on a specific Saturday or Sunday to let passengers take the MTR at around half price; and
- (e) enhancing and extending various fare concessions.

³ After the 2023 FAM review, the amount to be shared by the MTRCL for service disruptions that took place in 2022 increased by around 60% from \$65.5 million to \$103 million.

Calculation of 2024 MTR Fare Adjustment Rate

The calculation of 2024 fare adjustment rate is detailed as follows –

Step 1 – Applying the FAM formula

Year-on-year % change in CCPI for December 2023 (+2.4% × 0.5)	+	1.2%
Year-on-year % change in NWI(T) for December 2023 (+5.2% × 0.5)	+	2.6%
Productivity Factor ¹	–	0.6%
Fare Adjustment Rate from Formula	=	+3.2%

Step 2 – Since the fare adjustment rate calculated is higher than the year-on-year change in the MMHI for the fourth quarter of the previous year, the “Affordability Cap” arrangement is triggered

Calculated Fare Adjustment Rate	>	Year-on-year % change in MMHI for the fourth quarter of 2023
+3.2%		+3.09%
Overall Fare Adjustment Rate for 2024	=	+3.09%
The remaining adjustment rate ²	=	+0.11%
Deferral from 2023 ³	=	+1.85%

¹ According to the profit for the year attributable to shareholders of the MTRCL arising from property development in Hong Kong in 2023, the Productivity Factor this year is 0.6%

² According to the “Affordability Cap” arrangement, the remaining adjustment rate of +0.11% in 2024 will be carried forward to the subsequent two years (+0.06% in 2025 and +0.05% in 2026).

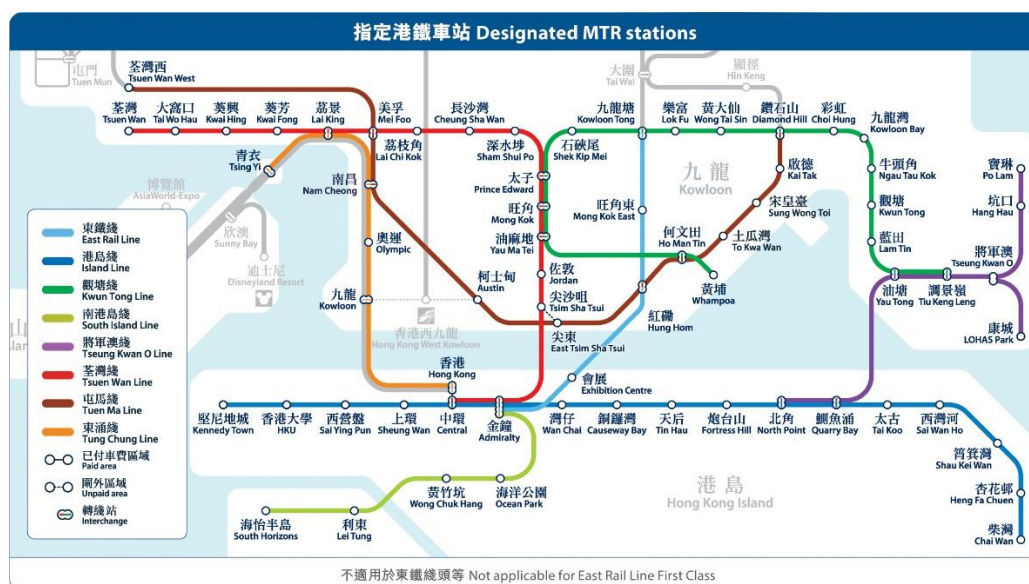
³ Since the “Affordability Cap” arrangement is triggered in the fare adjustment of 2024, the adjustment rate of +1.85% deferred from 2023 will be carried forward to 2025.

Fare Concessions offered by the MTRCL

(1) 2024 Fare Promotions

(a) City Saver

City Saver mainly benefits medium- and long-distance frequent passengers commuting within the urban area. Holders of City Saver are entitled to 40 rides within 40 days between the designated stations in the urban area (see route map below).



(b) Monthly Pass

After purchasing the Monthly Pass, passengers are entitled to unlimited rides between the specified stations within a month, as well as a 25% discount¹ for connecting domestic journeys beyond the specified stations. The five Monthly Passes are set out below –

¹ The discount is not applicable to East Rail Line First Class Premium, journeys on the Airport Express and journeys to or from Lo Wu and Lok Ma Chau stations. The discount is also not applicable to journeys to or from Racecourse Station using the Monthly Pass 1 (Sheung Shui / Wu Kai Sha – East Tsim Sha Tsui).

Monthly Pass 1	Sheung Shui/Wu Kai Sha – East Tsim Sha Tsui
Monthly Pass 2	Tuen Mun – Nam Cheong
Monthly Pass 3	Tuen Mun – Hung Hom
Monthly Pass 4	Tung Chung – Nam Cheong
Monthly Pass 5	Tung Chung – Hong Kong

(c) *Tuen Mun – Nam Cheong Day Pass*

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.

(d) *Early Bird Discount*

Commuters holding Adult Octopus can enjoy a 25% fare discount when they exit from any of the 48 core urban stations (set out below) between 7:15 a.m. and 8:15 a.m. from Mondays to Fridays (except public holidays).



(e) *Interchange Discount with GMB*

Passengers using the same Octopus to interchange between MTR stations and all GMB routes within 90 minutes can enjoy interchange discounts of \$0.5.

(2) On-going Fare Concessions and Other Promotional Schemes

The MTRCL has all along been offering a wide range of fare concessions and promotional schemes to benefit different passenger groups. Details are set out below –

Promotions	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 333 000.
(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 Elder Octopus, Personalised Octopus or Concessionary Single Journey Tickets. • The MTRCL provides the concessionary fare of \$2 per trip to passengers aged 65 or above using JoyYou Card[#] travelling in the domestic network on Wednesdays, Saturdays and public holidays (except Sundays), while the Government subsidises the difference between half fare and \$2 on other days. • The average daily number of passenger trips in the MTR network enjoying the elderly fare concession is about 696 000.

Promotions	Details
(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 children fare concession is about 183 000.
(d) Fare Concession for Persons with Disabilities [#]	<ul style="list-style-type: none"> • The MTRCL provides approximately 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 75 000.
(e) Fare Savers	<ul style="list-style-type: none"> • Currently, there are 42 fare savers. By tapping Adult Octopus over the reader on the fare savers, passengers can enjoy a \$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 journeys on Light Rail.
(g) Interchange between Tuen Ma Line and Light Rail/MTR Bus	<ul style="list-style-type: none"> • Passengers using the same Octopus to interchange between designated Tuen Ma 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.

Promotions	Details
(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 interchange between MTR and MTR Feeder Bus routes at designated MTR stations within a specified time period can enjoy interchange discounts up to \$4.5, or equal to the MTR fare, whichever is lower.
(j) Interchange discount with Franchised Bus/GMB	<ul style="list-style-type: none"> • Adult passengers using the same Octopus to interchange between MTR and designated franchised bus/GMB routes within a specified time period can enjoy an interchange discount.

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 aged 65 or above and eligible persons with disabilities can enjoy the concessionary fare of \$2 per trip for MTR domestic service. Since 27 February 2022, the Scheme has been extended to cover Hong Kong residents aged 60 to 64 using JoyYou Card. Starting from 25 August 2024, the Scheme will only be applicable to Hong Kong residents using JoyYou Card or eligible persons with disabilities but not passengers using Anonymous Elder Octopus and Personalised Elder Octopus. Thus, the fares for Anonymous Elder Octopus and Personalised Elder Octopus will revert to around half-fare concessions.