

Options to change the SuperGold Card free off-peak public transport travel scheme

Consultation document



NZ TRANSPORT AGENCY
WAKA KOTAHI



Ministry of **Transport**
TE MANATŪ WAKA

New Zealand Government

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March 2010

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Executive summary

The SuperGold Card free public transport off-peak travel scheme (the scheme) started on 1 October 2008. A crown appropriation of \$18 million per year was allocated in the government budget to fund the scheme. After 12 months of operation, it became clear that the scheme is not financially sustainable in its present form. To maintain the viability of the scheme, changes are needed to get the costs in line with the budget allocation.

The purpose of this document is to seek feedback from key stakeholders and partners (ie user representatives, public transport operators and regional councils¹) on the options to change the scheme. Any feedback will be considered before recommendations are made to the government on ways to get the costs in line with the budget and ensure the sustainability of the scheme.

Possible changes to the scheme that are discussed in this document include the following:

- reduce the reimbursement rate to operators or councils for each SuperGold Card trip
- reduce the reimbursement rate and cap the reimbursement payments
- change the services that are eligible
- remove or reduce payments for administration costs.

The options described in this report are intended both to retain the principles of the scheme and to ensure that it is financially sustainable.

¹ In this document, 'regional councils' should be read as 'regional councils and the Auckland Regional Transport Authority'.

1 Introduction

1.1 Background

The SuperGold Card was launched in 2007 by the government, and is administered by the Ministry of Social Development. There are currently about 540,000 card holders. In April 2008, the government announced that all card holders would be provided with free off-peak travel on urban public transport (buses, trains and harbour ferries). The SuperGold Card free off-peak public transport travel scheme (the scheme) commenced in most regions on 1 October 2008 and, by 1 November 2008, was operating throughout the country².

The scheme has three key principles:

- it is a national scheme
- users travel free
- off-peak capacity is sufficient to accommodate growth generated by free travel.

Based on these principles, the scheme that was implemented has the following parameters:

- the off-peak travel period is between 9am and 3pm and after 6.30pm Monday to Friday, and all day on weekends and public holidays³
- travel is free for all card holders on eligible urban services
- the reimbursement rate for operators is 75 percent of the adult fare
- the administration costs incurred by regional councils and the NZ Transport Agency (NZTA) are fully funded by the scheme.

1.2 Administration of the scheme

The NZ Transport Agency (NZTA) managed the implementation of the scheme, including administering financial assistance to regional councils. The NZTA has a memorandum of understanding with each regional council that sets out the obligations of both parties regarding the administration of the scheme.

Regional councils are responsible for reimbursing public transport operators that provide free travel on specified services in accordance with the scheme. Operators have signed contracts with regional councils that include a schedule of eligible services and the reimbursement process.

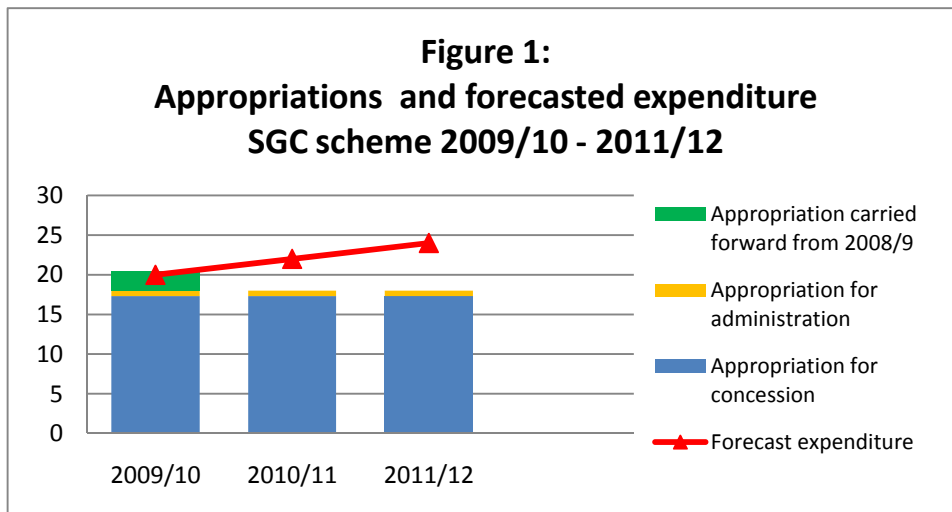
² Except the West Coast region, where no eligible services are available.

