greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

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Committee Council
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2013 Public Transport Fare Review

1. Purpose

The report outlines the results of the annual reviews of:

- compliance with the farebox recovery policy
- public transport fare levels, including consideration of the need for a fare increase in 2013.

As a result of these reviews, a public transport fare revenue increase of 2% is recommended on the grounds that:

- it is the minimum increase that will achieve Council's target farebox recovery, and therefore takes into account affordability concerns
- it is consistent with Council's preference for small, regular changes to fare levels rather than large infrequent changes.

To achieve a 2% increase in fare revenue, most non-cash fare products will need to increase by 2.5%. A larger increase of 3.8% (or 6 cents per trip) is recommended for zone 1 non-cash fares. There would be a 50 cent increase in adult cash fares for zones 8, 11, and 12, and child cash fares for zones 11 and 12.

2. The decision-making process and significance

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, and the outcome of the review will be confirmed through the 2013 Annual Plan process, with the final decision being made following consideration of submissions on the draft Annual Plan.

Community views and preferences are also known to the Council through previous engagements with the community, including through preparation of the Long-Term Plan 2012-22, which included revenue increasing as result of the 2013 fare review. Council has the option to increase public transport fare levels by various amounts or to not increase fares. All options have been appropriately identified and assessed.

3. Background

3.1 Annual fare review

The Regional Public Transport Plan 2011-21 requires that fares be reviewed annually, with a preference for small, regular changes to fare levels rather than large infrequent changes (Policy 7.1, Methods 2 & 3). The annual fare review process involves carrying out both a "farebox policy compliance review" and a "fare level review" (Regional Public Transport Plan, section 11.3 and Appendix 8).

This paper reports the outcome of the compliance review and fare level review.

3.2 Public transport costs and budget assumptions

Most public transport services (bus, rail, and ferry) in this region are provided under contract to this Council. The gross operating cost of providing these services for the 2013/14 financial year is expected to be $164m[1]. Passenger fares fund approximately half these costs, with the NZ Transport Agency contributing one quarter and regional ratepayers one quarter.

The Council's Long-Term Plan includes (amongst others) the following budget assumptions for public transport (Long-Term Plan, p58):

- Fare revenue will be increased by 3% per annum as a result of fare increases
- Growth in passenger numbers on rail services has been assumed at 1% for 2012/13 and then 1.5% per annum over the remaining term of the plan
- Growth in passenger numbers on bus and ferry services has been assumed to come from within current budget provisions.

The cost of providing services usually increases each year – for example, bus operating costs increased approximately 3.5% in the last year[2]. The 3% increase in fare revenue included in the Long-Term Plan is intended to help offset these increased costs, and equates to a rates impact of about $0.6m.

4. Comment

4.1 Farebox policy compliance review

Council fare policy is set out in the Regional Public Transport Plan and Revenue and Financing Policy in the Long-Term Plan. The most relevant provisions in the Regional Public Transport Plan are:

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[1] Operating costs include service contract payments, debt servicing costs and infrastructure maintenance costs, but exclude capital costs (such as rail maintenance and up-grades, trolley wire maintenance, park-and-ride costs, bus shelters etc), system wide costs (such as the Metlink information systems and real-time), and administration costs.

[2] Increase using NZ Transport Agency diesel bus inflation index for September quarter 2012.

- Objective 7: A fare schedule that attracts and retains customers and balances user contributions against public funding

- Policy 7.1: Ensure that fares paid by passengers reflect the degree of private benefits received from public transport services

- Policy 7.2: Ensure that the fare system is easy for customers and operators to understand and use.

The main difference between the farebox recovery and user contribution targets is that the *farebox recovery* calculation does not include the debt servicing costs associated with capital expenditure, which are included in the *user contribution* calculation. The *farebox recovery* calculation also includes fares paid on commercial services and SuperGold card payments, which are not included in the *user contribution* calculation.

4.1.1 Compliance with farebox recovery targets

The farebox policy compliance review measures actual performance against the farebox recovery targets. The outcome of the review is set out in the follow table.

Farebox recovery compliance report	Target farebox recovery 2011/12	Farebox recovery 2011/12
A. Long Term Plan – Revenue and Financing Policy		
User contribution	45-50%	47.4%
B. Regional Public Transport Plan – Farebox Recovery Policy		
Overall farebox recovery	55-60%	56.6%
Rail	55-60%	53.0%
Bus	55-60%	58.0%
Ferry	80-90%	80.5%
Cable car	100%	100.0%

Note: NZTA requires that the farebox recovery policy be broken down by mode.

