

Submission on NZTA Draft Farebox Recovery Policy

Thank you for the opportunity to comment on the above. Some general comments are set out below, followed by some more specific comments. An alternative proposal is set out at the end of this submission.

General

Despite the efficiency and appropriateness arguments given as the reason for the policy, the real (and valid) reason seems to be that NZTA is concerned at the lowering of the national farebox recovery rate, and the funding implications that that has for NZTA i.e. it will cost NZTA more in the future to support the same level of service. It is clear from the discussion document that the intention of the policy is to reduce future NZTA subsidy levels by raising farebox recovery.

By its own admission, NZTA has no evidence that the current passenger contribution levels are not appropriate – it simply wants to restrict the growth in its subsidy payments and it proposes to do this by increasing passenger contributions.

NZTA does state that improvements to efficiency and patronage levels will result in improved farebox recoveries and thus deliver the results NZTA wants. But this ignores the fact that regions are constantly seeking to improve efficiency and patronage. And operators are also constantly seeking to improve efficiency to improve their profitability. Patronage increases in current times have largely resulted from external factors (such as population growth, increases in the price of petrol, and new housing developments).

In reality, the only way left for Councils to increase farebox recovery is to either increase fares or remove marginal services (likely to be weekend or late-night, and those outside the main centres services).

The policy is silent or unclear in many areas, particularly the setting of the targets and the implications if the targets are not met, and the processes and timelines involved if the targets are not met. While it might be argued that this allows some flexibility regarding these actions, it also means uncertainty for councils, particularly regarding funding, and this is not helpful.

GW has its own farebox recovery policy - the Council Revenue and Financing Policy (which forms part of the LTCCP) has a policy that 45-50% of the costs of providing public transport should be covered by fares (calculated on a network wide basis). This policy is pivotal in the Council fare level decision making process. Included in this calculation are direct costs and debt servicing costs. Admin and network costs are not included.

The latest calculations undertaken by GW indicate that this council is within the 45-50% target range, and this is confirmed by the NZTA figures (although the NZTA figures are calculated on a slightly different basis).

Objectives and principles

NZTA justify the policy because it will supposedly increase efficiency, and ensure fairness between all the parties contributing to the cost of providing services. But efficiency is not improved by simply having a higher farebox recovery - efficiency relates more to the way the service is provided (through minimising costs etc) than it does to fare levels. If NZTA wishes to improve efficiency, then there are more appropriate ways to do it than by increasing fares.

And while it might be appropriate to ensure all contributors to the costs contribute a “fair” amount, just what is fair is not defined. That is where the research is required.

The Government Policy Statement on Land Transport Funding, and NZTA’s own funding priorities, indicate that funding should be targeted at *those services that have the potential to make significant improvements in peak-time public transport patronage in major urban areas with severe congestion*. This would indicate that more funding should be provided to places such as Auckland, Wellington and Canterbury than places without severe congestion. Yet the likely consequence of the proposed NZTA policy is that Auckland, Wellington and Canterbury will be required to have higher farebox recovery levels, and thus lower levels (in terms of the percentage of total costs) of NZTA subsidy.

However the real objective of this policy is to restrict the growth in NZTA subsidy payments. That is a valid objective, and the policy could be clearer and far simpler if NZTA adopted that as its objective. The policy is confused and unclear because it purports to have one thing (efficiency) as its objective when its clear aim is to reduce subsidy payments.

NZTA could still encourage efficiency improvements and patronage growth (by providing guidance as to how this might be achieved, best practise examples, and benchmark targets etc), but within the framework of reducing subsidy payments.

Justification for recovery targets

No evidence has been provided to justify requiring higher farebox recovery rates. The justification given for the proposed 50% recovery rate proposed for Auckland, Wellington and Canterbury is simply that “*it is reasonably close to what ARTA, GW, and ECan are already achieving, but still constitutes a stretch target or a reasonable and challenging target to continue to achieve*”.

The rates for the other regions seem likely to be set on a similarly as hoc basis.

NZTA plan to carry out research after the policy is in place. But it would be preferable to do this first, or at least prior to setting the targets so that the targets could at least be based on some research or at least best practise.

Fares cannot just be raised constantly to try and reach some arbitrary target. Fare elasticities come into play, whereby patronage decreases as fares increase, and at some point fares will result in less

passengers (as passengers decide to take alternative travel options). There is an optimal point where fares and patronage are at a point where both are maximised. This is what the NZTA research should seek to ascertain.

