

## LCQ20: MTR fare adjustment

Following is a question by the Hon Chan Han-pan and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (June 9):

Question:

Currently, the MTR Corporation Limited (MTRCL) makes its annual fare adjustments in accordance with the Fare Adjustment Mechanism (FAM). After a joint review of FAM with the Government in 2017, MTRCL agreed to increase the fare concessions to be provided under the Profit Sharing Mechanism (PSM), with the amounts of the fund to be set aside for concessions being prescribed in a pre-determined tiered table of underlying business profits. In this connection, will the Government inform this Council:

(1) whether it will consider requesting MTRCL to, apart from providing fare concessions in accordance with PSM, directly set aside a certain percentage of its property and rental revenue for the provision of additional fare concessions; if so, of the details; if not, the reasons for that;

(2) whether it has plans to propose, in the next review of FAM to be conducted jointly with MTRCL, the incorporation of "the public's affordability of transport fares" and "MTRCL's profitability" as factors for consideration under FAM; if so, of the details; if not, the reasons for that; and

(3) given that the handling of the fare increases accumulated over the last two years in accordance with FAM (i.e. 1.58 per cent) that should be recouped will be deferred to next year, whether the Government has plans to propose, in the next review of FAM to be conducted jointly with MTRCL, the inclusion in FAM of a time limit for recouping fare increases; if so, of the details; if not, the reasons for that?

Reply:

President,

The current Fare Adjustment Mechanism (FAM) of the MTR Corporation Limited (MTRCL) has been adopted since the rail merger in 2007, replacing the fare autonomy MTRCL then enjoyed. The FAM is an objective and transparent mechanism, using a direct-drive formula in determining the fare adjustment rate. According to calculation based on the FAM formula, the MTR fare in 2021 will reduce by 1.85 per cent. New fares will take effect on June 27, 2021.

My reply to the various parts of the question raised by the Hon Chan Han-pan is as follows:

The "Profitability-Linked Arrangement" was introduced into FAM after the review in 2013 in response to public concern about the correlation between MTRCL's profitability and fare adjustment. According to the "Profitability-

Linked Arrangement", MTRCL will set aside an amount of fare concessions to be shared with passengers each year corresponding to the underlying business profit level in the previous year by reference to a pre-determined tiered table. 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 business, property developments, as well as profit from MTRCL's non-local ventures (profit arising from investment property revaluation is excluded).

After the FAM review in 2017, MTRCL increased the amount of fare concession allocated under different profit levels, and raised the ceiling of the profit amount to be shared each year. The pre-determined tiered table under the current "Profitability-Linked Arrangement" is set out at Annex.

Moreover, to take into account the public's affordability, the "Affordability Cap" arrangement was introduced into FAM after the review in 2013, whereby the effective fare increase pursuant to the FAM formula should not be higher than the change in the Median Monthly Household Income in the corresponding period. The "Affordability Cap" arrangement was activated in 2019 and 2020. Since there will be fare reduction this year, the fare adjustment rate to be recouped due to the "Affordability Cap" arrangement will be carried forward according to the mechanism.

Under the Operating Agreement entered into between the Government and MTRCL, the next FAM review will be completed by 2023. Every time when the Government carries out the review, it will consult different sectors in the community on issues including the correlation between the profit level and fares of MTRCL, affordability of the public, and arrangements for handling the fare increase to be recouped, etc. and negotiate with MTRCL in order to formulate a proposal that can strike a balance among different views.