Otago Regional Council

Otago Regional
Public Transport Plan

2025–2035

9.9 Appendix I: Cost recovery and measuring private share of operating cost

This appendix provides further information about measuring the private share of public transport service operating cost.

It also presents the context and detail supporting our private share policy FS P2 set out in Section 6 (Value for money) of this plan.

Further, this appendix has been developed to respond to a requirement by NZTA to detail our private share targets in our RPTP.

Background

Value for money is a strategic priority guiding all transport investments under the GPS 2024.

This means there is a focus on achieving greater value from the financial investment in public transport activities funded through the NLTP.

The GPS includes an expectation for PTAs to actively work towards increasing private share revenue (fares and third-party revenue).

Although this presents challenges to ORC and the ambitions that we and our community have for public transport, our NLTP funding is an essential part of how we ensure value for money for our own ratepayers.

As such, we will actively work to grow the private share contribution to the costs of our services. By doing so, we will support the continuity of funding for existing services and place ourselves in the best possible position to seek funding for future public transport improvements.

Private share

Private share is a measure of cost recovery and represents the proportion of public transport operating expenditure funded from private revenue sources.

In previous RPTPs, cost recovery was referred to as farebox recovery. NZTA have recently changed their cost recovery policy framework, including redefining farebox recovery to private share of operating expenditure.

Private share is calculated using the following formula[9]:

Private share of operating expenditure

$$\text{Private share of operating expenditure} = \frac{\text{Total private revenue}}{\text{Total operating expenditure}}$$

Where:

Private revenue =

	Passenger fares	Passenger fare revenue for all subsidised services.
+	**Private fare substitutes**	Third-party revenue from private fare schemes.
+	**Commercial revenue**	Third-party revenue from commercial sources including advertising, sponsorship **and** rental or investment income generated from the delivery of the public transport system.
+	**Enforcement fees**	Revenue generated from enforcement associated with the public transport system, e.g. fines of unpaid tickets.

Operating expenditure =

	Passenger services	Total gross expenditure on public transport services, prior to applying any subsidies.
+	**Operations and maintenance**	Total gross expenditure on the maintenance, operations and management of public transport services and infrastructure, prior to applying any subsidies.

The government's aim is to increase private share to support the increased costs of public transport and reduce the pressure on ratepayers and taxpayers.

9 Total Mobility private share is not included in the public transport private share calculations or targets.

Increasing private share

Measuring cost recovery is important to assess the distribution of operating costs between users and funders.

Figure 16 below indicates how operating costs for public transport are distributed between funders.

Private share reflects the private benefits of users of public transport, while the public share reflects public transport's benefits to road users, the environment and wider community outcomes.

Increasing private share will reduce the amount of public subsidy required to meet our total operating costs.

Private share can be increased by:

- increasing patronage to collect more fare revenue
- reducing operating costs by optimising or cutting services
- increasing the average fare paid by increasing the base fare or changing the fare structure
- growing third-party revenue streams, such as advertising.

With a complex interaction of factors influencing people's decision to use (and pay for) public transport, how we increase private share over time to meet our private share targets will require careful management.

Adjusting anything too quickly or without careful consideration may undo our recent patronage gains and negatively impact private share revenue.

Figure 17 (on page 130) outlines the implications and trade-offs that we will carefully manage.

