

AGENDA ITEM 22 BOARD DECISION PAPER	
To:	Board
From:	Stacey van der Putten, Executive General Manager, Public Transport Services
Reviewed:	Mark Laing, Executive General Manager, Finance Dean Kimpton, Chief Executive Officer
Date:	16/11/2023
Title:	Annual fare review and fares strategy

Aronga / Purpose

1. This report seeks approval for the fare increase proposed as an outcome of the annual review of public transport (PT) fare schedules, in accordance with the fares policy in the Regional Public Transport Plan (RPTP).

Tuku mana / Delegation

2. Board approval is sought as this report and recommendation might reasonably be foreseen to attract significant adverse publicity or reputational risk.

Te tūhunga / Recommendation

That the Auckland Transport Board (board):

- a) Approve changes to the Public Transport fare schedule as provided as Attachment 1, targeted for 4 February 2024, with:
 - i. A fare increase (+6.2% weighted average) against an annual change in consumers price index of +5.6% (September 2023).
 - ii. A fare revenue increase of ~\$5.8m (+4.3%) exclusive of GST.
- b) Notes the commissioning of an independent review of Auckland Transport's fare structure to inform future changes to address the affordability of longer distance fares and ferry fares cost recovery.

- c) Notes that Council funding challenges which are being considered as part of the development of the Long Term Plan (LTP) may necessitate further fare changes.

Te whakarāpopototanga matua / Executive summary

3. PT operating costs have continued to rise, driven by high inflation and contract indexation, whilst PT fares remained low due to government subsidisation.
4. Auckland Transport (AT) needs to raise PT fares, as a part of the 2024 Annual Fare Review (AFR), to keep pace with rising operating costs, improve Farebox recovery and ensure we meet our obligations under the current Statement of Intent (SOI).
5. This fare increase seeks to strike a balance between the current level of PT services offered, the cost of operating those services, level of funding and fares collected from PT users.
6. This will be the second fare change since February 2021.

Ngā tuhinga ō mua / Previous deliberations

Date	Report Title	Key Outcomes
November 2022 Design and Delivery Committee	Annual PT Fare Review	The committee requested changes to the proposed fare structure (to ensure the overall increase was not above Consumers Price Index (CPI) of 7%) and to include additional fare policy information (on equity products and future thinking).
December 2022 Board	Annual Public Transport Fare Review	The board approved the annual fare review which resulted in an average weighted fare adjustment of +6.5% and revenue increase of \$6.1m.

Te horopaki / Background

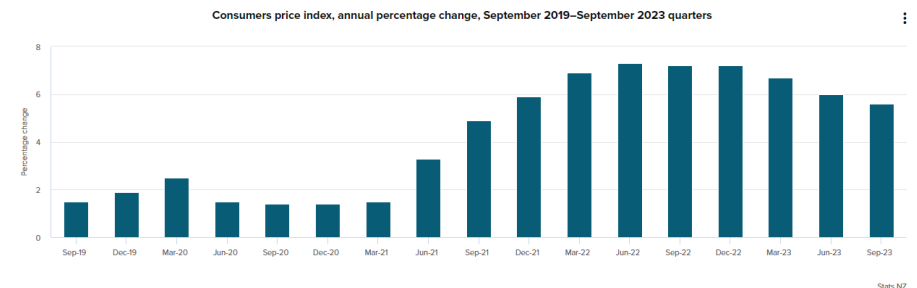
7. PT operating costs are met through a combination of user pays (fares), ratepayer public subsidy through Auckland Council (AC) funding, taxpayer and Road User Charge public subsidy through Waka Kotahi New Zealand Transport Agency (Waka Kotahi) funding and other funding such as commercial advertising.
8. In accordance with the fares policy in the RPTP, an AFR is undertaken with any approved changes implemented in February each year. Annual PT fare reviews permit the regular assessment of fare contribution to overall inflationary and other operating cost changes relative to ratepayer and taxpayer subsidy contributions, at a level of change that is sustainable.
9. AT is committed to continuous improvement of PT service delivery (reliability and punctuality) to ensure we retain customers and continue to grow patronage. However, PT has endured a sustained period of high inflation/contract indexation along with significant budgetary pressure in FY2023/24.
10. The unparalleled increase to PT operating costs has resulted in the need to increase fares to keep pace with contract indexation.
11. This proposal will result in a \$5.8m annualised fare revenue increase and increase the farebox recovery ratio by 1% to 26% (against the SOI target of 25% for FY2023/24).
12. PT patronage in Auckland, as of October 2023, is progressing at an average rate of 82% of pre-COVID-19 levels (2019 baseline). At the current rate AT is forecast to achieve 84.3m trips this financial year against a SOI target of 83.4m.

