

In Confidence

Office of the Associate Minister of Transport
 Chair
 Cabinet Economic Development Committee

GREEN TRANSPORT CARD INVESTIGATION FINDINGS

Proposal

1. This paper asks the Cabinet Economic Development Committee to note the findings of an investigation into the Green Transport Card scheme (the scheme) to reduce the costs of public transport for Community Services Card (CSC) holders.
2. The paper seeks Cabinet agreement to begin establishing the scheme, using existing Budget funding allocated for 2019/20.
3. The paper also seeks Cabinet in-principle agreement to implement the scheme from 2020/21 onwards, subject to funding approval in Budget 2020.

Executive Summary

4. I am reporting back to Cabinet on an investigation to reduce the costs of public transport for low-income households, including people on a benefit.
5. Low-income households often experience transport disadvantages, which limit their ability to access social and economic opportunities. Travel costs for low-income households are increasing, which could perpetuate such disadvantages. The average weekly expenditure on passenger transport services among low-income households in New Zealand increased by 63 percent between 2013 and 2017.
6. The scheme would reduce transport disadvantages, and support social inclusion, by reducing transport costs for many low income households.
7. It would also 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.
8. The scheme would target approximately 600,000 CSC holders. CSC holders include low-income households, solo parents, people with disabilities, tertiary students from low-income families, and economically deprived seniors.
9. SuperGold Card holders with a CSC would not be eligible for the scheme, as they can already travel fare-free on public transport during off-peak periods.

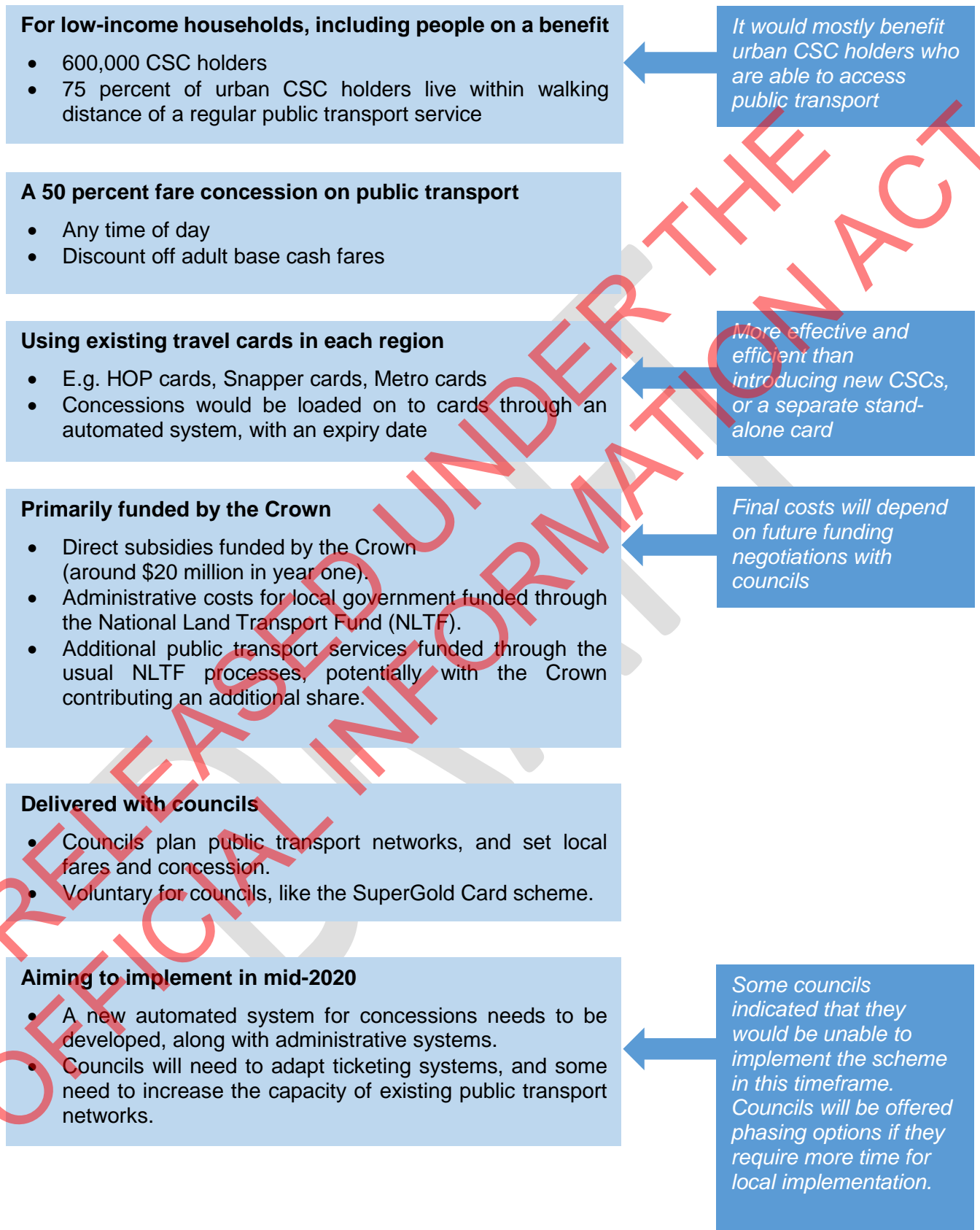
10. Most regions do not offer public transport concessions for CSC holders (only 2 percent of trips are covered by concessions). The lack of public transport concessions for CSC holders is a significant gap for addressing transport disadvantages. The scheme would address this gap, and assist the Government in meeting its broader transport agenda.
11. The scheme would primarily benefit CSC holders in urban areas who are able to use public transport. Three quarters of urban CSC holders live within walking distance of a regular public transport service.
12. Other initiatives would be needed to make access more inclusive for CSC holders who are unable to access conventional public transport services, such as people in rural areas and some people with disabilities.
13. The scheme would make it more financially attractive for councils to extend the reach and/or frequency of public transport services into areas where many CSC holders live by increasing patronage in these areas.
14. Three concession options for CSC holders were investigated.
 - **Option 1:** fare-free travel on public transport during off-peak periods only
 - **Option 2:** 50 percent discount on adult base cash fares, at any time of the day
 - **Option 3:** a public transport allowance (e.g. a \$100-\$200 credit per year)
15. The investigation found that option 2 would deliver 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, at a significantly higher cost. Option 3 might be a feasible alternative, but has additional uncertainties and risks.
16. Based on the investigation, I recommend pursuing option 2 if Cabinet supports the policy to establish and implement the scheme, subject to funding approval in Budget 2020.
17. Government would need to keep working closely with councils to deliver the scheme, as regional councils are responsible for setting local public transport fare policies, and for planning, procuring, managing and co-funding public transport services. The scheme would be voluntary for councils to join, similar to the SuperGold Card scheme.
18. Councils were 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. Greater Wellington Regional Council (GWRC) is particularly concerned about the impacts of the scheme on its bus network, and indicated that it could take two years to resolve its capacity issues.

