

NZTA draft farebox recovery policy

Consultation document

This consultation document sets out the NZ Transport Agency's proposed requirements relating to farebox recovery policy in the regions, which is to be implemented by regional councils and the Auckland Regional Transport Authority.



Draft NZTA farebox recovery policy

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More information

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If you have further queries, call our contact centre on 0800 699 000 or write to us:

NZ Transport Agency
Private Bag 6995
Wellington 6141

This document is available on the NZ Transport Agency's website at www.nzta.govt.nz.

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1 Introduction

1.1 Purpose of this document

The NZ Transport Agency (NZTA) is consulting over its:

- Draft NZTA Farebox Recovery Policy (appendix 1)
- Draft Fare Policy Decision-Making Guideline (appendix 2).

The purpose of the Draft NZTA Farebox Recovery Policy document is to set out the NZTA's proposed requirements relating to farebox recovery policy in the regions, which is to be implemented by regional councils and the Auckland Regional Transport Authority (ARTA).

The purpose of the NZTA's Draft Fare Policy Decision-Making Guideline is to support regional councils and ARTA to improve value for money on the investment in public transport services through a best practice process for 'fare policy decision-making' or reviewing fares.

1.2 Definitions

What is meant by the term 'farebox'?

The term 'farebox' is used to describe the revenue collected from tickets (cash, prepaid, passes and electronic purses) purchased by travellers of a public transport system. A fare is the fee paid for the ticket that enables the traveller to access the system. In a literal sense, a farebox is the device/other method used to collect fares for the use of buses, trams, trains and ferries.

What is a farebox recovery ratio?

A farebox recovery ratio measures the contribution fares make to the cost of providing public transport services, and is typically expressed as a percentage. Few public transport systems are self-supporting so government subsidies and other revenue, such as advertising and parking fees, are usually required to cover the costs.

This document relates to all modes of public transport, ie bus, rail and ferry.

1.3 NZTA consulting on both documents

The NZTA has decided to consult on both documents at the same time. Although they are distinct and separate documents, they are interconnected, as fare policies and structures impact on public transport ridership and farebox revenue. This interconnection, and a desire to make the consultation process efficient, means that it is appropriate to consult on the documents at the same time.

Feedback provided on these documents will be collated and assessed and contribute to the final NZTA Farebox Recovery Policy and Fare Policy Decision-Making Guideline, both of which are planned to be formally released in March 2010.

1.4 How this document is set out

Section 1:

- provides background information on why the NZTA has produced these documents
- describes the reviews that have been undertaken to date
- details the consultation period and process
- provides contact details for sending the NZTA feedback.

Section 2:

- describes the Draft NZTA Farebox Recovery Policy section by section
- describes the policy detail related to each section
- explains why this detail is included
- asks 27 specific questions as part of this consultation (submitters are free to raise any other matters for consideration).

Section 3 introduces the Draft Fare Policy Decision-Making Guideline document, and asks for feedback on that document.

Appendix 1 contains the Draft NZTA Farebox Recovery Policy.

Appendix 2 contains the Draft Fare Policy Decision-Making Guideline.

Appendix 3 sets out a list of all of the questions for consultation.

1.5 Background information

1.5.1 Funding of public transport services

The primary source of revenue to fund public transport services is the amount paid by the users in the form of fares for the journey, the 'farebox revenue'. Where the farebox revenue covers the costs, the service is recognised as a 'commercial service'. In cases where the farebox revenue does not cover the costs, but the regional council or ARTA considers the service necessary, it will contract an operator to provide that service (a 'contracted service'). The shortfall between the total cost of providing the service and the farebox revenue is made up by payments from the regional council or ARTA.

The NZTA assists the regional councils and ARTA with these payments for contracted services by providing a subsidy of approximately half of the amount of the payments through the National Land Transport Fund. If farebox revenue is covering 40 percent of the total cost of providing the services, a subsidy of 60 percent must be provided. Since the subsidy is split roughly 50 percent regional authority and 50 percent NZTA, the regional authority would have to contribute 30 percent of the total cost of providing the services, and the NZTA, 30 percent. This three-way (user-ratepayer-government) contribution is an important funding principle for public transport services in New Zealand. All three contributions may be required to provide an adequate level of service, but it is preferable that users make the greatest contribution through fares, and if possible that contribution should be grown as a proportion over time.

The efficiency and effectiveness of a public transport service is measured by its cost and patronage. This requires a careful balance of contributions from the user (fares), third party

funding or other sources, regional authority (rates) and the NZTA (road user funds derived from fuel tax, road user charges and motor vehicle registration and licensing fees). The desired outcome from the NZTA Farebox Recovery Policy is to ensure that each party is paying its fair share of the costs in a way that contributes to the government's objectives for public transport, as outlined in the Government Policy Statement on Land Transport Funding 2009/10–2018/19 (GPS) (May 2009). Adjusting each party's share will affect, positively or adversely, the use or continuation of a service. Any adjustment needs to be rationally based and transparent.

The NZTA Board envisages that the NZTA will develop a range of funding intervention policies over time, and the farebox recovery policy will be only one of a number of funding interventions designed to ensure that the government's objectives for public transport are achieved.

