

Green Transport Card Investigation Findings

Reason for this briefing	This briefing summarises the findings of our investigation into a Green Transport Card scheme to reduce the costs of public transport for low-income households, and seeks your views on options for the scheme.
Action required	Note the findings of the investigation, and confirm a meeting with us to discuss options and your preferred approach for the scheme.
Deadline	10 July 2019.
Reason for deadline	You are discussing this briefing with officials on Thursday 11 July at 2pm.

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Richard Cross	Manager, Strategic Policy and Innovation	██████████	✓
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MINISTER'S COMMENTS:

9(2)(a)

Date:	4 July 2019	Briefing number:	OC190584
Attention:	Hon Julie Anne Genter, Associate Minister of Transport CC Hon Phil Twyford, Minister of Transport	Security level:	In confidence

Associate Minister of Transport's office actions

- Noted*
 Seen
 Approved
- Needs change*
 Referred to
- Withdrawn*
 Not seen by Minister
 Overtaken by events

Purpose of this briefing

1. This briefing summarises the findings of our investigation into a Green Transport Card scheme (the scheme), and seeks your views on recommended options for the scheme.

Executive summary

2. We support introducing a scheme to make public transport more affordable for Community Services Card (CSC) holders. It would improve the well-being of many low-income households in urban areas, by reducing transport disadvantages. It could help counter the effects of rising transport costs for many low-income households in the future.
3. We investigated three concession options for CSC holders.
 - **Option 1:** fare-free travel during off-peak periods only
 - **Option 2:** 50 percent discount on base fares, at any time of the day
 - **Option 3:** a public transport allowance (e.g. \$100-\$200 credit per year).
4. We recommend pursuing option 2, as it offers the best mix of benefits and value, and was the option most favoured by councils involved in the investigation. In comparison, option 1 would offer low benefits, and would result in higher costs. Option 3 might be a feasible alternative, but has additional uncertainties and risks.
5. Government needs to keep working with councils on the scheme, as regional councils are responsible for setting local public transport fares and concessions. Councils involved in the investigation have been supportive. Their main concern is that the scheme should not transfer costs to local government, and that there needs to be sufficient lead-in time to prepare. For example, Auckland Transport has indicated that it would take 18 months to adapt ticketing systems, after a funding agreement is in place.
6. Greater Wellington Regional Council (GWRC) is very concerned about the impact on its bus network if on-peak services are included. GWRC has indicated that it would take two years to resolve its capacity issues.
7. We advise setting mid-2021 as the target date to implement the scheme. This timing would align with the next Government Policy Statement on Land Transport (GPS) taking effect, and adoption of the 2021-24 National Land Transport Programme. It would also align with the current timetable for introducing integrated ticketing in Wellington.
8. The mid-2021 timing would depend on an agreed funding arrangement with councils, Budget funding, and ongoing council support. It could also be affected by bus driver shortages. These issues are most pronounced in Wellington, so we recommend you meet with Greg Campbell from GWRC to discuss the timing of the scheme before taking a paper to Cabinet.
9. It may be possible to implement option 3 earlier than mid-2021. A bespoke system would need to be developed to transfer public transport allowances to registered travel cards. We would need to investigate this option further before establishing timeframes and costs.
10. Dependents of CSC holders could be included in the scheme, but data needs to be collected on dependents before considering their inclusion. A scheme for dependents should be

considered in combination with the Ministry of Education's work to develop a new travel card system for school students.

11. Existing travel cards should be used in each region, with concessions/allowances linked to registered travel cards. This would enable the scheme to function well with existing ticketing and funding systems.
12. As with all schemes that provide an individual benefit, there is a risk that some people will take advantage of the scheme, by sharing/selling their concession travel cards with others who do not have a CSC. This would need to be managed, for example by requiring travellers to carry their CSC with them and to display it on request.
13. The Crown should fund the fare subsidies for CSC holders, plus an additional portion of each fare to compensate councils for the costs of providing additional services to CSC holders. Councils' administration costs should be funded through existing National Land Transport Fund (NLTF) processes. Additional services should also be co-funded by the NLTF. To enable this, the impacts of additional public transport demand would need to be factored into the next GPS.
14. Card holders who are unable to access public transport, including people in rural areas and some people with disabilities, are likely to voice concerns about the equity of the scheme. Other initiatives would be needed to make access more inclusive for communities who are unable to access conventional public transport services.
15. We have provided two A3 documents with this briefing that summarise the main points of this briefing, and the pros and cons of the investigated options.

