Report to Finance Committee

Date: 14 November 2017
Author: Manager, Public Transport
Authoriser: Chief Financial Officer
Subject: Public Transport – Proposal to Introduce Fare Capping
Section: B (For recommendation to Council)

Purpose
1. The purpose of this report is the seek endorsement from the Finance Committee to implement a public transport fare capping scheme within the Waikato Region.

Executive Summary
2. A review of the Waikato fare structure has been undertaken in accordance with agreed actions in the operative Regional Public Transport Plan (RPTP) adopted by Council in 2015. The viability of fare capping has been considered as part of the fare review project.

Fare capping as a policy instrument akin to a reward scheme where the total fare paid by each passenger within a specified time period (such as a day or a week) is “capped” after a certain number or value of trips as a reward for frequent and/or regular use.

Fare capping encourages users to make more trips by inducing a perception of free or highly discounted travel after a threshold defined by the cap. Fare capping also serves to improve equity and consistency in allocation of benefits across users with different purchasing powers.

Fare capping represents an opportunity for Council to encourage greater use of public transport for minimal or no additional cost to ratepayers. However there is some financial risk associated with setting the initial capping thresholds. If fare caps are set too low there will be a loss in revenue for Council, but if set too high there will no benefit for passengers.

The exact threshold for the daily and weekly caps will be subject to further detailed analysis to determine the most effective level that does not unreasonably constrain potential revenue for Council while still delivering tangible and achievable benefits for passengers. This analysis will be reported back to the Finance Committee for approval.

Staff Recommendation:
1. That the report Public Transport – Proposal to Introduce Fare Capping (Doc #11386897 dated 14 November 2017 be received, and;
2. That the Finance Committee endorse in principle a proposal to implement value based fare capping scheme for public transport within the Waikato region as part of implementing a new ticketing system in 2018.
Background

3. A review of the Waikato fare structure has been undertaken in accordance with agreed actions in the operative Regional Public Transport Plan (RPTP) adopted by Council in 2015.

In essence, the fare system determines what and how passengers pay for public transport. Fare system settings can have a significant influence on transport affordability, patronage levels and public funding requirements.

Currently public transport services contracted with the Council consist entirely of subsided bus services with annual expenditure of about $19 million per annum. The expenditure is funded from a combination of sources that include fare revenue from passengers (35%) the NZ Transport Agency (34%) the Regional Council (27.5%) and Local District Councils (3.5%).

The objective of the fare review is to ensure the fare system is:

- Simple for customers and simple to administer
- Reflective of the costs of running the service
- Affordable for funders and users
- Supports increased use of public transport

The fare review project found that the existing fare system within the Waikato is complex, making it difficult to administer and difficult for users to understand. The complexity is largely driven by each component of the network having a separate pricing structure and differing business rules, which has evolved over time.

Informed by the project objectives, detailed technical analysis along with engagement with key stakeholders a suite of recommended changes to the fare system have been proposed to and endorsed by the RPTP development committee and Finance Committee (19 September 2017).

The changes are designed to achieve a better balance between simplicity, affordability and equity for users and funders. The confirmed changes include:

- Implementing a zonal fare structure that covers the entire region and extends into Auckland.
- Expanding provision of free transfers across all services within the region
- Simplifying and rationalising existing ticketing products and standardising smartcard discount rates across all services within the region
- Standardising concession discount rates
- Amending existing concession eligibility criteria.

The RPTP Development Committee and Finance Committee also recommended that further feasibility work be undertaken in relation to:

- Short distance fare discounts, and;
- Fare capping as a mechanism for incentivising greater use of PT without needing to increase public subsidies.

This report outlines further work that has been undertaken in relation to fare capping and seeks endorsement from the Finance to Committee to implement a fare capping scheme as part implementing a new ticketing system within the Waikato in 2018.
Issue

4. Implementation of new smart ticketing technology has provided an opportunity to introduce more innovative fare products, such as fare capping.

Fare capping as a policy instrument akin to a reward scheme where the total fare paid by each passenger within a specified time period (such as a day or a week) is “capped” after a certain number or value of trips as a reward for frequent and/or regular use.

The concept of fare capping is consistent with the move towards simplified fare structures as the complexity of the required calculations are hidden from passengers (e.g. passengers only need to know that their fare is capped at $7 per day, not how the cap is calculated).

The ability to provide fare capping arises from the improved data processing and computational capabilities of the new smartcard ticketing system to be implemented in 2018. To implement fare capping, the ticketing system needs to track the time and value of individual transactions in order to compute the number and value of each passengers’ boardings towards the cap. Once the fare cap threshold is met, the system stops charging for additional trips.

