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Panel on Transport
Meeting on 12 April 2024

Background brief on fare adjustments by
the MTR Corporation Limited

Purpose

This paper provides updated background information on fare adjustments by the MTR Corporation Limited (“MTRCL”) and summarizes the major views and concerns expressed by the Panel on Transport (“the Panel”) about MTRCL’s fare adjustments and the relevant mechanism in recent discussions.

Background

Fare Adjustment Mechanism of MTRCL

2. Pursuant to the Operating Agreement signed between the Government and MTRCL in August 2007 for the rail merger, the Fare Adjustment Mechanism (“FAM”) of MTRCL is to be reviewed every five years. The first review was conducted in 2013. The second review was advanced one year to 2017 upon the Government’s request. The 2017 review outcome is applicable to the fare adjustment of the six-year period from 2017-2018 to 2022-2023.¹

3. The FAM of MTRCL is subject to review in 2023. The Government conducted a three-month public consultation on the FAM Review from 20 September to 19 December 2022, and completed negotiations with MTRCL on how FAM should be modified. At the meeting of the Executive Council on 21 March 2023, the Chief Executive-in-Council accepted the FAM package of proposals, and ordered that the Government should formally enter into an agreement with MTRCL to implement the package of proposals as from the

¹ See THB(T)CR19/5591/00.

fare adjustment for 2023. The salient points of the FAM package are as follows:²

- (a) retaining the existing direct-drive FAM formula, but with the calculation of the Productivity Factor (“PF”) being directly linked to the Hong Kong Property Development profit of MTRCL;
- (b) offering a special fare reduction of 1.2% in 2023 and deferring the implementation of a total of 1.85% of the fare adjustment rate to 2024;
- (c) increasing the amount to be shared by MTRCL for service disruptions and introducing a peak hour multiplier;
- (d) retaining and simplifying the “Affordability Cap” in FAM; and
- (e) enhancing and extending existing fare concessions.

Adjustments to MTR fares

4. MTRCL adjusts its fares in accordance with FAM usually in June every year. Since the rail merger in 2007, MTR fare have been adjusted 11 times. Details of MTR fare adjustments implemented in previous years are set out in **Appendix 1**.

5. In accordance with the latest arrangement after the 2023 FAM review, MTRCL adjusted MTR fare for 2024-2025 by +3.09%. Please refer to the press release published by MTRCL for the calculation method (**Appendix 2**).

Major views and concerns expressed by Panel members

6. Major views and concerns expressed by members in the previous Panel meetings are summarized in the ensuing paragraphs.

Linkage of the FAM formula to Hong Kong Property Development profit

7. At the Panel meeting held on 21 April 2023, the Administration briefed members on the outcome of the review of FAM of MTRCL. Members generally supported the Administration and MTRCL’s efforts to revise the calculation of the Productivity Factor (“PF”) in the FAM formula from the existing method which measured the annual growth rate of the ratio between

² For details of FAM, please refer to paragraphs 8-24 of the Legislative Council Brief (File ref.: TLB CR 19/5591/00).

income and cost of MTRCL's transport operations, to linking PF to the Hong Kong Property Development ("HKPD") profit of MTRCL in the previous year. However, some members expressed disappointment that the revised PF value was set to be in the range of 0.6% to 0.8% based on different profit levels. They argued that such a range would not effectively moderate the fare increase rate. There were also views that while the PF value for the period from 2017-2018 to 2022-2023 was set at 0% under the previous FAM formula, MTRCL still provided a special annual adjustment of 0.6% over the past five years to lower the fare adjustment rate. Therefore, setting the PF value at 0.8% based on the current cap on HKPD profit would not make much difference and could not change the negative public perception that MTRCL would still increase fare while making huge profits. Members called on the Administration and MTRCL to consider raising the cap on the PF value or introducing a mechanism to impose a cap on fare adjustments so that the fare would be frozen when MTRCL's profit reached a certain level.

8. The Administration responded that the new arrangement ensured that passengers would enjoy a fare reduction of at least 0.6% each year under all scenarios, with possible upside based on the actual HKPD profit of MTRCL. The HKPD-linked PF would lower the MTR fare base every year and have a compound effect on future fares. If the calculation method used in the previous FAM formula remained unchanged, PF would have been set at 0% for the upcoming FAM cycle from 2023 to 2027, which meant it could not achieve the purposes of fare moderation or sharing of MTRCL's success with passengers.

