



Tyne and Wear Integrated Transport Authority



Meeting to be held on Thursday 22 November 2012 at 10.00 am in a Committee Room, Civic Centre, Newcastle upon Tyne

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SUPPLEMENTAL AGENDA

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REPORT FOR DECISION

DATE: 22 NOVEMBER 2012
SUBJECT: REVISION TO METRO AND FERRY FARES 2013
REPORT OF: DIRECTOR GENERAL OF NEXUS

If confidential, please indicate and state the reason for confidentiality.

PURPOSE OF REPORT

To outline proposed fare changes for Metro and Ferry to become effective from 6th January 2013.

RECOMMENDATIONS

The ITA is requested to:

- i) approve the fare proposals for both Metro and Ferry as presented in paragraphs 1.1 and 1.5 of this report;
- ii) make representations to Ministers in respect of the inequity between financial support within the heavy rail sector and TfL;
- iii) note the efficiency savings being planned to offset the loss of income from restricting fares increases.

BACKGROUND DOCUMENTS

CONTACT OFFICERS

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IMPACT ON OBJECTIVES

To support economic development and regeneration	Neutral
To address climate change	Neutral
To support safe and sustainable communities	Neutral

1 Executive Summary

- 1.1 Whilst in the current climate, Nexus would ordinarily seek to limit any fares increase on Metro, **the ITA is being recommended to approve an uplift of 4.1% (being July 2012 RPI +1%) to be effective from 6 January 2013.** The reasons for this are set out below:-
- Limiting the 2012 fares increase to RPI +1% after receipt of one-off grant effectively removed £0.400m from the base.
 - Nexus is running a planned budget deficit as part of its agreed Medium Term Financial Strategy; this will be reported on in more detail at the January 2013 meeting of the ITA.
 - Patronage and ticket revenues are below budget expectations as a result of network improvements and because of the general downturn in the local economy – the estimated shortfall against the original target for this financial year of £31.473m (excluding CT reimbursement, income from Network One and Heavy Rail) is £1.620m or 5%.
 - Additional budget pressures on Metro are also evident e.g. rising costs of HV Power.
- 1.2 Although government has recently announced that it is to maintain the temporary capping of regulated rail fare increases to RPI+1% in recognition of the parlous state of the UK economy and the constraint that this has on Government policy to shift some of the cost for national rail services to users through fare increases at a previously reported RPI+3%, it has not agreed to extend the same level of financial commitment to Metro. However, despite this and the overall budget position, it is difficult to present an argument that Metro fare increases be in excess of those being implemented in the heavy rail sector. This is primarily because such an approach would significantly impact on the economy of the North East in the short term.
- 1.3 In the situation where Government refuses to meet the difference between RPI+3% and RPI+1% further additional efficiency savings will be required.
- 1.4 The headline changes to fares are outlined in the table below with more detailed provided in the attached appendices:-

Ticket Type	Fares Proposal (Weighted Average)
	RPI +1%
Single (1, 2 and 3 Zones)	£0.10 increase
Peak DaySaver 1 Zone	Product withdrawn - effective £0.20 decrease
Peak DaySaver 2 Zone	Product withdrawn - effective £0.40 decrease
Peak DaySaver 3 Zone	Product withdrawn - effective £0.60 decrease
Off Peak DaySaver (1, 2 and 3 Zones)	£0.20 increase
Pop Credits - Single Journeys	£0.10 discount per journey
Pop Credits - Daily Price Cap	£4.40
Transfare (1, 2 and All Zones)	£0.10 increase
Child Single, Transfare and DaySaver	£0.10 increase
MetroSaver	4.2% average increases
Corporate MetroSaver	4.1% average increases
16-18 MetroSaver	4.1% average increases
Metro Student Card	-0.14% average change; Increased discount of 20%



