

Information document

Sustainable funding of the SuperGold Card transport concession scheme

Ministry of Transport
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Background

1 The SuperGold Card transport concession scheme

The SuperGold Card is available to all eligible New Zealanders aged 65 years and over and those under 65 who receive the New Zealand Superannuation or the Veteran's Pension and some spouses of cardholders.

The SuperGold card transport concession scheme (the Scheme), which started on 1 October 2008, enables SuperGold Cardholders to travel for free on scheduled urban public transport between 9am and 3pm and after 6.30pm Monday to Friday, and all day on weekends and public holidays.

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.

In 2008 Crown funding of \$18 million per annum was made available by the Government to cover reimbursements to transport providers and administration costs for the New Zealand Transport Agency (the NZ Transport Agency) and regional councils.

Changes were made to the Scheme in 2010 to ensure its sustainability into the future. Key changes were an increase in funding to provide for growing demand and a moratorium on new services entering the Scheme until the end of June 2012.

2 Cost increases since the 2010 review

Despite the initiatives introduced in 2010 the cost of the Scheme has continued to increase. Table 1 (below) shows that additional funding has been allocated every year since 2010 to cover the cost of reimbursements to transport providers.

Table 1: Additional funding for the SuperGold card transport concession scheme 2012 – 2016

Year	Baseline appropriation \$ million	Additional appropriation \$ million	Overall funding \$ million
2010/11	17.905	3.960	21.865
2011/12	17.905	5.000	22.905
2012/13	17.905	4.850	22.755
2013/14	17.905	6.000	23.905
2014/15	17.905	8.195	26.100
2015/16	17.905	10.224	28.129

3 What is included in the current review?

In 2013 the Government announced a targeted review of the Scheme, to consider how the Scheme is operating under its current guidelines and how the guidelines might change to keep the Scheme affordable in future.

The review would not affect SuperGold cardholders' entitlement to the concession or the eligibility of current services receiving the SuperGold Card concession.

The areas of focus for the review and terms of reference for the review are on the Ministry of Transport's website www.transport.govt.nz/supergold.

4 Why are costs increasing?

The cost of the Scheme has been growing rapidly because of:

- ▶ the growing number of people turning 65
- ▶ increased use of the Scheme by SuperGold cardholders
- ▶ increases in public transport fares.

When the Scheme started in 2008 there were approximately 500,000 eligible SuperGold cardholders. This had increased to more than 662,000 by May 2015, a 32.4 percent increase. The number of SuperGold cardholders is increasing on average by around 29,000 per year.

Between 2009 and 2014 use of the Scheme grew from 8.8 million trips per year to over 11 million, a 25 percent increase. When this is combined with increased transport fares, the amount required to reimburse public transport providers has grown substantially since the Scheme began.

5 Projected cost of the Scheme in its current form

Future projections show continuing growth in the number of people aged over 65.

The Ministry of Transport projects the number of trips taken by SuperGold cardholders will rise to more than 15 million trips per year by 2019.

If there are no changes to the Scheme, including increases to the funding baseline, the funding shortfall will continue to rise rapidly.

Changes to the Scheme

6 Funding

Decision

Under the Government's changes to the Scheme the new funding baseline will be capped at \$28.129 million per year for five years, with annual Consumer Price Index (CPI) adjustments. The funding cap is equivalent to the funding set aside for the Scheme in the 2015 Budget.

The NZ Transport Agency will allocate bulk funding to regional councils¹ using a principles-based methodology, which will accommodate regional differences.

Within the funding cap, exempt services would receive capped funding set at 2013/14 levels (which is also the projected cost of these services in the 2015 Budget allocation). These caps would also be subject to annual CPI adjustments.

The funding cap will begin from 1 July 2016. The effectiveness of the bulk funding model will be reviewed in year three (2018/19).

6.1 Bulk funding for regional councils

The review found that under the reimbursement model it is difficult to limit the costs of the Scheme. To enable the Crown funding for the Scheme to be sustainable, without changing eligibility and entitlement policy settings directly, requires an approach that:

- ▶ provides a ceiling on the level of Crown funding provided for the Scheme
- ▶ removes the fare reimbursement for individual trips.

Given the growing cost pressures on the Scheme identified in section 4, the Government considers a change from a demand-driven reimbursement approach to a bulk funding model will better manage the rising costs of the Scheme. Demand driven reimbursement is not used in other public transport funding models.

The Government will monitor the funding of services that carry SuperGold cardholders to assess the impact of bulk funding on the Scheme. A review of the effectiveness of bulk funding will be carried out in year three (2018/19).

As a condition of funding, regional councils will be required to provide free off-peak travel to all SuperGold cardholders on all contracted services. Participating regional councils will not be able to impose part-charges or reduce the hours of free travel offered by the Scheme, i.e. there will be no change to eligibility and entitlement.

Within the capped funding baseline, funding for the commercial services which currently participate in the Scheme (now known as exempt services, see section 5 of the Land Transport Management Act 2003) will receive funding capped at 2013/14 levels (with annual CPI adjustments). Exempt services are fully commercial, are not contracted to a regional council and operators retain the fare revenue received. As a condition of funding, exempt services will need to provide free off-peak travel to all Super Gold cardholders on all eligible services.

