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Committee Council  
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## Fare Structure Review

### 1. Purpose

To present to the Council:

- The principles used to evaluate the various options for the fare components considered in the Fare Structure Review
- The options recommended for further development prior to public consultation.

A detailed report outlining the options for the structure, products, and concessions that have been considered, along with analysis, assessment, and estimated impacts on revenue and patronage is available on the Council's website.

### 2. The decision-making process and significance

The matters requiring decision in this report have been considered by officers against the requirements of Part 6 of the Local Government Act 2002.

The subject matter of this report is part of a decision-making process that will lead to the Council making a decision of medium significance within the meaning of the Local Government Act 2002. Officers advise that there is no process explicitly set out in the Local Government Act 2002 or any other enactment for making the decisions anticipated by this report.

This report assesses various options against the Fare Structure principles, and recommends options for inclusion in the future Fare Structure. Further detailed analysis will be undertaken to confirm that the proposed Fare Structure is financially viable.

Following the further analysis, consultation on the proposed Fare Structure will occur through the next review of the Regional Public Transport Plan (RPTP). It is anticipated that detailed analysis around the preferred smart card products and how transfers are dealt with will be further refined through the integrated fares and ticketing project.

Officers consider that, in light of their assessment of significance, more intensive assessment is not warranted for the purpose of identifying the Preferred Option. Further detailed analysis, modelling and pre-market and customer behavioural testing with users and potential users will occur prior to final decisions.

## 2.1 Community views and preferences

Community feedback on the current Fare Structure and potential changes has been sought through:

- Formal consultation feedback (Report 12.462)
- A discussion forum for public transport users, advocates and residents groups on the issues around any change to the public transport fare structure
- Focus groups around the relative perceived value for money of public transport in the region
- A Reference Group comprising representatives from the public transport operators, the Council and the community.

A summary of the community feedback is included in **Attachment 1**.

Public consultation on the Preferred Option for the future Fare Structure is proposed to be undertaken as part of the consultation on the Regional Public Transport Plan in 2013/14.

## 3. Evaluation of options

An evaluation of the options considered as part of the Fare Structure Review has been completed. This was undertaken as three streams of work:

1. **Consulting** with the stakeholders and the community as outlined above in section 2.1.
2. **Learning** through review of literature and international case studies of Fare Structures in cities around the world.
3. **Analysing** the options including modelling the patronage and revenue impacts of the various options.

The Public Transport Fare Structure Review – Exploration of Options Report summarises the results of these three streams of work.

The initial assessment of the options for each component of the Fare Structure (i.e. structure, products and concessions) was carried out against review criteria agreed by the Economic Wellbeing Committee in April 2012 (**Report 12.151**). Feedback from consultation and initial modelling work on concessions and off peak fares was reported to the Committee in October 2012 (**Report 12.462**).

The review criteria distinguished between structure options, but did not clearly differentiate between options for products and concessions. As a result, a set of seven principles have been developed to guide decision making on the preferred option for the future Fare Structure based on the objectives of the Fare Structure Review and the objectives and policies of the Regional Land Transport Strategy and RPTP.

Once the Preferred Option for the Fare Structure is agreed by the Council, further detailed financial analysis, pre-market and customer behavioural testing with users and potential users will be undertaken prior to consultation as part of the RPTP process in 2013/14.

#### 4. Guiding principles

The principles outlined below set the framework by which the various components of the fare structure have been assessed in this report. These are:

***Principle 1: Continuing affordability of fares.*** Affordability of public transport fares, particularly when compared to private vehicle use and the general cost of living, is a key component of retaining existing users and attracting new ones.

***Principle 2: Increasing patronage.*** Increasing public transport patronage is a key outcome in the RPTP. Increased fare revenue, decongestion and liveable cities are the key benefits of increased public transport usage. Patronage levels change in response to a range of factors such as public transport service levels, service reliability, the relative affordability of fares compared to other transport options, levels of car ownership, and petrol prices. The most relevant factors relating to Fare Structure that impact on patronage levels are the affordability of fares, the perceived value for money of fares, how easy public transport is to use and how easy the payment systems are to use. Patronage increases may also be gained through attracting non users to use the public transport system.

***Principle 3: Reducing complexity.*** Complexity in a Fare Structure stems from the nature of the basic structure itself as well as the number of products. Reducing complexity increases patronage through making the public transport system easier to use and improving the transparency of the fare structure, and is a prerequisite for the introduction of integrated electronic ticketing.

***Principle 4: Rewarding target behaviours.*** Fare products can be used to target and reward particular behaviours which support the broader aims for public transport. These target behaviours include:

- Encouraging users to shift their time of travel from the peak to off peak period to alleviate capacity issues in peak times
- Encouraging frequent and regular use of public transport (e.g. the number of journeys made in a day, week or year) to increase patronage
- Encouraging greater use of the smart card payment system to shrink the use of cash fares in the system

- Encouraging non users to use public transport to increase patronage levels.

