

Subject **Increasing the private share of public transport expenditure**
Circulation Public Transport Authorities
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1. Purpose

This document sets out how the NZ Transport Agency intends to work with public transport authorities to increase the private share of public transport expenditure to meet expectations set out in the Government Policy Statement on land transport 2024 (GPS).

2. Background

The GPS sets an expectation for increased private share funding to:

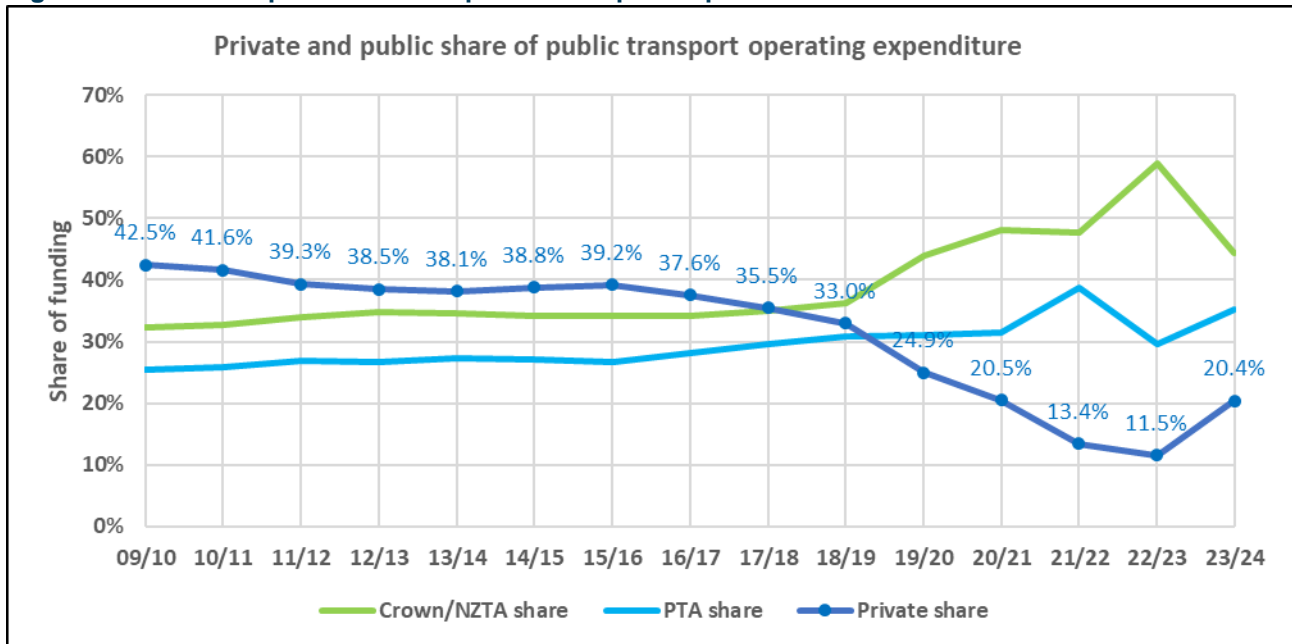
- support increased levels of public transport expenditure, and;
- reduce pressure on ratepayers and taxpayers

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 and network service levels.

The private share of public transport expenditure is made up of passenger fare revenue and third-party funding. The public transport framework [investment and expenditure](#) page, provides further information on sources of public transport funding.

Nationally the private share of public transport operating expenditure has reduced significantly over the last five years and is currently at 20.4% (2023/24) as shown in Figure 1. This is up from 11.5% in 2022/23.

Figure 1 Private and public share of public transport expenditure



NB: Private share includes passenger fares and third-party funding. Crown/NZTA share and PTA share includes funding related to work categories 511, 512, 514, 515, 522, 524, 525, 532.

3. Phased approach to increasing private share

A phased approach has been developed to increase private share funding, as outlined below. The approach will establish nationally consistent definitions and measures, along with regionally agreed targets. It also includes developing tools and an evidence base for setting longer term targets and initiatives.

3.1 Phase 1 - Establish the foundations

This phase will be completed by December 2024 and includes the following components:

- a) Establish nationally consistent public transport expenditure and revenue definitions, measures, baselines, and reporting methods across all regions.

This is an important step due to variance in understanding of private share nationally. Appendices A and B provides initial information on standard definitions, measures, and reporting requirements necessary to create a common language and understanding across the sector.

- b) Identify and agree interim private share targets with each PTA.

Interim private share targets will be set ahead of undertaking research and initiatives to establish longer term targets. Interim targets will be identified on a region-by-region basis to reflect the context and circumstances of each region.

