MINISTERIAL BRIEFING NOTE

Subject	Increasing the private share of public transport funding
Date	30 October 2024
Briefing number	BRI-3221

Contact(s) for telephone discussion (if required)				
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Action taken by Office of the Minister

- ☐ **Noted**
- ☐ **Seen by Minister**
- ☐ **Agreed**
- ☐ **Feedback provided**
- ☐ **Forwarded to**
- ☐ **Needs change [please specify]**
- ☐ **Withdrawn**
- ☐ **Overtaken by events**

30 October 2024

Hon Simeon Brown – Minister of Transport

INCREASING THE PRIVATE SHARE OF PUBLIC TRANSPORT FUNDING

Purpose

1. This briefing updates you on work underway to increase the private share of public transport funding, as directed in the Government Policy Statement on land transport 2024 (GPS 2024).

2. The programme of work aims to increase private share from an all-time low of 11% in 2022/23 to over 35% over the course the current National Land Transport Programme (NLTP) period (2024 – 27).

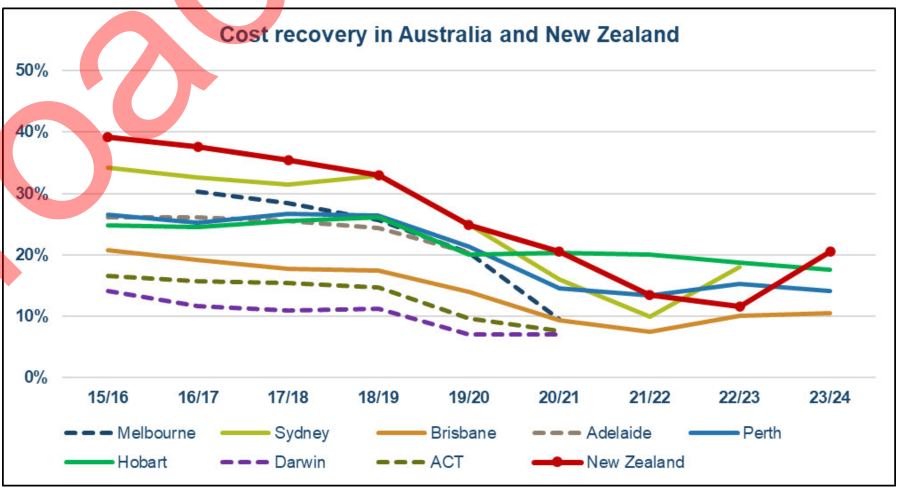
3. This briefing follows discussion on increasing private share at the 16 September 2024 Officials' meeting and informs discussion at the upcoming 4 November 2024 Officials' meeting.

Background

4. New Zealand's public transport services are funded from both private and public revenue sources (i.e. private and public share).

5. Private share is a measure of cost recovery and comprises passenger fares and third-party revenue, where third-party revenue is funding provided by entities in exchange for a benefit associated with public transport services or infrastructure (e.g. advertising on buses). Private share is measured as a proportion of gross operating expenditure. Public share comprises funding from ratepayers and taxpayers, including the National Land Transport Fund (NLTF). Appendix 1 provides a more detailed overview.

