Increasing the private share of public transport operating expenditure

Discussion document

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NZ TRANSPORT AGENCY
WAKA KOTAHI

Te Kāwanatanga o Aotearoa
New Zealand Government

More information

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1 Introduction

Public transport services are funded from both private and public revenue sources. The ratio between these sources is dynamic and changes over time depending on several factors including policy, passenger demand, network service levels and revenue sources.

Private share is a measure of cost recovery and represents the proportion of public transport operating expenditure funded from private revenue sources. Government aims to increase private share to support increased levels of public transport expenditure and reduce pressure on ratepayers and taxpayers. The policy framework for private share is broader than the previous farebox policy, with a more tailored regional approach and some important differences in how cost recovery is measured.

Private share is calculated as revenue divided by operating expenditure. Private share revenue includes passenger fares, private fare substitutes and commercial revenue. Operating expenditure includes the management and operation of passenger services and the maintenance and operation of public transport facilities and infrastructure. Operating expenditure does not include capital renewals or infrastructure improvement projects.

1.1 Purpose

The primary purpose of this discussion document is to provide context and information to support public transport authorities (PTAs) in setting and agreeing regional private share targets with NZTA.

1.2 Audience

The primary audience for this document is public transport authorities. We are seeking the following from public transport authorities:

- **Discussion and feedback** - review this document, engage with us and provide feedback on changes we are proposing and to support future private share policy and guidance
- **Setting of private share targets** - actively engage with us in setting agreed regional private share targets by 19 December 2024
- **Initiatives to increase private share** - actively work with us to increase the private share of public transport operating expenditure.

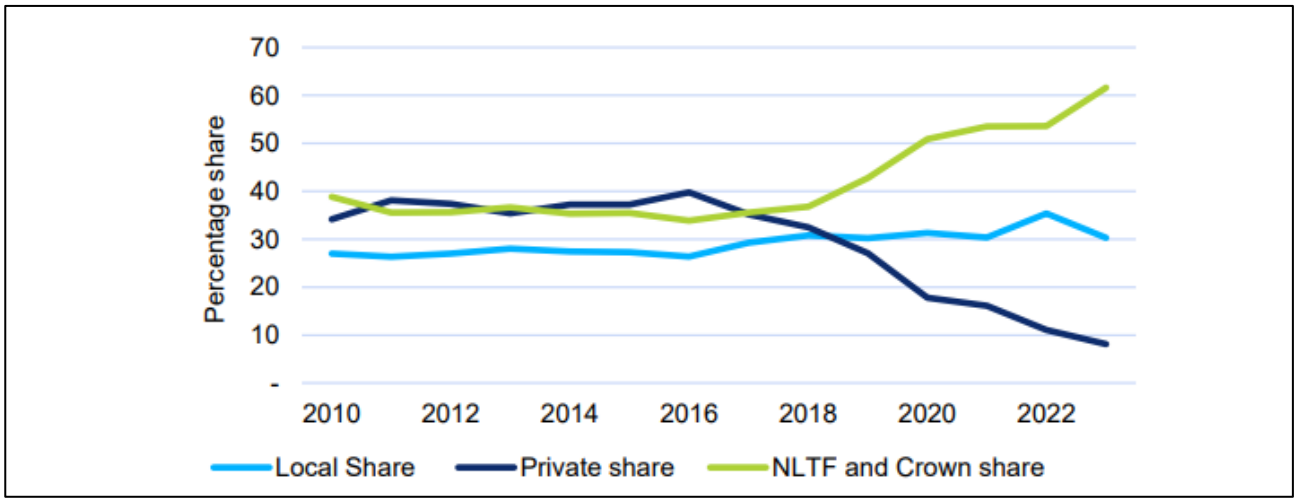
2 Background and context

2.1 Government policy statement

The Government policy statement on land transport 2024 (GPS 2024) sets an expectation for increased private share revenue to support increased levels of public transport expenditure and reduce pressure on ratepayers and taxpayers.

The GPS 2024 strategic priorities include the delivery of an effective public transport system that provides commuters with more choice and helps to reduce travel times, congestion, and emissions. There has been a significant increase in Crown and NLTF funding over recent years, as shown in Figure 1. As a result, the GPS 2024 expects local government to increase passenger fare revenue and third-party revenue to help support the increased costs in the public transport sector.

Figure 1 GPS 2024 figure showing local, private, NLTF and Crown share of public transport funding from 2009/10 to 2022/23



2.2 Ministerial expectations and specific requirements

The GPS 2024 includes a statement of ministerial expectations that apply to NZTA and approved organisations. NZTA is expected to ensure public transport authorities take appropriate steps to meet these ministerial expectations and comply with self-assessment and reporting requirements.

The ministerial expectations for public transport include the following expectations for public transport authorities:

- Actively work towards increasing public transport private share by 30 June 2027, including setting targets each year. This includes operating within approved funding of public transport continuous programmes, reviewing services that are delivering very low farebox recovery and considering appropriate fares.
- Support and actively work towards the transition to, delivery and operation of the National Ticketing Solution, in partnership with NZTA. This includes aligning concessionary fare structures with national policy to make the National Ticketing Solution cost effective and value for money for customers.

To meet these expectations public transport authorities are required to meet the following specific requirements:

- Actively work towards increasing the private share of public transport expenditure on an annual basis (e.g. 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 for 2024/25 and 2025/26 and indicative targets for 2026/27 by 19 December 2024 and longer-term targets, including reviewing and confirming 2026/27 targets, by 19 December 2025.
- Demonstrate support for the National Ticketing Solution and actively work towards delivering and operating the National Ticketing Solution in partnership with NZTA, including by meeting NZTA fares and pricing requirements set out in the development guidelines for regional public transport plans.

Public transport authorities are also expected to provide quarterly reporting, starting with the quarter ending December 2024. This reporting includes:

- Reporting private share of public transport expenditure for the quarter. Provide an explanation if there has been a decrease during the quarter.
- Identify initiatives taken during the quarter to increase private share.

These requirements relate to public transport continuous programmes and public transport improvement funding.

2.3 Current fares and pricing policy

Our development guidelines for regional public transport plans sets out current NZTA policy for fares and pricing. The following are key elements of the fares and pricing policy relevant to increasing private share:

- Public transport authorities must prepare a fares and pricing policy and include this in their regional public transport plan
- Public transport authorities must undertake annual pricing reviews and six-yearly fare structure reviews
- Public transport authorities must consider effectiveness of alternative interventions for achieving the fare and pricing policy objectives when undertaking reviews
- Public transport authorities must specify any measures or targets advised by NZTA, including cost recovery measures such as private share

We note that while there is an expectation that public transport authorities' current regional public transport plans incorporate private share measures and targets, this does not need to occur immediately provided the public transport authority is otherwise meeting the requirements.

2.4 Previous farebox recovery policy

The NZTA previously had a farebox recovery policy that set a national farebox recovery target of no less than 50%, to be achieved over two three-year funding cycles from 2010. The policy was introduced with the objective of providing an equitable cost sharing between public transport customers, local government funding and the NLTF. The intent was to:

- Improve cost recovery for public transport services, given concerns at the time that farebox recovery rates had been falling
- Drive a more transparent and equitable approach to the development of farebox recovery policies across regions
- Ensure national consistency in the calculation of costs and revenue associated with public transport services.

The national farebox recovery target was achieved nationally in 2015/16. A change in government and priorities saw the policy rescinded in 2018/19. There are some important differences between our approach to private share and the previous farebox recovery policy, as set out in Appendix

B.3.1. The main difference is that the policy framework for increasing private share is broader than the previous farebox recovery policy and can be better tailored to the different circumstances and context for each region.

2.5 National Ticketing Solution

We are currently working with public transport authorities to implement the National Ticketing Solution (NTS).

The implementation of national ticketing coincides with the need to increase private share. It is important that public transport authorities progress initiatives to increase private share while also meeting delivery timeframes for national ticketing. This will require some consideration, particularly given many private share initiatives will likely require new fare products or changes in fare structure.

Given the potential overlapping demands of making fare structure and pricing changes to increase private share and the efficient implementation of national ticketing, we intend to work closely with public transport authorities to support them through this change process.

2.6 Public transport authority feedback

In September 2024, we requested information from public transport authorities regarding current expenditure and revenue along with issues and opportunities associated with increasing private share. Key insights are summarised below:

- Current reporting practices do not provide a complete and accurate picture of public transport revenue and expenditure, with reporting primarily focused on net costs and providing little information on third-party revenue. This limits the effectiveness of national and regional oversight of the public transport system.
- Most public transport authorities are or intend to implement initiatives to increase private share funding. When public transport authorities do collect third-party revenue, it is used to offset public transport service costs.
- Currently the primary source of third-party revenue for public transport authorities is advertising on public transport vehicles. A small number of public transport authorities also generate revenue from advertising on public transport facilities, such as bus shelters and interchanges.
- Several regions have well developed initiatives that attract third party funding to discount passenger fares for certain user groups, as detailed in section 3.3.1 on private fare substitutes.
- There were limited examples of third-party funding initiatives beyond advertising and private fare substitutes. Several challenges were identified that hinder the ability of public transport authorities to boost private share through third-party revenue sources. These include lack of staff capacity, insufficient funding to develop and progress initiatives, the specific context for regions and difficulties in articulating a value-add for prospective third-party funders.
- Some public transport authorities highlighted barriers related to roles, responsibilities, and revenue retention. Many public transport authorities noted that territorial local authorities generate third-party revenue from public transport-related facilities, such as advertising on bus shelters and interchanges, leases at interchanges, and public transport-related infringement fines.
- The current funding model was identified as something that could be changed to better incentivise public transport authorities to increase private share through both cost-side initiatives and revenue-side initiatives.

This feedback has informed this discussion document and will guide further work.

3 Understanding private share

This section defines how we measure private share and provides information on the various elements of private share revenue. This section also covers other funding sources that are not private share but could help reduce the funding required from ratepayers or taxpayers.

3.1 Private share measure

Private share is a measure of cost recovery. It is calculated as revenue divided by operating expenditure as set out in Table 1. Revenue includes passenger fares, private fare substitutes and commercial revenue. Operating expenditure includes the management and operation of passenger services and the maintenance and operation of public transport facilities and infrastructure. Operating expenditure does not include capital renewals or infrastructure improvement projects. Further detail is provided in Appendix B.

Table 1 Private share of public transport operating expenditure

Revenue		Calculation	Notes
A	Passenger fares		Passenger fare revenue, including fare revenue from net contracts or exempt services receiving financial assistance.
B	Private fare substitutes		Third-party revenue from private fare substitutes such as corporate, tertiary and Health NZ (previously DHB) fare schemes.
C	Commercial revenue		Third-party revenue from commercial sources including advertising, sponsorship, rental or investment income generated from the delivery of the public transport system.
D	Enforcement fees		Revenue generated from enforcement associated with the public transport system, eg fines of unpaid tickets
E	**Total private revenue**	**E = A+B+C+D**	
Expenditure			
H	Passenger services		Total gross expenditure on public transport services, prior to applying any subsidies. Operating expenditure needs to include recognition of any revenue that is retained by transport operators or other contracted parties, such as for net contracts or exempt services that receive financial assistance. Include activities funded under work categories 511, 512, 515.
I	Operations and maintenance		Total gross expenditure on the maintenance, operations and management of public transport services and infrastructure, prior to applying any subsidies. Include activities funded under work categories 514, 524, 525 (excluding any technology renewals under work category 525).
J	**Total operating expenditure**	**J = H + I**	
Measures			
K	**Private share of operating expenditure**	**K = E / J**	

3.2 Passenger fares

Passenger fares are paid in exchange for use of public transport services. Passenger fares are included as fees and charges under the Local Government Act 2002 (LGA), these are applied to an individual user in exchange for the use of a service or activity for which the user receives a direct benefit and where public transport authorities are required to take on expenditure.

3.3 Fare substitutes

Fare substitutes refer to revenue provided in lieu of passenger fares. For example, an organisation might provide funding in exchange for discounted travel on public transport for its employees. Fare substitutes are different to fare concessions as set out in Appendix B.2.1.1.

Fare substitutes can be either be included as private share (private fare substitutes) or public share (public fare substitutes) depending on the nature of the organisation providing the funding. Fare substitutes are also different to fare concessions as discussed below.

3.3.1 Private fare substitutes

Private fare substitutes are a form of third-party revenue provided by organisations in exchange for free or discounted travel for a group of people. Examples include, but are not limited to, funding from entities to reduce passenger fares for nominated user groups (e.g., a university providing funding to enable free travel for their students).

Private fare substitutes may come from organisations that are publicly funded, such as education and health providers. These are still categorised as private share as funding of the fare substitute is ancillary to their primary purpose (e.g. providing education) and the entity is funding the fare substitute in exchange for a benefit that accrues to that entity. This is as opposed to Crown funding specifically for the purpose of providing a fare substitute such as SuperGold.

Table 2 Examples of private fare substitutes

Private fare substitutes	Description
Corporate fare schemes	Corporate fare schemes are where a private organisation funds fare discounts for their nominated user groups (e.g., staff, clients, patients, or students). Many public transport authorities currently have corporate fare schemes in place with private organisations. We note that the term “benefit programme” is used by NTS for corporate fare schemes.
Tertiary fare schemes	Tertiary fare schemes are equivalent to corporate fare schemes except the organisation providing the funding is a tertiary institution, generally in exchange for free or discounted student and/or staff fares.
Health NZ fare schemes	Health NZ (previously DHB) fare schemes are equivalent to corporate fare schemes except the organisation providing the funding is a DHB, generally in exchange for free or discounted staff and/or patient travel. In the case of DHB fare schemes discounted travel is often limited to travel to and from healthcare facilities. Noting that this can also be a feature of any other fare substitute.

3.3.2 Public fare substitutes

Public fare substitutes are not private share but rather a form of subsidy. The SuperGold scheme is an example of a public fare substitute, in this case the Crown provides funding in exchange for public transport authorities providing free off-peak travel to SuperGold card holders. This is not third-party revenue as the scheme is directly funded by taxpayers through a Vote Transport appropriation.

