

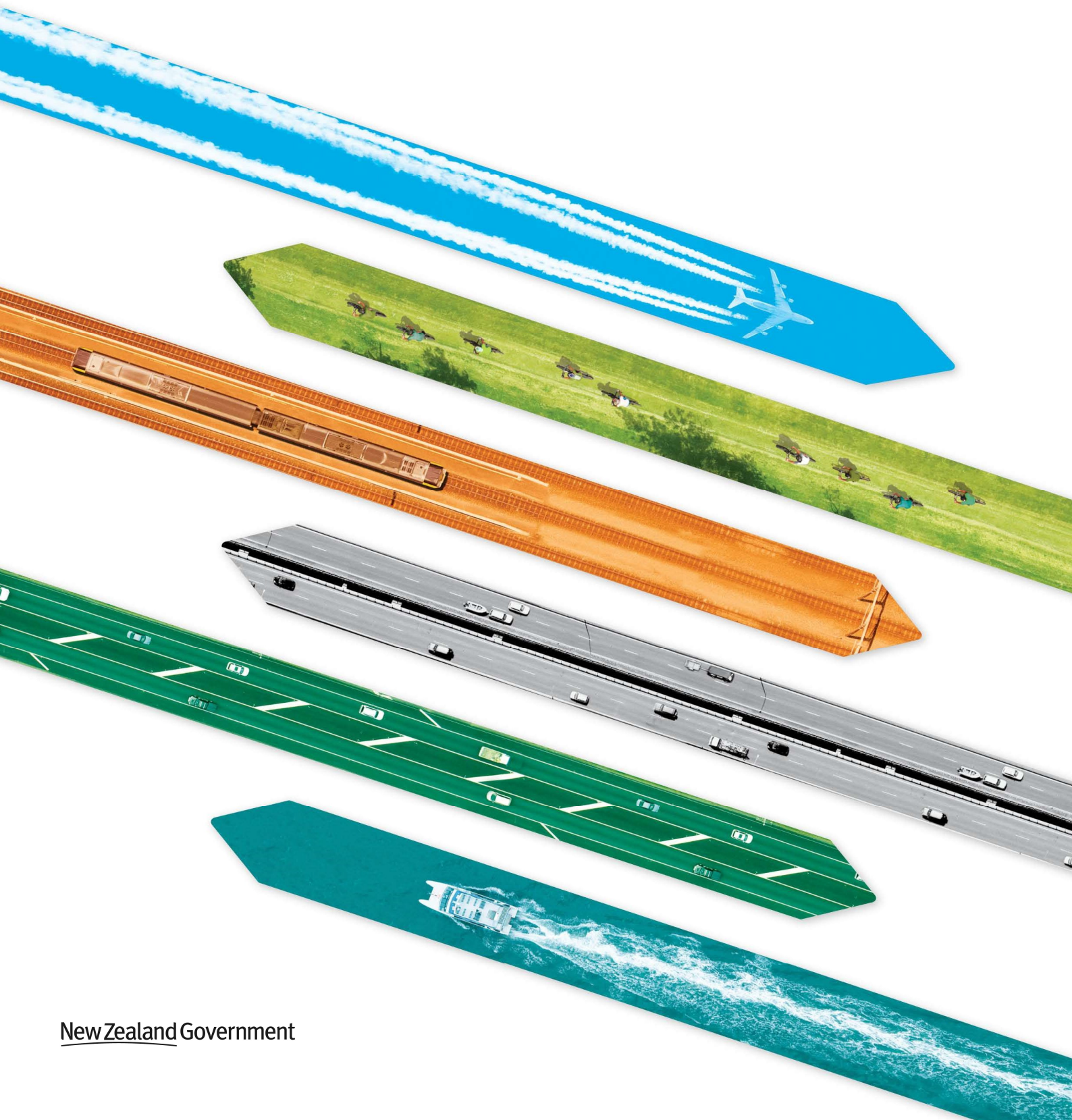
PUBLIC TRANSPORT OPERATING MODEL (PTOM) REVIEW DISCUSSION PAPER

5 May 2021



Ministry of **Transport**
TE MANATŪ WAKA

Enabling New Zealanders to
flourish



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MAKE A SUBMISSION

We welcome your feedback

Our intention is to develop solutions to the issues identified in this Discussion Paper following engagement with the sector. As a result, we are seeking the views of the sector and the wider public to inform how we design any changes to the Public Transport Operating Model. We have included questions throughout the document to prompt discussion. Underneath each set of questions we have explained why the issue is important and outlined some of the options that we are considering. The Ministry of Transport welcomes any feedback you have on the issues raised in this Paper.

Consultation is open for a six week period from 5 May 2021 until 18 June 2021.

You can provide feedback on the key issues via a short survey available on the Ministry of Transport website at: <https://www.transport.govt.nz/area-of-interest/public-transport/public-transport-operating-model/>.

You can also find a summary version of this Discussion Paper, which replicates the short survey referred to above, on the Ministry of Transport website at: <https://www.transport.govt.nz/area-of-interest/public-transport/public-transport-operating-model/>.

If you want to make a written submission, please send this to: PTOMReview@transport.govt.nz.

Issues outside the scope of the PTOM Review

Under PTOM, regional councils and Auckland Transport (AT) are responsible for providing public transport services and make their own decisions about how those services operate. If you have any questions or views on issues with your local public transport services, please contact your local regional council or AT. This would include any concerns you have about:

- Routes
- Timetables
- Fares
- Integrated ticketing
- Bus stops or train stations

Privacy and information statement

This privacy and information notice applies to all information collected through the PTOM Review consultation on www.transport.govt.nz/area-of-interest/public-transport/public-transport-operating-model/

Your submission is public information and we will publish a summary of submissions. However, we are not collecting the names and contact details of those making submissions on their own behalf and do not intend to publish the names of individual submitters. If you are submitting on behalf of an organisation and do not want us to use the organisation's name or include any identifying information in anything we publish (including because you believe your comments are commercially sensitive) please indicate this clearly in your submission.

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Please note your submission is also subject to the Official Information Act 1982 (OIA). This means that other people will be able to obtain copies of submissions by making a request under the OIA. If you think there are grounds for your information to be withheld under the OIA, please note this in your submission. We will take your reasons into account and may consult with you when responding to requests under the OIA if you have provided us with your contact details. If you are making a submission via an online petition or automated platform then please contact the Ministry first to ensure that your submissions are accurately recorded.

PURPOSE

The Public Transport Operating Model (PTOM) is the framework that governs how public transport bus and ferry services are planned, procured and delivered. It has been in place since 2013 and all regions have now implemented (or are in the final stages of implementing) it. As part of good policy practice, the Ministry of Transport is now reviewing PTOM to consider whether it:

- has achieved the original objectives
- remains fit for purpose to support the Government's objectives for public transport and wider objectives.

This Discussion Paper has been prepared as part of that review. It is intended to support engagement with key stakeholders involved in the planning, procurement and delivery of public transport bus and local ferry services. For the purposes of this document, public transport refers to bus and ferry services that are available to the public. Public transport is also provided by rail, but these services are subject to a separate procurement framework known as the Metropolitan Rail Operating Model so are excluded from the scope of this Discussion Paper. The outcomes of this engagement will inform any resulting changes to PTOM, including the Land Transport Management Act 2003 (LTMA) and associated guidance.

There are a range of issues and opportunities in the sector that were not contemplated when PTOM was designed and implemented. This review provides an opportunity to consider them. From our previous engagement with the sector we are aware of some specific issues that we have included in this Discussion Paper. The Government also wants to review the objectives that were set for PTOM when it was established to ensure they align with its objectives for transport. The scope of this Discussion Paper therefore consists of:

- the PTOM objectives
- decarbonisation of the public transport bus fleet
- roles and relationships in the public transport sector
- the labour market in the public transport bus sector
- services that operate outside of PTOM (exempt services)
- on-demand public transport services.

This Discussion Paper is not Government policy, but it reflects the key issues and opportunities in the sector that we are aware of. We anticipate stakeholders may identify other issues that could be addressed either through changes to PTOM or wider changes. The scope of this Discussion Paper is not intended to limit the issues we are willing to contemplate. However, we also anticipate not all issues identified by stakeholders will be addressed through the PTOM Review.

HOW TO NAVIGATE THIS DISCUSSION PAPER

This Discussion Paper consists of five parts.

Part 1: What is PTOM: Outlines what PTOM is, why it was introduced and what it was intended to achieve

Part 2: Background to the Review: Outlines what work has been done on the PTOM Review to date and the next steps

Part 3: Issues within scope of the PTOM Review (summarised in the table below)

Issue	Summary	Section
Overarching objectives	The Government is proposing new overarching objectives for PTOM that align more closely with its priorities for the public transport system	3.1
PTOM and decarbonisation of the public transport bus fleet	We are interested in the sector's views as to whether PTOM creates any barriers to decarbonisation and how barriers might be reduced or removed to accelerate the transition to the use of zero-emission buses	3.2
Roles and responsibilities in the public transport system	We are considering whether redefining the roles, relationships and responsibilities of those who procure, manage and deliver public transport services under PTOM would improve outcomes from public transport investment	3.3
The labour market in the public transport bus sector	We want to explore the options for protecting driver wages and conditions in future procurement under PTOM	3.4
Public transport services operated outside PTOM	We are considering whether the rationale for exempting commercial and inter-regional public transport services still holds, and whether the process for adding and removing exemptions is appropriate	3.5
On-demand public transport	We are considering whether the legal and regulatory framework is appropriate for on-demand public transport services	3.6

Part 4: Reforms to PTOM: Outlines how any reforms to PTOM would be implemented

Part 5: Next steps

PART 1: WHAT IS PTOM?

This part of the Discussion Paper outlines the functions of public transport, summarises the history of the development of PTOM and explains how PTOM works.

Public transport has two key functions:

- access - ensuring people have access to goods, services, education and employment. Older people and people with disabilities often rely heavily on public transport.
- efficient people movement – public transport is critical to the operation of our main cities as it moves people more efficiently, using less space, than private motor vehicles.

Public transport includes both government-funded (subsidised) services and commercially operated services. Most public transport services are subsidised because the level of service that can be provided commercially is not sufficient to meet community needs, particularly where access (rather than people movement) is the objective. Government typically has more influence over publicly funded services.

Public transport services have been planned, procured and delivered under PTOM since it came into force in 2013.

From 1991, when public transport was deregulated, to the introduction of PTOM in 2013, public transport services were delivered through a mixture of commercial and contracted services. In some regions, notably Auckland, Wellington, Canterbury and Otago, operators identified what services they wished to provide on a commercial basis (i.e. without public subsidy). Regional councils then determined what other services were necessary to meet their community's needs and contracted around any commercial services to deliver a network.

Prior to the introduction of PTOM, the Government of the day was concerned that increases in government spending on public transport over the preceding 10 years had not been met with commensurate increases in patronage. It wanted to re-establish competitive markets in Auckland and Wellington with the aim of achieving greater value for money from public spending.

PTOM was developed with two overarching objectives:

- to grow the commerciality of public transport services (as measured by the proportion of costs covered by fare revenue) and create incentives for services to become fully commercial; and
- to grow confidence that services are priced efficiently and there is access to public transport markets for competitors.

Following the introduction of PTOM, regional councils (including AT) became fully responsible for planning, procurement and service delivery. Through Regional Public Transport Plans (RPTPs), regional councils had to determine what services were integral to the public transport network and organise these services into units. These were then competitively tendered or negotiated with operators. They also became responsible for setting fares, enabling integrated ticketing systems to be established with integrated fares.

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Services are co-funded by central government through Waka Kotahi NZ Transport Agency (Waka Kotahi). Specifically, service contracts are funded from a mix of fares, local share (predominantly rates), and the National Land Transport Fund (NLTF). Through its Procurement Manual, Waka Kotahi sets requirements for procurement strategies and pre-approved procurement procedures and provides guidance to councils. Tendered contracts last for nine years and directly negotiated contracts (negotiated between the operator and the regional council) last for six years. Under PTOM, operators that meet performance expectations may be offered an opportunity by the regional council to negotiate a new contract directly. Some transitional 'like-for-like' contracts last for 12 years, in recognition of services that were previously provided commercially.