³ There are two regional variations: in Invercargill, the afternoon off-peak cut-off is 2.30pm; in Auckland, the scheme covers the afternoon peak period of 3pm to 6.30pm (this extension of the scheme is paid for by the Auckland Regional Transport Authority and is currently under review by them).

2 Problem definition

The government is committed to the scheme. However, demand will soon exceed the available funding. This will make the scheme financially unsustainable in the next financial year. No additional funding above the current \$18 million per year is available, or expected to become available in the foreseeable future, because of the current economic climate.

The NZTA's forecasts for the expenditure until 2011/12 (see figure 1) show the urgency of the problem if nothing is changed⁴.



From the 2008/09 financial year, \$2.4 million (\$2 million for concessions and \$0.4 million for administration) has been carried forward to the current financial year⁵. Therefore, the total appropriation is \$20.4 million. The NZTA estimates that the scheme will stay within this budget for the current financial year but exceed it in subsequent years.

The status quo is not an option for the future of the scheme. To assure the scheme's future sustainability, changes will need to be made to manage increasing demand and to keep expenditure within the budget provided. No matter what changes are made, they will impact on at least one of the stakeholder groups and partners (ie card holders, public transport operators and regional councils). The aim of the review process is to change the scheme in a way that is fair to all, while delivering enough cost savings to make the scheme sustainable for the next few years. This consultation document is part of the review.

In its current form, it is also doubtful whether the scheme delivers best value for money for the government investment. Operators are being recompensed for the loss of revenue from SuperGold Card holders who previously paid and now travel free. An increase in SuperGold Card trips in the years after the introduction of the scheme can result in operators being overcompensated for lost revenue (as these additional trips are not replacing paid trips and are at marginal costs).

⁴ See section 4.2 for more details. Appendix 1 contains a summary of SuperGold Card use by region in the first complete SuperGold Card year (October 2008 to September 2009).

⁵ Note: this was a one-off option for the current financial year because the first year of the scheme comprised only nine months (October 2008 to June 2009).

3 Purpose, feedback and further process

The purpose of this document is to seek feedback from key stakeholders and partners on options to change the scheme. Any feedback will be considered before recommendations are made to the government on ways to ensure the sustainability of the scheme.

This document provides background information on the scheme and the work on the review that has been carried out by the NZTA so far, a discussion of the information obtained during the review, and a description of options to change the scheme. The option section (section 5) asks a set of questions that we suggest you use for structuring your feedback. General comments are also welcome. The questions are also provided to you in a separate word document, which you can use for providing your feedback.

The closing date for feedback is Monday 26 April 2010 at 5pm. Questions, comments and feedback should be emailed or posted to:

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After the stakeholder consultation, the NZTA and the Ministry of Transport will provide the Minister of Transport with the main results of the consultation, detailed information about the financial consequences of the different options for changing the scheme and recommendations regarding changes to the scheme. The Minister of Transport will then consider those changes.

4 The current scheme

4.1 Budget and current use of the scheme

A crown appropriation of \$18 million per year on an ongoing basis was allocated in the 2008 budget to fund the scheme, including the actual subsidy costs and administration for the NZTA and regional councils. The current government has committed to continuing to support the scheme at its current funding level.

In the first 12 months of operation (October 2008 to September 2009), approximately 8 million trips were taken at a total cost of about \$18.4 million (including administration costs). The Auckland, Wellington and Christchurch regions' annual trips of 3.96 million, 1.67 million and 1.34 million respectively account for 87 percent of all trips.

Annual trips per card holder are: Auckland 28.7, Wellington 29.6 and Christchurch 17.5. The national average is 14.9.

A summary of the first year per region can be found in appendix 1.