Background and scope of the investigation

16. This investigation stemmed from an agreement in the Confidence and Supply Agreement between the Labour Party and the Green Party to "investigate a Green Transport Card as part of work to reduce the cost of public transport, prioritising people in low-income households and people on a benefit."
17. On 10 December 2018 (OC181192 refers), you agreed to initially target the scheme at CSC holders and their dependents under 18 years of age. SuperGold card holders with a CSC would be excluded from the scheme, as they can already use their SuperGold card to travel fare-free during off-peak periods.
18. On 14 December 2018, we submitted a budget initiative to establish the scheme (OC181137 and OC181192 refer). Budget funding was contingent on completing this investigation by mid-2019.
19. In February 2019, we established governance and working groups for the investigation. These groups involved representatives from six councils, Local Government New Zealand (LGNZ), the New Zealand Transport Agency (NZTA), the Ministry of Health (MoH), the Ministry of Social Development (MSD), and the Treasury. Attachment 1 identifies members of these groups. The governance group met monthly from March to June 2019, while the working group met fortnightly during this period.

20. In April 2019 you took a paper to Cabinet (OC190139 refers) summarising our approach to the investigation. You noted that you would report back to Cabinet in June/July 2019 on the investigation findings.
21. The investigation covered the following:
- the case for the green card scheme
 - implementation challenges and opportunities
 - benefits and costs for the three options
 - how to include dependents in the scheme
 - funding principles.
22. We investigated three options for CSC holders.
- **Option 1:** fare-free travel, during off-peak periods only.
 - **Option 2:** 50 percent concession on base fares, at any time of day.¹
 - **Option 3:** a public transport allowance (e.g. a \$100-\$200 credit per year).
23. Early in the investigation, we excluded an option of providing fare-free travel at any time of day, due to concerns about capacity issues and funding costs.

The scheme would reduce transport disadvantages, and improve well-being, by making transport more affordable

24. The scheme primarily aims to improve the well-being of many low-income households and people on a benefit, by making public transport more affordable for these people. It also aims to deliver co-benefits for improving people's health, reducing greenhouse gas emissions, and managing congestion, by supporting public transport as a preferred mode of urban travel.
25. To investigate the scheme's potential to meet these aims, we reviewed evidence on the links between transport affordability and well-being.²
26. Extensive research shows that people who lack affordable access to transport experience 'transport disadvantages'. They have more difficulty accessing goods, services, and opportunities that are available to others, which are fundamental for participating in society. This includes access to education, employment, health services, and sporting, leisure, and cultural activities.
27. While public transport is only one way of providing access, research shows that public transport can play an important role in reducing transport disadvantages and in supporting social inclusion.
28. Reducing public transport fares for low-income households is one approach that can be used to reduce transport disadvantages. Other approaches could include improving transport

¹ Base fares are standard adult fares, before any discounts have been applied.

² This research is summarised in a working paper for the investigation, which we can provide you with.

options (e.g. providing better public transport services to low-income areas), making services more accessible for people with disabilities, and increasing household incomes.

29. There is a lack of research on the extent of transport disadvantages for low-income people in New Zealand, or the most effective ways to reduce these disadvantages. This area has received insufficient attention in the past.
30. Travel costs for low-income households are increasing, which could perpetuate disadvantages. The average weekly expenditure on passenger transport services among low-income households in New Zealand increased by 63 percent between 2013 and 2017.

The scheme would not reduce transport disadvantages for many low-income households

31. Many low-income households live in areas that are not well-served by public transport. For these households, the lack of access to frequent and reliable public transport services is more of a barrier than fare prices.
32. Low-income households are often concentrated in outer-urban areas, where public transport services are often poor. This can perpetuate economic deprivation, as low-income households can end up in relatively expensive car-dependent feedback loops that prevent them from being able to save money to move to locations with better accessibility and more transport options.
33. To assess how many CSC holders could potentially benefit from the scheme, we analysed where CSC holders live in relation to public transport services.
34. In the regions of Auckland, Wellington, and Canterbury, approximately three quarters of CSC holders live within walking distance (i.e. 500m) of a regular public transport service (i.e. operating at least every 30 minutes throughout the day). This indicates that a high proportion of urban card holders can access a public transport service, but not necessarily services that take them where and when they need to go.
35. At a national level, approximately half the population of CSC holders live within walking distance of a regular public transport service.³
36. This means that, on a geographical basis, the scheme would have similar impacts as the SuperGold card. Over 80 percent of SuperGold card holders who use their cards to travel fare-free on public transport in off-peak periods live in Auckland, Wellington, and Canterbury. Some CSC holders also have disabilities that affect their ability to use public transport.