Funding equation

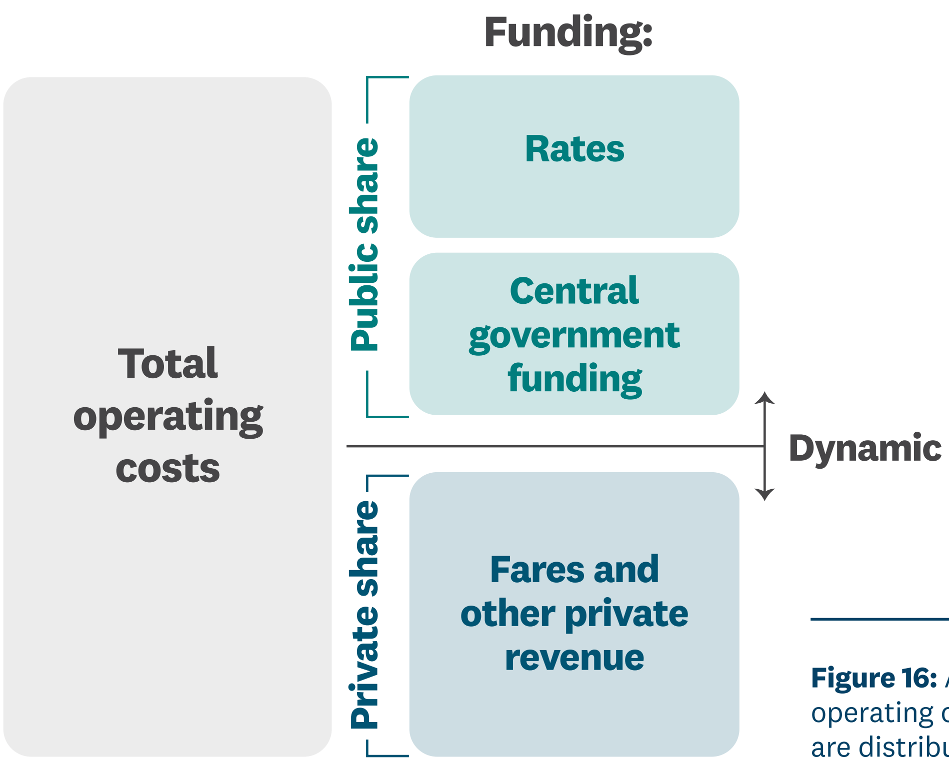

Figure 16: A depiction of how operating costs for public transport are distributed between funders.

Interactions between patronage, fares and service levels

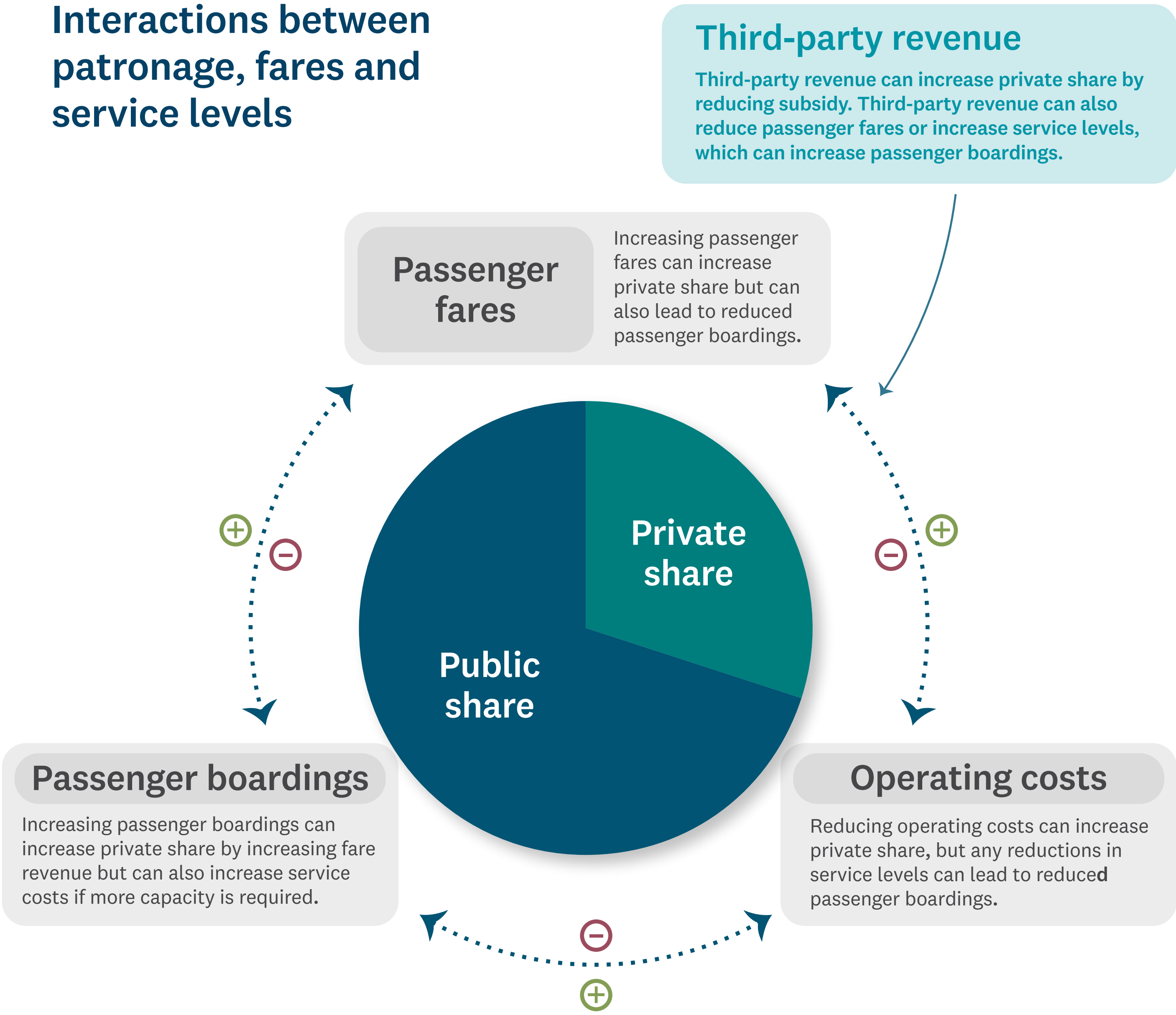

Figure 17: Interactions between patronage, fares and service levels.
(Source: NZTA)

Passenger fares

Public transport provides choice and an alternative to using the private car.

