greater WELLINGTON
REGIONAL COUNCIL

Report	08.776
Date	13 October 2008
File	T/10/01/046
Committee	Transport and Access
Author	Brian Baxter Manager, Design and Development

Fare Review Process

1. Purpose

To discuss the process for future fare reviews.

2. Significance of the decision

The matters for decision in this report **do not** trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

3. Background

At its meeting on 10 September, the Committee asked that a paper "on the timelines etc for the proposed annual public transport fare review" be prepared for the next meeting. A suggestion was made to consider using an economist during the next review.

3.1 Introduction

The costs of providing contracted public transport services are covered by fares and roughly equal contributions from ratepayers and the New Zealand Transport Agency (NZTA).

The Council's revenue and financing policy states that fares should cover at least 50% of costs (and this is approximately the actual current coverage level). The balance is met by ratepayers (25%) and NZTA (25%).

Thus for example, if a service costs $100 to provide, fares need to contribute $50, with ratepayers and NZTA contributing $25 each.

As the costs of providing services increase (as is usual), then more fare revenue is needed. Fare revenue has been increasing as passenger numbers have grown, but the increase from this growth is not usually enough to cover the increase in costs.

Using the example above, if costs increase by 10% (last years rate of increase) to $110, and patronage is growing at 4% per year (the average growth over the past few years), then the following figures apply:

Costs	*$110*	*(increase of 10%)*
Fare revenue	*$ 52*	*(increase of 4%)*
Increase in fares needed to maintain 50% recovery	*$ 3*	*(increase of 6%)*
Ratepayers	*$ 27.50*	*(increase of 10%)*
NZTA	*$ 27.50*	*(increase of 10%)*

This example shows that even with 4% patronage growth per year, fare levels still need to increase by 6% to maintain the Council 50% recovery policy. And an increase in ratepayer and NZTA contributions of 10% is also needed.

If fares are not increased, then rates need to be increased by more (in this example, no fare increase would mean an increase in rates of 16% rather than 10%).

The situation is complicated by the existence of net contracts. Under net contracts, operators keep the revenue from the fare increase unless they agree otherwise (in which case it is used to reduce the net price to Council of the contract).

Commercial services also benefit from fare increases - while the operators do have the option of charging different fares on commercial services, for practical reasons they usually charge the standard fares on these services.

This situation of continual cost increases and patronage increases is likely to continue, and Council has agreed that smaller, regular fare increases are preferable to larger but infrequent increases. It is therefore appropriate to review the Council processes for reviewing and increasing fares.

3.2 Council fare policies

There are a variety of Council policies covering fares. The Regional Passenger Transport Operational Plan states (section 2.5.1.2):

Greater Wellington will review fares <u>annually</u> in order to:

1. *Maintain equity, consistency and simplicity*
2. *Maintain an appropriate balance between maximising patronage and revenue*
3. *Ensure fares make a reasonable contribution to the upgrading of passenger transport services during the period covered by this Plan*
4. *Ensure value for money for funders (including ratepayers), providers and users.*

Council passed the following resolution at its 30 June 2008 meeting:

Agrees that future fare reviews be undertaken based on the following principles:

a. *Reviews should be undertaken annually*

b. *Reviews should take a multi-year perspective.*

Further policies are provided in **Attachment 1**.

4. Reviewing and Setting Fares

There are essentially two triggers for a fare increase. The first occurs if it is found, through the annual fare review, that the fare structure no longer complies with Council policies e.g. if it drops below the minimum 50% recovery rate threshold set by Council.

The second is if Council requires increased fare revenue to fund the passenger transport services it wishes to provide. Often the two are related, as increases in budget expenditure may cause fare recovery to drop below the 50% threshold, and thus require a fare increase to restore fare revenue to the target level.

4.1 Fare reviews

The annual fare review process reviews fare levels against the relevant factors (such as the 50% recovery policy, comparative car costs etc). The outcome of the fare review process is a decision either to not change fares (in which case nothing further happens), or to change fares (in which case the fare change process will begin).