19. The scheme would primarily be funded by the Crown. Direct fare subsidies would cost around \$20 million in the first year, if the 50 percent concession option is implemented. These costs are estimated to fall slightly over the next decade. The SuperGold Card public transport concessions are also funded directly by the Crown (approximately \$28 million per year).
20. There would also be additional costs. In particular, some councils are likely to seek a contribution towards the costs of increasing the capacity of public transport networks to meet passenger demand driven by the scheme. These costs would need to be negotiated with councils before final costs can be confirmed and accounted for. These costs are not anticipated to exceed \$2 to \$4 million per year. I also note that central government's share of these costs could be supported by the next Government Policy Statement on Land Transport.
21. I am seeking Cabinet agreement to begin establishing the scheme, funded through \$4.64 million already allocated to establish the scheme in Budget 2019/20.
22. I am also seeking Cabinet in-principle agreement to implement the scheme from 2020/21 onwards, subject to funding approval in Budget 2020. Although some aspects of the scheme still need to be finalised, I am seeking this agreement now so that Ministry of Transport (MoT) officials can begin formal negotiations with regional councils to establish the scheme. Councils need assurance that the scheme will be funded by the Crown before commencing the establishment process.
23. Councils involved in the investigation indicated that they would require at least 12-24 months to implement the scheme. I recommend offering phasing options for councils that are unable to implement the scheme in 2020.
24. If Cabinet agrees to support the policy of implementing the scheme, I will report back to Cabinet by November 2019 with updated cost estimates. MoT officials will prepare a Budget initiative for Budget 2020, based on these estimates.
25. I will also report back to Cabinet by November 2019 on implementation timeframes for each region, and any regulatory changes needed for the scheme.

Purpose of the Proposed Scheme

26. The scheme primarily aims to improve the well-being of many low-income households, including people on a benefit, by making public transport more affordable for these people.
27. 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.

Figure 1: Overview of the proposed scheme



Background to the Investigation into the Scheme

28. The Confidence and Supply Agreement between the Labour Party and the Green Party included an agreement 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.

29. On 3 April 2019, I advised Cabinet on the approach for this investigation (DEV-19-MIN-0051 refers). Cabinet noted:
- 29.1. the scheme would deliver significant social, health, and environmental benefits
 - 29.2. the intention was to target the scheme at CSC holders and their dependents
 - 29.3. the relationship with the SuperGold Card would be clarified during the investigation
 - 29.4. a Budget initiative for the scheme had been submitted to the Treasury
 - 29.5. the investigation would be completed in mid-2019
 - 29.6. I would report back to Cabinet on the findings of this investigation.
30. Cabinet subsequently agreed to set aside \$4.64 million of Budget funding in 2019/20 to establish the scheme. This funding was to “enable the policy development” of the scheme, and to “establish operational systems (e.g. card development, administration, and production costs) for [the scheme], for use in the future”.
31. Budget funding was contingent on completing this investigation by mid-2019, and Cabinet agreeing to support the policy of implementing the scheme.

