

# Draft NZTA farebox recovery policy: consultation document (October 2009)

## Questions and answers

### 1) Q: What is this proposed policy about? Why has the NZTA developed it?

**A:** The NZTA provides a significant amount of funding to regional councils for public transport services (the 2009–12 allocation in the National Land Transport Programme for public transport services is \$630 million) and therefore has a strong interest in ensuring that its investment is used in the most efficient and effective manner. The NZTA is especially interested in increasing efficiencies in the public transport operations and setting expectations around appropriate levels of subsidy.

The draft farebox recovery policy is designed to address the following:

- Help improve the effectiveness and efficiency of public transport services.
- Ensure that the costs and benefits of providing public transport services are shared fairly between those who use public transport and those who don't.
- Improve the transparency and consistency of the approach to farebox recovery implemented by regional councils throughout the country.
- Set out NZTA's expectations on having a fair distribution of costs for providing public transport services.
- Arrest the decline in users' contribution to the total cost of providing public transport services. This contribution has been falling for a number of years and is forecast to continue to decline without intervention.
- Enable the NZTA to undertake better benchmarking and monitoring of farebox recovery ratios throughout New Zealand.

### 2) Q: What do you mean by farebox recovery policy?

**A:** The term 'farebox' is used to describe the revenue collected from tickets (cash, prepaid, passes and electronic purses) purchased by those who use public transport 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.

A farebox recovery policy by those regional councils that have one in place sets out the contribution public transport users are expected to make to the cost of providing public transport services in their region. It should take into consideration the private benefits to the user as well as the wider benefits to society from that usage, such as less congestion and having access to an alternative mode of transport.

The NZTA's draft policy sets out the aspects it wants regional councils to cover in their farebox recovery policies, including asking them to set a formal farebox recovery ratio target. In some cases, the NZTA would set that ratio as a default; in other cases, it would agree a target with the regional council. Both options are on the table for consultation.

**3) Q: What is a farebox recovery ratio?**

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

**4) Q: Who are you targeting with this proposed policy?**

**A:** This policy is primarily targeted at regional councils as they are the organisations that plan and contract for the delivery of the public transport services. The regional councils have the powers to set maximum fares, which strongly influences how much the users pay. The NZTA wants to ensure that the councils are provided with the tools and are aware of the NZTA's expectations when they set those fares.

In addition, we are seeking feedback from public transport operators who set their own fares in some circumstances, particularly for commercial services. Finally, we will also be seeking feedback from public transport users groups because of any potential implications this policy could have for them in their regions.

**5) Q: Why are you doing this consultation?**

**A:** The consultation is intended to:

- inform stakeholders of the proposed draft policy and seek their feedback
- identify issues/opportunities relating to the draft policy
- enable informed, robust recommendations to be made to the NZTA Board that take into account the views of stakeholders.

**6) Q: What are the key changes that this new policy proposes?**

**A:** The draft policy proposes that all regional councils that receive NZTA funding for public transport services have:

- a farebox recovery policy in their regional public transport plan that is linked to the strategic goals of their organisation and the government's desired impacts for public transport as a condition for NZTA funding
- an explanation of the rationale for their policy
- a formal farebox recovery ratio target and a standardised formula for calculating it
- a requirement to conduct regular fare reviews
- performance reporting by region, centre and mode of transport.

**7) Q: When will this new policy take effect?**

**A:** The NZTA is aiming to have the policy approved by the NZTA Board in February and be ready for implementation by March 2010. But there will be a transition period to allow the regional councils that decide to adopt a farebox recovery policy time to implement the policy. The NZTA expects the regional councils will implement the new policy as part of an amendment to their current regional public transport plan, or as part of the development of a new regional public transport plan. We know that each regional council will be working to different timetables and requirements, and we are seeking feedback from regional councils on when and how this policy could be implemented. At the end, our expectation is that the policy will be fully implemented by all regional authorities before the next National Land Transport Programme is developed.

**8) Q: Why should regional authorities adopt this new policy and what will happen if they don't?**

**A:** Implementation of the NZTA's farebox recovery policy will be a funding condition for public transport services. Failure to implement a policy may put NZTA funding at risk.

**9) Q: What about the Fare Policy Decision-making Guideline? What is its purpose?**

**A:** Our survey of regional councils showed that there was a need to provide guidance on a best practice fare review process. The NZTA believes there are opportunities for improved fare structures and systems currently employed throughout New Zealand. The intention is that better fare review processes will lead to better fare-related outcomes.

**10)Q: How are the proposed policy and the guideline related?**

**A:** Farebox recovery ratios calculate the contribution farebox revenue makes to the cost of providing services. Fare structures are linked in that an integrated, simple-to-understand and simple-to-use fare structure will contribute to patronage and revenue growth, and can reduce costs. All of these components are important parts of the farebox recovery ratio calculation. Fare review processes are also linked as they determine any fare changes within the fare structure, and these fare changes impact on patronage and revenue.

**11)Q: How are public transport services funded at the moment? Who pays for it and what are their shares in relation to the total cost?**

**A:** Public transport services are funded by contributions from users (the fares they pay), ratepayers (the regional council share of the cost of services) and taxpayers (the NZTA's subsidy) through fuel tax, road user charges and motor vehicle registration and licensing fees. Other sources of funding are also possible, such as parking fees and contributions from third parties, eg universities. These are usually used to directly reduce the fares paid by users.

