greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

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Author	Tass Larsen, Manager Projects and Planning

2014 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 2014.

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 for overall 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 1.0%. There would also be a 50 cent increase in adult cash fares for zones 1, 7, 10, 13 and 14, and child cash fares for zones 1 and 2.

2. Background

2.1 Annual fare review / five-year programme

The Regional Public Transport Plan requires that fares be reviewed annually, with a preference for small, regular changes to fare levels rather than large infrequent changes. The annual fare review process involves carrying out both a farebox policy compliance review and a fare level review. This paper reports the outcome of the compliance review and fare level review.

In 2012 Council developed a five year programme of increases to ensure that over the five years, all fares would increase by the same percentage over the length of the programme. This approach was taken because:

- Council has assumed a standard increase in fare revenue per year for the next ten years, and hence a long-term approach is appropriate

- A long term approach allows increases to be planned to take into account the fact that increases to cash fares are only made once the increase rounds up to the nearest 50 cents. Considering the increases over a number of years can ensure that over the long-term the average increase for these passengers is not higher than the increases for others

- It helps ensure evenness and fairness over the five year programme, and allows for small regular fare increases rather than much larger intermittent increases.

The impact of the programme is that in each year only some cash fares change, but over the length of the programme all fares increase by the same amount. We are in the third year of the programme.

2.2 Guidelines for setting fare levels

The following guidelines are applied when setting fare levels for the various zone-base fare products:

- 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

- 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

These guidelines have previously been agreed with the transport operators and are well established. Manual adjustments are sometimes required to manage the impact of changes and smart card fares are rounded to the nearest whole cent.

2.3 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 2014/15 financial year is expected to be $166m[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 2012-22 includes the following budget assumptions for public transport:

[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.

- 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.

These assumptions are reviewed each year as part of the annual fare review, for example Council agreed last year to a 2% increase in fare revenue for 2013/14 (**Report 13.652**), less than the revenue increase assumed in the Long-Term Plan. The increase in revenue is intended to help offset the costs of providing services, which usually increase each year – for example, bus operating costs increased approximately 1.7% in the last year (3.5% in the previous year). A 2% increase in fare revenue equates to a rates impact of about $0.5m.

3. Comment

3.1 Farebox policy compliance review

Council fare policy is set out in the Regional Public Transport Plan 2011-21 (RPTP) and Revenue and Financing Policy in the Long-Term Plan 2012-22 (LTP). The most relevant provisions in the RPTP are:

- 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 RPTP farebox recovery target and LTP 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.

3.1.1 Compliance with farebox recovery targets

The farebox policy compliance review measures actual performance against the farebox recovery targets, for the previous year and is a requirement of the NZ Transport Agency.

The outcome of the review for 2012/13 is set out in Table 1. The overall farebox recovery and user contributions were both within target for 2012/13.

Although rail results are lower than the target, no action is recommended as the performance is trending up (forecast farebox recovery for 2014/15 is 54.1%) as patronage improves and cost savings are achieving in the operating contract. In addition, the Transport Agency is currently reviewing the way farebox recovery targets are calculated and work is underway on a revised RPTP where further consideration can be given to appropriate future farebox recovery targets.

Compliance with the farebox recovery policy will next be reviewed as part of the 2015 fare review.

Table 1 Farebox recovery and user contributions for 2012/13

Indicator	Target 2012/13	Actual 2012/13
A. Long-Term Plan – Revenue and Financing Policy		
User contribution	45-50%	47.1%
B. Regional Public Transport Plan – Farebox Recovery Policy		
Overall farebox recovery	55-60%	56.7%
Farebox recovery by mode[1]		
Rail	55-60%	52.9%
Bus	55-60%	58.1%
Ferry	80-90%	82.4%
Cable car	100%	100%

[1] The Transport Agency requires that the farebox recovery policy be broken down by mode.

3.2 Fare level review

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

3.2.1 Fare revenue options

Options for increasing fare revenue are set out in Table 2. This shows that if there is no increase in fare revenue then farebox recovery would fall below the target range, although the user contribution would remain within its target range. A 2% fare revenue increase is the minimum increase required to meet the farebox recovery target.