9. MTRCL supplemented that as its railway assets entered a mature stage, investment in repairing, maintaining and renewing railway assets would cost over \$10 billion per year to enable the provision of safe, reliable and efficient railway services to commuters. Therefore, it was important to ensure the long-term financial sustainability of MTRCL; and fare revenue was one of the stable sources of recurrent revenue for the Corporation.

10. Members asked the Administration why only the HKPD profit of MTRCL was included in the calculation of PF, while its profits from property leasing, management business, advertising, overseas business, etc. were excluded from the calculation. The Administration explained that the revenues generated from these other businesses such as property leasing tended to be more volatile due to the greater impact of market conditions on their performances. Incorporating these businesses into the calculation of PF might not necessarily bring about fare moderation. Instead, taking into account only MTRCL's HKPD profit would be a more straightforward and easily comprehensible approach, which facilitated the public understanding of the relevant data.

Handling of the recoupment of fare increase rates

11. Members noted that for the recoupment of a fare increase rate of 2.85% under the “Affordability Cap” arrangement, MTRCL would offer a special fare reduction of 1.2% for the fare adjustment in 2023, and defer the recoupment of the remaining 1.65% fare increase rate to 2024. In addition, MTRCL would defer another 0.2% of the fare increase rate in 2023 to 2024. Members commented that the fare reduction arrangement mentioned above would do little to alleviate the fare burden of commuters and called on the Administration and MTRCL to cancel all the unrecouped fare increase rates to ride out tough times together with the public.

12. In addition, members also pointed out at previous meetings that the magnitude of fare increase in the coming year might go beyond public affordability even with a slight economic recovery. They thus suggested that a deadline should be set for the recoupment of fare increase rates so that if the fare increase rates could not be recouped after one year, they should be cancelled.

13. The Administration advised that the “Affordability Cap” arrangement was the outcome of discussion between the Administration and MTRCL during the FAM review in 2013 and was a part of FAM. It added that under the “Affordability Cap” arrangement, any fare increase of a year should not be higher than the year-on-year change in the Median Monthly Household Income for the fourth quarter of the previous year.

Profitability-linked Arrangement and Service Performance-linked Arrangement

14. At the Panel meeting on 21 April 2023, some members considered that MTRCL’s offer of Special Fare Days to passengers on specific Saturdays or Sundays only using the concession amount set aside under the Service Performance Rebate (“SPR”) could not benefit the general public who commuted to work or school on weekdays. They suggested that MTRCL offer a 15% fare discount on weekdays using the rebate amount until it was fully utilized. Some members also questioned why the Service Performance-linked Arrangement (“SPA”) only counted train service disruptions of a duration equal to or more than 31 minutes. They argued that SPA should include coverage of service disruptions of less than 31 minutes given the frequent occurrence of train incidents. This would motivate MTRCL to upgrade its overall service standard.

15. MTRCL responded that Special Fare Days had received satisfactory responses after their introduction, which benefitted a large number of passengers. MTRCL would continue to listen to the views of members and

the public to enhance the arrangement for SPR. Regarding train service disruptions of less than 31 minutes, it was considered that including them under SPA would put frontline staff under tremendous pressure. In the long run, this would have negative impacts on the efforts made by MTRCL in maintaining a safe, highly efficient and quality train service.

16. Some Members considered that the departure of frontline staff responsible for train maintenance and management was serious, resulting in tremendous work pressure on frontline staff. Despite this, MTRCL had not offered an attractive remuneration package to retain talent. On the other hand, senior management staff of MTRCL still received very generous year-end bonuses despite frequent MTR train incidents. Members considered that the remuneration packages for MTRCL's management should be tied to train service performance, and that their remuneration and bonuses should be deducted in the event of train incidents. The Administration advised that issues pertaining to staff remuneration and bonuses had been discussed at MTRCL's Board of Directors meetings. As a shareholder of MTRCL, the Administration had also participated in these discussions at the Board meetings. The train service provided by MTRCL was of a world-leading standard. It was imperative to ensure that MTRCL could offer attractive remuneration packages to attract and retain talent.

Other views on mitigating the impact of MTR fare increase

17. Members had suggested ways to mitigate the impact of MTR fare increase, such as deploying the dividends received by the Government from MTRCL to subsidize/offset MTR fare increase or setting up a fare stabilization fund. Some members considered that the Administration should buy back the shares of MTRCL so as to gain full control of MTR fare.