***Principle 5: Improving consistency.*** Consistency in the Fare Structure means that users making similar journeys pay similar fares, regardless of operator or mode. This means that the Fare Structure is perceived as unbiased towards any particular group or mode. When users are able to see that fares are allocated on a consistent basis, there is likely to be greater acceptance of changes in the Fare Structure. Having a consistent set of fare products for all modes also makes the system less complex.

***Principle 6: Meeting fare box recovery targets.*** Farebox recovery targets establish the proportion of the cost of providing the public transport service that is met through fares as opposed to public funding (i.e. rates or NZTA funding). NZTA set a national target of a minimum of 50% of total costs to be met through fares. The council's current target is to meet 55% to 60% of the cost of the service through fares. This target may need to be reviewed as the impact of current decisions around integrated ticketing, capital investment in new rail carriages and a network wide electronic payment system, and fare structure are included in future budgets.

***Principle 7: Enabling incremental change.*** Any change to the Fare Structure will positively or negatively impact on some current users. The acceptability of any change can be increased by a gradual transition from one Fare Structure to another, allowing users to adjust their travel patterns in response to the changes made. Making changes incrementally also enables the Council and the New Zealand Transport Agency (NZTA) time to adjust their funding levels and budgets to match the changes in predicted fare revenue.

## **5. Discussion**

### **5.1 Principle 1: Continuing affordability of fares**

#### ***Structure***

The structure governs the base method by which the fare for any journey is calculated. Under the current 14 concentric zone structure, longer trips have a higher fare than shorter trips, the fare per kilometre decreases with increasing distance travelled, and local trips in Wellington city tend to have a higher fare per kilometre travelled than local trips elsewhere in the region.

Considerable modelling has been undertaken to establish the impact of changing the current zonal structure or replacing it with a distance-based approach. In a revenue neutral environment<sup>1</sup>, any major changes would increase fares for a sizeable group, and this would raise affordability issues. For example in a zonal structure, increasing the size of the zones means that the one zone fare will increase, negatively impacting users making local trips anywhere in the region and reducing overall patronage from current one and two zone trips.

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<sup>1</sup> A revenue neutral environment is one where the total fare revenue equals the fare revenue received under the current Fare Structure.

Modelling shows that a distance based fare structure that can maintain at least the current fare revenue must have fares per kilometre for the first 5 – 10 kilometres of a journey that are roughly comparable to the existing rates within Wellington city.

A distance based fare structure with a linear decrease in fare per kilometre with distance travelled over the first 40 km of a journey can increase predicted revenues significantly with these revenue increases generated mainly from trips between 10km and 20km (i.e. commuters from the Hutt or Porirua to Wellington) and from local trips outside Wellington city. Overall patronage levels are maintained under this scenario as the large reduction in patronage outside the Wellington city area is off-set by an increase in patronage within the city itself.

Amending the rate of decrease in fare per kilometre to ensure distance based fares more closely match the revenue from the current fare structure would mitigate the issue of higher fares for commuters travelling to and from Wellington, however there would still be a significant negative impact on local trips outside Wellington city.

### ***Reducing operational costs***

The affordability of fares is increased indirectly by decreasing the underlying cost structure of public transport. Fare revenue is used to meet at least 50% of the operating cost of the public transport service, so reducing the overall cost of running the service also reduces the level of fare revenue required to meet the 50% threshold. The operating cost of the public transport service can be reduced by:

- **Reducing demand for vehicles at the peak.** The cost of operating the public transport service is in part related to the number of vehicles required to meet peak demand. Encouraging users to shift their travel time from peak to off peak times helps to alleviate capacity issues during the peak time and consequently reduce or delay the need for capital investment in vehicles. Reducing the fares charged during off peak times may encourage users to change from travelling in the peak times to travelling in the off peak times where spare capacity is generally available.
- **Increasing the efficiency of the network design.** Moving from a complex system of overlapping “point to point” bus routes towards a simpler interconnected network design increases the efficiency of the network. For an interconnected network design to be practical, users must not be penalised when they make a transfer between modes or vehicles. Allowing free transfers within a journey achieves this and also assists in improving the affordability of fares for those already making transfers.
- **Reducing the passenger boarding and alighting times.** Reducing boarding times increases the speed and consequently the cost of the service. Boarding times can be reduced by replacing a cash based payment system with electronic card to reduce the time a vehicle remains stationary at stops as users ‘purchase’ their tickets as they board.

### *Length and frequency of trips*

The perceived affordability of public transport is also related to the length of journey and the number of trips made. Longer journeys have higher fares, and where these trips are made each day of the week, the total weekly cost of multiple longer trips can become significant part of a users cost of living. Implementing a fare structure with a fare per kilometre of travel reduces with increasing distance goes some way to increasing the affordability of such trips. Including products that provide discounts for frequent users also moves towards making a service more attractive and addresses affordability of fares.