The table shows that overall farebox recovery rate was within policy targets for 2011/12 and there is therefore no need to consider any of the alternative strategies to increase farebox recovery set out in Appendix 8 of the Regional Public Transport Plan. Although rail results are lower than the target, no action is recommended until the impact of improvements in reliability resulting from the new Matangi trains on patronage is clearer.

Compliance with the farebox recovery policy will next be reviewed as part of the 2014 fare review.

4.2 Fare level review

The fare level review focuses on the overall increase in fare revenue sought within the existing fare structure.

4.2.1 Context and summary of 2012 review

As part of the 2012 fare review, Council agreed in principle to adopt a five year approach to fare increases, noting that this would in effect set the fares for the duration of the programme (**Report 12.228**). The report stated that:

"*The preferred option is to develop a five year plan for the increases that evens out increases across all fares at around 3% per year for the next five years.*

The impact of this option can be seen mostly on cash fares. In year one all cash fares (zone 1-14) will be nominally increased by 3% per year, but will be rounded to the nearest 50c. In year two the 3% increase is applied to the year one nominal amount (rather than the actual fare). The same process is applied in subsequent years. Sooner or later, the fare for each zone will increase, but the increases will be spread across the five years, and the average increase over the five year programme is 3% per year."

In accordance with the five year plan, fares were increased on 1 October 2012 with the following changes made:

- Multi-trip tickets (ten trip, monthly, quarterly, term tickets) generally increased by 3%
- Adult cash fares increased by 50c for 3-14 zone travel
- Child cash fares increased by 50c for 7-9 and 13-14 zone travel
- City section fares were abolished.

The following guidelines, which are well established and have been agreed with transport operators, are currently applied when setting fare levels for the various zone-base fare products[3]:

- Smart-card/ten-trip fares are used as the base against which other fares are set
- Cash fares are set at a 25% premium to the smart-card/ten-trip fare and then rounded up to the nearest 50 cents[4]
- Off-peak cash fares (for rail) are set at the smartcard/ten-trip fare and then rounded up to the nearest 50 cents in order to provide an approximate 20% discount on cash
- Monthly ticket prices are set at 3 times the price of a ten-trip fare

[3] Non-zone based products (e.g. Metlink Explorer) are set separately taking into account the overall increase in the zone-based fares. Usage of these products is relatively small compared to the zone-based products.
[4] The 25% premium is equivalent to 20% discount on cash for smart-card/ten trip fares. 50 cent rounding is used to improve cash handling.

- School term tickets are set at 2.5 times the price of the child monthly ticket.

The main impact of the five-year approach is on cash fares, which will increase for some zones in some years and not others but over the period of the plan all fare products will increase by the same proportion. Manual adjustments are sometimes required to manage the impact of changes, and smart card fares are rounded to the nearest whole cent.

4.2.2 Fare increase options

The Long-Term Plan budget assumption was that fare revenue will increase by 3% per annum. While a revenue increase of this order would be in line with (or below) expected increases in the cost of providing services, feedback has emphasised that the affordability of public transport is increasingly becoming an issue for users, and accordingly lower revenue increases have been investigated.

The following table identifies the impact that of a 2% fare revenue increase on the farebox recovery and user contribution policies discussed above, along with the impact of not increasing fares. To achieve a 2% increase in fare revenue, most non-cash fare products would need to increase by approximately 2.5% as a result of the five year plan where not all cash fares increase each year but instead increases even out over the 5-year period (specific details are set out below in section 4.2.2).

	Farebox recovery			User contribution		
Fare Revenue Increase	Target range	2011/12 actual	2013/14 projected	Target range	2011/12 actual	2013/14 projected
2% fare revenue increase	55-60%	56.6%	55.3%	45-50%	47.4%	45.1%
No fare revenue increase			54.0%			44.0%

A fare revenue increase of 2% is recommended for this year to achieve farebox recovery and user contribution within the target range, on the basis that it is the minimum increase that will achieve Council's target farebox recovery, and therefore takes into account affordability concerns as far as possible under the current policy. It is consistent with Council's preference for small, regular changes to fare levels rather than large infrequent changes.

An increase of lower than 2% fare revenue is not recommended as it would potentially require large "catch-up" increases in future years, and would increase the impact on Council's budget.

Council and transport operators agreed to the five-year plan to ensure an equitable spread of fare increases across all zones over time. The five-year approach remains valid should Council implement the recommended fare increase for the 2013/14 financial year.

