

# National Farebox Recovery Policy

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## Introduction

The NZTA has adopted a National Farebox Recovery Policy following consultation with approved organisations and other stakeholders. The main features of this policy are:

### **With respect to the NZTA's advocacy role**

1. 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<sup>1</sup>.
2. Regional councils should aim to achieve the farebox recovery ratio target within three years from the date it has been set as part of the regional council's new or revised RPTP or no later than the end of the 2012/13 – 2015/16 NLTP, or as otherwise agreed with the NZTA.
3. There should be regular fare price reviews and six yearly reviews of fare structures.

### **With respect to the NZTA's guidance role**

4. The farebox recovery policy conforms to the requirements set out in the NZTA's national farebox recovery policy.
5. All regional councils should set a farebox recovery ratio target or target range for the public transport system as a whole and for each mode (where applicable) as part of their policy.
6. The regional farebox recovery policy should 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.
7. The farebox recovery policy will include a strategy describing how the target will be achieved and the timeframe for doing so.
8. The farebox recovery ratio will be calculated according to a standard formula developed by the NZTA (refer to the full policy).
9. There will be regular reporting to the NZTA for calculating the farebox recovery ratio performance of each region, by system and by mode.

### **With respect to the NZTA's funding policy**

10. As a condition of funding approval, all regional councils will have a farebox recovery policy in place as part of their adopted RPTP.
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<sup>1</sup> Within two cycles of the NLTP.

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The NZTA will formally engage with each regional council at the pre-consultation draft RPTP stage and also by making a final submission on the consultation draft Plan as per the consultation processes outlined in the Public Transport Management Act 2008.

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### **NZTA expectations regarding the farebox recovery policies of regional councils**

#### **National farebox recovery policy objective**

The objective of 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.'

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#### **Principles and guidelines**

It is expected that any gains in farebox recovery ratios from recent or upcoming network or service improvements or reviews can take – depending on the scale of the changes – some years to materialise.

The NZTA expects regional councils to consider the following principles when developing farebox recovery policy and farebox recovery ratio targets:

- Fares should reflect the level of private benefits that users receive from public transport, while subsidy levels should reflect the 'spill over' benefit to the road users, ratepayers and the wider community, environment and economy.
  - The cost of providing public transport services should be shared equitably between users, ratepayers and contributors to the National Land Transport Fund.
  - Farebox recovery policies should be consistent with central and local government fare and funding policies, and recognise the wider benefits of public transport.
  - Farebox recovery policies should reflect the community's desire to meet social needs, including the provision of services for the transport disadvantaged, and the willingness of affected communities to pay.
  - Farebox recovery policies should not be the only driver of the pricing of fares, but be part of a wider assessment of all of the relevant factors when reviewing fares.
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#### **High-level considerations when developing a farebox recovery policy**

The NZTA expects regional councils to consider a number of high level considerations when developing their farebox recovery policies. These include:

- how public transport fits into regional strategies including the growth strategy, land use policies and the Regional Land Transport Strategy
  - the maturity of the public transport system, infrastructure and quality of the vehicles
  - the historical farebox recovery ratio performance
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- the history of fare changes
  - the relativities between modes
  - the procurement strategy (net versus gross contracts eg who benefits from increased fare revenue)
  - the proposed investment in public transport infrastructure, services and vehicles
  - the affordability of public transport for public transport users, ratepayers and the likely funding available in the NLTP.
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**Definition of 'equitable' in the farebox recovery policy objective**

'Equitable' means that having weighed and taken into account all of the relevant factors a result which, on balance achieves the fairest overall outcome, accepting that that may result in a degree of 'unfairness' to one or more parties.

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**Process for determining what is equitable**

The NZTA expects that the process for developing a farebox recovery policy, including weighing and accounting for 'relevant factors' will be completed as part of the development or review of a region's Regional Public Transport Plan (RPTP). The NZTA will formally engage with each regional council at the pre-consultation draft RPTP stage and also by making a final submission on the consultation draft Plan as per the consultation processes outlined in the Public Transport Management Act 2008.

The NZTA expects that the factors of interest to the NZTA will be considered by the regional council as part of the farebox recovery policy development, within the context of developing the RPTP.