Interim targets need to be meaningful and achievable with an overarching aim of supporting year on year increases to the private share of public transport funding. Actual private share ratios achieved regionally in 2018/19 will be the starting point for identifying interim targets.

- c) Identify initiatives (both existing and new) for increasing private share funding for public transport, develop and grow alternative revenue streams appropriate for each region.

Private share is expected to increase annually. To achieve this, it is important for PTAs to identify and implement initiatives as soon as possible in parallel with (not after) related work progressing.

3.2 Phase 2 - Develop evidence base and initiatives

This phase will be undertaken in parallel with Phase 1 and will be completed by June 2025. This phase includes the following components:

- a) Implement a range of initiatives for increasing private share funding.
- b) Identify and have under way initiatives that require longer lead times to develop and implement.
- c) Develop an evidence base for setting longer term private share targets that maximises both private share funding and the value of public transport to the broader economy, communities and the environment.

Sector research is an important part of developing an evidence base in phase 2 to inform longer terms targets, initiatives and policy settings. A research project is being commissioned by NZTA that will look at international best practice and is split into three parts:

- Part A: Quantify private/public benefits
- Part B: Identify third-party funding initiatives
- Part C: Best practice guidance and toolkit for implementation

The aim of better defining the private and public benefits of public transport is to help maximise both private share funding and broader economic benefits that results from greater utilisation of public transport.

The elements related to third-party funding initiatives aim to foster sector innovation. Developing third party revenue streams can reduce the need for passenger fare increases while also alleviating funding pressure on taxpayers and ratepayers. Potential opportunities include, but are not limited to:

- Advertising – leveraging advertising opportunities associated with vehicles and facilities.
- Fare concessions – developing initiatives where businesses / entities fund fare concessions for nominated individuals or groups.
- Strategic use of public assets owned or controlled by PTAs and / or territorial authorities:
 - Retail opportunities - maximising retail opportunities at passenger facilities.
 - Energy infrastructure - enabling the use of charging facilities by other commercial entities or exporting stored energy to the grid during high demand and low supply.
 - Property development - exploring development opportunities around key bus hubs and stations in larger urban areas.

3.3 Phase 3 - Set longer term targets

This phase will be completed by December 2025 and includes the following components:

- a) Identify and agree on longer term private share targets with each PTA, informed by an evidence base and learnings from each region.
- b) Identify initiatives for achieving the longer-term targets.

4. Shared responsibilities

The responsibilities for increasing private share funding are shared:

- NZTA is responsible for:
 - establishing shared terminology, measures and reporting nationally.
 - developing an evidence base and resources that can be utilised by PTAs to inform both policy and initiatives to increase private share funding in a way that is appropriate to the context and circumstance of each region.
- NZTA and PTAs are jointly responsible for setting interim and longer-term targets suitable for each region and giving effect to GPS expectations.
- PTAs are responsible for identifying and implementing initiatives to increase third party funding and achieving agreed targets with support from NZTA.

There will be regular engagement between NZTA with PTAs through Transport Special Interest Group (TSIG), the bi-monthly NZTA – PTA meetings and monthly NZTA Public Transport Team meetings with each PTA.

5. Next steps

Please look out for the following engagement opportunities over the next few months:

- A survey will be circulated to PTAs in September seeking information and advice on:
 - public transport expenditure and revenue sources
 - existing and planned initiatives to grow private share
- An engagement document will be circulated to PTAs in October prior to finalising nationally consistent terminology, measures and policy

If you have any questions, please email public.transport@nzta.govt.nz or touch base with your point of contact within NZTA's public transport team.

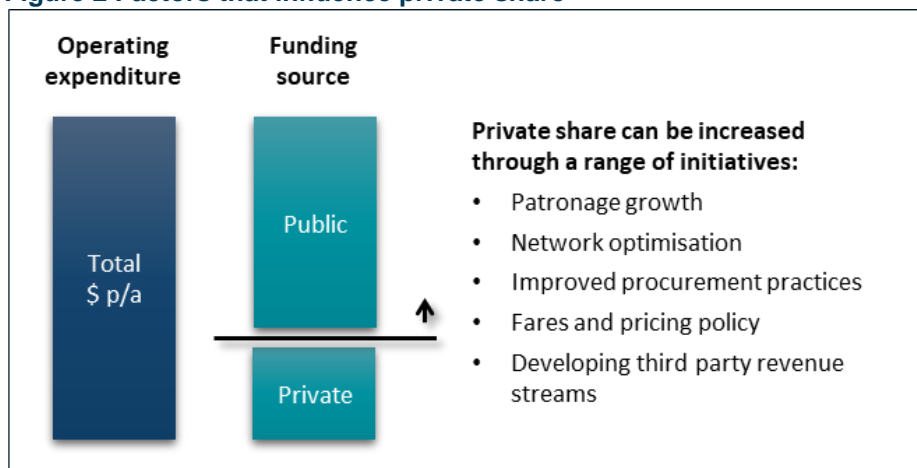
Appendix A - Standard definitions, measures, and reporting

This broadly falls into related categories, being expenditure and revenue reporting and measuring private share.

