greater WELLINGTON
REGIONAL COUNCIL

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Fare Review

1. Purpose

To undertake the annual review of passenger transport fare levels.

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

The Regional Passenger Transport Operational Plan requires Council to undertake an annual review of fares. This paper constitutes that review.

Fares were last reviewed by this Committee in September 2007. That review led to the 1 September 2008 fare increase.

It was decided by Council at the time of the 2008 fare increase that rather than have large infrequent increases in fares, the increases should be smaller and occur on a more regular basis. Council also resolved that reviews should take a multi-year perspective.

This paper focuses on the current state of compliance with council fare policies.

3.1 Council fare policies

There are various Council policies relevant to fare setting. All need to be read in the context of the over-riding passenger transport goal, as set out in the Regional Passenger Transport Plan, which is to increase patronage. Various targets are set out in the Plan, including the target of carrying 50 million passengers annually by 2016 (35 million are carried now).

Perhaps the most important Council policy relating to fares is contained in the Council's Revenue and Financing Policy which provides for passenger transport services to be funded by *"at least 50% user charges"*. In other words, fares should cover at least half the costs of providing services. This is known as the "cost recovery ratio".

The Regional Passenger Transport Plan, and the Operational Plan, include the following 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" (PT Plan, Policy 3.1)*
>
> *"Fares set in accordance with the fare zone system and operational guidelines, with stakeholders consulted prior to any changes" (PT 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" (PT 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."*

3.2 Cost recovery ratio

Recent consideration of the 50% cost recovery ratio indicate that it is perhaps more appropriate that the desired minimum cost recovery ratio should be set as a range rather than a single figure. This recognises that the actual rate fluctuates as costs and patronage change.

The actual costs to be included in the cost recovery calculation also need to be better defined. The current policy is unclear, for example, as to whether indirect costs such as Council administration and capital debt servicing costs should be included in the calculation of cost recovery.

It seems appropriate that in addition to operating costs, debt servicing costs should also be included, but administration costs and network wide costs (marketing, promotion, call centre, real-time information etc) should not.

On this basis the cost recovery rate for 2008/09 is predicted to be 47%; the rate for 2009/10 is predicted to be 49%, and in 2010/11 47%. Thus a range of 45-50% is considered to be appropriate (the current policy if for "at least 50%" cost recovery).

An amendment to the Council's Revenue and Finance Policy is being prepared to reflect these views, and will go out for consultation with the proposed LTCCP.

4. 2008 Fare Review

Based on the Council policies set out above, the following matters need to be considered when reviewing fares:

4.1 Cost recovery

If the cost recovery rate is 45% - 50%, and using the latest projected direct costs and debt servicing costs, the ratio falls within the 45-50% range for the next three years.

In order to gain an understanding of the various components that make up the calculation of the ratio, each is discussed below.

4.1.1 Net operating costs

The net operating costs (i.e. total costs less passenger revenue) of GW contracts over recent years are shown in the table below:

Year	Costs ($m)
1999/00	29.8
2000/01	34.1
2001/02	38.0
2002/03	37.2
2004/05	45.5
2005/06	49.1
2006/07	53.7
2007/08	55.3
2008/09 (estimate)	64.6
2009/10 (estimate)	65.8

The figures indicate a steady increase in net operating costs, with a 117% increase in expenditure from 1999/00 to 2008/09.

The growth in net operating costs has occurred as a result of increases in service levels (such as occurred after the Hutt Valley review), and an increase in the costs of providing existing services. For example, the New Zealand Transport Agency (NZTA) public transport inflation index shows a 66% increase in costs between June 1999 and June 2008. And the increase is continuing - the index for the latest available quarter (between June 2008 and September 2008) has increased by 4.93%.

4.1.2 Capital costs

Substantial expenditure is planned for infrastructure improvements over the next few years. Much of this expenditure will be met by the Crown through the Wellington Transport Package, although the ratepayers will still contribute a substantial amount.

Council debt servicing costs for this year and the following two years are as estimated to be as follows:

Year	$m
2008/09	2
2009/10	4
2010/11	6

The figures show a steady increase, reflecting the increase in Greater Wellington's share of capital expenditure over the next years. This debt servicing cost is projected to increase at a similar rate in future years.

4.1.3 Patronage levels

Patronage levels (and the associated revenue) have been taken into account when calculating the net operating costs above. Patronage numbers for the last decade are shown in the table below:

Year	Bus Passengers (m)	Train Passengers (m)	Bus & Train Passengers (m)	Change from previous year (%)
1999/2000	18.2	9.7	27.9	-
2000/01	18.8	10.0	28.8	3.2
2001/02	19.8	10.2	30.0	3.5
2002/03	20.7	10.0	30.7	2.3
2003/04	21.3	10.1	31.4	2.3
2004/05	21.9	10.3	32.2	2.5
2005/06	23.5	11.3	34.8	8.1
2006/07	22.8	11.2	34.0	-2.3
2007/08	23.0	11.6	34.6	1.8
2008/09 (predicted)	24.0	12.0	36.0	4%
2009/10 (predicted)	25.0	12.0	37.0	3%

Note: Ferry patronage is not included.