*Where the NZTA's funding and farebox policy expectations connect*

While the NZTA acknowledges the importance of regional councils having to consider a wide range of factors, factors of interest to the NZTA regarding its funding policy objective typically relate to maintaining or growing patronage, particularly where it reduces congestion and supports economic growth and productivity, with the same or less resources (see funding policy section of this policy below). In other words, the objective from the NZTA's funding perspective is to focus more attention on improving efficiency, through the RPTP, the development of farebox recovery policies, and through monitoring, than has been the case in the last eight years (the last eight years have been focused on growing total patronage, with less emphasis on improving efficiency). Factors of interest to the NZTA (among other things) include the following measures and trends:

- Farebox recovery ratios (national and by region) and farebox recovery ratios by mode (national and by region).
  - Subsidy per passenger/per passenger kilometre.<sup>2</sup>
  - Revenue per passenger/per passenger kilometre.
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<sup>2</sup> 'Passenger kilometres' is the ideal measure of output. However, the NZTA recognises that there are some limitations and inconsistencies in the measurement of passenger kilometres, and therefore we will take into consideration the data that is the most reliable for the purpose.

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- Patronage growth.
  - Changes in operating costs (eg total operating cost per passenger/passenger kilometre (includes fares and subsidies)).

While the farebox recovery policy and the ratio target are set in consultation with the NZTA, by the communities (through regional councils), the NZTA may impose any 'relevant and reasonable' conditions in accordance with section 20B of the LTMA. Any conditions the NZTA imposes in respect to funding public transport activities, will be likely (depending on the individual circumstances of each regional council) to link back to these expectations (among other things).

The NZTA is currently developing research that will work towards an evidence base and methodological framework that can be used by regional councils to help inform decisions made on what constitutes an equitable distribution of costs.

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**Farebox recovery policy content**

A farebox recovery policy must at a minimum include the following:

- A statement of the contribution it makes to the LTMA, GPS, RLTS and RPTP.<sup>3</sup>
- A farebox recovery ratio target or target range in accordance with the 'Farebox recovery ratio target' section below.
- An explanation of why a particular farebox recovery ratio target or target range has been chosen, and how it will be applied, eg its role and assessment in fare reviews, planning and monitoring.
- How the regional council plans to reach that target, together with any milestones to measure progress.
- Any relevant transition period.

Total mobility services are outside the scope of this policy.

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**Farebox recovery ratio target**

- Regional councils must set a farebox recovery ratio target for the public transport system as a whole.
  - Behind the overall 'system' target there must be separate targets set for each mode (where relevant/appropriate).
  - Regional councils may set a target range rather than a single target figure.
  - The target must be consistent with the objectives and principles of this Policy.
  - Farebox recovery ratio performance should be reviewed regularly (ie at least yearly).
  - The farebox recovery ratio target must be reviewed with each review of the RPTP.
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<sup>3</sup> We do not expect a detailed explanation of how the policy meets or does not meet each and every objective of the LTMA, GPS, RLTS and RPTP, but rather a simple summary of how the policy contributes to the RPTP and the objectives of the RLTS, and the responsibilities of regional councils under the law, and any relevant operating conditions such as funding pressures.

## Improving farebox recovery ratios

*Comment*

The following variables can be used in any order or combination depending on the circumstances to improve farebox recovery ratios. However, before consideration is given to changing fare structures/prices, and in order to limit the potential negative impact from fare increases, it is useful to focus on:

- whether any further operating efficiencies ('doing more with the same or less resources') can be made, and/or

whether support can be obtained to develop initiatives designed to increase patronage or remove/mitigate the impediments to increasing patronage.

## Farebox recovery ratio formula

The farebox recovery ratio (FRR) must be calculated using the formula below:

$$FRR = (F_T + S_3) / (F_N + S_T)$$

Definitions and data requirements	
Item	Notes
<b>Farebox revenues</b>	
$F_N$ Farebox revenues	Farebox revenues – net contract + commercial services
$F_G$ Farebox revenues	Farebox revenues – gross contract services
$F_T$ Total farebox revenues	$F_N + F_G$
<b>Operating subsidies</b>	Cover total payments to operators, from whatever source (apart from farebox)
$S_1$ Contract payments	Contracted services
$S_2$ Concession fare payments	Contracted and commercial services (as applicable)
$S_3$ SuperGold card payments	Contracted and commercial services
$S_T$ Total subsidy payments	$S_1 + S_2 + S_3$

### NOTES

Issue	Notes
Operating subsidies	As direct cost information is not generally available, operator incomes (from farebox revenue and public funding) are used as a proxy for operator costs, including profit margins.
SuperGold card revenue	Treated as fare revenue. It is Crown support to SuperGold card holders to replace the fares they would have paid on public transport services.