1.5.2 Consistency with local government decision-making requirements for funding

The NZTA recognises that decisions made by regional councils on farebox recovery fit within a broader funding picture. The NZTA does not consider that there is any inconsistency between the Local Government Act 2007 decision-making process for funding public transport and the decision-making requirements for public transport funding under the Land Transport Management Act 2003 and Public Transport Management Act 2008.

1.6 Why has the NZTA produced these documents?

1.6.1 Significant funder

The NZTA is a significant funder of public transport infrastructure and services and has a strong interest in encouraging improvements in operational efficiency and setting expectations around appropriate levels of subsidy. The NZTA also has an interest in ensuring that its funding is used in the most effective manner, ie to achieve the desired local and central government outcomes. An important part of the NZTA's draft farebox recovery policy is that regional councils must set and publish a formal farebox recovery ratio target. This is one of the mechanisms the NZTA uses to signal that efficiency and effectiveness gains are expected.

1.6.2 Government Policy Statement and Investment and Revenue Strategy

As well as reprioritising the government's investment in land transport on increasing economic growth and productivity, the GPS also places increased emphasis on obtaining value for money through more effective and efficient delivery and use of public transport infrastructure and services. The government has expressed an interest in developing and expanding commercial public transport services as well.

The NZTA's Investment and Revenue Strategy translates the government's GPS into workable criteria for the purpose of allocating funding. This Strategy, approved by the NZTA Board, requires all regional councils and ARTA, if using NZTA funds to help pay for public transport services, to have a farebox recovery policy as a condition of funding that sets out their farebox recovery ratio. Since the farebox recovery ratio is an important measure of effectiveness and efficiency, the farebox recovery ratio and the adoption of appropriate farebox recovery policies will be considered as part of the NZTA's assessment for the funding of public transport programmes.

1.7 The farebox recovery policy review

The purpose of the review is to respond to the NZTA Board's concerns:

- that public transport users contribute their fair share to the cost of providing services
- that the national farebox recovery ratio has been falling for a number of years and is forecast to continue to decline
- about the wide variation in regional authority approaches to farebox recovery policy
- about whether some regional authorities are being subsidised fairly based on their public transport performance.

The review, and the proposed NZTA draft policy that has been developed from the review, also respond to requests from regional authorities that:

- the NZTA is clearer on its expectations around the contribution public transport users make to the cost of providing services
- the NZTA is more transparent in how it uses farebox recovery ratios when assessing funding applications (note that this is addressed to some extent through recent changes to the NZTA's *Planning, programming and funding manual*, but may require further work).

The review began formally in late April 2009, and we intend to complete consultation with stakeholders and develop a policy for the NZTA Board's approval in February 2010.

1.8 Current farebox recovery ratios

Table 1 provides four years of actual farebox recovery ratios by region (this uses the current NZTA calculation approach; which is similar to the recommended formula in the draft policy).

Table 1 Total farebox recovery ratios (percentage) by region 2004/05 to 2007/08

Region	2004/05	2005/06	2006/07	2007/08
	Actual	Actual	Actual	Actual
Northland farebox recovery ratio	46.0%	39.8%	41.2%	36.9%
Auckland farebox recovery ratio	47.5%	40.9%	43.5%	43.6%
Waikato farebox recovery ratio	34.3%	30.3%	25.8%	29.5%
Bay of Plenty farebox recovery ratio	28.7%	28.9%	26.8%	25.9%
Gisborne farebox recovery ratio	37.1%	38.6%	34.6%	61.0%
Hawke's Bay farebox recovery ratio	n/a*	n/a*	n/a*	n/a*
Taranaki farebox recovery ratio	n/a*	n/a*	n/a*	n/a*
Manawatu-Wanganui farebox recovery ratio	36.8%	27.8%	27.2%	22.7%
Wellington farebox recovery ratio	53.2%	50.3%	53.0%	51.5%
Marlborough farebox recovery ratio	19.4%	25.8%	27.9%	27.1%
Nelson farebox recovery ratio	30.4%	37.2%	42.4%	27.8%
Canterbury farebox recovery ratio	46.2%	43.5%	40.3%	41.1%
Otago farebox recovery ratio	52.4%	45.6%	44.2%	40.5%
Southland farebox recovery ratio	11.6%	9.6%	10.0%	8.6%
National farebox recovery ratio	48.3%	43.2%	44.8%	44.4%

Notes

All figures account for expenditure and farebox across all modes of operation/subsidy.

Farebox is made up of actual contracted farebox recovery and an estimate for commercial farebox based on contracted fares/pax multiplied by commercial boardings.

Expenditure is expressed in total cost (NZTA and known local share).

Expenditure includes all services, concession payments and any other operational costs across network.

Expenditure does not include any administration costs.