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1.5	In addition, Ferry fares are also proposed to increase by a weighted average of 4.4% on the same date as Metro fares.
2	Introduction and Background
2.1	Under the Nexus/ITA Medium Term Financial Strategy (MTFS), approved by the ITA in January 2012, the Metro fare box (exclusive of Concessionary Travel reimbursement, revenue from heavy rail and Network One revenue) was required to contribute £31.473m in 2012/13.
2.2	In practice, the Metro fare box is underachieving in the financial year 2012/13 compared to budget, and the forecast at the time of commencing this review was a year-end figure of £29.853m, a shortfall of some £1.620m. The principal causes of this shortfall are the Metro: All Change modernisation programme (estimated for accounting purposes at £0.500m) with the poor economic climate being principally responsible for the remainder.
2.3	An additional pressure has arisen from the actual increase to Metro fares applied in January 2012. In order to achieve parity with the heavy rail sector and limit the fares increase to RPI +1%, the DfT provided a financial contribution on a one-off basis. Whilst this was very welcome in its effect of limiting the fare increase for customers at a difficult time for the local economy, it was also recognised at the time that this would lead to a long-term pressure of some £0.400m effectively 'missing' from Metro's base of fare box income.
2.4	The recent announcement by the Prime Minister at the Conservative Party Conference to maintain the temporary capping of regulated rail fare increases to RPI+1% recognises the parlous state of the UK economy and the constraint that this has on Government policy to shift some of the cost for national rail services to users through fare increases at a previously reported RPI+3% level. Whilst it is unclear what the cost to Government of this opportunity forgone in 2013 actually is press reports have put this at around £300m.
2.5	Given the economy of Tyne and Wear is known to be lagging the rest of the UK by some margin, Nexus asked Government to grant an equivalent level of support for Metro as it has already accorded to national rail services. The response thus far has been negative, and this is also despite more recent intelligence that indicates Transport for London has managed to keep its fare increases at 4.2% following receipt of additional government support.
2.6	Despite this, and the overall budget position, it is difficult to present an argument that Metro fare increases be out of step with those being implemented in the heavy rail sector. A number of initiatives have therefore been invoked in order to manage to keep fare levels at RPI +1%. These include:-



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	<ul style="list-style-type: none">• The removal of a substantial element of Metro's risk contingency provisions• A further 10% headcount reduction, to be implemented from April 2013• DB Regio Energy Reduction targets and the exploration of other areas within the train operating specification where further efficiency savings could be achieved• Other 'client side' efficiency savings e.g. a reduction in the Metro insurance premium• The quantification, in fare box loss terms of Metro: All Change causal factors and the implementation of associated strategies to deal with this
2.7	Similar to Metro, the Ferry fare box is also underachieving compared to budget target. The forecast for 2012/13 at the time of commencing this review was a year-end figure of £266,784 which would result in a shortfall of £49,216 against the target of £316,000. A number of factors appear to be contributing to patronage and revenue decline on the Shields Ferry including extreme weather conditions, recent loss of shipyard contracts and the popularity of the second Tyne Tunnel.
2.8	A constraint to Ferry single and day tickets is that they can only be increased in multiples of £0.10 in order to ensure sufficient levels of change are available on board the Ferry. Given this limitation, even applying the minimum increase levels on the existing Ferry tickets can result in percentage increases above the level of inflation.
3	Pricing Strategy
3.1	Following the lifting in 2010 of the previous DfT requirement that Metro fare increases be limited to RPI +1%, Nexus is at liberty to recommend price changes to the ITA as it deems appropriate. However, Nexus is mindful of the ITA's objective of growing Metro patronage over the long term; this is not likely to be achieved if price increases are significantly higher than inflation. Therefore Nexus aims to minimise fare increases wherever possible.
3.2	Metro passengers rely heavily on ticket machines allowing them to purchase single and day tickets in cash for same day travel. A constraint is for fares to increase in multiples of £0.10 to avoid problems of machines frequently running out of change – given the size of this segment this constraint can have a distorting effect on the overall weighted increase.
3.3	It has been a stated objective of Nexus for some time to achieve offerings for students and young people (16-18) that are presented as standard discounts against the equivalent adult fare. This makes the products easier for the customer to understand and also allows more effective marketing, which will help with the transition to smart ticketing where in due course the customer's smartcard may entitle them to a discount rather than being able to purchase a specific product.