Table 3 Examples of public fare substitutes

Public fare substitutes	Description
SuperGold fare concession	The SuperGold fare concession scheme is a public fare substitute that allows card holders to travel free on most off-peak public transport services. The SuperGold card is a discount and concession card issued free to everyone 65 years and over, and anyone under 65 who receives New Zealand Superannuation or a veteran's pension.
Community Connect fare concession	The Community Connect fare concession scheme is a public fare substitute that provides Community Service Card (CSC) holders a 50% discount when travelling on most public transport services.

3.4 Commercial revenue

Commercial revenue is a form of third-party revenue, provided by an organisation in exchange for a benefit derived from the public transport system. For example, a corporate sponsor might want to associate their brand with good environmental outcomes, or an organisation might want to advertise a product on the back of buses. Table 4 provides further examples.

Table 4 Examples of commercial revenue

Commercial revenue sources	Description
Advertising revenue	Advertising revenue is revenue earned from promoting products or services through various media channels. This generally involves creating and placing ads that directly market a product or service to customers. **Vehicles** - advertising revenue on public transport vehicles is the most widely utilised source of third-party revenue. Historically, this source was mostly utilised by public transport operators but is now becoming a more common revenue source accessed by public transport authorities to offset public transport operating costs. **Facilities** – advertising revenue from public transport facilities (e.g. bus stops, shelters, interchanges, stations) can be used to offset the cost of operating and maintaining those facilities. We note there are existing examples of advertising revenue generated from public transport facilities, for example bus shelter advertising, but this is generally unrecorded as facilities are often owned by territorial authorities and revenue is not reported to public transport authorities.

Sponsorship revenue	Sponsorship revenue is generated when an organisation pays to associate its brand with an event, service, or product. For example, a sponsor may contribute funding towards public transport for an event in return for brand recognition. Sponsorship may be financial or in kind, for example, a power company may offer free or discounted power. Both forms of sponsorship positively influence private share.
Commercial access fees	Commercial access fees are charges to commercial transport operators or other companies for the use of public transport infrastructure or facilities. For example, berthing fees for operators to use public ferry terminals.
Commercial retail income	Commercial retail income is revenue generated from the sale of goods and services within a public transport facility or vehicle. For example, a café within a transport facility or a café on train services such as Capital Connection or Te Huia where the revenue from sales comes back to the public transport authority.
Commercial rental income	Commercial rental income is revenue generated from leasing or renting out public transport facilities for commercial use. This would be most applicable to larger public transport facilities (e.g. hubs and interchanges).
Electricity grid sales	There is a potential emerging opportunity to generate revenue through leveraging public transport energy infrastructure by making bus charging infrastructure available to other users for a fee and utilising retired bus batteries as an energy store to support the grid during times of high demand or low supply.

3.5 Enforcement revenue

The purpose of enforcement fees is to promote compliance and mitigate behaviours that impose cost or inconvenience on other members of the community, rather than to raise revenue. Often fines and penalties are solely used to offset the cost of enforcement.

Some enforcement revenue may be considered private share while other enforcement revenue may not, as indicated in Table 5.

Table 5 Enforcement revenue sources

Enforcement revenue sources	Description
Enforcement fees (passengers)	Enforcement fees charged to passengers, e.g. for not paying a fare, can be considered private share as directly related to the delivery of public transport services. These are separated from passenger fare revenue but are paid by passengers and therefore included as passenger revenue.
Enforcement fees (other)	Other enforcement fees are generally not private share, such as fines for using bus lanes. For example, bus lane and parking enforcement undertaken by territorial local authorities is not private share. This is an area we want to explore further and welcome feedback.

3.6 Other funding sources

Private share refers to the revenue or income generated from public transport activities but does not include other funding sources where the income is not directly generated by the public transport system. The following are funding sources not considered private share but could be considered to reduce the funding required from ratepayers and taxpayers:

- development and financial contributions
- interest and/or dividends from investments (e.g. shares in port companies)
- property development and uplift
- value capture initiatives
- parking revenue
- congestion charges

We welcome discussion on whether any of these funding sources should be considered private share. For example, could some development and financial contributions be considered private share or would they be better to be considered part of local share.

Other than any feedback on the above these other funding sources are not considered further in this document as they are not directly related to the private share of public transport operating expenditure, but they are important to consider as part of the overall funding of the public transport system.

4 Private share performance and trends

This section provides information on private share trends and benchmarking. We note that while private share is an important financial measure it also needs to be considered in the context of other financial and non-financial performance measures. Appendix B provides further information on measure definitions.

4.1 International context

Cost recovery is an issue everywhere, not just New Zealand. The following are some insights from earlier analysis looking at predominately Australian sources:

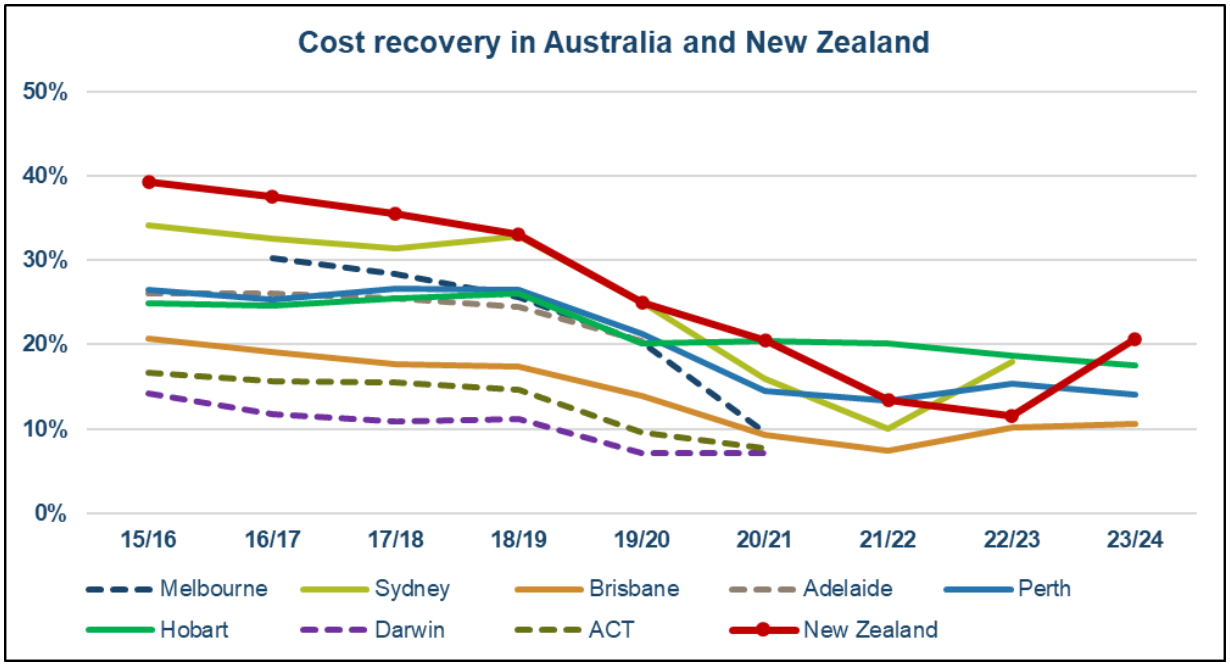
- In recent years, fare levels have not kept up with cost increases. Compounded by COVID-19 disruptions, cost recovery from fare income has decreased
- Public transport funding needs are increasing significantly due to growing supply, rising costs and inflationary pressure. The innovation required to maintain and improve levels of service and environmental performance contributes to these costs
- Good fare regulation to ensure costs are equitably shared between public and private sources can generate the necessary margins to maintain and improve service levels and meet safety, reliability and quality standards
- In Australia since the end of the 1990s cost pressures have grown a lot and cost recovery has generally declined in all cities to 20-30%

Comparing cost recovery between jurisdictions on a like-for-like basis is difficult due to different definitions and treatment of factors such as capital charges.

4.1.1 Comparison with Australia

New Zealand overall cost recovery has historically been high compared to Australia, as shown in Figure 2, although this has not been the case in recent years. New Zealand and Sydney track a similar trend, with the only divergence bring the faster recovery out of covid-19. This is likely due primarily to the extended lockdown period in Auckland.

Figure 2 Cost recovery in Australia and New Zealand



Source: Australian Productivity Commission public transport pricing research paper (2021), annual reports of transport authorities and NZTA estimates.

4.2 National and regional performance

Trends associated with New Zealand's national and regional levels of private share of operating expenditure chart a change in fare and pricing priorities and policies, and extended disruptions including COVID-19 contributing to low ridership. In recent years, the trend is starting to shift upwards on a national level.

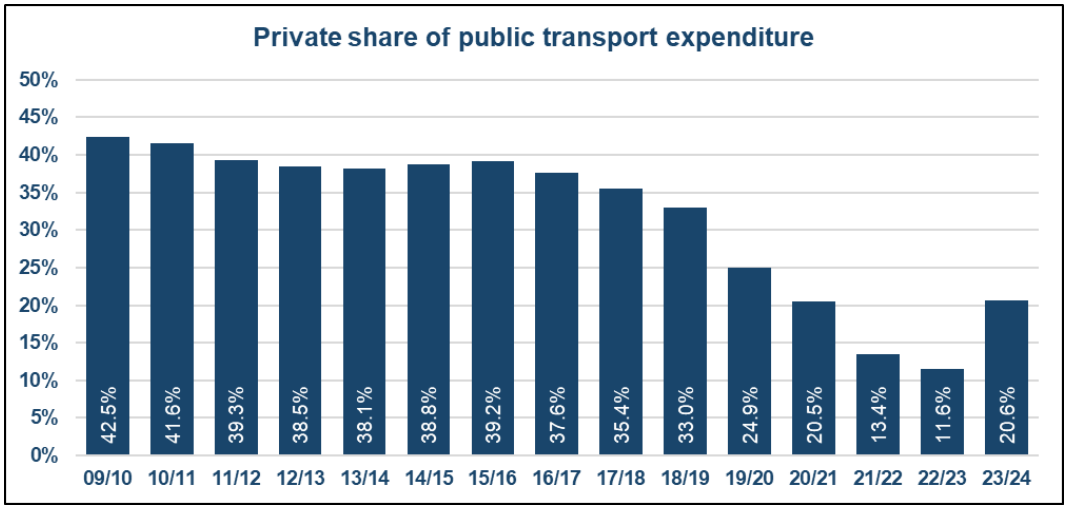
4.2.1 Private share national trend

At a national level, the private share of operating expenditure in New Zealand has fallen significantly in recent years, since around 2015/16 as shown in Figure 3. There are several reasons for recent private share trends, including the following:

- NZTA set a national farebox recovery target in 2011/12, with a target date of 2016/17. The target was met, with private share remaining relatively stable over this period.
- There was subsequently a lesser focus on farebox recovery targets and with a change in policy settings in 2017/18, the previous farebox recovery policy lapsed.
- This was followed by Covid-19, which impacted the last three months of 2019/20 and resulted in a significant decline in private share due to reduced demand and additional Crown and other support payments.
- Private share reduced to 11.6% in 2022/23. Patronage was beginning to recover from COVID-19 during this period with the low private share largely due to the Crown half-price fares policy during that year. We estimate private share would have been near 25% without any Crown fare concessions (excluding any demand impacts of higher fares).
- During this 2022/23 driver shortages also required additional Crown and local share expenditure to raise bus driver wages, affecting the private share ratio.
- The increase in private share to 20.6% in 2023/24 was due to demand returning to pre-covid levels and a more targeted approach to Crown fare concessions through Community Connect (half price fares for those under 25 or with a Community Services Card and free fares for those aged under 13). We estimate private share would have been near 27% without any Crown fare concessions (excluding any demand impacts of higher fares).

This shows the impact of Crown fare concession on private share. From the start of 2024/25 Crown fare concessions only apply to SuperGold Card and Community Services Card holders, this is expected to further reduce the Crown fare substitute share from 6.3% to 3% of public transport operating expenditure.

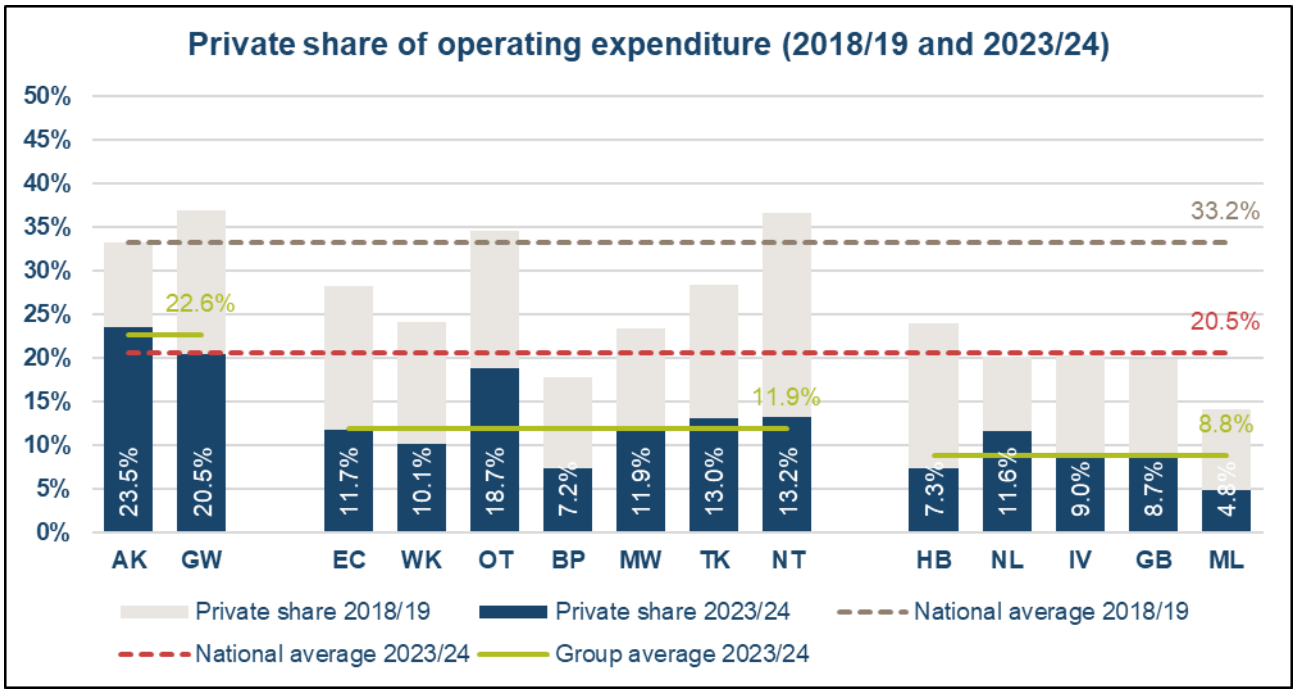
Figure 3 New Zealand private share and Crown fare substitutes



4.2.2 Private share regional performance

Private share has reduced across all regions between 2018/19 and 2023/24 as shown in the two figures below. The biggest reduction has been amongst the medium and smaller regions with a 50-60% reduction overall while Auckland and Wellington private share has reduced by around 33%.