Under PTOM some public transport services that operate on a fully commercial basis are exempt (although a fully commercial service can also be supplied under contract if identified as integral to the network by a regional council). These services include the Waiheke Island ferry service and the Wellington Cable Car. The rationale for exempting services was either that the services were not integral to the local public transport network and/or that bringing them under PTOM would not increase their commerciality or increase market access. These services do not, as a general rule, receive public funding and are not required to operate under a contract to regional councils. Operators of exempt services are free to set their own fares and timetables.

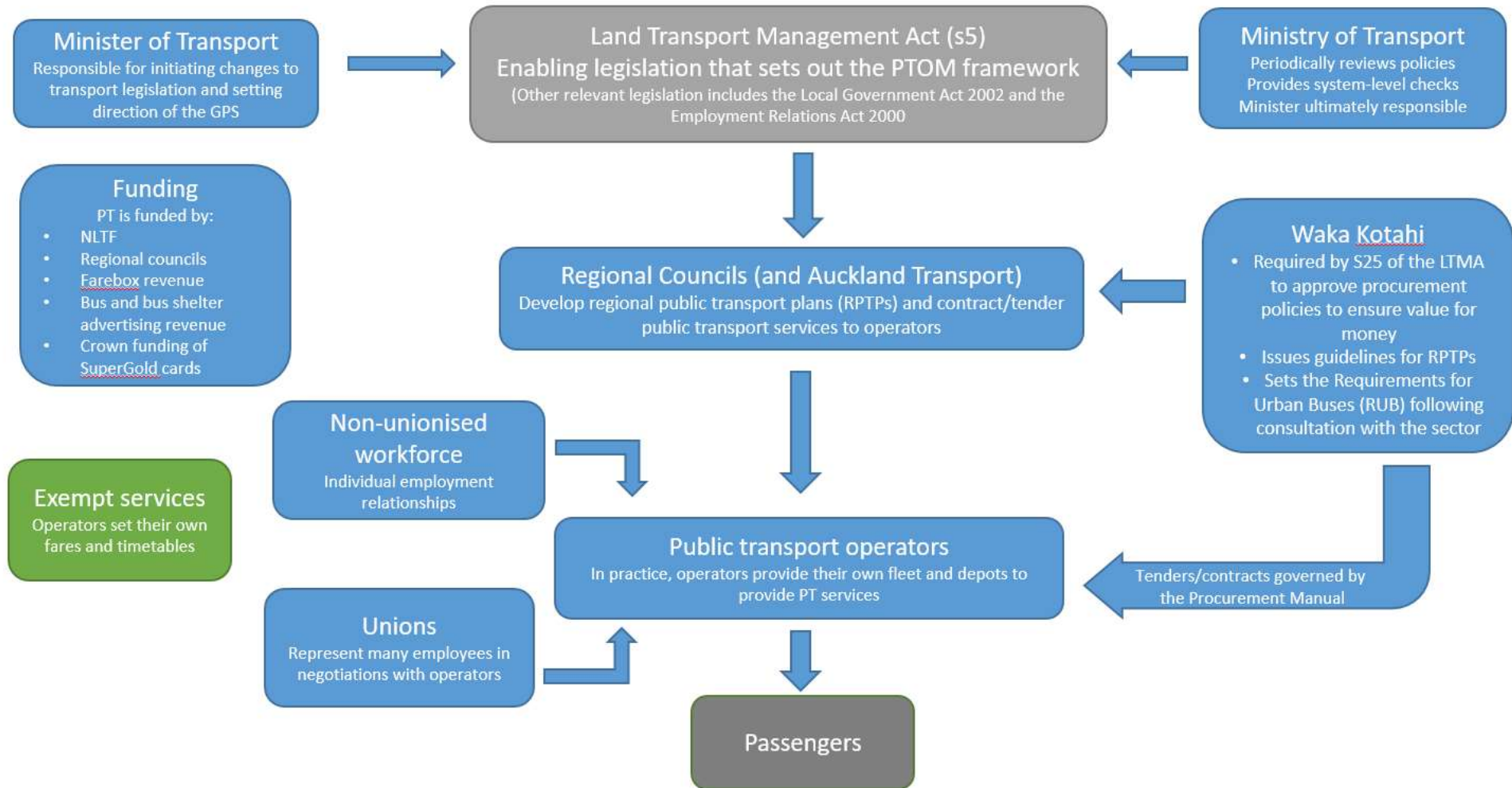
The framework for public transport (PT) service planning, procurement, and delivery under PTOM

The following diagram provides an overview of the framework, key players, and their responsibilities in the public transport system. Roles and responsibilities are explored in more detail in section 3.3.

The components of the PTOM framework are also explored below. PTOM is comprised of legislation and administrative and non-legislative components. The current approach to ownership and service provision is also a key part of how the system works under PTOM.

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Overview of the framework for public transport planning, procurement and delivery



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Legislation

The LTMA provides the high-level statutory framework for PTOM. The legislation is regarded as enabling legislation, rather than setting out detailed, prescriptive rules. In practice, PTOM's implementation has been supported by administrative processes. RPTPs are important in setting out regional public transport services (and for consulting with the public on them).

Administrative and non-legislative framework

Many of the components of PTOM did not require changes to legislation and have been implemented through changes to Waka Kotahi's manuals, procurement guidelines and practices.

Waka Kotahi has an independent statutory function under section 25(1) of the LTMA to approve procurement procedures that are "designed to obtain the best value for money spent by the Agency and approved organisations, having regard to the purpose of this Act". Section 25(2) of the LTMA requires Waka Kotahi to have regard to the desirability of encouraging competitive and efficient markets. Waka Kotahi uses its Procurement Manual to set requirements for procurement strategies and pre-approved procurement procedures. The Procurement Manual was amended to allow the use of tools such as cost benchmarking to make it easier for regional councils to negotiate directly with incumbent operators. The Manual also sets out the contract term for operating public transport units.

Adherence to Waka Kotahi guidance and procedures is mandatory as a condition of receiving funding from the NLTF.

Current approach to ownership and service provision

Ownership models have evolved over time in response to changes in the overall regulation of public transport services. It is helpful to understand this evolution when contemplating whether changes to ownership might be necessary in the future, particularly given the objective of decarbonising the public transport bus fleet.

Prior to deregulation, public transport bus services were largely operated by council-owned bus companies, with assets such as depots and fleets in council ownership. Legislative changes meant many of these operators were privatised in the 1990s and the assets were sold to the commercial operators that provided public transport services. During this period, until the passage of the LTMA, legislation prevented regional councils and unitary authorities from having an interest (ownership) in passenger transport undertakings or operations.

Since privatisation in the 1990s, buses and infrastructure such as depots have been almost entirely provided and managed by private operators, despite the legislative prohibition on regional council ownership being removed in 2003¹. Similarly, despite there being no prohibition on publicly owned bus operators competing for or operating bus services, all bus operators, and almost all buses and depots are currently privately owned².

¹ Section 27 of the LTMA allows regional councils to hold an interest in or acquire a public transport service or public transport infrastructure if it does so by way of a council-controlled trading organisation (CCTO). The Local Government Act 2002 defines a CCTO as a council-controlled organisation that operates a trading undertaking for the purpose of making a profit.

² New Zealand's sole remaining publicly owned bus operator, Red Bus, was sold by Christchurch City Holdings to Ritchies Transport Holdings in 2020.

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PTOM did not prescribe particular forms of ownership of bus or ferry operators, or ownership of the assets associated with service provision. However, the predominant approach of private ownership and provision has remained since PTOM was implemented.

PART 2: BACKGROUND TO THE REVIEW

This part of the Discussion Paper outlines the background to the PTOM Review and summarises the work carried out so far.

An initial concern about PTOM was that it negatively impacted drivers' terms and conditions

As part of early work on the review of PTOM, the Ministry of Transport commissioned Allen + Clarke in association with public transport specialists Ian Wallis and Bill McDonald to undertake research into the impacts of PTOM on bus driver employment conditions and wage rates. Their report was finalised in 2018 and published in 2019.

The research found PTOM had resulted in a more competitive market for operators tendering for contracts. Its impact on bus drivers' employment conditions and wage rates varied by region, and largely depended on whether bus drivers remained with the same operator, moved to a new operator, or left or entered the industry. Bus drivers' employment conditions and wage rates were directly impacted by changes in the contracting and operating environment. Most operators kept their employment conditions the same, with small increases in wage rates, although these varied considerably between incumbent and new operators.

The Allen + Clarke report can be found on the Ministry of Transport website at <https://www.transport.govt.nz/area-of-interest/public-transport/public-transport-operating-model>.

Independent research found tendered contracts cost significantly less than negotiated contracts under PTOM

Research by Ian Wallis³ compared the impacts of alternative procurement methods (tendered vs negotiated contracts) under PTOM on contract prices in Auckland and Wellington. The research found that:

- for the tendered contracts, significant cost reductions were achieved compared with previous tendering rounds, reflecting the considerable increase in the number of bidders per contract; and
- for the negotiated contracts, gross costs averaged 10–15% higher in Auckland and 30–35% higher in Wellington than the equivalent tendered costs.

According to Ian Wallis' research these cost disparities reflected the weak position of the regional councils in their contract negotiations with the operators, as a result of the councils not having recourse to tendering as a fallback negotiating position and coming under considerable time pressures to introduce the new services.

³ Wallis, Ian, 2020. Value for money in procurement of urban bus services – Competitive tendering versus negotiated contracts: Recent New Zealand experience. *Research in Transportation Economics* 83 (2020).

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The PTOM Review was announced in mid-2019

In mid-2019 the then Minister of Transport, Hon Phil Twyford, announced a review of PTOM. At the time the review was prioritised because of concerns about the impact of the implementation of PTOM on bus driver wages and conditions.

The PTOM Review is structured in two stages:

- an impact evaluation (the PTOM Evaluation), which is completed
- a policy and legislative review, which is underway.

We commissioned KPMG and Mott MacDonald to undertake the PTOM Evaluation

The first part of the wider review of PTOM was an impact evaluation, which was carried out by KPMG and Mott MacDonald.

The PTOM Evaluation considered the impacts of PTOM, including how it has been implemented by councils. This included an evaluation of how well PTOM achieved its overarching objectives, as stated by the Government of the day; the impact of PTOM on service provision, service users, and service providers, including employees; and how the PTOM framework and/or implementation could be improved.

The PTOM Evaluation has now been completed

The PTOM Evaluation, which is discussed in more detail below, found PTOM has only partially met the founding objectives – but importantly it has contributed to the increased integration, access, and affordability of public transport services. These outcomes are consistent with the Government’s objectives for public transport.

The PTOM Evaluation is available on the Ministry of Transport’s website at <https://www.transport.govt.nz/area-of-interest/public-transport/public-transport-operating-model>. A summary of the findings is below:

Evaluation question	Findings from the Evaluation
How well has PTOM achieved its intended outcomes, including to: <ul style="list-style-type: none">• grow the commerciality of public transport services and create incentives for services to become fully commercial?	The commerciality of public transport services (as measured by the proportion of operating costs covered by fare revenue) has not increased in most regions. However, passenger fares have become more affordable in real terms, there have been investments in a newer, more comfortable and lower emissions fleet, and customer satisfaction has improved.
<ul style="list-style-type: none">• ensure services are priced efficiently and there is access to public transport markets for competitors?	The costs to local and central government for public transport services (relative to the level of service kilometres provided) appear to decrease following the introduction of PTOM contracts. However, in some cases this impact is relatively short term.

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	In some regions, total public funding has increased significantly. However, this may reflect changes in service levels and policy changes separate to the introduction of PTOM.
	In most regions the market for operating PTOM contracts is competitive and accessible to market participants. The level of competition for contracts has increased significantly following the adoption of PTOM.
How has the introduction of PTOM impacted on service provision, service users, and service providers, including employees?	Regional councils have been able to integrate their networks and ticketing systems more effectively.
	Patronage and service kilometres run have risen and average fares have fallen in real terms.
	In most regions, price is the highest weighted evaluation criteria in tendering. This may have resulted in more competitive tender pricing but there is a suggestion that operators had a reduced ability to differentiate on quality.
	There is no evidence that PTOM has required operators to reduce wage rates, but operators with lower wage costs are likely to be advantaged in the tendering process.
How could the PTOM framework and/or implementation be improved?	Partnership working between regional councils and operators could be improved.
Other findings	Widespread adoption of zero-emission vehicles is likely to have implications for the way that assets such as fleets, depots and associated infrastructure are owned.

