greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

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Annual Public Transport Fare Review 2012

1. Purpose

To undertake the annual review of public transport fare levels, and make a recommendation regarding the need for a fare increase in 2012.

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 Act).

2.1 Significance of the decision

Officers have considered the significance of the matter, taking into account the Council's significance policy and decision-making guidelines. Officers recommend that the matter be considered to have medium significance.

The matters requiring decision will have a moderate impact on a large number of residents and ratepayers.

Transport fares changes have had a history of generating public concern within the region.

The 3% fare revenue increase is consistent with the existing approved Long Term Council Community Plan 2009-19.

2.2 The decision-making process

Officers have taken into account the principles set out in section 14 of the Act and the need to manage the Council's resources prudently

Officers advise that there is no process for making this decision explicitly set out in the Local Government Act 2002 or any other enactment.

3. Options

Officers consider that the Council has the option to increase the fare revenue or decline to increase the fare revenue.

Officers consider all options available have been appropriately identified and assessed.

4. Community views and preferences

Views and preferences are already known to the Council due to previous engagement with the community.

5. Background

5.1 Why review fares?

5.1.1 Council fare policies

The Regional Public Transport Plan 2011-2021 requires Council to "*review fare levels annually….*" *(Method 3, Policy 7.1*). The review is undertaken against Council fare policies contained in the Revenue and Financing Policy and Regional Public Transport Plan.

The Council's Revenue and Financing Policy requires that passenger transport services be funded by "*a target of 45-50% user charges*". In other words, fares should cover 45-50% of the costs of providing services. For the purposes of this calculation, costs are defined as *operational costs plus Council debt servicing (associated with capital expenditure) costs*. Other costs such as Council administration costs and general network costs (such as bus shelters, park-and-ride, real-time information etc) are <u>not</u> included in the calculation.

The *Regional Public Transport Plan* contains a number of fares policies, of which the "farebox recovery policy" is most relevant. The farebox recovery policy provides for fares to cover a target of at least 55-60% of costs. While at first sight this recovery level seems different from that set in the Revenue and Financing Policy, the difference is a result of the different calculation method[1] used in farebox recovery policy (the farebox recovery policy calculation excludes the debt servicing costs used in the Revenue and Financing Policy incorporates commercial services and SuperGold card and thus is a higher target level).

While Council has previously decided that the Revenue and Financing policy provides a truer picture for Council, both calculations will be used in this review.

Other fare policies included in the *Regional Public Transport Plan* include the following:

[1] The formula for calculating the farebox recovery policy is set by New Zealand Transport Agency

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

Ensure that fares paid by passengers reflect the degree of private benefit received from public transport services (Policy 7.1)

Ensure that the fare system is easy for customers and operators to understand and use (Policy 7.2)

Review and implement the farebox policy as part of Greater Wellington's Long Term Plan review (Policy 7.1, Method 1)

Review compliance with the farebox recovery targets annually (Policy 7.1, Method 2)

Review fare levels annually, with a preference for smaller regular changes to fare levels rather than large infrequent changes (Policy 7.1, Method 3)

Changes from year-to-year in the costs of providing passenger transport services, and in the number of passengers using those services (and hence the level of revenue), means that the percentage of costs paid by passengers will differ from year to year.

While there are no specific policies which guide fare setting and the discount levels, the current approach has been:

- The smartcard/ten-trip fare is the base against which other fares are set
- The cash fares are set at a minimum of a 25%[2] premium to the equivalent single trip using a smartcard/ten-trip fare (and rounded up to the nearest 50 cents).
- Monthly ticket prices are set at three times the price of a smartcard/ten-trip ticket.
- School term tickets are set at 2.5 times the child monthly ticket.

5.1.2 Annual Plan budget assumptions

The Council's draft Long-Term Plan (which incorporates the 2012/13 budget) has been prepared on the assumption that, to match predicted cost increases, fare revenue will increase by 3% in 2012/13 and each year beyond that.

Given that patronage is not increasing (patronage for the first six months of the 2011/12 financial year does show a small (2%) increase, but this is mostly

[2] This is the equivalent of a 20% 'discount' for smartcard/ten-trip fares.

associated with the Rugby World Cup period), the only way fare revenue can increase is through a fare increase[3].