4.2.3 Proposed new fares for 2013/14

The level of proposed new fares will depend on Council's decision on the target fare revenue increase for this year. **Attachment 1** sets out the smartcard / 10 trip and cash fares that would be applied should Council adopt the recommended 2% fare revenue increase, which involves a 2.5% increase in most non-cash products (increases range from 2.4 - 2.7% as a result of rounding). Adult cash fares for zones 8, 11, and 12 and child cash fares for zones 11 and 12 would each increase 50 cents.

One important factor requiring decision is that relating to the zone 1 fares. Zone 1 fares have not increased since 2010. The cash fare is not expected to increase until 2014 under the five year programme and, while the non-cash fares would normally increase by the standard percentage each year, the 2012 increase of 3% was not applied in order to maintain the discount of 20% relative to cash fares.

Accordingly, the five year plan would see both the cash and non-cash zone 1 fares increase next year, with the non-cash fare increasing 9% (an estimated 3% from last year, 2.5% from this year and 3% for next year). This is a rather large increase in one year, especially when the impact can be smoothed by spreading the increase over two years. It is therefore recommended that the zone 1 non-cash fares be increased by an amount which includes this year's increase along with an element of catch-up from last year, in order to avoid a large percentage increase next year.

This would result in a 3.8% increase in zone 1 non-cash fares, but will reduce the size of the increase that would otherwise be required next year. For smartcard or 10-trip users, this equates to an increase of 6 cents per trip for adults, and 4 cents a trip for children, and would mean the smartcard and 10-trip users receive a 17% discount on the cash fare.

Transport operators have indicated a preference for this approach which includes some element of "catch-up" from last year's increase and avoids a large increase in any one year. This will require relaxation of the standard 20% discount on cash for the zone 1 fares this year.

4.3 Implementation

In order for the benefits of the fare increase to flow to the Wellington Regional Council, the price of operator contracts needs to be reduced in recognition of the increase in revenue flowing to the operator. There is a NZTA approved process for this adjustment, the intention of which is that the operators should be in no better or worse situation after the increase than they were prior to the increase.

It is therefore necessary that agreement on any fare changes is reached with the operators, and until such agreement is reached the increase should not be implemented. Operators agree to the five year approach last year.

Officers have discussed the proposals set out in this paper with operators. There was general agreement to targeting a fare level increase of less than 3%.

They also supported increasing the zone 1 non-cash fare this year by the agreed rate plus some element of “catch-up” from last years to avoid a larger increase next year. Operators continued preference is for small regular increases, rather than infrequent large ones. Officers are continuing to work with operators on a revised fare schedule which will be reported back to Council for approval.

4.3.1 Implementation date

The planned implementation date for the fare increase is 1 October 2013. This date allows time for consultation through the Council budget process, is still relatively early in the financial year, is a suitable time for an increase in the price of school term tickets, and coincides with the NZTA inflation index (which makes the contract adjustments easier).

4.4 Review of the fare structure

This paper has only addressed fare levels and has not looked at wider structural issues such as the appropriateness of the zonal system, the zone sizes and boundaries, concession availability and discount levels etc. These issues are being addressed the fare structure review that is currently underway. The fare structure review may result in changes in the agreed five year programme.

5. Communication

Discussions will need to be continued with operators. Any proposed fare increase will be the subject of public consultation through the Council annual plan process.

6. Recommendations

That the Committee:

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

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

3. ***Notes** that the Council draft Long Term Plan 2012-22 assumes a fare revenue increase of 3 per cent per annum from 2012/13 onwards.*

4. ***Notes** that user contribution levels are at the lower end of the target range.*

5. ***Agrees** that fares be increased from 1 October 2013 to generate a fare revenue increase of 2 per cent, subject to approval of the Annual Plan 2013/14 by Council, and to satisfactory agreement of contractual terms with operators which see the financial benefits of the fare increase flowing to the Council.*

6. ***Agrees** that that zone 1 non-cash fare levels will be increased this year by 3.8 per cent to avoid a larger increase next year, and that consequently the discount on cash for zone 1 smartcard and ten-trip fares will be 17% which is less than the target of 20%.*

7. ***Notes** that consultation on the proposed fare revenue increase will occur with the public as part of the preparation of the Council's Annual 2013/14, and that the increase cannot be confirmed until the completion of that Plan.*

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Attachment 1: Proposed fares from 1 October 2013