Other sources of revenue to cover fares	Contributions from businesses/organisations to cover fares are to be included as farebox revenues, but should be identified separately where feasible in LTP Online.  Examples include: Massey University scheme which uses campus parking fees to cover 'free' services for students, regional council or operator agrees with employers to a set price for monthly/yearly passes.
Free services	Are services provided free of charge to the user, and are included in the description of services in the RPTP. Must be included in 'contract payments'.
Commercial service	In addition to the legal definition, and to avoid doubt, a commercial service is also a service that is included in the description of services in a RPTP.
Commercial services' farebox revenue	Can be obtained from operators using section 14 of the Public Transport Management Act 2008. Alternatively, this can be calculated by: commercial services patronage × average fare on contracted services.
School services funded by regional authorities	Are to be included in S <sub>1</sub> 'contract payments'.
GST	All farebox revenues and operating subsidies figures must be GST exclusive.

The farebox recovery policy must set out how the regional councils will obtain data on the relevant commercial services operating in their jurisdiction (eg section 14 of the Public Transport Management Act 2008).

## Fare reviews

Regional councils must (at a minimum):

- annually review fare price levels, discounts, concessions and ticket types within the existing fare structure
- review fare structures at a minimum approximately once every six years or to coincide with RLTS and/or LTCCP reviews.

Nothing in this policy compels regional councils to increase average fare prices on an annual basis.

It is desirable that any changes to fare price levels be managed incrementally to minimise the impact of the price elasticity of demand.

## Reporting

The farebox recovery policy must provide for the necessary information to allow the NZTA to calculate (on an annual basis):

- the aggregate farebox recovery ratio across the organisation's public transport system(s), and

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- farebox recovery ratio by mode (ie bus, rail and ferry).

The NZTA will calculate the farebox recovery ratio for each region, but regional councils may opt to report on the performance of 'distinctly separate' public transport systems separately, if identified as separate systems in the RPTP.

'Distinctly separate' means physically separate systems in different centres and/or which are financially separate eg if the local share is funded by a different set of ratepayers.

Data is to be provided in raw form – the NZTA will set up a formula for the calculation – as part of the normal LTP online annual reporting process.

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### **NZTA funding policy related to the farebox recovery policies of regional councils**

#### **Introduction to funding policy section**

Given the NZTA's responsibilities to evaluate activities and allocate NLTP funds, regional councils' responsibilities to plan, procure and manage public transport services, including the contribution from public transport users through fares and rates, it is necessary to separate the NZTA's funding policy (which governs how the NZTA makes decisions in relation to its obligations under the relevant legislation) from the NZTA's expectations regarding the farebox recovery policies of regional councils, and clarify where the policies connect.

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#### **Funding policy objective**

The NZTA's funding objective with respect to the farebox recovery policies of regional councils 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.'

*Comment:*

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 NZTA and the other parties involved.

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#### **Funding policy**

The NZTA intends that (subject to any relevant individual regional circumstances of a regional council), public transport services funding sourced from the National Land Transport Fund will be subject to conditions such as:

- regional councils have a farebox recovery policy in place for public transport services (ie the NZTA expects all regional councils to have a farebox recovery policy in place as part of their RPTP or revised RPTP by 1 January 2012).
  - the farebox recovery policy conforms to the requirements set out in the NZTA's national farebox recovery policy contained in this Manual, and cross-referenced in the NZTA's RPTP guidelines.
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- regional councils will aim to achieve the farebox recovery ratio target within three years from the date it has been set as part of the regional council's new or revised RPTP or no later than the end of the 2012/13 – 2015/16 NLTP, or as otherwise agreed with the NZTA.

*Comment:*

The NZTA has determined that one important measure of 'value for money' will be the achievement of a national farebox recovery ratio of no less than 50 percent in the medium term. The NZTA will work collaboratively with each regional council to achieve an equitable farebox recovery ratio with the objective of the achievement of the national target.