### *Concession fares*

Concession fares for the transport disadvantaged may increase the affordability of public transport for eligible users. The Council may provide concession fares where these:

- **Can be justified on a decongestion basis.** Child and school student fares can be justified on the basis of removing the need for parents to take or pick up their child from school. Currently, congestion in the urban areas is significantly reduced outside term time when parents make fewer school related car trips between 8am and 9am and 2.30pm and 4pm. Concessions for school aged children encourage greater use of school bus services which reduces congestion.
- **Address an underlying and persistent social need.** The case for concession fares for tertiary students, people with disabilities on a benefit or other beneficiaries can be made on the basis of low income. The student allowance and other single persons' benefits are set at approximately the same level of \$171 per week or just under \$9k per annum. This level of income means that many people would struggle to meet daily living costs, however this is not due to excessive transport costs but limited total income. A distinction may be made between those who have a temporary social need and those with a persistent need. Tertiary students and other beneficiaries who have the ability to increase their income in the future could be argued to have only a temporary need, albeit for a number of years. People with a disability who are unable to participate fully in the workforce are likely to be receiving the invalids benefit for the majority of their adult life. As such, their underlying social need is persistent and a concession fare is more easily justified.
- **Reflect central government policy:** SuperGold card holders are eligible for free travel during off peak times. The Council continues to support the existing SuperGold scheme as funded by NZTA.

One potential advantage of introducing a discounted off peak fare as identified above is that many beneficiaries and students travel in off peak times. In particular, most beneficiaries would be able to adjust their travel patterns to take advantage of reduced fares. As such, an off peak fare could address, in some part, the need for a concession fare for very low income users.

A concession fare or discounted off peak fare could be funded through increasing other fares or through public funding from rates and taxes. Increasing fares to meet the cost of providing a concession fare or off peak fares raises fare affordability issues for other users and may impact on the perceived value for money of the public transport service. Increasing rates to pay for concession fares raises affordability issues for ratepayers.

### **5.1.1 Proposed changes**

Proposed elements of a future Fare Structure that would support the continued affordability of public transport fares in the Wellington region are:

- Retaining the existing structure with 14 concentric zones radiating out from Wellington city
- Introducing an off peak fare - available between 9am and 3.30pm and after 6.30pm (Monday to Friday), and from 5am Saturday to 12 midnight Sunday, and all public holidays
- Introducing a universal smart card payment system for all Metlink public transport services
- Removing transfer penalties and introducing integrated fares
- Retaining a fare structure with a reducing fare per kilometre travelled
- Including discounted products attractive to frequent users
- Providing concession fares for children and youths, SuperGold card holders and, in the event an off peak fare is not introduced, to people with a disability unable to participate in the workforce.

## **5.2 Principle 2: Increasing patronage**

### ***Making public transport easy to use***

Ease of use is an important influencer of patronage and patronage growth. Public transport 'ease of use' is influenced by a range of factors from: how easy it is to get to, on, off, and transfer between services, how easy it is to find information about services, and how easy it is to pay for using the service. The fares aspects of 'ease of use' link to how easy it is to know what the fare is for a particular journey (transparency), how easy it is to pay, and how easy it is to transfer between services. Ensuring transparency in the Fare Structure gives people greater certainty and confidence in using the public transport network. Zonal fare structures tend to provide greater transparency for users regarding the fare for a journey compared to distance based fares as it is easier for users to know what fare they will pay prior to boarding.

A single network wide smart card and integrated fares enables easy payment and easy transfer between services. To become an attractive payment option for users, any smart card (or other fare media) must be accessible to users and easy to reload with funds for future travel.

### ***Peak and off peak fares***

Currently, around 28% of rail trips and 57% of bus trips are in the off peak (making around 48% of all trips in the off peak). If an off peak discount were introduced, the lower fares are likely to increase patronage in the off peak and increase the percentage of the overall number of trips made in off peak period.

International examples of off peak fares are generally set at least 20% below the peak fare. The revenue impact of a 25% differential between peak and off peak fares is estimated to be \$4.5 million per annum if there is no increase in peak fares. Increasing peak fares to 'pay' for an off peak fare will negatively impact on the affordability of public transport for over half of all trips. Users who travel by public transport at peak times rather than travelling by private vehicle provide benefits to the wider transport network through reduced congestion costs.

Whilst introducing an off peak fare at a lower differential than 25% will reduce the financial impact, no work has been undertaken as this stage to identify at which point a discount is likely to influence people's behaviours and encourage them to switch from travelling in the peak period to travel in the off peak period. A low level of discount may not provide sufficient incentive to effect this change.

### ***New products***

Encouraging non-users to use public transport is about making public transport easy to use but also to encourage new users through providing new products which are able to provide positive experiences of public transport use. These products may be based on a full cost recovery model or as a loss leader acknowledging the potential for attracting new users. The opportunities considered as part of the review are:

- **Encouraging greater use at weekends and public holidays**

The Council has little robust data on public transport use at weekends, however anecdotal evidence is that many families avoid using public transport at the weekends due to the cost. For example, it would cost a family of two adults and three children around \$25 to make a return trip from Miramar or Island Bay into the central city by public transport. This does not compare favourably to travel by private vehicle. Providing a weekend family pass where up to four children under a specified age can travel for free when accompanied by a fare paying adult would bring the affordability of public transport use more into alignment with the cost of travel by private vehicle at weekends for these groups of potential users. This would increase patronage during a period where there is spare capacity. A precedent for this type of ticket is set through the current combined bus and rail Metlink Explorer ticket which allows a child between 5 and 15 years old accompanying the ticket holder to travel for free.