The Evaluation findings inform the second stage policy and legislative review

The PTOM Evaluation was largely backward looking – assessing how the framework has been working and understanding the impacts of PTOM. This is a critical part of the PTOM Review because it sets the foundations for the policy and legislative review, which is forward looking.

The PTOM Evaluation found that the commerciality of public transport services (as measured by the proportion of operating costs covered by fare revenue) has not increased in most regions and that there is scope to improve partnership working between regional councils and operators. In addition, operating cost savings from tendering were short-term in some regions and operators with lower wage costs were likely advantaged in tendering. However, it also found that under the PTOM framework public transport networks have expanded; access has increased; services have become more affordable for users; and networks have

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become more integrated. These findings, when considered in the context of the Government's objectives for public transport, suggest that the PTOM framework has largely facilitated the right outcomes.

As a result, rather than being a fundamental review of PTOM, the policy and legislative review is intended to address specific issues identified by the PTOM Evaluation, issues we are aware of from our ongoing engagement with the sector and issues that emerge from engagement through this Discussion Paper. In short, the purpose is to ensure the PTOM framework is fit for the future.

This Discussion Paper will support engagement with the sector for the policy and legislative review

This Discussion Paper builds on the findings of the PTOM Evaluation and is intended to support engagement with the sector for the policy and legislative review.

Collaborative work is already underway across the sector

Over the past year the sector has worked together to respond to, and progress, numerous issues and initiatives. Of particular note is the well coordinated response to COVID-19. The success of this response for public transport services is down to the efforts of individuals and organisations across the sector. It has involved input and effort from the Ministry of Transport, Waka Kotahi, councils/Auckland Transport, public transport operators, unions and the public transport workforce. We are conscious of the ongoing need to prioritise the COVID-19 response – and if necessary we will tailor our engagement with the sector on the PTOM review accordingly.

The sector is also already working collaboratively to:

- progressively implement a living wage for public transport bus drivers – through the Rest and Meal Breaks Steering Group and more broadly
- facilitate the establishment of a low emission bus fleet in New Zealand and remove barriers to earlier adoption of zero emission buses – through the Auckland Transport Low Emission Bus Working Group
- establish a common standard for public transport buses (including improving the usability and accessibility of buses for all passengers) – through the review of the Requirements for Urban Buses
- establish guidance for public transport infrastructure – through the development of New Zealand Public Transport Design Guidelines.

The PTOM policy and legislative review, and this Discussion Paper, are not intended to duplicate or impede progress being made through these initiatives. In fact, we anticipate some issues identified through engagement may be better addressed through these initiatives.

PART 3: ISSUES WITHIN SCOPE OF THE PTOM REVIEW

This part of the Discussion Paper outlines the issues within scope of the policy and legislative review. These consist of specific issues identified by the PTOM evaluation and issues we are aware of from our ongoing engagement with the sector. They are:

- the PTOM objectives
- decarbonisation of the public transport bus fleet
- roles and relationships in the public transport sector
- the labour market in the public transport bus sector
- services that operate outside of PTOM (exempt and excluded services)
- on-demand public transport services.

Changes to PTOM through amendments to the LTMA could impact metropolitan rail service planning and procurement

Although the PTOM Review is focused on public transport services provided in buses and ferries, any resulting proposals to amend the LTMA may impact public transport services more broadly. In particular, *Part 5 – Regulation of Public Transport* establishes requirements for the planning and procurement of all public transport services, including rail services. As a result, we will need to be aware of the potential impacts on metro rail of any proposals to change Part 5 of the LTMA.

Questions for your consideration:

- Are there other issues related to the planning, procurement and delivery of public transport bus and ferry services that are not included in scope of this Discussion Paper that you think should be? Please explain.
- Are there any consequences for the metro rail sector from the PTOM Review that we should be aware of?

PART 3.1: PTOM OBJECTIVES

The legislation that established PTOM was designed to be enabling legislation. Rather than setting out detailed, prescriptive rules, it provides Waka Kotahi and the regional councils that implement PTOM with a framework for decision making, which is based on overarching objectives.

The Government has signalled that it would like to align the overarching objectives for PTOM more closely with its priorities for the public transport system. This part of the Discussion Paper outlines the proposed new objectives and the rationale for them.

Questions for your consideration:

- Do you support the draft wording of the new overarching objectives? Why/why not?
- Are there any additional objectives (including elements of the current objectives) that you would like to include in the new objectives? If so, what are they?
- How might the new overarching objectives impact on service planning, procurement and delivery?
- Do you think these objectives are achievable, taking into account issues such as funding constraints, the impact of fare setting, and the direction of the sector? Please explain.

Establishing new overarching objectives at this stage of the PTOM Review would provide us with a clear framework to apply when we review the current legislative provisions.

The Government would seek to embed these objectives in legislation to ensure service planning and procurement support the Government's desired outcomes from public transport.

The proposed new overarching objectives are:

- **Competitors have access to public transport markets** – this is intended to ensure ongoing value for money from public transport service procurement.
- **Public transport is an attractive mode of transport** – this is intended to support the Government's mode shift objectives and encompasses factors such as reliability, frequency, accessibility and affordability.
- **There is sustainable provision of services, including through a sustainable labour market** – this relates to the ability of the sector to deliver, on an ongoing basis, the public transport services desired by the community.
- **Public transport services reduce the environmental and health impact of land transport** – this relates to the contribution of public transport to decarbonising the transport system, including through decarbonising the public transport bus fleet.

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What are the current PTOM objectives?

As we outlined in Part 1, PTOM was developed with two overarching objectives:

- to grow the commerciality of public transport services (as measured by the proportion of costs covered by fare revenue) and create incentives for services to become fully commercial; and
- to grow confidence that services are priced efficiently and there is access to public transport markets for competitors.

These overarching objectives were set by the Government of the day when PTOM was introduced in 2013. They were designed to address specific concerns relating to the value for money obtained from government investment in public transport services.

The overarching objectives guided the design of the PTOM framework and were specifically reflected in principles in section 5 of the LTMA. The most directly relevant principles are:

- competitors should have access to regional public transport markets to increase confidence that public transport services are priced efficiently; and
- incentives should exist to reduce reliance on public subsidies to cover the cost of providing public transport services.

The Government may wish to amend or replace these two principles in line with any new overarching objectives. However, it may be helpful to consider how all of the principles work together to achieve the Government's desired outcome rather than review these two principles in isolation.

The Government wishes to retain elements of the existing objectives and include additional ones

The Government is committed to ensuring value for money in the public transport sector and believes that this is best achieved by ensuring that markets for public transport services are open and competitive. However, the Government also wants the system settings to consider the wider social, economic and environmental benefits that can be provided by an efficient, attractive, accessible and affordable public transport system.

In particular, it wants to ensure that public transport is an attractive option for New Zealanders, considering factors such as reliability, frequency, accessibility and affordability. We know that many councils are already working towards this outcome. The PTOM Evaluation, for example, indicates that passenger fares per kilometre have become more affordable in real terms since PTOM was implemented, and that there has been a rise in service kilometres run. Embedding the proposed objectives into the PTOM framework ensures that councils will take into account these aims when planning and procuring services.

The Government also wants to ensure that the sector can deliver the level of public transport services required and meet the required performance objectives necessary to ensure public transport services are attractive to users. In addition, it wants services to be delivered in a sustainable way. In recent years, a number of operators have reported difficulties in recruiting and retaining bus drivers in some regions due, in part, to relatively unattractive

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wages and conditions. This has led to disruptions to services. The PTOM Evaluation found that the implementation of PTOM has not required operators to reduce wage rates. However, we know that where councils choose to give high weightings to price in the tendering process (and don't explicitly protect wages or conditions through their procurement process), operators with lower wage costs are likely to have an advantage because staff costs account for a high proportion of operating costs.

The sector is currently engaging in a tripartite work programme to look at ways to make bus driving a more attractive career. It is doing this by investigating potential improvements to driver terms and conditions, including remuneration. This is a medium-term project. In the longer term, the Government wants to ensure the sustainability of public transport service provision. This depends upon operators being able to attract and retain a skilled workforce. Ensuring that councils take this objective into account when planning and procuring public transport services will be an important part of any PTOM reforms.

PART 3.2: PTOM AND DECARBONISATION OF THE PUBLIC TRANSPORT BUS FLEET

The Government has committed to:

- require only zero-emission public transport buses to be purchased by 2025;
- target the decarbonisation of the public transport bus fleet by 2035; and
- support regional councils to achieve these outcomes through a \$50 million fund over four years.

Cabinet subsequently confirmed these commitments⁴, which support New Zealand's broader commitment to reduce emissions as part of the response to climate change. This broader commitment includes setting a new domestic greenhouse gas emissions reduction target for New Zealand to reduce net emissions of all greenhouse gases (except biogenic methane) to zero by 2050.

The commitment to decarbonise the public transport bus fleet forms part of a wider emissions-related work programme. A strategic direction which sets out how transport can play its part in reducing emissions is being developed by the Ministry of Transport. This plan, *Hikina te Kohupara – Transport Emissions, Pathways to Net Zero by 2050* will set out a strategic approach to the opportunities for New Zealand to reduce emissions in the transport system. Transport policies will need to be agreed with Ministers and will form part of the all-of-government response through an Emissions Reduction Plan under the Zero Carbon Act 2019.

This part of the Discussion Paper firstly explores how the 2025 mandate should be achieved. It then considers what changes to PTOM may be needed to help enable councils to achieve the 2035 decarbonisation target.

Establishing the 2025 zero emission bus mandate

This part of the Discussion Paper considers how the 2025 requirement can be achieved.

How should the mandate be designed?

Questions for consideration

- Do you support the proposed design of the mandate? Why/why not? If not, what about the design would you change?
- What do you regard as the key challenges of implementing the 2025 mandate?
- We are proposing that the meaning of 'purchase' refers to when buses are registered for the first time in New Zealand. Are there any issues with this approach? Is there an alternative approach that would be preferable?

⁴ The Cabinet paper and associated documents are published on the Ministry of Transport's website at <https://www.transport.govt.nz/area-of-interest/environment-and-climate-change/public-transport-decarbonisation>.

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We are considering several aspects in the design of this requirement. Our initial thinking is this requirement would be as follows:

- Start date – we propose the requirement will start from 1 July 2025.
- Definition of zero-emission – buses that produce zero emissions at tailpipe. We expect this would include fuel sources such as electric and hydrogen, but there may be other technologies available.
- Scope of vehicles included – the requirement will apply to public transport buses used for services contracted to regional councils. It will not apply to buses used for services contracted to the Ministry of Education.
- Meaning of “purchase” – we propose the requirement applies to public transport buses registered for the first time in New Zealand from 1 July 2025. This would cover new and used buses that are imported to New Zealand and new buses manufactured or built up in New Zealand. It would not cover buses that are already in the public transport bus fleet prior to 1 July 2025 – even if they are transferred between regions or operators, or refurbished.

How should we establish the 2025 zero-emission bus mandate?

Questions for consideration

- Which of the following options (or combination of options) do you think would be the best way to establish the 2025 mandate? Are there other options we have not identified?
- Do you think legislative change is necessary (as an alternative or in addition to other actions) to establish the mandate?

We have identified three ways to establish this requirement, noting that they may not, alone, be sufficient to achieve the mandate:

- The Requirements for Urban Buses (RUB)⁵ could be amended to require that all urban buses first registered in New Zealand after 2025 produce zero tailpipe emissions (noting that a review of 2014 RUB has just been completed). This amendment would mean from 1 July 2025 councils would only be able to access NLTF funding if vehicles first registered in New Zealand entering regional fleets are zero emission.
- Amend the Government Policy Statement on land transport 2021 (GPS) or embed the requirement in GPS 2024. This would set out the Government’s objectives for decarbonising the public transport bus fleet. Waka Kotahi would need to give effect to the Government’s objectives in performing its functions.
- Establish the requirement in legislation. This would involve a legislative amendment, for example a change to the LTMA, to require public transport buses entering the fleet to be zero-emission.