4.2 Expected development of the scheme

The required budget and forecast for future demand is based on five main factors. Table 1 shows the five factors and their expected development for the next few years.

Table 1 The five factors and their expected development for the next few years

Factor	Current value	Expected development
Number of SuperGold Card holders	About 540,000	Net increase by around 20,000 people per year
Average number of trips made per SuperGold Card holder per year (national average, differs per region)	15.3	No increase
Average adult cash fare on each service covered by the scheme (national average, differs per region)	\$3.17	Fares will increase by 3 percent per year
Reimbursement rate	\$2.38 (75 percent of the average adult cash fare)	Subject of consultation
Eligible services	As agreed with regional councils	Subject of consultation

Based on these assumptions, the scheme will be under financial pressure in the next financial year (2010/11), as illustrated in figure 1 above.

5 Options to secure the financial sustainability of the scheme

Changes need to be made to the scheme to keep the costs within the available budget and to make the scheme sustainable for the next few years.

Based on results of the review of the scheme, the NZTA identified the following areas and options to secure the financial sustainability of the scheme. A combination of options might need to be implemented to achieve the required level of cost savings.

5.1 Reduce the reimbursement rate

5.1.1 Discussion

The scheme was introduced on an interim basis, given the uncertainty around uptake, rates and costs. The initial reimbursement rate was based on the rates used in Wales and Scotland. When introduced, the intent of the scheme from a financial point of view was for it to be at least cost neutral for operators and regional councils⁶.

To achieve cost neutrality, operators require about one-third more SuperGold Card trips than paid trips before the start of the scheme. Any additional trips above this level are at marginal cost to the operator. Reimbursing the operator at the current rate of 75 percent then overcompensates them.

There is currently little information per region available to determine what level of additional patronage of this age group was generated by the scheme. Data available from Auckland suggest that the use of an earlier seniors' scheme created about 1.5 million trips per year. Under the SuperGold Card scheme, about 4.5 million trips were made in the first year. This suggests that the 75 percent reimbursement rate overcompensates the income loss in Auckland. The situation in Auckland cannot be replicated across the country, as the Auckland region has extended the scheme to cover the afternoon peak period (funded by the Auckland Regional Transport Authority). Data from Wellington indicates a more modest increase in SuperGold Card travellers of around 35 percent. This is near the level of increase necessary to maintain revenue from those users.

In England, where a similar scheme has been in place since 2008, much work has gone into calculating the reimbursement rate. The reimbursement factor is related to the cost of revenue forgone through the introduction of the scheme and the marginal cost of carrying extra passengers generated by free fares. Different rates exist for different services. Where no data are available from before the scheme, default factors are used. In the default calculation, a distinction is made between metro, urban and rural situations.

5.1.2 Options for adjustments

- a) Reduce the reimbursement rate throughout New Zealand. A reduction from 75 percent to 74 percent equals a cost saving of about \$250,000 per year. A 4 percent reduction therefore equals cost savings of about \$1 million per year.
- b) Alternatively, introduce different reimbursement rates for different regions or services, as in England. A reduction of the reimbursement rate obviously has more impact in a region or on a

⁶ Operators receive the reimbursement for trips made on routes that are procured under net cost contracts and eligible commercial services. Regional councils receive the reimbursement for trips on gross cost contracts.

service with a high contribution to the costs of the scheme. New Zealand could introduce different reimbursement rates for metro, urban and rural areas.

- c) Another approach would be to progressively lower the reimbursement rate in future years.

5.2 Cap the reimbursement payments

5.2.1 Discussion

As mentioned earlier, the reimbursement rate is set to recompense operators for the loss of revenue from previous fare-paying passengers. Any increase in SuperGold Card trips in subsequent years, eg due to an increase in card holders or the number of trips per card holder, would result in operators being overcompensated for lost revenue (as these additional trips are not replacing paid trips). It is also important to keep in mind that the available budget of \$18 million per year is fixed for at least the next few years. For the longer-term financial sustainability of the scheme, it is important to make sure that the costs do not exceed this budget.