Scope of the Investigation

32. The investigation covered the following:
- the case for the scheme
 - implementation challenges and opportunities
 - benefits and costs of each option
 - whether to include dependents of CSC holders
 - funding principles.
33. Three options were investigated for CSC holders using public transport.
- **Option 1:** fare-free travel, during off-peak periods only.

- **Option 2:** 50 percent concession on base cash fares, at any time of day.¹
- **Option 3:** a public transport allowance (e.g. a \$100-\$200 credit per year).

34. The investigation excluded an option of providing fare-free travel at any time of day, due to concerns about costs and impacts on public transport network capacities.

The investigation involved multiple agencies and local government

35. The MoT-led investigation was guided by a governance group, and assisted by a working group. These groups involved representatives from Auckland Transport, Environment Canterbury (ECan), Greater Wellington Regional Council (GWRC), Hawke's Bay Regional Council, Horizons Regional Council, Marlborough District Council, Nelson City Council, 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.
36. The involvement of local government in the investigation was vital, as regional councils plan, manage, and co-fund public transport networks, and procure services from private operators. Councils also set local public transport fare policies.

The scheme would target CSC holders

37. CSC holders include people who receive a benefit from Work and Income, such as recipients of an accommodation supplement or a disability allowance, people without paid work, low-income families, people living in social housing, tertiary students that are eligible for a student allowance, and refugees.
38. There are approximately 900,000 CSC holders in New Zealand. A third of these people also have a SuperGold Card.² Currently, the population of CSC holders who are eligible for the scheme is 652,131 people. Approximately 27,000 CSC holders are tertiary students who receive a student allowance.
39. I previously advised Cabinet (DEV-19-MIN-0051 refers) that SuperGold Card holders with a CSC would be excluded from the scheme, as these people can already use their SuperGold Card to travel fare-free during off-peak periods.

The investigation confirmed that the scheme would improve well-being, by reducing transport disadvantages for urban CSC holders

40. To investigate the scheme's potential to meet its aims, MoT reviewed evidence on the links between transport affordability and well-being.

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

² SuperGold Card holders with a CSC have a 'SuperGold-CSC combo card' that entitles them to the benefits of both cards.

41. Extensive international 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 difficulty includes access to education, employment, health services, and sporting, leisure, and cultural activities.
42. 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.
43. Research shows that public transport can play an important role in reducing transport disadvantages and in supporting social inclusion.
44. 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 options (e.g. providing better public transport services to low-income areas), making services more accessible for people with disabilities, and increasing household incomes.
45. 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.

The scheme would address a gap in public transport fare concessions

46. Public transport services operate in all New Zealand cities, including Whangarei, Auckland, Hamilton, Rotorua, Tauranga, Napier, Hastings, Palmerston North, Taranaki, Greater Wellington, Nelson, Canterbury, Dunedin, Queenstown, and Invercargill. Public transport services also operate in many towns, although these services tend to be less frequent (e.g. twice daily) compared to cities.
47. All councils in New Zealand offer public transport concessions to some groups who are known to experience transport disadvantages, 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.
48. Most councils do not offer public transport concessions to CSC holders. Only Hawkes Bay, Taranaki, Horizons (Manawatū-Whanganui), Nelson, and Tasman offer concessions of up to 30 percent to CSC holders. These regions account for only 2 percent of all public transport passenger trips in New Zealand.

49. The lack of concessions for CSC holders in most regions is a significant gap for addressing transport disadvantages, as CSC holders include low-income households, solo parents, people with disabilities, tertiary students from low-income families, and economically deprived seniors. As noted above, these sub-groups tend to experience more transport disadvantages than others in the population.
50. Under Section 35 of the Land Transport Management Act 2003 (LTMA), NZTA and regional councils “must consider the needs of persons who are transport disadvantaged” when preparing any land transport programme or plan under the LTMA, including public transport systems. The proposed scheme would, therefore, assist councils to meet this requirement.

A high proportion of urban CSC holders can access public transport

51. At a national level, approximately half the population of CSC holders live within walking distance of a regular public transport service.
52. In Auckland, Wellington, and Canterbury regions, approximately three quarters of CSC holders live within walking distance (i.e. 500m) of a public transport service that operates at least every 30 minutes throughout the day. This data indicates that a high proportion of urban CSC holders can access a public transport service, although these services may not necessarily take them where they need to go at the times they need to travel.
53. The data 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.
54. However, 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.
55. Low-income households are often concentrated in outer-urban areas, where public transport services tend to be 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.

The scheme would assist the Government to meet its broader transport agenda

56. By incentivising higher use of public transport, the scheme would help meet the Government’s goals to encourage a transport mode shift in urban areas. The scheme might make it more financially attractive for councils to extend the reach and/or

frequency of public transport services into areas where many CSC holders live, by increasing patronage in these areas.

