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Committee Council
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Annual public transport fare review 2011

1. Purpose

To undertake the annual review of public transport fare levels, and make a recommendation regarding the need for a fare increase in 2011.

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 Why review fares?

There are various GW and NZ Transport Agency policies regarding how much passengers should contribute towards the costs of providing public transport services in the region. The passenger contribution is expressed as a percentage of costs, and is known as the revenue recovery rate.

The more the passengers contribute, the less the ratepayers must contribute (and the less passengers contribute, the more that ratepayers contribute).

Changes from year-to-year in the costs of providing passenger transport services, and in the number of passengers using those services, means that the percentage of costs paid by passengers will differ from year to year. Council has a policy regarding how much passengers should contribute.

The aim of the review is to monitor compliance with council policies, and make recommendations if necessary for a change in fares. The review is undertaken at this time of year in conjunction with the preparation of Council budgets for the coming year.

3.2 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 subsidy to ensure their existence.

The gross operating cost of providing these services in this region is currently approximately $141m per year[1]. Of this amount, passengers currently contribute about 48% through fares; the balance is funded in approximately equal portions between the ratepayers of this region and the NZ Transport Agency (NZTA) i.e. passengers pay 48%, ratepayers 26% and NZTA 26%.

If the passenger contribution was to drop to say 46%, the ratepayers and NZTA would have to contribute 27% each. One percentage point reduction in the passenger contribution means an extra $700,000 is required from ratepayers.

The costs of providing passenger transport services usually increase each year. In the absence of an off-setting increase in patronage (patronage is currently static at best) this increase in costs will have the effect of lowering the percentage contribution from passengers. Assuming that service levels are to be maintained[2], an increase in fare levels is likely to be needed to maintain the percentage contribution from passengers.

3.3 Annual fare review

Fares were last reviewed by Council in February 2010. That review resulted in an increase in fares that took effect on 1 October 2010.

Council has previously agreed 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.

It was signalled by Council when it agreed to the 2010 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.

3.4 Previous fare increases

The October 2010 fare increase averaged about 3%. Fares also increased at that time by a further 2.2% due to the increase in GST.

Key components of the 2010 increase included:

- An increase in the inner city section (in Wellington and Porirua) cash fare from $1 to $2 (but introducing a smartcard fare of $1.50)
- An increase in most cash single fares by $0.50
- An increase in fares for one zone trips

[1] Operating costs include service contract payments, 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] A reduction in service levels would reduce costs, and therefore increase the overall proportion paid by passengers

- No increase (other than for GST) multi-trip fares for 2 - 10 zone trips
- An increase in 11-14 zone trips (affecting Wairarapa to Wellington train travellers).

It was signalled at the time of the 2010 increase that the next fare increase would likely be applied to multi-trip tickets and not cash tickets.

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

Prior to the 2010 fare increase, fares increased in 2008 (by an average of 10.2%), and in 2006 (by approximately 15%, when the current zone system was introduced).

3.5 Fare recovery policies

3.5.1 This Council

There are various Council policies relevant to fare setting. Perhaps the most important is contained in the Council's Revenue and Financing Policy which requires that 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.

[For the purposes of this calculation, GW defines costs 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 Passenger Transport Plan, and the Operational Plan, include 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 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."*

3.5.2 NZ Transport Agency

NZTA introduced what it calls a "farebox recovery" policy in 2010. The NZTA policy states that, as a condition of receiving NZTA funding, regions must include a fare recovery policy in their regional public transport plans (this Council is currently part-way through the process of reviewing its Plan).

The NZTA policy essentially requires that regions recover (on a national basis) 50% of the costs of providing services from fares. Regions are required to set targets for farebox recovery, and have three years to meet their targets.

Based on the NZTA calculation method[3], the fare recovery level for the Wellington region is currently 53%, and thus it roughly complies with that required by the NZTA policy.

More information on the NZTA farebox recovery policy requirements is contained in section 7 of this report.