In addition to a lower reimbursement rate, as discussed in section 5.1, a cap could be set on reimbursement payments. This would make the costs for the coming years much more predictable.

5.2.2 Options for adjustments

The current financial year could be the base year for a future cap on the reimbursement, regardless of the number of trips. The amount reimbursed on a service or network/region could be capped at the 2009/10 year total.

- a) Introduce a cap for all services.
- b) Introduce a cap or negotiate a fixed budget with operators of specific services that currently contribute disproportionately to the costs of the scheme.

5.3 Change the services that are eligible

5.3.1 Discussion

The scheme was introduced to provide free off-peak urban public transport on buses, trains and harbour ferries for SuperGold Card holders. Since the scheme's introduction, it has become obvious that a few services contribute highly to the costs of the scheme. For some services, it has been questioned whether they should be considered as part of an urban public transport system for the purpose of this scheme.

The Waiheke Island Ferry is a frequently mentioned example. Waiheke is the only island in the Hauraki Gulf that is included in the scheme. With total reimbursement payments of about \$2 million over the first year of the scheme, the service contributes highly to its costs. The average reimbursement per passenger of \$13 per trip is much higher than for most other trips (the average national cash fare on each service covered by the scheme is \$3.17). This means that 2 percent of all trips count for about 11 percent of the total budget of the scheme.

Other examples are some premium services, such as the Airport Flyer in the Wellington region. This service duplicates some of the region's other bus and rail services. The average adult fare on this service is higher than those for parallel bus and rail services, which means that SuperGold Card holders using the Airport Flyer cost the scheme more than if they use one of the other available services.

5.3.2 Options for adjustments

- a) Exclude premium fare services from the scheme unless they are the only services available for that journey.
- b) Exclude exceptionally expensive services from the scheme.

5.4 Remove/reduce payments for administration costs

5.4.1 Discussion

Regional councils can claim for their administration costs. In the first full year of operation (October 2008 to September 2009), about \$340,000 was claimed. Claims varied from region to region, with some making no claims. Most councils have not taken on additional resources to undertake this work. The NZTA is also reimbursed for its administration costs (about \$475,000 in the first year of operation).

In the initial phase of the scheme, there were start-up costs, such as establishing a reporting and payment system, changing electronic ticketing systems, setting up the contracts between the councils and operators, and communicating with users about the scheme. Generally speaking, the councils now primarily collect the returns from operators and claim the reimbursement from the NZTA. It should be noted that the removal of these payments would not be sufficient to ensure the financial sustainability of the scheme.

With the implementation of more electronic ticketing systems throughout the country, it is expected that the administrative work will decrease further.

5.4.2 Option for adjustments

- a) Remove or reduce reimbursement for the administration costs.

5.5 Others

Feedback on some other issues is sought as part of this consultation.

5.5.1 Definition of off-peak

The scheme was launched with a definition of off-peak being from 9am to 3pm and after 6.30pm weekdays, and all day on weekends and public holidays. As mentioned in section 1.1, there are two regional variations to the eligible hours the scheme can be used in: Auckland and Invercargill. Some regional councils outside of Auckland have received complaints and queries about the fact that the afternoon peak is excluded in their area, whereas it is included in the Auckland region. From a national point of view, it is desirable to have a nationally consistent scheme. We would be keen on hearing your thoughts about this issue.

5.5.2 Photo ID

We would also like your feedback on the idea of introducing a card with a photo ID. SuperGold Card holders have the option of including a photo on their card, although the card is not intended as an 'identity card'. For this reason, to date, only a very small percentage has taken up this photo option.

Anecdotal evidence suggests there is some fraudulent use of the SuperGold Card for free travel. However, at present, there is no reliable information available about the extent of misuse. Any fraud

reduces the budget for the legitimate use of the scheme. It is a shared interest of partners and stakeholders to reduce fraud as much as possible.

A photo ID could be one option to reduce this risk (and alone may be insufficient), but there would be significant costs associated with making this a requirement on a SuperGold Card, and also this move may meet with client resistance given a photo has not been a requirement to date. There might be other ways you want to suggest to address fraudulent use of the SuperGold Card.

