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Committee Council  
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## 2010 Fare increase update

### 1. Purpose

To update the Committee on progress with the proposed fare increase.

### 2. Consideration by committee

The matters raised in this report were considered by the Transport and Access Committee at its meeting on 15 June 2010 (**Report 10.324**). The Committee confirmed the recommendations contained in **Report 10.324**.

A motion to delay the non-GST component of the increase until June 2011, by which time half of the new trains should be in service (all the new trains should be here by November 2011), was defeated.

### 3. 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.

### 4. Background

#### 4.1 Council decisions

At its meeting on 9 February 2010, the Committee considered a paper (**Report 10.31**) on the annual fare review. The Committee noted that farebox recovery (the proportion of the costs of providing the service paid by the passenger) was within the target range set by Council (45-50%) but was forecast to fall below the target. The Committee agreed that a fare increase that generated extra revenue of 3% was required.

The Committee considered various fare increase options and recommended, as a basis for discussions with operators, the following:

- An increase in the city section and one-zone fares

- No increases for those fares that had increased substantially at the last fare increase (in 2008)
- Increases for 11-14 zone fares.

The Committee's recommendations were subsequently endorsed by Council (Report 10.85) at the Council meeting on 4 March 2010.

The increase was proposed to take effect on 1 September 2010.

Discussions with operators have been held and a new fare schedule, based on the recommendations of this Committee, has been agreed.

The Proposed Annual Plan for 2010/11 released in March 2010 assumed a fare revenue increase of 3%. This was highlighted in the Plan. This assumption has remained unchanged after the public submission process.

#### **4.2 GST increase**

Subsequent to the Council decision to raise fares, the Government has announced that GST is to increase from 12.5% to 15% on 1 October 2010.

The impact of this is that all fares will need to increase by the increase in GST (a 2.5% GST increase translates to a 2.2% increase on current fare levels). The GST increase has therefore been incorporated into the new fare schedule, and has been applied to all fares.

Because of the close proximity of the dates for the fare increase and GST increase, and the undesirability of having two increases only a month apart, it is proposed that the fare increase be delayed until 1 October.

### **5. The proposed new fare schedule**

A copy of the proposed fare schedule is at **Attachment 1**. The schedule includes the proposed **Greater Wellington increases** as well as the **GST increases**.

#### **5.1 The process of setting the fares for the GST increase**

The process of setting fares usually starts with setting the cash fare. The ten-trip fare is then set at eight times the cash fare; monthly fares are three times the ten-trip fare; and term fares are two-and-a-half times the monthly fares. Concession fares are set at half the adult fares.

However, as cash fares are required to be in multiples of 50 cents, a proposed small percentage increase in fares can actually result in large percentage increases, particularly for short journeys. For example, if the four zone concession fare (currently \$2.50) is to be increased to take account of the 2.5% GST increase, it must go to \$3.00. This is a 20% increase and if this cash fare is used as the base for all other fares, then all ten-trip and monthly fares will also increase by 20%. Such an increase was not considered appropriate.

With this proposed increase a different approach has been taken. This time the start point was the ten-trip fare. The increase was applied precisely to these fares (50 cent rounding is not applied to these fares as most of these tickets are purchased off-vehicle), and then the cash fare was increased (in all cases by 50 cents).

The effect of this is that, for example, the four zone ten-trip concession fare will increase from \$20 to \$20.50, which is a 2.5% increase. The cash fare increases from \$2.50 to \$3.00. This does have the impact of upsetting the previous strict relativities between the cash fares and the multi-trip fares (for example, the ten-trip fare is now less than seven times the price of the cash fare). But to do anything else would have resulted in a 20% increase in fares to cover the GST increase, and that was not considered appropriate. This increase should also have the desirable effect of encouraging passengers to use multi-trip tickets and smartcards (cash fares make up approximately 20% of all fares).

It was considered appropriate to increase all fares to accommodate the GST rise. But the majority of users will face only the 2.5% GST increase; it is only cash users, particularly those making relatively short trips, that will face a higher increase. And they have the option of reducing the increase by using a multi-trip ticket or smartcard.

## 5.2 The changes

The main changes proposed to the fare schedule are set out below. These changes have been developed and agreed by the region's principal transport operators.

### 5.2.1 City section

The city section fare applies within the Wellington and Porirua CBDs. The changes are as follows:

- Cash adult fare increased from \$1 to \$2 (smartcard fare \$1.50)
- Concession cash fare increased from \$1 to \$1.50 (smartcard fare \$1.10)

The increases include an adjustment for GST and a Greater Wellington fare increase. The cash city section **adult** fare is now the same as the one zone fare. But a new smartcard fare with a larger than usual discount has been introduced to encourage the use of smartcards.

No city section **concession** fare existed previously as it was the same as the one zone fare. That is still the case for cash trips, but a new smartcard fare has now been introduced to encourage the use of smartcards.

### 5.2.2 One zone

The one-zone fares have increased as follows:

- Adult cash fare from \$1.50 to \$2.00 (smartcard/ten-trip fare from \$1.20 to \$1.40)
- Concession cash fare \$1.00 to \$1.50 (smartcard/ten-trip fare from \$0.80 to \$1.20)

The increases include an adjustment for GST and a Greater Wellington fare increase.

### 5.2.3 Two zone

The two zone fare has increased as follows:

- Adult cash \$3 to \$3.50 (smartcard/ten-trip fare from \$2.40 to \$2.46)
- Concession cash \$1.50 to \$2.00 (smartcard/ten-trip from \$1.20 to \$1.40)

The increases include an adjustment for GST only (although an extra increase has been applied to the concession smartcard/ten-trip fare to maintain relativity with the fares for the adjacent zones).