Note that the extra fare revenue arising from the 2011 fare increase (introduced on 1 November) has been taken into account in the Council budgets.

5.2 The costs of providing public transport services

Most public transport services (bus, rail, and ferry) in this region are provided under contract to this Council. This is because these services cannot operate commercially and require a subsidy to ensure their existence.

The gross operating cost[4] of providing these services in this region for this current financial year is expected to be $140m. Of this amount, passengers currently contribute about half through fares; the balance is funded in approximately equal portions between the ratepayers of this region and the New Zealand Transport Agency (NZTA) i.e. passengers pay half, ratepayers one quarter and NZTA one quarter.

If the passenger contribution was to drop, the ratepayers and NZTA would have to contribute more. A 3% revenue increase equates to a $0.7m impact on rates; this amount is consistent with the amount budgeted.

The costs of providing passenger transport services usually increase each year. The last year has seen an over 5% increase in costs[5] with operators being reimbursed by Council through increased contract payments.

In the absence of an off-setting increase in patronage this increase in costs will have the effect of lowering the percentage contribution from passengers. An increase in fare levels is likely to be needed to maintain the required contribution from passengers.

5.3 Annual fare review

Fares are reviewed by Council annually. The 2011 review resulted in an increase in fares that took effect on 1 November 2011.

As indicated above, Council policy is that any fare increases should be small and occur on a regular basis rather than have large infrequent increases. Council has also resolved that fare reviews should take a multi-year perspective.

It was signalled by Council when it agreed to the 2011 fare increase that an annual fare increase of around 3% was likely for each year of the next ten years to maintain the balance between ratepayer and passenger contribution[6].

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[3] Patronage increases on services provided under gross contracts have the potential to increase revenue to Greater Wellington. The rail contract is a gross contract, and this does show a small increase in patronage. For services provided under net contracts (most bus contracts are net) any increase in passenger revenue arising from patronage increases goes to the contractor.

[4] 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.

[5] NZTA public transport diesel bus inflation index

5.4 Previous fare increases

Fares last increased in November 2011. That increase was designed to increase overall revenue by 3%.

Key components of the 2011 increase included:

- An increase in most multi-trip ticket prices by about 5%
- An increase in zone 9-14 cash fares
- Some changes to fares on the Johnsonville rail line were made to make them more consistent with other lines.

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

Fare increases prior to the 2011 increase were:

- 2010 (by 3% plus the GST increase of 2.5%);
- 2008 (by an average of 10.2%); and
- 2006 (by approximately 15%, when the current zone system was introduced).

6. 2012 Fare Review

This paper focuses on whether the Council user contribution policy, and farebox recovery policy, are being met.

6.1 User contribution

The level of user contribution is calculated for the purposes of the Council Revenue and Financing Policy as being the total fare revenue from the whole public transport network, divided by the total operating costs including Council debt servicing costs i.e.

$$\text{User contribution} = \frac{\text{total fare revenue}}{\text{total operating costs (including Council debt servicing costs)}}$$

As discussed above, the Council target user contribution is 45% - 50% i.e. the fares should cover about half the total costs.

6.1.1 User contribution levels

The current level of user contribution and the predicted level for the next three years are shown below.

The figures show the user contribution if there is no fare increase and the contribution level if there is an annual fare revenue increase of 3%.

[6] The ratepayer and NZTA contributions are likely to increase by a similar level.

	2012/13	2013/14	2014/15
User contribution target	45-50%	45-50%	45-50%
User contribution (assuming no annual fare increase)	45.0%	43.2%	41.1%
User contribution (assuming a 3% fare revenue increase annually)	46.1%	45.3%	44.1%

The table shows that without a 3% increase in fare revenue, the user contribution will fall to the very bottom of the Council target level in 2012/13, and then fall below the level in the years after that.

Even with a 3% fare revenue increase, the user contribution is falling, and will drop below the target range in 2014/15.

This indicates that a 3% annual increase in fare revenue is needed to keep the user contribution within the Council target range (and a slightly higher increase is perhaps needed in later years).

