

## LCQ21: Railway fare adjustments

Following is a question by the Hon Andrew Lam and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (May 18):

Question:

Under the Operating Agreement entered into between the Government and the MTR Corporation Limited (MTRCL), the next Fare Adjustment Mechanism (FAM) review will be completed by 2023. There are comments pointing out that as fare adjustments are made through a direct-drive formula under the FAM, there have been occasions where the MTRCL, despite recording a huge surplus, can still increase its fares, and this is not in line with the expectations of members of the public. In this connection, will the Government inform this Council:

(1) whether it knows the fare revenue of the MTRCL and its expenses directly relating to transport operations (including repair and maintenance, depreciation, as well as the amounts payable to the Kowloon-Canton Railway Corporation) in each financial year since the implementation of the FAM (set out in a table);

(2) how it ensures that Members of this Council can participate in the FAM review as early as possible in a substantive and meaningful way, such that the views on the FAM expressed by members of the public can be reflected in a timely manner; and

(3) whether it will take the opportunity of the FAM review to comprehensively examine the financial position and operation model of the MTRCL, with a view to improving the service performance of railways which constitute the backbone of the traffic system, and enabling railways to better tie in with the comprehensive traffic and transport development strategy; if not, of the reasons for that?

Reply:

President,

My reply to the question raised by the Hon Andrew Lam is as follows:

(1) and (2) 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 the MTRCL then enjoyed. During the legislative process of the rail merger, the FAM was extensively discussed at the Legislative Council and approved at the MTRCL shareholders meeting as one of the conditions of the rail merger. The FAM adopts a direct-drive formula and uses figures published by the Census and Statistics Department to reflect local economic conditions; it is an open, objective and transparent mechanism. From implementation of the FAM in 2008 up to 2021, the average

annual increase in MTR fares according to the FAM was 2.1 per cent. The average year-on-year inflation in Hong Kong was 2.6 per cent and average annual increase in payroll index was 3.9 per cent over the same period.

The construction and operation of railways, as well as long-term maintenance and asset renewal involve substantial resources. As the railway network enters a mature stage, the amount of investment in maintaining, upgrading and renewing railway assets has been ever increasing. Relevant figures since the implementation of the FAM are as follows:

MTRCL Hong Kong Transport Operations			
	Total Revenue	Total Expenses (Note 1) (including operating expenses, relevant depreciation and amortisation cost, variable annual payment to Kowloon-Canton Railway Corporation(Note 2))	Profit/(Loss) (Note 3)
Year	(\$million)		
2021	13,177	(17,439)	(4,262)
2020	11,896	(17,304)	(5,408)
2019	19,938	(20,529)	(591)
2018	19,490	(17,505)	1,985
2017	18,201	(16,545)	1,656
2016	17,655	(15,083)	2,572
2015	16,916	(14,423)	2,493
2014	16,223	(13,513)	2,710
2013	15,166	(12,450)	2,716
2012 (Note 4)	14,523	(11,642)	2,881
2011	13,509	(10,808)	2,701
2010 (Note 4)	12,635	(9,758)	2,877
2009	11,530 (Note 5)	(9,407)	2,123
2008 (Note 4)	11,504 (Note 5)	(9,321)	2,183

Note 1: According to the Service Concession Agreement, the MTRCL shall pay the fixed annual payment of \$750 million each financial year for the right to use and operate the concession property for the operation of the service concession. Part of the payment is reflected as depreciation and amortisation cost in the above table.

Note 2: According to the Service Concession Agreement, the MTRCL is not required to pay the variable annual payment in the first 36 months after the

rail merger.

Note 3: Before interest, finance charges and taxation.

Note 4: Figures of relevant years are restated figures found in the 2013, 2011 and 2009 MTR Annual Reports respectively.

Note 5: Relevant figures were recorded as "Hong Kong railway operations" business in the 2008 and 2009 MTR Annual Reports.

The FAM shall be reviewed every five years. The next review will begin in the second half of this year as scheduled and is expected to conclude in the first half of 2023. The Government understands the public concerns on MTR fares, and will pay close attention to different views during the FAM review. We expect to start public consultation in the third quarter of this year and will also consult the Legislative Council Panel on Transport, with a view to formulating a pragmatic and balanced proposal.

(3) Hong Kong is a densely-populated city with limited road space. To provide efficient and reliable public transport services for millions of passenger trips every day is therefore of paramount importance. Railway provides high capacity, expeditious and convenient services; and is an environmental friendly and efficient mass transit. Thus, the Government uses railway as the backbone of the public transport system, while at the same time facilitates the complementarity among different public transport services, in order to provide passengers with diversified commuting choices. The MTRCL, as the railway operator of Hong Kong, is tasked with great responsibilities. The Government will continue to monitor the planning, construction, operation and maintenance of railway projects by the MTRCL. We will also call on the Corporation to keep in view its governance structure, operating arrangement, financial situation and service performance, with a view to maintaining quality local railway services and carrying out construction works of new railway projects satisfactorily to provide safe, reliable and efficient railway services to the public.