

AT HOP Operations

Recommendation

That the Board:

- i. Receive the report.

Executive summary

This report is an overview of the AT HOP operations since the completion of the Auckland Integrated Fare System (AIFS) project and the last bus operator Go Live. The initial project and the first two years of operations has been a success with overall HOP penetration on public transport at 86%. A complex business technology project was delivered on time and budget, customer metrics have been exceeded and business processes are successfully supporting the country's third largest financial transaction system.

Following the successful roll-out of Simpler Fares, attention will now focus on a future development programme for HOP based around emergent technology and customer needs.

Background

The AT HOP card went live with train and ferry services in October/November 2012. Bus services had a phased roll-out that was completed by May 2014 for 1,120 buses. The AIFS project was within budget and delivered on time. Retail support includes 73 retailers, 10 Customer Service Centres (CSCs), seven Rail Ticket Offices, 74 ticket machines at Bus and Train stations and one at Manukau Mall, as well as online top up facilities.

To date just over 965,000 AT HOP cards have been sold compared to the originally proposed total sales of 338,000 for the same period.

AIFS Project Capital Expenditure		
Capital (\$000)	Actual	Budget
Phase 1 Budget		32,800
Phase 2 Budget		46,400
AT HOP Software CST	31,600	
AT HOP Fixed Devices and Hardware	7,500	
AT HOP Software CSB (NTP* Asset)	20,000	20,000
Project Team Costs	8,500	
Other system Enhancements	10,700	
Bus Operating Devices (Leased to Operators) **	14,000	
Additional Fixed devices and Bus Depots	6,900	
Total	99,200	99,200

* National Ticketing Programme i.e. care of national system

** Bus operating devices are leased to Operators for a period of five years which covers the capital investment in those devices

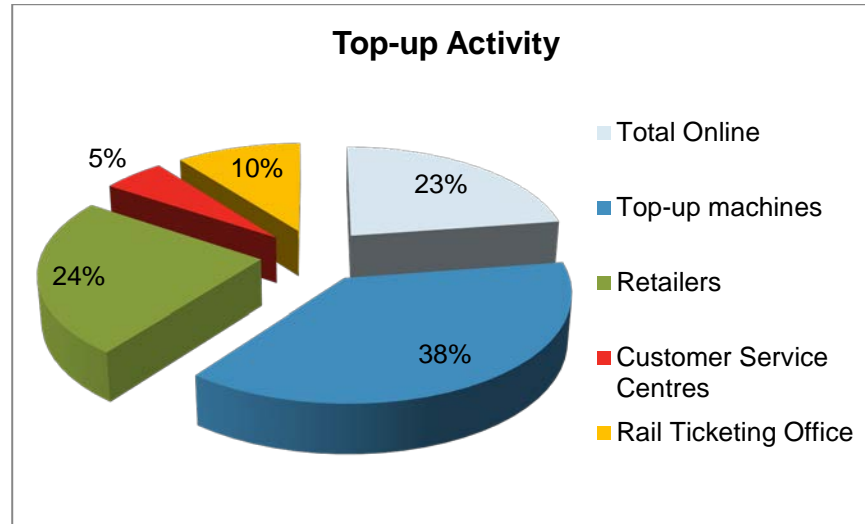
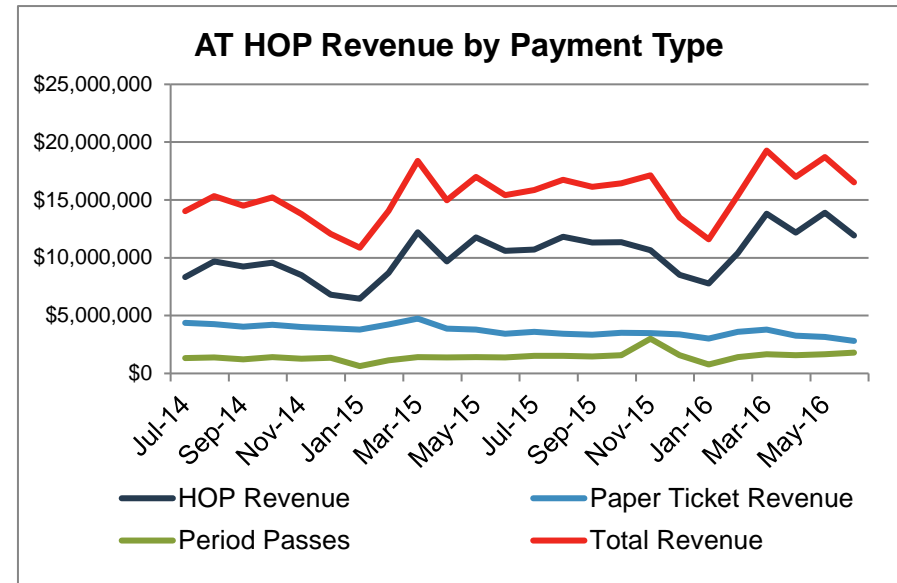
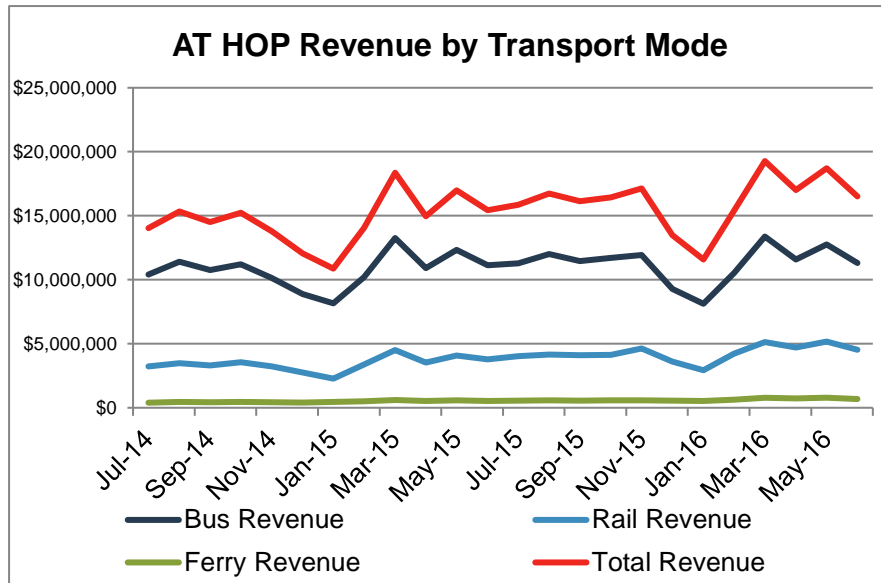
Ticketing systems are inherently complex. Routine upgrades to software go through a standard testing and project management process. More complex changes, such as the major re-release entailed in the introduction of Simpler Fares require significant prior planning, time and cost.