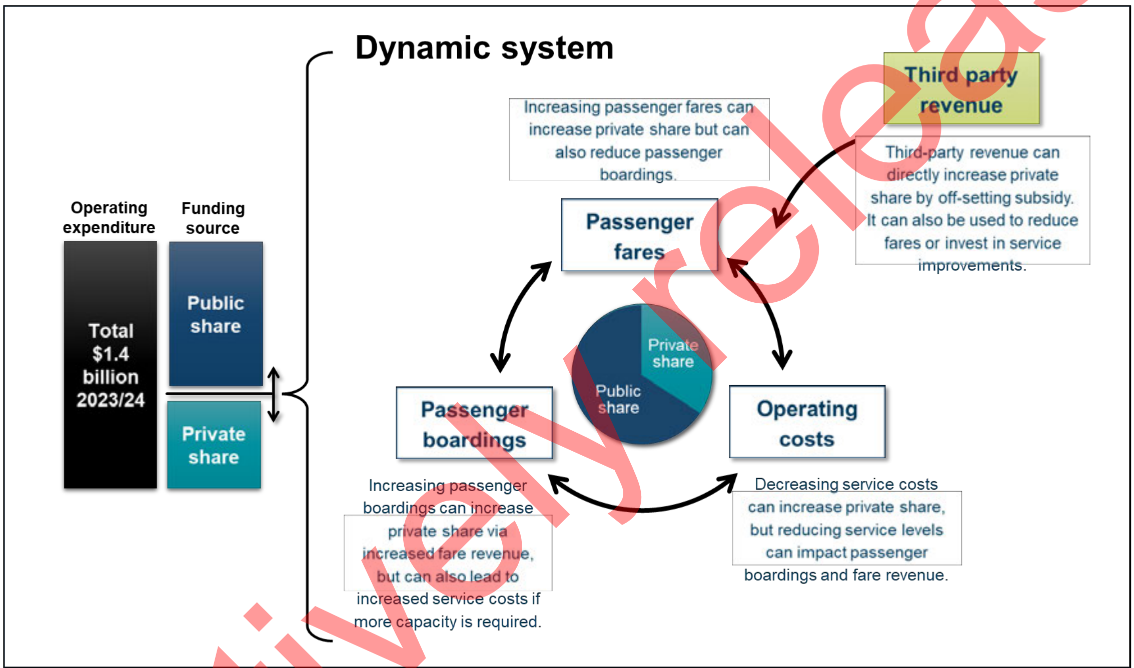
6. New Zealand cost recovery (private share) is high compared to Australian States as illustrated in the following figure.



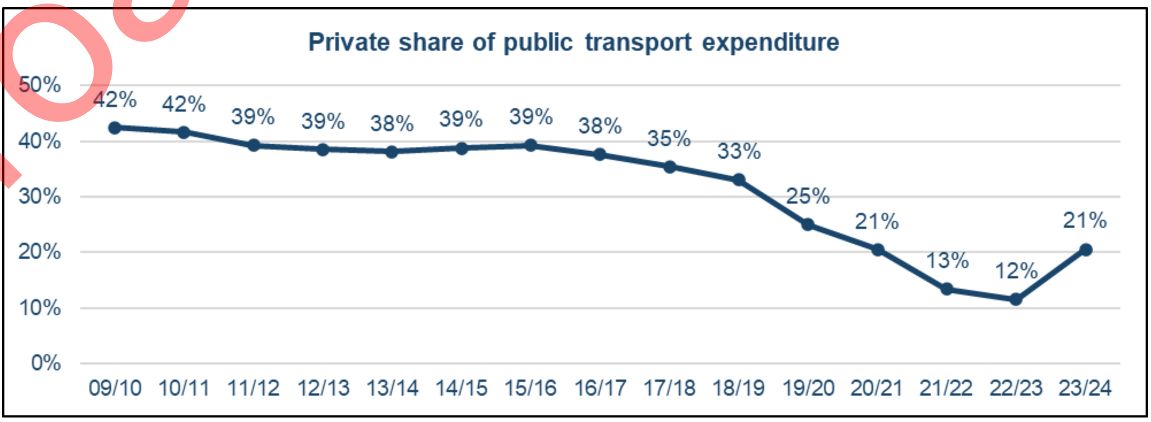
NB: Comparable data for all states is not readily available. Source is Australian Productivity Commission to 2020/21 and estimates based on annual reports from 2021/22.

7. Private and public share is dynamic, with fluctuations over time influenced by policy and system settings, as well as passenger fares, passenger boardings, third-party revenue and operating costs. Changes in one area can affect others, sometimes with unintended consequences. For instance:

- Raising fares can increase private share, but if raised too high, can reduce patronage and revenue, ultimately reducing private share.
- Service improvements typically require additional public investment, which reduces the private share ratio initially but can result in patronage and revenue growth overtime, eventually increasing private share.
- Reducing service levels results in cost savings and typically increases private share initially, but as people adjust, patronage and revenue may decline overtime, lowering private share later.