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## **Funding decisions**

*Comment*

While the NZTA will consider farebox recovery performance as part of its funding allocation methodology, as it does now, it will not be the only criterion of any funding decisions relating to the next National Land Transport Programme (NLTP). The NZTA will continue to make its decisions on the basis of a range of criteria under the strategic fit, effectiveness and efficiency categories, as well as an assessment of affordability.

However, increased attention will be given to evidence of better or worse value for money from public transport services and infrastructure over the course of this and the next NLTP and the performance of regional councils against any relevant targets, including the farebox recovery ratio target. If any issues arise, the NZTA will work with regional councils in the first instance, but the NZTA retains the ability to set funding conditions or levels (funding assistance rates) where appropriate. As part of the development of the public transport funding assistance policy we will develop a clear position on the level of funding to be provided in circumstances where the NZTA disagrees with the farebox recovery policy that has been established.

The NZTA is also investigating other funding processes that may better target the NLTP resources according to the outcomes sought by the government (eg congestion reduction, more efficient transport systems and increased commercialisation). The NZTA will, as appropriate, consult with the sector should any proposals for change eventuate. The NZTA acknowledges that any funding process changes are unlikely to be implemented by the end of the current NLTP, but it is our intention to at least complete the investigation within the current NLTP period.

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## **Interpretation**

**ARTA** means the Auckland Regional Transport Authority of the Local Government (Auckland) Amendment Act 2004. Reference to ARTA in this document includes any successor organisation to ARTA.

**Farebox** means the revenue collected from tickets (cash, prepaid, passes and electronic purses) purchased by travellers of a public transport system and includes SuperGold card revenue.

**Farebox recovery ratio** measures the contribution fares make to the cost of providing public transport services, and is typically expressed as a percentage, and is based on the formula set out in the 'Farebox recovery ratio formula' section of this policy.

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**Farebox recovery policy** means a policy adopted by a regional council complying with this policy.

**Fare structure** is the structural approach taken to fares and the specific fare levels. It refers to a flat or distance-based structure, with consideration for zones, sectors, trip kilometres or point-to-point fares. Further differentiation within a fare structure could be different fares for different times of the day, different levels of service, or fares designed to cater for a particular market such as tourists.

**Regional council** means a regional council within the meaning of the Local Government Act 2002, and includes ARTA, and any territorial authority to which a regional council has transferred the functions, powers, and duties of a regional council under the PTMA, and a unitary authority but excludes the Auckland Regional Council and the Waikato Regional Council (in respect of that part of its region within Franklin District).

Other terms used in the National Farebox Recovery Policy section of this document have the same meaning as in section 4 'Interpretation' of the Public Transport Management Act 2008.

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#### **Amendments to existing policy**

The *Planning, programming and funding manual* (PPFM) contains the NZTA's policies, some of which apply to public transport. The NZTA's national farebox recovery policy will have a bearing on some of these. These are listed below together with the way the national farebox recovery policy will be taken into account when the PPFM is updated.

- Pg B1-15 - The NZTA's Strategic Investment Direction, section 4 Public transport services. Add reference to the NZTA's national farebox recovery policy
  - Pg C6-3 – Applications for a public transport programme – Parts of a Public Transport Programme. Delete the word 'contracted' from in front of the word 'fares' in the section Passenger transport statistics and again in the section Supporting information.
  - Pg C6-4 - Data for passenger transport services – Passenger transport statistics - Group Details. Delete the word 'known' from in front of the word 'commercial' in two places and delete the word 'known' from in front of the word 'fares'. Amend the words 'Farebox recovery' to read 'Farebox revenue'.
  - Pg E5-17 - E5.11 Passenger transport statistics, continued. Reference will be made to the NZTA's farebox recovery policy under each mode. Amend the wording after 'financial information (fares received on contracted and contracted school services)' by including the word 'commercial' ahead of 'contracted' in each mode.
  - Pg E5-21 - Passenger transport statistics. Add reference to the NZTA's national farebox recovery policy.
  - Pg G1-12 - Guidance on strategic fit rating. Add reference to the NZTA's national farebox recovery policy.
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- Pg G9-6 - Passenger transport programme: strategic fit. Add reference to the NZTA's national farebox recovery policy.
  - Pg G9-8 - Passenger transport programme: economic efficiency. Add reference to the NZTA's national farebox recovery policy.
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