Figure 4 Private share by region (2018/19 and 2023/24)



AK=Auckland, GW=Wellington, EC=Canterbury, WK=Waikato, OT=Otago, BP=Bay of Plenty, MW=Horizons, TK=Taranaki, NT=Nelson-Tasman, HB=Hawkes Bay, NL=Northland, IV=Invercargill, GB=Gisborne, ML=Marlborough

Table 6 Private share by region (2018/19 and 2023/24)

Public transport authority	Code	Private share 2018/19	Private share 2023/24
Auckland	AK	33.2%	23.5%
Wellington	GW	36.9%	20.5%
Subtotal		**34.3%**	**22.6%**
Canterbury	EC	28.2%	11.7%
Waikato	WK	24.1%	10.1%
Otago	OT	34.5%	18.7%
Bay of Plenty	BP	17.7%	7.2%
Horizons	MW	23.4%	11.9%
Taranaki	TK	28.4%	13.0%
Nelson-Tasman	NT	36.6%	13.2%
Subtotal		**27.1%**	**11.9%**
Hawkes Bay	HB	24.0%	7.3%
Northland	NL	20.1%	11.6%
Invercargill	IV	20.3%	9.0%
Gisborne	GB	19.9%	8.7%
Marlborough	ML	14.1%	4.8%
Subtotal		**21.8%**	**8.8%**
Total		**33.2%**	**20.5%**

4.2.3 Impact of Crown fare substitutes

Crown fare substitutes can have a significant impact on private share. Crown fare substitutes comprise funding from the Crown provided in lieu of passenger fares.

The Crown has provided fare substitute funding for the SuperGold card scheme for the last 15 years, with SuperGold card funding equating to 2.7% of public transport operating expenditure in 2018/19. Crown funding has increased in recent years with SuperGold Card and Community Connect funding equating to 6.3% of public transport operating expenditure in 2023/24.

The impact for Crown fare substitutes on private share varies significantly between regions, depending on the number of people who quality for those schemes.

Figure 5 Crown fare substitutes and private share by region (2018/19 and 2023/24)

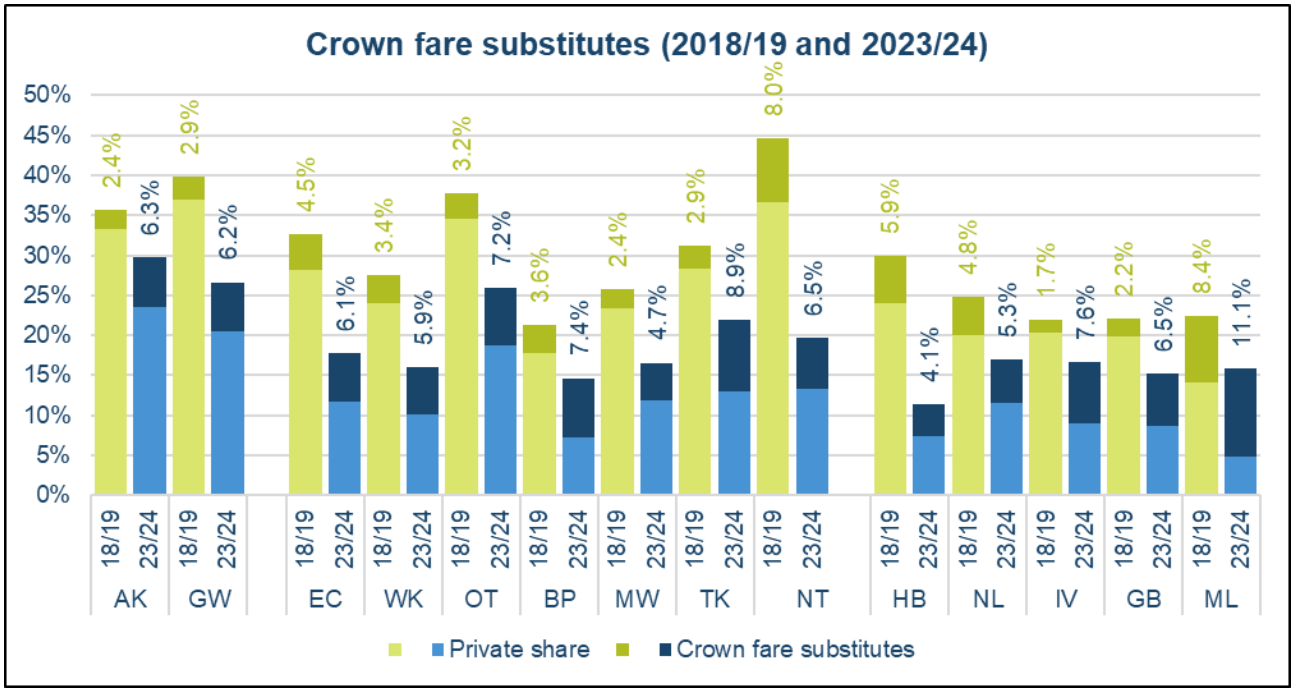


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Table 7 Crown fare substitutes and private share by region (2018/19 and 2023/24)

Public transport authority	Code	Private share 2018/19	Crown fare substitutes 2018/19	Private share + Crown fare substitutes 2018/19	Private share 2023/24	Crown fare substitutes 2023/24	Private share + **Crown fare substitutes 2023/24**
Auckland	AK	33.2%	2.4%	**35.6%**	23.5%	6.3%	**29.8%**
Wellington	GW	36.9%	2.9%	**39.8%**	20.5%	6.2%	**26.6%**
Subtotal		**34.3%**	**2.5%**	**36.9%**	**22.6%**	**6.3%**	**28.9%**
Canterbury	EC	28.2%	4.5%	**32.6%**	11.7%	6.1%	**17.8%**
Waikato	WK	24.1%	3.4%	**27.5%**	10.1%	5.9%	**16.0%**
Otago	OT	34.5%	3.2%	**37.7%**	18.7%	7.2%	**25.9%**
Bay of Plenty	BP	17.7%	3.6%	**21.3%**	7.2%	7.4%	**14.7%**
Horizons	MW	23.4%	2.4%	**25.8%**	11.9%	4.7%	**16.6%**
Taranaki	TK	28.4%	2.9%	**31.2%**	13.0%	8.9%	**21.9%**
Nelson-Tasman	NT	36.6%	8.0%	**44.6%**	13.2%	6.5%	**19.8%**
Subtotal		**27.1%**	**3.9%**	**30.9%**	**11.9%**	**6.5%**	**18.4%**
Hawkes Bay	HB	24.0%	5.9%	**29.9%**	7.3%	4.1%	**11.4%**
Northland	NL	20.1%	4.8%	**24.8%**	11.6%	5.3%	**17.0%**
Invercargill	IV	20.3%	1.7%	**22.0%**	9.0%	7.6%	**16.6%**
Gisborne	GB	19.9%	2.2%	**22.0%**	8.7%	6.5%	**15.2%**
Marlborough	ML	14.1%	8.4%	**22.5%**	4.8%	11.1%	**15.9%**
Subtotal		**21.8%**	**4.7%**	**26.4%**	**8.8%**	**5.3%**	**14.0%**
Total		**33.2%**	**2.7%**	**35.9%**	**20.5%**	**6.3%**	**26.8%**

5 Setting of private share targets

Public transport authorities are required to set with NZTA agreed private share targets. We are proposing a regional approach to setting targets to ensure targets reflect the specific context and circumstances of each region. We require interim regional targets be set and agreed with us for each of the next two years and an indicative target for 2026/27.

5.1 Key expectations

We expect private share targets to deliver a meaningful increase in private share, but targets should also be achievable. The following are our key expectations for public transport authorities in setting private share targets:

- Private share targets for each region are expected to meet or exceed 2018/19 levels, subject to any material changes in regional context
- Private share targets are set on a regional basis, accounting for differences in public transport system size, need and resources
- Private share targets are set on an interim basis for 2024/25 and 2025/26 and on an indicative basis for year 2026/27
- Public transport authorities are responsible for identifying and implementing initiatives to increase private share

5.2 Key considerations

The following are relevant matters to consider when setting private share targets and will be key considerations for NZTA in agreeing regional targets with each public transport authority:

- National economic context
- Boardings and expenditure
- Private share levels
- Passenger fare levels
- Third-party revenue levels
- Crown fare concessions

The rest of this section provides a regional comparison and analysis of each of these key considerations, with a focus on the 2018/19 and 2023/24 financial years. We have used this analysis to develop proposed targets for discussion and agreement with public transport authorities. The proposed targets will be shared separately to this discussion document.

5.2.1 National economic context

The national and regional economic situation is an important consideration when setting private share targets. For example, economic conditions influence the ability for passengers to pay for travel and the number of trips they might take. It also influences pressure on ratepayers and taxpayers and the ability to develop and grow third-party revenue streams.

The national economic situation is complex, for example, at the time of writing the ANZ economic outlook indicates further cuts to the official cash rate and stabilisation of inflation but also ongoing pressures from the labour market, consumer confidence and economic growth. Statistics NZ is also showing the cost of living for the average household continues to increase.

We recognise impacts will vary by regions and are looking to discuss with public transport authorities the potential impact on private share targets. As a starting point and on a national basis, we have assumed the potential for a 0.5 percentage point increase per annum in private share associated economic conditions generally.

For context, a 0.5 percentage point increase in private share would require approximately a 2% increase in private revenue or a 2% reduction of operating expenditure, or some combination thereof.

5.2.2 Boardings and expenditure

Patronage oriented networks (comprising rapid and frequent serves) typically have higher boardings and operating expenditure per capita and higher private share, whereas coverage-oriented networks typically have lower boardings and operating expenditure per capita and lower private share. These factors are highly correlated and can be used to inform appropriate private share targets across different regions.

By way of summary, Auckland and Wellington have relatively high levels of patronage-oriented services. They also have the highest per capita levels of passenger boardings (refer Figure 6) and operating expenditure (refer Figure 7).

We expect Auckland and Wellington to have the highest levels of private share nationally, followed by Canterbury and Otago and then other medium sized regions with the smaller regions having the lowest relative levels of private share.

Refer to the strategic context section of our public transport framework for further information on patronage and coverage oriented services. Further information on population catchments and per capita measures is also provided in Appendix B.3.4.

Figure 6 Passenger boardings per capita

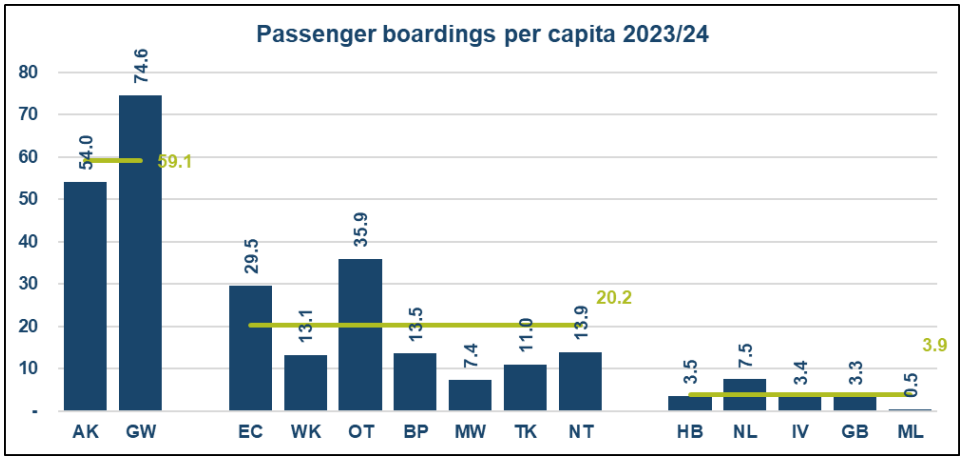
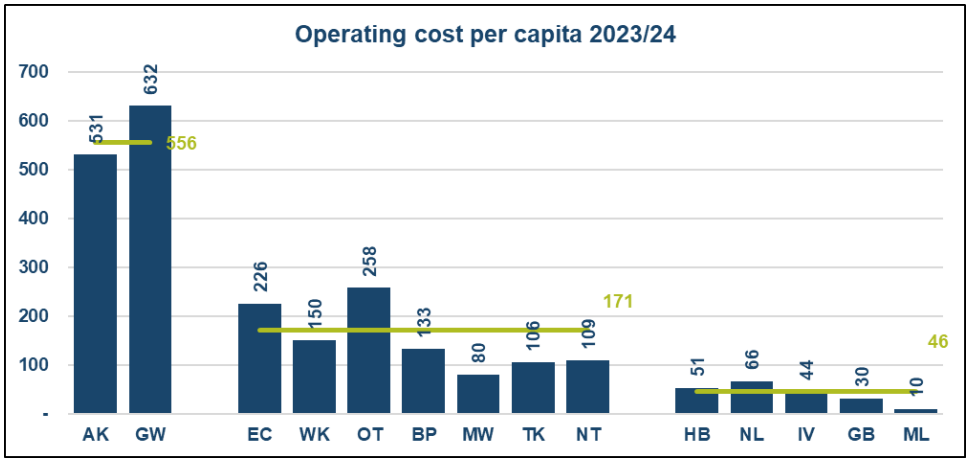


Figure 7 Operating cost per capita



AK=Auckland, GW=Wellington, EC=Canterbury, WK=Waikato, OT=Otago, BP=Bay of Plenty, MW=Horizons, TK=Taranaki, NT=Nelson-Tasman, HB=Hawkes Bay, NL=Northland, IV=Invercargill, GB=Gisborne, ML=Marlborough

5.2.3 Private share levels

The consideration of historic private share levels for each region is a good indicator as to the extent to which each region might be able to increase private share in line with previous performance. It is noted that some networks will have changed which will need to be considered, for example Nelson-Tasman (NT) has had significant network changes that may mean a historic comparison is less meaningful.