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3.4	<p>The forthcoming introduction of Pop Credits represents a significant investment in new smart ticketing technology and is intended to make travel on public transport easier. However it is widely recognised that customers require a financial incentive to switch from their established and familiar method of ticket purchase (likely to be a ticket machine at a Metro station), to a smartcard. It is therefore intended that a price differential is introduced between single tickets bought at a ticket machine, and single trips taken using Pop Credits. A daily 'price cap' is also proposed to be introduced for users of Pop Credits so that they are not over-charged compared to daily ticket machine products.</p>
3.5	<p>A feature of the new smart ticketing system is that only one daily 'price cap' can be established. This is in conflict with the current DaySaver pricing, which has different prices for peak and off-peak travel; setting the 'price cap' at the peak fare would disadvantage off-peak Pop Credits users, whereas setting it at the off-peak level would be financially disadvantageous to Nexus. To remove this constraint it is therefore proposed to remove peak pricing; this will have the added advantage of a headline message of peak travel prices reducing by up to £0.60 per DaySaver ticket.</p>
4	Proposed Fare Changes
4.1	<p>Single and Transfare Tickets - £0.10 increase on all tickets. This is the minimum increase that can be applied to generate sufficient revenue to meet the revised budget target whilst recognising the constraint to keep prices in multiples of £0.10.</p>
4.2	<p>Peak DaySaver – To support the objective of ensuring Metro remains accessible to commuters, the Peak Metro DaySaver product will be withdrawn, allowing people travelling to work in peak hours to benefit from cheaper daily fares. In effect this sees some passengers benefiting from a decrease in fares of up to 12%.</p>
4.3	<p>Off Peak DaySaver – now valid at all times of day and hence will no longer be referred to as off-peak. Prices are proposed to increase by £0.20, balancing the need to generate revenue with the requirement to maintain an appropriate differential to the adult single fare.</p>
4.4	<p>Pop Credits – to support the long term strategy of migration to smart cards, passengers making single journeys using their Pop Card will benefit from cheaper fares, with each journey costing £0.10 less than the equivalent cash fare following its launch later in 2013.</p> <p>The daily price cap will be set at £4.40 which is the same as the proposed new All Zone DaySaver price. It ensures that passengers making multiple single journeys can benefit from the daily price at the point at which the cost of their day's travel would start to exceed the day ticket price. The smart system will automatically calculate and apply this for customers</p>



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	<p>using Pop Credits. This increases flexibility by removing the need for passengers to pre-plan their exact daily journey patterns.</p>
4.5	<p>Child Tickets - The price of child tickets will increase by £0.10 with all day Metro travel for under 16's costing £1.20. Similar to the adult single ticket price changes, the minimum increase has been applied to child tickets. Concessionary fares remain as a cheaper alternative to those in possession of an under 16 Pop card.</p>
4.6	<p>Single and Day Ticket Summary - Individually some ticket types are set to rise by more than 4.1%. However in the majority of cases this is due to the constraint of rounding fares to the nearest £0.10 and hence the minimum fare change is applied. The changes proposed to single, transfare, day and child day tickets are required to generate total revenue of £21.208m which is 70.2% of the revised budget target of £30.223m for next year. The proposals are outlined in appendix A.</p>
4.7	<p>MetroSaver - Prices set to rise by an average of 4.2% to contribute £5.500m towards the revised budget target of £30.223m. Online renewal prices will continue to receive a 10% discount to encourage take up via this channel and reduce overall cost of sale. Weekly MetroSaver tickets will continue to be available at Ticket Vending Machines (TVMs) and the ability to renew a 4 week or annual MetroSaver at a TVM is also expected to be launched in 2013. This ensures that season tickets which typically incorporate discounts versus daily prices are more accessible to passengers.</p>
4.8	<p>Corporate MetroSaver – prices to increase by an average of 4.1%, generating total revenue of £2.151m. The minimum purchase level of ten Corporate MetroSaver tickets will be abolished to encourage take up amongst small businesses.</p>
4.9	<p>MetroSaver and Corporate MetroSaver Summary - The changes proposed to the MetroSaver and Corporate MetroSaver products are designed to promote accessibility whilst contributing sufficiently to the revised budget target. The proposed price changes are outlined in appendix B.</p>
4.10	<p>Metro Student Card - prices to be amended to offer an enhanced discount of 20% across the board versus the equivalent adult fare. This results in a simple yet attractive message to form the basis of our communication with students.</p>
4.11	<p>16-18 MetroSaver - This product remains available to all young people aged 16 to 18 irrespective of whether they are in full time education or not. It will continue to be priced at a discount of 50% versus the equivalent adult fare to support the Nexus objective of improving affordability for young people using public transport.</p>