Tail wagging the dog

NZTA justification for setting the policy is that NZTA are a substantial contributor to the costs of providing public transport. However this region actually contributes approximately 75% of the costs, by way of fares and rates, yet it is NZTA that is dictating the policy.

It is not inappropriate that NZTA should seek to limit its contribution – like everyone else its funding is under pressure than NZTA must justify its expenditure. But at the same time it should allow regions such as Southland to adopt a low fare policy, but on the basis that Southland will pay through increased ratepayer contributions if its policy falls below NZTA thresholds.

Thus it might be appropriate for NZTA to limit its funding to say no more than 25% of the total costs, and allow each region to decide the appropriate mix of fares and rates to cover the balance e.g. a region could set its farebox recovery target at 40% of costs meaning (if NZTA is limiting its contribution to 25%) the ratepayer contribution will be 35%.

If NZTA was to limit its funding to a percentage of total costs, and allow councils to determine the level of fares and ratepayer contribution, this would result in a much simpler policy (no need for complex reporting, intervention hierarchies, funding adjustments etc).

Option 1 or 2?

The discussion document asks councils to choose between two options for setting targets (with ultimately only one being available to regions). In essence, regions can choose between option 1 - setting their own targets, or option 2, which for Auckland, Wellington and Canterbury involves a NZTA imposed target of 50%, and other regions setting their own targets.

Option 1 (each council, including Auckland, Wellington and Canterbury, setting their own target) seems preferable in that it allows councils to set a target that is appropriate to its region. Regional variances (such as variety of modes, population numbers and geographical issues, and current patronage and fare levels) can then be taken into account. Varied targets (and the ability to vary them) will also be appropriate when additional costs (rail capital costs and admin) are included in the formula to calculate the farebox ratio.

However the full distinction between the two options is not clear from the discussion document.

It seems probably (given the difficulties that the other regions will have in reaching a 50% target) that Auckland, Canterbury and Wellington will end up with higher farebox recovery targets than the other regions. This raises an equity issue, particularly if the main focus of NZTA is supposed to be on traffic congestion.

Externalities

The policy ignores the impact of externalities on the farebox recovery ratio. Large fluctuations in the price of petrol have recently been the major influencer of public transport patronage (and therefore changes to farebox recovery). Other external factors such as the state of the economy, and demographic and land use factors, also affect farebox recovery.

Councils work hard to improve efficiency and increase patronage, but in reality the major influencers, particularly of patronage, are beyond the control of councils. These external factors must be taken into account when considering if a target has been met. The NZTA policy is silent on how this will happen (and how any funding adjustments might be made should the targets not be met).

Commercial services

Commercial services are always a difficult issue when calculating farebox recovery. While it is desirable to include the costs, revenues and patronage from commercial services to obtain an overall picture of what is happening in a region, obtaining this information is often difficult or impossible. While NZTA have proposed a method to try and get around this problem, revenue information is still needed, and this may be difficult to obtain. Because of the number of commercial services operating in Wellington and Auckland in particular, this will make the calculating of the ratios difficult (and potentially inaccurate).

At the moment when calculating the farebox recovery councils usually don't take into account all commercial services (councils often don't know about all of them, particularly privately arranged school services). But the NZTA policy will encourage councils to include as many commercial services as possible in the calculation of the farebox recovery ratio as this will be a way of increasing the ratio.

What happens if targets are not met

The policy is silent/unclear about what happens if the target (or even the three year implementation path) is not met. It is not clear when the intervention hierarchies are to be implemented. And how much time is to be allowed to see if they work? And what happens if they don't? And is any subsidy adjustment to be retrospective? As indicated above, while some degree of flexibility is desirable, uncertainty is not. The policy needs to be clearer on this.

Reporting

The draft policy requires councils to report on various issues, including on any individual "service" (defined as a service operating on a distinct route) that "is falling below" 25%. Also required to be reported on is the ratio for each "centre" (not defined) within the region. Does this mean that this region will have to report separately on Wairarapa, Otaki, Kapiti, Lower Hutt, Upper Hutt and Wellington? And it is certain that centres such as Otaki and Wairarapa (and probably Kapiti and Upper Hutt) are not achieving anywhere near 50% farebox recovery.

Given the integrated nature of services in this region, such reporting will be virtually impossible. For example, such a policy would require rail costs to be split by line, and many bus services are an extension of the rail service.

Transport disadvantaged

Councils and NZTA have a legal requirement to take into account the needs of the “transport disadvantaged” when preparing funding programmes. Many services are provided for the transport disadvantaged, and this is recognised in GW policy whereby there are different farebox recovery thresholds for different types of services (school services, and shopper type services for example).