Figure 8 shows current private share compared to 2018/19 private share and the maximum private share level in that region since 2009/10. The term adjusted private share is used to reflect adjustments made to exclude the impact of recent Crown fare substitutes on the comparison. The lower percentages theoretically mean more room for increases in private share. The main comparison for interim targets should be the percent of 2018/19 while the percent of maximum private share may be more indicative of longer-term changes in private share targets.

As previously indicated, regions are expected to move to 2018/19 private share levels, which for most regions is a significant increase.

Figure 8 Private share 2023/24 (adjusted for Crown concessions) compared to previous private share levels

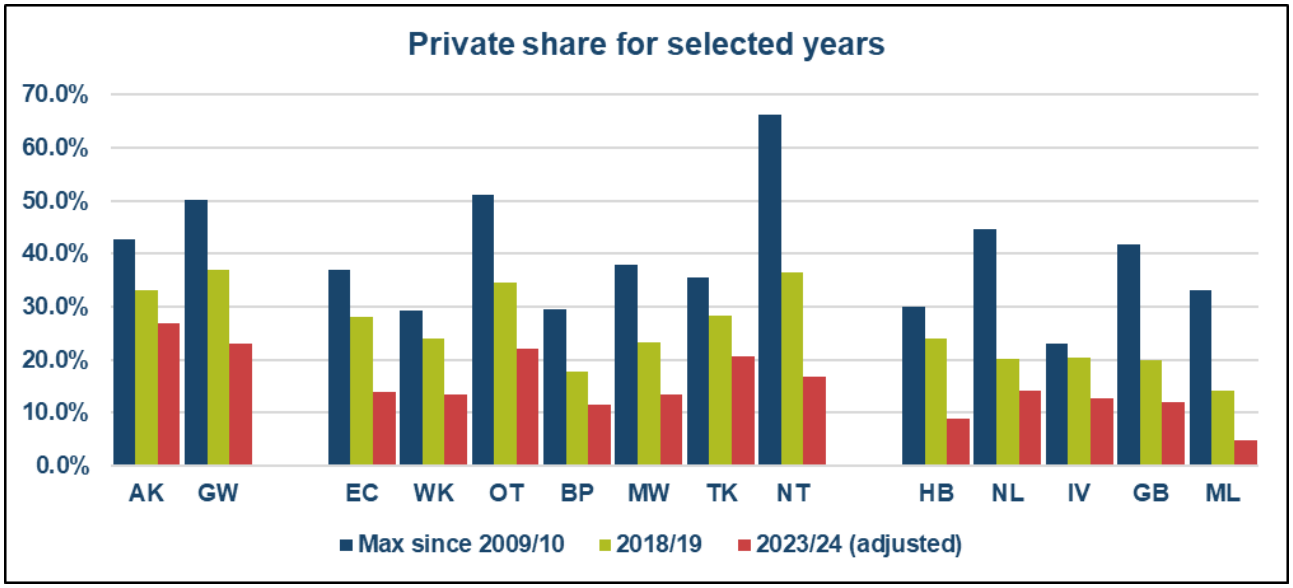


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Table 8 Private share 2023/24 (adjusted for Crown concessions) compared to previous private share levels

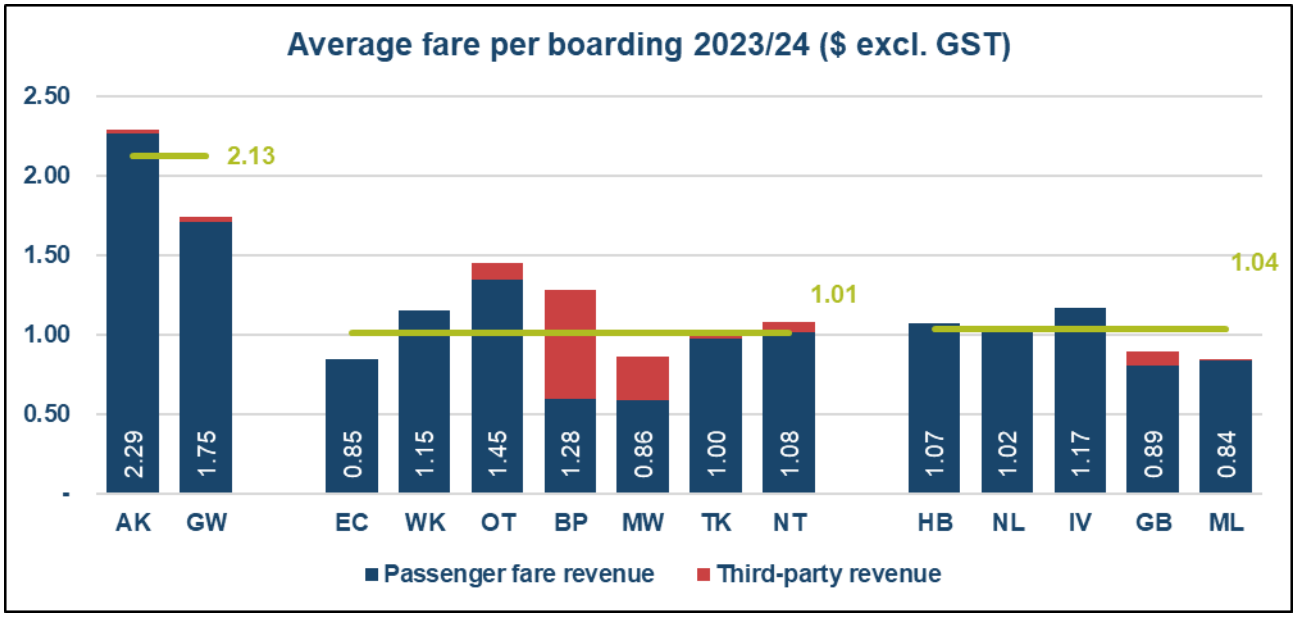
Public transport authority	Code	Private share 2023/24 (adjusted)	Private share 2018/19	Max private share since 2009/10
Auckland	AK	26.9%	33.2%	42.7%
Wellington	GW	23.1%	36.9%	50.3%
Canterbury	EC	13.9%	28.2%	36.9%
Waikato	WK	13.4%	24.1%	29.4%
Otago	OT	22.1%	34.5%	51.2%
Bay of Plenty	BP	11.5%	17.7%	29.4%
Horizons	MW	13.4%	23.4%	37.9%
Taranaki	TK	20.6%	28.4%	35.5%
Nelson-Tasman	NT	16.8%	36.6%	66.3%
Hawkes Bay	HB	8.8%	24.0%	30.0%
Northland	NL	14.1%	20.1%	44.8%
Invercargill	IV	12.7%	20.3%	23.2%
Gisborne	GB	12.1%	19.9%	41.8%
Marlborough	ML	4.8%	14.1%	33.1%

5.2.4 Passenger fare levels

The current average fare per boarding for each region is shown in Figure 9. This figure also includes average third-party revenue for boarding to reflect where private fare substitutes may be leading to lower average fares.

Please note that for simplicity we have included total third-party revenue and have not attempted to separate out private fare substitutes from commercial revenue. Ideally, these would be separated.

Figure 9 Average fare per boarding



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Fares and general inflation

Passenger revenue is the primary source of private revenue. This essentially means passenger fare levels need to increase in line with operating costs just to maintain current levels of private share. Regular fare increases in line with the consumer price index (CPI) will maintain real fares relative to the cost of other goods and services over time. Increasing fares by less than the rate of inflation is the same as a reduction in real fare levels.

We recommend annual fare increases that at a minimum are in line with general inflation. Figure 10 shows the change in average passenger fares levels and CPI over time, indicating that during the period 2009/10 to 2016/17 fare levels generally increased in line with CPI, but passenger fares levels have not kept up since 2017/18. Figure 11 shows that nationally passenger fares have decreased in real terms from 2015/16 to 2023/24

Figure 10 Average fare per passenger boarding and CPI since 2009/10

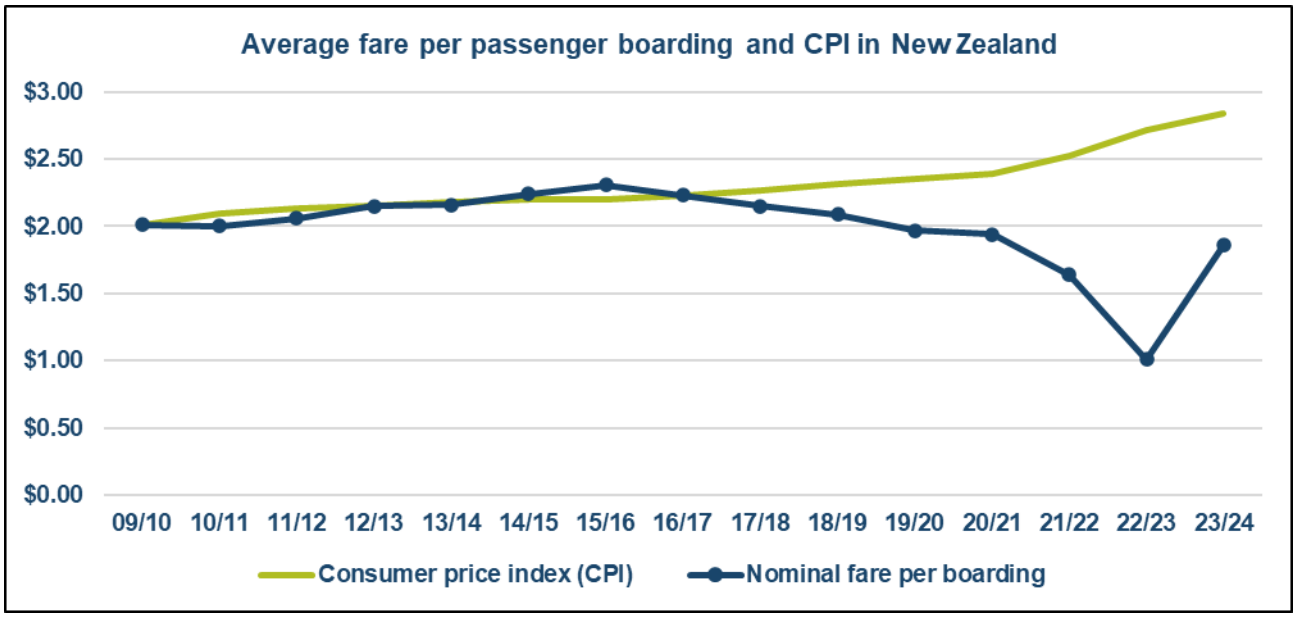
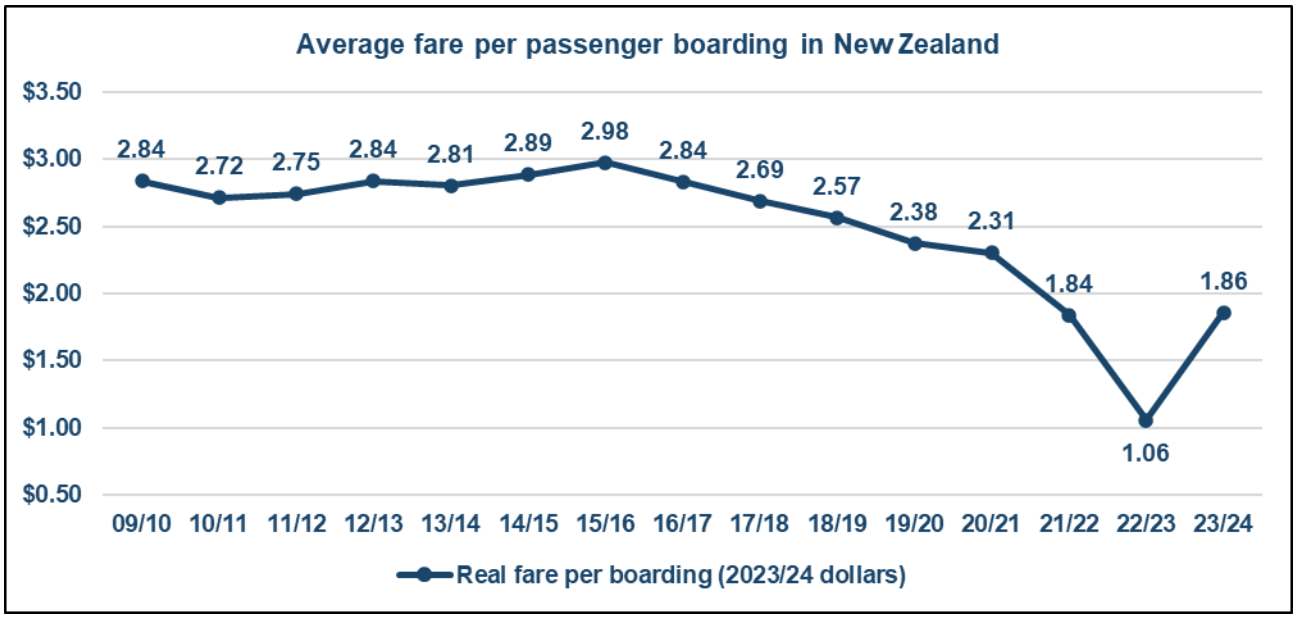


Figure 11 Average fare per passenger boarding since 2009/10 after adjusting for inflation