- **Event tickets**

The Council currently has an event ticket for use on rail when attending large events in Wellington, particularly at the Westpac Stadium. The pricing of the event ticket means that it is slightly above the fare for a return trip using a 10 trip ticket on the Johnsonville line and travelling from zone 5 on the Porirua and Lower Hutt lines, but below the 10 trip fare for longer trips. Event tickets for bus users are event specific.

Encouraging the use of public transport to get to larger events can greatly reduce congestion and reduce pressure on parking in the city. A mechanism successfully used in other cities and for specific events in Wellington city (such as the Round the Bays run) is to include the use of public transport in the price of the event ticket. In most cases, the costs of any additional public transport are funded by the event organiser however there is potential to investigate working with event organisers and venue operators to include public transport travel to a venue in the price of an entry ticket to the event. Patronage benefits are around the potential to attract new users to public transport through a positive experience of public transport when using it to attend an event.

- **Bulk purchase scheme**

Bulk purchase schemes typically involve an organisation, group or business paying up front to bulk purchase public transport period passes at a discounted rate for their members or employees. The purchasing entity then administers the distribution and replacement of the period passes for the transport agency and may set the price of the pass. These schemes are used successfully overseas as a mechanism to encourage patronage growth. In the US, the schemes are supported through federal and local tax incentives which enable employers to offer heavily discounted passes, however a scheme in Melbourne also runs without similar tax incentives. A bulk purchase scheme is a potential mechanism to offer groups of users the opportunity to access cheaper fares. Tertiary students may benefit from such as scheme provided an umbrella organisation is able to administer the scheme. Further work on the opportunities provided by this type of product is required, particularly around how any such product would be priced.

### **5.2.1 Proposed changes**

Proposed elements of a future Fare Structure that would support increased patronage of public transport in the Wellington region are:

- Retaining a zonal structure
- Introducing a single region wide smart card payment system, valid for all modes and operators of Metlink services
- Introducing integrated ticketing allowing one ticket to be purchase for one journey, irrespective of the number of transfers and modes used

- Introducing a weekend family pass where up to 4 children under a specified age would travel free when accompanied by a fare paying adult
- Developing a bulk purchase scheme for groups of users
- Undertaking further work on the benefits of event goers using public transport to get to large events, including working with event organisers and venue operators around including travel by public transport to an event in the ticket price of larger events.

### **5.3 Principle 3: Reducing complexity**

The principle of ‘reducing complexity’ supports greater transparency in public transport fares and making the public transport system easy to use.

#### ***Transparency***

Structures ranges from the very simple, such as a single flat fare for all journeys, to the highly complex, such as point to point fares with a different fare for every potential journey. Flat fares generally tend to generate less fare revenue which may increase the level of public subsidy required. Flat fares also reduce the relative affordability of fares for short trips compared to longer trips within the same system. A zone based structure is relatively simple and easy to understand with users able to know how much their fare will cost before boarding. More complex fare structures, such as distance based and point to point fares, are generally associated with increased fare revenue from a public transport network, however the complexity in the fare structure reduces the ease of use of public transport as it is difficult for users to know how much a journey will cost prior to boarding. Ensuring that both the fare structure and fare products offered are consistent for bus and rail also reduces complexity.

#### ***Making public transport easy to use***

Generally, simplifying the Fare Structure is considered to support patronage growth through removing a potential barrier for new users who may switch to using public transport from other modes. Currently there are over 250 fare products which may be used on the Metlink network. Comparable public transport networks overseas tend to have fewer products, with some having as few as 20 to 50 products for their whole network. Reducing the number of fare products could be achieved through aligning bus and rail fare products, removing seldom used products, and introducing standardised approaches to transfers and ticketing. This will reduce the number of products by around 100. If adult and child off peak fares are retained on rail and introduced on buses, the reduction would be around 70.

A balance is required between complexity, affordability of fares and ease of use with the aim that a Fare Structure provides limited and clear choices around the best fare product for a journey.

#### **5.3.1 Changes proposed**

Proposed elements of a future Fare Structure that would reduce complexity are:

- Retaining a zone based structure

- Introducing integrated ticketing allowing one ticket to be purchase for one journey, irrespective of the number of transfers and modes used
- Ensuring the same structure and products for bus and rail, and
- Phasing out the seldom used products.

#### **5.4 Principle 4: Rewarding target behaviours**

##### ***Travelling in the off peak period***

Encouraging users to switch from travelling in the peak to the off peak is to be encouraged as part of reducing capacity issues during peak times on public transport. This has been discussed above under Principle 1: Continuing fare affordability.

