



Report 10.31
Date 2 February 2010
File TD/07/06/07

Committee Transport & Access Committee
Author Brian Baxter, Manager, Design and Development

Annual fare review

1. Purpose

To undertake the annual review of passenger transport fare levels.

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

The Regional Passenger Transport Operational Plan requires Council to undertake an annual review of fares. This paper constitutes the basis of that review.

Fares were last reviewed by this Committee in February 2009. That review resulted in no increase in fares.

The last general fare increase was in September 2008, as a consequence of the 2008 fare review. That increase was an average of 10.2%. Council decided at that time that rather than have large infrequent increases in fares, any increases should be smaller and occur on a more regular basis. Council also resolved that fare reviews should take a multi-year perspective.

This paper focuses on the current state of compliance of the current fare schedule, and resulting fare revenue, with Council fare policies.

The current fares are shown in **Attachment 1**.

3.1 Council fare policies

There are various Council policies relevant to fare setting. Perhaps the most important is contained in the Council's Revenue and Financing Policy which provides for passenger transport services to be funded by "a target of 45-50%

user charges”. In other words, fares should cover 45-50% of the costs of providing services.

[Costs are defined as operational costs plus Council debt servicing (rather than capital) costs. Other costs such as Council administration costs and minor network costs (bus shelters, park-and-ride, real-time information etc) are not included in the calculation.]

The Regional Passenger Transport Plan, and the Operational Plan, includes the following fare related policies:

“Ensure fares on all passenger transport services are competitive with the cost of using a private vehicle for the same journey to encourage greater use of passenger transport” (RPT Plan, Policy 3.1)

“Fares set in accordance with the fare zone system and operational guidelines, with stakeholders consulted prior to any changes” (RPT Plan, Policy 3.2)

“Ensure passenger transport users make a sustainable contribution towards funding the operational and capital costs of current and future passenger transport service passenger transport services” (RPT Plan, Policy 4.3)

The Operational Plan contains the following provisions (2.4.1.4):

“Review fares annually to:

- *Maintain equity, consistency, and simplicity*
- *Maintain an appropriate balance between maximising patronage and revenue*
- *Make a reasonable contribution to the upgrading of passenger transport services during the period covered by this Plan*
- *Ensure value for money for funders (including ratepayers), providers and users*
- *Ensure fares are set competitively with the cost of using a private car for similar journeys.”*

3.2 NZTA policies

The NZ Transport Agency (NZTA) currently has no policy on fares. NZTA is however proposing to introduce a “farebox recovery policy” which will set a minimum farebox recovery level for each regional council. The proposed farebox recovery policy addresses the same issue as the Greater Wellington user contribution policy i.e. the level of user contribution to costs. While the NZTA policy is still at the proposal stage, it is relevant to consider it when reviewing fares.

It seems likely that NZTA will set a target farebox recovery level for this Council of 50% (although the NZTA calculation of farebox recovery differs slightly from our own). NZTA had indicated that it is likely that this policy will come into effect in March 2010 (although this seems unlikely now).

4. Fare review

In accordance with the Council policies set out above, the matters to be considered as part of the fare review will therefore be the level of user i.e. passenger, contribution (farebox recovery), and car operating costs relative to public transport fares. These are discussed below.

4.1 Passenger contribution (farebox recovery)

Farebox recovery is calculated as being the total fare revenue from the whole network, divided by the total operating costs plus Council debt servicing costs i.e.

$$\text{Farebox recovery} = \frac{\text{Total fare revenue}}{\text{total operating costs} + \text{Council debt servicing costs}}$$

The Council target farebox recovery is 45% - 50% i.e. the fares should cover about half the total costs. Figures from contracted services only are included in the calculation as the costs and revenue from commercial services are not available.

The individual components of this calculation are discussed below. The actual farebox recovery ratio for the region is then calculated.

4.1.1 Fare revenue

Estimated fare revenue for this and the next three years is set out below:

Year	\$m
2009/10	65
2010/11	66
2011/12	68
2012/13	70

Revenue is expected to increase in line with predicted patronage increases.

The figures shown above do not include any revenue from possible future fare increases.

4.1.2 Costs

Costs for this and the next three years are estimated as follows:

Year	\$m
2009/10	134
2010/11	135
2011/12	146
2012/13	154

Expenditure is expected to continue to increase, largely as a consequence of increased rail costs, and continuing increases in the provision of existing bus services.