The scheme would address a gap in public transport fare concessions

37. Some sub-groups of the population tend to experience more significant transport disadvantages than others. This includes people on low incomes, solo parents, children, students, elderly people, and people with disabilities.

³ The number of CSC holders who have access to public transport services will be slightly higher than half, as we were only able to access data on services with a half-hour frequency throughout the whole day. Additional services operate only at peak time, and/or less often than every 30 minutes.

38. All councils in New Zealand offer public transport concessions to some of these sub-groups, although the base fare and concession rates vary between councils. All councils offer child concessions, some councils offer tertiary student concessions, and all councils participate in the SuperGold card scheme that enables seniors to travel fare-free during off-peak periods.
39. Most councils do not offer public transport concessions to CSC holders.⁴ This is a significant gap in making access to the transport system inclusive, as CSC holders earn low incomes compared to the rest of the population, and include solo parents and people with disabilities.⁵

The scheme would improve equity on aggregate, but it would also create additional equity concerns

40. Introducing fare concessions for CSC holders would make public transport more equitable. However, it could also increase disparities between CSC holders who can easily access public transport, and CSC holders who are unable to access public transport.
41. Government could explore broader initiatives to reduce transport disadvantages for low-income households in New Zealand that are unable to access public transport, including through the Total Mobility Scheme (which provides subsidised licensed taxi services to people who have a disability). We did not explore these options in this investigation, due to scope and time constraints.

Overall, we support this scheme to improve inclusive access in the transport system

42. Members of the governance group and the working group emphasised that a scheme to reduce the costs of public transport for CSC holders may not necessarily be the most effective intervention to reduce transport disadvantages for low-income households.
43. We agree that there is a lack of research on transport disadvantages for low-income people, which hampers the ability to make informed decisions on the best approach to reduce these disadvantages. It is also clear that the scheme would not benefit all CSC holders.
44. Nonetheless, it is clear that the scheme would play a role in reducing transport disadvantages, and improve the well-being of many low-income households. We support this scheme for the following reasons.
- 44.1. *It would assist NZTA and councils to meet their obligations to consider the needs of low-income households with transport disadvantages.* Under s(35) of the Land Transport Management Act 2003, NZTA and regional councils “must consider the needs of persons who are transport-disadvantaged” when preparing any land transport management programme or plan.
- 44.2. *It would help to balance the need for better public transport services, with affordability.* Auckland Transport, GWRC, and Environment Canterbury are

⁴ CSC holders receive fare discounts of up to 30 percent in Hawkes Bay, Taranaki, Horizons (Manawatu-Wanganui), Nelson, and Tasman. They do not receive CSC concessions in Auckland, Wellington, Christchurch, or other cities.

⁵ CSC holders include people who receive a benefit from Work and Income, such as recipients of an accommodation supplement or a disability allowance, those without paid work, low-income families, people living in social housing, tertiary students that are eligible for a student allowance, and refugees.

prioritising more extensive and frequent public transport services in their new networks, rather than reducing public transport fares. This scheme would enable councils to target concessions at low-income people, while also increasing services.

- 44.3. *Strategically, the scheme could play an important role in the Government's broader transport agenda.* Urban transport costs are likely to rise further in the decades ahead due to factors such as higher oil prices, initiatives to decarbonise transport (e.g. fuel efficiency standards), and demand management initiatives to manage road congestion (e.g. road pricing). The scheme would help to counter the effects of rising transport costs for many low-income households in the future by providing an affordable alternative to private car travel.
- 44.4. *By incentivising higher use of public transport, the scheme could help to meet mode shift targets.* It would make it more financially attractive for councils to extend the reach and/or frequency of public transport services. It could also provide a stronger incentive for councils to improve public transport services in areas where many CSC holders live. This will occur if the scheme drives up public transport patronage in these areas.

We assessed three options for the scheme against their potential social impacts, transport impacts, ease of implementation, and value for money

45. In collaboration with the councils involved in the investigation, we developed a model to estimate the impacts of each option on public transport patronage, and subsidy costs. Auckland Transport, GWRC, and Environment Canterbury used this model to generate estimates, using public transport data from their regions. We supplemented this model with public transport data from NZTA on other regions, to develop national estimates.
46. The model calculated 'fare revenue foregone', which represented the subsidy required to cover the fare concessions.⁶ The model estimated how many additional trips CSC holders would take, based on changes in fare prices (using price elasticities agreed with councils). It also modelled how patronage and revenue foregone could change over a ten-year period. It did not identify impacts on specific routes, where capacity increases may be required.
47. The model did not cover additional costs associated with the scheme.
48. Table 1 summarises high-level findings from our assessments and modelling. This table excludes data on dependents, for reasons given in paragraphs 70-73.
49. We are unable to quantify the access benefits (i.e. the downstream benefits associated with improved social and economic participation for people on low incomes), as there is no agreed methodology to calculate these benefits. We were also unable to quantify the benefits of mode shift, due to lack of data on CSC holders' current public transport use.