¹ In this document 'regional councils' includes Auckland Transport, unitary authorities and territorial authorities which have been delegated responsibility for managing public transport under the Local Government Act 2002.

6.2 Allocation of bulk funding

The NZ Transport Agency will allocate the bulk funding to regional councils using a principles-based methodology, which will accommodate regional differences.

The NZ Transport Agency will engage with regional councils in a separate process, to consider the options for the allocation methodology that will determine the division of bulk funding among the regions.

7 Moratorium on new services

Decision

The moratorium on new contracted services will be lifted from 1 September 2015.

Criteria for new services that would be eligible for the Scheme will be applied.

New services eligible for entry into the Scheme must:

- a. be contracted to a regional council
- b. be identified in a Regional Public Transport Plan
- c. not be an exempt service as defined in the Land Transport Management Act 2003

7.1 Lift the moratorium

The moratorium on the entry of major new services to the Scheme was introduced from 1 July 2010 to manage the Scheme's increasing costs. Under the review the Government has extended the moratorium to 31 August 2015, to complete engagement on the changes to the Scheme.

The moratorium will be lifted from 1 September 2015. Allowing new services into the Scheme will improve access to the Scheme for SuperGold cardholders living in rural areas, as well as improving the provincial/urban balance of services.

The cost of lifting the moratorium has been factored into the available bulk funding for the Scheme.

7.2 Apply criteria for new services

Criteria will be applied for the entry of new services into the Scheme. Only public transport services which are provided under contract to regional councils will be eligible to participate in the Scheme once the moratorium is lifted. The criteria will not impact on the services currently participating in the Scheme.

Under the criteria no new exempt services would be able to join the Scheme, other than a one-off exemption for Explore Group Ltd to tender for the Waiheke Island (Matiatia Wharf) route (see 8.2 below).

The criteria for new services limit the cost to the Crown of lifting the moratorium. The criteria mitigate the risk of high-cost exempt services joining the Scheme.

8. Competitive tendering for exempt services where competition exists

Decision

From 2016/17 competitive tendering for SuperGold Card funding will be required on routes where there is competition. The only route on which competition exists is the route to Matiatia Wharf, Waiheke Island.

A one-off exemption to the eligibility criteria (see 7.2 above), when the route goes out for tender, will enable Explore Group Ltd to tender.

The Government will determine the tender process and its timing, with input from Auckland Transport.

8.1 Exempt services

Exempt services operate without any subsidy from the National Land Transport Fund or local government. A small number of exempt services receive funding for carrying SuperGold Card users: Fullers Group Ltd and Sealink ferries to Waiheke Island; Devonport Ferry; Wellington Cable Car; and Wellington Airport Flyer. Funding for these exempt services will be changed from fare reimbursement to bulk funding, capped at current levels, and subject to annual CPI adjustments to account for inflation.

To achieve efficiencies and reduce the cost of the Scheme, the review reached the view that competition for SuperGold Card funding on exempt service routes should be encouraged. However, the only exempt service where two operators provide competing services is the Waiheke Island ferry route to Matiatia Wharf.

8.2 Tendering for Matiatia Wharf, Waiheke Island route

The existing eligible service is provided by Fullers Group Ltd. Explore Group Ltd started a service at Labour weekend 2014 on the same route, but was not eligible to participate in the Scheme due to the moratorium. The Government considers opening the SuperGold Card funding for this route to competition may drive down costs. A one-off exception will be made for Explore Group Ltd, as an existing operator, to tender for SuperGold Card funding on this route along with Fullers Group Ltd. Decisions are still to be made about how the tender will operate or when it will take place.

The high cost of the Waiheke Island ferry service to the Scheme has been a particular concern since the 2010 review. In 2010 funding for the service provided by Fullers Group Ltd was capped at \$1.5 million per year. Annual CPI adjustments have been made since then.

The Government understands the number of passengers travelling exceeds the funding cap, if calculated on a reimbursement basis. Fullers Group Ltd currently provides services to SuperGold cardholders for the full year and does not receive a reimbursement per passenger once the capped funding is reached.

9 Use of smartcards to access the Scheme

Decision

From 1 July 2016 SuperGold cardholders will need to use smartcards, where available, to access free travel through the Scheme.

SuperGold cardholders will need to purchase the appropriate smartcard for each region in which they want to travel.

A number of regional councils around the country are currently working on bringing in 'smartcard' ticketing systems as part of a regional integrated ticketing system. With smartcards, one transport card can be used across the full range of public transport services in a region. Currently, the only regionally integrated smartcard in use is the AT HOP card, which SuperGold cardholders in Auckland can already use to access public transport services. Other regions are expected to bring in smartcards within 2 to 5 years.

The use of smartcards has benefits for the public transport system as a whole and for individual users. Smartcards ensure accurate data on public transport use is collected, including information on the trips taken and travel patterns under the Scheme (personal information will not be collected). This will help future transport planning and provide a better understanding of the costs of the Scheme to regional councils. For public transport users smartcards are convenient, shorten boarding times and improve the efficiency of public transport.

The Government has decided smartcards will be used to access the Scheme, as they become available in each region. SuperGold cardholders will need to purchase smartcards, at an expected cost of around \$5 to \$10 per card.

The potential cost of smartcards being issued free of charge to all SuperGold cardholders would be significant. However, the cost of a smartcard to an individual is small compared to the overall benefits they receive through the Scheme.