The large regional authorities expect users to contribute approximately 50 percent of the cost of providing the services, meaning that ratepayers and taxpayers would contribute around 25 percent each (the government/NZTA's contribution typically matches dollar for dollar the local contribution from ratepayers). However, the reality in New Zealand is that user contributions range from 9 percent to 61 percent of the cost of providing the services, while ratepayers and taxpayers make up the rest.

**12)Q: What policies do regional authorities currently have in place when deciding on how the share of costs of providing public transport services is divided?**

**A:** Contributions from users, if regional authorities have a farebox recovery ratio in place, tend to be set between 40 and 60 percent of the cost of providing the services. However, not all regional councils have formal farebox recovery ratio targets, and there are differences in the way regional councils are calculating farebox recovery ratios. Rationale and explanation of the approach adopted by different regional authorities also vary considerably by region, from the very basic (sometimes a single one-sentence statement) to relatively comprehensive.

**13)Q: Are users of public transport services also being consulted on this?**

**A:** Yes. In New Zealand, there is a number of formal public transport user groups who we will be consulting with. The general public can also comment should they wish to.

**14)Q: What has informed this proposed policy?**

**A:** We have conducted an extensive amount of research into this draft policy, which includes conducting a literature review, sector survey and workshop, as well as assessing the NZTA's own policies and data collected from regional councils.

There has been considerable debate around whether the fare and subsidy settings for different public transport systems in New Zealand are appropriate. We acknowledge this debate, and are planning to conduct some additional research to help inform further guidance as to whether fare and subsidy settings for public transport in New Zealand are optimal.

**15)Q: What options regarding the setting of farebox recovery ratio targets by regional authorities is the NZTA consulting on?**

**A:** The NZTA is consulting on two options regarding the setting of farebox recovery ratio targets by regional authorities. The first option involves all regional authorities setting their own targets using the NZTA's objectives and principles for farebox recovery policies, and in consultation with the NZTA. The second option sets a 50 percent target for the three main metropolitan centres, with the ability to apply for an alternative ratio target based on NZTA criteria. All other regional authorities set their own targets, but in consultation with the NZTA. Under both options, all regional authorities have to consult the NZTA as part of the development of their regional public transport plans.

**16)Q: Why does option 2 for a farebox recovery ratio target set a fixed target of 50 percent only for Auckland, Wellington and Christchurch while other regional authorities would be allowed to set their own targets?**

**A:** A farebox recovery ratio is an important measure of effectiveness and efficiency. The biggest gains will come from focusing on farebox recovery ratios in Auckland, Wellington and Canterbury, as these regions receive approximately 90 percent of the NZTA's expenditure for public transport services and operations, and account for 91 percent of patronage.

In contrast to the three main regional authorities, only a small proportion of funding goes to the remaining regional authorities, where services are often provided for social rather than economic reasons, and where operational efficiencies and significant levels of patronage may be difficult to achieve because of factors such as the supplier market, population densities, number of services, plentiful and cheap parking and limited staff resources.

Under option 1 or 2, smaller regional authorities will still be required to set a farebox recovery ratio target for public transport services. Since they will have to incorporate the NZTA's objectives and principles for farebox recovery policies when developing their policies and farebox recovery ratio targets, they will effectively have to set a target in excess of their current performance.

**17)Q: Does this proposed policy mean that some public transport services around the country could be cancelled if they don't meet the policy's objectives?**

**A:** Regional councils are responsible for planning and making provision for public transport services in their regions. Regional councils decide what services are to be provided in their regions.

The NZTA has provided scope within the proposed policy that takes into account regions' individual needs. Regional councils will continue to be able to provide different levels of subsidy to different services but the intention is that the NZTA has an opportunity to influence the approach taken, given that there is a substantial amount of taxpayers' money involved.

**18)Q: Does this proposed policy mean that fares could be increased?**

**A:** This policy is about improving the effectiveness and efficiency of public transport services and ensuring a fair distribution of costs. Improving public transport networks may actually reduce costs through greater efficiencies. Patronage gains can be made through improvements to service or information quality, and simpler, easier-to-understand and easier-to-use fares and ticketing.

The NZTA acknowledges that raising fares may be the only realistic option available to some regional councils. However, careful consideration must be given to the likely impact of any fare increase on passenger demand. The NZTA is also recommending that any changes to fares are managed in an incremental manner.

The NZTA is required to consider the individual circumstances of different regions and will work with regional councils to determine an appropriate farebox recovery ratio target.

**19)Q: What role does the Ministry of Transport have in this consultation?**

**A:** The Ministry of Transport has been involved in commenting on the consultation document. It will continue to be involved during the consultation process and prior to the final policy going to the NZTA Board.

**20)Q: How can the feedback be provided to the NZTA on this policy?**

**A:** Questions, comments and feedback can be emailed to [chad.barker@nzta.govt.nz](mailto:chad.barker@nzta.govt.nz) or posted to Chad Barker, Public Transport Policy Team, NZ Transport Agency, PO Box 13364, Armagh Christchurch 8141. Submissions close on Monday 30 November 2009.