57. The scheme would help to balance the need for improving public transport services, and addressing transport affordability. Auckland Transport, GWRC, and Environment Canterbury are 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 councils continue to expand and increase services.
58. By increasing public transport use, the scheme would also contribute to the following positive outcomes that transport agencies aim to deliver to improve well-being and urban liveability.³
 - 58.1. *Economic prosperity*: public transport plays an important role in managing traffic congestion, and for making efficient use of high-value urban space.
 - 58.2. *Healthy and safe people*: public transport is the safest form of travel in New Zealand, and people who use public transport regularly are more physically active than people who commute by private vehicles. Transport mode shifts from private vehicles to public transport can reduce air and noise pollutants that harm human health.
 - 58.3. *Environmental sustainability*: buses, trains, and ferries with high numbers of occupants produce lower levels of greenhouse gases, and other pollutants, than private vehicles.

Options for the scheme were investigated against their potential social impacts, transport impacts, ease of implementation, and value for money

59. MoT collaborated with councils to estimate the impacts of three options for the scheme.
60. Their modelling of the scheme estimated how many additional trips CSC holders would be likely to take, based on changes in fare prices. This modelling also calculated 'fare revenue foregone', which represented the subsidy required to cover the fare concessions.⁴ The model did not cover additional costs associated with the scheme, such as administration costs or providing extra public transport services.

³ These outcomes are based on the Transport Outcomes Framework, which all government transport agencies agreed to in 2018.

⁴ 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).

61. Table 1 summarises high-level findings from the assessments. The modelling tracked anticipated changes over time, from year one to year 10. CSC holders would be expected to make growing use of the scheme over time.

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
Annual direct benefits to CSC holders (year 1)	\$24.7 million	\$34.3 million	**
Annual direct benefits to CSC holders (year 10)	\$35.9 million	\$50.4 million	**
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 (5.3% 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)	\$44.8 million	\$18.1 million	0
Travel allowance	0	0	\$30-60 million (\$100-\$200 allowance)
Ease and speed of implementation			
Local government	Less difficult than other options	Most difficult, extra capacity needed	Quickest option
Central government	No difference between Options 1 and 2	No difference between Options 1 and 2	Whole new system, unknown timeframes

** Benefits and costs of option 3 would depend on the size of the allowance.

A 50 percent concession for CSC holders on public transport at any time of day would be the best option for the scheme, among investigated options

62. This option would offer the best balance of value and benefits, compared to other options.
63. 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.
64. Option 2 has more potential to encourage a mode shift from private vehicles to public transport when roads are most congested at peak times, which would enhance the social, economic, and environmental benefits of the scheme.

65. 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.
66. Unlike option 1, the direct subsidy costs for option 2 would decrease slightly over time. This decrease is because CSC holders would continue to pay a portion of fares for option 2. Lost revenue (foregone revenue) is smaller in the long-term, because in the long-term there is greater generation of new public transport trips, which brings in new revenue that offsets the discounts on existing trips.
67. MoT conducted a Benefit Cost Ratio (BCR) analysis of the financial benefits to CSC holders, relative to the direct subsidy costs for options 1 and 2.⁵ The results are summarised in Table 2.⁶

Table 2: Benefit Cost Ratio for options 1 and 2

	Option 1: Free off-peak		Option 2: 50% concession, any time	
	Short term (Year 1)	Long term (Year 10)	Short term (Year 1)	Long term (Year 10)
Benefit-cost ratio (BCR)	0.73	0.80	1.47	2.41

68. Option 2 would deliver \$2.41 of benefit to CSC holders for every \$1 of direct subsidy after 10 years. In comparison, option 1 would deliver only \$0.80 benefit for every \$1 spent on the fare subsidy.
69. Councils involved in this investigation also favoured this option, with the exception of GWRC. GWRC is concerned about the difficulties it is currently facing in increasing public transport capacities at peak times. GWRC also noted that a 50 percent concession could not be implemented on Wellington trains until integrated ticketing is introduced in 2021.

A travel allowance could provide similar benefits to a 50 percent concession, but would likely cost more and comes with more uncertainty

70. 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).
71. For this option, 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 only a third

⁵ In economic terms, this represents the 'consumer surplus' that CSC holders would benefit from as a direct result of the scheme.

⁶ The cost components of the BCR analysis did not include costs other than the direct subsidy costs, such as the costs of implementing the scheme, or of providing additional capacity to manage increased patronage. This issue is because at this point in time, we do not have accurate data on what these costs will be. The analysis also does not take into account wider societal benefits that are difficult to quantify, such as reduced congestion, emissions, and crashes.

of CSC holders used the full allowance, it would cost approximately \$30 million per year to fund the allowance for a population of approximately 600,000 CSC holders.

72. Depending on the size of the allowance, the benefits of a travel allowance 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.
73. Compared to option 2, the allowance in option 3 would benefit irregular users of public transport more than regular users, unless the allowance was very high (which would be prohibitively costly).
74. 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 also unclear how long this system would take to develop, or what it would cost. Due to these uncertainties, I do not recommend progressing with Option 3.