8. There has been a significant decrease in the private funding for public transport since 2015/16. Several factors have driven this decline, including previous government policy (e.g. half-price fares), removal of NZ Transport Agency Waka Kotahi (NZTA)'s national farebox recovery target, and COVID-19 impacts. As patronage has increased and Crown fare concessions have reduced, private share has risen back to 21% of public transport expenditure in 2023/24.



9. However, as set through GPS 2024, increased private share is needed to *"help support the increased costs that are occurring through the public transport sector and to reduce pressure on ratepayers and taxpayers"* (GPS 2024).

10. Approaches for increasing private share will necessarily vary by region because the context and the nature of public transport networks differ significantly by region.

The Increasing Private Share Project: A three-phase approach

11. NZTA is responsible for implementing Government expectations to increase private share funding for public transport, as set through GPS 2024. In August 2024, NZTA established the Increasing Private Share project, which sets a three-phase approach to increasing private share funding in New Zealand's public transport sector.

    Phase 1 – Establish the foundations (by Dec 2024):

    - Standardise public transport expenditure and revenue definitions, measures, baselines, and reporting methods nationwide.
    - Agree interim private share targets with each PTA.
    - Identify initiatives to boost private share funding and develop alternative revenue streams.

    Phase 2 – Develop evidence base and initiatives (by June 2025, in parallel with Phase 1):

    - Implement initiatives to increase private share funding.
    - Progress initiatives with longer lead times.
    - Build an evidence base for setting long-term private share targets.

    Phase 3 – Set longer-term targets (by Dec 2025):

    - Agree on long-term private share targets with each PTA.
    - Identify and implement initiatives to achieve these targets.

12. Phases 1 and 2 are now underway, with Phase 1 to be completed by December 2024 and Phase 2 by June 2025. Phase 3 will be completed by December 2025.

Private share applies differently to operating and capital expenditure

13. Operating expenditure relates to costs associated with delivering bus, train and ferry services on a day-to-day basis and maintaining and operating passenger facilities such as bus stops, stations, and interchange facilities. Operating expenditure tends to increase steadily over time due to inflation and network improvements.

14. Total public transport operating expenditure for 2023/24 was about $1.4 billion. The private share funding of operating expenditure was 20.5% and included:

    - Passenger fare revenue - $300 million, equating to 20% of total operating expenditure.
    - Third-party revenue - $8 million, equating to less than 1% of total operating expenditure.

15. Capital expenditure relates to the costs of building, replacing, or upgrading public transport infrastructure, such as bus lanes, train lines, and passenger facilities. Capital expenditure can significantly vary year to year. Total capital expenditure for 2023/24 co-funded from the public transport infrastructure activity class exceeded $900 million and was mainly associated with the preparation works for the opening of the City Rail Link, track work in Auckland, and the National Ticketing System (NTS).

16. The private share of capital expenditure typically includes contributions from land use developers who partially or fully fund the cost of infrastructure in exchange for a benefit. For example, providing or funding infrastructure to unlock development potential. Due to reporting and system limitations,

NZTA does not have a complete picture of the extent to which this occurs or the quantum of such investment.

The relationship between capital and operating expenditure is important

17. Often capital expenditure is necessary to unlock operational efficiencies and savings. For example, investing in bus lanes can improve bus speeds and reliability, resulting in lower operating costs. Faster travel speeds and greater reliability also results in increased patronage and fare revenue. One-off capital expenditure can serve to increase the private share of operating costs indefinitely.

Increasing the private share of operating expenditure is the primary focus

18. Operating expenditure is the most significant component of public transport expenditure and is the primary focus of the Increasing Private Share project. Key next steps include:

    a) Setting regional increased private share (IPS) targets to help ensure tension and continued improvement.

    b) Identifying and implementing initiatives to achieve IPS targets.

    c) Developing an evidence base tool-kit for improving private share over time.