##### ***Encouraging use of the smart card payment system***

A single region wide smart card system is proposed to be introduced as part of the integrated ticketing and fares project and has been discussed above under Principle 1: Continuing fare affordability. Use of smart cards to pay for fares may be encouraged through ensuring the best value fares are only available on smart cards. A premium on cash fares above smart cards may act as a disincentive to use cash fares and as an incentive to switch to smart cards. Further work on the level of the premium on cash fares and potentially amalgamating the zones for cash fares will be undertaken as part of the integrated ticketing and fares project.

##### ***Rewarding regular and frequent use***

Period passes are currently used for a variety of purposes, including providing discounts to regular or frequent users, reducing the cost of revenue collection, and reducing fare evasion. The monthly rail pass is attractive for rail users as it gives around a 40% discount on the cash fare based on 40 trips per month. The current monthly rail pass is estimated to cost around \$2 million per annum in foregone revenue, and to generate around 3% of rail patronage, and is justified on the basis of reducing administrative costs and improving revenue collection in a paper based system. There is no product with similar incentives for regular users on buses. Providing a similar level of discount on bus monthly pass products would have an impact on fare revenue estimated to be around \$3 million per annum, based on 20% of bus users using a monthly pass. The estimate of the percentage of bus users taking up the monthly pass is based on a high level analysis of existing travel patterns.

An alternative is to consider changing the type of products offered on both rail and bus to regular and frequent users. Cities such as Christchurch, London and Melbourne have introduced a fare capping regime, where the total fare paid for a specified period of travel is capped at a set amount. Fares can be capped at a fixed daily, weekly or longer period amount. Fare capping has the advantage over period passes in that it is a pay as you go fare up to the maximum predetermined limit above which no additional fare is charged for additional trips. The pay-as-you-go aspect of the product removes a potential barrier to lower income people accessing the cheapest fares as under the current system

they may be unable to afford the upfront cost of a monthly pass. Anecdotally, this is already occurring with a number of rail users purchasing 10 trip tickets as they do not have sufficient spare income in any one week to purchase a monthly pass. In addition, a daily capped fare may be more attractive to regular public transport users who use public transport one, two or three days per week. It also allows users to receive the discount based on their actual travel behaviour, rather than requiring users to forecast their travel over a period and calculate which product would be cheapest. Fare capping also supports Principle 1: Continuing fare affordability and Principle 2: Increasing patronage.

A fare capping product offers a significant advantage over period passes to the majority of users. Further work on the level of the capped fare needs to be undertaken and will be considered as part of the broader integrated fares and ticketing project.

### ***Encouraging new users***

Encouraging new users to switch from private vehicles to public transport is achieved through a combination of initiatives around perceived value for money, making public transport easy to use and new products to attract new users. These are discussed above in Principle 1: Continuing fare affordability and Principle 2: Increasing patronage.

#### **5.4.1 Changes proposed**

Proposed elements of a future Fare Structure that would reward target behaviours are:

- Introducing of an off peak fare - available being between 9am and 3.30pm and after 6.30pm (Monday to Friday), and 5am Saturday to 12 midnight Sunday, and all public holidays
- Setting the single cash fare at a premium above the single smart card fare
- Ensuring best value fares are only obtained through smart card usage
- Introducing fare capping (further work on setting the level of the capped fare and capping period required).

#### **5.5 Principle 5: Improving consistency**

Consistency can be considered on an individual basis (consistency between individual journeys), a collective basis (consistency in fares between different groups of users), a regional basis (consistency fares for similar journeys across the region), and on a modal basis (consistency of fares and products between different transport modes).

The current Fare Structure is inconsistent in a number of ways, for example there are different fare products on rail and bus, off peak fares only on rail, and different fares for journeys of similar length.

Consistency between products on bus and rail has been discussed above under Principle 3: Reducing complexity, and off peak fares have been discussed under Principle 1: Continuing fare affordability.

Zone boundaries on the western side of the region are more widely spaced than those between Upper Hutt and the Wairarapa making the fare for a similar length journey from Kapiti lower than the fare from Featherston. The boundaries for zones 1 and 2 within Wellington are more closely spaced than other zones, meaning that a short trip outside Wellington city may be only one zone and a similar length trip in Wellington city may be three zones. Some minor modifications to the current zone boundaries to align the fares charged for similar longer distance travel would increase consistency. Increasing the spacing of zones in Wellington would increase consistency but reduce the revenue generated from fares (see Principle 7: Meeting farebox recovery targets). Reducing the spacing of zones outside Wellington would increase consistency but reduce patronage in these areas as fares increase. The introduction of an off peak fare would in some part go towards balancing the short trip fare inside and outside Wellington city as the majority of off peak bus travel is in Wellington city.

Charging the same fare for similar journeys is also impacted by how transfers are dealt with in the fare structure. The current network of routes means that a number of journeys can be made using either a direct service or two or more services depending on the time of day travelled and the services operating. Currently, users who have to transfer between services or vehicles generally have to pay a new fare for the second leg of the journey which increases the total fare for their journey above that paid by those on a direct service. Currently some operators permit free transfers between services; removing any penalty for transferring between vehicles or modes for all services improves consistency.