The last formal fare review was undertaken by the Committee at its meeting on 11 September 2007 (**Report PE 07.592**). The Committee decided that a fare increase was not needed at that time, but agreed that a later increase should be considered as part of the 2008/09 Annual Plan process.

During the 2008/09 Annual Plan process, Council decided that an increase in fares of 10% was needed to help fund ongoing increases in rail costs (including capital costs) and increases in the costs of bus contracts. Thus the fare change process commenced.

The annual fare reviews generally are limited in their scope to simply determining if a fare increase is needed – the reviews do not address structural aspects of the fare system such as zones, concession fares etc. A structural review is a major exercise and, because it has the potential for major change, it is undertaken much less often (the current zonal system, for example, was introduced in September 2006).

Thus the 2008 fare change process only addressed fare levels, and the increases were applied across the existing range of products and based on the existing structure.

4.2 Fare changes

The fare change process initially involves identifying the extra revenue being targeted through the increase (to balance the budget, or reach the 50% threshold). Various fares level scenarios are modelled and developed, aimed at achieving this level of extra revenue.

The process involves setting adult cash fares only. All other fares are then based on the revised adult fares i.e. the child fares are set at 50% of the adult cash fare, the ten trip ticket price is set at eight times the single fare, the monthly tickets are three times the ten trip price etc.

Fares are also required to comply with the council 50 cent rounding policy. Thus for example, the $2.50 fare must increase to at least $3.00 (a 20% increase), and the $3.00 fare must increase to at least $3.50 (a 16.7% increase). The overall effect of this is that the percentage increases are not uniform. While the average percentage increase this year was 10%, the actual changes ranged from 0% to 23%. This means that a multi-year approach is needed to ensure the overall integrity of the fare schedule. Fare changes in one year may vary according to zone, but long-term the changes will even out.

[Note that the 50 cent rounding policy was introduced to simplify boarding and cash-handling, and has strong operator support. There has been debate as to whether the policy should be continued; it is less of an issue for the bus companies with their smartcard ticketing systems, but important for the trains with their paper based systems.]

Maintaining the overall integrity of the fares schedule is especially difficult if small fare increases are required. The situation will be easier when smartcards are the predominant form of payment, because, as with eftpos and credit cards, rounding is not needed. However it is important to note that cash fares will always be needed.

Consultation with operators is a major component of setting new fares. Apart from the rail operating contract and the trolley bus contract, operators must agree to amend their contracts with the Council for the Council to gain any direct financial benefit from a fare increase.

The fares structure is distance based i.e. the further the distance travelled, the higher the fare. The structure is similar to that used by taxis - there is a fixed "boarding" fee, and then a variable distance component.

One of the issues that arose with this year's increase was that the four and five zone fare increased by more than that for other zones. This was partly a consequence of the 50 cent rounding policy, and partly a need to maintain an appropriate balance across the fare zones (in essence a catch-up from previous increases). As indicated above, this is an inevitable consequence of the system we have – increases in any one year will not be uniform, and some zones may appear to have larger increases than others. Over time however the increase will be the same.

The comment has also been made that because the increase in four and five zone fares particularly affected (in percentage terms) people in the Porirua and Naenae/Taita areas, and because these areas are considered least able to afford the increase, that some consideration should be given to that. However no "ability to pay" test is applied to fares. This is partly because fares don't apply to any specific area (they are based on the number of zones travelled through, and thus a four zone trip can apply on many journeys on the network), and partly because it is considered that any income related discount should be delivered through other means (such as through the taxation system, or even concession fares).

4.3 2009 fare review

The next annual fare review is due to be considered by this Committee early in 2009. At that time up-to-date cost and patronage predictions will be compiled, and the current fare recovery levels and comparative car costs will be calculated.

However before that time Council will be developing its budgets for 2009/10 and beyond, and it seems likely that a fare increase will be required as a result of that process (as it was last year). The cost of providing services continues to rise, and there is pressure to increase service levels (to meet Council and central government patronage targets). The inevitable consequence of these two factors is a fare increase (as well as a rate increase, and a need for extra NZTA funding). Given this situation, then the formal annual fare review will probably not be needed.

