

National farebox recovery policy

Supplementary information

May 2010



Contents

Introduction.....	3
Legislative context for public transport.....	4
Operating environment for public transport is changing	5
NZTA funding policy for public transport.....	7
Government Policy Statement and the NZTA’s Investment and Revenue Strategy	7
NZTA farebox recovery policy.....	9
Problem definition.....	9
National farebox recovery ratio trend.....	9
Addressing the decline in farebox recovery ratios	10
Additional analysis	12
Support for farebox recovery policy and ratio target	13
Further research.....	13
Reasons for having a farebox recovery policy.....	13
Working towards a 50 percent national farebox recovery ratio.....	14
Main features of policy.....	14
A summary of the main revisions from the draft policy	15
Process for developing farebox recovery policies	16

Introduction

- Why did we do this project?
- The policy development process, eg working group and consultation process.
- The number of submissions made.
- The process followed for analysing the submissions and revising the policy.

The NZTA Board directed its officials to review and develop a national farebox recovery policy to be applied by regional or territorial authorities, including ARTA. This was primarily in response to its concerns:

- that public transport users are contributing their fair share to the costs of providing services
- that the national farebox recovery ratio has been falling for a number of years, but has been steady in recent years
- 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.

NZTA staff set up a working group in May 2009 to better understand regional authorities' current farebox recovery policies and associated issues, as well as why, when and how regional authorities review their fare price levels and fare structures. This group involved representation from five regional councils (Greater Wellington Regional Council, Environment Waikato, Environment Bay of Plenty, Otago Regional Council and Environment Canterbury) and the Auckland Regional Transport Authority.

As a result of the information obtained from the working group, interview questionnaires were completed and a draft fare policy decision-making guideline was drafted. At the end of June, a workshop was held with the working group to discuss the findings from the project and the documents produced.

A consultation document outlining the NZTA's draft farebox recovery policy - with a list of questions for response - was sent to stakeholders on 16 October 2009, and consultation closed in early December 2009.

Forty submissions were made, 27 by organisations, 12 by individuals and one by a member of parliament.

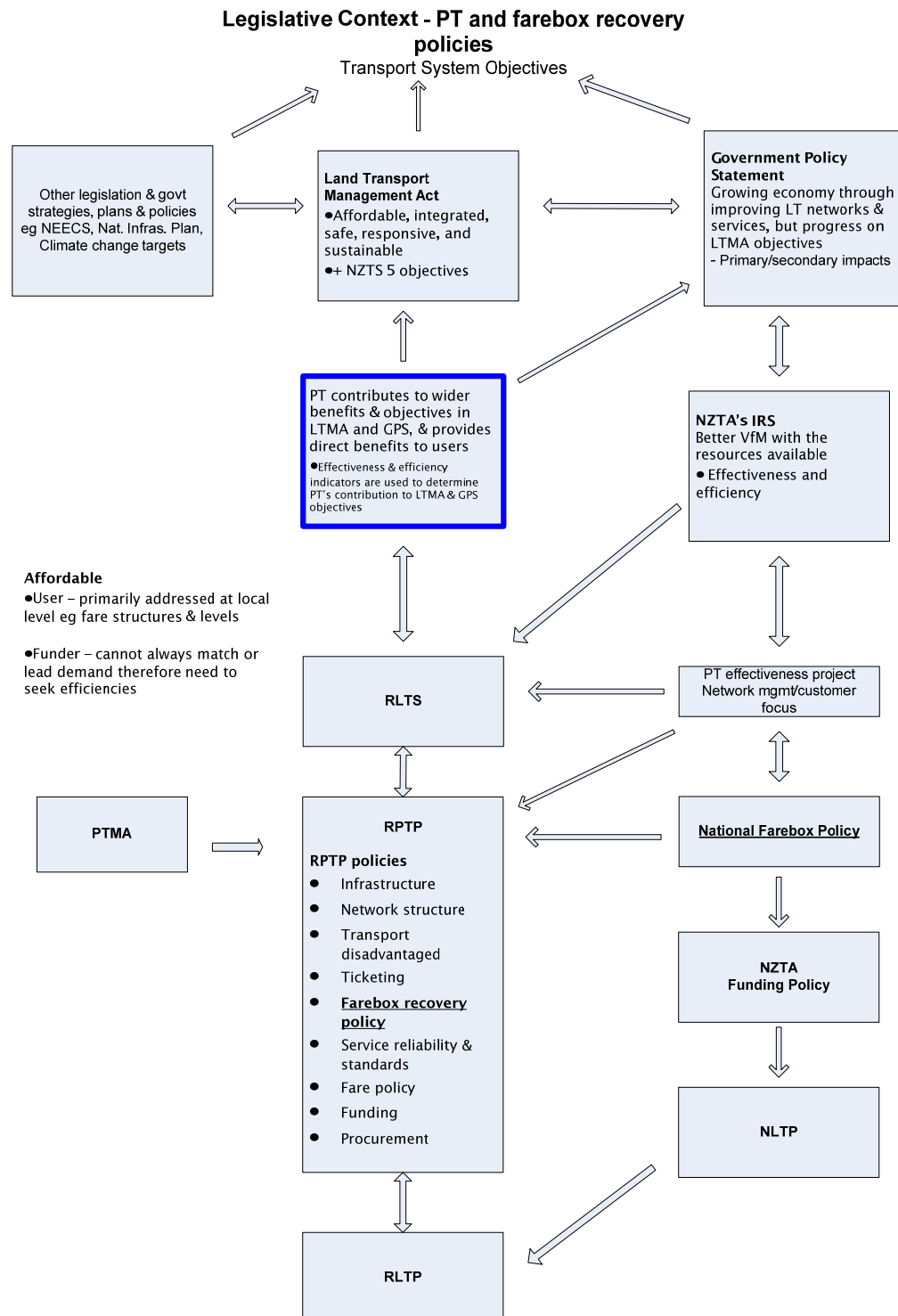
The submissions were analysed in December 2009 and for part of January 2010.

