

2011 Annual PT Fare Review

Purpose

The purpose of this report is to present the results and analysis of the 2010 annual review of operator cost movements across bus, rail and ferry services, and to make a recommendation for approval for the 2011 annual bus and ferry Maximum Fare Schedules (MFS) and rail fares review.

Executive Summary

An annual review of Auckland public transport fares is undertaken on the basis of operator cost, revenue and patronage movements in the context of the wider economic climate, service quality and changes, funding pressures and the goals of the proposed integrated ticketing fare policy.

With the last review implemented in February 2010, this paper presents the results of the 2010 cost review and makes recommendations for MFS and rail fare changes from 13 March 2011.

For the majority of bus and ferry services AT reviews annually the MFS levels. The MFS sets maximum fares for adult, child/senior and tertiary single and 10-trip multi-journey tickets. As operators take fare revenue risk on the predominant commercial services and net price contracts, operators have the final decision as to whether to increase these fares up to the maximum if not already, and whether to increase prices of their non-MFS operator own ticket (e.g. monthly pass).

For **bus** services, the annual aggregated cost movement is +0.59%. With patronage growing over the same period by +1.8% and inflationary indexation paid on contract subsidy of +1.7%, the estimated weighted average revenue gain is +1.75%, resulting in a net revenue gain of +1.2%. This does not warrant a general increase to the bus MFS. As operators charge MFS fares at the maximum already, no fare increases will be made to MFS fares. Operators may choose to increase prices of their own non-MFS products.

Ferry services are analysed on an individual operator and route basis due to the significant differences in assets and cost structures between operators and routes. No MFS increases are proposed as all but the Birkenhead service saw a greater increase in contract indexation and patronage compared to cost. Birkenhead had a very minor increase in cost over contract indexation and patronage. As operators do not charge the maximum for MFS 10-trip multi-journey fares at present, operators have advised that these fares will be increased. Operators will also increase their own non-MFS products. Fullers have also advised that it intends to increase Devonport commercial service fares.

For **rail** services, the annual cost movement for 2010 was +\$8m or +11.61% including significant service level changes of +27% in September. With fare revenue growing over the same period by +\$3.5m or +18.57% there is a net cost increase (subsidy) of +\$4.5m or +8.96%. A user-weighted average fare increase of +6.5% is recommended, which will result in an estimated \$1.1m to \$1.2m revenue increase. A further consideration for a rail fare increase is the Auckland integrated ticketing fares policy target for fare equalisation with bus (currently 10% lower) by early 2012 to remove equity issues between bus and rail users. A +6.5% increase will reduce the gap to 5%. A third consideration is the low fare-box recovery (user-pays contribution) at 29% compared to a public transport target by NZTA of 50%.

Analysis

Methodology

Under the predominant net price form of contracts and commercial service registrations (if concessionary fare subsidy is provided) for bus and ferry services where operators carry revenue risk, AT specifies maximum fares for adult, child/senior and tertiary single and 10-trip multi-journey tickets through Maximum Fare Schedules (MFS). Operators may charge any fare up to the

maximum and may offer non-MFS operator-own ticket products such as monthly passes. AT has a contractual obligation to review the MFS annually relative to operator cost movements.

An annual review of the bus and ferry MFS is undertaken in December / January following an independent assessment of service operator cost movements in parallel to a review of rail fares.

An analysis of cost, revenue and patronage movements is made to estimate the net impact. This provides an initial determination for MFS changes and is assessed against:

- General economic climate and CPI movement
- Customer perception of potential fare change with regard to recent service changes
- NZTA farebox recovery policy as co-funder.

Resulting decisions on MFS changes (and operator decisions to change fares) are implemented in February / March.

Recent fare increases occurred across all modes in October 2010 to correct for the 2.5% GST increase and on bus and rail in February 2010 of +2.7% and +7% respectively. Ferry did not receive an increase on contracted services as aggregated revenue exceeded cost movement for the review period, however, there were some fare increases on Devonport commercial service.

2010 cost movements, analysis and recommendations

Bus services

A detailed report on operator cost movements prepared by Ian Wallis and Associates is available.

Operator Costs:	
Total aggregated cost movement	+0.59%
Operator Revenue:	
Patronage change on ~45% of total revenue (where 45% is approx. farebox cost recovery in Auckland)	+1.80%
NZTA inflationary indexation of subsidy on ~55% of total revenue	+1.70%
Total weighted revenue movement of the above	+1.75%
Net (Cost) / Revenue Change	+1.2% (gain)

Based on this analysis a general increase in the bus Maximum Fare Schedule (MFS) is not recommended.

All operators currently set fares specified in the MFS at the MFS levels and therefore no actual fare increase to MFS products will be made. Operators may choose to increase the price of their non-MFS operator-own ticket products.

Ferry services

A detailed report on operator cost movements prepared by Ian Wallis and Associates is available. Due to the differing vessels and cost structures of ferry services between routes and operators an analysis is undertaken by operator and individual route.

	2009	2010	Change	
Total operational cost	\$69m	\$77m	+\$8m	+11.61%
Fare revenue	\$19m	\$22.5m	+\$3.5m	+18.57%
Fare-box recovery ratio	27.5%	29.2%		+1.7%
Net subsidy impact			+\$4.5m	+8.96%

Given this analysis a fare increase of up to 8.96% would be justified.

A fare policy consideration is the requirement to align bus and rail fares prior to integrated ticketing implementation, and remove an equity imbalance favouring rail users over bus users. At present, rail fares are 10% lower on average than bus fares. A fares increase of 6.5% would narrow the gap between bus and rail fares to approximately 5% on average, with the residual 5% gap to be addressed later this year or early next year prior to integrated ticketing policy implementation across bus and rail.

The fare-box recovery (user pays contribution) on rail is low at 29% compared to approximately 45% on bus and up to 100% on some ferry services. This has attracted pressure from Government and the Minister of Transport to close the gap between rail and other modes and for Auckland to make progress to the stated NZTA target of 50% recovery across the region.

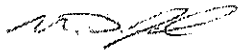
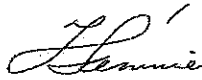
A fare increase of on average +6.5% across rail is recommended.

Further fare structure review prior to integrated ticketing

It is noted that a number of anomalies exist with the fare structures creating potential equity issues between different ticket products and discrepancies with the proposed Auckland integrated ticketing fares policy. A review of the Auckland fare levels and structures will be undertaken within the next 9 months and implemented at or prior to the implementation of the integrated ticketing fares policy in early 2012. In addition, fares and service levels are currently being revised for inner city bus services with any changes to be implemented in August this year.

Recommendation

1. That this report be received.
2. That the bus Maximum Fare Schedule is not increased following the 2010 cost review.
3. That the ferry Maximum Fare Schedules not be increased following the 2010 cost review.
4. That rail fares are increased on average by 6.5% from 13 March 2011.

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