A1 - Factors that influence private share

Private share can be influenced via a range of initiatives such as, but not limited to, those outlined in Figure 2. As part of Phase 1, PTAs will need to identify initiatives for increasing private share (both existing and new) relevant to their regions. NZTA will collate this information, share best practice nationally and monitor progress with PTAs.

Figure 2 Factors that influence private share



A2 - Expenditure and revenue reporting

Currently, no single entity in New Zealand has a complete and accurate picture of total public transport expenditure and how that expenditure is funded. To address this, there is a need to standardise expenditure and revenue reporting across the sector. This involves reporting all operating expenditure and funding sources regionally and aggregating this nationally.

NZTA will work with PTAs to:

- Finalise definitions and scope for expenditure and revenue reporting.
- Identify efficient methods and appropriate reporting frequency.

0 provides a starting point for expenditure and revenue definitions and the calculation of revenue ratios.

A3 - Measuring private share (revenue ratios)

Expenditure and revenue reporting outlined above will be utilised to calculate and monitor revenue ratios, including the private share ratio. Revenue ratios reflect the proportion of total expenditure covered by a particular revenue source.

Further detail and an illustrative example are outlined in Appendix B.

Appendix B - Expenditure definitions and revenue ratios

B1 - Expenditure and revenue definitions

The tables below provide initial definitions for expenditure and revenue reporting. This is subject to change following engagement with PTAs. The letters “A” to “I” are used to define formulas for calculating revenue ratio measures.

Operating expenditure		Definitions
A	Passenger services	All activities that qualify under work categories 511, 512, 515.
B	Operations and maintenance	All activities that qualify under work categories 514, 524, 525, 532.
C	Total	Total operating expenditure

Operating revenue		Definitions
D	Passenger fares	All fare revenue received from passengers.
E	Third parties	All funding from third parties such as but not limited to advertising, tertiary institutions, or developer contributions.
F	Crown	All funding from the crown such as but not limited to SuperGold and Community Connection funding.
G	NLTF	All funding received from the NLTF.
H	Local (with FAR)	All local share funding that received co-funding from the NLTF.
I	Local (without FAR)	All local share funding <u>not</u> co-funded from the NLTF.
	Total	Total revenue utilised for the purpose of funding public transport expenditure.

B2 - Calculating revenue ratios

Revenue ratios are expressed as a percentage and are calculated by dividing the applicable revenue figures (the numerators) by the applicable expenditure figure (the denominator).

$$\text{Private share ratio} = \frac{D + E}{C}$$

$$\text{Central share ratio} = \frac{F + G}{C}$$

$$\text{Local share ratio} = \frac{F + G + H + I}{C}$$

$$\text{Local share ratio} = \frac{H + I}{C}$$

B3 - Private share illustrative example

Operating expenditure		
A	Services	\$ 10,000,000
B	Maintenance and operations	\$ 2,000,000
C	Total	\$ 12,000,000

$$\text{Private share ratio} = \frac{D + E}{C}$$

Operating revenue		
D	Passenger fares	\$ 3,600,000
E	Third parties	\$ 480,000
F	Crown	\$ 960,000
G	NLTF	\$ 3,243,600
H	Local (with FAR)	\$ 3,116,400
I	Local (without FAR)	\$ 600,000
	Total	\$ 12,000,000

Revenue ratios				
30%	34%	Private		
4%				
8%	35%	Central	66%	Public
27%		Local		
26%	31%			
5%				

B4 - Customised measures and formulas

In addition to the standard formulas, the approach enables flexibility to define and assess a wide range of revenue ratios in different ways by adopting different numerators and denominators as required.

For example, a PTA may wish to assess farebox recovery at a unit level exclusive of broader operating and maintenance expenditure. The formula would be as follows:

$$\text{Farebox recovery ratio (services only)} = \frac{D}{A}$$

The approach can also be adapted for more granular assessments such as by mode, unit, service or trip as needed.