4.1.3 Debt servicing costs

Substantial expenditure is occurring/planned for rail infrastructure improvements. Much of this expenditure will be met by central government rather than Greater Wellington ratepayers, but the ratepayers will still contribute a substantial amount. The Greater Wellington expenditure is funded by loans.

The estimated debt servicing costs of these loans for this and the next three years are set out below:

Year	\$m
2009/10	4
2010/11	6
2011/12	8
2012/13	9

The figures show a steady increase in debt servicing costs, reflecting the increase in capital expenditure over the next years. Predictions are for this increase to continue at a similar rate beyond 2012/13.

4.1.4 Farebox recovery

The above revenue, cost, and debt servicing figures can be used to calculate the farebox recovery in this region, as follows:

		2009/10	2010/11	2011/12	2012/13
A	Operating costs (\$m)	134	135	146	154
B	Debt servicing costs (\$m)	4	6	8	9
C	Total costs (\$m; A+B)	138	141	154	163
D	Revenue (\$m)	65	66	68	70
E	Farebox recovery (D/C)	47%	47%	44%	43%

The figures show that the while farebox recovery is currently within the target range set by Council, it is predicted to fall below the range in 2011/12. Longer-term estimates are for the farebox recovery to fall to 36% within 10 years unless fares are increased.

A 3% increase in revenue is needed now (and in each of the next ten years) to keep farebox recovery within the target range set by Council (a 3% increase will improve the farebox recovery ratio by about 1.5 percentage points).

Note that a fare increase (assuming it takes place in September 2010) would not impact on the farebox recovery ratio until 2010/11, and even then would impact on only 9 months of that year.

4.2 Cost of car use

The cost of car use is the other area identified in Greater Wellington policy as being a factor to consider as part of the fare review. Council policy is for public transport fares to be competitive with the cost of an equivalent car trip.

Comparing car costs with passenger transport fares is complicated because of the variety of cars sizes, varying car-parking costs, and varying car occupancy rates.

The table below shows the comparative costs of a bus trip (adult ten trip/stored value card fare) with the equivalent car trip (for a 1501 - 2000cc car).

Wellington CBD to:	Distance	Bus/Train fare	Car Costs (operating and fixed)	Car Costs (operating only)
Miramar	7kms	\$3.20	\$4.02	\$1.35
Island Bay	7kms	\$3.20	\$4.02	\$1.35
Karori	6kms	\$3.20	\$3.44	\$1.16
Johnsonville	10kms	\$3.20	\$5.74	\$1.93
Petone	14kms	\$3.60	\$8.04	\$2.70
Porirua	21 Kms	\$4.40	\$12.05	\$4.05
Wainuiomata	21kms	\$4.40	\$12.05	\$4.05
Upper Hutt	33kms	\$6.40	\$18.94	\$6.37
Paraparaumu	50kms	\$8.00	\$28.70	\$9.65
Masterton	99kms	\$12.00	\$56.83	\$19.11

The full cost (fixed and running) of a car journey (using 2009 AA Vehicle Operation Costs, which was based on petrol at \$1.67 a litre) is 47.8 cents per km for a 0 - 1500cc car, 57.4 cents per km for a 1501- 2000cc car, 71.5 cents

for a 2001 – 3500cc car, and 90.3 cents for cars over 3500cc. These costs are about 9% lower than in 2008. Parking costs (which can add up to \$10 per day) are not included.

The table shows that for all trips, the true cost of using a car is higher for all trips than using public transport. Thus the current public transport fares can be said to be competitive with the cost of using a car for the same journey i.e. current fares comply with Greater Wellington policy.

The situation changes however if only car operating costs (petrol, tyres and repairs, but excluding parking) are considered – it is only the longer trips that are more economical by public transport than by car.

Overall however the figures indicate that the cost of public transport remains competitive with the cost of operating a car.

4.3 Impact of a fare increase

Patronage is expected to fall when fares are increased – current experience indicates that a fare increase of, for example, 10% will result in a drop in patronage of between 3 and 4% - this is known as the “fare elasticity” which in this case is stated as being between -0.3 and -0.4.

This means that a 10% fare increase will generate about a 6-7% increase in revenue.

