

Report 15.36
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Committee Council
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2015 Fare Review

1. Purpose

To report on the results of the 2015 Annual Fare Review and to propose that public transport fares set by Council remain at current levels for the 2015/16 year.

2. Background

The Regional Public Transport Plan (RPTP) requires that fares set by the Council be reviewed annually. The review considers compliance with farebox policy and review of public transport fare levels.

On-going positive performance of rail combined with lower operating costs and fuel prices provides an opportunity for Council to avoid a fare increase for the 2015/16 year.

As with the decision last year, keeping fares at current levels moves away from the policy preference set out in the RPTP for small, regular changes to fare levels. This is considered appropriate given on-going low annual inflation rates and the expectation that 2015/16 fare revenue performance targets can be met without an increase.

3. Comment

The RPTP and the Long Term Plan (LTP) set the strategic context and the policy approach for the Annual Fare Review.

3.1 Regional Public Transport Plan 2014

The general policy approach is set out in Policy 3.d of the Regional Public Transport Plan (RPTP), which requires Council to:

Review fare levels annually to achieve farebox recovery targets with a preference for small, regular adjustments rather than large, infrequent ones:

- *Forecast and review fares and operating costs annually through the Long Term Plan/Annual Plan process to determine the extent of any fare adjustments*
- *Implement an annual fare adjustment on 1 November.*

The policy preference for smaller incremental increases assumes a standard increase in fare revenue per year, providing a balanced and equitable approach to fare increases over the long term. This approach was pursued in 2012 (3% revenue increase) and 2013 (2% revenue increase) to ensure farebox recovery targets. In 2014, the proposal to increase fare revenue by 2% was dropped during the Annual Plan process due to increased fare revenue from rail.

Detailed guidance on the farebox recovery is provided in the farebox recovery policy in Appendix 5 of the RPTP. Developed in accordance with the NZ Transport Agency's National Farebox Recovery Policy, the RLTP farebox recovery policy sets the farebox recovery targets and provides detail on how to measure performance against the targets.

In summary, performance is measured by comparing total fare revenue to total direct operating costs. Under the NZ Transport Agency formula, total costs include only operating payments. Capital costs, such as those associated with real-time and passenger information, are not included in the calculations. This differs from the LTP/Annual Plan user contribution approach, which includes debt servicing costs associated with capital expenditure. Both approaches are considered in this paper.

The farebox recovery targets set out in the RLTP are:

- 55-60% for the public transport network as a whole
- 55-60% for buses and rail
- 80-90% for ferries.

It is worth noting that the RPTP signals an expectation that farebox recovery targets would decrease to 50% over the longer term as the fare structure is reviewed and major projects, such as Integrated Fares Ticketing, come on-line. A transition plan will be prepared to ensure this occurs in an ordered and efficient manner.

3.2 Public transport costs and LTP budget assumptions

Most public transport services (bus, rail, and ferry) in this region are provided under contract to this Council.

The gross operating cost of providing these services for the 2015/16 financial year is expected to be \$174m¹. Passenger fares fund approximately half these costs, with the NZ Transport Agency contributing one quarter and regional ratepayers one quarter.

Taking account of the considerations in this paper, the Council’s supporting information to the consultation document for the LTP 2015-25 includes the following revised budget assumptions for public transport:

Fare revenue

- *No increase in fares is proposed for 2015/16. For each year between 2016/17 and 2020/21 fare revenue will increase by 1% above inflation (this equates to our commitment to the government to plan for fare increases that average 3% per annum as per the 2011 Wellington Rail Package). Thereafter fare revenue will increase with inflation.*

Inflation on diesel bus contracts

- *For the 2015/16 year, the cost of oil is assumed to be US\$55 per barrel (WTI) and the NZ/US exchange rate is assumed to be \$0.75. For subsequent years the payments to bus operators are assumed to increase at the level of inflation.*

These assumptions (along with other assumptions for public transport) are reviewed each year as part of the annual fare review, as part of the process to consider whether increases are required to offset the costs of providing services.

3.3 Compliance with farebox recovery targets

The farebox policy compliance review measures actual performance against the farebox recovery targets for the previous year. This is a requirement of the NZ Transport Agency.

The outcome of the review for 2013/14 is set out in Table 1. This shows that overall farebox recovery under the RPTP and user contributions under the LTP were both within target for 2013/14.

Table 1 Farebox recovery and user contributions for 2013/14

Indicator	Target	Actual 2013/14
A. Long-Term Plan – Revenue and Financing Policy		
User contribution	45-50%	47.6%

¹ 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 renewals, park-and-ride costs, bus shelters etc), system wide costs (such as the Metlink information systems and real-time) and administration costs.

B. Regional Public Transport Plan – Farebox Recovery Policy		
Overall farebox recovery	55-60%	57%
Farebox recovery by mode		
Rail	55-60%	55.5%
Bus	55-60%	56.8%
Ferry	80-90%	81.0%

3.4 Fare level review

Review of fare levels is a forward looking exercise for the 2015/16 year. It considers the implications of possible fare increases within the existing fare structure.

