

# NZ TRANSPORT AGENCY BOARD PAPER

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Paper Sponsor(s)	Mark Ratcliffe, Interim Chief Executive
Prepared By	Charles Ronaldson, Programme Director, Commercial Projects
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## Purpose

This paper seeks the Board's agreement to the proposed structure and ongoing funding arrangements for the National Ticketing Project (NTP) which will deliver an 'open-loop' bring your own token system for payments on public transport that is consistent throughout the country. Most travellers will no longer need a separate prepaid transit card, using instead their Credit or Debit card. A transit card will be available for those unable, or who do not wish to use Credit or Debit cards.

## Recommendations

It is recommended that the Waka Kotahi, the New Zealand Transport Agency Board resolves to:

- Subject to legal advice confirming the acceptability of the proposed approach from a legal perspective:
  - **Approve** the Transport Agency establishing a 'shared services' function to manage the back-office and contracting arrangements with suppliers of the National Ticketing Solution on behalf of all PTAs;
  - **Approve** funding to the NZ Transport Agency for the National Ticketing Programme (Project NEXT) for an increase of \$7.9m at a funding assistance rate of 100% (\$7.9m out of the NLTF) for Work Category 531 from the Public Transport Activity class thereby increasing the approved total cost from \$14.2m to \$22.1m being comprised of:
    - \$6.6m additional costs of the Project NEXT team to complete the procurement and business case phase through to August 2021;
    - \$1.3m for preliminary investigative activities to establish a shared services function within the NZTA;

- **Approve** the Request for Proposal being issued by the Transport Agency noting that the risk this may be viewed as a closed tender is mitigated by the comprehensive process which successfully secured the group of shortlisted respondents;
- **Support** the preparation and execution of a Participation Agreement with Public Transport Authorities;
- **Note** finalisation of the Business Case and completion of the procurement process has been delayed and an outcome is not expected until early 2021 with implementation, early 2022;
- **Note** the proposed approach to funding the National Ticketing Solution, including:
  - The Transport Agency assuming development costs relating to the system and ongoing running costs;
  - Public Transport Authorities assuming responsibility for their own transition costs, equipment supply and support & maintenance under normal FAR provisions;
  - Transport Agency costs being charged against the National Land Transport Fund - Public Transport Services;
- **Note** the proposed shared governance model that will be adopted with Regional/Territorial Authorities for the ticketing function delivered by the Transport Agency;
- **Note** that Greater Wellington Regional Council and Auckland Transport will need to formally agree to the proposed arrangements;
- **Note** that, in conjunction with the Ministry of Transport, the legal implications of the Transport Agency assuming its proposed role in the National Ticketing Solution is in the process of being finalised; and
- **Note** some enhancement work will need to continue on the AT-HOP product to keep it current until such time as Auckland transitions to the National Ticketing Solution, not expected before 2025 and that those enhancements will not materially impact the Business Case outcomes.

## Strategic Relevance

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Current public transport ticketing and payment systems vary considerably in capability and lack consistency of approach with Auckland Transport's (AT) HOP system providing integrated electronic ticketing while Wellington's rail network still uses paper tickets. As such, ticketing systems provide little economy of scale and in many cases lack the rich data required to fully optimise network performance.

Fare collection systems and payment methods present a barrier to further public transport adoption. Closed-loop systems with stored value cards, that were leading-edge only a few years ago, have been superseded by account-based ticketing solutions that provide wider accessibility for users, significantly better data for efficient network management, and provide a foundation to enable future technology development.

International trends are towards account-based solutions with open loop payment functionality accessible through EMV-based (Europay/MasterCard/Visa) credit/debit cards and mobile devices at costs much lower than previous closed loop proprietary systems.

Public Transport Authorities (PTAs) are at different stages of investment and interim bus ticketing solutions have been put in place to align investment across regions in expectation that a national solution will be introduced.

PTAs require a shared services approach to operate a centralised ticketing system together with governance, decision-making, procurement and management that secures economies of scale while catering for essential local differences in fares and operations.

A single, national, account-based, solution that is open-loop and multi-tenanted has strong alignment with the Government Policy Statement on Land Transport, the New Zealand Disability Strategy and would enable and support government's SuperGold card and any future initiatives such as Green Card.

## Background

The National Ticketing work programme was last before the Board in April 2018 under the title "Investing in a Next Generation Payment Solution for Public transport – Funding for Completion of Procurement and Detailed Business Case" [2018/04/1238]. The Board at that meeting:

- approved funding in the range of \$9.3m for the NZ Transport Agency share for completing a business case and procurement (this includes FAR contributions);
- endorsed the procurement strategy;
- agreed that procurement funding did not commit the Transport Agency to funding the purchase of a new payment solution; and
- rescinded previous policy decisions to link National Land Transport Funding to a requirement that all regional payment solutions use the Auckland AT HOP platform.