Some benefits and costs were not monetised in this analysis

75. The social benefits of making public transport more affordable for low income households to access opportunities such as work, healthcare, and education could not be monetised. These benefits will unfold after the implementation of the scheme, but cannot be measured until then. These benefits are in addition to the direct benefits to CSC holders.
76. The transport mode shift benefits could not be quantified, due to a lack of data on the current public transport use of CSC holders. These benefits would be additional to the direct benefits to CSC holders.
77. As a comparison, a 2010 Cost Benefit Analysis of the SuperGold Card scheme identified national economic benefits, including reduced car travel and parking costs, of \$5.7 million per year. The 2010 analysis also identified benefits from road accident costs, congestion costs, pollution costs, and road maintenance costs, which could not be quantified.
78. The costs in Table 1 only identify the direct subsidies for the scheme, to cover the fare revenue that councils would have received if CSC holders were paying full fare prices. Central government agencies and councils would face additional costs.
79. Councils would expect reimbursements from central government for costs incurred by the scheme.

80. The most significant additional costs would be providing extra capacity (i.e. additional vehicles/services) to cater for increased public transport demand. These costs are discussed further below.
81. Additional implementation and administration costs would include changes to ticketing systems, information technology, project management, communications, customer service, and staff time.
82. Additional costs have not yet been calculated, as MoT is awaiting additional data from councils. By way of example, Auckland Transport has indicated that it might cost approximately \$500,000 to introduce a new concession profile on all their ticketing equipment.

The scheme should not include dependents of CSC holders at this stage

83. The investigation considered including dependents of CSC holders in the scheme.
84. MSD estimates that there are approximately 300,000 dependents of CSC holders.
85. There is no data available on the names, addresses, or ages of dependents. This data would need to be collected from all CSC holders, at significant cost, before deciding whether to include them in the scheme.
86. Dependents of CSC holders do not have their own CSC. Providing all dependents with a CSC, if necessary, would also add significant costs.
87. Most dependents of CSC holders already receive child/youth concessions when travelling on public transport.
 - 87.1. All children under five years old can already travel for free on public transport anywhere in New Zealand.
 - 87.2. In most regions, children/youth aged 5-15 receive a 40-50 percent concession on adult fares (although there are differences in age bands).
 - 87.3. Auckland Transport is planning to introduce fare-free travel for children/youth 15 years and younger on the weekends and public holidays. Hamilton City Council is also planning to introduce a similar scheme.
88. I do not recommend including dependents in the scheme at this stage, as the costs are likely to significantly outweigh the benefits (given the wide-range of existing and planned child/youth concessions).
89. In the future, there could be opportunities to target concessions for all dependents of CSC holders on council-provided school bus services and public transport to/from schools.

Existing travel cards would be used in each region

90. 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.
91. The investigation looked at 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.
92. 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 solution would avoid the costs of producing new CSCs, or separate 'green transport cards'.
93. The registration process would need to be accessible for people with disabilities and impairments, and those without internet access.
94. 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.
95. 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 limitation would be regional members of the Regional Integrated Ticketing System, which will soon share a common card system.

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

96. 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.
97. 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 Clause 13 (3) of the Health Entitlement Cards Regulations (1993), which prohibits the use of CSCs as a form of evidence of eligibility outside the health sector. MoT and MoH are investigating the regulatory aspects of this issue.

98. Bus drivers seldom request cards for verification purposes, but the requirement to carry a CSC could at least deter fraudulent use of the scheme.
99. The appropriateness of existing penalties for fraudulent card use would also need to be considered.

Councils would need to make changes to ticketing systems to establish the scheme

100. Councils would need to add CSC concession profiles to ticketing systems in their respective regions. This process can take at least 6-12 months in large regions, as ticketing machines need to be updated and tested on all buses and trains.
101. Ticketing systems vary between regions, therefore each region would need to undertake this process separately. Members of the Regional Integrated Ticketing consortium (which do not include Auckland, Wellington, and Canterbury) will share a common ticketing system by 2020, which will make it easier to set up CSC concession profiles in these regions.
102. The costs to change ticketing systems could be funded through the \$4.64 million of Budget 2019 set aside to establish the scheme.

Some councils would need to increase the capacity of their public transport networks in response to the scheme

103. The scheme 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 can take councils 12-18 months to arrange for new buses to arrive after signing contracts with operators.
104. Additional services are only likely to be needed for some routes in Auckland, Wellington and Christchurch, during peak hours when services are full.
105. GWRC is particularly concerned about the impacts of the scheme on its bus network, and has indicated that it could take two years to resolve its capacity issues.
106. Auckland Transport is not facing the same capacity challenges, but it has pinch points throughout its network.
107. Over-crowding of public transport systems needs to be avoided, as this would create difficulties for councils. Existing public transport users would also be adversely affected if they are unable to use services at peak times due to over-crowding, which may lead some existing users to stop using public transport. This risk is likely to be the highest in Wellington, due to existing challenges in its public transport network.

108. If Cabinet agrees in-principle to implement the scheme, MoT will work with councils to estimate how much demand for additional services could be generated by the scheme, and what it could cost to provide these services. MoT will also investigate how these additional services could be supported by the next GPS.