AT HOP Activity

HOP Revenue has increased 26% over the past two years.

There is a strong seasonal trend. The summer holiday period sees a 50% drop in monthly revenue. The return of school and tertiary students in February/March sees a spike in new card sales and in travel on public transport.

The highest top up channels – online, retailers and ticket and top up machines - are the three lowest cost to serve channels.



Financial Overview

For the 2015/16 financial year, over \$193 million in revenue has been processed by the AT HOP System. This is up 10% from the previous year (\$175 million).

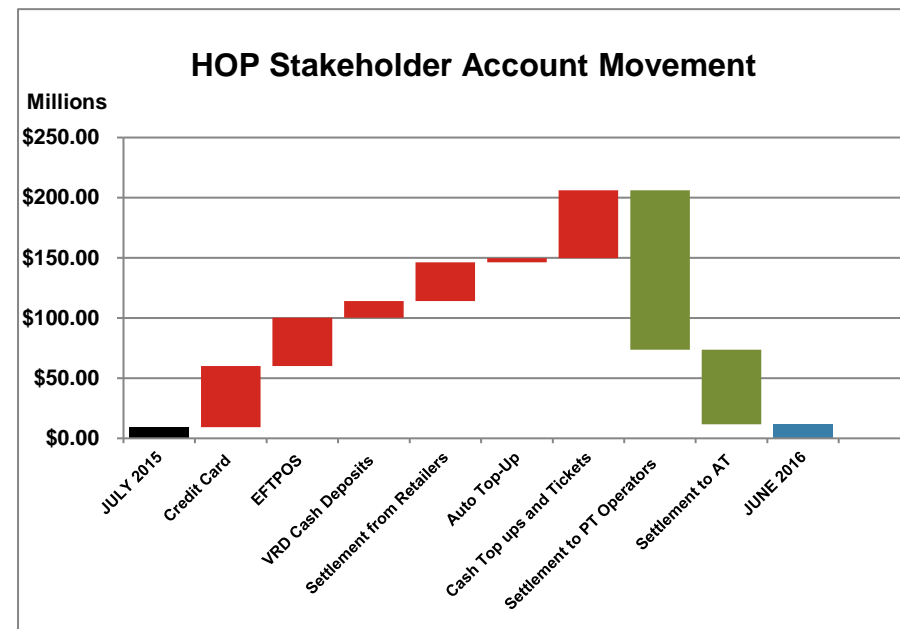
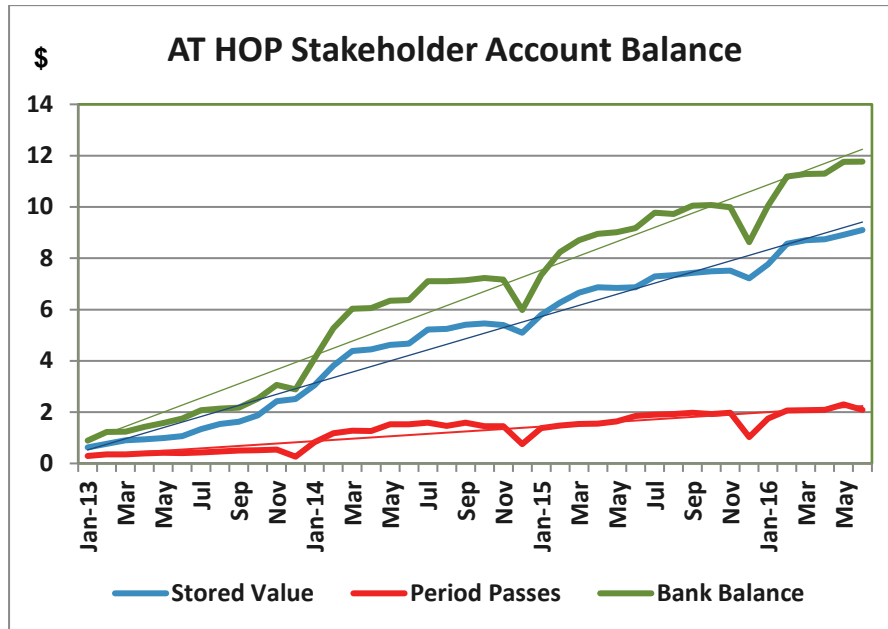
The current AT HOP Operations costs were \$16.6 million for 2015/16. The percentage of operating costs (excluding depreciation) to revenue was 8.8% last year. Internationally, ratios above 10% are common.

The original business case projected operational costs of \$9 million per year. Since the original business case there have been a number of changes to the environment and a greater understanding of the support required, along with higher volumes than expected. The following are costs that were not fully factored into the original business case:

- Additional bus services which increased the cost of system support
- Increased AT HOP Operating Staff from the original budget of nine FTEs to 37, in order to support retailers, operators, and customers
- BT test support to provide system testing of BAU changes and system enhancements (average of 40 route changes are made each month).
- Additional finance support - providing reconciliations, settlement support and process development (recognition that the AT HOP System is a significant financial system).
- Increased banking fees, secure cash collection and retail commission due to the high uptake of the AT HOP Card
- Removal of the 25 cent transaction fee for Top-up transactions

These additional costs have received NZ Transport Agency funding of 57%, reducing the required Auckland Council funding to \$3.3 million. Increased patronage and HOP card sales have also offset higher costs.