Public Transport Ticketing has a chequered history in New Zealand as described in the timeline issued to the Board in April 2019 and updated (appendix 4). In 2018 a National Ticketing Project was commenced (named Project NEXT) and it was expected 17 months to January 2020 would be needed to complete the detailed business case and reach a point in the procurement process where a preferred supplier had been identified.

The programme has suffered a series of setbacks in terms of meeting the 17-month timeframe for delivery of a completed procurement process partly due to the Transport Agency not actively driving the project but equally, due to the greater than anticipated work required to align the expectations of all PTAs and to engage with global suppliers. To this end, the Interim Chief Executive ordered a review of the programme by Deloitte in the first half of 2019. Key findings of that review were:

- **Lack of business ownership**  
The Project lacks clear business ownership within NZTA.
- **National Ticketing Programme (NTP) itself lacks momentum**  
The NTP was established by the Transport Agency in 2016, and Project NEXT is a key part of the programme. Over the intervening years, it appears to have lost its impetus and ownership.
- **NZTA's role after completion of Project NEXT is unclear**  
Following the procurement decisions and completion of the detailed business case, the Agency needs to have a confirmed view on its role in the project lifecycle.

These issues have been addressed through the revitalisation of the Mobility Payments Governance Group (MPGG), comprising the CEs of Waka Kotahi (Chair), Ministry of Transport (MoT), Auckland Transport (AT), Greater Wellington Regional Council (GWRC), Environment Canterbury (ECAN) and Bay of Plenty Regional Council (as the representative of the 9 councils that form the Regional Interim Ticketing Solution (RITS) group). Additionally, a Programme Director, Commercial Projects in the Office of the Chief Executive has been appointed to drive this work forward from a Transport Agency perspective.

## Progress on Procurement and Development of the Detailed Business Case

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The procurement process has been well progressed with a shortlist of suppliers selected through a global process. These shortlisted respondents will be invited to respond to a detailed Request for Proposals which will be ready for release in April 2020. Preferred suppliers for 3 financial services to support the system have been secured and contract negotiations are in progress.

Drafting of the detailed business case is in an advanced state and has the support of the Transport Agency team overseeing the NTP. The business case demonstrates convincingly that the implementation of the NTP over a period of some 5-7 years has very significant customer facing and nationally important benefits and is not materially more costly than the 'Do Minimum' option of multiple systems, with much less utility and reaching end of life.

The finalisation of the Draft Business Case is dependent on the selection of a preferred system supplier and importantly resolving optimal transition strategies for each participant. For Auckland with its very high penetration of HOP users the latter is particularly important.

## Key issues

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The MPGG has intentionally widened the vision of the NTP, consistent with Government policy, to develop a core system and capability which may support a national transport account for each customer to enable targeted policy implementation supporting national transport and social & economic outcomes. This could include:

- National concessions and programmes – SuperGold, future Green Card, Total Mobility;
- National priorities – mode shift, demand responsive travel, dynamic road pricing;
- Tolling and Road User charges (RUC);
- Other government services – MoE school bus boarding information and integrated planning with public transport; and
- Tourism demand and access management.

Several options have been considered as part of the NTP for the operating capability to engage, contract and run the back-office systems for the National Ticketing Solution as well as a wider transport account application. This included various core-government and local government legal structures. A Transport Agency entity model was ruled out pre 2018 at a time when the Transport Agency was not organised or focused on the strategic relevance of the NTP potential and this led to the best solution being identified as a shared service Council Controlled Organisation (CCO).

This decision has been revisited during the latter part of 2019 as it had become clear that a CCO or other crown entity would be too complex and take too long to establish with various parties having shareholdings, complex reporting requirements under the Local Government Act and needing regional governance bodies to approve actions by the CCO. Given the volume and value of transactions it was proposed that either a lead council model, building on AT's current capability or a business unit model built on Transport Agency capability should be adopted.

In consultation with Officers of all the Regional Authorities that operate as PTAs and who all support this proposal, it is considered that the Transport Agency is best placed to provide the shared services operations for the National Ticketing Solution, particularly when considered against a wider transport account vision. This still needs to be confirmed in conjunction with the MoT however advice from the MoT to MPGG in January noted:

- We all agree in principle that it makes sense for NZTA to assume the role of SSO.

# section 9(2)(h)

- While this may take a few months to resolve, we don't see this as being a reason to slow down progressing the issue and assuming NZTA is the SSO.