In the current concession fare for school aged students, the current system is based on an outdated understanding of the age students leave school, and discriminates against some young people who do not have school identification or are home schooled. A more standardised approach to the concession for current school aged student concession would be to extend the concession to all under 19 year olds. This would simplify and remove any potential inconsistency around the eligibility criteria.

#### **5.5.1 Proposed changes**

The proposed changes to improve the consistency of the Fare Structure are:

- Ensuring the same structure and products for bus and rail
- Removing any transfer penalty when transferring between vehicles or modes
- Making minor modifications to the zone boundaries to align the fares for journeys of similar distance on the Kapiti and Wairarapa lines
- Making the eligibility criteria for the school aged student concession to all children and young adults from the age of five years old to all young adults under 19 years old
- Introducing an off peak fare.

## 5.6 Principle 6: Meeting farebox recovery targets

A key issue when considering any changes to the Fare Structure are the predicted changes in fare revenue. Currently the Council is considering a range of initiatives either through the Fare Structure review or other projects that have a potential negative impact on fare revenue that are not currently budgeted for in the Long Term Plan. Options considered as part of the Fare Structure Review are summarised in the following table.

| Modelled options<br><i>Bolded = preferred option</i>                   | Revenue impact <sup>3</sup>   | Patronage impact                            |
|--|-------------------------------|---|
| 14 concentric zones (current structure)                                | \$0 million                   | 0%  |
| Large district based zones   | - \$1 million                 | 0%  |
| Distance based fares   | + \$8 million                 | - 1%  |
| <b>25% off peak discount</b>   | <b>- \$4.5 million</b>        | <b>+ 4%</b>                                 |
| 50% off peak discount  | - \$12.0 million              | + 10%                                       |
| Integrated fares <sup>1</sup>  | - \$3 million                 | Not yet quantified                          |
| Capped fares <sup>2</sup>  | Dependent on level of capping | Not yet quantified                          |
| Weekend family pass  | - \$0.5 million               | Not yet quantified                          |
| Bulk purchase scheme   | Dependent on scheme design    | Not yet quantified                          |
| 50% concession fare for tertiary students                              | - \$4 million                 | + 1%  |
| 25% concession fare for tertiary students                              | - \$1.5 million               | + 0.5%                                      |
| 50% concession for adults with a disability receiving invalids benefit | - \$1.5 million               | Un-quantified and approximated to 0%        |
| <b>50% concession for all under 19 year olds</b>                       | <b>- \$0.5 million</b>        | <b>Un-quantified and approximated to 0%</b> |

- 1 Revenue impact based on removal of transfer penalties and a zonal structure. A more detailed assessment of the revenue and patronage impacts will be undertaken as part of the Integrated Fares and Ticketing project. Increased revenue for additional patronage has not been calculated.

- 2 A more detailed assessment of the revenue and patronage impacts will be undertaken as part of the Integrated Fares and Ticketing project. Preliminary high level estimates indicate that the costs could be of the order of \$2 million to \$5 million, but costs would be determined by how a cap operates.
- 3 The revenue impacts outlined in this table are based on high level modelling and do not reflect the expected financial impact on GWRC based on the current contractual provisions. The funding required for any change to the fare structure is subject to commercial negotiations.

NZTA sets a target of achieving a farebox recovery ratio of 50% nationally and the Council has a target for the farebox recovery ratio to be between of 55% to 60%. Currently the Council's projected farebox recovery for 2012/13 is 56.6%, equating to approximately \$11 million above the minimum required under the NZTA farebox recovery policy.

The preferred options highlighted in bold above add up to a maximum negative net revenue impact of approximately \$9 million to \$14 million if all were implemented immediately. The positive benefits for the Fare Structure including increased patronage need to be balanced against the requirement to match the reduction in fare revenue with increased public funding from regional rates and NZTA funding.

The rates funding requirement for public transport is projected to rise above the rate of inflation for the next few years as a result of factors including the reducing NZTA share of funding for rail (ie the reduction in the FAR rate from 60 to 50), integrated ticketing, and the cost of servicing debt to fund capital investment. The availability of NZTA funding is constrained by the funding allocation in the Government Policy Statement for Land Transport Funding. In the short term, there is insufficient headroom from either of these funding sources to make up a revenue loss of \$9 million to \$14 million.

The Council has already signalled its intention to introduce a single region wide smart card and integrated fares with a preliminary estimated cost of up to \$3 million in revenue (the potential revenue impact is not currently budgeted for in the Long Term Plan). Officers consider that to gain the best advantage from the introduction of a single smart card system, capped fares are a desirable part of this project. As such, in the short term, there is limited capacity to introduce other initiatives without any further patronage growth. Both capped fares and integrated ticketing are anticipated to have positive impacts on patronage growth.

Introduction of an off peak fare is predicted to generate additional patronage but with a net loss in fare revenue. To evaluate the effectiveness of an off peak fare, further work around customer behaviour and response is required to assess at what point a differential between peak and off peak fares would influence the target behaviours (shifting from peak to off peak time of travel and increased patronage).