⁶ The model measured the change in revenue under each option, relative to the base case of no intervention. It includes all trips that would have occurred regardless of the fare concession, and additional trips generated by the concession. For option 2, the loss in revenue is partially offset by a gain in revenue from additional trips (as CSC holders would be contributing 50% of the fare price).

Table 1: Summary of estimated benefits and subsidy costs for primary CSC holders

	Option 1: Fare-free, off-peak	Option 2: 50% concession, any time	Option 3: Travel allowance
Social benefits			
Access to employment, health, and education	Low	Med-high	Med
Additional health benefits (including active travel)	Low	Low-med	Low-med
Mode shift benefits	Low	Med	Low-med
Direct savings for CSC holders	*	*	*
Public transport system impacts			
Increase in annual passenger trips: year 1	+3.8 million (2.5% increase)	+4.5 million (5.4% increase)	**
Increase in annual passenger trips: year 10	+8.1 million (3.1% increase)	+10.9 million (7.3% increase)	**
Impact on PT capacities	Low	Moderate	Moderate
Annual revenue foregone / direct subsidy costs			
Foregone revenue (year 1)	\$33.9 million	\$20.1 million	0
Foregone revenue (year 10)	\$44.2 million	\$18.1 million	0
Travel allowance	0	0	\$30-60 million (\$100-\$200 allowance)

* We are currently completing some additional work to calculate direct financial savings for CSC holders.

** Option 3 benefits and costs would depend on the size of the allowance.

50. Option 2 offers more social benefits than option 1, as many CSC holders need to travel at peak times to access work, education, and health services. CSC holders are therefore likely to use public transport more often in option 2, compared to option 1.
51. Option 2 has more potential to encourage a mode shift from cars to public transport when roads are most congested at peak times, which would enhance the social, economic, and environmental benefits of the scheme.
52. Option 1 is less likely to support active travel modes compared to option 2. International research shows that people often switch from walking and cycling to using public transport when services are completely fare-free.
53. Subsidy costs for option 2 would be lower than option 1. This is because CSC holders would still contribute a portion of the fare if the concession was 50 percent, so the subsidy for each trip would be lower. Over a decade, annual subsidy costs for option 2 could be half as much as option 1.
54. For option 3, the benefits and subsidy costs would depend on the size of the public transport allowance. For example, if the allowance was \$100 per year, and half of CSC holders used the full allowance, it would cost approximately \$30 million per year to fund the allowance.
55. Depending on the size of the allowance, the benefits of option 3 could be similar to option 2. However, CSC holders who are regular public transport users, and/or need to travel long distances, could quickly exhaust the allowance. We did not investigate an optimum level for the allowance due to time constraints for the investigation.

There would also be additional costs to implement and administer the scheme

56. The costs in Table 1 only identify the direct subsidy costs. Central government agencies and councils would face additional costs. Councils would expect reimbursements from central government for costs incurred by the scheme.
57. The most significant additional costs would be providing extra capacity to cater for increased public transport demand, particularly for option 2. Central government's share of these costs would depend on the funding model agreed with local government. Funding considerations are discussed in paragraphs 90-101.
58. Additional implementation and administration costs would include changes to ticketing systems, plus information technology, project management, communications, customer service, and staff time.
59. We are currently awaiting some additional data from councils on the costs to adapt ticketing systems. Auckland Transport has indicated that it normally costs approximately \$500,000 to introduce a new concession profile on all their ticketing equipment.