In February work begun on an NZTA Board paper highlighting the main issues and suggested ways forward, to be considered by the Board at its 4 March 2010 Board meeting. At the same time work on revising the policy in light of the submissions made had begun.

Further information was provided to the Board following the 4 March meeting, and this information was considered at the Board's 25 March meeting. At the 25 March meeting, the Board outlined parameters for the NZTA's national farebox recovery policy, which was revised, with a final policy being considered and agreed by the Board at the 29 April Board meeting.

Legislative context for public transport

The diagram below is intended to show where national and regional farebox recovery policies fit within the legislative context for public transport¹.



¹ We have also included the PT effectiveness project for completeness, although it is not legislatively-based.

The main transport system objectives are found in the Land Transport Management Act 2003 (LTMA) and *Government policy statement on land transport funding 2009/10–2018/19* (May 2009) (GPS), but there are also other objectives where transport plays an important part in achieving them, and these are found in other government legislation, strategies, policies and plans. Public transport helps to achieve these objectives, and effectiveness and efficiency indicators are used to determine public transport's contribution to them.

Local authorities distil these objectives, taking into consideration the local context, into a statement of desired outcomes that are articulated in Regional Land Transport Strategies. Regional Public Transport Plans give effect to the public transport component of Regional Land Transport Strategies, and a number of public transport policies are needed to achieve this, of which a farebox recovery policy is only one.

The Public Transport Management Act 2008 (PTMA) sets out the broad operating model for public transport in New Zealand, and enables regional councils to use a number of different legislative mechanisms eg 'controls' to obtain best value for money from a mix of commercial and contracted services. The PTMA sets out the legislative parameters for the development and use of RPTPs.

The NZTA develops the National Land Transport Programme (NLTP) every three years to give effect to the GPS and its funding policies. To be included in the NLTP activities have to be included in Regional Land Transport Programmes.

When developing their Regional Land Transport Programmes, regional transport committees must consider a number of factors including community wishes, their responsibilities for land transport services and infrastructure, national and regional land transport strategies, policies and plans, and the current performance and condition of their land transport services and infrastructure.

The PT effectiveness project is included as it will establish a long term vision for public transport in New Zealand, and is about getting reliable, cost effective, innovative public transport that improves travel times, provides a quality experience and improves productivity and economic growth (among other things). The proposed work streams of 'enhanced networks' and better 'customer focus' are likely to impact on the farebox recovery policies and farebox recovery ratios achieved in the future.

Operating environment for public transport is changing

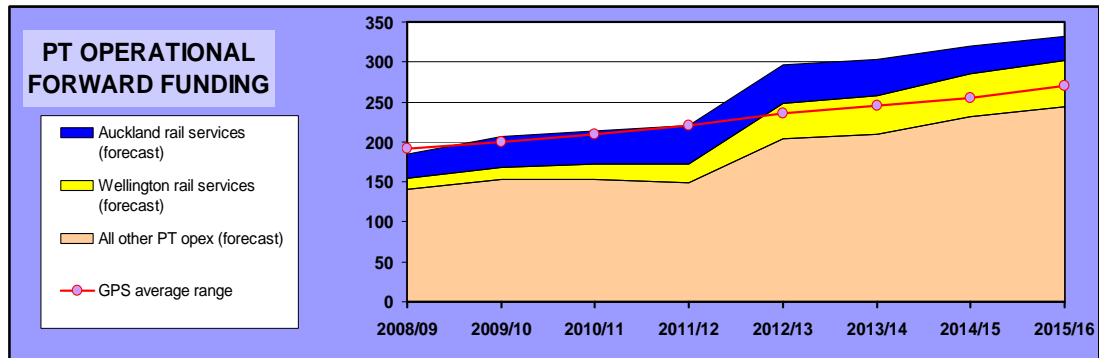
- The GPS – shift in priorities (towards roads of national significance) and looming funding pressures for public transport.
- Changes to the PTMA.
- The PT effectiveness project.
- The PT Leadership Forum.
- The Supergold review.
- The track access charges review.

