

2 Draft NZTA Farebox Recovery Policy

2.1 Introduction to this section

This section of the consultation paper divides the Draft NZTA Farebox Recovery Policy into sections for comment. It provides a description of the policy detail related to that section and an explanation of why this detail is included, and raises a question or questions for consideration when making feedback. The full draft policy is included as appendix 1.

2.2 Objectives and principles

The draft policy has two objectives and two principles.

The objectives are to:

- improve the effectiveness and efficiency of public transport services in New Zealand
- ensure the costs and benefits of these services are fairly apportioned between public transport users and non-users.

In this context, improving effectiveness and efficiency is about providing public transport services and infrastructure that is best able to contribute to the community's and government's desired outcomes, and making better use of, and extracting the maximum value from, past and present investments.

Fairly apportioning the costs and benefits of services between users and non-users is about identifying the costs and benefits both cause and receive, now and in the future, and applying a farebox recovery policy that recognises this.

In the absence of robust theoretical frameworks to determine where the balance should be, and based on equity and/or other considerations, regional politicians have tended to make judgement calls as to the contribution users, ratepayers and therefore contributors to the National Land Transport Fund should make to the costs of providing the services.

The NZTA's proposed principles for developing farebox recovery policy and farebox recovery ratio targets are:

- The contribution public transport users and non-users make to the cost of providing public transport services should reflect the benefits they receive as a result of these services, and the source of the funding.
- The cost of providing public transport services should be shared fairly between users, ratepayers and contributors to the National Land Transport Fund.

The principles essentially drill down from the second objective and reflect the importance of developing policies that apportion the costs based on recognition of the benefits users and non-users receive, but also considering who contributes to the total 'pool of funds' available to pay for public transport services, and equity considerations such as distributing the costs across funding sources and the ability of users to pay.

Question 1

Are the objectives and principles appropriate? If not, why not?

Question 2

Are there any objectives or principles that should be added, amended or deleted?
If so, what are your suggested changes?

2.3 Section 2: Farebox recovery policy content

Section 2 of the draft policy is designed to bring out how the policy fits with the strategic goals of the organisation, contributes to the government's objectives for, and desired impacts from, public transport, the policy rationale and its application in an operational context, such as its role and assessment in fare reviews.

Currently, not all regional authorities have a farebox recovery policy, and for those that do, policies range from fairly comprehensive to basic and ambiguous.

Please refer to appendix 1, section 2, for a full list of the proposed content.

Question 3

Is the content required for the policies appropriate? If not, why not?

Question 4

What should be included or excluded?

2.4 Section 3: Farebox recovery ratio target

Section 3 of the draft policy sets out two options regarding a farebox recovery ratio target for regional authorities. Regional authorities must consult the NZTA on their target when developing or making changes to their regional public transport plans. Unless agreed otherwise, regional authorities will have three years in which to achieve the target, ie in time for the next National Land Transport Programme.

Option 1: Formalised status quo – regional authorities set their own farebox recovery ratio target based on the NZTA's objectives and principles for farebox recovery policies

This option requires all regional authorities to set a farebox recovery ratio target for their region based on the NZTA's objectives and principles for farebox recovery policies.

Not all regional authorities have a formal published farebox recovery ratio target. It is thought that formalising and publishing this target (in the regional public transport plan), and checking performance after three years, will encourage measures designed to improve farebox recovery ratios, and therefore arrest the decline of farebox recovery ratios.

This option provides regional authorities with greater flexibility over, and ownership of, the farebox recovery ratio target for their region.

Option 2: The adopted farebox recovery policies set farebox recovery ratio targets of 50 percent for Auckland, Wellington and Canterbury, with the ability to seek funding approval from the NZTA for the activities on the basis of an alternative target (if satisfactory justification is provided). All other regional authorities set their own targets.

This option requires ARTA, Greater Wellington Regional Council and Environment Canterbury to adopt policies that set a farebox recovery ratio of no less than 50 percent. All other regional authorities set their own farebox recovery ratio target according to the NZTA's objectives and principles for farebox recovery policies.

ARTA, Greater Wellington Regional Council and Environment Canterbury can apply for funding for activities based on an alternative farebox recovery ratio target. These applications will be considered on a case-by-case basis.

Applicants (ie ARTA, Greater Wellington Regional Council or Environment Canterbury) for an alternative farebox recovery ratio target should supply evidence justifying why an alternative is necessary. The NZTA will consider all or some of the following matters:

- evidence that the efficiency of operating costs has been maximised
- evidence that further improvement to ridership numbers is unlikely
- evidence that increasing fare prices will make the service or services unaffordable, significantly impact ridership or lead to significantly reduced levels of service
- an assessment of the impact that higher fares or reduced services are likely to have on the transport disadvantaged
- any other information considered relevant to the NZTA's funding approval decision.