Implementation challenges vary among options

60. Option 1 would be the easiest to implement, option 2 offers more value but would require additional public transport services, and option 3 would need further investigation
61. Councils indicated that option 1 would be the least difficult option to implement. It would not require changes to ticketing systems in Wellington and Canterbury, so this option could be implemented within 12 months in these regions, after a funding agreement is in place. Auckland Transport indicated that it would take 18 months to implement either option 1 or option 2, due to the time required to adapt ticketing systems in Auckland.
62. Option 2 would increase public transport patronage at peak times. Most regions are facing challenges adding extra services due to driver shortages, and NZTA has advised that no funding is available in the 2018-21 NLTF to fund additional services. It often takes more than a year to increase capacity. For example, it takes 12-18 months for new buses to arrive after signing contracts with operators.
63. If central government decides to implement option 2 before councils are able to increase capacity, councils are likely to oppose the scheme. Existing public transport users would also be adversely affected if they are unable to use services at peak times due to over-crowding. This risk is likely to be the highest in Wellington, due to existing challenges in its public transport network.
64. Option 3 would involve setting up a system to transfer public transport allowances to travel cards that are registered to CSC holders. Each allowance could be transferred in instalments (e.g. every 3-6 months), to avoid exceeding the stored value limits of travel cards. CSC holders could potentially use the travel allowance to purchase train tickets in Wellington.
65. Option 3 would be easier for most regions to implement, as it would not require changes to concession profiles or ticketing systems. However, this option would be significantly more complex for central government to implement. Ongoing administration costs could also be

higher than other options. A bespoke system would need to be designed, developed, tested, and implemented to transfer allowances from central government to registered travel cards in each region. It is unclear how long this system would take to develop, or what it would cost.

On balance, we recommend pursuing option 2 (a 50 percent fare concession at any time), if Cabinet agrees to go ahead with the scheme

66. Compared to the other options investigated, option 2 would offer the best balance of value and benefits.
67. Councils involved in this investigation agreed that option 2 would be the preferred option, with the exception of GWRC. GWRC is understandably concerned about the difficulties it is currently facing in increasing public transport capacities at peak times. GWRC also noted that option 2 could be difficult to implement on Wellington trains until integrated ticketing is introduced in 2021.
68. Option 3 might be a feasible option, but has additional uncertainties and risks. We would need to investigate these uncertainties further before recommending this option.
69. Most councils involved in the investigation were open to exploring option 3. Auckland Transport was not in favour of that option, as they expect it would add additional administrative costs to top up travel cards every 3-6 months (especially if CSC holders need to visit kiosks to top up).

More data would need to be collected on dependents of CSC holders before considering their inclusion in the scheme

70. MSD does not currently have reliable data on the number, names, or locations of dependents of the CSC holders.
71. A first step towards including dependents in the scheme would be to develop a system to identify dependents. We are working with MSD to understand how long this process could take, and what it could cost to implement.
72. In the meantime, most dependents can already travel on child/student concession fares. Auckland Transport's recent decision to enable all children under 16 to travel fare-free on weekends and public holidays has also provided additional benefits for dependents in this region. Other regions are also considering fare-free weekend concessions for dependents.
73. There could be opportunities to target concessions for dependents of CSC holders on council-provided school bus services and public transport to/from schools. The Ministry of Education is planning to introduce a national integrated card system for students travelling on school buses and public transport. This system could be implemented nation-wide in 2021 (if it is a stand-alone system), or integrated with ProjectNEXT (the National Integrated Ticketing System) which will be implemented in 2021-2026. Concessions for dependents of CSC holders could be integrated with this card scheme.

Existing ticketing systems should be used in each region, with concessions/allowances linked to registered travel cards

74. We investigated using CSCs as travel cards, producing a stand-alone 'green transport card', and creating a system to load CSC concessions on to existing travel cards in each region.
75. The scheme would need to function with existing and future ticketing systems in each region, as these systems are essential for swift passenger boarding, fare payments, data collection, and public transport planning.
76. The most straight-forward and cost-effective solution would be to link the CSC concessions/allowances directly to registered travel cards in each region, via an automated system. This would avoid the costs of producing new CSCs, or separate 'green transport cards'.
77. The registration process would need to be accessible for people with disabilities and impairments, and those without internet access.
78. This approach would follow the system that some councils are already using to automate concessions on to cards. Auckland Transport is establishing an automated system for tertiary concessions, and is exploring automated systems for secondary students and SuperGold card holders. The Regional Integrated Ticketing System (RITS) consortium of nine transport authorities have similarly developed an automated eligibility system for the SuperGold card.
79. Unfortunately, this approach would not currently work with train services in Wellington, as train passengers currently use paper tickets instead of smart cards. Wellington is planning to introduce an integrated ticketing system in 2021, which would overcome this limitation.
80. If you would prefer to introduce a branded card for the scheme, it should be possible to develop a uniquely designed travel card in each region that have the concessions loaded (e.g. a green HOP card; a green Snapper card, etc.). This would not affect card functionality. However, it would add additional costs to create cards, hold card stocks, and replace cards every time a person's concession eligibility changes.
81. CSC holders would be unable to use their registered travel card in more than one region due to differences in card/ticketing systems. The exception to this would be regional members of the Regional Integrated Ticketing System, which will soon share a common card system.
82. Members of the governance and working groups raised concerns that some people may be reluctant to use travel cards if they clearly identify them as belonging to a low-income household.