Te hononga ki te “Statement of Intent 2023 - 2026”/ Alignment to Statement of Intent 2023 - 2026

13. The proposed fare changes are aligned to the SOI 2023 - 2026 as follows:
 - a. We will evidence a full understanding of the impact to all Auckland users, across all modes.
 - b. We will clearly identify an overall benefit that will be recognisable to impacted users.
 - c. We will effectively leverage AT's existing network.
 - d. We will always consider affordability and value for money.

Me mōhio koe / What you need to know

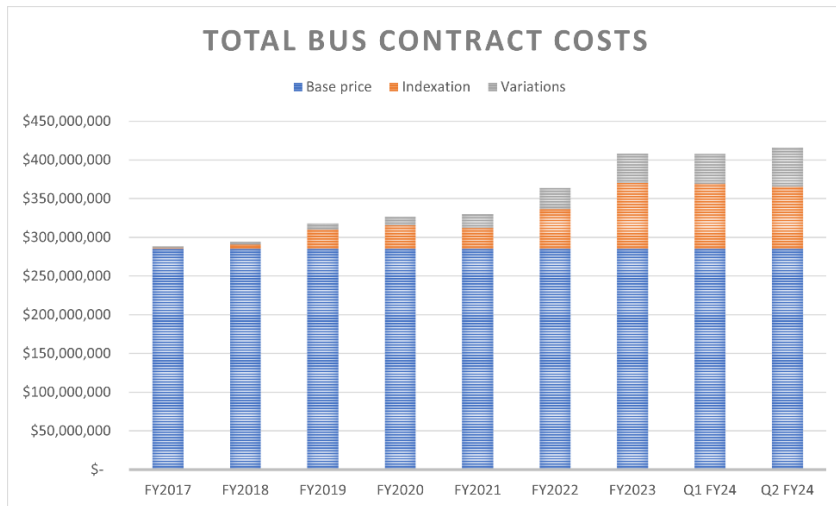
14. Updated benchmarking against 44 international cities shows that Auckland continues to offer relatively low short-distance fares, ranking 4th place overall for affordability. Longer-distance fares (15km or more) benchmark poorly and rank 33rd place for affordability.
15. Due to COVID-19 pandemic restrictions during late 2021 and early 2022 with a focus on affordability of PT by essential users, no change to PT fares was implemented in February 2022. A 6.5% weighted average fare increase was implemented in April 2023.
16. The default policy driver for the 2023 / 2024 annual fare review is to help address reduced PT revenue by balancing fare and public subsidy contributions to inflationary cost increases, while maintaining marginal fare rules and a fully integrated fare structure.
17. Annual inflation (measured via Waka Kotahi published indices) has been high for the past two years, in line with the increase in CPI.