5.6 General comments and questions

It is likely that elements of all the options will be used to reduce the cost of the scheme. Your view on the relative merits of each option will help in this decision.

Question 1: Please rank these options (summarised below) in order of your preference from most preferred (1) to least preferred (4). Where there are alternatives within options, please indicate the preferred alternative by adding a, b or c to your ranking.

Cost-reducing proposal	Rank	a, b or c
Reduce the reimbursement rate (section 5.1)		
Cap the reimbursement payments (section 5.2)		
Change the services that are eligible (section 5.3)		
Remove/reduce payments for administration costs (section 5.4)		

Question 2: What are your reasons for your ranking? Please include any information or data that helps support or explain your views.

Feedback on the following issues is sought as part of this consultation (section 5.5).

Question 3: Are you in favour of nationally consistent eligible hours the scheme can be used in (ie the off-peak definition that is currently in use in most of New Zealand – see section 5.5)?

yes / no

Question 4: What are your reasons for saying this?

Question 5: Do you think that a photo ID on cards should be introduced to reduce fraud?

yes / no

Question 6: What are your reasons for saying this?

Beside these issues, there might be other aspects about the scheme you wish to raise in your submission.

Question 7: Do you have any other suggestions for changing the scheme?

Question 8: Do you have any other comments on the scheme?

Appendix 1: SuperGold Card use, October 2008 to September 2009 by region

Region	Number of card holders	Payments	Average payment per trip ⁷	Total number of trips taken
Auckland	137,854	\$8,783,963	\$2.22	3,958,618
Wellington	55,874	\$4,368,797	\$2.62	1,665,109
Canterbury	76,997	\$2,561,088	\$1.90	1,344,927
Waikato	51,676	\$520,892	\$1.89	276,264
Otago	28,089	\$465,277	\$1.71	271,570
Bay of Plenty	41,324	\$344,968	\$1.45	237,768
Hawke's Bay	22,285	\$115,638	\$2.17	53,179
Manawatu/Whanganui	33,741	\$107,265	\$1.37	78,291
Northland	23,197	\$73,595	\$2.02	36,357
Taranaki	16,266	\$61,429	\$2.14	28,656
Nelson/Tasman ⁸	13,649	\$58,523	\$1.99	29,443
Southland	13,371	\$55,382	\$1.33	41,491
Marlborough	7,461	\$15,984	\$1.33	11,988
Gisborne	5,513	\$15,266	\$1.33	11,449
West Coast	4,629	0	0	0
Unknown	7,833	-	-	-
Regional council administration	-	\$337,227	-	-
NZTA administration	-	\$473,157	-	-
National totals	539,759	\$18,358,452	\$2.38	8,045,110

⁷ At 75 percent reimbursement rate.

⁸ The figures for Nelson and Tasman are combined because the public transport services operate between the two regions.

Appendix 2: Work carried out to date

Scope of the review

A first-year review of the scheme was proposed when the scheme was launched. The review was proposed to include the following aspects:

- a) the scope of eligible services
- b) definition of the off-peak periods
- c) operator reimbursement rates
- d) administration processes
- e) any other operational aspects that the NZTA considers desirable
- f) any other matters as directed by the crown.

The main findings of the review will be reported to the Minister of Transport for his consideration, together with the feedback from stakeholders on this consultation document.

Survey of SuperGold Card users

A survey of SuperGold Card holders was undertaken in November and December 2008 to establish a picture of their travel habits prior to the scheme's start, and to gain an understanding of awareness of the scheme. A new survey was run in November and December 2009 to obtain current information on the use of the scheme and to gain an understanding of its social and economic benefits.

Meetings with key stakeholders

A number of meetings have been held with several key stakeholders and partners, either individually or in groups. These included groups that were representative of users, operators, regional councils and government departments. The purpose was to gather any information, statistics or lessons that participants had available or had learned.

Experience from overseas

The experiences with similar schemes operating in the UK and Ireland have also been considered and reviewed.