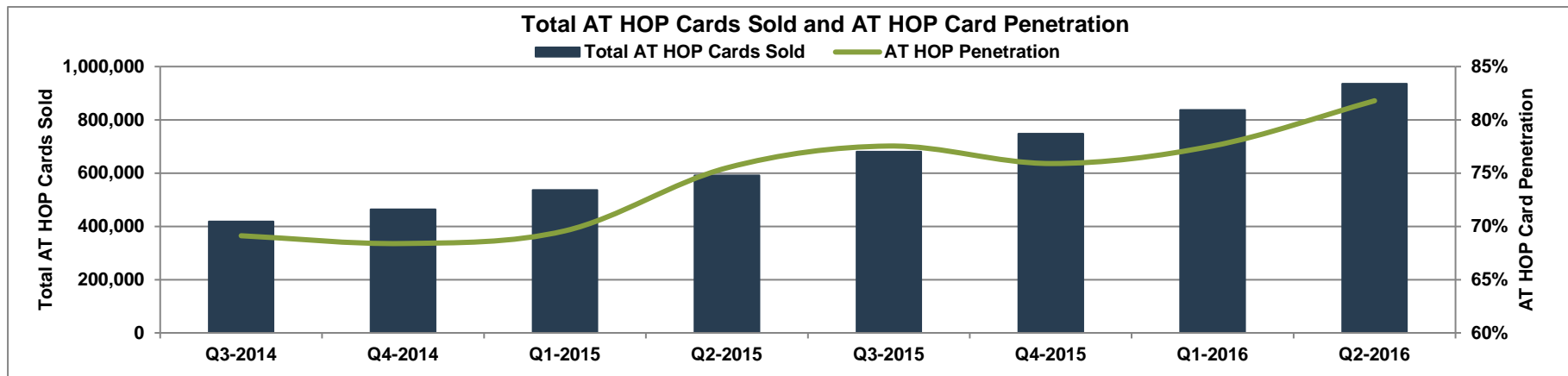
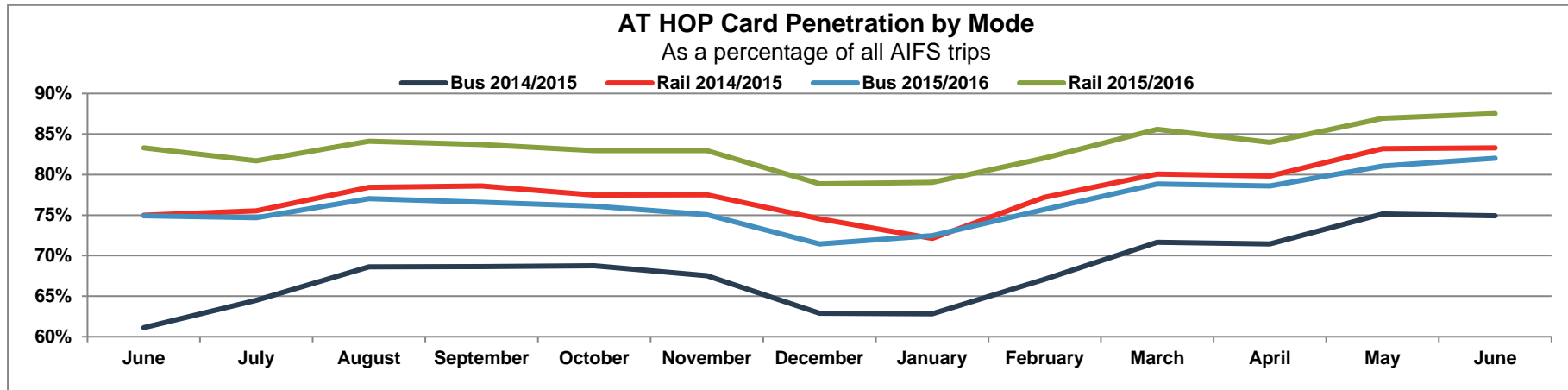
Stakeholder Account Balance



As use of the HOP card has grown, the amount of stored value (unspent balances held in trust) has also increased. The graph above shows the total AT HOP stakeholder bank account reached \$11.8 million in June 2016 – up from approximately \$2 million in July 2013. 85% of the current balance is represented by stored value and 15% by period passes.

The AT HOP stakeholder account is treated as a Trust Account.