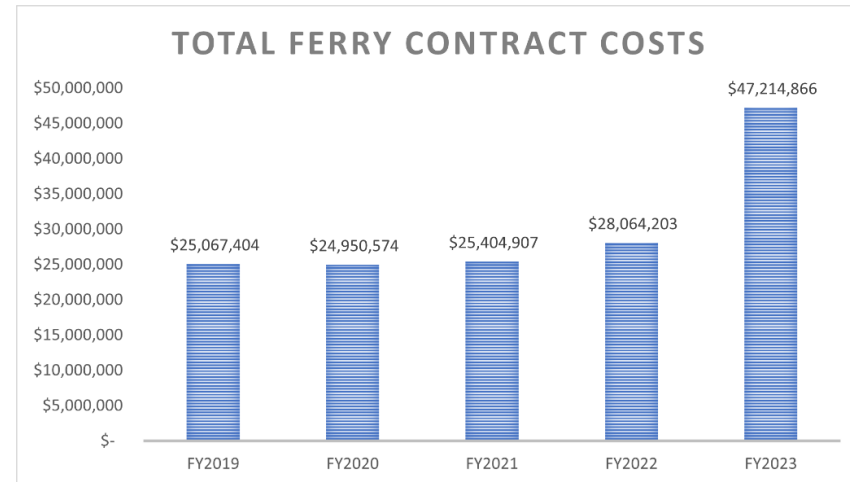
18. Community Connect was implemented on 1 July 2023 and provides half price fares for Community Services Card holders. The programme was extended to provide half price fares for people under 25 years of the age and free fares for children under the age of 13. The cost of these concessions is being met by central government and it is unclear whether the extended youth concessions will be retained.
19. A weekly fare cap is still under consideration and will be included in a review of AT's fare structure. The cost of implementation and overall customer benefit are underpinned by the current concession structure, which may change in the next financial year.
20. No change is proposed to the off-peak fare discount.

Cost escalation

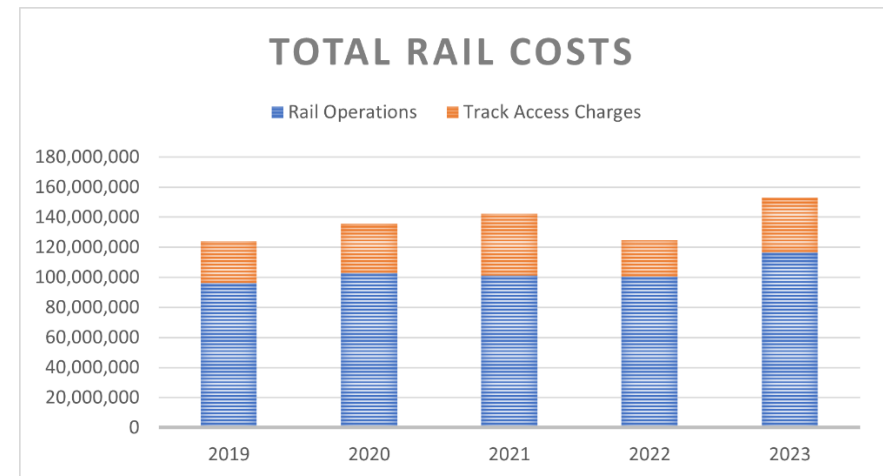
- 21. PT contracts have experienced an extraordinary level of cost increase over the past 3 financial years, driven largely by the high inflationary environment, staff shortages and the resulting wage increases. The overall cost implication is in increase of ~\$107m across all PT modes (21%).
- 22. The bus network operating cost has increased by \$85m since FY21, which represents a 26% increase in the annual gross price (AGP) of contracts.



- 23. The ferry network added \$10.5m through the contracting of the Devonport ferry service, and a further \$11.3m through contract variations and indexation since FY21. Excluding the addition of the Devonport ferry service, this represents a 44% increase in annual gross contract cost.



- 24. Track access, maintenance and contract indexation have increased the rail network operating cost by \$10.8m since FY21 (excluding station related costs) which represents a 7.6% increase.



Other options considered

25. Higher cost recovery through an 8% weighted average fare increase would generate \$8.3m in revenue. However, this would be significantly more than current CPI, place additional financial burden on PT users, and further compromise patronage growth efforts.