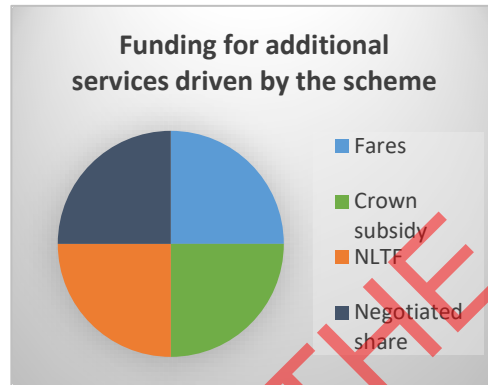
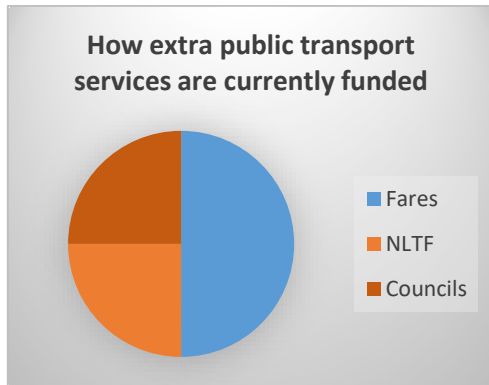
The scheme should primarily be funded by the Crown

109. As this initiative is being driven by central government to improve social outcomes, it would be appropriate for the Crown to fund the fare subsidies for CSC holders. This funding would need to go through the annual Budget process.
110. SuperGold Card public transport concessions are funded in a similar way, with the Crown funding of approximately \$28 million per year.
111. Establishment costs would also be funded by the Crown. Budget funding of \$4.64 million was set aside in 2019/20 for this purpose.
112. 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.

A fair funding model would need to be agreed with councils to cover the costs of providing some additional public transport services

113. Currently, public transport services are funded through fare revenue (approximately 50 percent), the NLTF (25 percent), and rates contributions from regional councils (25 percent).⁷
114. If the 50 percent fare concession option 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. These arrangements are illustrated in the charts below.

⁷ These ratios are average figures, based on the funding assistance rates set by NZTA. The actual rates vary by region.



115. Councils will expect the Crown to cover some of the costs they would face in funding additional services generated by the scheme.
116. The simplest way to address this funding issue would be to apply a 'multiplier' to the subsidy. For example, rather than reimbursing councils for 100 percent of the foregone revenue, councils could be reimbursed for 110-120 percent of the direct revenue foregone.

117. [REDACTED]

118. [REDACTED]

9(2)(j)

119. Contributions to additional services could potentially be funded through the NLTF, rather than by the Crown, if this scheme is operationalised in the next GPS.
120. This approach is different to the bulk funding arrangement used for the SuperGold Card. This difference 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.
121. If Cabinet agrees in-principle to implement the scheme, MoT will begin negotiating funding arrangements with councils in September 2019. I will report back to Cabinet by November 2019 on cost implications and a recommended approach.

Council participation in the scheme would be voluntary

122. It would take a similar approach as the SuperGold Card concession scheme, which was also voluntary for councils. All councils decided to implement SuperGold Card concessions from the outset.
123. The scheme would apply to all eligible public transport services that are specified in councils' Regional Public Transport Plans (RPTPs) and contracted to councils under the requirements of the Land Transport Management Act 2013.
124. Services that are not specified in RPTPs would be exempt from the scheme. Current examples include the Waiheke Ferry service and the Wellington Cable Car, which are fully commercial operations that councils have no control over for fares. However, if any exempt services become specified as a contracted service under the RPTP in the future, then they would be eligible for inclusion in the scheme.

I recommend going ahead with the scheme

125. Based on the investigation, I recommend establishing and implementing the scheme, with the following features:
 - 125.1. Targeted at CSC holders, excluding SuperGold Card holders with a CSC.
 - 125.2. Providing a 50 percent concession on public transport fares to CSC holders, at any time of day.
 - 125.3. Using existing travel cards in each region, with concessions loaded on to travel cards via an automated system.
 - 125.4. Funding the subsidies and central government administration costs through Crown funding. This arrangement would need to be approved through usual Budget processes.

I recommend aiming to implement the scheme in mid-2020

126. To enable the scheme to be implemented in mid-2020, I am seeking an in-principle agreement from Cabinet to support the policy to implement the scheme in 2020/21, on the understanding that it will be subject to funding approval in Budget 2020 onwards.
127. Although some aspects of the scheme still need to be finalised, I am seeking this agreement now so that Ministry of Transport (MoT) officials can begin formal negotiations with regional councils to establish the scheme. Councils need assurance that the scheme will be funded by the Crown before commencing the establishment process.