If it is decided, either as a result of the fare review or from the Council budgeting process, that a fare increase is needed, then the timing will allow any increase to be introduced in September 2009 i.e. a year after the last increase.

When the 2008 fare increase was calculated, some projections were made in regard to what fare changes might be needed in 2009 (assuming that the various processes indicate a fare increase is needed). Not all fares increased in 2008 (the one zone fare did not change, and the increase was not uniform across all the fare products or fare zones). It is therefore likely that the one zone fare will be targeted at the next fare increase, and that few if any of the others will need to change (depending on the amount of extra revenue required).

This Committee's involvement in the fare review process will initially be through consideration of a fare review paper in early 2009 (although as indicated above the decision regarding the need for a fare increase is likely to be made as part of the 2009/10 Annual Plan process). If a decision to increase fares is made, discussions will be held with the Committee members regarding fare options and to generally allow Committee members to have an input into the process. This could occur at a Committee meeting early in 2009.

Consultation with operators is also necessary. Further discussions with the Committee may be needed subsequent to this consultation (depending on the outcome), and to gain final approval of the final fare structure. It may be necessary to establish a sub-committee to ensure no delays occur.

It was suggested at the September Committee meeting that an economist could be used as part of the fare setting process. This may be appropriate as many of the issues addressed in the process are economic ones (such as using pricing to spread demand across time periods, and elasticity issues). An economist could be used to assist/guide the fare change process, but is more likely to be useful in a full-scale evaluation of the fare structure rather than an annual adjustment.

No timetable for the next structural review of fares has been set, but given that major changes in zones were only introduced in 2006, no further changes are desirable in the near future.

5. Other Fare Issues Still to Address

Although a major structural review of fares is not considered to be necessary at this time, there is a need to address some specific fare issues, and in particular issues around concession fares. Over the years a variety of concession fares have become available on Metlink services. These concession fares vary between services and districts and it is desirable that these be reviewed to determine if they are still appropriate (and at least be standardised).

The introduction of the SuperGold card scheme has already led to some rationalisation of fare products for senior citizens; a similar rationalisation is needed for other concession tickets. The possibility of introducing an off-peak fare, perhaps as a replacement for concession fares, should be part of this review, which could be undertaken in 2009.

The whole issue of integrated fares is also yet to be addressed, as is the issue of uneconomic services, and the role of fares in these.

These are all major issues, and a Committee discussion on some of these had been planned for later this year, but has been postponed to an undetermined date. It is suggested that a date for such a discussion be set.

6. Budget Assumptions

Work has commenced on the preparation of budgets for 2009/10 to 2018/19 for inclusion on the Long-term Council Community Plan. As a working assumption it is proposed that fare revenue be assumed to increase broadly in line with increasing operating expenditure, such that the 50% fare revenue recovery policy is maintained. This assumption does not bind the Council and can be reviewed and amended as the budget process proceeds.

7. Communication

No communication is required.

8. Recommendations

That the Committee:

1. ***Receives** the report;*

2. ***Notes** the content of the report;*

3. ***Notes** that a fare review paper is scheduled to be presented to this Committee in early 2009 (unless an earlier decision to increase fares is made by Council as part of its budget process);*

4. ***Notes** that early indications are that a fare increase is likely to be needed as part of the Council budget setting process to ensure Council policies continue to be met;*

5. ***Notes** that if a budget decision to increase fares is made, then this Committee will have an opportunity to have an input into the fare setting process at a meeting of this Committee early in 2009;*

6. ***Agrees** to the adoption of a working assumption, to be used in the preparation of budgets for the Long-term Council Community Plan, that fare revenue be assumed to increase in line with increasing operating expenditure.*

7. ***Agrees** that the wider issue of concession fares, universal off-peak fares, and integrated fares be discussed in more detail in the near future.*

Report prepared by:	Report approved by:
Brian Baxter Manager, Design and Development	Wayne Hastie Divisional Manager, Public Transport

Attachment 1: Operation Plan Policies