

# MIN-4467 GPS advice updates

26 April 2024

Provide updates to GPS advice in respect of:

- public transport funding and tensioning, and
- State Highway Improvements with multi-modal components.

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## NZ Transport Agency Waka Kotahi (NZTA) response:

### Public transport funding and tensioning

This note provides information regarding:

- assessment of public transport bids and expenditure (excluding Total Mobility)
- sources of revenue and how these are currently treated
- planned additional actions to deliver on government expectations.

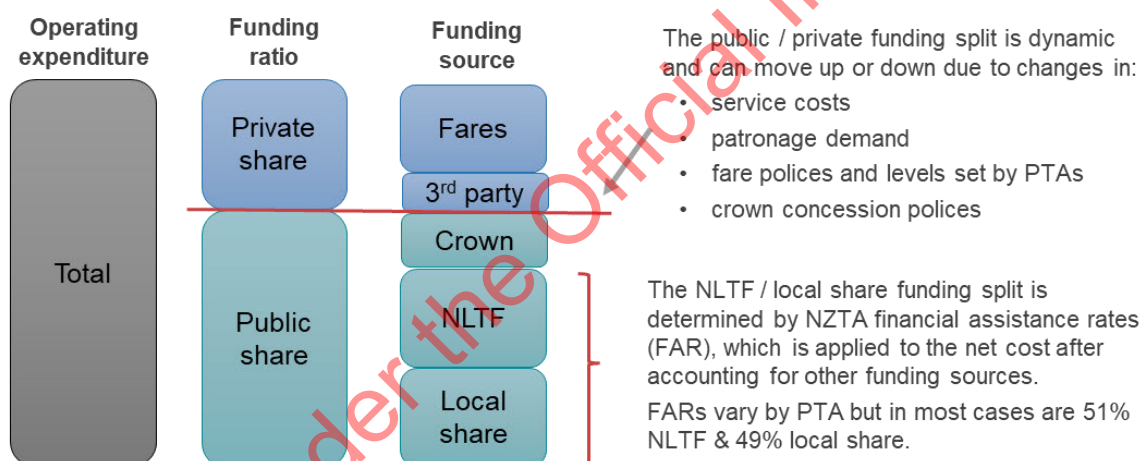
### **Assessment of public transport bids and expenditure**

- Operating expenditure increased by 10% over the five-year period to 2022/23, which is aligned with inflationary pressures and increased bus driver wages to address severe shortages and resulting cancellations. Refer Attachment 1 for further information on operating expenditure and public/private share.
- All regions currently have strong patronage growth trends and are exceeding 2018/19 levels, with the only exceptions related to major maintenance activities such as rail shutdowns in Auckland.
- The assessment and tensioning of public transport programmes is an important part of National Land Transport Programme (NLTP) development. A key component is moderation, which is an internal NZTA business process that ensures a consistent approach is used to assess all funding requests and is intended to:
  - ensure consistent, valid evidence-based decisions
  - avoid excesses and eliminating or lessening extremes.
- A separate moderation process is undertaken for Public Transport Authority (PTA) continuous programmes, which generally relate to the public transport services activity class and improvement programmes that are primarily associated with the public transport infrastructure activity class.
- The moderation of public transport continuous programmes was held on 16 April 2024, with an observer from the Ministry of Transport (the Ministry). The focus areas for this moderation included:
  - Review of funding demand from PTA bids and alignment with GPS investment ranges
  - Review of changes to levels of service embedded within the PTA bids, to ensure only costs associated with maintaining existing levels of service were included
  - Investment quality assurance review of the bids
  - Review of performance benchmarking against peer groups, including service utilisation data
  - Review and assessment of cost escalation and indexation.
- The review of performance benchmarking was undertaken using the following key metrics:

- Effectiveness – public transport passenger boardings per capita
- Efficiency – public transport operating expenditure per passenger boarding and public transport operating expenditure per service-km
- Financial – public transport fare per passenger boarding (average fare)
- The assessment of bids was based on the cost to the National Land Transport Fund (NLTF) and therefore, other revenue sources such as passenger fares, third-party revenue and Crown funding are only considered to the extent to which this impacts net cost.

### Sources of revenue and how these are currently treated

- Public transport operating expenditure is co-funded by PTAs and NZTA on a net expenditure basis. This means:
  - funding sources such as passenger fares, crown funding, and third-party funding like advertising revenue is subtracted from the total operating cost and the balance is co-funded at the applicable financial assistance rate.
  - the level of private share funding received determines the level of public share required to deliver the public transport services.
- This can be illustrated as follows:



- Current systems cannot readily manage or report on the detailed composition of each funding source (e.g. how much revenue from advertising makes up third party funding). NZTA is currently working on strengthening reporting requirements to allow for improved transparency and assist with managing farebox policy.