The NZTA's national farebox recovery policy has been proposed in the middle of a period of considerable change for the public transport sector in New Zealand. Significant developments include (this is not an exhaustive list):

- The National Land Transport Programme 2009–2012 signalled a shift in funding priorities towards roads of national significance and looming funding pressures for public transport. There is likely to be a constrained fiscal position for the government's proportion of the subsidy for

public transport well into the next NLTP and potentially beyond, and this is coupled with an expected increase in the demand for public transport.

Graph 1: Projection of NLTP public transport funding demand and GPS average



- The review of the Public Transport Management Act 2008. This is likely to introduce a new operating model for public transport with an emphasis on developing commercial services where feasible. A period of uncertainty remains until the legislation is finalised and the policies of regional councils have been revised and then implemented.
- The public transport (PT) effectiveness project is an NZTA-led project designed to improve the effectiveness of public transport delivery. This project has the backing of important stakeholders through the Public Transport Leadership Forum, who are guiding the project's deliverables. This project is likely to shift the NZTA's focus to how it can assist regional councils to improve network design and customer service. It is possible that funding policies will be adjusted (where appropriate) to reflect this new approach.
- The Public Transport Leadership Forum involves representation from regional councils, bus and rail operators, the Ministry of Transport and the NZTA. The Forum has been designed to develop a more coordinated approach to the development of public transport in New Zealand across important stakeholders in the sector.
- The SuperGold card review. The purpose of this review is to ensure the sustainability of the SuperGold card free off-peak travel scheme based on the funding committed by the government.
- There are a number of workstreams relating to determining appropriate track access charges for Auckland and Wellington urban rail passenger services. This will impact on the operating costs of providing Auckland and Wellington urban rail passenger services.

While we acknowledge this period of change and uncertainty in the sector, the NZTA does not believe that these developments should delay the policy from being implemented, and then refined in an iterative manner over time.

NZTA funding policy for public transport

Government Policy Statement and the NZTA's Investment and Revenue Strategy

The NZTA's current funding policies are focussed to deliver on the government's objectives for land transport contained within the Government Policy Statement on Land Transport Funding 2009/10-2018/19 (GPS). The government priority for transport is on growing the economy through improving land transport networks and services, but also making progress on other Land Transport Management Act 2003 objectives. The short and medium-term objectives of the GPS are:

- Impacts that contribute to economic growth and productivity:
 - Improvements in the provision of infrastructure and services that enhance transport efficiency and lower the cost of transportation through:
 - improvements in journey time reliability
 - easing of severe congestion
 - more efficient freight supply chains
 - better use of existing transport capacity
 - Better access to markets, employment and areas that contribute to economic growth, and
 - A secure and resilient transport network.
- Other impacts:
 - Reductions in deaths and serious injuries as a result of road crashes.
 - More transport choices, particularly for those with limited access to a car where appropriate.
 - Reductions in adverse environmental effects from land transport.
 - Contributions to positive health outcomes.

The NZTA's Investment and Revenue Strategy (IRS) is designed to obtain better value for money from the resources available, and direct investment in to activities that contribute to the government's desired impacts above. The NZTA has interpreted this for public transport as providing increased priority for activities that improve:

- Economic growth and productivity through:
 - improvements in journey time reliability on key routes, and
 - easing severe congestion.
- Effectiveness and economic efficiency which enables:
 - extracting the maximum value from past and current investments
 - optimal farebox recovery rates, and
 - implementation of farebox policies across the public transport network.

Activities are given a high priority where there are significant improvements in one or more of:

- peak time public transport patronage in major urban areas with severe congestion
- optimising public transport services and infrastructure, and
- farebox recovery rates.

Activities to 'maintain focus on' and that are a medium priority include:

- providing more transport choices particularly for those with limited access to a car and those vulnerable to high oil prices

- network security and resilience
- contributing to a reduction in adverse environmental effects from land transport, and
- reducing the risk and number of fatal and serious injuries.