18. The Administration responded that it had been proactive in reflecting the community concerns to the Board of MTRCL from time to time and closely monitoring MTRCL's service performance. As regards the dividends received from MTRCL, they formed part of the public coffers and the Administration was obliged to ensure the prudent use of the dividends in appropriate areas. In addition, there had been thorough discussions and general consensus in the community towards the listing of MTRCL in 2000 and the rail merger in 2007. Public interests had been protected through the introduction of FAM under the Operating Agreement. As such, the Administration had no plan to buy back MTRCL.

Fare concessions

19. Members had pointed out that the single journey fares for the West Rail Line and the Tung Chung Line were more than double that of the East Rail Line, and enquired if Day Pass would be introduced for the two railway

lines. They considered that fare differentials among the three railway lines should be addressed in the long-run.

20. MTRCL replied that the company had comprehensively enhanced various monthly passes to address the need and affordability of frequent medium- and long-distance MTR passengers. MTRCL would review the effectiveness of the fare promotions from time to time and introduce suitable schemes as far as possible.

21. Several suggestions were put forward during previous discussions of the Panel regarding fare concessions, including sharing a specified proportion, say 30%, of profits earned by MTRCL with the passengers and offering more concessions for a longer period. Some members were of the view that instead of spending resources to manage various fare promotional schemes to benefit selected groups of passengers, MTRCL could simply lower the rate of fare increase so as to benefit all passengers. The Administration advised that MTRCL had been introducing different concession schemes from time to time in response to different market situations. Passengers might choose the most suitable fare concessions having considered their individual travel patterns.

22. Regarding interchange concessions, the Administration advised that apart from offering interchange discounts in its own railway network, MTRCL also launched interchange discount schemes in collaboration with different public transport operators from time to time, having regard to the needs of the public.

Relevant papers

23. A list of relevant papers is in **Appendix 3**.

Latest development

24. The Administration will brief members on MTR fare adjustment for 2024 at the Panel meeting to be held on 12 April 2024.

Adjustments to MTR fares since the rail merger 2007

<u>Year</u>	<u>Overall fare adjustment rate</u>
2008	0%
2009	0%
June 2010	+2.05%
June 2011	+2.2%
June 2012	+5.4%
June 2013	+2.7%
June 2014	+3.6%
June 2015	+4.3%
June 2016	+2.65%
2017	0%
2018	+3.14%
2019	+3.3%
2020	0%
2021	-1.85%
2022	0%
2023	+2.3%



新聞稿

Press Release

PR019/24
26 March 2024

MTR Fare Adjustment Rate Takes Full Account of Public Affordability Continuing to Offer Various Promotions This Year Benefiting Customers from All Walks of Life

MTR Corporation announced today (26 March 2024) that the overall adjustment rate for MTR fares this year (2024/25) is +3.09%. Under the "Affordability Cap" arrangement, the fare adjustment rate this year has been capped at +3.09%, which takes into account public affordability.

At the same time, the Corporation will continue to offer on-going fare concessions outside of the Fare Adjustment Mechanism (FAM) to benefit customers from all walks of life, including the elderly, children, eligible students and persons with disabilities, etc., which amounted to approximately \$2.9 billion last year. Additionally, the Corporation will continue to provide "City Saver" and the \$0.5 interchange discount with Green Minibus, and extend "Monthly Pass", "Tuen Mun - Nam Cheong Day Pass" and "Early Bird Discount" for another year.

"The 'Affordability Cap' arrangement has taken its effect this year in striking a balance between public affordability and the Corporation's needs to maintain, upgrade and renew the railway system. This year marks MTR's key milestone of 45 years since the commencement of railway services. With the purpose to 'Keep Cities Moving', we are committed to providing reliable, efficient and high-quality railway services as always," said Ms Jeny Yeung, Managing Director - Hong Kong Transport Services of MTR Corporation.

Based on the Census and Statistics Department (C&SD)'s latest announcement today of the year-on-year change in the Nominal Wage Index (Transport)(NWI(T)) for December 2023 (+5.2%) and the year-on-year change in the Composite Consumer Price Index (CCPI) for December 2023 (+2.4%) published earlier, the fare adjustment rate comes to +3.2% including the latest calculation of the Productivity Factor¹ (See step 1 of the Annex for the calculation procedures).

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¹ Linked to the profit tiers covering "Profit for the year attributable to shareholders of the Company arising from property development in Hong Kong" in 2023.