### Farebox recovery

- The previous farebox recovery policy is set out in the following documents. These documents are out of date and have not been enforced for several years:

- National farebox recovery policy (Waka Kotahi, 2010)<sup>1</sup>
- Fare policy decision-making guide (Waka Kotahi, 2010)<sup>2</sup>
- Guidelines for preparing regional public transport plans (Waka Kotahi, 2013)<sup>3</sup>
- Further to this, draft fare policies were developed between 2018 and 2021 as follows but these documents were not finalised or approved, largely due to COVID-19 and changes in government policy (Community Connect):
  - Draft public transport fares investment policy
  - Draft regional public transport plan guidelines (2021)

• s 9(2)(f)(iv)

#### Planned additional actions to deliver on government expectations

- The draft GPS seeks increased public transport fare box recovery and third-party revenue (private share) to help fund public transport operating expenditure.
- NZTA and the Ministry have commenced work necessary to deliver on the expectations set out in the draft GPS.
- A phased approach is planned as follows:

##### a) Phase 1 - Establish foundations (underway)

■ s 9(2)(f)(iv)

##### b) Phase 2 – Set medium-term targets and identify initiatives

■ s 9(2)(f)(iv)

<sup>1</sup> Refer <https://www.nzta.govt.nz/assets/resources/national-farebox-recovery-policy/docs/national-farebox-recovery-policy.pdf> (policy), <https://www.nzta.govt.nz/assets/resources/general-circulars/docs/10-03.pdf> (general circular) and <https://www.nzta.govt.nz/resources/national-farebox-recovery-policy/> (webpage)

<sup>2</sup> Refer <https://www.nzta.govt.nz/assets/resources/national-farebox-recovery-policy/docs/fare-policy-decision-making-guide.pdf>

<sup>3</sup> Refer <https://www.nzta.govt.nz/assets/resources/guidelines-for-regional-public-transport-plans/docs/guidelines-regional-public-transport-plans.pdf> (section 7.5.1, Transport Agency farebox recovery)

s 9(2)(f)(iv)

c) Phase 3 - Develop and implement agreed initiatives

s 9(2)(f)(iv)

- Maximising third party funding sources.

**Work currently underway**

- Phase 1 is currently underway. NZTA has already developed a draft foundational fares and pricing policy and consulted with PTAs. Under the Land Transport Management Act 2003, PTAs must align with the policy.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

**Setting private share targets**

- The draft GPS sets a clear expectation that public transport fare box recovery and third-party revenue (private share) is to increase.
- Private share ratios will change overtime and differ by region because public transport funding is dynamic and the nature of and context for services varies by region. Since 2018/19, farebox recovery has significantly decreased due to several factors, including COVID-19 and previous government policies (e.g. Community Connect).
- Private share of public transport operating costs is now on track to increase from 11% last year to over 20% this financial year. At a regional level, private share ratio expectations should reflect the nature and type of services being provided in that region.

## State Highway Improvements with multi-modal components.

### **NZTA State Highway Improvement (SHI) projects**

- NZTA has one project under construction in the 2024-27 NLTP that requires walking and cycling facilities as a condition of consent, being Te Ahu a Turanga – Ashurst River Bridge. The walking and cycling bridge is only part-way through the detailed design process; however is currently expected to have a cost of ca.\$30M.
- NZTA recognises the draft GPS 2024 direction regarding “no frills” design; and subject to Board agreement will seek to remove non-essential walking and cycling components from the design of projects not required by a condition of consent. This includes SH29A Cambridge to Piarere, where provision for walking & cycling was added following public consultation. Accordingly, NZTA does not anticipate any other project costs being directed to the Walking & Cycling Activity Class.

### **Local Government projects**

- Subject to final Board decisions on investment targets, based on scenarios before the Board, s 9(2)(f)(iv)  
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- As NZTA Board has yet to confirm investment targets for the Local Road Improvements Activity Class, if more funding was made available for the provision of new local roads (e.g. to support new growth areas); property and construction costs for the basic pedestrian facilities would amount to approximately 5% to 15% of the cost. It should be noted that at this point in time, Council funding bids for projects under construction and in business case development have yet to be confirmed.
- NZTA expects the GPS direction in respect of “no frills” design will also apply to Local Government projects and will work with Councils to ensure scope is narrowed where appropriate.
- Note: The above analysis assumes that all existing approved/ funded projects under NLTP 2021-24 will not have costs retrospectively attributed to the Walking & Cycling Activity Class.