Introducing a concession fare for people with disabilities who are unable to participate in the workforce meets the principles of this review. This would however be a significant change to the current approach to supporting the

transport disadvantaged, which largely focuses on the accessibility of services (rather than affordability), except where there is a standard national approach such as the provision of child and SuperGold card concessions. A similar nationally based approach to this issue would be preferable.

The introduction of distance based fares has been modelled as generating higher revenues, which could then be used to fund other initiatives. However, this is not supported under the principles of 'Continuing affordability of fares' (for those journeys negatively impacted by such a change), 'Reducing complexity' and 'Enabling incremental change' and is therefore not recommended.

#### **5.6.1 Changes proposed**

The changes proposed to the Fare Structure to ensure farebox recovery targets are achieved are:

- Prioritising initiatives on the basis of their positive impact on patronage growth
- Developing a staged approach to implementing the preferred fare structure
- Approaching NZTA for a national approach to concessions for people with disabilities.

#### **5.7 Principle 7: Enabling incremental change**

Changes to the Fare Structure will have different impacts on different users. The acceptability of any change can be increased by a gradual transition from one fare structure to another, allowing users to adjust their perceptions and travel patterns in response to the changes made. The patronage growth anticipated from the introduction of an initiative is unlikely to occur immediately after implementation and will occur over the short to medium term. As such, changes to the Fare Structure which are expected to give a net reduction in revenue and increased patronage, such as an off peak fare, will have an immediate negative impact on revenue as existing users gain the advantage of a reduced off peak fare. The revenue impact of the change will only gradually reduce towards the modelled net revenue position in the short to medium term as new users are attracted to public transport and existing users increase their public transport use. A staged approach to introducing each initiative is required to avoid a single large reduction in revenue and consequent impact on rates. Any potential changes to the requirement for additional public funding is not currently in the budgets for either GWRC or NZTA. As such, fare revenue impacts and the consequent impact on rates will need to be considered through the Council's Long Term Planning process as well as its planning around the future of public transport in the region through the Regional Public Transport Plan.

As discussed above under Principle 6: Meeting farebox recovery targets, the public transport network does not generate sufficient fare revenue to enable the introduction of all the options for change at one time and still meet farebox recovery targets. Retaining the existing 14 zone structure and gradually phasing out the existing products as a single smart card is introduced will



enable a gradual change to the proposed Fare Structure. If larger district based zones were preferred as the base structure, then incremental change could be managed through gradually removing some of the existing 14 zone boundaries for cash fares, and then moving the smart card fares to district based. If distance based fares are preferred, these would not be implemented prior to the introduction of a single smart card system, and the integrated fares and ticketing project would need to determine whether it would be cost effective to gradually transition to distance based fares through adding more concentric zones or whether a single shift to distance based fares is preferable.

**5.7.1 Changes proposed**

Proposed elements of a future Fare Structure that enable incremental change are:

- Retaining the existing 14 zone structure
- Gradually phasing out existing products over the short to medium term
- Phasing in other initiatives as they become affordable through increased patronage growth.

**6. Preferred Fare Structure**

The conclusion of this phase of the Fare Structure Review is that the preferred option has the components outlined below. The preferred option represents an aspirational statement about the future Fare Structure with implementation phased over time. The phasing is identified in the table as short (2 to 3 years), medium (5 to 7 years) and long term (more than 10 years) in the table below.

| Preferred option  | Implementation timeframe |
|---|--------------------------|
| <i>Structure</i>  |                          |
| 1. Retain the existing 14 concentric zones with minor zone boundary changes   | Short term               |
| 2. 25% peak / off peak differential available between 9am and 3.30pm and after 6.30pm (Monday to Friday), 5am Saturday to 12 midnight Sunday, and all public holidays | Long term                |
| 3. Universal smart card payment system for all Metlink public transport services  | Medium term              |
| 4. Transfer penalties eliminated and integrated fares on smart cards only   | Medium term              |

| <b>Preferred option</b>   | <b>Implementation timeframe</b> |
|---|---------------------------------|
| 5. Consistent fare structure and fare products for bus and rail   | Medium term                     |
| 6. Premium fares for identified services  | Already implemented             |
| <b><i>Products</i></b>  |                                 |
| 7. Existing fare products phased out and replaced by the following:   |                                 |
| <ul style="list-style-type: none"> <li>• Cash fare, set at a premium above the smart card fare with the premium increasing over time</li> </ul>   | Medium term                     |
| <ul style="list-style-type: none"> <li>• Smart card fare with no transfer penalties</li> </ul>  | Medium term                     |
| <ul style="list-style-type: none"> <li>• Fare capping (further work on setting the level of the capped fare and capping period required)</li> </ul>   | Medium term                     |
| <ul style="list-style-type: none"> <li>• Weekend family pass for up to four children under a specified age travelling with a fare paying adult (valid on Saturday, Sunday and public holidays only)</li> </ul>                      | Short term                      |
| 8. Bulk purchase product enabling group purchase of period pass at discounted rate (further work on pricing and scheme development required, initially targeted towards tertiary students and subsequently offered to other groups) | Medium to long term             |
| 9. Travel by public transport to and from a venue included in the price of entry tickets to larger events (further work required)   | Medium term                     |
| <b><i>Concessions</i></b>   |                                 |
| 10. Concessions as follows:   |                                 |
| <ul style="list-style-type: none"> <li>• Free travel on all services for children under 5 years old</li> </ul>  | Existing concession             |
| <ul style="list-style-type: none"> <li>• 50% concession fare for all services for children and young adults from five years old up to and including 18 years old</li> </ul>   | Short term                      |
| <ul style="list-style-type: none"> <li>• Free travel for all SuperGold card holders outside peak hours.</li> </ul>  | Existing concession             |

