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Committee Transport & Access Committee
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Review of SuperGold Card Free Travel Scheme

1. Purpose

To consider a submission on the review of the SuperGold card free off-peak travel scheme.

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

3.1 The scheme

The SuperGold card free travel scheme began on 1 October 2008. The scheme allows SuperGold card holders (those over the age of 65, and war veterans) to travel free on off-peak¹ urban public transport.

Transport operators are reimbursed for each SuperGold passenger at the rate of 75% of the average adult fare for that journey.

The scheme is funded by Central Government. Funding of \$72m over four years (equivalent to \$18m per year) has been provided.

The NZ Transport Agency (NZTA) administers the scheme at a national level. Regional councils undertake the local scheme administration, including negotiating contracts with operators and determining the average adult fare. NZTA and regional council costs are fully reimbursed from the scheme budget.

3.2 National usage

Details of usage of the scheme by region for the first year of the scheme are set out in **Attachment 1**.

¹ Off-peak is defined as between 9am and 3pm, and after 6.30pm on weekdays, and all day at weekends and public holidays

The figures show that 1.66 million trips have been made at a total cost of \$4.37 million.

3.3 Usage in this region

In this region, in the first year of the scheme, 1.67m passenger trips were made at a total cost to the scheme of \$4.4m.

SuperGold passengers accounted for 9.4% of all off-peak passengers in this region in the first year of the scheme, and 4.7% of all passengers.

SuperGold statistics for this region include the following:

Cardholders	55,874
Wellington cardholders as a percentage of NZ total	10.4%
Number of trips made in first 12 months	1.67m
Annual trips per Wellington cardholder	29.6
Wellington trips as a percentage of the NZ total	20.7%
Operator reimbursement in first 12 months	\$4.4m
Wellington reimbursement as a percentage of NZ total	24%
Average reimbursement payment per trip	\$2.62

Usage in this region by month to date is shown in **Attachment 2**.

3.4 The issues

There is no suggestion that the scheme will not continue or that it will undergo any major changes; the only issue seems to be that the scheme is exceeding its budget.

Total national costs in year one of the scheme were \$18.4m. It is certain that insufficient funding will be available to cover the likely future costs of the scheme given that:

- the budget is only \$18m per year
- the number of SuperGold card holders will increase each year as the population ages and
- fare increases are likely throughout the country (which will increase the reimbursement amount and thus put further pressure on the scheme budget).

This has led to the Ministry of Transport, in association with the NZ Transport Agency, undertaking a review of the scheme. The aim of the review is limited to possible changes to the scheme to ensure it remains within the budget allocation (although no target level of reduction has been suggested).

A discussion document has been released. Submissions are invited, and are due by 26 April.

4. The Discussion Document

The Discussion Document states that the scheme as it is cannot continue given the current (fixed) budget. And the Discussion Document indicates that it is unlikely that an outcome of the review will be an increase in government funding for the scheme.

The Discussion Document is silent as to the level of saving needed, although it seems likely that an annual reduction of perhaps \$2m - \$3m will be needed in 2010/2011 (compared to the first 12 months of the scheme) to keep within budget.

The Discussion Document proposes five options to reduce the cost of the scheme:

- Reduce the operator reimbursement rate
- Cap operator reimbursement payments at 2009/2010 levels
- Change the definition of eligible services²
- Remove/reduce administration payments and
- “Others” i.e.
 - Change the hours of the scheme
 - Introduce a card with photo identification.

Each one of these options is discussed further below.

4.1 Operator reimbursement rate

At the moment operators are reimbursed for each SuperGold trip at the rate of 75% of the average adult cash fare for that trip. This rate was based on that used for similar schemes in Wales and Scotland.

The Discussion Document argues that because the scheme has generated an increase in patronage, 75% reimbursement is too high.

A 1 percentage point reduction in the operator reimbursement rate saves \$250,000 annually. Thus a 10 percentage point reduction would generate sufficient saving to keep the scheme within budget.

² Subsequent to the release of the *Discussion Document*, NZTA advised that “this option is no longer being consulted on”. This presumably means that Government is no longer considering removing certain services, such as the Waiheke Island service, the Wairarapa train and Wellington Airport service, from the scheme.

The Discussion Document also raises the option of different reimbursement rates for different regions, suggesting different rates for “metro, urban and rural areas” (as occurs in England).

Another approach suggested is to progressively lower the reimbursement rate in future years.

4.1.1 Council response

Reimbursement is needed because the operator is now carrying free someone who previously would have paid a full fare. The operator receives only 75% of the fare because it is assumed that the free fares will generate an increase in travel. The operator needs to carry 25% more passengers to break even e.g. if pre-SuperGold an operator carried **six** passengers paying \$2, the operator would have received \$12. Now the operator is reimbursed \$1.50 (75% of \$2) per passenger so needs to carry **eight** passengers to maintain revenue levels.