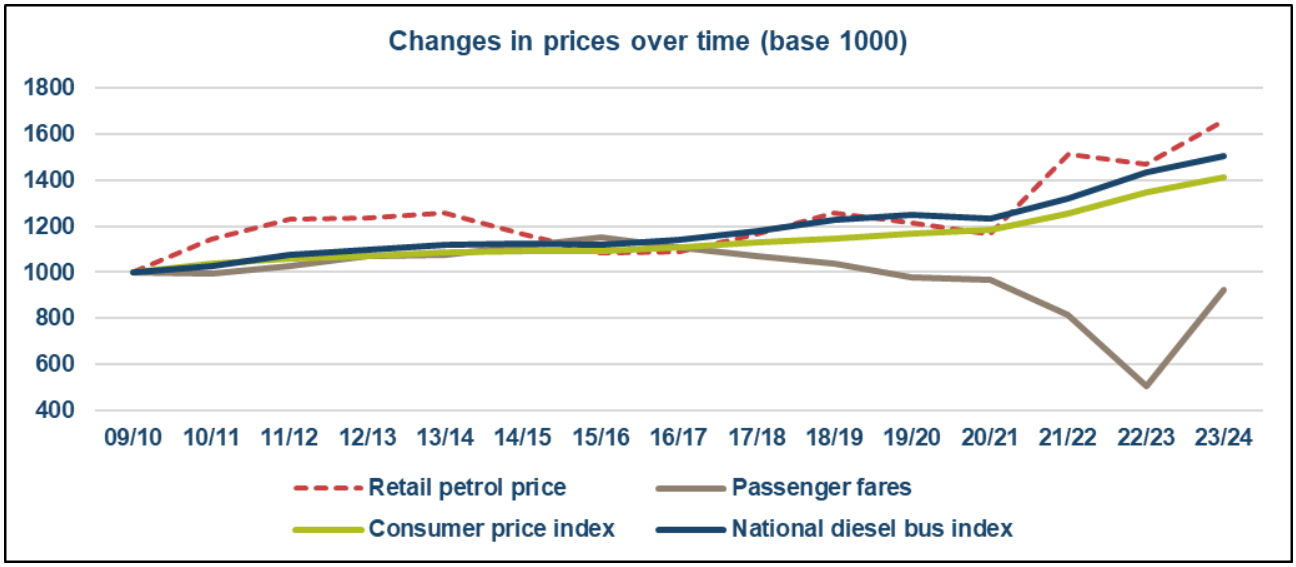


Fares and operating costs

The cost of operating services is also an important consideration when setting fares and seeking to maintain or increase private share. Operating costs have historically increased at a faster rate than general inflation (e.g. in line with the NZTA public transport cost index). This means increasing fares in line with the CPI will not maintain current levels of private share with increases needing to instead be in line with increases in operating costs.

Increasing fares above the general rate of inflation can impact demand due to price elasticities. We recommended passenger fares be increased at a rate that at least maintains current levels of private share and that manages demand impacts through regular smaller increases rather than less regular higher increases in passenger fare levels.

Figure 12 Changes in prices over time



Fares and cost of alternatives

Public transport is an alternative to private car and therefore the cost of driving is a useful comparator for passenger fares on public transport. The bigger the gap means potentially more room to increase fares, assuming private cars is the main alternative. Figure 13 shows passenger fares compared to private car costs for average public transport trip distance[1].

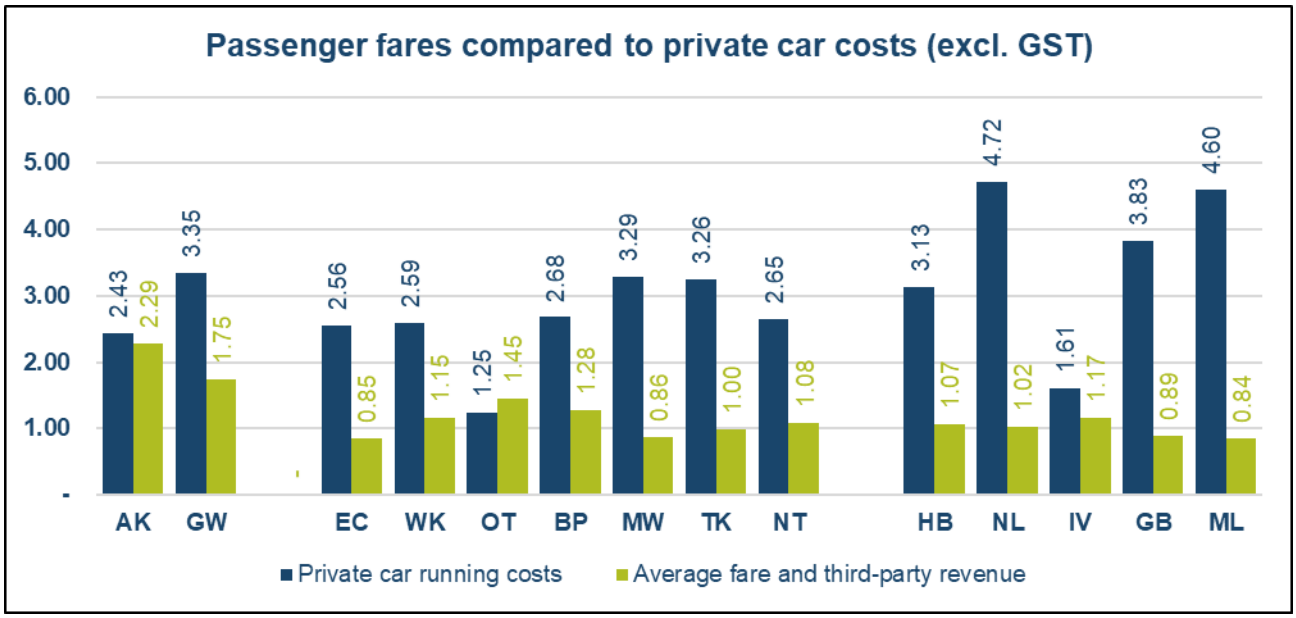
Auckland and Otago appear to have the highest average fare compared to private car operating costs, noting this doesn't take account of parking or other costs. Most other regions public transport fares are significantly lower than the average cost of travelling in a single occupancy vehicle. This would indicate room to increase fares and remain competitive to the cost of driving for most regions. However, care must be taken as public transport and driving are not always comparable. For example:

- For households, car trips often cost less per person when more people share the ride, while public transport typically costs more with each additional person.
- People are generally more willing to pay higher fares where public transport is convenient, quick, and safe compared with other options such as driving.

[1] *Note: Private car costs have been calculated using a simplified methodology which is simply the IRD 2023/24 per kilometre rate for running costs only ($0.30 excl. GST) multiplied by the average public transport trip length in each region. This comparison excludes costs such as parking and congestion*

Comparison to private car operating costs depends on context and is a policy decision for each public transport authority.

Figure 13 Passenger fares compared to private car costs for average trip distance



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5.2.5 Third-party revenue levels

Current third-party revenue levels are shown in Table 9 for those regions that have indicated third-party revenue, given as a percent of gross operating cost. This would seem to indicate around 1% of operating expenditure as the appropriate starting point for expected private share of third-party revenue. Those regions with higher third-party revenue generally have tertiary institute funded fare concessions.

There is an expectation that third-party revenue levels increase each year, for example those currently with no or limited third-party revenue might target at least 0.5% in the first year, 1% in second year and 1.5% in the third.

Table 9 Third-party revenue as a proportion of total operating expenditure

Public transport authority	Third-party revenue (approximate)
Auckland	3.0%
Wellington	0.3%
Canterbury	0.7%
Waikato	1.0%
Otago	1.0%
Bay of Plenty	0.4%
Horizons	6.9%
Taranaki	2.8%
Nelson-Tasman	0.3%
Hawkes Bay	-
Northland	-
Invercargill	-
Gisborne	-
Marlborough	0.5%

5.2.6 Crown fare concessions

Crown fare concessions, like SuperGold and Community Connect, reduce private share by substituting passenger fares with Crown funding. Recent policy changes, such as reducing the scope of Community Connect, influence the starting point for identifying private share targets. Table 10 shows the estimated impact on private share resulting from policy decisions already made.

Overall, changes to Crown fare concessions are expected to increase private share by 3.2 percentage points nationally, with regional variations. For example, Marlborough is not affected as it is not part of Community Connect, while Taranaki will see the highest increase due to relatively high Community Connect usage.

The adjusted private share for 2023/24 in Table 10 serves as a baseline for setting 2024/25 targets. Actual targets need to be higher to account for initiatives to increase private share, such as fare increases, third-party revenue initiatives, and cost-saving measures.

Table 10 Crown fare substitutes impact on private share (2023/24)

Public transport authority	Code	Actual private share 2023/24	Impact of removing Crown fare substitutes [(a)]	Adjusted private share 2023/24
Auckland	AK	23.5%	3.4%	26.9%
Wellington	GW	20.5%	2.7%	23.1%
Subtotal		**22.6%**	**3.2%**	**25.8%**
Canterbury	EC	11.7%	2.2%	13.9%
Waikato	WK	10.1%	3.3%	13.4%
Otago	OT	18.7%	3.4%	22.1%
Bay of Plenty	BP	7.2%	4.3%	11.5%
Horizons	MW	11.9%	1.5%	13.4%
Taranaki	TK	13.0%	7.6%	20.6%
Nelson-Tasman	NT	13.2%	3.5%	16.8%
Subtotal		**11.9%**	**3.0%**	**14.9%**
Hawkes Bay	HB	7.3%	1.5%	8.8%
Northland	NL	11.6%	2.5%	14.1%
Invercargill	IV	9.0%	3.7%	12.7%
Gisborne	GB	8.7%	3.4%	12.1%
Marlborough	ML	4.8%	0.0%	4.8%
Subtotal		**8.8%**	**2.2%**	**10.9%**
Total		**20.5%**	**3.2%**	**23.7%**

(a) Demand impact of change in fares has not been factored in as many regions may retain equivalent discount as a regional concession

5.3 Other considerations

The following is a list of other matters not covered above that could potentially be considered in setting regional targets.

- Average fare revenue per passenger kilometre
- Current levels of funding share and FAR rates
- Efficiency of network passenger kilometres per service kilometre
- Gross operating cost per passenger kilometre
- Gross operating cost per service kilometre
- Travel patterns and mode share e.g. household travel survey, census journey to work and journey to education
- Economic and demographic factors e.g. economic activity, population growth, socio-economic deprivation

5.4 Regional private share targets

The previous sections outline expectations and considerations for setting private share targets. These, along with any other relevant information, will need to be considered by public transport authorities and NZTA when agreeing regional targets.

As a starting point, we have proposed private share targets for each region, which we will share separately with each public transport authority.

Based on our analysis and consistent with historic trends, Auckland and Wellington are expected to have higher private shares, while other regions may have lower targets depending on their characteristics.

While targets will vary by region based on relevant context, we expect the national private share to be within the target ranges set by the NZTA Board, as outlined in Table 11.

When agreeing targets, it will also be necessary to document the high-level inputs and initiatives required to achieve them. This may include any combination of patronage and fare revenue growth, fare increases, third-party initiatives, and cost-saving measures.

Table 11 Regional private share targets to be agreed with NZTA

Public transport authority	2018/19 Actual	2023/24 Actual	2024/25 Interim Target	2025/26 Interim Target	2026/27 Indicative Target
Auckland	33.2%	23.5%	To be set and agreed with each public transport authority		
Wellington	36.9%	20.5%			
Canterbury	28.2%	11.7%			
Waikato	24.1%	10.1%			
Otago	34.5%	18.7%			
Bay of Plenty	17.7%	7.2%			
Horizons	23.4%	11.9%			
Taranaki	28.4%	13.0%			
Nelson-Tasman	36.6%	13.2%			
Hawkes Bay	24.0%	7.3%			
Northland	20.1%	11.6%			
Invercargill	20.3%	9.0%			
Gisborne	19.9%	8.7%			
Marlborough	14.1%	4.8%			
Total	**33.0%**	**20.5%**	**24-26%**	**28-33%**	**35-40%**

6 Embedding a more commercial approach

Private share is part of a broader focus on embedding a more commercially oriented approach and improving national and regional oversight of public transport.

6.1 Public transport oversight

One of NZTA's statutory functions under the LTMA is to oversee the planning, operation, implementation, and delivery of public transport (oversight function). This is addition to our regulatory and funding roles.

While we provide national oversight, public transport authorities are responsible for regional oversight and delivery, primarily through:

- regional public transport plans and regional land transport programmes prepared under the LTMA, and
- annual and long-term plans and revenue and financing policies prepared under the LGA

However, these documents often lack alignment and relevant information on public transport activities. They do not fully account for contributions from other organisations, such as local councils or national projects like the NTS. Additionally, NZTA reporting requirements for public transport authorities needs to be streamlined and improved. We observe that much of the current reporting is focused on funding claims from NZTA, rather than offering a comprehensive view of public transport that is useful to authorities and drives improvements to the system.

To improve oversight, we aim to enhance the alignment, monitoring, reporting, and setting of both financial and non-financial measures nationally. By improving these elements, we aim to create a more cohesive and useful oversight framework that better reflects all parts of the public transport system and performance at both regional and national levels.

In many instances we anticipate that this involves NZTA aligning better with regional best practice and processes that public transport authorities must adhere already to under the LGA.

6.2 Commercial approach

By focusing on customer satisfaction, revenue generation, cost efficiency, and innovative technologies, public transport can become more sustainable and attractive to users. This approach enhances operational performance, drives growth, and ensures public transport is a vital and competitive part of our transport system.

Practices currently vary across the sector, and we aim to align with regional best practice and foster this nationally. This is not just about focusing on revenue; it's about improving the overall system. The follow are key aspects of what we consider to be a more commercially oriented approach:

- **Customer and purpose** - ensuring clarity of purpose, understanding customer needs and desired outcomes is important. Clearly defining these elements for each network is essential for cost-efficient network design and meeting customer needs in a way that attracts and retains patronage. Leveraging data and insights to understand customer needs and the effectiveness of achieving desired outcomes is key to optimising the deployment of limited resources, funding, and maximising value for money spent.
- **Efficiency and effectiveness** - this is about meeting customer need and achieving desired outcomes in the most cost-effective manner possible. This includes fostering innovation, improving procurement practices, fostering supplier market competition, and optimising networks to maximise value from each dollar spent on public transport.

- **Financial oversight and reporting** – oversight and regular monitoring and reporting of financial and non-financial performance, including setting and tracking of relevant targets and regular reporting against budgeted and forecast revenue and expenditure is critical to effective delivery and being able to respond to changing circumstances.
- **Growing revenue sources** – initiatives to grow revenue sources, particularly increasing private share through third-party and other revenue sources are a key focus. This may include a stronger focus on revenue management and need for better understanding of the structure of demand and segmentation options for passenger fares and opportunities for greater use of private share substitutes.