## 7. Next steps

Further detailed financial analysis of the Preferred Option, and pre-market and customer behavioural testing with users and potential users will be undertaken and to confirm the proposed Fare Structure is financially viable. In addition, consideration of the cost of achieving patronage growth through changes to the fare structure compared to achieving similar results through other service changes needs to be considered. This will occur through the review process around the RPTP. Once the analysis is complete, consultation will be undertaken as part of the review of the RPTP in 2013/14.

## 8. Communication

Communication with stakeholders will continue as part of the on-going work programme. Formal public consultation will occur through the review of the RPTP.

## 9. Recommendations

*That the Council:*

1. *Receives the report.*
2. *Notes the content of the report.*
3. *Agrees that the matters for decision in the report have a medium degree of significance.*

### *Principle based approach*

4. *Agrees the principles for the Fare Structure Review evaluation are:*
  - *Principle 1: Continuing affordability of fares*
  - *Principle 2: Increasing patronage*
  - *Principle 3: Reducing complexity*
  - *Principle 4: Rewarding target behaviours*
  - *Principle 5: Improving consistency*
  - *Principle 6: Meeting fare box recovery targets*
  - *Principle 7: Enabling incremental change.*

### *Fare Structure Preferred Option*

5. *Notes that the Fare Structure Preferred Option will be refined through further analysis and future Council decisions as part of the integrated fares and ticketing project and review of the Regional Public Transport Plan.*

6. *Agrees that consultation on the future Fare Structure will occur through consultation on the review of the Regional Public Transport Plan in 2013/14.*
7. *Agrees the following elements of the Preferred Option for the future Fare Structure:*

**Structure**

- a. *Existing 14 concentric zones retained with minor zone boundary changes*
- b. *25% peak / off peak differential available between 9am and 3.30pm and after 6.30pm (Monday to Friday), and between 5am Saturday to 12 midnight Sunday, and all public holidays*
- c. *Universal smart card payment system for all Metlink public transport services*
- d. *Transfer penalties eliminated and integrated fares, on smart cards only*
- e. *Consistent fare structure and fare products for bus and rail, and*
- f. *Premium fares for identified services*

**Products**

- g. *Existing standard fare products phased out and replaced by the following:*
  - i. *single smart card fare as the standard fare*
  - ii. *no transfer penalties on smart cards*
  - iii. *fare capping on smart cards*
  - iv. *weekend family pass for up to four children travelling free with a fare paying adult (valid on weekends and public holidays only)*
  - v. *single cash fare set at a premium above the smart card fare*
- h. *Bulk purchase product enabling group purchase of period pass at discounted rate*
- i. *Travel by public transport to and from a venue included in the price of entry tickets to larger events*

**Concessions**

- j. *Priority for concessions as follows*
  - i. *free travel on all services for children under 5 years old*

- ii. *50% concession fare for all services for children and young adults from five years old up to and including 18 years old*
- iii. *free travel for all SuperGold card holders outside peak hours.*

8. **Directs** officers to undertake further policy work including;
  - a. *discussions with operators on proposals to introduce the weekend family pass and changes to the child and young adult concession*
  - b. *discussions with event organisers and operators to investigate including public transport fares in the cost of an event ticket*
  - c. *development of proposals for a bulk purchase scheme for group travel and work with the main tertiary institutions in Wellington with the view to initially developing a scheme for tertiary students*
  - d. *detailed analysis and user testing of off peak fares*
  - e. *detailed analysis of transfers and fare capping through the integrated fares and ticketing project.*
9. **Notes** that the existing concessions for people not identified in recommendation 7(j) above will be phased out once they are able to be replaced by the off peak fare.
10. **Agrees** that an approach be made to NZTA for a national resolution to the issue of concessions for people with disabilities.

**Timing of implementation**

11. **Notes** the proposed timing of implementation is based on assumptions about the lead time required and the financial impacts, and may alter once further analysis is completed.
12. **Agrees** the following timing for the introduction of initiatives that have a potential negative impact on fare revenue:

*Short to medium term*

- i. *50% concession fare for all services for children and young adults from 5 years old up to and including 18 years old*
- ii. *Weekend family pass*

*Medium to long term*

- iii. *Integrated ticketing and removing transfer penalties*
- iv. *Capped fares*
- v. *Travel by public transport included in event ticket*
- vi. *Bulk purchase scheme*
- vii. *Off peak fare.*

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**Attachment 1:** Summary of community views