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4.12	<p>Student and 16-18 Summary - The pricing proposals as shown in appendix C support the objective of a clear and simple message to young people regarding the discount they are entitled to versus an adult fare. Online renewal prices for both students and 16 to 18 year olds will also remain at a 10% discount. The price changes are expected to result in a revenue contribution of £1.364m from these products in 2013/14 which is 4.5% of the revised budget target.</p>
4.13	<p>Miscellaneous Tickets – A number of miscellaneous Metro ticket prices will increase in line with RPI+1% as shown in appendix D. This includes Class, Business and Conference Passes.</p>
4.14	<p>Metro Class Pass - The eligibility of the Metro Class Pass is proposed to be extended to sixth forms and community youth groups. The validity of the pass is also proposed to be extended throughout the summer holiday period.</p> <p>The Metro Class Pass is a ticket which is offered to schools allowing group travel of up to 40 children under the age of 16 with up to 10 accompanying adults for a fixed fee per day, term or year during the academic period. The autumn term Metro Class Pass is valid over the Christmas holiday and the spring term covers the Easter holiday, however the summer and annual pass both currently expire before the beginning of the summer school holiday period.</p> <p>The changes proposed to the Metro Class Pass ticket aim to offer affordable public transport fares to young people travelling in groups as part of a school, sixth form or community youth group. The proposal aims to increase patronage and meet our responsibilities to the community. Community youth groups will be eligible under the following criteria:</p> <ul style="list-style-type: none">• An organisation buying a pass can be of unlimited size, but the pass may only be used at one time by up to 40 youths aged 18 and under, taking part in out-of-school activities under the supervision of up to 10 adults.• The organisation must meet regularly (at least monthly throughout the year, or at least weekly during school holidays periods only) at a location/base within Tyne and Wear and be run on a not-for-profit basis.
4.15	<p>Ferry Single/Day Tickets – The minimum £0.10 increase is proposed to be applied to Ferry Single, Ferry DaySaver and Child ticket prices. Transfare tickets bought on the Ferry are also proposed to increase by £0.10 in line with Metro proposals. The concessionary single ticket priced at 60p, will now also be available as a return ticket priced at £1.20. With the majority of people purchasing this ticket making a return journey on the Ferry, this helps to reduce paper consumption and speed up boarding times.</p>
4.16	<p>Ferry Season Tickets – Prices are recommended to adjust in line with the price of the Ferry Single and Ferry DaySaver tickets to retain the existing differential between the prices. Work is progressing to install new ticketing systems on board the Shields Ferry, capable of</p>