Some ineligible card use would be inevitable, and would need to be managed

83. After concessions are loaded on to travel cards, it would not be possible to prevent CSC holders from giving/selling their concession travel cards to others. Some people already take advantage of concession cards on public transport services while they are ineligible to do so.
84. People who access concession fares on public transport usually need to carry an accompanying card to demonstrate their eligibility (e.g. a student ID card, or a SuperGold

card). Similarly, CSC holders could be required to travel with their CSC and produce it on request. This is likely to require a change to the Health Entitlement Cards Regulations (1993), which currently limits CSCs from being used as a form of identification. We are exploring this with the Ministry of Health.

85. Bus drivers seldom request cards for verification purposes, but the requirement to carry a CSC could at least deter fraudulent use of the scheme.
86. We would also need to consider the appropriateness of existing penalties for fraudulent card use.

We would need to keep working with councils to implement the scheme, as regional councils are responsible for setting local public transport fares and concessions

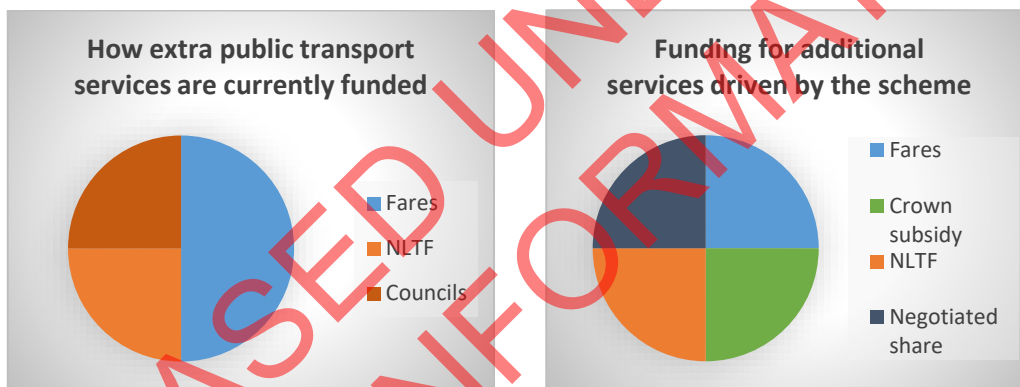
87. Councils have been supportive of the investigation. Their main concern is that the scheme should not transfer costs to local government, and that there needs to be sufficient lead-in time to prepare. For example, Auckland Transport has indicated that it would take 18 months to adapt ticketing systems after a funding agreement is in place.
88. As noted above, some councils are already struggling to provide sufficient peak-hour services due to driver shortages. In particular, GWRC is very concerned about the impacts on its bus network if on-peak services are included. GWRC have indicated that it will take two years to increase capacity on its bus network to sufficient levels.
89. It is likely that the scheme would need to be voluntary for councils to join, like the SuperGold card scheme. Public and political pressures led all but one region to implement the SuperGold card scheme from the first day it was offered.

The scheme should be funded by the Crown, with councils' administrative costs funded by the NLTF

90. It would be appropriate for the Crown to fund the additional fare subsidies for CSC holders, similar to how the SuperGold card public transport concessions are funded. This funding would need to go through the annual Budget process.
91. Councils' administration costs should be funded through existing NLTF processes, as it would not be practical to distinguish and report on these costs separately from other administrative costs.
92. Costs for MSD to administer the scheme would need to be funded by the Crown. We would need to confirm whether NZTA's costs to administer the scheme should be funded by the NLTF or the Crown. For the SuperGold card, a small appropriation exists to cover the cost of NZTA administering the public transport concessions for that card.
93. Budget funding for 2019/20 to establish the scheme can be used to cover costs incurred by NZTA and MSD in this financial year.

We would need to agree on a fair funding model with councils to cover the costs of providing some additional public transport services

- 94. The scheme will lead to increased public transport usage. In some areas, this will drive up the need for councils to provide additional public transport services.
- 95. Currently, public transport services are funded through fare revenue (approximately 50 percent), the NLTF (25 percent), and rates contributions from regional councils (25 percent).
- 96. Councils will expect the Crown to cover some of the costs that they would face in funding additional services generated by the scheme.
- 97. The Crown should not be expected to cover councils' share of costs for trips that CSC holders would have taken if the scheme did not exist.
- 98. If option 2 is pursued, additional services generated by CSC holders travelling on the scheme would be funded through fares (25 percent), Crown subsidies to cover foregone fare revenue (25 percent), and the NLTF (25 percent). Central government could negotiate with councils on how to fund the remaining quarter of costs. This is illustrated in the charts below.