Setting regional private share targets

19. To focus sector attention, NZTA will be setting private share targets with each PTA by 20 December 2024. To drive year-on-year improvement, targets will be established for each year of current three-year NLTP period.

20. The national target range of 2024/25 is lower to reflect the limited time remaining for PTAs to develop and implement initiatives to increase private share in their respective regions.

21. The target for year three (2026/27) will be indicative, to be confirmed by the end of 2025. This is to signal clear direction while also allowing for fine tuning as work progresses. To this end, NZTA has commissioned research to establish an evidence base to inform policy setting and private share targets for year three and beyond.

22. This approach ensures immediate tension on increasing private share in the short term, while also laying the foundations to sustain improvements overtime. While targets will be set on a region-by-region basis, overall, we expect this to result in a national private share ratio that falls within the target ranges outlined below.

Actual private share results nationally			**Draft national private share target ranges**		
2021/22 Actual	2022/23 Actual	2023/24 Actual	2024/25 Target	2025/26 Target	2026/27 Indicative Target
13.4%	**11.6%**	**20.5%**	**24-26%**	**28-33%**	**35-40%**

23. The NZTA Board will consider the draft ranges in mid-November. Subject to Board endorsement, NZTA will commence consultation with PTAs from 18 November 2024 to set and agree regional targets to give effect to the national target range.

24. Setting targets and implementing initiatives will be reinforced with PTAs via a funding condition for public transport continuous programme allocations. NZTA has set the following specific requirements for PTAs as part of the funding approval of their continuous programmes. Each PTA must:

    - *Actively work towards increasing the private share of public transport expenditure on an annual basis (i.e. ensuring passenger fares and third-party revenue covers a greater portion of public transport expenditure).*

- *Actively engage with NZTA to agree and set interim private share targets by 20 December 2024 and longer-term targets by 20 December 2025.*

25. If a PTA does not meet these expectations, NZTA would look to implement a remediation plan. Private share will also be considered when considering bids for funding in the next NLTP.

26. To achieve targets, PTAs will need to implement a range of initiatives. Initiatives broadly fall within three categories:
    - cost side initiatives
    - increasing patronage and fare revenue
    - growing third party revenue

Cost side initiatives

27. Achieving greater cost efficiency is an important part of increasing private share. Cost side initiatives include, but are not limited to:
    - **Increasing competition and improving procurement practices**. Fostering a competitive and efficient supplier market can significantly influence the cost of providing public transport services. This is a key focus area for NZTA.
    - **Making better use of technology.** There is an opportunity to leverage existing and new public transport technology systems to enhance value for money in several ways, such as standardising systems through the implementation of the National Ticketing Service to improve cost efficiency and using data and insights to drive network optimisation to better meet customer needs.
    - **Optimising networks**. This involves amending network to maximise cost efficiencies within existing funding. This can reduce costs for the same patronage and revenue or increase patronage and fare revenue for the same cost. Larger PTAs continuously focus on optimisation due to their changing environment.
    - **Reducing service levels**. This will reduce operating costs and all else being equal, increase the private share funding ratio. However, there is a risk it can also trigger patronage and fare revenue decline and be counterproductive overtime.

28. Optimising networks and/or reducing service levels can be implemented within the shorter term, whereas the benefits of increased competition and better procurement practices will be realised overtime as the sector progresses through procurement cycles.

Increasing patronage and fare revenue

29. Improved service frequencies and travel times are the most potent ways of increasing patronage. They are also the most expensive. For public transport to support greater economic prosperity and play a greater role in relieving congestion, it is necessary to invest more over time. However, this needs to be on a foundation whereby the sector is maximising value from what it is already delivering. This means doing the basics well, which includes:
    - **Good customer service and performance.** This includes maximising reliability, improving safety and effective passenger communication (e.g. websites, apps, call centres, timetables, maps, real-time information, and marketing). These all serve to help attract and retain passengers.
    - **Increasing fare levels.** Raising fares can increase private share, but if raised too high, it can reduce patronage and revenue, ultimately reducing private share. Generally, there is room to increase fare levels in many regions with a low risk of adverse patronage

implications. To meet private share targets, it will be necessary for PTAs to adjust fares annually.