⁵ The purpose of the RUB is to standardise urban bus requirements across regional councils and Auckland Transport to create efficiencies and improve the usability and accessibility, as well as environmental quality, of buses for all customers.

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Interventions to establish the 2025 mandate at a glance

Intervention	Advantages	Disadvantages	Timing
Amend the RUB	Develop through industry collaboration Links compliance to access to NLTF funding	Sector may not agree to inclusion in RUB	Could be completed in 3-6 months including any consultation
Amend the GPS	Would signal the importance of supporting the decarbonisation mandate with funding	Unlikely to establish a mandate on its own because it cannot oblige Waka Kotahi to approve or decline funding	Could be completed within 6 months, depending on the level of consultation required.
Legislative change (e.g. LTMA)	Provides the strongest mandate	Uncertainty around timeliness	Up to two years

Enabling councils to achieve the 2035 decarbonisation targets

We are agnostic about the technology or technologies used to decarbonise bus fleets

Decarbonisation could be achieved using different fuel sources, different vehicles, or a combination of these. We consider that councils and operators should have the ability to choose the decarbonisation pathways that suit their local circumstances or operations, and hence we think a range of technologies could be utilised. We note that different technologies have different implications and advantages and disadvantages, including costs. Our initial assessment of the various technologies is set out in the table below. Ultimately, in order to obtain NLTF funding, councils will need to demonstrate value for money from the technology chosen.

Questions for consideration

- Are there other significant advantages or disadvantages of different fuel sources that we have not already identified?

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Technology and fuel options to achieve decarbonisation of the bus fleet (including status quo for comparison)

Technology/fuel	Infrastructure required	Advantages	Disadvantages	Costs
Status Quo: Diesel	No new infrastructure	Diesel is easily available	Still produces carbon emissions Emits local air pollutants at the tailpipe (amount is dependent on vehicle standards)	Approximately \$420,000 per bus (single deck bus)
Battery-electric	Significant charging infrastructure at depot and/or along the route (for additional opportunity charging)	Relatively mature technology Opportunity to use batteries as vehicle-to-grid (V2G) where vehicles store and discharge electricity as part of the grid) Established energy supply chain, much of it renewable Fully zero-emission at tailpipe	Uncertainty over residual values of batteries Trade off between battery (and vehicle) weight and operating range Charging takes time Opportunities for charging limit bus route flexibility	Approximately \$750,000 per bus (single deck bus) \$70,000 per charger Additional costs if on-route charging used Power supply upgrade costs for depots Far lower fuel costs than diesel

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Technology/fuel	Infrastructure required	Advantages	Disadvantages	Costs
Hydrogen fuel cell	Hydrogen storage and refuelling facilities required and/or onsite hydrogen production	<p>Similar operating range to diesel buses</p> <p>Quick refuelling (similar to diesel)</p> <p>Fully zero-emission at tailpipe</p>	<p>Currently very limited hydrogen production in NZ (far below what would be needed for the public transport bus fleet)</p> <p>Vehicles are not readily available</p> <p>Technology is still maturing</p> <p>Uncertainty about residual value of vehicles</p>	<p>Approximately \$1million per bus (single deck bus)</p> <p>Potentially high costs of infrastructure to support hydrogen filling, especially in early phases of deployment</p> <p>Hydrogen is expensive to generate and transport. It may cost two to three times that of diesel for equivalent distance. Longer term this may reduce but it is not known to what level</p>

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Technology/fuel	Infrastructure required	Advantages	Disadvantages	Costs
Bio-methane	Bio-methane fuelling and storage facilities required	<p>Similar operating range and refuelling time as diesel buses</p> <p>Established fuel supply in NZ</p> <p>Mature technology</p>	<p>Emits greenhouse gas emissions</p> <p>Emits local air pollutants at the tailpipe (amount dependent on vehicle standards)</p> <p>No known commercial supply for transport sector at this time</p> <p>On-vehicle fuel storage may add to vehicle weight</p>	<p>Higher (but unknown) fuel costs than diesel</p> <p>Vehicle must be modified to operate on bio-methane</p>
Bio-diesel	<p>No additional infrastructure or new vehicles required</p> <p>Biodiesel can be used instead of diesel but is not compatible with all vehicles and is usually sold as a blend up to 20 percent, rather than 100 percent</p>	<p>Similar range and refuelling as diesel buses</p> <p>Established fuel supply in NZ</p> <p>Mature technology</p>	<p>Carbon emission savings but not near-zero.</p> <p>Emits local air pollutants at the tailpipe (amount dependent on vehicle standards)</p> <p>Limited commercial supply at this time</p>	<p>Higher fuel costs than diesel.</p> <p>Likely in the order of 2-2.5 times current price.</p>

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Technology/fuel	Infrastructure required	Advantages	Disadvantages	Costs
Synthetic diesel	No additional infrastructure or new vehicles required: synthetic diesel can be used instead of diesel	Similar range and refuelling as diesel buses Fully mature technology	Emits local air pollutants at the tailpipe (amount is dependent on vehicle standards) Emits greenhouse gas emissions (though 75-90% lower than diesel) Limited supply chain for fuel in NZ	Higher fuel costs than diesel (currently approximately twice the price)

We are agnostic about the technology or technologies used to decarbonise bus fleets and different solutions will be required in different locations, depending on local circumstances. However, the technology most widely deployed domestically and internationally is electric buses (e-buses). As a result, it is the technology that has received the most consideration for deployment in New Zealand. The remainder of this section is focused on decarbonising the fleet through a transition to zero-emission buses, and particularly e-buses, though many of the points made will apply to other technologies.

Councils are already taking action to decarbonise their public transport bus fleets

Eighty percent of New Zealand's public transport bus fleet is deployed in Auckland, Wellington and Canterbury. Prior to the COVID-19 outbreak, Auckland Council (through AT), Greater Wellington Regional Council (GWRC), and Environment Canterbury (ECan) established commitments and ambitions to decarbonise their respective bus fleets.

Over the next few years these councils will deploy an increasing number of zero-emission buses (as at the end of 2020, these plans included 98 additional zero-emission buses in Wellington, 25 in Canterbury, and 32 in Auckland).

The sector faces barriers to decarbonising public transport bus fleets

We know from our initial informal engagement with AT, GWRC and ECan in 2019 and 2020 that local government faces a number of barriers to decarbonising the public transport bus

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fleet. This was confirmed by subsequent research carried out by KPMG and Mott MacDonald for the Ministry of Transport⁶.

Questions for consideration

- What do you think are the two biggest barriers to decarbonisation? Please explain.
- Are there other barriers that are not included in the following list?

We are aware of the following barriers to decarbonisation:

- high upfront capital costs of zero-emission vehicles such as e-buses;
- high upfront costs of supporting infrastructure, such as charging infrastructure for e-buses, depots and upgrades to power distribution networks;
- a risk premium applied by operators for deploying relatively new technology with an unknown residual value, uncertainty of the size of the follow-on market and concern over potential mid-life battery replacement costs;
- the impact of private ownership of assets on the potential for continued competition for public transport bus contracts;
- the higher weight of e-buses and the lack of options available that are compliant with New Zealand's vehicle weight regulations (particularly for higher capacity vehicles);
- the limited physical range of e-buses compared to diesel buses, which may mean more buses are required to deliver the current services
- higher road user charges (RUC) than for equivalent diesel buses that will likely apply to e-buses after 2025 when the current RUC exemption for heavy electric vehicles expires, due to greater weights relative to diesel vehicles; and
- difficulties accessing global zero-emission bus supply chains given the relatively low volume of vehicles that we require.

What is the relationship between decarbonisation and PTOM?

Not all of these barriers result from the way that PTOM is designed or implemented. However, the review provides an opportunity to ensure that the PTOM framework supports the Government's commitment to target the decarbonisation of the public transport bus fleet by 2035. The Government is keen to understand how PTOM facilitates or acts as a barrier to decarbonisation.

How could we enable councils to decarbonise their bus fleets by 2035?

Answers to the questions in this section will help us understand how the Government can help accelerate the move to a decarbonised public transport bus fleet. We already understand some of the systemic barriers, but we are interested in hearing how those are best overcome. We are not currently looking to mandate particular structures, but to explore the menu of options available (set out below) to address the barriers. In particular, we want to understand what impact the different options may have, both on meeting decarbonisation targets and on fulfilling the proposed overarching objectives of PTOM.

⁶ Their report, *Public Transport Operating Model (PTOM) Decarbonisation Option Development*, has been published on the Ministry of Transport website at <https://www.transport.govt.nz/assets/Uploads/Report/PTOMDecarbonisationOptionDevelopment.pdf>

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We are aware councils and operators in large urban areas and smaller towns may face different barriers and each council will need to take different factors into consideration as they develop their decarbonisation plans. We are also aware e-buses might not be the most appropriate way to decarbonise the public transport bus fleet for all councils, at least in the short to medium term. For those areas of the country with a small urban fleet, other fuel sources (such as synthetic diesel) may be more appropriate. In the future, the wider availability of alternative fuels is likely to assist with decarbonisation.

The following section focuses on e-buses. However, we appreciate that vehicles fuelled by hydrogen would also require additional supporting infrastructure such as on-site hydrogen production and/or storage tanks. As a result, some of the following discussion on infrastructure requirements may also be relevant to hydrogen.

Issues with current procurement and ownership of assets

The barriers to decarbonisation fall primarily into two categories: the additional costs of procuring and deploying zero-emission buses (including the cost of the charging infrastructure and power supply for e-buses) and technical barriers relating to the specifications and capacities of zero-emission vehicles.

The following section describes how buses are currently procured and deployed and outlines in greater detail how current practices present barriers to decarbonisation.

Current practice

Since the privatisation of the public transport bus system, buses and infrastructure such as depots have been almost entirely owned (or leased) and managed by private operators. Infrastructure that supports the small but growing number of e-buses (such as charging equipment) is also typically in private ownership. Private ownership allows flexibility for operators to select the appropriate technology for specific routes, allows small-scale trials and incentivises operators to innovate. However, the use of different technology by different operators might also make it more difficult to transfer buses between them, which would compound the residual value risks.

The upfront cost of e-buses is currently around twice the price of equivalent diesel buses (although prices are expected to fall as technology develops). There are also significant upfront costs for supporting infrastructure such as charging equipment and for depots capable of supporting electric charging (optimally located near to bus routes and to the local power grid). Currently, batteries are also expected to be replaced during the life of the bus.

Once buses reach the end of their public transport life (currently set at 20 years for urban services under the RUB) they are redeployed or sold, with a significant number used as school transport buses to fulfil Ministry of Education contracts. There is uncertainty in the sector as to the demand for zero-emission buses once they leave the public transport fleet. As a result, we understand operators who purchase and deploy zero-emission buses are concerned about investing in an asset with an uncertain and potentially low residual value.

This has created a number of barriers:

- Councils are paying more for zero-emission vehicles

In addition to the premium paid for more expensive zero-emission buses (compared to diesel equivalents), some operators are seeking to amortise the full cost of e-buses from councils within the life of the PTOM contract (generally six or nine years) as opposed to the RUB life of the vehicle, which is 20 years. Additional vehicles purchased within the life of a contract to support patronage growth attract an even higher risk premium because the length of time over which the cost can be amortised is shorter. This means councils are paying significantly more for services that deploy e-buses than those that deploy diesel buses, despite their much lower operating costs.

- Councils are paying more for depots and supporting infrastructure

Councils currently pay operators for costs associated with operating public transport services. However, establishing depots that can support zero-emission buses and

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installing the charging infrastructure required for e-buses represents a significant upfront cost. Operators may be reluctant to invest the sums required in case their contracts are not renewed. As a result, they may seek to recover their costs within the lifetime of their PTOM contracts.

- Where councils are supporting the purchase of zero-emission buses, or related infrastructure such as charging units, incumbent operators are advantaged and this may impact market access

If councils cover the costs of an operator's zero-emission buses and the upgrading of their depot and facilities within the current contract term it has implications for the next procurement round. This is because the new buses and infrastructure will be eligible for inclusion in the next contract round. This has the effect of advantaging the incumbent and disadvantaging competitors – compromising the PTOM objective of ensuring competitors have access to public transport markets. This could lead to councils paying more in their procurement processes.