While the RLTP policy preference is for small regular changes, the ultimate decision to increase fares is taken within the context of the LTP. This takes into account wider aspects of financial and social well-being related to the operation of the public transport network.

As stated earlier, the proposed LTP budget assumption is that there will be no increase in fare revenue for 2015/16. This assumption has been made for the following reasons:

- The expectation of lower operating costs as a result of the significant drop in fuel costs (currently around \$50 per barrel), low inflation and favourable NZ/US exchange rate.
- Increased revenue from on-going positive performance of rail. For the year to date, passenger trips have surpassed 12 million for the first time ever. This represents an increase of 6% and reflects a growing public confidence in the quality and reliability of the rail network.
- Unlike rail, bus patronage has remained relatively flat. For the year to date, total passenger trips have increased by only 0.3%. Patronage has remained stable in Wellington City and Kapiti, and decreased in the Hutt Valley, Porirua and Wairarapa. The low cost of petrol, if combined with an increase in fares for bus users at this time, could exacerbate the risk of bus mode share decreasing further.

Assessment of retaining fares at current levels against the LTP user contribution and RLTP farebox recovery targets for the year 2015/16 is set out in Table 2 below. This shows that, even with no increase, both user contribution and farebox recovery would remain within its target range.

Table 2 Farebox revenue with no increase for 2015/16

Indicator	Target	Projected - no increase 2015/16
A. Long-Term Plan – Revenue and Financing Policy		
User contribution	45-50%	46.6%
B. Regional Public Transport Plan – Farebox Recovery Policy		
Overall farebox recovery	55-60%	56.5%
Farebox recovery by mode		
Rail	55-60%	55.3%
Bus	55-60%	56.1%
Ferry	80-90%	81.5%

3.5 Implications - should Council choose to increase fares?

While no fare increase is being proposed as a result of this review, it is necessary to consider the implications of the alternative option of proposing a fare increase.

The increase of 2% initially proposed during the 2014 Annual Fare Review, provides a useful benchmark to consider against. Under the 2014 proposal (should it have been implemented) most non-cash fare products would have increased by 1% and there would have been a 50 cent increase in adult cash fares for zones 1, 7, 10, 13 and 14, and child cash fares for zones 1 and 2.

These proposed increases, needed initially to achieve the then farebox recovery targets, would have provided some further improvements in evenness of fare products across the fare spectrum set by Council. This is a partial objective of the RLTP policy preference for incremental changes. The signalled review of fare structure and proposal to prepare a fares transition plan through the Integrated Fares Ticketing project will provide further opportunity to address these types of issues.

There would also be rates questions to consider with a fare increase. Given farebox recovery targets can be achieved without a fare increase, it would be theoretically possible for Council to increase fares and reduce rates to the extent that is needed to achieve farebox recovery. Under this scenario, a 2% increase in fares would equate to a rates impact of about \$0.5m.

3.6 Consultation with transport operators

The proposal to have no fare increase has been discussed with transport operators.

With the exception of NZ Bus, operators have indicated support for no increase.

NZ Bus has indicated strong support for regular fare increases along the lines of the incremental policy approach in the RLTP, keeping increases in line with

inflation and the Consumer Price Index. While cognisant of the impacts of a potential fare increase to bus users, NZ Bus were mainly concerned about the compounding impact (of no increase for two years in a row) on fare revenue, particularly on services that they provide commercially.

Several bus operators, including NZ Bus, indicated that they would be reviewing the pricing of some of their commercial products.

4. Communication

Subject to agreement to the recommendations in this paper, the proposal for no fare increase will be the subject of public consultation through the Council LTP process. Discussions will be continued with operators throughout this process.

5. 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). Part 6 sets out the obligations of local authorities in relation to the making of decisions.

5.1 Significance of the decision

The subject matter of this report is preliminary in nature and being consulted on as part of the Council LTP development process. The decision to retain fare revenue levels at current levels cannot be confirmed until completion of the LTP.

5.2 Engagement

In accordance with the significance and engagement policy, officers have determined that the appropriate level of engagement will occur through consultation on the LTP development process.

6. Recommendations

That the Council:

- 1. Receives the report.*
- 2. Notes the content of the report*
- 3. Notes that the supporting information to the consultation document for the Long Term Plan 2015-25 assumes no fare revenue increase for 2015/16.*
- 4. Notes that, due to on-going positive performance of rail combined with lower fuel prices, the farebox recovery and user contribution levels for 2015/16 can be satisfactorily achieved without a fare increase.*
- 5. Agrees that, subject to approval of the Long Term Plan 2015-25 by Council, current fare revenue levels are retained for 2015/16.*
- 6. Notes that consultation will occur with the public as part of the preparation of the Council's Long Term Plan 2015-25, and that the*

decision to retain fare revenue (that Council sets) at current levels cannot be confirmed until the completion of that Plan.

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