This means the relationship between bus fares and the cost of driving (petrol costs, parking costs) is particularly important, and provides a useful comparator for how much we can adjust our public transport fares.

The average private-share contribution in Otago is $1.45 per trip (mostly coming from fares), compared to a private car running cost of $1.25[10].

This means that, due to relatively short average trip lengths on most public transport routes, Otago has one of New Zealand's highest average fares compared to private car operating costs. This leaves little room for us to increase fares.

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

Service optimisation

Public transport costs largely come from:

- the cost of paying drivers and supporting staff to operate and maintain vehicles
- the cost of vehicles — both in purchasing vehicles and batteries, and daily running costs such as fuel or electricity
- infrastructure costs — both passenger infrastructure such as bus stops, stations, and bus lanes, and operational infrastructure such as depots.

If we can make more efficient use of drivers, vehicles, and infrastructure, then we can reduce the amount we spend on public transport, or deliver a greater amount of service for the same cost.

This will improve our financial performance (including private share) and put us in a better position to attract funding for future investments.

Areas of potential optimisation include:

- reducing out-of-service running through:
  - timetable and route design
  - availability of depots and driver break facilities that are close to routes
- avoiding excessively indirect routes
- priority infrastructure such as bus lanes to speed up trip times, especially at peak
- easy fare payment to speed up getting on and off our services
- making full use of assets such as buses across their whole lifetime
- technological solutions to inform efficient deployment of vehicles and drivers.

Private share targets

Our 2023/2024 private share of operating costs was 18.7%. This is a strong result and well above regions and networks of a similar size (Figure 18).

ORC has included Policy FS P2 (see Section 6.2) to actively work towards increasing private revenue contribution to the cost of public transport over time in this RPTP.

This supports the direction from central government to actively work towards increasing private share to offset the cost to ratepayers and the taxpayer for public transport services.

Our private share or operating targets for the next three years are:

- 20% for the 2024/2025 year
- 23% for the 2025/2026 year
- 25% for the 2026/2027 year

Council recognises that our ambition to increase private share must be balanced with a lens of realism in terms of the mechanisms we have to do this in Otago.

Fiscal sustainability must also be balanced with the wider community outcomes we value.

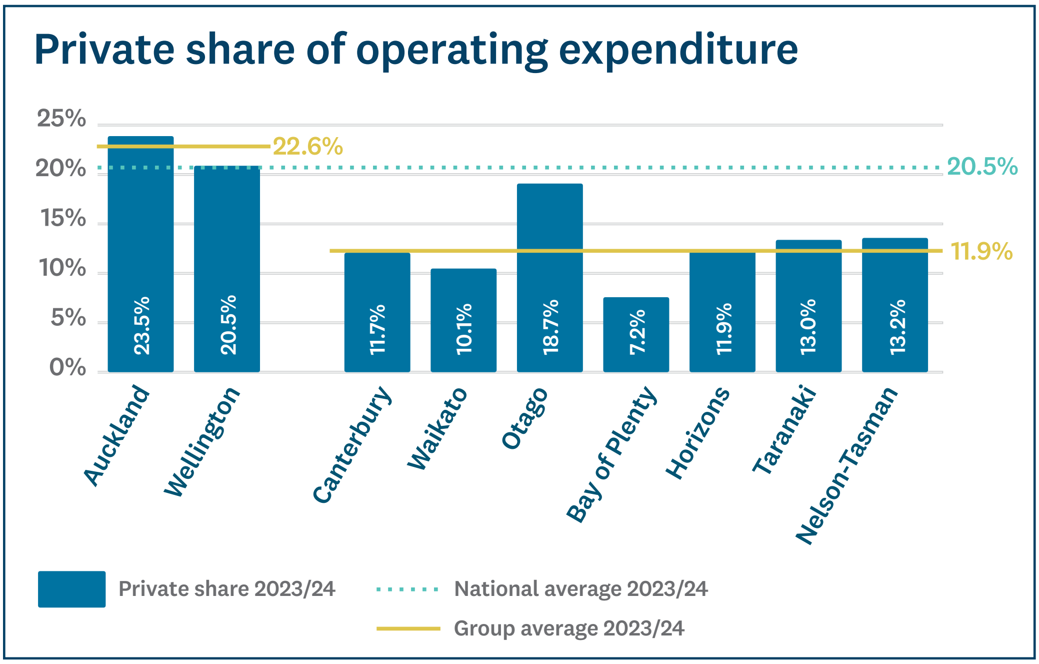

Figure 18: Regional comparison of private share. (Source: NZTA 2024)