It is not clear how the NZTA policy takes account of the needs of the transport disadvantaged, or how this will be recognised when setting farebox targets (or in fact how, when NZTA provides its subsidy, this requirement is balanced against the aim of relieving traffic congestion).

Regional Public Transport Plan

The NZTA proposal requires that each region include its farebox recovery target in its Regional Public Transport Plan. However that Plan is subject to extensive consultation processes, which means the farebox target itself is also subject to consultation. And that is entirely appropriate – the community having an input into what an appropriate farebox target should be. But the NZTA draft policy assumes/implies that the target is agreed between the region and NZTA, and not then subject to community input.

Timing and funding implications

There are several timing issues associated with the proposed policy. Firstly, the policy has to be incorporated into the Regional Public Transport Plan. This involves a lengthy development/consultative process (and an appeal process). Then the actual fare recovery rate for a year has to be calculated, but this cannot be done until the end of the year.

Then if the target (or transition target) has not been achieved, the intervention hierarchy is then presumably applied. The effect of these interventions will take some time to flow through the system. For example, it will take time to see if any efficiency initiatives are successful. And it will also take time (years?) to see if any attempts to increase patronage are successful.

And if after that length of time the targets are still not achieved, fares have to be increased. It takes months to implement a fare change, and then time has to be allowed to see the impact on the recovery ration of the fare increase.

Only after all that time (which may be several years) will it be able to be ascertained if the target has been achieved. And then what happens if, even after a council has done all that is possible to reach the target, the target is still not met? Will NZTA retrospectively adjust subsidies?

The policy is not clear on this, yet Councils need to know and plan for the impacts on their budgets.

Rail Capital Costs

The proposed formula for the calculation of the farebox recovery ratio does not include rail capital costs, but NZTA is proposing that these costs be included at some stage in the future.

While it may be appropriate to include some rail capital costs, there will be some debate about some of the costs, especially those related to improving or maintaining the fixed infrastructure.

The costs of providing a bus service do not include those relating to the building or maintenance of the roads (other than RUC costs); likewise train costs should not include any costs associated with improving or maintaining the fixed rail infrastructure.

It should be made clear in the policy (because it isn't now) that if the formula for calculating the farebox recovery ratio is to change, then the farebox target (specially if it is set under option 2 at 50%) will need to be renegotiated.

Summary

The draft policy assumes that increasing farebox recovery will lead to improved efficiency and fairness. But in reality, farebox recovery has nothing to do with efficiency, and NZTA provides no evidence to support its fairness objective.

The draft policy is vague in several areas, and its implications should the targets not be achieved are unclear. That will lead to uncertainty and disputes.

The main problem areas are:

- Confusion with the objectives
- Lack of detail, including funding implications and timing issues
- Disregard for network integration and service linkages
- Lack of regard for the wishes of the community (including the users) who provide the majority of the funding of PT services
- Uncertainty regarding treatment of services for the transport disadvantaged.

It is clear that the policy is aimed simply at slowing the increase in NZTA subsidy payments. This increase in demand for funding appears unsustainable and it is important that NZTA address it. It is also a matter that should concern all councils. But NZTA has tried to disguise this funding problem as an efficiency and fairness issue. It has proposed a complicated, unclear, and flawed policy.

Possible alternative policy

As an alternative to the proposed policy, it is suggested that NZTA simply limit its funding to a percentage of the total costs of providing public transport in each region. Thus it might limit

funding to say 25% of costs in the Auckland, Wellington and Canterbury (equivalent to farebox recovery rate of 50%), and 30% elsewhere (equivalent to 40%). Each region would be able to determine the mix of fares and ratepayer contributions.

Funding bids would continue to be based on expected costs, and funding allocated accordingly (but paid on actual costs). If costs continue to rise, the NZTA funding limits could be lowered.

Such a system would provide certainty of funding to councils as well as an incentive to them to keep costs from rising. Councils would control the contributions from passengers and ratepayers, and at the same time, NZTA would achieve its objective of managing its funding.

Such a system would be much simpler to implement, and would not need complicated calculations and reporting regarding fare recovery (only cost information would be required). The calculations could be applied at the end of each year (as they are now) with any subsidy adjustments being made in arrears. Councils could be given three years to transition to their maximum subsidy rates.

NZTA should also be encouraged to undertake the appropriate research and/or establish best practise before trying to implement this policy.

Fare policy decision making guideline

Reviewing a fare structure every three years will be very onerous, particularly if a change was to be made. A review every five years is more manageable.

Most of what is suggested in the Guidelines seems sensible, although it is arguably “over-the-top”.