- 99. The simplest way to do this would be for the Crown to contribute an agreed amount that is more than 25 percent but less than 50 percent of each trip taken by a CSC holder. The exact proportion would need to be negotiated.
- 100. This approach is different to the bulk funding arrangement used for the SuperGold card. This is because on-peak services would be affected by the scheme for CSC holders, if option 2 is pursued. In comparison, the SuperGold scheme took advantage of existing off-peak capacity in public transport networks when it was introduced.
- 101. Funding for extra services from the NLTF would need to be considered alongside other GPS 2021 priorities, including current pressures within the Public Transport activity class to provide for additional rest breaks, and a living wage for bus drivers.

We suggest setting mid-2021 as the target date for implementation

- 102. You previously indicated a preference to implement the scheme by mid-2020. Unfortunately, it would not be possible to fully and effectively implement the scheme in that timeframe. If options 1 or 2 are pursued, councils would need sufficient lead-in time to adapt ticketing systems and, if peak-services are included, to address existing capacity constraints.

103. Mid-2021 would be a more achievable target date for implementing the scheme for CSC holders. This target would align with the next GPS taking effect on 1 July 2021, and the adoption of the 2021-24 National Land Transport Programme, which could include capacity increases to accommodate any generated passenger trips from the scheme.
104. This timing is still ambitious, as we would need to develop an implementation plan, secure ongoing funding, and negotiate funding agreements, before councils commence the implementation process.
105. Among councils, GWRC would face the most challenges in implementing the scheme by mid-2021. This is due to the difficulties that GWRC is facing to increase the capacity of Wellington's public transport network. The 2021 timing would coincide with the introduction of the rollout of integrated ticketing in Wellington.
106. We recommend discussing the timing with councils, before confirming a target. Greg Campbell, Chief Executive of GWRC, and Chair of the Regional Government Public Transport Sector Group, has offered to meet with you to discuss the proposed scheme. We could also invite senior leaders from Auckland Transport and Environment Canterbury to join this meeting, although the capacity issues in these regions are not as pronounced as they are in Wellington.
107. Before implementation begins, Cabinet would need to agree to the scheme. Cabinet would also need to agree to allocate ongoing funding for the scheme through the Budget process.

We considered phasing options to accelerate implementation

108. Two possible approaches to implement the scheme more quickly are identified below.
 - 108.1. *Phase implementation regionally:* The scheme could be implemented in each region as soon as each region is capable of joining it. For example, the scheme could involve members of the RITS consortium first. However, this approach would not drive faster implementation in our largest cities. The governance group noted that some regions would not support a region-by-region approach due to equity concerns, and a view that this would create communications challenges for regions that are unable to introduce the scheme as quickly.
 - 108.2. *Implementing off-peak concessions first, then including peak services at a later date:* This approach would alleviate some concerns councils have about capacity issues. If the off-peak concessions were 50 percent, the scheme would have limited benefits. If the off-peak concessions enabled fare-free travel, CSC holders may resist changing the full off-peak entitlements at a later stage.

Risks

109. Significant risks associated with the scheme are highlighted below.
 - 109.1. *The subsidy costs could be higher (or lower) than our estimates:* there is no reliable data available on how many CSC holders currently use public transport, or where they travel. We made assumptions on public transport use based on information from the Household Travel Survey. We also made assumptions about how much public transport use could rise when fare prices fall. To manage this risk, the costs of the

scheme should be reviewed after its first year of implementation, to update funding estimates.

- 109.2. *SuperGold card holders with a CSC are likely to advocate for inclusion in the scheme, in addition to their existing public transport concessions:* if included, this would increase costs significantly and exacerbate concerns councils have about the impact of the scheme on public transport network capacities. Approximately 300,000 SuperGold card holders have a CSC.⁷ There would need to be clear communication with SuperGold card holders to explain why the scheme for CSC holders is a separate initiative.
- 109.3. *Councils could oppose the scheme:* although councils have so far been supportive of the investigation, they are concerned about the pace of implementation and costs. They are still working through the implications of recent legislative changes, such as the costs of mandatory rest and meal breaks for bus drivers associated with the Employment Relations Amendment Act 2018, and a move to an industry-wide living wage. We need to maintain a positive working relationship with councils to implement the scheme.
- 109.4. *Fraud issues could attract negative publicity:* some fraudulent use of the scheme is likely to be unavoidable. This could be managed by requiring CSC holders to carry their CSC with them while travelling on concession fares, and by considering the appropriateness of existing penalties for fraudulent card use.
- 109.5. *The scheme would raise equity concerns, and some CSC holders may criticise the scheme if they are unable to access public transport services:* this may include CSC holders living in areas without a regular public transport service, and CSC holders with disabilities who have difficulty using public transport. We could explore mitigation options for these groups, which would require additional investigation.