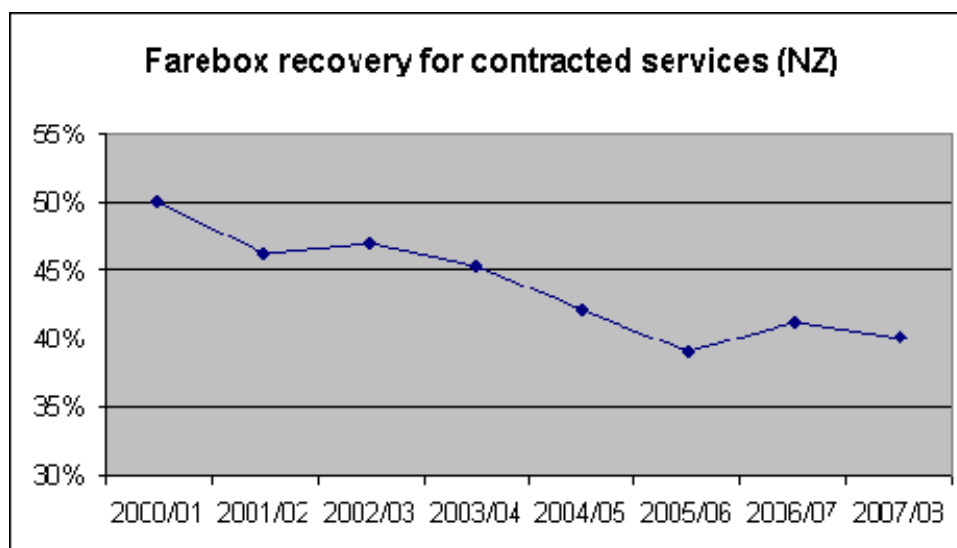
* Operating a concession arrangement only.

Neither expenditure nor farebox includes SuperGold card subsidy as introduced in 2008/09.

1.9 Farebox recovery trend for contracted services

Figure 1 shows a declining farebox recovery trend for contracted services. This at least partly reflects significantly increased government funding for public transport services during the early to mid 2000s, with farebox revenues not keeping pace with costs. This has evened out somewhat in the last three years of this data as fares have kept better pace with costs.

Figure 1 Farebox recovery for contracted services in New Zealand



1.10 Fare policy decision-making review

An interlinked issue with the adoption of farebox recovery policies is the issue of fare structures and fare review processes.

It is essential that fare policies, structures, services and levels encourage increased usage of public transport services, and balance ridership maximisation and revenue maximisation. Therefore, we have also reviewed why, when and how regional councils review their fare structures and fare price levels.

This review has culminated in the Draft Fare Policy Decision-Making Guideline. The Guideline is essentially a best practice process for reviewing fares, based on international research and adapted for use in New Zealand. The intention is that better processes will lead to better outcomes.

There are concerns that regional councils may, understandably, change their fares in response to immediate crises such as cost and affordability, rather than taking a planned, long-term approach consistent with fare policy goals. The NZTA believes that there are still opportunities to improve the fare structures and systems in place throughout New Zealand.

1.11 Interrelationship with regional public transport plans

The NZTA may (if relevant and reasonable to the activity), as a condition of funding an activity, require regional councils and ARTA to include a farebox recovery policy in their regional public transport plan. As well as an explicit condition of funding, the NZTA's

Regional Public Transport Plan Guideline will include both the NZTA Farebox Recovery Policy and the Fare Policy Decision-Making Guideline and must be taken into account by regional authorities when preparing their plans.

1.12 Transition period

Although the NZTA is aiming to have the policy approved by the NZTA Board in February 2010 and commencing in March 2010, there needs to be a period of transition to allow the regional councils and ARTA that decide to adopt a farebox recovery policy time to implement the policy. The NZTA expects this would occur as part of an amendment to the current regional public transport plan, or as part of the development of a new regional public transport plan. We know that each regional authority will be working to different timetables and requirements and would appreciate feedback on when and how this policy could be implemented.

1.13 Policy evolution

The final NZTA farebox recovery policy completed by early next year will be the first iteration of such a policy. The policy may require further refinement as our theoretical framework, evidence base and policy approach evolves.

We plan to review the policy three years after its release.

1.14 Details of the consultation period and process

To ensure the NZTA Farebox Recovery Policy and Fare Policy Decision-Making Guideline are finalised by early next year, the key tasks and timeframes are:

- Release consultation document 19 October
- Conduct engagement meetings October–November
- Submissions due 30 November
- Collate and assess submissions December
- NZTA Board approval February 2010
- Policy in effect March 2010.

This document is part of a formal consultation process that provides stakeholders with an opportunity to influence the NZTA Farebox Recovery Policy and Fare Policy Decision-Making Guideline development and final content.

We invite all stakeholders to provide submissions on this document by email or post, and encourage feedback on the questions raised throughout this document. We have also attached a complete list of questions as appendix 3. To make providing a submission easier, we will also provide these questions separately in a Word file that you can input your answers into, and any other information or comments you wish to include.

The closing date for feedback is **Monday 30 November 2009**. However, we would appreciate your submissions earlier, if this is possible.

1.15 Contact details

Questions, comments and feedback should be emailed or posted to:

Chad Barker
Public Transport Policy Team
NZ Transport Agency
PO Box 13364, Armagh
Christchurch 8141
chad.barker@nzta.govt.nz