How can these barriers to decarbonisation be removed or reduced?

Potential options to address the barriers outlined above can be grouped into three main categories: asset ownership; procurement practices; and funding and financing. We appreciate these options are interrelated and reducing or removing one barrier could give rise to new challenges.

The first option that we consider is asset ownership.

The following table summarises potential ownership options and the section below outlines each of these in more detail.

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Potential ownership options at a glance

Asset	Ownership	Advantages	Disadvantages	Access to market	Attractiveness of public transport	Sustainability of provision	Environmental impact
Fleet	Private	<p>Asset ownership risks sit with operators</p> <p>Operators can use assets as security for finance</p> <p>No upfront finance from government required</p> <p>Operators can choose to trial new technology</p>	<p>Individual procurement may lead to patchwork of technologies and interoperability issues</p> <p>Less scope for bulk purchase discounts</p> <p>Operators may amortise asset over PTOM contract length, making vehicles more expensive</p>	<p>Incumbents likely advantaged over time, which may reduce competition and result in higher costs</p>	<p>Unlikely to have material impact</p>	<p>If costs of service delivery rise over time, ability to maintain service levels may be impacted</p>	<p>Environmental impact driven by pace of decarbonisation</p>

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Asset	Ownership	Advantages	Disadvantages	Access to market	Attractiveness of public transport	Sustainability of provision	Environmental impact
	Public	<p>Central procurement and steady supply of orders may secure lower prices</p> <p>Potentially easier to ensure interoperability across regions</p>	<p>Government carries asset ownership risks</p> <p>Government bears upfront costs</p>	Allows for competition through management-style contracts (though market interest uncertain)	Risk of lower incentive to maintain assets	May improve sustainability of provision if operating costs borne by government reduces	Environmental impact driven by pace of decarbonisation
	Manufacturers/ third parties	<p>Lease can be aligned to PTOM contract length</p> <p>Third party commits upfront capital</p> <p>Lessor bears asset ownership risk</p>	<p>No guarantee a third party would provide this ownership/leasing structure</p> <p>Neither government nor operators control the assets</p>	Allows for competition if operators have greater access to vehicles	Risk of lower incentive to maintain assets	May improve sustainability of provision if cost of services to government reduces	Environmental impact driven by pace of decarbonisation

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Asset	Ownership	Advantages	Disadvantages	Access to market	Attractiveness of public transport	Sustainability of provision	Environmental impact
Depots and infrastructure	Private (operator or a third party)	<p>Operators have control, including over location</p> <p>Operators may find efficiencies through using depots to provide other services</p> <p>No upfront finance from Government required</p>	<p>Operators seek to recoup costs of depot upgrades within PTOM contract term (leads to higher costs)</p> <p>Risks advantaging incumbents in subsequent procurement rounds</p> <p>Difficult to require depots to be treated as transferring assets available to future operators (especially if depots are leased)</p>	Incumbents advantaged over time which may reduce competition and result in higher costs	Unlikely to have material impact	If costs of service delivery rise over time, ability to maintain service levels may be impacted	Environmental impact driven by pace of decarbonisation

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Asset	Ownership	Advantages	Disadvantages	Access to market	Attractiveness of public transport	Sustainability of provision	Environmental impact
	Public	<p>Could assist strategic planning of public transport networks</p> <p>Helps ensure incumbent operators are not advantaged</p>	<p>Requires significant upfront capital investment from government</p> <p>Removes ability of operators to compete on depot efficiencies</p>	<p>Allows for competition through management-style contracts (though market interest uncertain)</p>	<p>Unlikely to have material impact</p>	<p>May improve sustainability of provision if cost of services to government reduces by maintaining market access</p>	<p>Environmental impact driven by pace of decarbonisation</p>

Asset ownership

Fleet, depots and associated infrastructure are almost exclusively owned/provided by private companies, despite there being no prohibition on public ownership in PTOM-related legislation. New ownership structures might enable the acceleration of decarbonisation. We do not currently envisage mandating particular ownership forms because we recognise that there might not be a one-size-fits-all solution given the different needs of councils across the country. Instead, we want to understand what impact different structures might have on the shift to decarbonisation, on competition in the market and on costs for local and central government. This will enable us to consider what, if any, changes to the PTOM framework (or other legislation) are needed to reduce barriers to the development of new ownership structures.

Questions for consideration

- What do you think are the advantages and disadvantages of the current ownership model for accelerating the decarbonisation of the public transport bus fleet?
- In what way does the current ownership model support or impede the objective of ensuring that competitors have access to public transport markets as we transition to a zero-emission fleet?
- What would be the advantages and disadvantages of a mixed ownership model that saw fleet, depots and infrastructure owned by two or more of operators, government and third parties?

Potential ownership models are set out below. We have considered ownership of fleet separately from ownership of depots and supporting infrastructure.

Fleet ownership

Operators own or lease their own vehicles (the status quo)

There are a number of advantages to operators owning their own vehicles: the risks of owning the assets (including their use and maintenance) would sit with the operators; operators can use the assets as security to raise finance; no upfront capital from the government is required; and operators have the freedom and flexibility to innovate with trials of different zero-emission technology.

There are also downsides: the flexibility to trial new technology might lead to an inefficient patchwork of technologies nationally that makes it difficult to move buses between operators; operators purchasing their own fleet are less able to take advantage of bulk purchasing deals; and there is an expectation that operators will seek to amortise the asset over the life of the PTOM contract (we have already outlined how operators are likely to charge a risk premium for providing services for zero-emission vehicles due to the uncertainty of the residual value of vehicles at the end of the contract term).

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One potential option to reduce the risk premium charged by operators would be for councils to treat zero-emission vehicles as transferring assets. This would see councils buy buses from operators for a predetermined price at the end of the contract term. This would allow the cost of the bus to be priced over the operating life of the vehicle, rather than over the term of the contract. However, there are risks and barriers associated with the use of transferring asset provisions.

- The residual risk of owning assets with an uncertain value due to rapidly changing technology would sit with councils.
- Key warranties covering the technology may have expired and batteries for e-buses may need replacing before the end of the contract term.
- Infrastructure supporting the vehicles may also need to be transferred. Some may be fixed within depots and be incapable of transfer.
- Accounting for the assets on councils' balance sheets is likely to result in budgetary constraints.
- There are unlikely to be mechanisms within current contracts to require councils and operators to treat buses (or any other assets) as transferring assets.

Public ownership of vehicles

This model would involve central or local government owning zero-emission buses, which are then leased to operators.

Questions for consideration

- Would an ownership model that saw local or central government own buses accelerate the shift to decarbonisation or act as a barrier?
- What legal or practical barriers are there to government ownership of buses?
- What other impact would this ownership model have, for example on local government's ability to borrow money or on its budget? Are there likely to be cost savings from government being able to access cheaper finance to invest in fleet?
- Would this ownership model support or impede the objective of ensuring competitors have access to public transport markets?

The advantages of public ownership of vehicles include enabling the government to pay less for buses by negotiating bulk discounts and accessing cheaper financing than may be available to operators; facilitating greater interoperability of buses and supporting infrastructure between operators and regions; and providing suppliers with a steady pipeline of orders over time.

There are a number of disadvantages. All the risks of ownership (maintenance, utilisation and technology) would sit with the government. Mitigating these by, for example, requiring operators to maintain vehicles to a certain standard would require a robust monitoring regime. National (or regional) procurement of vehicles may limit small-scale trials of new and innovative technology. Government would bear the upfront costs of purchasing vehicles (which may impact local government balance sheets particularly negatively).

Public ownership of vehicles could be managed through a variety of corporate forms (such as a company set up under Schedule 4A of the Public Finance Act 1989; as Crown entity

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companies; or state owned enterprises). However, there are legal complexities around the establishment of effective corporate structures to manage leasing of fleet. In particular, the requirement that some forms of local government-owned businesses are set up as profit-making bodies may limit their flexibility. For example, the Land Transport Management Act 2003 requires any local authority interest in a public transport service to be by way of a Council-Controlled Trading Organisation, which are established with the purpose of making a profit.

Manufacturers (or other third parties) own the vehicles (or batteries)

This model would see manufacturers (or independent leasing companies) own fleets or batteries and lease them to operators. We are aware that this model has been used overseas, and in a limited number of cases in New Zealand.

Questions for consideration

- Would an ownership model that saw manufacturers or commercial lessors own buses and/or batteries accelerate the shift to decarbonisation or act as a barrier?
- Would this ownership model support or impede the objective of ensuring competitors have access to public transport markets?

This model offers a number of advantages: leases can be arranged to align with the length of PTOM contracts; neither operators nor government would be required to commit capital for upfront purchases of assets; and the lessor bears the residual risk of holding assets at the end of the lease period (mitigating operators' exposure to risks of changes in technology). Some utility companies may be interested in owning batteries and incorporating them into their grids as vehicle-to-grid (V2G) (to store and discharge electricity) and may offer favourable lease terms.

One disadvantage is that neither government nor operators has full control over the assets. In addition, there is no guarantee that bus manufacturers or commercial lessors would be willing to offer this kind of ownership structure in this market.

Depots and charging infrastructure ownership

Depots are highly strategic assets for public transport provision. Their location in relation to bus routes is critical in determining service efficiencies and operating costs. With a transition to zero-emission buses, and particularly e-buses, bus depots become even more strategically important.

Depots that have the capacity to charge electric vehicles place a high demand on electricity supplies. When significant numbers of vehicles require charging, depots may require additional local transformer capacity and sometimes the installation of a larger cable. These upgrades add significant cost (potentially millions of dollars). Bus operators prefer to site depots close to the routes they operate to minimise dead running kilometres and driver time. This is particularly important for services provided in electric vehicles because they currently have a lower geographical range than diesel vehicles (though this difference is expected to reduce over time). However, optimal sites may not be close to the required electricity supply or may be expensive to secure.

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In addition to fleet and depots, e-buses require supporting infrastructure in the form of charging stations and back up generators (which can necessitate larger depots). Each charging unit can cost approximately \$70,000. If these can be moved relatively easily from one depot to another, there is greater potential to have different entities own depots and charging infrastructure. For example, it may be possible for an operator to own its depot and for the regional council to own the charging units, or for an operator to lease its depot and for a third party to own and lease the charging infrastructure to the operator.

Operators own or lease their depots and charging infrastructure privately (the status quo)

This model would see a continuation of the existing practice used to procure and operate diesel buses, as well as the new e-buses that have joined the fleet.

Questions for consideration

- What mechanisms do councils have (or would like to have) to ensure that depots are available for other operators to use?
- Would an ownership model that sees operators continue to own their own depots or lease them from private businesses accelerate the shift to decarbonisation or act as a barrier? In what way?
- Does this ownership model support or impede the objective of ensuring that competitors have access to public transport markets?
- What measures could be put in place to improve levels of competition (and/or reduce costs for councils)?

Operators owning or leasing their depots and charging infrastructure privately offers a number of advantages: operators can choose the location of their depot themselves, which allows them to choose locations that enable greater efficiencies – potentially resulting in lower prices to councils and/or increased profitability to operators; it reduces the need for additional procurement by maintaining the status quo; and government is not required to provide upfront finance.

However, we are concerned that the current depot ownership model could risk reducing market access to competitors. This is because the additional capital costs required to establish a suitable depot for e-buses could pose a greater barrier to entry than for depots suitable for diesel buses. In the case of e-buses, the investment required, and therefore the barrier to entry, will also increase as the number of buses increases. Operators are incentivised by the tendering process to keep costs down, which means they are also unlikely to include a depot with capacity for expansion within their tender unless it is required by the applicable council.

The cost of depot upgrades will also typically mean higher contract prices in the short term. Councils procuring public transport services in electric vehicles will typically cover the costs not only of the buses in the current contract term, but also the electrification of the operators' depots. Understandably, operators are reluctant to invest in the upgrades necessary to service electric vehicles if these are not required in future contracts. As a result, they seek to recoup the costs of depot upgrades within the term of their PTOM contract.