Table 2 Farebox revenue increase options for 2014/15

Fare revenue increase options	User contribution (LTP)			Farebox recovery (RPTP)		
	Target range	2012/13 actual	2014/15 projected	Target range	2012/13 actual	2014/15 projected
2% fare revenue increase	45-50%	47.1%	46.3%	55-60%	56.7%	55.0%
No fare revenue increase			45.4%			53.9%

The Long-Term Plan budget assumption are that fare revenue will increase by 3% per annum based on a number of assumptions include patronage growth and inflation. Inflation has been relatively low (1.7% based on NZTA diesel bus index) and patronage trends have been mixed. There has also been feedback in the annual customer satisfaction survey that the affordability of public transport is increasingly becoming an issue for users, and accordingly the lower 2% revenue increase has been investigated and options for higher increases have not been put forward.

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.

3.2.2 Proposed new fares for 2014/15

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, cash fares, and monthly rail fares that would be applied should Council adopt the recommended 2% fare revenue increase, which involves a 1.0% increase in most non-cash products (increases range from 0.8 - 1.3% as a result of rounding). Adult cash fares for zones 1, 7, 10, 13 and 14 and child cash fares for zones 1 and 2 would each increase 50 cents.

One important factor is that zone 1 cash fares will be increasing for the first time since 2010. Due to 50 cent rounding the percentage increase is significant and means moving away from a single coin payment for adults (from $2 to $2.50). Over 40% of zone 1 bus trips are paid using by cash. Options include not increasing zone 1 cash fares or increasing zone 1 cash fares by a lesser amount. Both these options are undesirable:

- Not increasing zone 1 cash fares would reduce the smartcard discount to 15% thus reducing incentives for not using cash, and would move away from the 5 year programme which attempts to achieve fairness over time
- Increasing the zone 1 cash fares by a lesser amount would increase cash handling issues with additional change required (e.g. 80 cents change on $3) which would likely lead to additional boarding times along the Golden Mile.

Not increasing zone 1 cash fares would require a 2.3% increase (rather than 1%) to all smartcard/10-trip fares to achieve a 2% increase in fare revenue. This would also lead to increases to adult cash fares for zones 6, 9, 11 and 12 and child cash fares for zones 5 and 6 that would not otherwise have increased.

Information on the socio-economic impact the proposed fare increase is being prepared and will be presented to the meeting.

3.2.3 Consultation with transport operators

The fare proposals have been discussed with transport operators and they have indicated general acceptance to the fare increase proposal recommended in this report.

The transport operators have expressed some concern as to the 50 cent increase in cash fares for zone 1 and have requested that a marketing campaign be undertaken to encourage people to use smartcard payment methods. If the increase goes ahead a campaign will be developed, noting that over 40% of zone 1 bus trips are still paid for in cash.

3.3 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 have previously agreed to the five year approach and officers have discussed the proposals set out in this paper with operators.

Officers are continuing to work with operators on a revised fare schedule which will be reported back to Council for approval in June 2014.

The planned implementation date for the fare increase is Wed 1 October 2014. 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).

3.4 Review of the fare structure and RPTP

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 expected to be consulted on through the review of the RPTP. The fare structure review may result in changes in the agreed five year programme. The review of the RPTP also provides an opportunity to review the farebox recovery policy.

4. 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.

5. 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 Act).

Part 6 sets out the obligations of local authorities in relation to the making of decisions.

5.1 Significance of the decision

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.

Council has the option to increase public transport fare levels by various amounts, or to not increase fares. Community views are known to the Council through previous engagements with the community, including through preparation of the Long-Term Plan 2012-22 and 2013 Annual Plan, which both assumed revenue increasing as result of the 2014 fare review. All options have been appropriately identified and assessed.

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 the farebox recovery and user contribution levels are at the lower end of the target range.*

5. ***Agrees*** *that fares be increased from 1 October 2014 to generate a fare revenue increase of 2 per cent, subject to approval of the Annual Plan 2014/15 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. ***Notes*** *that consultation on the proposed fare revenue increase will occur with the public as part of the preparation of the Council's Annual Plan 2013/14, and that the increase cannot be confirmed until the completion of that Plan.*

Report prepared by:	Report approved by:
Tass Larsen Manager Projects and Planning	Wayne Hastie General Manager, Public Transport

Attachment 1: Proposed public transport fares from 1 October 2014