If some councils are unable to implement the scheme in 2020, they could be offered phasing options

128. Some councils involved in the investigation indicated that due to implementation issues such as capacity challenges, they would be unable to fully implement the scheme within the next 12 months.
129. Councils that are able to fully implement the scheme in 2020 would be expected to deliver the scheme then. This is likely to include smaller councils (i.e. all members of the Regional Integrated Ticketing consortium). It may also include Auckland Transport and Environment Canterbury.
130. GWRC have signalled that it might not be able to implement the scheme before 2021, due to capacity constraints.
131. Councils that are unable to fully implement the scheme by mid-2020 could be offered two options.
 - 131.1. **Option A:** implement the scheme in their region in 2021.
 - 131.2. **Option B:** partially implement the scheme in their region in 2020, if it is necessary to address capacity concerns, and agree on when the scheme will be fully implemented. For example, a council could choose to offer a lower concession rate for CSC holders initially, or limit concessions to off-peak travel only.

Operational systems can be established in 2019/20, using existing Budget funding

132. Budget funding of \$4.64 million was set aside in 2019/20 to establish the scheme. This funding is to “enable the policy development” of the scheme, and to “establish operational systems (e.g. card development, administration, and production costs) for [the scheme], for use in the future.”
133. If Cabinet agrees to the policy of establishing the scheme, this funding would be used to:
 - 133.1. Set up the automated system for transferring CSC holder eligibility data on to travel cards in each region. This work would involve MSD.
 - 133.2. Add CSC concession profiles to ticketing systems in each region. Councils could seek reimbursements from NZTA for these costs.
 - 133.3. Develop a communications plan and materials, to publicise the scheme to eligible CSC holders when the scheme is ready to implement.

134. This establishment funding was appropriated to Vote Transport: Policy Advice and Related Outputs (MCA) – Policy Advice. This funding needs to be transferred to new appropriations to establish the scheme.

Next key steps

135. If Cabinet agrees to establish the operational systems for the scheme, and to implement the scheme in principle, the next key steps will be as follows:
- 135.1. I will send a letter to councils, outlining the features of the proposed scheme.
 - 135.2. MoT will develop implementation timeframes for the scheme, and lead negotiations with councils on an agreed funding model.
 - 135.3. MSD and NZTA will begin establishment processes for the scheme.
 - 135.4. MoT will finalise cost estimates and prepare a Budget initiative for 2020/21, to fund the scheme's implementation.
 - 135.5. Cabinet would consider the 2020/21 Budget initiative for the scheme along with other Budget initiatives in March 2020.
 - 135.6. If Cabinet agrees to fund the scheme through the 2020/21 Budget initiative, the scheme will be implemented as soon as possible.

Risks

136. Significant risks associated with the scheme are highlighted below.
- 136.1. *Councils could choose not to implement the scheme.* Although councils supported the investigation, they are very 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. Councils will be offered phasing options to address this risk.
 - 136.2. *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. MoT made assumptions on public transport use based on information from its Household Travel Survey. MoT 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. A more detailed

review will be conducted three years after implementation, to assess the ongoing benefits and costs of the scheme.

136.3. *Fraud issues could add costs and attract negative publicity:* some fraudulent use of the scheme is likely to be unavoidable. This risk could be managed to some degree 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.

136.4. *The scheme would raise equity concerns, and some CSC holders may criticise the scheme if they are unable to access public transport services:* this issue may include CSC holders living in areas without a regular public transport service, and CSC holders with disabilities who have difficulty using public transport. Mitigation options for these groups could be investigated.

Consultation

137. The investigation was led by MoT and involved representatives from Auckland Transport, GWRC, Environment Canterbury, Hawke's Bay Regional Council, Horizons Regional Council, Marlborough District Council, Nelson City Council, LGNZ, NZTA, MoH, MSD, and the Treasury.
138. The following government agencies were consulted on this paper: the Department of Internal Affairs (DIA), MoE, MoH, MSD, NZTA, and the Treasury.
139. The Department of Prime Minister and Cabinet were notified.

Comments from agencies

140. MoT and MSD support the proposed scheme.
141. MoH supports the aims of the proposed scheme. However, it notes that there are regulations which prohibit the use of CSCs as a form of evidence of eligibility outside of the health sector. MoH is engaging with MoT on this issue.
142. NZTA supports this initiative, but shares councils' concerns around the need to allow sufficient time to implement the scheme.
143. DIA sees benefits in the proposed scheme, and notes that it would be appropriate for the scheme to be voluntary for councils to join.
144. The Treasury supports the goal of improving access to transport for low-income households. However, at this stage, the Treasury considers that there is insufficient information and evidence to support the proposed scheme as the preferred solution to potential access issues for these households, both in regards to public transport and more generally. Lowering the cost of public transport may only provide a limited

solution to a much wider problem. The costs of the scheme are also unclear given that it will provide a demand-driven subsidy.

145. The Treasury recommends that instead of proceeding with the scheme, Ministers should direct officials to initiate a wider policy programme looking at transport disadvantage issues affecting New Zealanders, and the set of interventions that could be used to address these issues.
146. Alternatively, if Ministers wish to proceed with the scheme now, the Treasury would recommend that a pilot be undertaken in order to gain a better understanding of the costs and benefits of the scheme prior to nationwide implementation.