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Although councils may seek to require upgraded depots to be made transferring assets in future PTOM contracts, there is currently no incentive for incumbent operators to make them available to competitors. If incumbent operators lease their depots from a third party, it is even less likely councils will be able to treat the depots as transferring assets. Should the incumbent lose the tender to a competitor, the new operator is faced with the challenge of securing a depot and upgrading it with the necessary infrastructure to support zero-emission vehicles and the council is faced with the cost of upgrading another depot.

The existing ownership model sees infrastructure owned privately. In some cases charging stations and energy management systems are leased to operators and returned at the end of the contract period. Some assets, however, such as the additional cabling necessary to support high electricity use, cannot easily be removed and returned.

Central or local government owns bus depots and charging infrastructure

One option to resolve some of the problems associated with private ownership of depots that have been identified above would be for central or local government to own depot facilities (or for depots to be owned by a private third party). These would then be leased to operators for the term of the PTOM contract. There may be a need to bundle bus routes into new and bigger units to rationalise depot use.

Questions for consideration

- Would an ownership model that sees government own depots and associated infrastructure accelerate the shift to decarbonisation or act as a barrier?
- Does this ownership model support or impede the objective of ensuring that competitors have access to public transport markets?
- What measures could be put in place to improve levels of competition (and/or reduce costs for councils)?

There are a number of advantages to central or local government owning bus depots and charging infrastructure. It could:

- make strategic planning of the transport network easier;
- help to achieve a greater degree of standardisation of technology;
- reduce barriers to market entry and enable competition by ensuring that incumbent operators are not unfairly advantaged in subsequent tendering; and
- enable depots to be bundled with routes to encourage competition from operators who don't have their own depots.

However, there are also disadvantages:

- local or central government would need to make a significant capital investment to acquire or develop depots (rather than being funded through operating expenditure);
- specific types of technology could be locked in on a large scale, reducing innovation;
- operators would no longer be able to compete on depot location and facilities – potentially stifling innovation and efficiency gains;
- the government would need to either assume or contract out maintenance obligations; and
- government would need to develop new expertise and capacity to manage the ownership, leasing and contractual arrangements for depots and infrastructure.

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In addition, as outlined above, operators have very little incentive to transfer ownership of depots that give them a competitive advantage. Negotiating the transfer of assets may jeopardise existing partnerships between operators and councils.

This model would also see regional or central government own supporting infrastructure (excluding the power grid) and lease the assets to operators for the term of the PTOM contract. In some international jurisdictions, utility companies have chosen to invest in depots and charging infrastructure (including vehicle batteries) and have incorporated the batteries into their V2G systems, using the batteries to store and discharge electricity.

Procurement practices

Procurement rules and practices present another opportunity to influence the speed and ease of decarbonisation of the public transport bus fleet. The following sections consider contract term and the possibility of councils procuring the operation of services separately from the provision of associated assets (such as fleet and/or depots and infrastructure).

Questions for consideration

- How does the length of PTOM contracts affect the shift to decarbonisation?
- How does the length of PTOM contracts affect access to the market?
- Is there a way to mitigate against the greater costs of buses added to the fleet during the term of the contract?
- What advantages or disadvantages might a separate procurement process offer, particularly to the objective of access to the market? Do you think that this model would be attractive to operators (including any new operators)?
- What are the implications for contract design and management of the different ownership, procurement, and funding/financing options explored?

Contract length

Where a unit is directly negotiated, contract tenure is for six years. Where a unit is procured through a tender process, contract tenure is nine years. Under PTOM, operators that meet performance expectations may be offered an opportunity by the regional council to negotiate a new contract directly. In some circumstances, contracts can last 12 years for like-for-like contracts, in recognition of services that were previously provided commercially.

Contract length is important for both incumbent and new entrant operators to enable them to recoup their capital investment over a reasonable time period. The longer contract length for tendered contracts was designed to incentivise new entrants to enter local markets and provide them with time to get established. The shorter tenure length for negotiated units reflected the fact that the unit had not been subject to a competitive tender. Shorter contract lengths may also enable councils to access innovative technologies more quickly, particularly given the rapid advances in zero-emission vehicle technology.

As outlined above, operators are wary of holding assets such as e-buses with an uncertain residual value and are seeking to amortise them over the life of one PTOM contract.

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We are not currently intending to revisit the lengths of contract terms. However, we are interested in understanding what impact, if any, contract length has on the decarbonisation of the public transport bus fleet (and especially how it relates to removing barriers to entry for competitors and to costs for government). We are particularly interested in understanding the issues as they relate to 'growth vehicles': the vehicles added by operators within the term of the contract in response to a growth in patronage. We anticipate that operators will also seek to recoup the cost of these buses within the remaining term of their contract, making it very expensive to grow the fleet, particularly towards the end of contract periods.

Separate procurement of service delivery and provision of assets

We are aware that the current procurement model, in which operators provide services, fleet and depots, may present a barrier to decarbonisation. Zero-emission buses are more expensive than equivalent diesel vehicles and the depots and infrastructure required to support them require significant additional investment. Zero-emission buses use relatively new technology with an uncertain residual value. As a result, operators that deploy them (and the councils that pay for services delivered in them) are required to assume a financial risk they may not be best placed to bear. As outlined above, once operators have zero-emission vehicles in their fleets and have upgraded their depots to service them, they are potentially advantaged in future tenders and competitors are disadvantaged. One potential solution is to procure the operation of services separately from the provision of assets such as fleet, depots and charging infrastructure. We are aware that some overseas jurisdictions use this model and are interested in understanding the potential advantages and disadvantages of it, including potential market interest in New Zealand.

Funding and financing

Services are co-funded by central government through Waka Kotahi. Specifically, service contracts are funded from a mix of fares, local share (predominantly rates), and the NLTF.

Questions for consideration

- How do the current financing arrangements help or hinder the decarbonisation of the bus fleet?
- Do the current financing arrangements pose a significant barrier to market access?

Under the current PTOM model, councils procure public transport services from operators who finance and deploy their own vehicles. We are interested in understanding how different funding and financing models might accelerate decarbonisation. This section considers the impact of funding and financing models on decarbonisation.

The status quo: operators raise their own finance

At present, operators are responsible for securing their own finance to purchase the assets necessary to provide services on specific bundles of routes. They do this in a variety of ways, including shareholder finance; bank loans; or using operating cash flows. Understandably, operators seek to recoup their investment within the lifetime of the PTOM contract unless they are confident they will secure another contract or can sell the assets.

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This arrangement has advantages: government is not required to contribute to upfront capital costs; and risks and balance sheet liabilities associated with the finance are borne by the operator rather than government.

The disadvantages are that operators are unlikely to be able to secure financing on the preferential terms that may be available to a government entity. Since the costs are ultimately passed on to the councils procuring the services, this increases the costs of providing public transport services as well as increasing the overall cost of decarbonisation. Lenders may also have limits on the amounts they are willing to lend to individual operators, potentially making it harder for them to purchase the number of zero-emission vehicles needed to meet the Government's decarbonisation targets.

Another option for operators is to enter into vehicle leasing arrangements with manufacturers or other third parties (as outlined above) or to purchase e-buses but lease the batteries that power them.

Central or local government provides grants or loans

One alternative to operators seeking private funding to finance the purchase of assets is for them to be awarded government grants to finance zero-emission buses and the infrastructure that supports them.

Questions for consideration

- How might this financing arrangement help or hinder the decarbonisation of the bus fleet?
- Would this financing arrangement remove barriers to market access?

Since public funding, including farebox revenue, ultimately pays for the provision of public transport services, it may be more efficient for the government to finance the upfront purchase of zero-emission vehicles and supporting infrastructure. This would be a cheaper, and potentially quicker, way to meet decarbonisation targets. It would, however, oblige government to incur significant upfront costs (and to identify potential sources of funding), and it would raise potential competition problems if incumbent operators were advantaged in future tendering processes.

One aspect of this model we would like to understand more about is whether it could be run under a *pay as you save* model. E-buses are generally cheaper to run than diesel buses and they are also cheaper to maintain. The so-called *pay as you save* financing model is underpinned by the assumption that cost savings achieved in these areas can be used to offset the higher purchase costs of electric vehicles.

We would like to understand whether the operating savings are large enough to be able to support this model of financing the purchase of e-buses. In particular, we are interested to know whether this model requires the level of low-cost financing that could only be secured by government entities for it to be financially viable, and whether it would resolve the issues that result from operators seeking to amortise assets over the course of one PTOM contract.

We are also aware the set-up costs to support electric bus fleets are significant. The costs incurred under this *pay as you save* model include:

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- the costs of setting up and running an entity such as a special purpose vehicle (SPV) to secure loans, buy vehicles and manage leases; and
- the costs of establishing new charging infrastructure and upgrading existing depots and electricity networks.

Central or local government finances an asset-owning leasing entity

This financing model would see an SPV or similar corporate form established to purchase and lease zero-emission vehicles and supporting assets. This SPV could be set up by central government or a regional council (or by a body such as LGNZ on behalf of councils), an operator or a third party investor. It could be funded in a variety of ways including private finance, government funding or bond issues.

Questions for consideration

- What (if any) are the legal or practical barriers to local or central government establishing an SPV-type structure to purchase and lease assets?
- How might this model accelerate decarbonisation and/or increase market access?

The advantages of this model include:

- the SPV being better placed than individual operators to negotiate bulk discounts;
- no upfront capital is required from government;
- if the SPV is a state-owned entity it may be able to secure preferential financing rates; and
- greater access to the market for operators.

However, there are significant costs involved in establishing an SPV and in maintaining ongoing leasing arrangements with operators (including ensuring that assets are properly maintained). There is also uncertainty as to whether loans backed by regional councils through an SPV would be included on the councils' balance sheets (potentially constraining their ability to borrow for other purposes). In addition, there may be statutory constraints on council-owned bodies (for example, the Local Government Act 2002 requires Council-Controlled Organisations that operate a trading undertaking to operate for the purpose of making a profit).

Other barriers to decarbonisation

In addition to the ownership, procurement and financing barriers to decarbonisation outlined above, engagement with the sector also identified technical barriers. These include:

- the higher weight of e-buses and the lack of options available that are compliant with New Zealand's vehicle weight legislation;
- the limited geographical range of e-buses compared to diesel buses (which may mean more buses are required to deliver the current services);
- high RUC costs likely to apply to e-buses after 2025, when the current RUC exemption for heavy electric vehicles expires; and

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- difficulties accessing global zero-emission bus supply chains given we require relatively low volumes of vehicles.

We are aware some of these barriers may be resolved as zero-emission technology develops. For example, the number of suppliers, including in New Zealand, is likely to increase as global demand grows. The geographical range of e-buses will extend and the weight of e-buses will fall as battery technology advances. The Government is also considering how changes to the RUC regime for heavy electric vehicles could accelerate the pace of the decarbonisation of the public transport bus fleet. Consultation on changes to the RUC regime will be carried out separately.

PART 3.3: ROLES, RESPONSIBILITIES AND RELATIONSHIPS IN THE PUBLIC TRANSPORT SYSTEM

There are a number of players involved in the planning, procurement and delivery of public transport services. They include Waka Kotahi, regional councils, road controlling authorities, bus operators and unions representing bus drivers. The roles and responsibilities of each, and how they interact, has a significant impact on the outcomes from investment in public transport services and on the outcomes for public transport users.

We have already heard from stakeholders that there may be opportunities to refine roles and responsibilities to improve the outcomes from public transport investment. This part of the Discussion Paper outlines the current roles and responsibilities of each player in the system and considers the opportunities to improve this aspect of PTOM.

The following table summarises the roles and responsibilities of the different organisations, some potential issues with these responsibilities, existing mechanisms to resolve these issues, and some possible solutions.