The NZTA considers that setting a target for the larger regions is justified and reasonable for the following reasons:

- It sets out clear expectations from the NZTA on the total levels of subsidy appropriate for the larger regions (25 percent of the total operating costs, unless significant wider benefits can be demonstrated).
- It is similar to the targets already set by these regions.
- It is reasonably close to the ratios ARTA, Greater Wellington Regional Council and Environment Canterbury are already achieving, but still constitutes a stretch target or a reasonable and challenging target to continue to achieve.
- It places emphasis on regions where the biggest gains in terms of operational efficiencies and patronage growth can be made.
- The larger regions can apply for approval of services based on an alternative farebox recovery ratio.

Auckland, Wellington and Canterbury receive approximately 90 percent of the NZTA's expenditure for public transport services and operations, and account for 91 percent of the patronage.

This option enables all other regional authorities to set their own target based on the NZTA's objectives and principles for farebox recovery policies. Services in these regions tend to be provided primarily for social rather than economic reasons (eg congestion relief), although in some cases it may be a mixture of social and economic reasons. It may be harder to achieve operational efficiencies and significant levels of patronage in these regions because of factors such as the supplier market, population densities, the number of services, plentiful and cheap parking, and staff resources.

Both options allow for an extension of time to be sought to achieve the target in circumstances where patronage growth from significant service changes may take time to build up.

In the future, the NZTA may require that farebox recovery ratio targets are set by mode as well as by region.

Question 5

What of the two suggested options should be included in section 3, and why?

Question 6

Is a 50 percent farebox recovery ratio target for Auckland, Wellington and Canterbury appropriate? Why?

Question 7

Is it appropriate for all regional authorities to set a farebox recovery ratio target? Why?

2.5 Section 4: Operating principles

Section 4 sets out an intervention hierarchy when regional authorities are looking to improve their farebox recovery ratio. The principles indicate that it is important to consider, first of all, whether the services are operating as efficiently as they could be. This focuses attention on the importance of a sound network plan to achieve efficiencies. Secondly, can patronage gains be made through, for example, improvements to service or information quality, and simpler, easier-to-understand and easier-to-use fares and ticketing? Thirdly, will fares need to increase to improve or maintain farebox recovery ratios?

The NZTA acknowledges that raising fares may be the only realistic option available to some regional authorities. However, careful consideration must be given to the likely impact of any fare increase on passenger demand and the transport disadvantaged, and the community's and the government's goals and priorities.

The final operating principle is that any changes to fare prices should be managed incrementally. In the past, in some regions, fare changes were sporadic. This led to static fare prices for long periods of time followed by periods of substantial fare increases to catch up. The NZTA does not consider that such an approach is sensible.

Question 8

Are the proposed operating principles appropriate? Why?

Question 9

Are there any principles missing that should be included?

2.6 Section 5: Farebox recovery ratio formula

Section 5 of the draft policy sets out a standardised formula for calculating farebox recovery ratios in New Zealand.

Generally, a farebox recovery ratio is calculated by taking the farebox revenue and dividing it by the cost of providing the services. The calculation should take into account the whole network, including contracted and commercial services and those services that are provided free to users.

Direct cost information (with the possible exception of rail going forward) is difficult to obtain in New Zealand due to the contractual, private sector nature of public transport provision. Therefore, the approach we recommend uses operator income (from farebox revenue and public funding) as a proxy for operator costs, including profit margins.

At this stage, we are including operator costs only. In time, as the policy is revised and new iterations are made, other costs could also be included, such as other system operations and maintenance costs, public transport administration costs, and rail capital expenditures or charges associated with the long-run replacement of assets. There are a number of issues associated with including these costs at this point, as listed below.

System operations and maintenance costs

- While information on these costs is currently provided by regional councils and ARTA and assembled by the NZTA, there are doubts whether these costs are categorised on a consistent basis between regions and over different years. In some cases, they are not broken down by mode.

Public transport administration costs

- There are also doubts as to whether administration costs for public transport are allocated and reported on a consistent basis across regions, and generally they are not broken down by mode.
- The NZTA is currently undertaking a review of public transport administration costs, along with system operations and maintenance costs (above). Once this review is completed, it is suggested these should be considered for inclusion in the farebox recovery ratio formula.