The NZTA's *Planning, programming and funding manual* provides a definition for the 'optimisation of existing public transport services and infrastructure' as:

- maintaining patronage with reduced resources, or
- increasing patronage within existing resources, or
- reducing government costs while maintaining or increasing patronage.

Therefore the NZTA's current funding policy with respect to farebox recovery policies is: 'To achieve better value for money from public transport services and infrastructure by seeking to maintain or grow patronage, particularly where it reduces congestion and supports economic growth and productivity, with the same or less resources.'

The objective should not be interpreted as the NZTA planning to cap the subsidy provided for public transport services and infrastructure to a fixed dollar amount, rather that the NZTA is seeking to maximise the benefit from the resources used in meeting the needs of the Agency and the other parties involved.

Funding assistance rates

The current policy is to fund the operating costs of bus and ferry public transport services at a funding assistance rate (FAR) of 50 percent and rail public transport services at a FAR of 60 percent. The operating costs are the full costs of providing the services less the fare revenue received from public transport users.

Base programme allocation

The current NLTP provided a 3 percent increase for operating costs over the three-year period, estimated as being sufficient to cover inflation on the operating costs of existing services (eg increases in input costs such as fuel) with no expansion of services. This increase was predominantly based on affordability and past funding decisions, and effectively sets the NZTA's funding policy until 2012. \$611.5m was set aside for approved public transport base programmes.

Additional base programme funding requests

\$12.9 million was set aside in the current NLTP for increased allocations to base programmes, mostly for rail.

New service or operations improvements allocation

\$18.0 million was set aside in the current NLTP for major new service or operations improvements.

Allocation of base funding requests was based on a 'value for money' assessment, and allocation of new service or operations improvements was based on an assessment of a range of criteria under the strategic fit, effectiveness and efficiency categories, as well as an affordability assessment.

Future funding approach

If the objectives of the GPS, LTMA and the NZTA's IRS are to be progressed, then funding needs to provide the right incentives.

The NZTA's current approach funds for a specified service provision. The NZTA intends to work towards a public transport services funding policy and allocation methodology that funds for the outcomes the NZTA wishes to achieve. This is subject to further investigative work to determine its workability.

This approach could assist the NZTA to work out the level of funding the NZTA should provide for public transport (including its contribution to a region's public transport services' operating costs) in order to achieve the government's objectives for land transport. We believe that this approach will require considerable research and development to formulate.

For more detail on funding policies see the NZTA's *Planning, programming and funding manual*.

NZTA farebox recovery policy

The draft NZTA farebox recovery policy in the consultation document had two objectives for the NZTA's farebox recovery policy:

- 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.

Submitters on the consultation document were unclear about the objectives of the NZTA's farebox recovery policy, and felt that the document indicated that the NZTA was solely interested in reducing the government's costs.

That is why we have split the NZTA's funding policy from its farebox recovery policy expectations. It makes a clearer distinction between the NZTA's role as funder to achieve the government's policy objectives, and its broader interest in seeing regional councils develop comprehensive and robust farebox recovery policy in their RPTPs.

While doing more with the same or less is clearly of interest to both central and local government, we felt that the current farebox recovery objectives should be rationalised in to a single objective, with further explanation provided in this document, and a more comprehensive set of principles reflecting the feedback from stakeholders.

Therefore the revised objective for the NZTA's national farebox recovery policy is: 'To work collaboratively with our regional partners to assist them to establish a farebox recovery policy that provides for an equitable sharing of costs, that recognises that fares should reflect the private benefits that users of public transport receive, while subsidies should reflect the 'spill over' benefits to the road users, the wider community and for the environment, having regard to the objectives and circumstances of their region.'