Financial implications

147. If Cabinet agrees to establish the operational systems for the scheme, the scheme will be funded through \$4.64 million allocated for this purpose in Budget 2019/20.
148. Based on current modelling, implementing the scheme will require around \$20 million of Crown funding per year.
149. If Cabinet agrees in principle to implement the scheme, funding will need to be considered through Budget 2020 initiatives.

Human rights, gender and disability implications

150. No specific human rights issues have been canvassed in this paper.
151. The scheme would likely benefit a greater number of women than men. As of January 2019, 57 percent (529,439) of CSC holders were classified as female, and 43 percent (391,994) were male. Statistics from the 2013 census show that women are more likely to use public transport to get to work: 7.1 percent of women used public transport to get to work, compared to 4.6 percent of men. Statistics from the 2018 census are not yet available.
152. The scheme would have implications for people with disabilities. As of January 2019, 215,963 people who receive a disability allowance have a CSC. People receiving Disability Support Services funded by MoH are also likely to be eligible for a CSC.
153. Many people with disabilities are able to use public transport. A 2009 report by the Office for Disability Issues estimated that 26 percent of all disabled adults and 46 percent of all disabled children used public transport for short trips. Many CSC holders have disabilities that prevent them from using public transport, due to the nature of their disability and/or because services are not accessible for people with their disability. The scheme could therefore increase disparities between CSC holders who

can use public transport, and those with disabilities who are unable to access public transport.

154. Government could explore broader initiatives at a later stage 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).

Legislative implications

155. Clause 13 (3) of The Health Entitlement Cards Regulations (1993) prohibits the use of CSCs as a form of evidence of eligibility outside the health sector. Currently, individuals and entities that are allowed to request or demand to see a community services card are limited to certain health service providers and health professionals. These regulations may need to be amended to enable CSCs to be used as a form of identification on public transport. MoT and MoH are investigating the regulatory aspects of this issue.
156. I will report back to Cabinet if these regulations needs changing, or if any additional regulations are needed for the scheme.

Regulatory Impact Assessment

157. A Regulatory Impact Assessment (RIA) for the scheme is attached to this paper. The Regulatory Quality Panel at MoT has reviewed the RIA and considers that it meets the Quality Assurance criteria. The RIA shows clearly that alternative options have been carefully considered, implementation risks identified and mitigated, and stakeholders fully involved in the process.

Proactive release

158. If Cabinet agrees, I intend to release this Cabinet paper on MoT's website. Information that could prejudice or disadvantage negotiations with local government on the scheme will be withheld under the Official Information Act 1982.

Recommendations

159. I recommend that the Committee:

1. **note** that this paper summarises the findings of an investigation into a Green Transport Card scheme (the scheme) to reduce the costs of public transport for low-income households, including people on a benefit.
2. **note** that the investigation found that the scheme would improve the well-being of many low-income households, and assist Government to meet its broader transport agenda.
3. **note** that the scheme would target approximately 600,000 Community Services Card (CSC) holders, and that SuperGold Card holders with a CSC would not be eligible for the scheme as they can already travel fare-free on public transport during off-peak periods.
4. **note** the recommended option for the scheme is to provide CSC holders with a 50 percent concession on adult base cash fares, at any time of day.
5. **note** that existing travel cards would be used in each region, rather than producing stand-alone 'green transport cards'.
6. **note** that the scheme would be voluntary for councils to join, and that local implementation in some regions may need to be phased.
7. **note** that the scheme would require ongoing Crown funding, which, based on current modelling, is around \$20 million per year.
8. **note** if Cabinet agrees to implement the scheme, MoT officials will confirm the amount of funding required and will prepare a 2020 Budget initiative.
9. **agree in-principle** to implement the recommended scheme in 2020/21, providing CSC holders with a 50 percent concession on adult base cash fares at any time of day, on the understanding that it will be subject to funding approval in Budget 2020 onwards.
10. **agree** to begin establishing the scheme in September 2019, using existing Budget funding allocated for 2019/20.
11. **note** that the \$4.64 million set aside in Budget 2019/20 to establish the scheme was appropriated to Vote Transport: Policy Advice and Related Outputs (MCA), and that this funding needs to be transferred to new appropriations to establish the scheme.

12. **agree** for the Associate Minister of Transport (Hon Genter), Minister of Transport, Minister of Social Development, and Minister of Finance acting jointly to make further decisions on the operational developments of the scheme, including the allocation of existing funding, consistent with the policy proposals in this paper.
13. **note** that I will report back to Cabinet by November 2019 on the following:
- 13.1 the outcome of funding negotiations with councils
 - 13.2 implementation timeframes agreed with councils, including any regional phasing
 - 13.3 updated cost estimates, to inform a Budget 2020 initiative
 - 13.4 any regulatory changes needed to enable the scheme to be implemented.
14. **note** that if any significant issues arise that require further policy decisions, I will report back to Cabinet on these issues.
15. **agree** to proactively release this paper, and to withhold any appropriate information under the Official Information Act 1982.

Hon Julie Anne Genter
Associate Minister of Transport

Dated: _____