Capital expenditures or capital charges associated with the long-run replacement of assets

- It would also be desirable to include an estimate of long-run capital charges relating to asset replacement for each region/centre/mode: operator costs already include a large proportion of capital charges relating to the bus mode (eg for bus replacement), but only a small proportion (if any) of capital charges relating to the rail mode, thus causing a substantial modal bias if including these costs. The estimation of the appropriate capital charges is not a simple process, but some work on this topic for the Auckland and Wellington rail systems is currently being undertaken by the Ministry of Transport. Once that work is completed, it would be appropriate to review the formula to include these costs in farebox recovery ratio assessments for future years.

To get a better understanding of the farebox recovery ratio performance of public transport systems in New Zealand, the proposed approach to the formula takes account of commercial as well as contracted services.

In the farebox recovery ratio formula, the NZTA has included SuperGold card payments made to operators as farebox revenue. This is because ideally the payments covering public transport use would have been administered by the Ministry of Social Development as an additional benefit to SuperGold card holders. It was decided that it was easier to implement the benefit through the NZTA and regional authorities. Therefore, it is in effect a fare payment substitute. If the scheme was stopped, the passenger would continue paying for their fare or stop making trips; ratepayer and National Land transport Fund contributions would be unaffected.

Question 10

Given the information available to regional councils, is the proposed formula for calculating the farebox recovery ratio appropriate? If not, how would you calculate it?

Question 11

Does your regional council currently receive revenue data from commercial services? The Public Transport Management Act 2008 provides for regional authorities to obtain this data, but if you do not, what are the barriers that prevent you from doing so?

Question 12

In the absence of commercial service farebox revenue data, is the alternative method for calculating commercial services' farebox revenue appropriate (commercial services patronage × average fare on contracted services)? If not, how should it be calculated?

Question 13

Do you think SuperGold card revenue should be treated as fare revenue? Why?

Question 14

Please identify any difficulties in calculating operating subsidies across regions, including rail contract payments.

Question 15

In future iterations of the policy, should other system operations and maintenance costs and administration costs be included in the farebox recovery ratio formula? Why?

Question 16

In future iterations of the policy, should public transport capital expenditure associated with the long-run replacement of assets be included in the farebox recovery ratio formula?

For ARTA and Greater Wellington Regional Council: Please comment regarding rail specifically. This is particularly important for rail.

2.7 Section 6: Fare reviews

Section 6 of the draft policy requires regional authorities to conduct regular fare reviews (specifically, fare price levels, discounts and ticket types yearly, and fare structures every three years). These reviews are designed to ensure that farebox recovery ratio targets are met, but also that other possible fare structures are considered to determine whether or not the existing structure remains the most effective and efficient way of achieving broader fare policy goals.

This section highlights that regional councils and ARTA will not be compelled under an adopted policy to increase fare prices every year. Whether or not to change fares is a decision for regional councils to make after their fare reviews have been undertaken.

A draft guideline for reviewing fares has been produced and is attached as appendix 2.

Question 17

Are the proposed fare review requirements appropriate? Why?

2.8 Section 7: Reporting

Section 7 of the draft policy sets out the information regional councils and ARTA must provide to the NZTA for performance monitoring purposes under an adopted policy. Performance reporting is proposed by region, centre and mode. Performance reporting is proposed to occur on an annual basis alongside the normal end-of-year NZTA reporting requirements.

There is also a proposed requirement that adopted policies require reporting on services where the ratios fall below 25 percent. This service-level monitoring is designed to give the NZTA a better understanding of the services and types of services with low levels of farebox recovery. This is a change from current system-wide monitoring only to system-wide monitoring with some components of service-level monitoring. We welcome your feedback on whether this is appropriate.

Question 18

Are the proposed reporting requirements appropriate? Why?

Question 19

Should the NZTA monitor services that are not achieving a farebox recovery ratio of 25 percent? Why?

2.9 Further research

We are planning to undertake research to establish optimal fare and subsidy settings for public transport systems in New Zealand. The research would provide the NZTA and its stakeholders with a more robust understanding of where financial assistance might best be targeted, and a framework for establishing whether fare and subsidy settings are appropriate. The objective will be to develop an evidence base and a set of analytical tools for evaluating the costs, user benefits and non-user benefits of different policy settings. The tools will be able to quantify the trade-offs being made between fare and service levels and provide estimates of optimal farebox recovery ratio targets and funding allocations.

Question 20

Should the NZTA research optimal fare and subsidy settings for public transport systems in New Zealand? Why?

2.10 General

Question 21

Are there any other issues with the draft policy?

Question 22

Does the draft policy enable regional councils to fulfil their obligations under the Local Government Act 2002?

Question 23

How will regional councils and ARTA implement this policy? How long will this take? (See section 1.12.)

Question 24

What do you consider to be the relationship between developing commercial services, where possible, and farebox recovery? (See section 1.6.2.)

Question 25

Do you think increasing the number of commercial services would help improve your farebox recovery ratio? If not, why not?