Problem definition

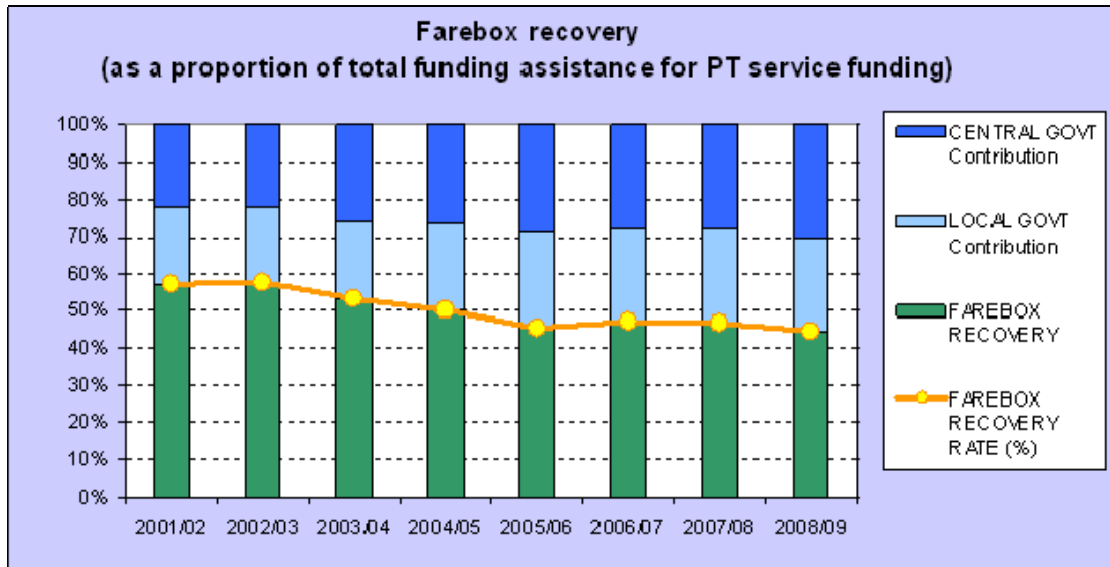
The NZTA's farebox recovery policy is designed to address a series of inter-related problems rather than one simple cause and effect problem.

National farebox recovery ratio trend

The national farebox recovery ratio, all regions and all modes, has declined from 58 percent in 2001/02 to 46 percent in 2008/09 but has been steady for the last four years. This is shown in the graph below².

Graph 2: National farebox recovery 2001/02 to 2008/09

² The new proposed formula will calculate the farebox recovery ratio slightly differently going forward eg SuperGold card payments will be included as farebox revenue.



The farebox recovery ratio is the proportion of the total cost of providing the commercial and contracted services that is covered by the farebox revenue from all services. There are five main causes which have led to the decline in the national farebox recovery ratio, being:

- a rapid expansion of public transport systems in New Zealand during this decade, with attention focused on growing total patronage, rather than on efficiency aspects
- the low number of bids that have been received per public transport service tender, which means there is little competitive tension in the pricing of contracts
- a substantial cancellation of commercial bus services in Auckland in 2005/06 resulting in central and local government paying an additional \$6.4m in subsidies per annum
- significant input price escalation over this period, especially in diesel prices. (The previous contract price indexation methodology did over-compensate for increases in fuel prices, which has been corrected through the recent review of the methodology)
- regional farebox recovery policies that are aimed at supporting patronage growth objectives and have not required regular fare reviews and adjustments.

Addressing the decline in farebox recovery ratios

The decline in farebox recovery ratios can be addressed by:

- improving the efficiency and structure of the services through the development of new Regional Public Transport Plans and best practice network planning
- increased competition and efficient use of resources through procurement strategies and revised procurement procedures
- by increasing patronage through improving service and information quality, convenience, reliability and through simplified fare structures and integrated ticketing systems.

Raising fare prices and revising the fare structure can also increase revenue and therefore address declining farebox recovery. If managed carefully, these measures can improve the farebox recovery ratio without the need for large fare increases or significant cuts to the services provided.

The NZTA's survey of a sample of six regional councils in 2009 revealed:

- there is a lack of clarity around what an equitable distribution of costs between public transport users, ratepayers and road users should be for the provision of public transport

- the approach to developing, and the application of farebox recovery policy is widely different across New Zealand, meaning some regions have relatively comprehensive policies while others have a single sentence statement, leading to ambiguity and a limited amount of attention paid to the policy
- there is evidence that fare reviews and fare changes have been sporadic and large in the past, rather than planned, small and regular (therefore reducing the potential impact on passenger demand)
- the process for reviewing fares varies significantly from region to region and there is evidence that some regions are not reviewing fares according to best practice
- there is no standard understanding or methodology for calculating farebox recovery ratios across New Zealand, which makes benchmarking and therefore influencing performance difficult.