Mode	Average weighted increase	Revenue increase (excl. GST)	Change in Farebox	Patronage impact
Integrated Fares	+8%	\$8.3m (+6.1%)	+1.3% to 26.3% (from 25%)	-1.3 million journeys (-2.1%)

26. Deferring the fare increase to July 2024, at which point the central government funding position will be clearer. This would reduce fare revenue by c. \$2.4m.

Risks and mitigations

27. Under the National Party manifesto, there is a risk of the new government repealing funding for the extended youth concessions under the Community Connect programme. Should this occur, a larger portion of PT customers will experience a more significant fare increase.

28. A culmination of PT price increases together with petrol price and daily parking cap decreases could undermine PT patronage growth efforts.

29. New pricing interventions, such as a weekly fare cap, may mitigate the negative effects of funding policy changes and the fare increase by reducing the cost of longer distance trips and rewarding frequent PT use. These interventions could be implemented in the new financial year.

Ngā ritenga-ā-pūtea me ngā rauemi / Financial and resource impacts

30. The recommended forecast financial impact from the annual fare review changes proposed are:

Mode	Average weighted increase	Revenue increase (excl GST)	Change in Farebox	Patronage impact
Integrated Fares	+6.2%	\$5.8m (+4.3%)	+1% to 26% (from 25%)	-1.0 million journeys (-1.6%)

31. The average weighted fare changes of +6.2% is slightly above CPI of +5.6% (annualised to September 2023), and necessary to assist in the ongoing Farebox recovery efforts. The patronage impact is modelled using AT's standard fare review elasticities.

32. Council funding challenges which are being considered as part of the development of the LTP may necessitated further fare changes outside of the normal February review cycle.

Ka whaiwhakaaro ki te Tiakanga Taiao / Climate change and sustainability considerations

33. A reduction in PT patronage may increase transport emissions and climate change impacts.

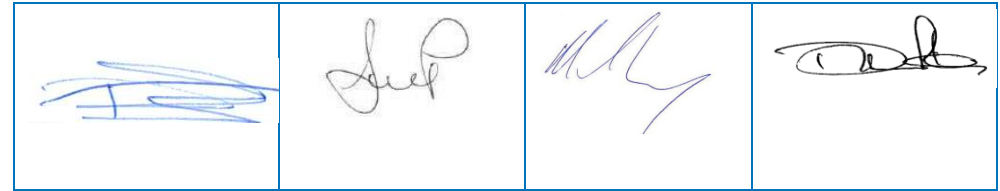
Ngā whakaaweawe atu anō / Other impacts

Relationship	Consulted Y/N	Views and Perspectives Received
Māori	Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/>	A formal communications plan will be developed post board approval and stakeholder groups will be briefed individually.
Elected members	Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/>	Patronage performance is reported quarterly to AC. The 2023 annual fares proposal will be a consideration as part of the FY25 AC budget development.
Council Controlled Organisations	Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/>	Following board approval, relevant Council Group approvals will be sought

Ā muri ake nei / Next steps

34. Following board approval, relevant Council Group approvals will be sought. Milestones and timelines are detailed below.

Activity	Date
Liaise with Governing Body via FY2024 budget process and seek endorsement	November 2023 / December 2023
Design marketing strategy and campaign materials	December 2023
Launch campaign and circulate materials across network	January 2024
Distribute new fares schedule to operators	January 2024
Release media statement and detailed fare changes on website	January 2024
2024 Fare changes implemented	4 February 2024



Te whakapiringa / Attachment

Attachment #	Description
1.	Proposed Fare Schedule FY2023-24

Te pou whenua tuhinga / Document ownership

Submitted by	Recommended by	Recommended by	Approved for submission
David Stephenson Tribe Lead - Grow PT Patronage	Stacey van der Putten Executive General Manager Public Transport Services	Mark Laing Executive General Manager Finance	Dean Kimpton Chief Executive