The Discussion Document suggests that operators are being “over-reimbursed”; however little evidence is produced to support that contention. In fact the Discussion Document states that “*there is currently little information per region available to determine what level of additional patronage of this age group was generated by the scheme*”. The Discussion Document further suggests that what little information is available suggests that perhaps in Auckland the reimbursement level may be too high, but the level in Wellington is about right.

An analysis undertaken by Council officers of train off-peak patronage in this region does not indicate any level of increase in usage from the SuperGold card scheme. This would imply that the reimbursement rate should not be reduced.

It has been easy for various commentators to suggest that the scheme can be “saved” by simply reducing the operator reimbursement rate. But unless operators have had a 25% increase in patronage (of those aged over 65) they will be losing money on the scheme. And any patronage increases are likely to be varied, as some services, such as the Waiheke Island ferry, the Eastbourne ferry, the Cable Car etc, are more attractive to SuperGold card holders than others.

Thus a reduction in the reimbursement rate is not the simple answer it may at first seem.

Reducing the operator reimbursement rate is also not sustainable on a long-term basis. Future fare increases will mean the reimbursement rate should be increasing rather than decreasing. At some stage therefore the budget must be increased to at least reflect inflation.

It should be noted that any change in the reimbursement rate will not only impact on operators, but will also have a direct impact on this council. Operators are affected in **net** contract situations (most of this regions bus contracts are net). But in **gross** contract situations (such as the train contract), it is the Council that will directly be affected by any reduction in the reimbursement rate. Approximately 250,000 SuperGold trips are made

annually on the trains in this region, and the reimbursement is currently \$4.50. A change in the reimbursement rate of 1 percentage point will reduce revenue to this council of \$15,000 per year (a rate impact of \$6,000).

Further research as to the impact on patronage of the scheme is needed before any change to the reimbursement rate should be addressed. The suggestion of differing reimbursement rates has some merit, but further detail on this is needed (and the research on patronage effects of the scheme still needs to be undertaken before considering differing rates).

It is suggested therefore that this Council **not** support any reduction in operator reimbursement until further research has been undertaken to identify any changes in patronage levels. It is suggested that NZTA/MOT be encouraged to undertake this research.

4.2 Cap operator reimbursement rates

The Discussion Document suggests that operator reimbursement could be capped in future years at the amount paid in the 2009/10 financial year. This would ensure that the scheme stays within its budget.

The Discussion Document suggests that capping could apply to either all services, or just to those that contribute disproportionately to the costs of the scheme. Thus, for example, the reimbursement for the Waiheke Island ferry could be capped.

4.2.1 Council response

The principle behind capping is that if operators are accepting (as they seem to be) of the reimbursement they are receiving now, then no further reimbursement is needed.

This is an overly simple solution however, which ignores varying patronage impacts (and again suggests that more research is needed). This option also raises an issue regarding how to provide for new services. And any future fare increases will mean a reduction in the reimbursement rate.

But this option may be useful for those services such as the Waiheke Island ferry.

It is suggested that Council support this option being adopted in the short-term, pending further research on the patronage effects of the scheme. But this option seems unlikely by itself to generate sufficient savings.

4.3 Change the services that are eligible

Subsequent to the release of the Discussion Document, NZTA have advised that this option is no longer subject to consultation. This advice is presumably a response to the public reaction to suggestions that in particular, the Waiheke Island ferry and Wairarapa train service may no longer be eligible for the scheme.

The Discussion Document also questions whether “premium” services such as the Wellington Airport Flyer service should be reimbursed at a premium level, or at the level of the cheaper parallel services.

4.3.1 Council response

It is perhaps unfortunate that Government has withdrawn this as an option, as the cost of the Waiheke Island service is clearly jeopardising the whole scheme. The reimbursement for the Waiheke Island ferry service was \$2m for the first year of the scheme (23% of the Auckland scheme costs, and 11% of the total NZ scheme costs). The Wairarapa train service cost \$150,000 for the same period (3.4% of the Wellington cost, and less than 1% of the total NZ scheme cost).

It seems logical, given the cost and “holiday” nature of the Waiheke service, to remove it from the scheme (or at least restrict its use to local residents). The same logic does not apply to the Wairarapa train however – its cost is minimal and it is not a holiday service. And it also seems logical to limit payment for premium services where a cheaper parallel service exists.

The Airport Flyer currently costs the scheme about \$600,000 a year. The reimbursement rate for this service is much higher than parallel services (because of the higher fare structure on the Flyer). Many people use the Flyer when they could just as easily use another service (and one that would be at less cost to the scheme).

It is suggested therefore that, assuming the Waiheke Island ferry service is to remain in the scheme, Council support changes to the way that service is funded. This might involve a reduction in the reimbursement rate for that particular service, restricting its use to Waiheke Islanders, or a cap (at a lower rate than for other services) on spending.

It is also suggested that Council support the reimbursement rate for premium services, where a cheaper parallel service exists, being at the rate for the cheaper service.