Farebox recovery ratio by region 2004/05 to 2008/09

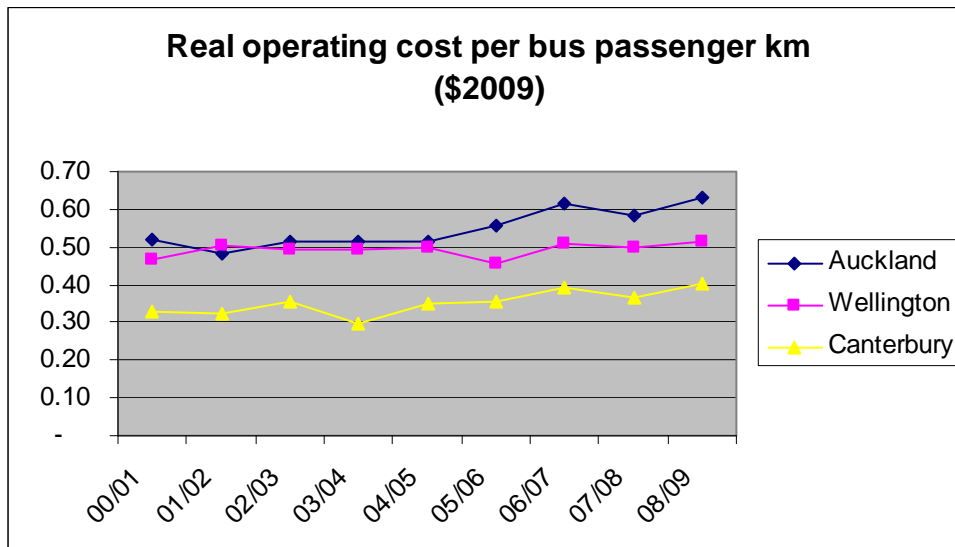
Region	2004/05	2005/06	2006/07	2007/08	2008/09
	actual	actual	actual	actual	actual
Northland farebox recovery ratio:	57.6%	47.5%	44.2%	44.5%	44.6%
Auckland farebox recovery ratio:	49.0%	42.9%	45.4%	45.9%	43.5%
Waikato farebox recovery ratio:	35.6%	31.3%	27.6%	31.4%	30.2%
Bay of Plenty farebox recovery ratio:	29.6%	30.2%	27.9%	28.1%	29.5%
Gisborne farebox recovery ratio:	37.6%	50.7%	46.6%	44.9%	46.6%
Hawkes Bay farebox recovery ratio:	N/A	N/A	N/A	N/A	38.1%
Taranaki farebox recovery ratio:	N/A	N/A	N/A	1.9%	46.2%
Manawatu-Wanganui farebox recovery ratio:	38.1%	48.1%	49.8%	33.1%	32.2%
Wellington farebox recovery ratio:	55.9%	52.3%	55.1%	53.5%	55.0%
Marlborough farebox recovery ratio:	19.4%	25.8%	27.9%	27.1%	25.4%
Nelson farebox recovery ratio:	36.2%	45.4%	46.5%	33.4%	38.3%
Canterbury farebox recovery ratio:	46.7%	44.0%	40.8%	41.6%	44.6%
West Coast farebox recovery ratio:	85.1%	N/A	87.4%	81.9%	76.4%
Otago farebox recovery ratio:	61.1%	48.3%	48.0%	43.1%	39.7%
Southland farebox recovery ratio:	11.8%	12.6%	13.8%	12.3%	13.7%
National farebox recovery ratio:	50.2%	45.2%	46.8%	46.5%	45.9%

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 and concession payments.
- Expenditure does not include any administration costs.
- For 2008/09, SuperGold Card payments is included as a component of farebox revenue (as well as expenditure).
- Some of these figures could be slightly different due to individual region's treatment of GST when reporting farebox revenue. Future reporting of all farebox recovery-related data will be GST exclusive.

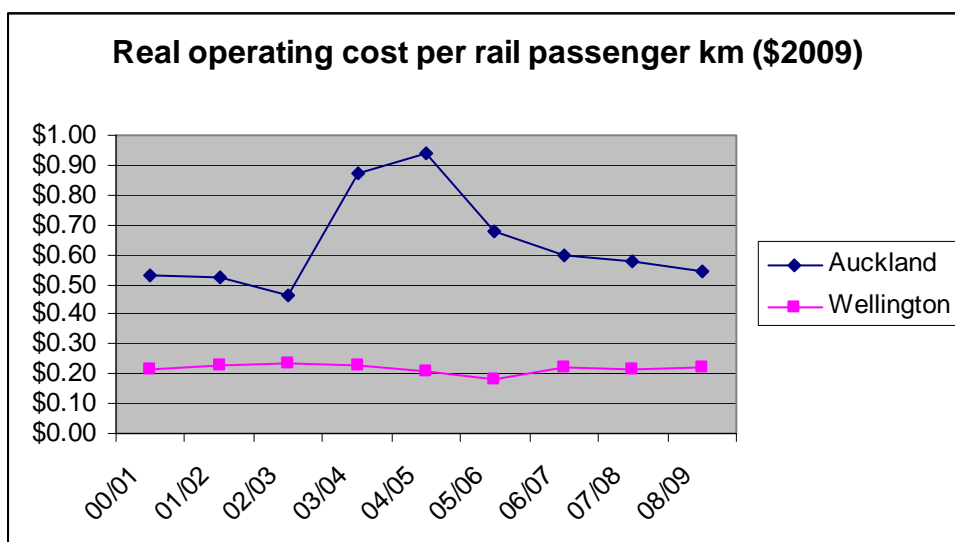
Additional analysis

In addition to reviewing the farebox recovery ratio performance of regional councils, the following graphs have been provided to indicate the kind of additional analysis that the NZTA can undertake when reviewing farebox recovery performance.