3.6 Annual Plan assumptions

The draft Annual Plan for 2011/12 has been prepared on the assumption that fare revenue will increase by 3%. Given that no reductions in services are planned, and that patronage is not increasing, the only way this increase will be achieved is through a fare increase.

Note that the extra fare revenue arising from the 2010 fare increase (introduced on 1 October) has been taken into account in the Council budgets. Without a fare revenue increase, rates will have to increase by $800,000.

4. Fare Review

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

In accordance with the Council policies set out above, the matters to be focussed on 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.

[3] NZTA calculates farebox recovery on a different basis to GW, hence the difference in the ratios.

4.1 User contribution (farebox recovery)

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

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

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

4.1.1 Farebox recovery

The farebox recovery calculation for this region is shown below. The cost and revenue figures are the latest Council estimates as used in the Council budget setting process.

	2010/11	**2011/12**	**2012/13**	**2013/14**
Operating costs ($m)	136	138	149	165
Debt servicing costs ($m)	5	7	8	10
Total costs ($m; A+B)	141	145	157	175
Fare revenue ($m) * (Assumes no fare increase)	67	68	72	76
Farebox recovery (using GW formula) *Assumes no fare increase*	47.5%	46%	44%	43%
Farebox recovery (using the NZTA formula) *Assumes no fare increase*	53.6%	52%	51%	49%
Farebox recovery (using GW formula) *Assumes a 3% fare increase*	47.5%	47%	46%	45%
Farebox recovery (using the NZTA formula) *Assumes a 3% fare increase*	53.6%	53%	53%	52%

* The estimates of fare revenue assume some "natural" growth in patronage, but no increase from fares

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 2012/13 unless there is an annual fare revenue increase of about 3%. Similarly, the farebox recovery will fall below the NZTA 50% level unless there is a fare revenue increase.

A 1% increase in fare revenue results in a 0.5% increase in the fare recovery ratio. A 3% increase in fare revenue will keep farebox recovery within the target range set by Council.

Note that any fare increase (assuming it takes place in September 2011) would not impact on the farebox recovery ratio until 2011/12, 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 GW 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 current 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)
Newtown	4kms	$2.46	$1.95	$0.77
Karori	6kms	$3.28	$3.55	$1.16
Miramar	7kms	$3.28	$4.14	$1.35
Island Bay	7kms	$3.28	$4.14	$1.35
Johnsonville	10kms	$3.28	$5.92	$1.93
Petone	14kms	$3.68	$8.29	$2.70
Porirua	21 Kms	$4.50	$12.43	$4.05
Wainuiomata	21kms	$4.50	$12.43	$4.05
Upper Hutt	33kms	$6.55	$19.54	$6.37
Paraparaumu	50kms	$8.18	$29.60	$9.65
Masterton	99kms	$13.00	$58.61	$19.11

The full cost (fixed and running) of a car journey (using 2010 AA Vehicle Operation Costs, which was based on petrol at $1.70 a litre – petrol is currently about $2 a litre) is 48.8 cents per km for a 0 - 1500cc car, 59.2 cents per km for a 1501- 2000cc car, 73.5 cents for a 2001 – 3500cc car, and 98.3 cents for cars over 3500cc. These costs are about 4% higher than in 2009. Parking costs (which can add around $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 the cost of 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 GW policy. Even though these comparisons are based on current fare levels, a small increase in fares will have minimal impact on these comparisons.

The situation changes however if only car operating costs (petrol, tyres and repairs, but excluding parking) are considered – it is only the longer trips (20km plus) 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

4.3.1 On patronage levels

Patronage is expected to fall when fares are increased – current experience indicates that a fare increase 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 means that in order to generate a 3% increase in revenue, a 4% average fare increase is needed.

4.3.2 On farebox recovery

A 4% fare increase will increase farebox recovery by about 2.0%.