5. Fare review conclusions

Public transport fares are competitive with the cost of car travel for an equivalent trip, especially for longer trips. And the current farebox recovery ratio is within the target range of 45-50%. However the ratio is declining, and is predicted to drop to the low end of the range in 2010, below the range in 2011, and down to 36% within 10 years.

Given the Council’s wish to have small and frequent fare increases rather than large infrequent ones, it is suggested a small increase in 2010 is needed. A 3% increase in fare revenue will keep the farebox recovery within the target range.

A fare increase will also help to meet the proposed NZTA farebox recovery policy (likely to contain a target of 50% for Wellington).

The figures also indicate that further annual fare increases of about 3% are needed to keep the farebox recovery ratio within the target range set by Council.

The process of changing fares takes several months, and should coincide with the Council annual plan process to allow consultation with the community. An implementation date of 1 September 2010 is therefore suggested.

In summary, a fare revenue increase of 3% is needed because:

- The users' contribution to the costs of providing services is dropping below the Council target range
- A small increase now will bring the ratio within the Council target range
- Any delay now will result in the need for higher increases in the future.

6. Possible fare increase options

If the Council considers that a fare revenue increase is needed, some options as to how the increase might be applied are set out below.

It is not possible to simply increase all fares (particularly cash fares) by, for example, exactly 3%. This is because of:

- the need for cash fares to match the available coins (a 3% increase on the \$1.50 cash fare becomes \$1.55, which would need to be rounded to \$1.60 in order to provide an increase in revenue as well as making it practicable. This is a 6.7% increase); and
- the strong preference of Tranz Metro for cash fares to be in multiples of 50c (because of cash handling and ticket issuing reasons – in particular the need for quick and easy fare collection at peak times to ensure all fares are collected); and
- the need to take a multi-year perspective, and in particular a wish to focus on those fares not affected by the 2008 increase (the 2008 increase did not affect the city section, 1 zone adult, and 1, 2, and 3 zone concession fares, and was biggest in percentage terms for 5 and 6 zone trips).

6.1 Options

Some options for fare increases that take the above three factors into account have been developed and are listed below. The fare revenue impacts listed below are preliminary estimates of the additional fare revenue that will be generated from each option.

1. Increase the one zone cash fares (currently adult \$1.50 and concession \$1) by 50c for each (estimated to generate about a 2.7% revenue increase; equates to a 33% and 50% increase respectively for these fares)
2. Remove the city section fare (currently \$1), and increase the adult one zone cash fare (but not concession;) by 50c for these fares (estimated to generate a 3% revenue increase, and equates to a 100% and 33% increase respectively for these cash fares, although an inner city trip would now qualify for a discount if using a stored value card, thus reducing the fare to \$1.60 – a 60% increase)
3. Increase the city section and one zone cash fares by 50c (to \$1.50 for city section, \$2 for adult, and \$1.50 (concession) for one zone; estimated to generate a 3.4% increase, and equates to a 50%, 33% and 50% increase respectively for these fares)

4. Increase the 1, 2, and 3 zone concession fares (currently \$1, \$1.50 and \$2) by 50c (estimated to generate a 4.6% revenue increase, and equates to a 50%, 33% and 25% increase respectively for these fares.)
5. Increase all fares by 3 - 4% (rounded to nearest multiple of 10; estimated to generate a 3% revenue increase but this option ignores the 50 cent rounding policy).
6. Increase all cash fares by 50 cent but leave multi-trip fares unchanged (estimated to generate a 3% revenue increase, and equates to an increase of up to 50%).
7. Increase all multi-trip tickets (ten trip, monthly, quarterly, term tickets) by 5%, and leave cash fares as they are (estimated to generate a 3% revenue increase, and preserves the 50 cent rounding)

Where relevant, ten trip and concession prices would be adjusted to maintain relativities to the cash fares (ten trips are eight times the price of the cash fare, and monthly tickets are three times the price of the ten trip).

Options two and three probably best meet the 50 cent rounding policy, and the long-term perspective, and generate the required level of extra revenue.

Whatever option is preferred, some inconsistent ticket prices (particularly some of the Johnsonville line multi-trip tickets) should also be brought into line with the standard fare structure. For example, a three zone monthly ticket on the Johnsonville line is \$85 compared to the standard price for all other monthly three zone tickets of \$96).