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Roles and responsibilities of different organisations in the planning, contracting and delivery of public transport

Agency/Organisation	Responsibilities	Issues with responsibilities in the system	Existing mechanisms to resolve issues	Potential changes
<p>Central government (Ministry of Transport and Minister of Transport)</p>	<p>Guide transport investment and set strategic direction (e.g. Government Policy Statement)</p> <p>Policy and legislative framework (PTOM and LTMA)</p> <p>Investment in public transport infrastructure and other investments that support public transport (e.g. funding for Super Gold Card concession)</p>	<p>None identified</p>	<p>N/A</p>	<p>N/A</p>

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Agency/Organisation	Responsibilities	Issues with responsibilities in the system	Existing mechanisms to resolve issues	Potential changes
Waka Kotahi	<p>Standards e.g. Requirements for Urban Buses</p> <p>Infrastructure Guidelines</p> <p>Guidelines for preparing RTPs</p> <p>Procurement guidance and approvals</p> <p>Funding provider and sets conditions of funding</p> <p>Makes investment decisions</p> <p>Assists and advises regional councils</p>	<p>Role in guiding the development of the public transport system could be strengthened.</p> <p>Could drive greater consistency and efficiency in service procurement</p>	<p>Waka Kotahi strengthening capability for multi-modal transport – including public transport.</p> <p>Waka Kotahi’s functions include providing guidance on procurement</p>	<p>Include a principle under LTMA to support greater consistency and efficiency in procurement</p> <p>Further discussed below in this section</p>

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Agency/Organisation	Responsibilities	Issues with responsibilities in the system	Existing mechanisms to resolve issues	Potential changes
<p>Regional councils <i>(including AT/unitaries)</i></p>	<p>Regional public transport planning (network design & integration, timetabling)</p> <p>Fare setting</p> <p>Procurement (negotiation & competitive tendering)</p> <p>Identification & monitoring of exempt services</p> <p>Contract administration (including the performance regime and variations)</p> <p>Negotiate funding and co-fund services</p>	<p>Regional councils are generally the appropriate level of government to plan and procure public transport service.</p> <p>However, in some regions the benefit of regional planning may be less pronounced, for example where there is limited need for integration of services between territorial authority boundaries in a region</p>	<p>The Local Government Act 2002 allows the transfer of responsibilities between regional councils and territorial local authorities (TLAs)</p>	<p>No changes proposed. Any transfer of responsibilities must be made by agreement between the local authorities concerned</p>

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Agency/Organisation	Responsibilities	Issues with responsibilities in the system	Existing mechanisms to resolve issues	Potential changes
<p>Territorial Local Authorities (TLAs)/Road Controlling Authorities <i>(Including AT/Unitaries)</i></p>	<p>Responsibility for District plan (including zoning and permission for depots and charging facilities)</p> <p>Asset ownership & maintenance</p> <p>Roads, including public transport priority measures (e.g. bus lanes)</p> <p>Bridges and structures</p> <p>Bus stops, shelters and bus interchanges</p> <p>On-route e-bus charging infrastructure (e.g. on-route infrastructure in Wellington)</p>	<p>Potential issues with infrastructure (e.g. bus stops) and services being managed by different organisations/levels of government</p>	<p>Under the LTMA, TLAs and regional councils should collaborate to deliver public transport infrastructure and services. Regional councils must consult TLAs when preparing a RPTP</p>	<p>Strengthen the relationship between TLAs and regional councils in the LTMA – this is further discussed below in this section</p>

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Agency/Organisation	Responsibilities	Issues with responsibilities in the system	Existing mechanisms to resolve issues	Potential changes
<p>Operators</p>	<p>Service providers</p> <p>Asset owners/ providers (vehicles and depots)</p> <p>Employers and workplace relations (provide drivers and negotiate collective employment agreements)</p> <p>Administer PTOM contracts</p> <p>Negotiate contract variations</p> <p>Responsible for demonstrating value for money and efficient asset use</p>	<p>As the sector transitions to zero-emission vehicles, asset ownership by private companies may impact access to the market</p>	<p>Through future service procurement, regional councils may have the opportunity to adjust asset ownership arrangements</p>	<p>No specific changes proposed.</p> <p>Further discussed in Part 3.2 above</p>

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Agency/Organisation	Responsibilities	Issues with responsibilities in the system	Existing mechanisms to resolve issues	Potential changes
Unions	Represent bus drivers and other employees Collective bargaining with bus operators	No issues identified. Role of unions established in the Employment Relations Act 2000. This is outside the scope of the PTOM Review	N/A	N/A

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The roles and responsibilities of players in PTOM create a complex set of relationships between those responsible for delivering various aspects of the public transport system. For example:

- regional councils need to work closely with road controlling authorities to ensure infrastructure and service networks are aligned;
- regional councils and operators need to work together on service planning (e.g. to ensure timetables and networks can be delivered);
- Waka Kotahi needs to work with regional councils on service planning and procurement (e.g. to ensure service networks provide value for money and the procurement of services meets procurement rules); and
- unions bargain with operators to establish collective employment agreements.

These relationships and roles are explored in more detail below.

Regional councils and road controlling authorities

For public transport networks to be effective it is important that there is alignment between infrastructure and service networks. However, in most cases responsibility for network design and infrastructure is divided between regional councils and road controlling authorities – and each is likely to have different perspectives and motivations for discharging their responsibilities.

Questions for consideration

- Do you think changes are necessary to improve/strengthen cooperation between territorial authorities and regional councils in the planning and delivery of public transport services and infrastructure?
- If you think changes are necessary, what is the best way to improve/strengthen cooperation?

For example, the location and design of bus stop facilities (including shelters) can be critical to the accessibility and experience of public transport services for users. A regional council might want bus stop facilities to be in locations that maximise the catchment of potential users, minimise wait times at traffic lights, and optimise the distance from other bus stops. In contrast, road controlling authorities may need to consider more localised, rather than network, impacts – such as the views of nearby residents, businesses or landholders.

Given these different motivations and considerations, we are interested in stakeholder views on what opportunities might exist to strengthen the cooperation between regional councils and road controlling authorities. For example, under the LTMA the key legislative requirement impacting this relationship is that:

- regional councils should collaborate with territorial authorities to deliver the regional public transport services and infrastructure necessary to meet the needs of passengers; and

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- regional councils must consult territorial authorities in the region when preparing a draft RPTP.

This could be strengthened to require regional councils and territorial authorities to prepare regional public transport plans in partnership to ensure alignment of service networks and infrastructure. As part of this, territorial authorities could be required to demonstrate how they plan to support the delivery of efficient public transport services.

Regional councils and bus/ferry operators

One of the founding ideas behind PTOM was that councils and operators should work in partnership to deliver the public transport system, and this is reinforced in the principles in the LTMA.

Questions for consideration

- What do you think an effective partnership between councils and operators would look like?
- Do you think this type of partnership between councils and operators has been achieved under PTOM?
- Could the relationship/partnership between councils and operators be improved or strengthened? If so, how specifically?

We have already heard from stakeholders that in some instances this partnership could be improved. However, we also acknowledge stakeholders have noted an improvement in this relationship over time, as individuals and organisations have got used to their changed roles and responsibilities under the PTOM framework.

We are also aware of concerns about the allocation of risks and rewards/incentives through PTOM contracts. In particular, stakeholders have raised concerns about whether key performance indicators and the associated incentives/penalties are leading to the appropriate outcomes for customers – or potentially creating perverse outcomes.

We have not identified a specific policy or legislative change that could be implemented to support more effective relationships or how the allocation of risks/rewards could be improved. We are interested in any specific suggestions to achieve this, either by way of legislation or through policy and/or procurement guidance.

Waka Kotahi and regional councils

We are aware stakeholders have raised concerns about the roles of, and relationship between, Waka Kotahi and regional councils.

Questions for consideration

- Do you think Waka Kotahi's role and capability in the public transport sector is appropriate or should it be strengthened?
- Would there be benefit in establishing greater national consistency around vehicle standards, service contracts and procurement? Why/why not?
- If you think greater consistency is desirable, how should we go about driving this change?

In particular, some stakeholders have suggested Waka Kotahi could take on a stronger role in ensuring greater national consistency around issues such as vehicle standards, operating contracts, and procurement processes. Meanwhile, we are conscious regional councils need to respond to their communities' needs and should have sufficient flexibility to achieve this. As a result, we suggest a balance will need to be struck between achieving consistency and efficiency in procurement of services, and meeting the needs of regional and local communities.

Currently the key functions of Waka Kotahi that relate to public transport as specified in the LTMA are:

- to assist, advise and cooperate with approved organisations;
- to issue guidelines for, and monitor the development of, regional public transport plans; and
- to approve procurement procedures and the approach to procurement.

We do not consider there is a need to change or add to these functions to strengthen the role of Waka Kotahi in public transport. We are also aware Waka Kotahi has already taken steps to increase its capability in multi-modal transport, including public transport services – which should support it having a stronger role in the sector. However, if greater national consistency in procurement is considered desirable by the sector then this could be incorporated in the principles that guide the performance of its functions in relation to public transport.

Operators and their workforce (including unions)

The relationship between operators and their workforce, including unionised employees, is critical to the day-to-day operation of services. Workforce issues and industrial disputes can result in service disruptions and may undermine the confidence of users in the public transport system. However, the role of operators and employees/unions in workplace relations, and the relationship between them, is outside the scope of the PTOM Review. The relationship between operators and employees/unions is currently guided by the Employment Relations Act 2000.

PTOM and the labour market is addressed below in part 3.4.

PART 3.4: THE LABOUR MARKET IN THE PUBLIC TRANSPORT BUS SECTOR

Bus driver wages and conditions are relatively low compared with those in several comparable sectors. High rates of staff turnover, difficulty recruiting and retaining drivers, and ongoing driver shortages have been caused, in part, by relatively low wages and conditions. These issues, and the impact they have had on public transport services, have been well documented in recent years. While the impact of COVID-19 on the economy has dampened the labour market and reduced some of the immediate recruitment pressures, it is important for drivers, public transport users, operators and government that the sector is sustainable in the longer term.

This part of the Discussion Paper outlines some of the ongoing work in this area, and considers two broad mechanisms to develop a longer-term, nation-wide approach to protecting drivers' wages and conditions during the procurement process.

Questions for consideration

- Which option or options do you think will best protect or improve bus driver wages and conditions in the longer term?
- We have identified some advantages and disadvantages of each approach. Are there any others?
- Are there any other mechanisms that would achieve the same (or a similar) outcome?

In the short term, improvements to driver wages and conditions for existing contracts will continue to be addressed through collective bargaining and tripartite collaboration between operators, unions and regional authorities. The proposed new Fair Pay Agreements system of collective bargaining may also be an avenue to improve driver wages and conditions. This system will enable unions and employers to bargain for new minimum terms and conditions that will then apply right across a sector. Legislation to create this system is intended to be introduced this year. The proposed Fair Pay Agreement system is being progressed separately from the PTOM Review, and any collective bargaining to improve driver wages under this system would also be progressed separately.

In the longer term, the Government wants to ensure drivers' wages and conditions are better protected in the procurement process. It will also be necessary to attract more people into the public transport workforce to support increased patronage and mode shift.

We are aware work to achieve this is already underway: some regional councils have tried to reduce or eliminate PTOM's impact on driver wages and conditions and the knock-on impacts on driver retention and recruitment. Neither the LTMA nor the operational policies and procedures associated with PTOM (such as Waka Kotahi's Procurement Manual) preclude regional councils from setting wage floors as part of the procurement process. Nor do they prevent them from making subsequent remuneration-related arrangements with operators through a variation to an existing contract. We are aware, for example, when Bay of Plenty Regional Council and ECan procured public transport services, they required

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tenderers to meet a wage floor. In addition, Waikato Regional Council implemented initiatives to improve service outcomes for existing service contracts, which included increasing bus driver wages.

The Government wants to develop a nation-wide approach to protecting drivers' wages and conditions during the procurement process rather than relying on ad hoc measures by individual regions. The review of PTOM provides an opportunity to consider the most effective way to do this.

We have identified two broad mechanisms to achieve this:

1. Procurement approach
2. Legislative approach

These approaches are not mutually exclusive.

Procurement approach

The procurement approach would potentially see Waka Kotahi utilise its statutory function under section 25 of the LTMA (see the box below) to approve procurement procedures that approved organisations are expected to use in order to be eligible for funding from the NLTF.

The main mechanism through which Waka Kotahi gives effect to its statutory function is through its Procurement Manual, which contains procurement procedures that approved organisations can use and rules they must also follow.

Waka Kotahi's Board has already agreed to identify ways future tenders of public transport service contracts can incorporate measures to protect and/or improve bus driver terms and conditions. Examples may include requiring regional councils to set a wage floor that all suppliers must meet and requiring non-incumbent suppliers to engage current employees on existing terms and conditions.