4.4 Comparison with other NZ cities

Some comparisons between Wellington fares and those of other NZ cities is set out below:

Adult Cash

	Inner City	1 Zone	2 Zone	3 Zone
Wellington	$2.00	$2.00	$3.50	$4.50
Auckland (bus)	$0.50	$1.80	$3.40	$4.50
Auckland (rail)	$1.60	$1.60	$3.10	$4.10
Christchurch	$3.20	$3.20	$3.20	$3.20
Hamilton	$3.10	$3.10	$3.10	$3.10
Dunedin	$1.90	$1.90	$2.60	$3.20

Adult 10 trip/Smartcard

	Inner City	1 Zone	2 Zone	3 Zone
Wellington	1.50	$1.60	$2.46	$3.28
Auckland (bus)	$0.50	$1.50	$3.00	$4.05
Auckland (rail)	$1.36	$1.36	$2.71	$3.69
Christchurch	$2.30	$2.30	$2.30	$2.30
Hamilton	$2.30	$2.30	$2.30	$2.30
Dunedin	$1.75	$1.75	$2.30	$2.85

Distance travelled

	5km trip	10km trip	15km trip	20km trip	30km trip
Wellington	$2.46	$3.28	$3.68	$4.50	$6.55
Auckland	$3.00	$4.05	$5.04	$6.00	$6.90
Hamilton	$2.30	$2.30	$2.50	$4.80	$5.30
Christchurch	$2.30	$2.30	$2.30	$3.30	$4.20

Comparisons are difficult because of varying fare structures and zone sizes. But the tables indicate that Wellington fares are similar to those in Auckland.

For shorter trips, Wellington fares are similar to the rest of NZ; for longer trips they are either similar or slightly higher.

5. Fare review conclusions

This review indicates that public transport fares in this region are competitive with the true cost of car travel for an equivalent trip, especially for longer trips.

And the current farebox recovery ratio is within the Council target range of 45-50%. However the ratio is declining and is predicted to drop below the target range in 2013 unless there is an annual fare increase of about 3%.

Given the Council's wish to have small and frequent fare increases rather than large infrequent ones, a small increase in fares in 2011 will reduce the need for a larger fare increase in 2012 (an increase is still likely to be needed in 2012 but it will also be a small increase). A 3% increase in fare revenue from September 2011 will keep the farebox recovery ratio in the middle of the target range.

A small fare increase is also likely to help compliance with the NZTA farebox recovery policy.

The estimates also indicate that future 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 coincides with the Council Annual Plan process to allow consultation with the community. The timing of this process means that any increase would take effect from 1 September 2011.

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

- The users contribution to the costs of providing services is dropping below the Council target range;
- A small increase now will keep farebox recovery in the middle of the Council target range;
- A small increase now will help compliance with the NZTA farebox recovery policy; and
- Any delay now will result in the need for higher increases in the future.

6. 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:

- Cash fares need 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 operators have a strong preference of 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); and

- Taking a multi-year perspective, any increase should be focussed on those fares not increased in the 2010 increase (the 2010 increase primarily affected the city section, and one zone fares).

6.1 Preferred option

Some initial discussions have been held with operators, and a preferred option has been developed. The preferred option involves:

- Increasing all multi-trip tickets (ten trip, monthly, quarterly, term tickets) by 5%; and

- Leaving cash fares untouched.

This option is estimated to generate an increase in fare revenue of 3%, and will generally result in no increase for those trips that increased in price in 2010 (except for some Wairarapa train users).

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 $90 compared to the standard price for all other monthly three zone tickets of $98.20. The fares for the Paekakariki and Otaihanga services (which were not changed in 2010) also need to be brought into line with the standard fare structure.

The impact of this option will restore the previous discount-to-cash level of the multi-trip tickets. Ten trip tickets and smartcard fares have traditionally been 20% below the cash fares (with further discounts for monthly ticket users). This discount increased after the 2010 fare increase, but would be restored by this suggested fare increase option.

Assuming the Committee agrees to the preferred option, the next step in the process is to continue discussions with operators regarding their 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.