6.2 Discussion of options

The options need to be developed further in consultation with the operators, and there are various combinations within each option. Some comments on the options are set out below:

6.2.1 City section fare

Some of the options involve changes to (or even the removal of) the \$1 city section fare. The city section fare was introduced in recognition that many of the users of the fare are rail commuters arriving at Wellington Station who then catch a bus to work places in the CBD. The low fare recognises that the CBD trip is an extension of the rail trip (and the CBD is within the same fare zone as the rail station) and thus it reduces the penalty to the traveller for the train-to-bus transfer i.e. it can be seen as an integrated fare.

Other users of the city section fare are those within the CBD using the bus at off-peak times to get from one end of the CBD to the other and not as part of a longer journey.

If the city section fare is to be removed or increased, the impact on regular rail users could be mitigated by allowing those with monthly tickets to travel free within the CBD at peak times (similar to the “Kapiti Plus” scheme). This

would then be a true integrated fare, and would encourage regular passengers to use monthly tickets rather than ten trip tickets (with related revenue collection benefits on full trains). However allowing free travel on the buses would require reimbursement of the bus operators for the lost revenue from that travel, and thus the overall revenue impacts may be cost neutral (and hence no additional fare revenue would be generated).

The city section fare is also available within the Porirua CBD, where it was introduced to reduce the cost to those whose bus terminated at the Porirua train station but wanted to get into the Porirua CBD. The Porirua fare is not used as much as in Wellington, and the proposed route changes in Porirua (with all buses to go through the CBD) will mean that the need for the Porirua fare will be virtually eliminated.

The city section fare has been \$1 for many years. The fare is generally paid in cash, as no discount is available if a stored value payment card is used. The fare is not available to children as the one zone child fare is already \$1 (or 80 cents with a stored value card).

Removing the city section fare would mean that passengers would have to pay the one zone fare (currently \$1.50 for adults (cash), or \$1.20 (stored value card)). Another option is to increase the city section fare to \$1.50 and increase the one zone adult cash fare to \$2.

6.2.2 Simplicity and fairness

The simplest option is to have a 3 - 4% (subject to rounding) increase on all fares. This is possibly the fairest option because everyone gets the same increase (most of the other options produce large percentage increases). Even though in 2008 the fares for the shorter trips weren't increased in price, it is arguable that the current fares for shorter trips are appropriate (relative to the fares for longer journeys) at their current level.

Everyone receiving the same increase is also simplest taking a future perspective – all future fare increases can also be applied on the same basis. At the moment we have a rather erratic system of increases, with some fares increasing by large percentages and others not increasing at all. But to increase all fares by a fixed percentage requires the removal of the 50 cent rounding policy.

The impact of the 50 cent rounding policy can be reduced by encouraging peak-time passengers to use pre-paid tickets (stored value cards, ten trips and monthly tickets etc). Such encouragement should continue through reduced per-trip fares for these ticket users, but there will always be a need for cash fares. It is also suggested that discussions commence with Tranz Metro regarding the removal of the 50 cent rounding policy, at least for future increases.

Multi-trip tickets and stored value cards can accommodate fare increases of small percentage amounts, and an option is to increase all cash fares by 50 cents but to only increase multi-trip and stored value card fares by 3%. This would increase the incentive to use these cards. Alternatively all the multi-trip

tickets could be increased by 5% and cash fares left unchanged. This would reduce the multi-trip discount (from 20% to about 16% for 10 trip tickets), but this could be corrected at some future time – cash fares could be increased and multi-trip tickets left alone (and the 20% discount could be regained). But given the need to even out the increase from 2008 i.e. to apply it to those who weren't affected by the 2008 increase, these are perhaps options for 2011 or beyond.

6.3 Preferred option

Assuming the Committee agrees to a fare revenue increase of about 3%, the next step in the process is to commence discussions with operators. It is suggested that while all options for increases should remain open, the preferred option to take to those discussions is:

- Increasing the city section adult cash fare from \$1 to \$1.50 (and allowing payment by stored value card which would mean the fare for that method of payment would be \$1.20)
- Increasing the one zone adult and concession cash fare by 50 cents (from \$1.50 to \$2.00 for adults, and \$1 to \$1.50 for concessions, with proportional increases to multi-trip tickets)
- Bringing the Johnsonville line fares into line with other fares

This option will generate approximately 3% of extra revenue.

This option preserves the 50 cent rounding policy, and will generally result in no increase for the trips that increased in price in 2008 (the train and longer bus journeys), and an increase for the journeys that didn't increase in price last time (trips connecting with trains and short journeys).