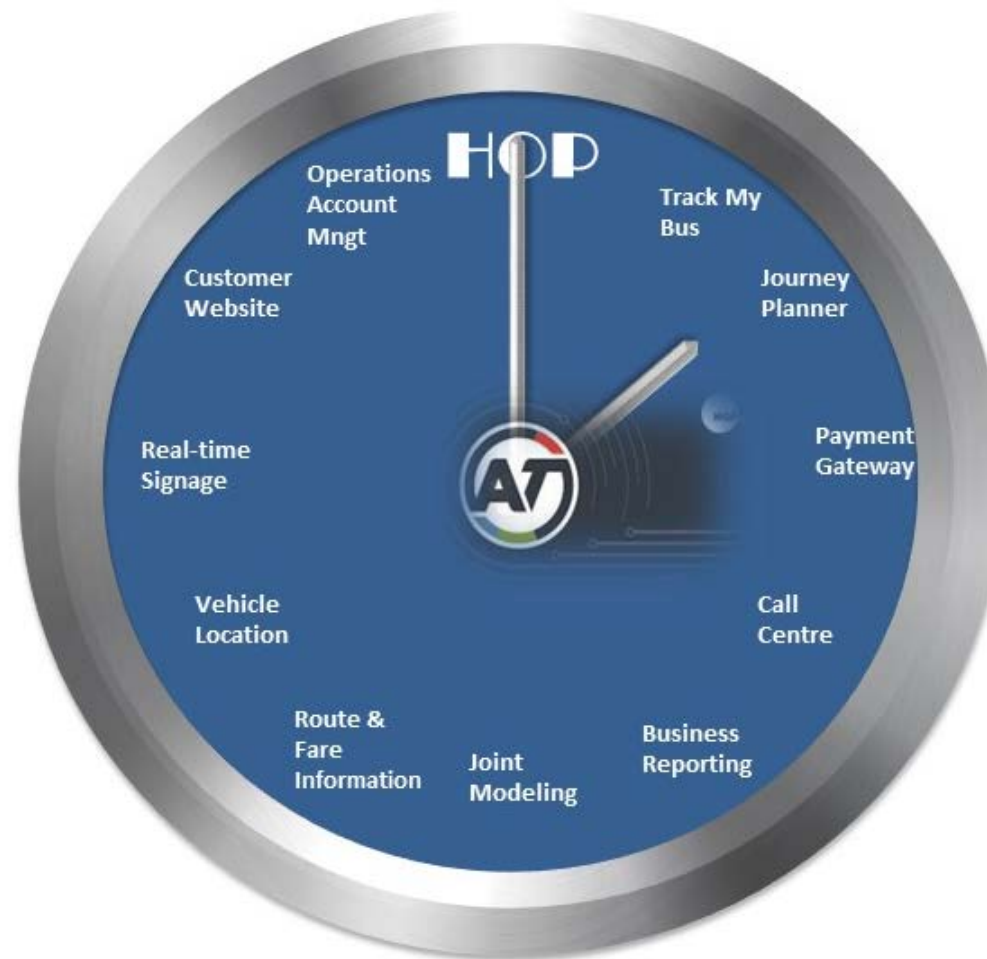
Customer Experience



The current sales of AT HOP Card average 26,000 cards per month, this has risen due to SuperGold, and typically card sales are slightly lower at 23,500 per month.

The percentage travel using the AT HOP Card has increased in the past two years by 19% to 86% (as of July 2016), rail increased by 12% to 87% and bus services by 21% to 85%. In London, 85% of all bus and rail travel use the Oyster Card (introduced 11 years ago).

What Keeps HOP ticking?



The AT HOP system is highly integrated – the diagram above shows the number of systems that work together to make AT HOP a success.

AT HOP Risk and Compliance

The HOP card is a financial instrument and falls within these rules. AT HOP has a FMA exemption that is valid until November 2016. To ensure that AT HOP advertising material does not contain any material likely to mislead, deceive, confuse or that was inconsistent with the registered prospectus, all AT HOP advertising material is reviewed by external lawyers. A certificate is provided to AT Directors which has an assessment of these risks. An AT ELT member provides a final sign off before the advertising material is published.

Payment Card Industry Data Security Standard (PCI DSS) certification has been achieved in the past year. This helps ensure the safety of passengers' personal information and reduces the chance of unauthorised access to machines or card use.

Risk management has been given a focus in the past year. The following key initiatives have been undertaken:

- Implementation of a Policy Framework to direct how operational policies and process are developed, amended and approved
- Completion of the risk register refresh program
- Introduction of monthly risk meetings to review mitigating control activity and effectiveness
- Development and roll out of risk management e-learning training to all staff within the HOP operation, with a 100% completion rate
- Development and implementation of a compliance management framework (aligned with AS3806-2006)

The coming year will focus on optimising current risk and compliance processes, and extraction of quality management information from the risk and compliance frameworks to facilitate informed decision making. An independent effectiveness review will also be commissioned to determine potential improvement and/or development opportunities.






Next Steps

A strategy is being developed to evaluate the future of HOP. This will consider further opportunities to enhance the customer experience and emerging technology.

The development opportunity to improve customer service offerings is being actively pursued by the AT Metro, HOP and BT teams. This may include the ability to use credit cards or phone applications for payment and the potential to extend HOP to other services such as parking. Other options include online bus updates for balances, mobile top ups, use of the ATM network and account based systems. Whilst many of these are feasible to a degree, e.g. bus updates for balances is probably only available at 10-15 minute intervals, much of this technology is new, not only to Thales but other card systems as well. Generally, development is very slow and expensive which has limited the ability for AT to progress at pace these types of initiatives. Currently AT is investigating a solution to enable the HOP card to use Near Field Communications on a smart phone and the business is working with Thales on proposals for a real time top up ability via smart phone to the physical cards.

AT is also working with the NZ Transport Agency and other Councils on a National Ticketing Programme.

Document ownership

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