Note that any fare increase (assuming it takes place from October 2012) would not fully impact on the user contribution ratio until 2013/14.

It could be argued that the user contribution is within the target range (albeit at the very bottom of the range) and therefore an increase is not necessary. However if there was to be no increase in 2012, a larger increase would be needed in 2013. This would be contrary to Council policy of small and frequent increases rather than infrequent increases.

6.2 Farebox recovery policy

The farebox recovery policy figures are shown below (remembering that the calculation differs from the user contribution policy as noted in 5.1.1).

The table is the same as that shown above, i.e. it shows the target range, and the predicted levels for the next three years with and without a 3% fare increase.

	2012/13	2013/14	2014/15
Farebox recovery target	55-60%	55-60%	55-60%
Farebox recovery (assuming <u>no</u> annual fare increase)	54.1%	53.0%	52.0%
Farebox recovery (assuming a 3% fare revenue increase annually)	55.4%	55.5%	55.7%

The table shows the same result as for the user contribution policy, i.e. without a regular 3% increase in fare revenue, the target levels will not be met.

6.3 Impact of a fare increase on patronage

Patronage is expected to fall when fares are increased – current experience indicates that a real fare increase (above underlying inflation) of, for example, 3% will result in a drop in patronage of about 1% - this is known as the “fare elasticity” which in this case is stated as being -0.33.

This would normally mean that in order to generate a 3% increase in revenue, a slightly higher fare increase is needed. However patronage is steady had seems to have been relatively unaffected by the past fare increases (although it might be argued that the increases have restricted growth that may otherwise have occurred). That means that a fare increase of 3% may be enough to generate the required 3% increase in revenue[7].

7. Fare review conclusions

A fare increase generating a revenue increase of 3% is recommended because:

- The users contribution to the costs of providing services is predicted to drop below the Council target range;
- A small increase now will keep the user contribution at the lower end of the Council target range;
- Any delay now will result in the need for higher fare increases in the future.

8. Fare increase options

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

- Cash fares need to match the available coins (a 3% increase on the $2.00 cash fare becomes $2.06, which would need to be rounded to $2.10 in order to provide an increase in revenue as well as making it practicable. This is a 5% increase); and
- The operators have a strong preference 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). Rounding the fare from $2.00 to $2.50 would be required to generate extra revenue, but this would be a 25% increase.

Another factor to consider with fare increases is preserving the discounts between the various tickets. Council has previously expressed a strong

[7] The NZTA requirements for contract adjustments consequent to fare increases require an elasticity component, but this is based on the real i.e. over and above the level of inflation, level of the increase rather than the actual increase.

preference to encourage, through fare pricing, the use of multi-trip prepaid tickets (smartcards, ten-trip, monthly and term tickets). This rewards regular users, and speeds up on-vehicle revenue collection. Cash fares are at least 20% higher than the equivalent cost of a multi-trip ticket and the fare schedule needs to preserve this. Currently, multi-trip tickets account for about two-thirds of all trips.

Increases in the past have involved focussing on increasing cash fares in one year, and multi-trip fares in the next year, although no long-term programme has been developed.

This year a five-year programme of fare increases is being considered. This programme features all multi-trip tickets being increased by the same percentage each year, but only some cash fares being increased in any one year. Over the five year term of the programme all fares will have increased by the same amount. The smartcard/ten-trip fare is retained as the base fare, with its minimum 20% discount to the cash fare being preserved. The programme is discussed further below.

8.1 Preferred option

Initial discussions have been held with operators regarding a possible fare increase in 2012. The operators support the need for a fare increase, and a preferred option has been developed.

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.

The base year used to apply the 3% increase is 2010 for cash fares (which was when cash fares were last increased), and for multi-trip fares the base year is 2011 (which was when multi-trip fares last increased).