Next steps

110. If you agree to proceed with the scheme, the next key steps towards implementation are for you to:
- advise us of your preferred approach
 - consider meeting with Greg Campbell and other senior council leaders
 - take a Cabinet Paper and Regulatory Impact Assessment (RIA) to Cabinet in August 2019.
111. The next steps for us would be to:
- write the Cabinet Paper and RIA, which we have already started drafting
 - advise the governance group and working group on your views of the investigation, and your preferred approach, if you agree to this

⁷ SuperGold card holders who are eligible for a CSC have a 'SuperGold/CSC combo card'.

- identify how the \$4.64 million of Budget funding for 2019/20 could be used to help establish the scheme.

112. If Cabinet agrees to proceed with the scheme, the next key steps for us would be to:

- estimate additional costs associated with the scheme
- develop an implementation plan
- integrate the scheme into the next draft GPS
- consider developing a Budget initiative for 2020/21 onwards
- negotiate a funding agreement with councils.

113. We also advise consulting more broadly on the scheme if Cabinet agreed to proceed with it. This would include seeking input from CSC holders, and/or community organisations that understand CSC holders' needs.

114. After the scheme is established, it would also be worthwhile reviewing the diverse approaches that central government and councils take to provide and fund public transport fare concessions. Currently there is a range of different concessions for different disadvantaged groups across the country, but no clear rationale for why some of these concessions are fully funded by central government while others are not. As well as creating inconsistency between regions, this approach generates ongoing administrative costs. There is an opportunity to take a more systematic and consistent national approach to concessions as the National Integrated Ticketing System is developed.

RELEASED UNDER THE OFFICIAL INFORMATION ACT

Recommendations

115. We recommend that you:

- | | | |
|-----|---|--------|
| (a) | Note the findings of this investigation. | Yes/No |
| (b) | Agree to meet with us to discuss the investigation, and your preferred approach. | Yes/No |
| (c) | Agree for us to continue drafting a Cabinet Paper on the investigation findings, and your preferred approach. | Yes/No |
| (d) | Agree for us to inform the governance and working groups that we involved in this investigation of your preferred approach. | Yes/No |
| (e) | Agree to meet with Greg Campbell, Chief Executive of GWRC, and Chair of the Regional Government Public Transport Sector Group, to discuss the proposed scheme, and for us to invite senior leaders from Auckland Transport and Environment Canterbury to this meeting. | Yes/No |

Richard Cross
Manager, Strategic Policy and Innovation

MINISTER'S SIGNATURE:

DATE

Attachment 1 – Members of the governance and working groups

Governance group

- Bryn Gandy, Deputy Chief Executive Strategy and Investment, Ministry of Transport (MoT) (Chair)
- [REDACTED] NZTA
- Greg Campbell, Chief Executive of GWRC, and Chair of the Regional Government Public Transport Sector Group
- [REDACTED] Auckland Transport
- [REDACTED] MSD
- Malcolm Alexander, Chief Executive, LGNZ
- Mark Wheeler, Chief Executive Officer, Marlborough District Council
- [REDACTED] Environment Canterbury
- Supported by Rick van Barneveld, Independent Director 9(2)(a)

Working group

- Rick van Barneveld (Chair)
- [REDACTED] MSD
- [REDACTED] Hawkes Bay Regional Council
- [REDACTED] MoT
- [REDACTED], Auckland Transport
- [REDACTED] Environment Canterbury
- [REDACTED] The Treasury
- [REDACTED] Project NEXT
- [REDACTED] Nelson City Council
- [REDACTED] MSD
- [REDACTED] MSD
- [REDACTED] Ministry of Health
- [REDACTED], NZTA
- [REDACTED] MoT
- [REDACTED] GWRC
- [REDACTED] Horizons Regional Council
- [REDACTED], MoT
- [REDACTED] MoT
- [REDACTED] MoT

9(2)(a)