- **Reviewing fare structure and fare products.** Fare structures determine how fares are applied. For example, under zonal fare structures passengers pay more the farther they travel. Fare products include discounts and multi-trip passes. Simplifying and optimising these can increase patronage and revenue.

30. These elements are the responsibility of PTAs. However, as part of our public transport oversight, NZTA is working to improve customer experience monitoring through standardised measures and definitions and develop national best practice guidance for passenger safety (OC240795 refers). Earlier this year, NZTA published updated operational policies to ensure PTAs regularly review fare pricing and conduct fare structure reviews periodically.

Third party revenue

31. Third party revenue is money provided by entities in exchange for a benefit directly associated with public transport services or infrastructure. Examples include, but are not limited to:

- **Commercial advertising** on public transport vehicles (e.g. bus backs) and facilities such as shelters or billboards at major stations like Britomart.

- **Corporate fare schemes** whereby entities fund fare discounts for their nominated user groups (e.g. staff, clients, patients, or students). Such schemes are effective at boosting both patronage and revenue in a way that reduces reliance on public subsidy.

- **Ancillary business opportunities** associated with public transport facilities. This includes things like maximising lease / rental opportunities at public transport hubs (e.g. cafes and retail space).

- **Fees and charges** for use of public transport infrastructure. For example, berthing fees for utilisation of publicly provided ferry terminals by private operators.

- **Developers providing or improving public transport infrastructure as part of enabling land use development. Such initiatives can be from small to large in scale.**

- **Leveraging public transport energy infrastructure.** This is an emerging opportunity to be explored that could include initiatives such as enabling heavy commercial vehicles to utilise bus charging infrastructure for a fee or utilising retired bus batteries as an energy store to support the grid during times of high demand or low supply.

32. Currently third-party revenue covers less than 1% of total public transport operating expenditure nationally, representing a significant improvement and expansion opportunity.

33. Embedding a more commercially oriented approach, improving expenditure and revenue reporting, and establishing private share targets will all place greater tension on PTAs to develop third-party revenue streams. NZTA has also commissioned work to identify best practice both nationally and internationally and to develop a practical toolkit to assist PTAs in developing third party revenue streams.

34. While growing third party revenue is beneficial, it is important to note that such revenue will track with business cycles and may contract during economic downturns. During such periods, it may be necessary to supplement shortfalls from public funding sources to ensure service continuity.

Further work is required regarding alternative funding sources

35. GPS 2024 also directs NZTA to consider alternative funding sources to deliver major public transport investments, including 'Build, Own, Operate, Transfer' (BOOT) schemes and value capture.

36. This forms part of a separate but related workstream. How such initiatives influence public and private share funding ratios requires consideration in due course. For now, implications are not immediately obvious and may differ depending on the form of specific mechanisms.

Time horizons for increasing private share

37. As outlined, there are a wide range of initiatives and opportunities to increase the private share of operating expenditure. The initiatives vary in scale and complexity, have different lead times and will therefore deliver benefits across different time scales.

38. In the short term (during this NLTP period), we expect private share improvements to be mainly driven by fare pricing increases, fare structure reviews and network optimisations that increase cost efficiency.

39. Provided the groundwork is done now, initiatives to improve competition, procurement practices and develop third party revenue streams will play a greater role in increasing private share during the next NLTP period and beyond.

System settings

40. While there is opportunity to increase private share, the effectiveness of initiatives may be constrained by broader system settings. For example:

- **Embedding a more commercially oriented approach** to the planning, procurement, and delivery of public transport services and infrastructure is key to growing private share funding. This includes emphasising a focus on meeting customer needs, maximising cost-effectiveness, growing revenue sources, and ensuring financial accountability. However, the capacity and capability vary significantly across PTAs. Initiatives to address this, such as syndicating resources and improving national guidance and requirements, are worth exploring further.