This discussion document focuses on the last two points, financial oversight and reporting and developing revenue sources, primarily third-party revenue sources.

6.3 Financial oversight and reporting

We understand that so far, NZTA and the sector have mainly focused on funding and claiming requirements under the LTMA. However, to meet GPS 2024 expectations for increasing private share, a more thorough approach to financial oversight is needed.

We are intending to undertake further work to this end. For example, we are considering whether developing a model chart of accounts to serve as a basis for NZTA reporting could be beneficial. We note that such an approach:

- would better align with financial reporting requirement under the LGA
- should enable expenditure and revenue to be coded in a way that meets NZTA claiming and reporting requirements without the significant manual adjustments that currently are required across many public transport authorities.
- should enable NZTA to retire or streamline other reporting requirements

We note that most public transport authorities in Australia prepare and publish financial statements, whether as a reporting group in a state department report or separate business unit, for example refer Metro Tasmania annual reports.

6.3.1 Statement of revenue and expenditure

We propose introducing regular quarterly reporting of operating revenue and expenditure both at a summary level as illustrated in the example statement of revenue and expenditure in Table 12 and more detailed level through supported notes as illustrated in Appendix B.1.

Our aim is to streamline and improve existing financial reporting requirements to enable better oversight of the public transport system while reducing the administrative effort for public transport authorities.

Table 12 Example statement of revenue and expenditure for fictitious region

Example Public Transport Authority

STATEMENT OF REVENUE AND EXPENDITURE

	Notes	Actual 2023/24	Budget 2024/25
Revenue (sources of operating funding)			
Fees and charges	1(a)	4,928,828	5,175,269
Third-party revenue	1(b)	678,219	702,130
Grants and subsidies			
Crown funding	1(c)	4,916,004	5,161,804
NZTA funding	1(d)	27,352,459	28,720,082
Other funding	1(e)	0	10,000
General and targeted rates	1(f)	35,423,840	37,195,032
Other income		0	0
Total operating revenue		**73,299,350**	**76,964,317**
Expenditure (applications of operating funding)			
Passenger services			
Contract management	2(a)	5,319,267	5,585,230
Operator payments	2(b)	55,144,810	57,902,051
Revenue recognition	2(c)	1,550,858	1,628,401
Operations and maintenance			
Operations and management	2(d)	8,416,807	8,837,647
Facilities and infrastructure	2(e)	962,086	1,010,190
Technology system operations	2(f)	1,905,522	2,000,798
Total operating expenditure		**73,299,350**	**76,964,317**
Surplus (deficit)		**0**	**0**

Refer Appendix B.1 for supporting notes

6.3.2 Removing or streamlining other reporting requirements

While not within the scope of this document, we see value in consolidating and streamlining NZTA financial and non-financial reporting requirements for public transport authorities. Doing so would aim to make reporting easier, enable better information and embed a more commercially oriented approach. To achieve this, we see significant potential to better align with existing statutory requirements across the LTMA and LGA as opposed to creating additional policy requirements.

For example, Table 13 provides a summary of public transport authority funding sources for public transport operating expenditure identified in their 2024 revenue and financing policies, which is relevant to the consideration of the private share of public transport operating expenditure.

We note these is not a category for third-party revenue although this would likely fall within the fees and charges category.

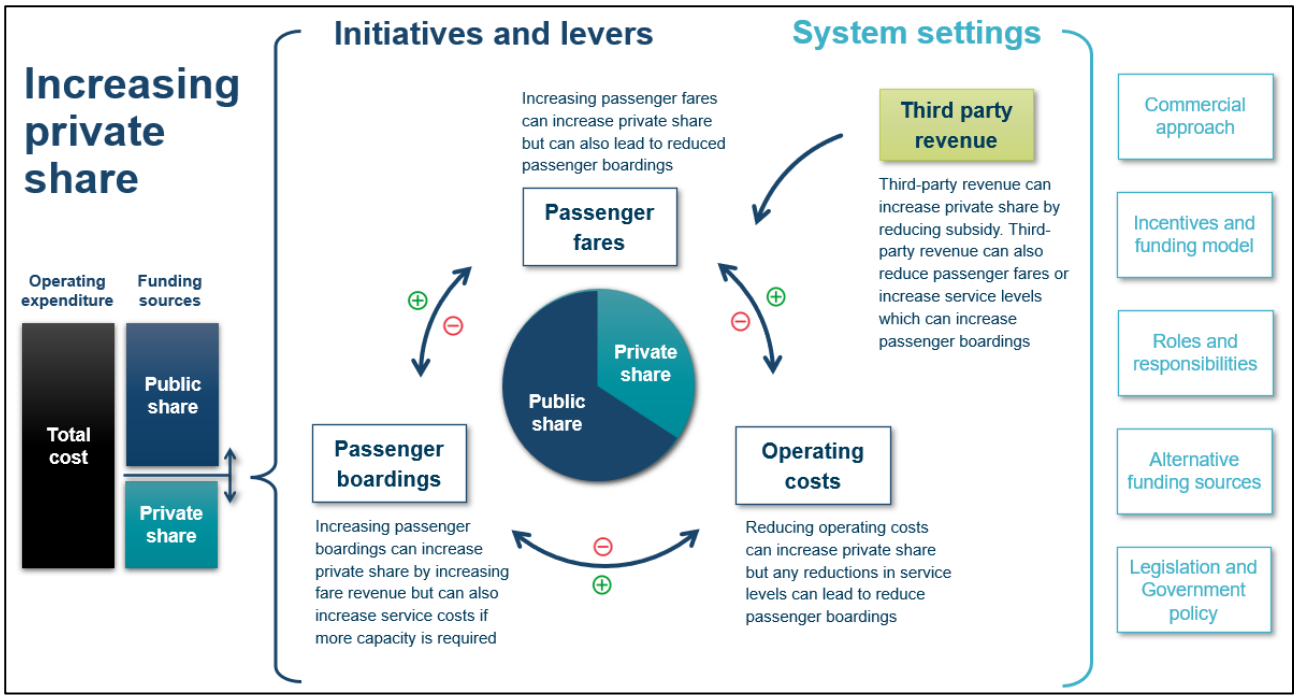
Table 13 Sources of funding for public transport operating expenditure based on funding sources defined under the Local Government Act 2022

Funding source	Auckland	Wellington	Canterbury	Waikato	Otago	Bay of Plenty	Horizons	Taranaki	Nelson-Tasman	Hawkes Bay	Northland	Invercargill	Gisborne	Marlborough
General rates	✓	-	-	✓	✓	-	-	-	✓	-	-	✓	-	-
Targeted rates	✓	✓	✓	✓	✓	✓	✓	✓	-	✓	✓	✓	✓	✓
Lump sum contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	✓	✓	✓	✓	✓	✓	-	✓	✓	✓	✓	✓	✓	✓
Investment income (interest and dividends)	-	-	-	-	-	-	-	-	-	-	-	-	-	✓
Borrowing	-	-	-	-	-	-	-	-	✓	-	-	-	-	-
Proceeds from asset sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Development contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grants and subsidies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Other sources	-	-	✓	✓	✓	✓	✓	-	-	-	-	-	-	✓
Regional fuel tax (repealed)	✓	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves	-	-	-	-	-	✓	-	-	-	-	-	-	-	-

7 Initiatives to increase private share

There is a complex interaction between private share initiatives, levers and system settings, as illustrated in Figure 14. The section explores potentially initiatives to increase private share taking account of the dynamic interaction between passenger fares, passenger boardings, operating costs and third-party revenue. The potential to increase private share is also impacted by current and future system settings.

Figure 14 Interaction between private share initiatives, levels and system settings



7.1 Initiatives and levers

Private share is expected to increase annually which will require public transport authorities to identify and implement initiatives to increase private share as soon as possible.

7.1.1 Passenger fares

Increasing passenger fares can increase private share but can also lead to reduced passenger boardings. The NZTA fares and pricing policy in the development guidelines for regional public transport plans requires public transport authorities to undertake annual pricing reviews and regular fare structure reviews. These reviews provide an opportunity to increase passenger fares on an annual basis.

Passenger fares comprise a significant proportion of private share funding for public transport and are based on private share benefit of public transport, as set out in the public transport authorities' revenue and financing policies, prepared under the Local Government Act 2002. The extent to which this cost is recovered is subject to circumstance. Fares should be adjusted at least annually and balance transparency with flexibility. For context:

- Maintaining fare levels relative to the price of other goods and services requires regular increases in line with inflation. Any increases above the rate of inflation may have an impact on demand but will be required to maintain private share if operating costs are increasing faster than the general rate of inflation.
- Experience shows that fares should be adjusted incrementally and regularly, at least annually. In the event of abrupt and steep fare increases, the elasticity of demand is likely

to be much higher and the drop in ridership could be significant. From a public acceptance point of view, small regular variations generate fewer reactions than large increments. (UITP 2012).

- Many cities (such as Singapore, Cape Town, Hong Kong, Sydney) take a relatively prescriptive, formulaic approach to fare reviews, including directly linked to inflation, service cost increases etc (Cape Town 2014, Lipscombe 2016, TTF 2016).
- The advantage of using a fare adjustment formula is that it increases transparency and reduces uncertainty. On the other hand, circumstances not foreseen in the formula may arise, meaning there is a need to balance between transparency and flexibility. (UITP 2012, TTF 2016).
- Passenger boardings are more likely to be increased by changes to the services themselves, rather than by decreased fare levels. Reducing fares can increase boardings. But customers generally value high levels of service more than reduced fares.

7.1.2 Passenger boardings

Increasing passenger boardings can increase private share by increasing fare revenue but can also increase service costs if more capacity is required. Demand can be increased through a variety of initiatives.:

- Improving service performance
- Improving customer experience
- Network improvement within existing funding allocations
- Marketing and promotion to make best use of existing capacity

Each initiative has its own trade-offs that affect overall private share. Context differs by region and identifying initiatives to increase demand in a way that positively impacts private share is an important consideration for public transport authorities.

7.1.3 Operating costs

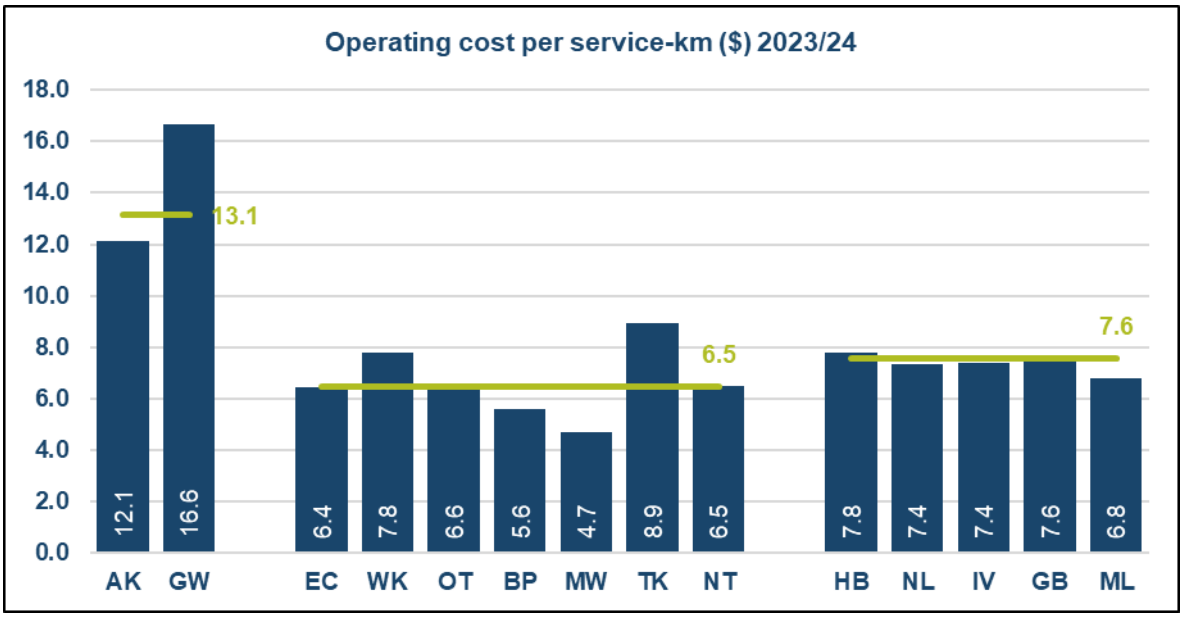
Achieving greater cost efficiency is an important part of increasing private share. Cost side initiatives include, but are not limited to:

- **Improving procurement practices**

  Fostering a competitive and efficient supplier market can significantly influence the cost of providing public transport services by increasing competition. This is a key focus area for NZTA.

  The following figure show current public transport operating cost per service-km. This is higher in Auckland and Wellington mainly due to higher train costs, but bus costs are also higher than in other regions, with Auckland bus costs being $7.89 and Greater Wellington $10.49 per service-km.

Figure 15 Operating cost per service-km



AK=Auckland, GW=Wellington, EC=Canterbury, WK=Waikato, OT=Otago, BP=Bay of Plenty, MW=Horizons, TK=Taranaki, NT=Nelson-Tasman, HB=Hawkes Bay, NL=Northland, IV=Invercargill, GB=Gisborne, ML=Marlborough

- **Optimising services and 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 public transport authorities 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.

  Note that reduced service levels can lead to reduced demand which in turn reduces passenger fare revenue and therefore can reduce private share.

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.

The most significant improvement to private share can be achieved through increases in passenger demand, as savings through network optimisation and reducing service levels are generally reinvested by the public transport authority into better performing services. In turn, that increases demand and indirectly contributes to an increase in private share.

7.1.4 Third-party revenue

Third-party revenue can increase private share by reducing subsidy. Third-party revenue can also reduce passenger fares or increase service levels which can increase passenger boardings. Example initiatives include:

- Increase advertising
- Increase sponsorship
- Corporate fare schemes
- Develop rental income
- Operator access fees

- Business/commercial opportunities.

By increasing third-party revenue, public transport authorities can access more funding for public transport operating costs without the same potential trade-offs associated with increasing passenger boardings and fares and reducing operating costs. But increasing third-party revenue may or may not increase the private share as a proportion of total costs, for example using third-party review to increase service levels or reduce passenger fares will not increase private share.