6.2 Review of the fare structure

This paper has only addressed fare levels and has not looked at wider fare policy issues such as the appropriateness of the zonal system, the zones themselves, concession availability and discount 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 a complete review be undertaken at some time in the near future. The NZTA farebox recovery policy requires reviews of fare policies take place every six years (or to coincide with reviews of the RLTS or LTCCP). A review has been scheduled for 2011/12.

6.3 Agreement of operators

The financial implications of any fare increase needs to be incorporated into the contract GW has with the operators. The price of these operator contracts need 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.

Fare increases also impact on the commercial services of operators, as they usually adopt the standard fare schedule on commercial services.

Meeting of the major operators will continue to discuss the proposed increase. The outcome will be reported back to Council, and eventually a revised fare schedule will be provided for approval.

7. NZTA fare recovery policy

NZTA require, as a condition of funding, that all regional councils develop a fare recovery policy as part of their Regional Public Transport Plan. The NZTA policy states that councils must:

- Set a fare recovery ratio target (or target range)
  - For the system as a whole, and
  - For each mode i.e. bus, train, and ferry
- Explain why the target has been chosen, how it will be applied, and how the policy contributes to the Regional Public Transport Plan, the regional Land Transport Strategy, the Government Policy Statement on land transport funding, and the Land Transport Management Act 2003
- Set out a strategy as to how the target will be achieved and a timeframe for doing so (the NZTA policy specifies a three year timeframe)
- Review fare price levels, discounts, concessions and ticket types annually

- Review fare structures at least every six years

- Report annually to NZTA on fare recovery levels.

The NZTA policy sets no specific fare recovery targets for each region, but:

- The national fare recovery ratio is 46% (2008/09 figures), and Wellington has the highest rate in NZ (55% according to NZTA 2008/09 figures)

- The overall NZTA objective is for a national fare recovery rate of 50% within six years (this essentially means that Auckland and Wellington, as by far the largest public transport centres in NZ, will need a recovery rate of at least 50%)

- Regional councils can set their own farebox recovery targets, but if NZTA is not satisfied with the target or progress towards achieving the target then NZTA funding to that council may be at risk.

This Council is currently developing its Regional Public Transport Plan (scheduled to be completed in July this year). A fare recovery policy will be included in that Plan, but in order to help guide the development of the Plan, it would be useful if the Council was to give some guidance as to what target recovery levels should be included in the draft Plan.

A target recovery level of 50% - 55% (i.e. based on current recovery rates using the NZTA formula) is suggested as a suitable target for the system wide farebox recovery. A draft Greater Wellington farebox recovery policy, which includes 50% - 55% as the target range, is included in the Economic Wellbeing Committee agenda for the 17 March meeting

This target range is based on current recovery levels and is likely to be acceptable to NZTA as the recovery level is based on existing Wellington recovery levels, and is higher than NZTA’s own target.

8. 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 Annual Plan process.

9. Recommendations

That the Council:

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

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

3. ***Notes** that the Council Ten Year Plan 2009-19 assumes a fare revenue increase of 3% per annum from 2010/11 onwards.*

4. ***Notes** that the draft Council Annual Plan for 2011/12 assumes a fare revenue increase of 3%.*

5. ***Notes** that farebox recovery levels are predicted to fall below the Council target level of 45-50% within the next two years.*

6. ***Agrees** that fares be increased from 1 September 2011 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.*

7. ***Agrees** that the preferred fare increase scenario set out in this report, i.e. approximately 5% increases for multi-trip tickets, be the basis of discussion with operators, but acknowledge that all options remain open at this time.*

8. ***Notes** that reports on progress with operator discussions will be reported back to the Economic Wellbeing Committee.*

9. ***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 that the increase cannot be confirmed until the completion of the Annual Plan.*

10. ***Notes** that a farebox recovery policy based on a recovery rate of 50% - 55% is included in the Economic Wellbeing Committee agenda for the 17 March meeting.*

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Attachment 1: Current fares