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	<p>validating Smart products. At the time of full installation of this new ticketing system during 2013, a new Ferry 4 week season ticket is proposed to be implemented. Priced at £42.50, this represents a further saving versus the cost of purchasing weekly tickets and increases the range of products available to regular Ferry passengers</p>
4.17	<p>Ferry Summary - Increasing the Ferry fares by an average of 4.4% is expected to result in a revised 2012/13 forecast of £268,429, an additional £1,645 versus the current forecast of £266,784. However the forecast for 2013/14 predicts a continuing downward pressure on patronage which results in a revenue forecast of £266,116 if the proposals contained in this report are approved. If not revenue in 2013/14 is forecast to fall to £255,897.</p>
5	Next Steps
5.1	<p>It is vital to understand that Nexus will still require use of reserves in order to achieve the objectives of its Medium Term Financial Strategy (MTFS).</p>
5.2	<p>An update to the MTFS will be presented to the ITA in January 2013, detailing how Nexus intends to implement a programme of actions aimed at achieving further efficiency savings in order to achieve the overall plan in the context of a reduced contribution from Metro fare box but continuing to broadly maintain the level of customer output across all of Nexus's service areas.</p>
5.3	<p>If the fare change proposals set out in this paper are not approved, and no alternative source of funding can be identified, then an immediate review of Metro service levels will be required so that costs can be reduced to match the budget shortfall without impacting on other service areas.</p>
6	Potential impact on objectives
6.1	<p>Whilst fare increases above the level of inflation will undoubtedly impact patronage, the effective removal of one-off financial support received from DfT last year, coupled with the current budget deficit, leaves little option but to propose to increase fares in January 2013. Without further government support, limiting the increase to an average of RPI+1% will be achieved through a programme of further efficiency savings.</p>



APPENDIX A

Single/Day Tickets				
Product	2012 Price	2013 Price	£ inc on 2012 price	% inc on 2012 price
1Z Single	£1.60	£1.70	£0.10	6.2%
2Z Single	£2.40	£2.50	£0.10	4.2%
3Z Single	£3.10	£3.20	£0.10	3.2%
1Z Single - Pop Credits on Smartcard		£1.60		
2Z Single - Pop Credits on Smartcard		£2.40		
3Z Single - Pop Credits on Smartcard		£3.10		
Daily Price Cap - Pop Credits on Smartcard		£4.40		
1 Z off-peak DaySaver	£2.30	£2.50	£0.20	8.7%
2 Z off-peak DaySaver	£3.30	£3.50	£0.20	6.1%
3 Z off-peak DaySaver	£4.20	£4.40	£0.20	4.8%
1 Z peak DaySaver	£2.70	Product Discontinued - effective £0.20 decrease		
2 Z peak DaySaver	£3.90	Product Discontinued - effective £0.40 decrease		
3 Z peak DaySaver	£5.00	Product Discontinued - effective £0.60 decrease		
Transfare 1Z	£2.50	£2.60	£0.10	4.0%
Transfare 2Z	£3.30	£3.40	£0.10	3.0%
Transfare 3Z	£4.00	£4.10	£0.10	2.5%
Child Transfare	£0.80	£0.90	£0.10	12.5%
Child Commercial Single	£0.70	£0.80	£0.10	14.3%
Child DaySaver	£1.10	£1.20	£0.10	9.1%



APPENDIX B

MetroSavers				
Product	2012 Price	2013 Price	£ inc on 2012 price	% inc on 2012 price
Weekly 1Z	£9.40	£9.80	£0.40	4.3%
Weekly 2Z	£13.80	£14.40	£0.60	4.3%
Weekly 3Z	£19.00	£19.80	£0.80	4.2%
4 Week 1Z	£34.50	£36.00	£1.50	4.3%
4 Week 2Z	£48.50	£50.50	£2.00	4.1%
4 Week 3Z	£64.00	£66.60	£2.60	4.1%
4 Week 1Z Online	£31.05	£32.40	£1.35	4.3%
4 Week 2Z Online	£43.65	£45.45	£1.80	4.1%
4 Week 3Z Online	£57.60	£59.90	£2.30	4.0%
Annual All Zones	£500.00	£520.00	£20.00	4.0%
Annual All Zones Online	£450.00	£468.00	£18.00	4.0%

Corporate MetroSaver				
Product	2012 Price	2013 Price	£ inc on 2012 price	% inc on 2012 price
0-19 tickets	£450.00	£468.00	£18.00	4.0%
20-39 tickets	£445.00	£463.00	£18.00	4.0%
40+ tickets	£440.00	£458.00	£18.00	4.1%