- **Incentives and funding models.** Ensuring PTAs and the public sector more generally is incentivised to grow third party revenue streams is an important consideration. Presently NZTA deducts third-party revenue from NLTF funding which dilutes the benefits for growing third party revenue from the perspective of PTAs. Evolving the funding model for public transport could yield better results for both the NLTF and PTAs.

- **Responsibility and accountability.** In many regions responsibilities with respect to the provision of public transport services and infrastructure are spread across multiple different entities, each with different objectives and priorities. This complicates the efficient and effective planning, procurement, and delivery of public transport across both services and infrastructure.

Next steps

41. NZTA will implement the work programme to increase private share funding as outlined in this document and will provide you with quarterly updates as part of regular reporting on GPS 2024 implementation.

42. At the Monday 4 November 2024 Officials' meeting, we seek to discuss your views and whether you see value in exploring these system settings further:

- Embedding a more commercially oriented approach with PTAs,
- Exploring incentives and funding models, and
- Improving responsibility and accountability.

43. If you consider there is value in exploring some or all of the above, we recommend you direct officials to conduct further work in the relevant system settings areas outlined. This will help to accelerate work to address third-party revenue challenges to increase private share.

It is recommended that you:

1. **Note** the content of this briefing and raise any matters you wish to discuss further at your 4 November 2024 Officials' meeting.

2. **Direct** officials to conduct work to develop initiatives to address broader system settings around third-party revenue challenges to increase private share. **YES / NO**

V C Browne

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Vanessa Browne

Group General Manager, Transport Services

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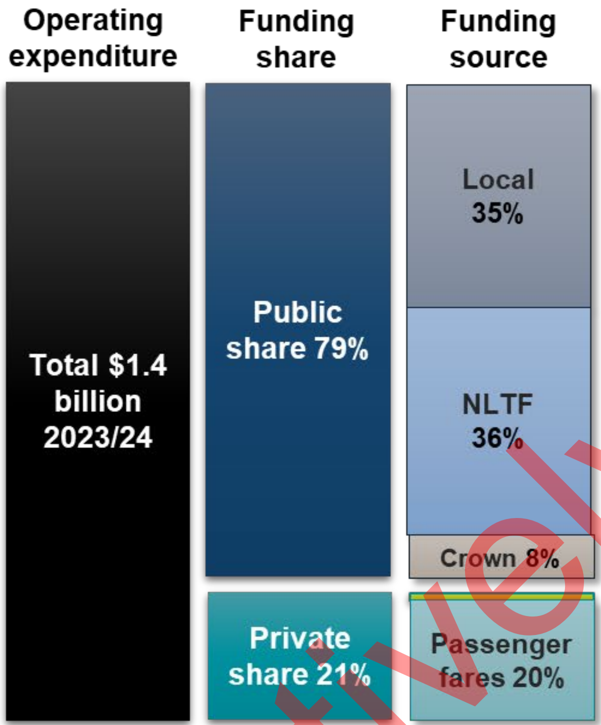
Hon Simeon Brown, Minister of Transport

Date: 2024

Appendix 1 - Total public transport operating expenditure and funding sources 2023/24



2023/24 actual

Key things to know

Local share is mainly funded from property rates.

While most public transport is co-funded from the NLTF, PTAs can fully fund services.

NLTF share is provided on a net funding basis. This means all other funding sources are subtracted from the total cost and the balance is split between the NLTF and PTAs (normally 51% NLTF & 49% PTAs).

Crown share mainly funds:

- free off-peak travel for super gold card holders
- 50% fare discount for community service card holder's

Third party funding currently covers <1% of total operating expenditure. Significant potential to improve overtime.

Passenger fare revenue can increase through patronage growth and/or higher fare pricing. Higher patronage also maximises broader economic benefits.