To ensure a seamless operating environment, under the proposed approach the Transport Agency will assume responsibility for the establishment and operation of the solution, funded from the National Land Transport Fund – Public Transport Service Account, offset by reduced payments to regional authorities for the subsidised operation of public transport. As a quid pro quo the PTAs will be saving the costs of running their current ticketing solutions to match this reduced funding. Considerations supporting this recommendation include:

- The Transport Agency will be the funder and provider of the ticketing solution. It is a neutral party not operating transport services attached to the ticketing solution. Individual PTAs will use those parts of the solution that meet their needs. There will be a binding Participation Agreement between the Transport Agency and PTAs.
- Under this operating model, responsibility for the customer relationship remains entirely with the PTAs. The Transport Agency will only provide backup for complex technical and accounting issues. All fare, zone and route settings are the responsibility of the PTA governing body. Where possible there will be common definitions used across the country e.g. the definition of the age of a child.
- The Request for Proposal will be issued by the Transport Agency. This alleviates the need for the Board of AT and the GWRC to approve the proposal. Consideration has been given to the risk to the Transport Agency that this could be seen as a closed tender, the original Registration of Interest process having been in the names of AT and GWRC. A mitigation for this risk is that the RFP will be issued to the shortlisted respondents, selected through a comprehensive global procurement process, thus reducing the risk that an aggrieved party would seek to have the decision reviewed. Additionally, the RFP will only be issued to the shortlisted respondents minimising awareness in the market of its existence and thereby further reducing the risk of challenge.
- Agreements for the development and delivery of the ticketing solution and its ongoing operation will be between the Transport Agency as 'owner' and providers reducing approval complexity and risk to the PTAs.
- This proposal will alleviate the need for complex funding and commercial arrangements between PTAs (i.e. shareholder % of the shared services organisation and % share of turnover/operating costs on a per annum basis) and will also allow for easy transition should the PTA change (e.g. move from a Regional Council to a Territorial Council delivery model or vice versa).
- The Transport Agency will have the ability to work across Government to deliver targeted services and transfer costs back to the correct appropriation e.g. services for school children on public transport would be charged back to MoE. Likewise, SuperGold could be charged at actual cost against the appropriate government expenditure line rather than transport funding.
- Capital/leasing and maintenance costs for vehicle and station hardware will be met by PTAs with normal FAR provisions applying. They will also be responsible for their share of transition

costs, except where the burden is onerous due to national requirements in which case additional Transport Agency support beyond FAR may be sought.

- The implementation schedule has the Auckland transition starting from the beginning of 2025, due in part to the expiry date of their current service and new public transport options starting in 2024 (e.g. CRL, Eastern Busway).

While under this model the Transport Agency will own, pay for and operate the back-office functions of the ticketing solution, there remains a need for shared governance and absolute commitment from PTAs. Likewise, PTAs require assurance the NZTA will not act unilaterally without their agreement. The proposed Participation Agreement between the Transport Agency and PTAs covering operation of the system will include:

- The Transport Agency Team responsible for delivery of the ticketing solution will be managed under a shared governance model consisting of Transport Agency staff and PTA representatives.
- There will be an ability for staff from the PTAs to be seconded into the team to support its effective operation and ensure a user view is captured. Existing staff from PTAs may also form the basis of the Team (e.g. AT staff currently operating the HOP Card may form a part of a future Transport Agency delivery team).
- Decision making will be by consensus and where this cannot be reached it will be escalated to MPGG for a decision.
- Customer experience and transition arrangements for moving to the new ticketing system will be agreed between the Transport Agency, the solution provider and each PTA.

*Legally Privileged*

section 9(2)(h)

A framework of the Participation Agreement is attached at Appendix 2 together with the governance structure. The Executive Summary of the Draft Business Case together with the estimated development and implementation costs is Appendix 3.

As noted in the background section the Transport Agency has approved total funding to completion of the business case and procurement of \$9.3m. With the time delays in completing this part of the process and with the Agency assuming its new lead role in the delivery of the ticketing solution, an additional \$7.9m is required to complete this phase of the project. Budget is being tightly managed by the project team under the guidance of a multi-party steering committee headed by a GWRC General Manager as the hosts of the Project and with Transport Agency represented by the Programme Director, Commercial Projects.

## **Health & Safety, Customer & Other Stakeholder and Environmental Impact**

The impact of this decision is considered by the NZ Transport Agency to be neutral, in terms of health and safety, the public and other stakeholders, and the environment.

## **Related Documents**

### **Attachment One**

National Ticketing – The story so far

**Attachment Two**

Framework of the Participation Agreement & Governance Structure

**Attachment Three**

Executive Summary Detailed Business Case - Draft

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