An example showing adult cash fares for 1-7 zone travel is set out below:

Zone	2010	*2011 Notional*	2011 Actual	*2012 Notional*	2012 Actual	*2013 Notional*	2013 Actual	*2014 Notional*	2014 Actual
1	$2.00	*$2.06*	$2.00	*$2.12*	$2.00	*$2.18*	$2.00	*$2.25*	$2.50
2	$3.50	*$3.60*	$3.50	*$3.71*	$3.50	*$3.82*	$4.00	*$3.94*	$4.00
3	$4.50	*$4.63*	$4.50	*$4.77*	$5.00	*$4.91*	$5.00	*$5.06*	$5.00
4	$5.00	*$5.15*	$5.00	*$5.30*	$5.50	*$5.46*	$5.50	*$5.62*	$5.50
5	$6.00	*$6.18*	$6.00	*$6.36*	$6.50	*$6.55*	$6.50	*$6.75*	$7.00
6	$7.50	*$7.72*	$7.50	*$7.95*	$8.00	*$8.19*	$8.00	*$8.43*	$8.50
7	$8.50	*$8.75*	$8.50	*$9.01*	$9.00	*$9.28*	$9.50	*$9.56*	$9.50

The table shows the notional fare in each year (in italics), and the actual rounded cash fare. Those fares which increase are highlighted.

Multi-trip tickets (smartcards, ten-trip tickets, monthly passes and term passes) simply increase by 3% each year.

This means that in each year all the multi-trip fares change, but only some of the cash fares change. However over the five years all the increases will even out.

This option does mean that in order to retain the equity and fairness of the fare structure the programme needs to be retained over the next five years.

The preferred option will result in the following changes in 2012:

- All multi-trip tickets (ten trip, monthly, quarterly, term tickets) increase by 3%
- Adult cash fares will increase by 50c for 3-14 zone travel. In 2013 the increases will affect zone 2, 7-8 and 11-14 zone travel
- Child cash fares will increase by 50c for 7-9 and 13-14 zone travel (in year two the increases affect 4-6, and 10-12 zone travel).

It is also proposed to abolish the city section fares in 2012. City section fares are now virtually the same as the one zone fares - the only difference is that the city section fare is ten cents per trip less than the one zone fare if the trip is made with a smartcard.

If the Council agrees to a 2012 fare increase, the next step in the process is to continue discussions with operators regarding developing the preferred option, as well as addressing individual operators own fare products and multi-operator products.

Other than what is recommended in this paper, no changes are proposed to discounts, concessions, or ticket types.

8.2 Implementation date

1 October is a convenient date for fare increases. 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 (the 1 November date last year caused some issues with term tickets), and coincides with the NZTA inflation index (which makes the contract adjustments easier).

8.3 Review of the fare structure

This paper has only addressed fare <u>levels</u> 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.

The Council will be aware that a review of the fare <u>structure</u> is currently underway. A report on progress with that review is scheduled to be presented to the Economic Wellbeing Committee at its April meeting. While the outcome of the fare structure review will not be known for some months, the fare level review is being undertaken with the fare structure review in mind. Thus the fare level review proposes no changes other than to fare levels.

8.4 Agreement of operators

In order for the benefits of the fare increase to flow to Greater Wellington, the financial impacts of any fare increase needs to be incorporated into the contracts Greater Wellington has with the operators. That means that the price of these 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 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.

Meetings with the operators will continue to discuss and develop the proposed increase. The outcome will be reported back to this Council, and eventually a revised fare schedule will be provided for approval.

9. Communication

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

10. Recommendations

That the Council:

1. ***Receives** this report*

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

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

4. ***Notes** that unless fares are increased, user contribution levels are predicted to fall below the Council target levels within the next two years*

5. ***Agrees** that, subject to approval of the Long Term Plan 2012-2022 by Council, fares be increased from 1 October 2012 to generate a revenue increase of 3%, and 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 basis of discussion with operators, but acknowledges that all options remain open at this time*

7. ***Notes** that reports on progress with operator discussions will be reported back to the Council*

8. ***Notes** that consultation on the proposed fare revenue increase will occur with the public as part of the preparation of the Council's Long Term Plan 2012-2022, and that the increase cannot be confirmed until the completion of that Plan.*

Report prepared by:	Report prepared by:	Report approved by:
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Attachment 1: Current fares (effective from 1 November 2011)