A key benefit of fare capping is that users are not required to estimate their potential travel for a period of time. Rather they can travel as much as they like with the knowledge that the amount they will be charged will be based on actual usage up to a capped maximum, beyond which further travel would be free.

Fare capping encourages users to make more trips by inducing a perception of free or highly discounted travel after a threshold defined by the cap. Fare capping also serves to improve equity and consistency in allocation of benefits across users with different purchasing powers.

A key financial consideration and potential risk for Council is how to price fare caps. In effect fare caps place a hard limit on the potential revenue from each customer, once a cap is reached there is no revenue benefit for Council from increased frequency of travel by that passenger. This means that if fare caps are priced too low there will be a loss in revenue, but, on the other hand, if too high there will no benefit for passengers.

The capping thresholds need to strike a balance between not unreasonably constraining potential revenue for Council and delivering tangible and achievable benefits for passengers.

Options and analysis

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<th>Options Available to Council</th>
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<td>Description of options</td>
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**Option 1 – Retain the status quo.**
Retaining the current fare pricing approach would mean passengers would continue to pay as they go on a trip by trip basis or utilise an existing prepaid day pass product, which has had limited uptake.

Retaining the status quo is a low risk option as the financial implications of doing so are known and manageable.

However, the status quo will diminish the extent to which Council will achieve one of its fare review objectives which to encourage greater use of public transport services.

**Option 2 – Implement a fare capping scheme**
Fare capping encourages users to make more trips by inducing a perception of free or highly discounted travel after a threshold defined by the cap. Capping represents an opportunity for Council to deliver
greater benefits for the passengers and encourage greater use of public transport services for minimal or no additional cost to ratepayers.

We have identified two broad approaches to applying fare caps:

- **Trip based caps** – where fares are capped at a specified number of trips within a specified period, irrespective of the fare paid.

- **Value based caps** – where fares are capped at a specified dollar value within a specified period. The dollar value may vary for different passenger types, or be based on a number of zones or stages travelled or time/day period

It is recommended that Council adopt a value based capping approach as is less vulnerable to misuse and has the added advantage of providing simple and explicit pricing point of passengers, which is easy to understand.

There are some examples overseas of trip based caps that have been exploited by users undertaking multiple short distance / lower value trips early on within the capping period in order meet the trip threshold and then utilise the free entitlement for higher value longer distance journeys later on in the capping period. This in effect resulted in the transport authority forgoing revenue it would have otherwise received.

A value based capping approach by comparison is triggered by fares paid by the passenger / revenue received by the transport authority and is agnostic with the regard to the nature and number of the trips undertaken in reaching the capping threshold.

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<th>Impact assessment</th>
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<td>Legal Implications</td>
<td>The fare capping proposal is not contrary to any known legal requirements and considerations</td>
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<td>Risk</td>
<td>There are two key risks associated with fare capping as follows:</td>
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<td>• There is some financial risk associated with setting the initial capping thresholds. If fare caps are set too low there will be a loss in revenue for Council, but if set too high there will be no benefit for passengers. The financial risk can be mitigated by initially setting conservative capping thresholds with the ability to reduce the thresholds overtime as and when the implications of doing so are fully understood.</td>
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<td>• Fare capping is priced on per card per person basis. There is a risk that some users may “share” smartcards between friends and family members. This would result in some people traveling for free that should have otherwise paid a fare. It is important to note that this risk applies to all fare concession products that Council provides. The risk can be actively managed and mitigated through fare revenue assurance processes, including on bus ticket inspections undertaken by Council staff and staff employed by our contracted service providers. The viability of enabling fare capping on registered smart cards only will also be investigated.</td>
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<td>Policy Implications / Strategic Links</td>
<td>Waikato Regional Council’s overarching objective is to work with others and build a Waikato region that has a healthy environment, a strong economy and vibrant communities. Transport has a key role to play in achieving this. Provision of public transport is one of the key ways Council delivers on its broader transport objectives.</td>
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More specifically, provision of fare capping would contribute strongly to the following objectives anchored in Council’s Regional Land Transport Plan 2015 – 2045:

- **Affordability** - by encouraging greater use of public for minimal or no additional cost to ratepayers.

- **Accesses and mobility** – by providing pricing certainty for households by capping the amount an individual will pay over the course of a day and week. This has the potential to benefit those with low incomes the most. Reducing the cost barrier associated with transport will serve to increase community access to employment, education, healthcare and social opportunities.