APPENDIX C

Metro Student Card and 16-18 MetroSaver				
Product	2012 Price	2013 Price	£ inc on 2012 price	% inc on 2012 price
16 - 18 MetroSaver 1 Week All Zones	£9.50	£9.90	£0.40	4.2%
16 - 18 MetroSaver 4 Week All Zones	£32.00	£33.30	£1.30	4.1%
16 - 18 MetroSaver 4 Week All Zones Online	£28.80	£29.95	£1.15	4.0%
Student 4 Week Inner Newcastle	£31.05	£28.80	-£2.25	-7.2%
Student 4 Week Inner Newcastle Online	£27.95	£25.90	-£2.05	-7.3%
Student 4 Week Inner Sunderland	£31.05	£28.80	-£2.25	-7.2%
Student 4 Week Inner Sunderland Online	£27.95	£25.90	-£2.05	-7.3%
Student 4 Week All Zones	£51.20	£53.25	£2.05	4.0%
Student 4 Week All Zones Online	£46.05	£47.90	£1.85	4.0%
Student Annual Inner Newcastle	£306.00	£319.00	£13.00	4.2%
Student Annual Inner Newcastle Online	£275.40	£287.10	£11.70	4.2%
Student Annual Inner Sunderland	£306.00	£319.00	£13.00	4.2%
Student Annual Inner Sunderland Online	£275.40	£287.10	£11.70	4.2%
Student Annual All Zones	£425.00	£416.00	-£9.00	-2.1%
Student Annual All Zones Online	£382.50	£374.40	-£8.10	-2.1%



APPENDIX D

Miscellaneous Ticket Products				
Product	2012 Price	2013 Price	£ inc on 2012 price	% inc on 2012 price
University of Sunderland Metro Card	£42.50	£44.00	£1.50	3.5%
Business Pass	£144.00	£150.00	£6.00	4.2%
Conference Pass	£2.20	£2.30	£0.10	4.5%
Class Pass - 1 Pass 1 Day	£28.00	£29.20	£1.20	4.3%
Class Pass - 2 Passes 1 Day	£44.50	£46.30	£1.80	4.0%
Class Pass - 1 Pass 1 Term	£85.00	£88.50	£3.50	4.1%
Class Pass - 2 Passes 1 Term	£140.00	£145.90	£5.90	4.2%
Class Pass - 1 Pass Annual	£219.00	£228.00	£9.00	4.1%
Class Pass - 2 Passes Annual	£388.00	£404.00	£16.00	4.1%
Single Inner Zone Rail Add On	£1.30	£1.40	£0.10	7.7%
Peak Return Inner Zone Rail Add On	£2.40	Product Discontinued		
Off Peak Return Inner Zone Rail Add On	£1.90	£2.00	£0.10	5.3%
7 Day Inner Zone Rail Add On	£7.90	£8.30	£0.40	5.1%
Single Outer Zone Rail Add On	£2.30	£2.40	£0.10	4.3%
Peak Return Outer Zone Rail Add On	£4.60	Product Discontinued		
Off Peak Return Outer Zone Rail Add On	£3.70	£3.90	£0.20	5.4%
7 Day Outer Zone Rail Add On	£14.50	£15.10	£0.60	4.1%



APPENDIX E

Ferry Tickets				
Product	2012 Price	2013 Price	£ inc on 2012 price	% inc on 2012 price
Ferry Single	£1.40	£1.50	£0.10	7.1%
Ferry DaySaver	£2.40	£2.50	£0.10	4.2%
FerrySaver 1 week	£10.80	£11.20	£0.40	3.7%
FerrySaver 4 week		£42.50		
Ferry Carnet (10 single trips)	£11.20	£12.00	£0.80	7.1%
1 Zone Transfare	£2.50	£2.60	£0.10	4.0%
2 Zone Transfare	£3.30	£3.40	£0.10	3.0%
3 Zone Transfare	£4.00	£4.10	£0.10	2.5%
Child Single	£0.50	£0.60	£0.10	20.0%
Child Transfare	£0.80	£0.90	£0.10	12.5%
Concessionary Return		£1.20		

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