Comment

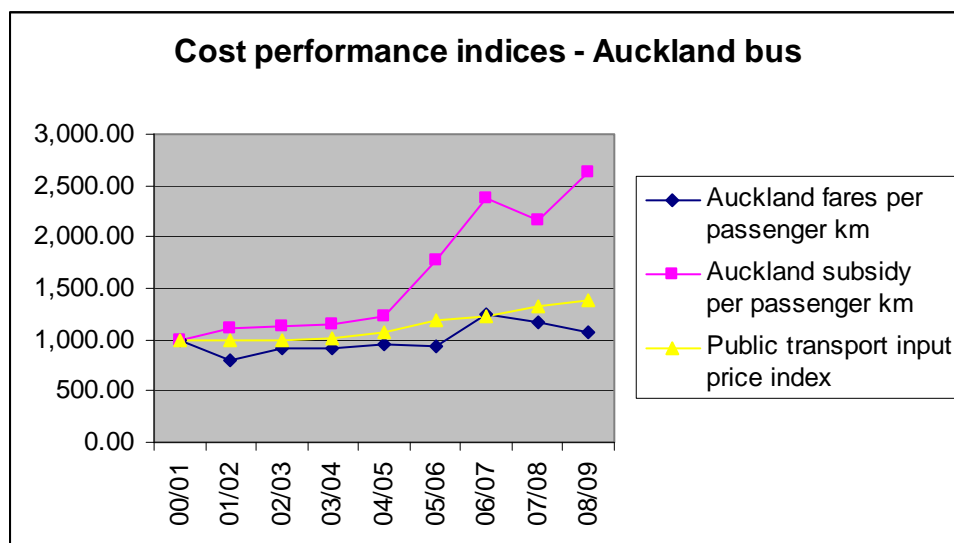
This is an overall measure of the efficiency of delivery. As direct data on operating cost is not available, total operator income is used as a proxy. The data is adjusted for input price inflation using the Transfund passenger transport index, as this has been in use during this period. As the graph shows, after an adjustment for inflation has been made, costs on a per passenger kilometre basis have increased. This graph indicates trends in real resource usage required to deliver an output. Overall the performance has gotten worse but only by a small amount. The one exception is a noted one-off increase in Auckland's costs which is associated with a wholesale deregistration of commercial services.



Comment

These figures have been prepared on a similar basis to those for the bus networks, including the use of the Transfund passenger cost index to adjust for inflation. There are known problems with the basis on which operating subsidies are paid in the two different regions and therefore there are

limitations when making comparisons. However, the overall conclusion is that across the decade, as a whole, cost efficiency appears to have been relatively static for rail.



Comment

This graph uses 2000/01 as a base year to show how fares and subsidies per output have grown in comparison to each other, and in comparison to the cost index. In the first few years, fares and subsidies were both growing in line with input costs. Then there was a step change increase in Auckland’s subsidy costs. Over the last two years, subsidies have grown more in line with the cost index, but revenue collected has declined in both absolute and relative terms.

Support for farebox recovery policy and ratio target

There was widespread support for the concept of having a farebox recovery policy and the setting of a ratio target in the submissions. A lot of concern, however, was expressed about how to determine and set an appropriate target without a robust evidence base, and most submitters felt there needed to be greater clarity on the outcome sought by the NZTA.

Further research

The NZTA is developing an evidence base and methodological framework which will assist regional councils to work out what an ‘equitable’ distribution of the costs of operating public transport services might look like. This research is likely to focus on a pilot area in the first instance, and the methodological framework may need to be adapted by each region to suit the region’s individual circumstances.

Reasons for having a farebox recovery policy

Based on the information from submissions, from a local government perspective, farebox recovery policy is predominantly about:

- financial viability and efficiency of their public transport systems
- the willingness of public transport users and non-users to pay
- fairly distributing the costs, including an assessment of the wider benefits of public transport
- monitoring performance

- planning.

The central government's perspective is predominantly about:

- improving efficiency
- ensuring an equitable distribution of costs for the provision of efficient and effective public transport consistent with government priorities
- improving the consistency of approach to the farebox recovery policies implemented by regional authorities throughout New Zealand
- better monitoring and benchmarking
- influencing performance.