At the same time, the “Affordability Cap” has been introduced into FAM since 2013, whereby the effective fare increase according 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 corresponding year to ensure public affordability. According to the data released by C&SD earlier, the relevant figure was +3.09%, while this year’s fare adjustment rate calculated according to the FAM formula was higher at +3.2%. Hence, according to the “Affordability Cap” arrangement, the overall fare adjustment rate for MTR fares this year will be capped at +3.09% (See step 2 of the Annex). The remaining +0.11% adjustment rate will be recouped in the subsequent two years, of which +0.06% will be recouped in 2025/26 and +0.05% will be recouped in 2026/27. The rate of +1.85% from 2023/24² will also be carried forward to 2025/26 for recoupment. Since the Rail Merger, MTR’s average annual fare adjustment rate has been lower than the average year-on-year inflation in Hong Kong over the same period.

The Corporation will now work out the actual changes to individual fares and the formal announcement of the 2024/25 fare table and its effective date will be made at a later date, after completing all required administrative procedures including the submission of two independent experts’ certificates to the Government verifying compliance with the FAM.

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About MTR Corporation

To Keep Cities Moving, MTR makes encounters happen and rendezvous for a more connected tomorrow. As a recognised world-class operator of sustainable rail transport services, we are a leader in safety, reliability, customer service and efficiency.

MTR has extensive end-to-end railway expertise with 45 years of railway projects experience from design to planning and construction through to commissioning, maintenance and operations. Going beyond railway delivery and operation, MTR also creates and manages dynamic communities around its network through seamless integration of rail, commercial and property development.

With more than 50,000 dedicated staff*, MTR carries over 10 million passenger journeys worldwide every weekday in Hong Kong, Mainland China, Australia, the United Kingdom and Sweden. Together, we Go Smart and Go Beyond.

For more information about MTR Corporation, please visit www.mtr.com.hk

*includes our subsidiaries, associates and joint ventures in Hong Kong and worldwide

² Based on the outcome of the FAM review in 2023, MTR deferred the total adjustment rate of +1.85%.

Annex

MTR fare adjustment rate this year (2024/25)

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 this year 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 +3.2%	>	Year-on-year % change in MMHI for 2023 +3.09%
Overall Fare Adjustment Rate for 2024/25	=	+3.09%
The remaining adjustment rate ²	=	+0.11%
Deferral from 2023/24 ³	=	+1.85%

¹ Linked to the profit tiers covering “Profit for the year attributable to shareholders of the Company arising from property development in Hong Kong” in 2023.

² According to the “Affordability Cap” arrangement, the remaining adjustment rate this year (+0.11%), will be recouped in the subsequent two years, of which +0.06% will be recouped in 2025/26 and +0.05% will be recouped in 2026/27.

³ Since the “Affordability Cap” arrangement is triggered in the fare adjustment of 2024/25, the total adjustment rate of +1.85% deferred from 2023/24 will be carried forward to 2025/26 for recoupment.

Fare adjustments by the MTR Corporation Limited

List of relevant papers

Panel/ Committee	Date of Meeting	Paper
Panel on Transport	19 April 2013	Agenda Item III: Review of the Fare Adjustment Mechanism of the MTR Corporation Limited Minutes of meeting Follow-up paper provided by the Administration
	28 April 2017	Agenda Item I: Outcome of the early review of the MTR Fare Adjustment Mechanism Minutes of meeting
	18 May 2018	Agenda Item VI: MTR fare adjustment for 2018 Minutes of meeting
	26 April 2019	Agenda Item V: MTR fare adjustment for 2019 Minutes of meeting
	24 April 2020	Agenda Item III: MTR Fare Adjustment for 2020 Minutes of meeting
	20 April 2021	Agenda Item IV: MTR Fare Adjustment for 2021 Minutes of meeting
	22 April 2022	Agenda Item III: MTR Fare Adjustment for 2022 Minutes of meeting
	25 November 2022	Agenda Item III: Review of the MTR Fare Adjustment Mechanism Minutes of meeting

Panel/ Committee	Date of Meeting	Paper
	21 April 2023	Agenda Item IV: Outcome of the review of the MTR Fare Adjustment Mechanism Minutes of meeting

Council meeting	Paper
22 April 2020	Pages 5397-5408 of Official Record of Proceedings (Question 22: the MTR Corporation Limited's businesses outside Hong Kong)
9 June 2021	Pages 7131-7133 of Official Record of Proceedings (Question 20: MTR fare adjustments)
21 July 2021	Pages 8501-8510 of Official Record of Proceedings (Question 6: MTR fares)
18 May 2022	Question 21: Railway fare adjustments
7 June 2023	Question 7: MTR Special Fare Days Question 8: Remuneration packages for senior management of MTRCL
13 December 2023	Question 10: Manpower resources for railway services

Council Business Division 4
Legislative Council Secretariat
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