The figures show steady increases in patronage, averaging 3% per year. Patronage has increased 32% over the decade. The effect of increasing patronage is an increase in overall revenue levels which contributes to keeping net costs down. The above figures indicate that passengers are contributing more (in total but not as a proportion) each year to overall costs.

4.1.4 Comparative cost recovery levels

The NZTA calculates cost recovery ratios for each region for all services (commercial and contracted).

NZTA figures for selected NZ regions for the 2007/08 year, as well as the NZ wide figure, are shown below. While the NZTA figure for Wellington varies from our own calculations (because NZTA uses a slightly different method to calculate the ratios) the NZTA information is useful to gain a national perspective.

The NZTA figures are set out below:

Region	Cost recovery Ratio
Auckland	46%
Waikato	31%
Bay of Plenty	28%
Wellington	54%
Canterbury	42%
Otago	43%
Southland	11%
NZ	47%

The table shows Wellington has the highest cost recovery ratio in NZ. This indicates that passengers in Wellington pay a higher percentage of the costs of providing public transport compared to those in other regions.

NZTA figures show that the cost recovery level in Wellington has fallen slightly since 2002/03 (the first year in which the NZTA produced the figures, at which time the figure for Wellington was 56%). NZTA estimates that the Wellington recovery level will drop to 44% in 2011/12 (the last year of the NZTA predictions), although, because all other regions are dropping, Wellington will still at that time have the highest cost recovery rate in NZ.

4.2 Cost of car use

The cost of car use is another factor identified in GW policy as being a factor to consider when considering fares. Council policy is for public transport fares to be competitive with the cost of an equivalent car trip.

The full cost (fixed and running) of a car journey (using 2008 AA Vehicle Operation Costs, which was based on petrol at $1.85 a litre) is 50 cents per km for a 0 - 1500cc car, 60.5 cents per km for a 1501- 2000cc car, 76.5 cents for a 2001 – 3500cc car, and 96.5 cents for cars over 3500cc.

The table below shows the comparative costs of a public transport trip (adult fare to Wellington City CDB, using a smartcard or ten-trip ticket) with a car trip (1600cc car).

Wellington CBD to:	Distance	Bus fare (smartcard)	Car Costs (operating and fixed)	Car Costs (operating only)
Seatoun	9.3kms	$3.00	$5.63	$1.81
Wakefield Park	5.1kms	$3.00	$3.09	$0.99
Crofton Downs	5.8kms	$3.00	$3.51	$1.13
Karori Normal School	5.9kms	$3.00	$3.57	$1.15
Johnsonville Mall	9.1kms	$3.20	$5.51	$1.77
Petone	14kms	$3.60	$8.47	$2.73
Wainuiomata	21kms	$4.40	$12.71	$4.09
Totara Park	40kms	$6.40	$24.20	$7.80

The car costs do not include parking charges, and are based on a single person per trip.

Comparing car costs with passenger transport fares is difficult because of the variety of cars sizes, and differing car-parking costs. And most people generally only consider operating costs (petrol, tyres and repairs) rather than the total costs.

Never-the-less, the table shows that for all trips, the true cost of using a car is higher than using public transport. However the situation is reversed if only car operating costs.

Overall however the figures indicated that public transport is competitive with travel by car.

4.3 Impact of 2008 fare increase

The impact a fare increase has on patronage also needs to be taken into account when reviewing fares. A fall in patronage is expected when fares increase.

However as indicated in the patronage figures in 4.1.3 above, there seems to have been little or no impact on patronage from the September 2008 fare increase – in fact patronage has increased since September (although this may be a consequence of petrol price increases).

This increase in patronage, and in thus in patronage revenue, has been a factor in maintaining the cost recovery ratio within the acceptable range.

4.4 Likely future disruptions

Although it is not something that our policies indicate should be considered when addressing whether or not a fare increase is needed, it is probably relevant to take into account the recent and likely future disruptions faced by rail passengers as rail infrastructure improvements are made in preparation for the introduction of the new Matangi units.

Passengers are likely to be less inclined to accept fare increases at a time when the services are experiencing disruptions.

4.5 LTCCP

The latest LTCCP had assumed a fare increase in 2009/10 of 10% to help fund new rail capital expenditure and operating cost increases. However the impact of the last fare increase in 2008 has resulted in this assumption being removed from the latest budget calculations. However costs are very volatile at the moment, and during the preparation of the new LTCCP this assumption will need to be reviewed.

5. Lower fares?

It has been suggested by some that, because of the current low oil prices and increasing patronage, fares should be lowered. This is not supported by the above figures – the net operating costs and capital costs are still rising. And the cost recovery ratio is falling (even though it is still within the agreed range) and is projected to fall further.

6. Conclusions

The factors to be considered as part of a fare review, in particular the cost recovery ratio and comparison with car travel, indicate that current fare levels are compliant with council policies.

Thus no fare increase in 2009 is currently needed.

However costs and patronage are currently very volatile, and the situation needs to be closely monitored.

7. Communication

No communication is needed.

8. Recommendations

That the Committee:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*
3. ***Agrees** that current fare levels comply with Council policies, indicating that no fare increase is needed at this time.*

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