The users' perspective is about:

- fairness
- supporting regional land transport goals, including assisting the transport disadvantaged
- transparency
- accountability.

Working towards a 50 percent national farebox recovery ratio

The NZTA's desire is to work with regional councils to achieve a national farebox recovery ratio goal of no less than 50 percent in the medium term. The NZTA has developed this goal based on historical national farebox recovery ratio performance (refer to graph 2), and recognising that there is an NLTP affordability issue that will likely limit its ability to fund increases in public transport services in the medium term as shown in graph 1.

There is also an argument that the estimated benefits to public transport users' average around 40-45 percent of the total economic benefits at peak times in Auckland and Wellington (refer to the NZTA's *Economic evaluation manual - volume 2*). The estimated user benefits are closer to 80 percent of the total for off-peak times in Auckland and Wellington, or at any time in other urban centres. However, these only record economic benefits and the provision of off-peak services is intended primarily as a social benefit to provide access and mobility, particularly for the 'transport disadvantaged'.

Main features of policy

The main features of the NZTA's national farebox recovery policy to be implemented by regional councils are:

- The NZTA's desire is to work collaboratively with regional councils to achieve a national farebox recovery ratio of no less than 50 percent in the medium term.
- All regional councils will have a farebox recovery policy in place as part of their RPTP by 1 January 2012.
- All regional councils will set a farebox recovery ratio target or target range as part of their policy.
- The regional farebox recovery policy will explain why the target/target range has been chosen, and how it will be applied, as well as how the policy contributes to the RPTP, RLTS, GPS and LTMA.

- The farebox recovery policy will include a strategy describing how the target will be achieved and the timeframe for doing so.
- The farebox recovery ratio will be calculated according to a standard formula developed by the NZTA.
- There will be regular reporting to the NZTA for calculating the farebox recovery ratio performance of each region by system and by mode.
- There will be regular fare price reviews and six yearly reviews of fare structures.

A summary of the main revisions from the draft policy

The table below lists the main issues raised during consultation on the NZTA's draft farebox recovery policy, and outlines the response in the revised policy.

Issue	Response in revised policy
1. The NZTA needs to be clearer on what it wants to achieve from this policy.	The NZTA's funding and farebox recovery objectives have been separated, but remain linked. This enables the NZTA to be clearer about its funding objectives, and to assist regional councils to develop a comprehensive farebox recovery policy as part of their RPTP.
2. The policy needs to account for the broader strategic context.	This document includes a discussion about where the NZTA's national farebox recovery policy fits in the broader strategic context.
3. The 50 percent farebox recovery ratio target option for Auckland, Wellington and Canterbury is very unpopular.	Regional councils have the final say on the farebox recovery ratio target as part of the development/revision of their RPTP. However, the NZTA's views must be taken into account in the development of the ratio target.
4. How does the policy account for the transport disadvantaged?	The NZTA's national farebox recovery policy objective has changed to account for a wider range of objectives, and a new principle has been introduced to account for the community's desire to meet social needs, including the provision of services for the transport disadvantaged.
5. Lack of evidence base.	The revised policy includes more evidence and data than the consultation document and sets out a clearer problem definition in this document.
6. Rail has distinct issues and there are important differences between Auckland and Wellington public transport and Auckland and Wellington passenger rail.	<p>The revised policy excludes long-run capital charges for asset replacement, such as rail rolling stock. Including these charges is contrary to international practice when calculating farebox recovery ratios, and the NZTA believes this issue should be reconsidered when the various studies on Auckland and Wellington passenger rail have been completed.</p> <p>Rail has distinct issues, but is still subject to a farebox recovery policy that applies to all modes. As a general principle, the NZTA is interested in achieving multi-modal public transport systems in the</p>

Issue	Response in revised policy
	major metropolitan areas of Auckland and Wellington. Therefore it is appropriate that the NZTA obtains a picture of how the whole system is performing as well as its constituent networks. The NZTA will still monitor the performance of separate modes within this framework, and individual targets will be set by regional councils for different modes. For reporting purposes the NZTA can provide commentary and caveats where necessary.
7. Farebox recovery ratios should not drive the pricing of fares alone.	The revised policy includes a new principle to this effect.
8. The NZTA should monitor networks, not services	The revised policy has no reference to monitoring individual services achieving a farebox recovery ratio of less than 25 percent.

Process for developing farebox recovery policies

The NZTA expects that the process for developing a farebox recovery policy would be completed as part of the development or review of a region's Regional Public Transport Plan.

The NZTA would engage formally with each regional council at the pre-consultation draft Regional Public Transport Plan stage and also by making a final submission on the consultation draft plan as per the consultation processes outlined in the PTMA.