4.4 Remove/reduce payments for administration costs

Currently NZ Transport Agency and regional councils receive full reimbursement of their costs from the scheme budget. Regional councils received \$340,000 in the first year of the scheme; NZTA received \$475,000.

The Discussion Document suggests that this reimbursement either be “removed” (presumably this means that councils would receive no reimbursement for their work on the scheme) or reduced.

4.4.1 Council response

Any removal or reduction in the reimbursement of council administration costs should be strongly resisted – this is a Central Government scheme and regional councils should not be expected have to administer the scheme without reimbursement.

Future costs are likely to be much lower when the scheme settles down - the administration costs were relatively high in year one of the scheme because of all the establishment costs. Thus any savings from this area will be limited.

It is suggested that Council not support this option.

4.5 Definition of off-peak

The hours the scheme operates are largely standard through NZ, but Auckland and Invercargill have slightly different hours. The standard off-peak hours are 9am to 3pm, and then from 6.30pm. But in Auckland the 3pm to 6.30pm period is classed as off-peak (but all trips made in this period are funded by ARTA), and in Invercargill off-peak stops at 2.30pm).

The Discussion Document does not propose any change to the standard hours; rather it seeks feedback on the desirability of having a truly consistent scheme. However there is some pressure from users to extend the hours of the scheme (which would likely increase the cost of the scheme).

4.5.1 Council response

The current (standard) hours are logical from an operational perspective and there has been little pressure to change them (other than from those who have been to Auckland and think Aucklanders are receiving some sort of advantage).

While it may appear logical from an administrative and advertising perspective that all regions adopt the same hours, it is not an absolute necessity.

It is suggested that Council submit that the scheme hours stay as now, and continue to allow regional differences.

4.6 Photo ID

While there is provision for SuperGold cards to include a photo, virtually all currently issued cards do not have a photo of the cardholder. Cards thus can be used by someone other than the cardholder (presumably by someone aged less than 65), thus increasing the cost of the scheme.

The Discussion Document indicates that while some fraud is likely to be occurring, there is no firm evidence of this.

4.6.1 Council response

At the moment operators i.e. the drivers/guards, are responsible under the SuperGold contracts for checking eligibility. Undertaking this without a photo on the card is difficult.

It seems reasonable for card-holders to have their photos on the card. It also seems reasonable for card-holders to have to pay any costs associated with including photos. Experience with Total Mobility indicates that the use of a photo identification card results in a reduction in the usage of the scheme i.e. it reduces the fraudulent use of the scheme by those not eligible.

Cards are re-issued every three years, and photos could gradually be phased in. The cost however of including photos on cards is likely to be about \$5m, and it seems unlikely that fraud is anywhere near this amount.

It is suggested that Council not support the introduction of a photo on the cards until such time as any evidence of substantial fraud exists.

5. Other comment

5.1 Scheme budget

While the Discussion Document makes it clear that the budget for the scheme is set, if there are to be no budget increases then the scheme will simply not be sustainable. Increases in the number of cardholders will put increased pressure on the budget. And fare increases over the coming years mean further pressure. Many of these fare increases will be driven by pressures from NZTA such as through the farebox recovery policy, and reductions in funding. At the very least inflation increases in the current four-year budget should be provided, and in future budgets.

It must be remembered that the \$18m budget was simply an estimate of how many people might use the scheme. The fact that actual expenditure was close to the budget estimate is a credit to those who made that estimate. But the initial estimate might just as easily have been \$20m, in which case there would now be no problem.

It is suggested therefore that Council strongly submit that, in association with the other changes suggested in this paper, the budget for the last two years of this current four-year allocation be increased by inflation (at least for years three and four), and that future budgets be set to reflect likely usage and costs.

6. Summary

It is suggested that the Council submission be as follows:

- More research regarding the patronage impacts of the scheme should be undertaken by NZTA/MOT before any change is made to the operator reimbursement rate
- Reimbursement payments be capped at 2009/10 levels pending the completion of the patronage research
- Changes should be made to the way the Waiheke Island ferry participates in the scheme, and how it is reimbursed
- Premium services, such as the Wellington Airport Flyer, should be reimbursed at the same rate as cheaper parallel services
- No change be made to the reimbursement of administration costs
- A photo should not be added to the card unless/until there is evidence of fraudulent use.

- The hours for the scheme should be unchanged, and remain flexible.
- The budget should be increased, at least in line with inflation.

A draft submission is at **Attachment 3**.

7. Communication

No communication is required.

8. Recommendations

That the Committee:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*
3. ***Notes** that the SuperGold card free travel scheme is being reviewed, and submissions have been sought on a discussion document.*
4. ***Approves** the submission at attachment 3.*

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Attachment 1 **SuperGold card use by region**
Attachment 2 **SuperGold card use in Wellington region**
Attachment 3 **Draft submission**