People affected by this option will include:

- Those adults whose trip involves a one zone fare (e.g. those who travel by bus to a connecting train, or those who just make a single zone bus or train journey) The increase will be 40 cents per trip using a stored value card and 50 cents if using cash)
- Those who travel between Wellington CBD and Wellington Rail Station as part of their commute. The increase will be 20 cents per trip if using a stored value card, and 50 cents if using cash
- Those who use the city section fare for short city trips. The increase will be 20 cents per trip if using a stored value card, and 50 cents if using cash
- Children making a one zone trip. The increase will be 40 cents for stored value cards, and 50 cents if using cash.

6.4 Looking forward

6.4.1 The next fare increase

The 10 year estimates indicate that regular small fare increases are needed in the future in order to keep the farebox recovery ratio within the target range. Any increase applied this year should have that in mind, and some thought needs to be given to how increases might be applied in the future.

Removal of the 50 cent rounding policy will help, as that will allow simple percentage increases to apply to all fares.

Alternatively, options include alternating increases to multi-trip tickets and cash tickets. For the next fare increase an increase to zone 3-14 cash fares should be considered. Then after that increases can be applied to the multi-trip tickets. And removing the city section fare for train monthly ticket holders also needs to be further investigated.

6.4.2 Some matters to address

This fare review has raised a number of issues that need further investigation:

- The difficulty caused by the 50 cent rounding policy (and the related difficulties arising from the current ticketing system on the trains)
- The desirability of moving to pre-paid methods of paying for travel
- The desirability of implementing more integrated fares (and improved transfer capability)
- The removal of the 50c rounding policy will make future increases simpler, as will the increasing usage of pre-paid tickets. Improved fare integration, and the possible expansion of fares such as Kapiti Plus, also needs to be investigated.

6.4.3 Fare policy review

This review has only addressed fare levels and has not looked at wider fare policy i.e. the review has not addressed issues such as the appropriateness of the zonal system, the zones themselves, concession availability and levels etc. The last major review of fare policy took place in 2006 and resulted in the common fare structure and zonal fare system that is currently in place. It is appropriate that this be reviewed again at some time. The proposed NZTA farebox recovery policy suggested reviews of fare policies take place every three years; our submission on the NZTA policy suggested the reviews take place every five years. This would mean a review is due next year.

However before such a review takes place, it is preferable that several outstanding matters affecting fares be resolved, in particular:

- The Greater Wellington procurement strategy, especially the issue of gross or net contracts

- The SuperGold card review, and its impact on fare revenue
- The proposed NZTA farebox recovery policy.

6.5 Agreement of operators

The aim of the fare increase is to improve the farebox recovery of contracted services and thus to reduce the costs to the Council of its operator contracts. This means that the price of these contracts needs to be reduced in recognition of the increase in revenue flowing to the operator (the operators should be in no better or worse situation after the increase than they were prior to the increase). It is necessary therefore that agreement on any fare changes be reached with the operators, and until such agreement can be reached the increase should not be implemented.

7. Communication

No communication is needed at this stage. Discussions will need to be initiated with operators, and any proposed fare increase will be the subject of public consultation through the Council Annual Plan process.

8. Recommendations

That the Committee recommend to Council that it:

1. ***Receives the report.***
2. ***Notes the content of the report.***
3. ***Notes that the Council 10-year Plan 2009-19 assumes a fare revenue increase of 3% per annum from 2010/11 onwards.***
4. ***Notes that farebox recovery levels are predicted to fall below the Council target level of 45-50% within the next two years.***
5. ***Agrees that fares be increased from September 2010 to generate a revenue increase of 3%, subject to satisfactory agreement of contractual terms with operators which see the financial benefits of the fare increase flowing to the Council.***
6. ***Agrees that the preferred fare increase scenario set out in this report be the starting point for discussion with operators, but acknowledge that all options remain open at this time.***
7. ***Notes that reports on progress with operator discussions will be reported back to the Transport and Access Committee.***
8. ***Notes that consultation on the proposed fare revenue increase will occur with the public as part of the preparation of the Council Annual Plan and the increase cannot be confirmed until the completion of the Annual Plan.***

Report prepared by:

Report approved by:

Brian Baxter
Manager, Design and
Development

Wayne Hastie
Divisional Manager, Public
Transport

Attachment 1: Current fares