Potential initiatives to increase third-party revenue are outlined in Table 14. Currently only advertising is widely used as a source of third-party revenue although there are various cost-share arrangements in place with transport operators.

Table 14 Initiatives to increase third-party revenue

Initiative	Description
Increase commercial advertising	Many public transport authorities have arrangements in place with private media companies to provide advertising on public transport vehicles. Currently, most public transport authorities do not have access to advertising revenue generated from bus shelters or public transport interchanges and stations. This is due to the ownership of these assets typically falling on territorial authorities (i.e. city and district councils). NZTA recommends that public transport authorities investigate opportunities to partner with territorial authorities to expand their opportunity to increase advertising revenue from public transport infrastructure, such as bus shelters.
Increase commercial sponsorship	Promote opportunities for commercial sponsorship of public transport services or facilities (e.g. naming rights).
Develop and promote corporate fare schemes	Corporate fare schemes help increase public transport patronage and private share, reducing the need for public subsidies. They offer many benefits for both companies and the public transport system. However, the advantages for private companies aren't always obvious, so highlighting these benefits can attract more participation. Corporate fare schemes can help reduce the need for car parking at workplaces, meet sustainability goals, and provide a benefit that can help attract and retain employees, students or clients. Since April 2023, employer contributions to employees' public transport costs for commuting can be exempt from fringe benefit tax.
Develop rental income opportunities	There are avenues to generate income from renting out public transport facilities under public transport authority or territorial local authority control.
Charge commercial operators access fees	Public transport authorities can recover operator access fees from operators of commercial and exempt services, where a public transport authority or territorial local authority is providing access / use of their facilities. Examples include charging for use of bus facilities or wharf access charges.

7.2 System settings

In addition to the above which have direct impact on private share there are core system setting challenges that have a wider impact and if addressed could potentially unlock significant increases in private share that are not currently possible.

7.2.1 Commercial approach

As set out above, 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. The capacity and capability to do so varies between public transport authorities. We intend to further consider initiatives to address this, such as sharing resources across public transport authorities, and improving national guidance and requirements.

7.2.2 Incentives and funding model

Providing incentives for public transport authorities to grow third party revenue streams is an important consideration. Presently NZTA deduct third-party revenue from NLTF funding which dilutes the benefits for growing third party revenue from the perspective of public transport authorities. Evolving the funding model for public transport could yield better results for both NZTA and public transport authorities.

7.2.3 Roles and responsibilities

In many regions responsibilities with respect to the provision of public transport services and infrastructure are spread across multiple different entities, each with different drivers' objectives and priorities. This complicates the efficient and effective planning, procurement, and delivery of public transport. While there is some guidance in the LTMA, for example public transport authorities are required to collaborate with territorial authorities when preparing region public transport plans there is no obligation on territorial authorities to do the same in respect to their infrastructure.

7.2.4 Alternative funding sources

Investigate opportunities for alternative funding sources. These might not relate directly to private share but could potentially reduce ratepayer and taxpayer funding requirements.

These are particularly relevant to public transport infrastructure and high-capacity public transport corridors. These can include:

- Public private partnerships (PPP)
- Financial contributions
- Development contributions
- Property development and uplift
- Value capture - transit-oriented development
- Parking revenue hypothecation
- Congestion charges hypothecation
- Off-setting emission reduction obligations

These opportunities are being explored through other NZTA projects.

7.2.5 Legislation and Government policy

We are seeking discussion on any barriers or issues associated with legislation or government policy that could be addressed to incentivise increased private share and use of alternative funding sources.

Appendix A Glossary

Term	Definition
Commercial revenue	Commercial revenue is a private share funding source derived from money provided by private entities in exchange for a benefit directly associated with public transport services or infrastructure. These 'benefits' are generally ancillary to the delivery of the public transport system.
Community Connect fare concession	The Community Connect fare concession scheme is a public fare substitute that provides Community Service Card (CSC) holders a 50% discount when travelling on most public transport services.
Community transport services	These are generally operated through community trusts and rely on volunteers, catering for the transport needs of a particular group of customers, or to provide transport services locations where regular scheduled public transport service may not be considered viable.
Enforcement fees	Enforcement fees are a form of passenger revenue (not fare revenue) charged to public transport passengers discourage undesirable behaviours.
Farebox recovery ratio	We no longer use this term, to avoid confusion with previously methodology for calculating farebox recovery. We now use the term private share, which is a financial measure of cost recovery
GPS	Government Policy Statement on Land Transport Funding
LGA	Local Government Act 2002
LTMA	Land Transport Management Act 2003
Operating expenditure	Operating expenditure includes public transport services and the maintenance and operation of infrastructure but does not include capital renewals or infrastructure improvement projects.
Passenger fares	Passenger fares are collected from passengers in exchange for use of a public transport service.
Passenger revenue	Passenger revenue refers to revenue generated from public transport passengers. This includes passenger fares and enforcement fares.
Private fare substitutes	Private fare substitutes are fare substitutes that are derived from private entities i.e., a company or organisation that is not Crown-affiliated. Private fare substitutes are still 'private,' even when paid by ostensibly private organisations that receive some (but not exclusively) funding from the Crown.
Private share	Private share is a measure of cost recovery. It is calculated as revenue divided by operating expenditure. Revenue includes passenger fares, private fare substitutes and commercial revenue. Operating expenditure includes the management and operation of passenger services and the maintenance and operation of public transport facilities. Operating expenditure does not include capital renewals or infrastructure improvement projects.
Public fare substitutes	Public fare substitutes are fare substitutes derived from public funding i.e., Community Connect. These are typically eligible for certain groups to make public transport use easier and cheaper.

Public share	Public share refers to revenue sources derived from ratepayers and taxpayers. This is generally in the form of local share funding derived from a region's ratepayers, funding derived from the National Land Transport Fund, and Crown subsidies derived from taxation.
Subsidy	Under Part 5 of the LTMA, subsidy means any funding from the National Land Transport Fund or local authority (LTMA s5). Local authorities include regional councils, city councils and district councils. Refer public transport framework definition of "subsidy" on the regulation of public transport page.
SuperGold fare concession	The SuperGold fare concession scheme is a public fare substitute that allows card holders to travel free on most off-peak public transport services. The SuperGold card is a discount and concession card issued free to everyone 65 years and over, and anyone under 65 who receives New Zealand Superannuation or a veteran's pension.
Third-party revenue	Third-party revenue is derived from private – or third-party – entities, including private share substitutes and commercial revenue.
Total Mobility scheme	The Total Mobility scheme will have a separate private share calculation as the scheme has a fixed private share and the interventions to manage this are very different to bus, train and ferry services.

Appendix B Private share considerations

B.1 Operating revenue and expenditure

An example statement of revenue and expenditure based on existing long-term plans is provided in Table 15, along with an example of using financial notes as is common practice in Australia to provide a detailed breakdown for multiple financial reporting purposes. This reporting can be generated from a template such as that shared with public transport authorities in September 2024. We believe there is merit in aligning, where possible, public transport authority long-term plan financial requirements and NZTA funding and claiming requirements. This will require changes to current reporting processes include consideration of NZTA public transport work categories.

Table 15 Example statement of revenue and expenditure

Example Public Transport Authority

STATEMENT OF REVENUE AND EXPENDITURE

	Notes	Actual 2023/24	Budget 2024/25
Revenue (sources of operating funding)			
Fees and charges	1(a)	4,928,828	5,175,269
Third-party revenue	1(b)	678,219	702,130
Grants and subsidies			
Crown funding	1(c)	4,916,004	5,161,804
NZTA funding	1(d)	27,352,459	28,720,082
Other funding	1(e)	0	10,000
General and targeted rates	1(f)	35,423,840	37,195,032
Other income		0	0
Total operating revenue		**73,299,350**	**76,964,317**
Expenditure (applications of operating funding)			
Passenger services			
Contract management	2(a)	5,319,267	5,585,230
Operator payments	2(b)	55,144,810	57,902,051
Revenue recognition	2(c)	1,550,858	1,628,401
Operations and maintenance			
Operations and management	2(d)	8,416,807	8,837,647
Facilities and infrastructure	2(e)	962,086	1,010,190
Technology system operations	2(f)	1,905,522	2,000,798
Total operating expenditure		**73,299,350**	**76,964,317**
Surplus (deficit)		**0**	**0**

Detailed notes supporting statement of revenue and expenditure

0. General notes

Community = Total Mobility and community transport services

WC = NZTA work category

1. Sources of operating funding

1(a) Fees and charges

	Actual 2023/24	Budget 2024/25
Passenger fares		
Bus	3,690,046	3,874,548
Train	0	0
Ferry	60,925	63,971
Community	1,175,857	1,234,650
	4,926,828	**5,173,169**
Enforcement fees		
Passenger services		
Bus	0	0
Train	0	0
Ferry	0	0
Community	0	0
Operations and management	0	0
Facilities and infrastructure	0	0
Technology system operations	0	0
	0	**0**

1(b) Third-party revenue

	Actual 2023/24	Budget 2024/25
Private fare substitutes		
Bus	199,171	209,130
Train	0	0
Ferry	0	0
Community	0	0
	199,171	**209,130**
Commercial revenue by type		
Advertising	469,048	492,500
Sponsorship	0	0
Other	0	0
	469,048	**492,500**
by application		
Passenger services		
Bus	444,048	466,250
Train	0	0
Ferry	25,000	26,250
Community	0	0
Operations and management	0	0
Facilities and infrastructure	0	0
Technology system operations	0	0
	469,048	**492,500**

1(c) Crown funding

	WC	Actual 2023/24	Budget 2024/25
SuperGold			
Bus	511	1,703,381	1,788,550
Train	515	0	0
Ferry	512	10,000	10,500
		1,713,381	**1,799,050**
Community Connect			
Bus	511	2,616,409	2,747,229
Train	515	0	0
Ferry	512	2,000	2,100
Community	517	586,214	615,525
		3,204,623	**3,364,854**
Bus driver terms and conditions			
Bus	511	32,000	33,600
		32,000	**33,600**

1(d) NZTA funding

	WC	Actual 2023/24	Budget 2024/25
Passenger services			
Bus	511	23,315,293	24,481,058
Train	515	0	0
Ferry	512	37,081	38,935
Community	517	1,203,051	1,263,204
Community hoist use	521	242,179	254,288
		24,797,604	**26,037,485**
Passenger services (LCLR)			
Bus	532	368,809	387,249
Train	532	0	0
Ferry	532	0	0
Community	532	0	0
		368,809	**387,249**
Operations and maintenance			
Operations and management	524	98,398	103,318
Facilities and infrastructure	514	490,665	515,198
Technology system operations	525	1,596,983	1,676,832
		2,186,046	**2,295,348**

1(e) Other subsidies

	WC	Actual 2023/24	Budget 2024/25
Passenger services			
Bus	511	10,000	10,500
Train	515	0	0
Ferry	512	0	0
Community	517	0	0
Community hoist use	521	0	0
		10,000	**10,500**
Operations and maintenance			
Operations and management	524	0	0
Facilities and infrastructure	514	0	0
Technology system operations	525	0	0
		0	**0**

Notes

Passenger service funding provided by neighbouring public transport authority as contribution towards inter-regional bus service

1(f) General and targeted rates

With NZTA/Crown co-funding

	WC	Actual 2023/24	Budget 2024/25
Passenger services			
Bus	511	22,400,967	23,521,015
Train	515	0	0
Ferry	512	35,626	37,407
Community	517	1,155,872	1,213,666
Community hoist use	521	0	0
		23,592,465	**24,772,088**
Passenger services (LCLR)			
Bus	532	354,346	372,063
Train	532	0	0
Ferry	532	0	0
Community	532	0	0
		354,346	**372,063**
Operations and maintenance			
Operations and management	524	232,682	244,316
Facilities and infrastructure	514	94,539	99,266
Technology system operations	525	308,539	323,966
		635,760	**667,548**

Without NZTA/Crown co-funding

	WC	Actual 2023/24	Budget 2024/25
Passenger services			
Bus	511	2,268,336	2,381,753
Train	515	0	0
Ferry	512	0	0
Community	517	78,324	82,240
Community hoist use	521	0	0
		2,346,660	**2,463,993**
Passenger services (LCLR)			
Bus	532	0	0
Train	532	0	0
Ferry	532	0	0
Community	532	0	0
		0	**0**
Operations and maintenance			
Operations and management	524	8,085,727	8,490,013
Facilities and infrastructure	514	376,882	395,726
Technology system operations	525	0	0
		8,462,609	**8,885,739**

2. Applications of operating funding

2(a) Contract management

	WC	Actual 2023/24	Budget 2024/25
Contract management and overheads			
Bus	511	5,164,137	5,422,344
Train	515	0	0
Ferry	512	0	0
Community	517	155,130	162,887
		5,319,267	**5,585,231**

Notes

Contract management and overheads associated with NZTA passenger service work categories (511, 512, 515, 517). Include all relevant costs associated with integral public transport services, not just those cofounded by NZTA.

2(b) Operator payments

	WC	Actual 2023/24	Budget 2024/25
Contracted and exempt services			
Bus	511	51,145,514	53,702,790
Train	515	0	0
Ferry	512	145,632	152,914
Community	517	0	0
LCLR	532	743,155	780,313
		52,034,301	**54,636,017**
Community transport services			
Total Mobility fare subsidies	517	2,868,330	3,011,747
Total Mobility hoist subsidies	521	242,179	254,288
Community transport services	517	0	0
		3,110,509	**3,266,035**

Notes

Operator payments as per NZTA passenger service work categories (511, 512, 515, 517). Include operator payments for all integral public transport services, not just those cofounded by NZTA.

Breakdown by unit should also be provided

2(c) Revenue recognition

	WC	Actual 2023/24	Budget 2024/25
Fare revenue retained			
Bus	511	350,000	367,500
Train	515	0	0
Ferry	512	0	0
Community	517	1,175,858	1,234,651
		1,525,858	**1,602,151**
Advertising revenue retained			
Bus	511	0	0
Train	515	0	0
Ferry	512	20,000	21,000
Community	517	0	0
		20,000	**21,000**
Other revenue retained			
Bus	511	0	0
Train	515	0	0
Ferry	512	5,000	5,250
Community	517	0	0
		5,000	**5,250**

Notes

Recognition of revenue associated with NZTA passenger service work categories (511, 512, 515, 517) that is retained by transport operators.