- **Facilitating economic development** – by increasing the attractiveness of public transport relative to private car usage. This in turn will help achieve the modal shift target anchored in Hamilton City Council Transport Strategy, which aims to increase PT modal share from 3% to 7% over the next 10 years. Achieving modal shift from cars to public transport relieves pressure on the transport network and helps provide capacity for the city to grow in a manner the minimises traffic congestion and constraints to economic productivity.

### Regional costs and benefits

Fare capping can be delivered within the approved implementation funding for the new ticketing system.

### Financial Implications

Fare capping represents an opportunity for Council to encourage greater use of public transport for minimal or no additional cost to ratepayers. However as mentioned previously there is some financial risk associated with setting the initial capping thresholds. If fare caps are set too low there will be a loss in revenue for Council, but if set too high there will no benefit for passengers.

The exact threshold for the daily and weekly caps will be subject to further detailed analysis to determine the most effective level that does not unreasonably constrain potential revenue for Council while still delivering tangible and achievable benefits for passengers.

For example, if a daily fare cap was introduced at twice the standard one-way fare, preliminary modelling indicates the cap could result in a reduction in fare revenue received by Council of approximately 4% or $240,000 p/a.

Whereas if the daily cap was set at three times the one-fare the revenue impact for Council is likely to neutral Council, while still delivering an achievable capping threshold for users and incentivising greater use of public transport services.

It recommended that the Finance Committee endorse the proposal to introduce fare capping on the basis that daily and weekly caps are initially set with conservative capping thresholds that are as a minimum designed to achieve a fare revenue neutral outcome.

The exact thresholds will be determined following modelling of different capping scenarios based on historical usages data to determine the optimal capping thresholds that strikes a good balance between mitigating revenue risk for Council while delivering tangible and achievable benefits for passengers. Once completed the modelling will be reported back to Finance committee for approval of the fare cap levels.
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<th>Annual Plan / LTP Implications</th>
<th>Fare capping can be delivered within the scope of the existing ticketing project confirmed within the current LTP and Regional Public Transport Plan.</th>
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<td>Community Outcomes</td>
<td>The provision of public transport provides the Council with means to enable access to employment, education, healthcare and social opportunities via a safe, affordable and environmentally friendly travel mode.</td>
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**Assessment of Significance**

5. Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance.

**Legislative context**

6. The Land Transport Management Act 2013 (LTMA) is the primary transport legislation that governs the planning, procurement and provision of public transport. The purpose of the LTMA is “to contribute to an effective, efficient, and safe land transport system in the public interest”.

The LTMA was amended in 2013 to introduce a new operating model for the delivery of public transport in New Zealand, known as the Public Transport Operating Model (PTOM).

Section 115 of the LTMA includes a set of principles fundamental to PTOM, designed to guide the actions of organisations such as the Waikato Regional Council in undertaking their public transport functions. These principles are:

- Council and public transport operators should work in partnership to deliver the public transport services and infrastructure necessary to meet the needs of passengers.
- The provision of services should be coordinated with the aim of achieving the levels of integration, reliability, frequency and coverage necessary to encourage passenger growth.
- Competitors should have access to regional public transport markets to increase confidence that services are priced efficiently.
- Incentives should exist to reduce reliance on public subsidies to cover the cost of providing services.
- The planning and procurement of services should be transparent.

Proposed introduction of fare capping is consistent with Council’s legislative responsibilities under the Land Transport Management Act 2013

**Preferred Option**

7. The preferred option is to develop and implement as part of the new ticketing system in 2018, a value based fare capping scheme for the Waikato region. Fare capping represents an opportunity for Council to encourage greater use of public transport for minimal or no additional cost to ratepayers.

**Policy Considerations**

8. To the best of the writer’s knowledge, this decision is not significantly inconsistent with nor is anticipated to have consequences that will be significantly inconsistent with any policy adopted by this local authority or any plan required by the Local Government Act 2002 or any other enactment.

**Conclusion**

9. Fare capping as a policy instrument akin to a reward scheme where the total fare paid by each passenger within a specified time period (such as a day or a week) is “capped” after a certain number or value of trips as a reward for frequent and/or regular use.
Capping represents an opportunity for Council to deliver greater benefits for the passengers and encourage greater use of public for minimal or no additional cost to ratepayers.

There is some financial risk associated with setting the initial capping thresholds. If fare caps are set too low there will be a loss in revenue for Council, but if set too high there will no benefit for passengers.

The financial risk can be mitigated by initially setting conservative capping thresholds with the ability to reduce the thresholds overtime as and when the implications of doing so are fully understood.

References