### 5.2.4 Three zone

The three-zone fare has increased as follows:

- Adult cash \$4 to \$4.50 (smartcard/ten-trip fare from \$3.20 to \$3.28)
- Concession cash \$2 to \$2.50 (smartcard/ten-trip from \$1.60 to \$1.70)

The increases are for GST only (although a small extra increase has been applied to the concession smartcard/ten-trip fare to maintain relativity with the fares for the adjacent zones).

### 5.2.5 Four - ten zones

The four - ten zone increases are for GST only. All cash fares are proposed to increase by 50 cents per trip. The smartcard/ten-trip fares are proposed to increase by 2.2%.

### 5.2.6 11 - 14 zones

The increases for 11 - 14 zone trips include an adjustment for GST and a Greater Wellington fare increase. The increases are between 8% and 14%. The 11 - 14 zone fares were previously cheaper (on an adjusted per kilometre basis) than the 1 - 10 zone fares – this increase rectifies that difference. The increases apply equally to cash fares and multi-trip fares (because the increase in this instance was applied to the cash fare first, and then worked through the multi-trip fares).

### 5.2.7 Stored value card fares

Fares for trips made with stored value cards (such as the Mana and Newlands smartcards, and Snapper) are 10% of the ten-trip price e.g. a two-zone trip using a stored value card will cost \$2.46 (compared to the cash price of \$3.50).

### 5.2.8 Wairarapa train minimum fare

It is proposed to maintain the minimum fare that applies on the Wairarapa trains for journeys between Wellington and Hutt Valley stations. The minimum **cash** fare is an eight zone fare (\$9.50), and those using a Hutt Valley **ten-trip** ticket must pay a cash surcharge (\$1 per trip on Upper Hutt tickets and \$5 on Waterloo and Petone tickets).

While there have been some suggestions that this minimum fare be removed, particularly on part-full in-bound trains, Tranz Metro are understandably reluctant to have a policy the application of which varies according to how full a train is. [Note: we are currently reviewing passenger numbers on the Wairarapa train after complaints about over-crowding, and the minimum fare policy will be considered as part of this review]

### 5.2.9 Other changes

Some other changes have been made to the fare schedules to improve overall consistency. The quarterly rail ticket has been abolished (there was no bus equivalent), and some of the inconsistent rail fares have also been abolished. Other special rail fares, particularly on the Johnsonville line, have been increased as a transition to consistency with other rail.

The price of stadium special rail tickets has also been increased to make them more consistent with standard fares.

### 5.2.10 Commercial fares

Many of the fares in the fare schedule are for services registered as commercial and as such are set by the operator. These have all been increased by the operators in line with the GST increase, or to align with other increases. These fares cannot be changed by Greater Wellington – they are shown for completeness purposes only.

## 5.3 Extra revenue generated

This increase is estimated to deliver to this Council a 3.5% increase in revenue for 2010/11.

## 5.4 Flow-on effects

There are a number of flow-on effects of the fare increase. The reimbursements for SuperGold will need to be adjusted (reimbursement is currently at 75% of the average adult cash fare and as the cash fares are increasing this will mean an increase in SuperGold reimbursement payments).

This Council's payments for products such as Kapiti Plus, which are tied to certain fares, will also need to be increased.

## **5.5 Implementation date**

It is proposed that the new fare schedule be introduced on the same day as the GST increases take effect i.e. 1 October 2010.

## **6. Other developments**

The Minister of Transport has made it clear in various recent statements that he considers that regional councils and train passengers should contribute more towards the cost of running the trains. And the NZ Transport Agency has recently released its fare recovery policy which essentially is a move to have passengers pay a larger share of the costs of providing services.

These two developments have come too late to be fully considered for this year's fare review, although the fare changes proposed in this paper are consistent with both developments.

## **7. 2011**

If, as appears likely, a fare increase is needed in 2011, it is probable that the multi-trip tickets will be increased rather than the cash fares.

## **8. Next steps**

The next step in the fare increase process is to negotiate the flow-on changes to the transport operator contracts. The process for contract negotiation is relatively straightforward, and well established. The process includes calculations of the revenue increases to the operators (and thus the reduction in contract price), and includes assessments on revenue of the negative patronage impacts. It should be noted that the Committee resolution was that the fare increase would only be introduced in the event that the financial benefits of the increase flow to Greater Wellington i.e. operators should be no better off or worse off from the Council introduced fare changes.

We propose to use the methodology outlined in the NZ Transport Agency Procurement Manual as the starting point in our negotiations with operators. It is proposed that the Committee recommends that the Council delegate to the Chief Executive the authority to determine that the negotiations with the transport operators have met the objective of the Council that the financial benefits from the fare increase (excluding the GST components) flow back to the council and not the operators.

In addition it is recommended that the Chief Executive be delegated authority to make minor changes to the proposed fare schedule that might arise from the negotiations with operators.

## **9. Communication**

No communication is required at this stage. An outline plan communicating the new fare schedule is at **Attachment 2**.

## 10. Recommendations

*That Council:*

1. ***Receives the report.***
2. ***Notes the content of the report.***
3. ***Agrees that the proposed new fare schedule at Attachment 1 be used in negotiations with operators with a view to it being introduced on 1 October 2010.***
4. ***Agrees to delegate to the Chief Executive the authority to determine that the negotiations with the transport operators have met the objective of the Council that the financial benefits from the fare increase (excluding the GST component) flow back to the Council and not the operators.***
5. ***Agrees to delegate to the Chief Executive the authority to make minor changes to the proposed fare schedule that might arise from the negotiations with operators.***

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**Attachment 1:** Proposed new fare schedule

**Attachment 2:** Communications plan