Any fare revenue retained by operators should be recognised where there is a net contract or exempt services receiving financial assistance.

Advertising and other revenue may also be retained by transport operators with a profit share with a public transport authority in which case the retained revenue should be included here.

2(d) Operations and management

	WC	Actual 2023/24	Budget 2024/25
Planning, reporting, surveys	524	177,352	186,220
Marketing, promotions	524	198,569	208,497
Call centre operations	524	0	0
Other excluded from WC524	524	8,040,886	8,442,930
		8,416,807	**8,837,647**

Notes

Expenditure associated with NZTA work category 524. Include all expenditure not just expenditure cofounded by NZTA.

2(e) Facilities and infrastructure

	WC	Actual 2023/24	Budget 2024/25
Management costs and overheads	514	0	0
Maintenance and security	514	962,086	1,010,190
Operation of facilities	514	0	0
Loan/lease payments	514	0	0
Other excluded from WC514	514	0	0
		962,086	**1,010,190**

Notes

Expenditure associated with NZTA work category 514. Include all expenditure not just expenditure cofounded by NZTA.

Expenditure should be further broken down by mode where available.

2(f) Technology system operations

	WC	Actual 2023/24	Budget 2024/25
Ticketing systems	525	1,071,082	1,124,636
Realtime information systems	525	0	0
Total Mobility administration system	517	0	0
Other technology systems	525	834,440	876,162
		1,905,522	**2,000,798**

Notes

Expenditure associated with NZTA work category 525 but exclude any renewals expenditure. Include all expenditure on public transport technology systems not just expenditure cofounded by NZTA. Total Mobility administration system expenditure is recorded under work category 517.

Expenditure should be further broken down by mode where available.

B.2 Treatment of specific matters

The following treatment of specific matters relevant to private share measure:

B.2.1.1 Fare substitutes vs concessions

Fare substitutes are different to fare concessions set by public transport authorities. The key differences are as follows:

- **Fare concessions** - fare concessions and products such as fare capping are pricing discounts that public transport authorities offer for public interest reasons and for which they are financially accountable.

  Fare concessions usually result in reduced fare revenue which must be covered through increased public funding or adjusting other fare prices. Public transport authorities may also adjust fare structures to optimise revenue yield.

- **Fare substitutes** – fare substitutes enable discounts for nominated passengers, but the discount is funded by a third party (e.g. a party additional to the public transport authority and NZTA) in exchange for a benefit.

  For example, an organisation might provide funding in exchange for discounted travel on public transport for its employees.

Fare concessions are therefore not a fare substitute and not included as part of the private share.

B.2.1.2 Funding vs revenue

Accountants treat these terms differently. Funding refers to money that is raised to fund the activities of an organisation whereas revenue is income earned from the normal operations of the organisation. For example, funding from ratepayers and revenue from passenger fares.

B.2.1.3 Consideration of integral services

The private share calculation should include all services as integral to a public transport network, except any integrated services that are currently exempt and not receiving any financial assistance. Part 5 of the Land Transport Management Act identifies three statutory service types, relevant to all modes of public transport. These are integral, exempt and excluded services. Integral services are identified by public transport authorities in their regional public transport plans as integral to the function of a regional public transport network. These services must be delivered by, or under contract with, a public transport authority, unless exempt. For further information about the treatment of integral services, refer development guidelines for regional public transport plans.

B.2.1.4 Treatment of net contracts

While now uncommon, there still exist between some public transport authorities and transport operators net public transport contracts, or exempt services that receive financial assistance. To calculate private share, total expenditure for each net contract or exempt service receiving financial assistance needs to sum the cost of the contract payments and the passenger fare revenue retained by the operator. This provides an estimate of the total cost of the service and the private share of that cost. Excluding retained revenue would skew the calculation of private share.

B.2.1.5 Special event services

Commonly, public transport authorities will provide additional public transport services to cater for the large number of public patronising a large event (e.g. concert, rugby test, etc). While the public transport authority may do this and retain the fare revenue generated, it is also not uncommon for the event organiser to sponsor the provision of additional public transport services to cater for their event. The costs and revenue from such initiatives should be reflected in public transport authority private share calculations.

B.3 Other measure considerations

B.3.1 Private share and farebox recovery

Private share and the previous farebox recovery policy (refer section 2.4) are both measures of cost recovery, but with important differences as summarised in Table 16. In essence, the policy framework for increasing private share is broader than the previous farebox recovery policy and can be better tailored to the different circumstances and context for each region.

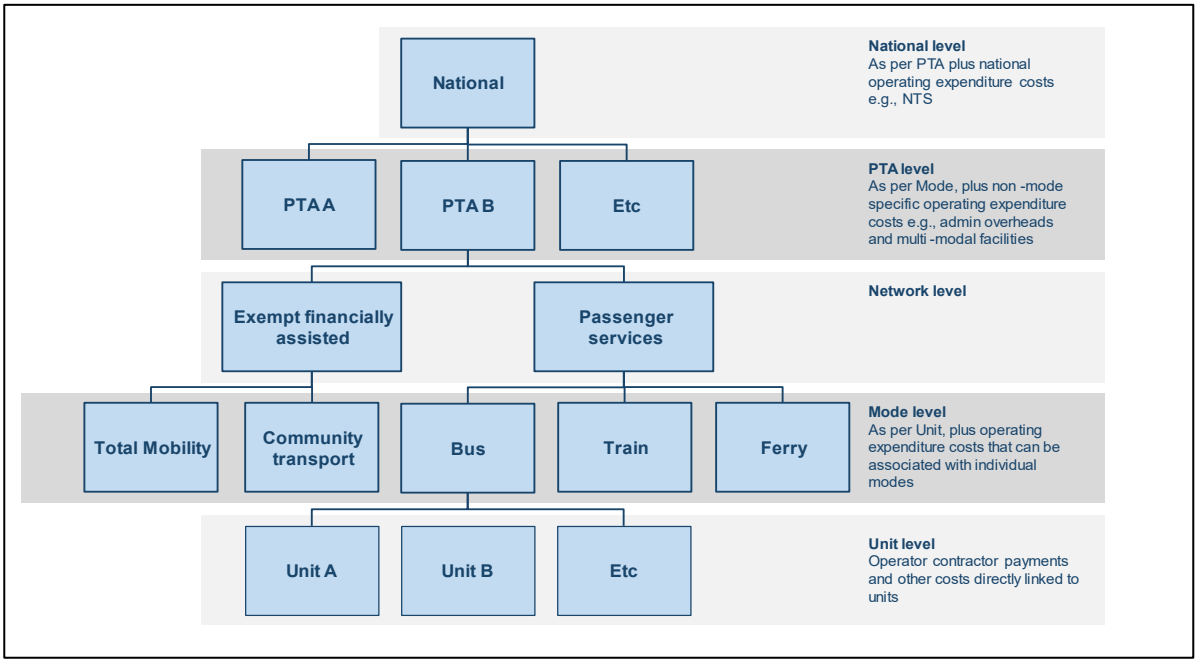
Table 16 Difference between private share and previous farebox recovery policy

Private share	Farebox recovery policy
• Private share targets will be set and agreed on a region-by-region basis taking account of the context and factors appropriate to each region.	• The previous farebox policy focused on a national target
• Private share accounts for passenger fare revenue and other private revenue sources that can help fund public transport expenditure and reduce pressure on ratepayers and taxpayers.	• The previous farebox recovery policy only considered passenger fares and not third-party revenue
• Under the private share approach Crown fare substitutes are treated as public subsidy to reflect their public funding source.	• The previous farebox recovery policy treated Crown fare substitutes such as SuperGold as passenger fare revenue.

B.3.2 Private share measure layers

The public transport private share measure and targets are applied at a national and regional level. At this level the measure includes all relevant revenue and expenditure, including that associated with multiple regions (e.g. national ticketing solution) or multiple modes (e.g. customer information). Private share can also be measured at a network, modal, unit or service level but with different information available to each level as shown in Figure 16.

Figure 16 Private share layers



The application of private share as a lower order measure will include some revenue and expenditure that cannot be apportioned between categories at that level, in which case there are two options:

1. Pro-rata between categories based on a factor such as passenger boardings or passenger-kms.
2. Exclude those uncategorised costs at the lower level and comparing on a like-for-like basis.

The second option is recommended. This means different information is available at each level, as indicated in the right-hand column of Figure 16, but is suitably provided equal treatment. For example, at unit level, passenger fare revenue and directly operating costs associated with that unit are included. The private share measure in this instance is very similar to the commerciality ratio currently required under the NZTA procurement manual.

B.3.3 Total Mobility private share

Total Mobility private share is not included in the public transport private share targets but is included here to identify how private share for Total Mobility can be measured. This is operating expenditure so excludes hoist renewals (WC 519) which needs to be picked up by another measure.

Table 17 Private share of operating expenditure (Total Mobility) measure definition

Revenue		Calculation	Notes
A	Passenger fares		Include the portion of the fare paid by the passenger (excl. GST)
B1	Private share substitutes		
B2	Commercial revenue		
C	Total private revenue	C = A + B1 + B2	
Operating expenditure			
H	Passenger services		Include the total fare shown on the taxi metre (excl. GST). Also included include direct fare subsidy included under work category 517 and 521.
I	Operations and maintenance		Include gross expenditure under work category 517. Exclude direct fare subsidies to avoid double counting
J	Total operating expenditure	J = H + I	
Measures inputs			
K	**Private share of operating expenditure (Total Mobility)**	**K = C / J**	

B.3.4 Population catchment

To enable the above per capita comparisons on a consistent basis we identified the catchment population of each region as set out in Figure 17 and Table 18. The catchment population is estimated using Statistics NZ population projections at the SA2 level where there is one or more public transport stops within that SA2 area but excluding stops in rural areas with limited services.

Figure 17 Public transport catchment population

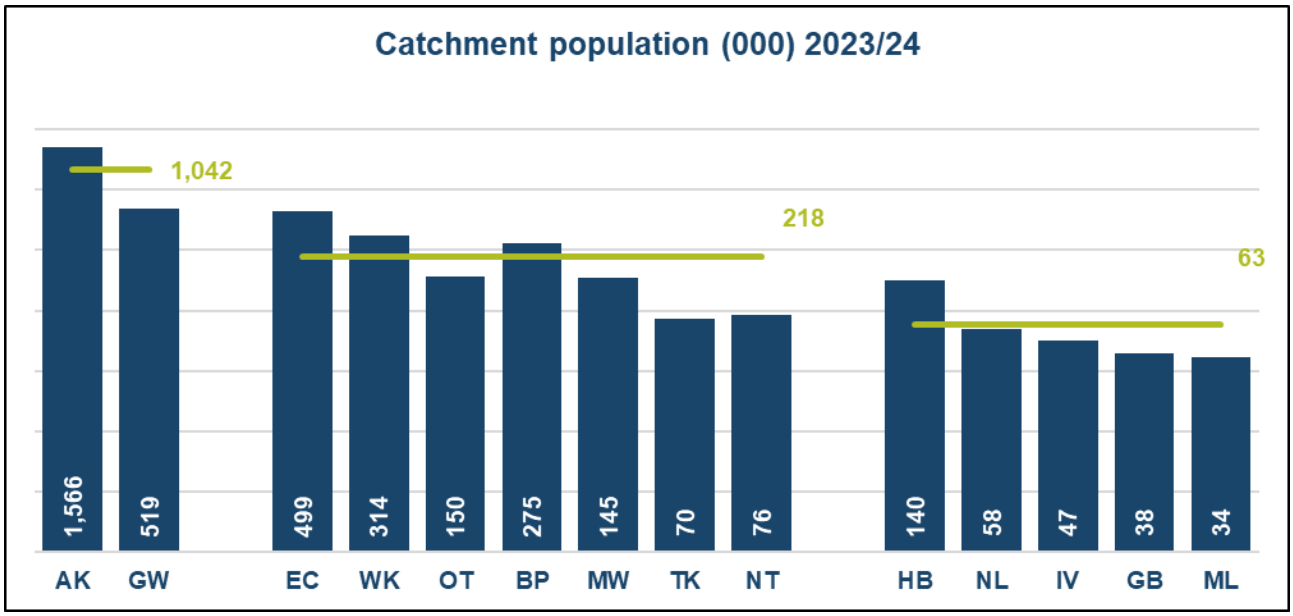


Table 18 Public transport catchment population and forecast growth rates

Public transport authority	Code	Land area (ha)	Population 2018	Population 2023	Population 2028	Growth rate pa 2023 to 2028
Auckland	AK	74,978	1,539,890	1,565,610	1,622,650	**0.7%**
Wellington	GW	40,917	500,960	518,510	531,390	**0.5%**
Canterbury	EC	45,907	472,370	498,840	517,140	**0.7%**
Waikato	WK	29,241	287,460	313,670	332,480	**1.2%**
Otago	OT	30,200	145,690	149,550	154,190	**0.6%**
Bay of Plenty	BP	28,261	250,580	275,120	289,290	**1.0%**
Horizons	MW	14,334	140,120	145,420	148,820	**0.5%**
Taranaki	TK	12,603	66,480	70,060	72,160	**0.6%**
Nelson-Tasman	NT	9,395	71,140	75,720	78,180	**0.6%**
Hawkes Bay	HB	27,650	131,970	139,530	144,050	**0.6%**
Northland	NL	7,624	54,790	58,140	60,310	**0.7%**
Invercargill	IV	4,073	45,870	46,510	47,170	**0.3%**
Gisborne	GB	3,616	36,050	37,660	38,410	**0.4%**
Marlborough	ML	3,265	32,780	34,470	35,280	**0.5%**
Total		**332,064**	**3,776,150**	**3,928,810**	**4,071,520**	**0.7%**

B.3.5 Revenue ratios

The development guidelines for regional public transport plans includes information on other revenue ratios (refer Appendix D).

B.3.6 Future measures

Work is currently underway to identify future measures, including the vertically integrated public transport measurement research project.

Appendix C Selected references

C.1 General

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