This is likely to involve amendments to its Procurement Manual.

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The approval of procurement procedures is a statutorily independent function of Waka Kotahi, which means it must act with independence when exercising this function.

Section 25 Land Transport Management Act – Procurement procedures

(1) For the purposes of this Part, the Agency must approve 1 or more procurement procedures that are designed to obtain the best value for money spent by the Agency and approved organisations, having regard to the purpose of this Act.

(2) In approving a procurement procedure, the Agency must also have regard to the desirability of—

(a) enabling persons to compete fairly for the right to supply outputs required for approved activities, if 2 or more persons are willing and able to provide those outputs; and

(b) encouraging competitive and efficient markets for the supply of outputs required for approved activities.

(3) Every approved procurement procedure must specify how procurement is to be carried out (which may differ for different kinds of procurement).

(4) It is a condition of every procurement procedure that the Agency or an approved organisation must procure outputs from a provider other than the Agency or that organisation (as the case may require), or its employees.

(5) However, nothing in subsection (4) prevents an approved organisation from procuring from the organisation's own business units the provision of minor and ancillary works on terms approved by the Agency.

(6) Nothing in this section compels an organisation or person to accept the lowest tender received by it for the provision of any outputs.

Legislative approach

We have identified two pieces of legislation that could potentially be used to protect drivers' wages and conditions. These are outlined below.

Amending the PTOM provisions in the LTMA

Part 5 of the LTMA deals with the regulation of public transport. Section 115 of the LTMA sets out the five principles that must guide those who exercise powers or perform functions under Part 5 of the LTMA (see box). One mechanism to drive protection of wages and conditions would be to add an additional principle – such as that the wages and conditions of those employed in the provision of public transport services should be protected or improved. Under the LTMA Waka Kotahi would also need to take the principle into account when preparing procurement guidelines, approving procurement procedures, and approving a procurement approach from councils and Auckland Transport.

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We want to understand whether it would be appropriate to seek to add a principle or to amend or remove an existing principle to confirm that drivers' wages and conditions should not be negatively affected by procurement under PTOM. (See the box below for current principles in s115 of the LTMA).

Section 115 Land Transport Management Act – Principles

1) All persons exercising powers or performing functions under this Part in relation to public transport services must be guided by each of the following principles to the extent relevant to the particular power or function:

(a) regional councils and public transport operators should work in partnership and collaborate with territorial authorities to deliver the regional public transport services and infrastructure necessary to meet the needs of passengers:

(b) the provision of public transport services should be coordinated with the aim of achieving the levels of integration, reliability, frequency, and coverage necessary to encourage passenger growth:

(c) competitors should have access to regional public transport markets to increase confidence that public transport services are priced efficiently:

(d) incentives should exist to reduce reliance on public subsidies to cover the cost of providing public transport services:

(e) the planning and procurement of public transport services should be transparent.

Employment Relations Act 2000 (ERA)

Workers in sectors subject to high levels of tendering are particularly vulnerable to losing employment rights because of the likelihood of employers competing on wage costs. Part 6A of the ERA provides additional employment protections for employees in sectors subject to frequent restructuring (e.g. due to tendering). The protections enable employees to choose to transfer to a new employer following tendering with their existing terms and conditions. The employees currently covered by these protections include those people employed to provide cleaning services and food catering services in all workplaces. The full list of workers who receive additional protections is specified in Schedule 1A of the ERA.

Since 2018 it has been possible to apply to the Minister for Workplace Relations and Safety to add a category of employees to Schedule 1A. The Minister can then approve an application if the category of employees:

- are employed in a sector in which restructuring of an employer's business occurs frequently; and
- have terms and conditions of employment that tend to be undermined by the restructuring of an employer's business; and

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- have little bargaining power.

One mechanism to protect bus driver terms and conditions would be to add public transport bus drivers to Schedule 1A of the ERA. Doing this would mean that when councils procure bus services through competitive tendering, the employees of existing operators would have the right to transfer to any new operator of the services under their existing terms and conditions.

Adding bus drivers to Schedule 1A could either be achieved through making an application to the Minister of Workplace Relations and Safety, or a legislative amendment to directly insert public transport bus drivers into Schedule 1A. The Minister could only approve an application if they were satisfied the category of workers met the statutory criteria specified above, whereas adding public transport bus drivers into Schedule 1A through a legislative amendment would not need to satisfy any statutory test.

The following table summarises the key advantages and disadvantages of the procurement and legislative options. It also notes the likely advantages and disadvantages of utilising the proposed Fair Pay Agreement system of collective bargaining, which is being progressed separately from the PTOM Review.

Advantages and disadvantages of options to protect bus driver wages and conditions

Approach	Advantages	Disadvantages
Fair Pay Agreements: unions and employers would bargain for new minimum terms and conditions which would then apply across the sector	This could set a baseline standard for bus drivers' wages and conditions	<p>The outcome of bargaining is uncertain</p> <p>This could take a significant period of time to finalise the legislation and then negotiate a Fair Pay Agreement</p> <p>Unions would need to meet certain criteria before they could initiate bargaining</p>
Procurement: Waka Kotahi amends its Procurement Manual to ensure that future tenders of public transport service contracts incorporate measures to protect and/or improve bus driver terms and conditions	<p>Process can be completed relatively quickly through administrative changes</p> <p>This could allow some flexibility around the type of measures that councils adopt to protect or improve terms and conditions</p>	<p>Waka Kotahi has statutory independence, and the Minister of Transport cannot require specific changes be made to the Procurement Manual</p> <p>Requirement in Procurement Manual could be removed in future because protections are not embedded in legislation</p>

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Approach	Advantages	Disadvantages
<p>Legislative: Amending the LTMA to ensure that future tenders of public transport service contracts incorporate measures to protect and/or improve bus driver terms and conditions</p>	<p>Embeds protections into legislation</p> <p>This could allow some flexibility around the type of measures that councils adopt to protect or improve terms and conditions</p>	<p>This could take up to two years to amend the legislation</p> <p>What constitutes the protection of terms and conditions may be open to interpretation</p>
<p>Legislative: add public transport bus drivers to Schedule 1A of the ERA</p>	<p>Embeds protections into legislation</p> <p>Allows bus drivers to transfer to a new operator and retain existing terms and conditions</p>	<p>If existing procedures are followed: requires certain criteria to be met. It could be a lengthy process to assess the application and it may not be successful</p> <p>If bus drivers are to be added to Schedule 1A directly: likely to be a lengthy process to amend the ERA. Unclear rationale for circumventing the established statutory process in the ERA for amending Schedule 1A</p> <p>Could create significant compliance costs for employers</p>

PART 3.5: PUBLIC TRANSPORT SERVICES OPERATED OUTSIDE OF PTOM

When PTOM was introduced, some public transport services that were operating on a fully commercial basis and inter-regional services were exempted from PTOM. These services were not required to operate under a contract to regional councils, which meant the operators of these services were free to set their own fares and timetables.

This part of the Discussion Paper considers the rationale for the exemptions (and seeks views on whether it still holds). It also outlines the process for registering, varying and withdrawing exempt services and seeks views on whether these processes are still appropriate.

Questions for consideration

- What contribution do you think the current PTOM exemptions for commercial services make to the new objectives of PTOM?
- Do you think the future of exempt commercial services should be considered on a case-by-case basis or collectively or some other way? Please explain.

The services exempt from PTOM include the Waiheke Island and Devonport ferries (run by Fullers), Sealink's Waiheke Island ferry service, the Airport Flyer in Wellington, SkyBus in Auckland, the Wellington Cable Car, and InterCity bus services. These services do not receive operational funding from the NLTF (although some of these exempt services receive SuperGold funding or funding for concessionary fares).

We do not anticipate the PTOM Review will make specific recommendations about the future status of individual exempt services, but we do not want to preclude this possibility. The PTOM Review provides an opportunity to consider whether the:

- rationale for the exemptions still holds (including whether the definitions for the different types of services are current and workable and ensure that innovative services are not unintentionally prohibited);
- processes for registration, variation and withdrawal of exempt services are appropriate; and
- Order in Council processes for removing exemptions, and bringing exempt services under a council's contracted public transport system, are appropriate.

Rationale for commercial service exemptions

When PTOM was introduced some commercial services were exempted from operating under contract because they were not integral to a regional network and/or bringing them under PTOM would not increase their commerciality or increase market access. This reflected the overarching objectives of PTOM at the time it was introduced. In the absence of a PTOM contract commercial operators would not have exclusive rights to operate the service and the route would be open to competition.

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As outlined above in part 3.1, the Government is proposing new overarching objectives for PTOM. As a result, we need to consider whether the rationale for the exemptions for commercial services still holds when assessed against these new objectives. Our initial assessment is summarised in the table below.

Initial assessment of the impact of exempt commercial services on proposed PTOM objectives

Objective	Impact of exempt services
Access to market for competitors	Exempt services are open to competition. However, we are aware in some cases there may be barriers to entry because of the requirement for supporting infrastructure (e.g. limited landside infrastructure for ferry services).
Attractive mode of transport	Exempt services will typically be more expensive for users than comparable subsidised services, because they operate on a commercial basis (users pay the full cost of the service). Government has limited ability to influence service levels and operator performance. Service provision (e.g. route, timetable, frequency) is based on commercial imperatives – i.e. service provision will typically be based on demand. It is unlikely commercial services will be provided to support access outcomes alone.
Sustainable provision of services	There is minimal cost to government or ratepayers for providing a commercial service. Services are sustainable so long as they are commercially viable. Operators may have a greater ability to adjust pay rates and improve working conditions to attract the necessary work force since they have the ability to adjust fares.
Reduces environmental and health impact of land transport	Operators of commercial services must meet general regulatory requirements - including vehicle exhaust and any applicable emission standards. Any efforts to reduce environmental and health impacts beyond this would be a commercial decision.

Our assessment suggests that exempt commercial services are likely to only partially meet the proposed new PTOM objectives. However, we note that there is also an overarching imperative to achieve value for money from investment in land transport services. It is therefore worth considering whether contracting, and potentially subsidising, a service that is currently provided on a commercial basis would represent value for money. We suggest such an assessment could be made on a case-by-case basis, and the value for money assessment could be based on the likely contribution to the new PTOM objectives. This could either be added to, or replace, the current Order in Council process for establishing or removing individual PTOM exemptions – which is discussed below.

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Inter-regional services

Under the LTMA all inter-regional services are exempt services.

Questions for consideration

- What issues, if any, do you see with the current category exemption for inter-regional public transport services?
- How should inter-regional public transport services be treated under PTOM? Should they continue to be exempt or should they be treated the same as intra-regional services? Please explain why.
- Are there alternative options for the treatment of inter-regional public transport services that we have not considered? If so, what are they?

This blanket exemption was established because inter-regional services were not part of a region's urban public transport network and were not being contracted by regional councils at the time that PTOM was introduced. At present, most inter-regional bus services are provided on a fully commercial basis – and there is a primary national operator (InterCity). We consider it appropriate that commercial inter-regional public transport services be treated the same as commercial intra-regional public transport services.

However, not all inter-regional public transport services operate as commercial services. We are aware contracted inter-regional public transport services, including both bus⁷ and rail⁸ services, have been established by neighbouring regional councils and we anticipate further publicly funded/contracted inter-regional public transport services are likely to be established in future. This reflects that council boundaries and personal movement patterns will not always align, particularly as our cities grow.

At present these services are (and would be) planned and procured outside of PTOM. However, these services are included in RPTPs (despite not being PTOM units) so they can attract funding from the NLTF. Services receiving NLTF funding must have a procurement procedure that has been approved by Waka Kotahi.

Aside from the requirements that relate to attracting NLTF funding, arrangements for contracted inter-regional services are currently ad hoc. We are interested in sector views on whether a change to the treatment of inter-regional services is necessary. The table below outlines the options we have identified and our initial assessment of their advantages and disadvantages.

⁷ For example, the bus service from Levin to Waikanae.

⁸ The Capital Connection from Palmerston North to Wellington and Te Huia from Hamilton to Auckland.

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Options for the treatment of inter-regional services under PTOM

Option	Description	Advantages	Disadvantages
Status quo	All inter-regional services are exempt under PTOM. Commercial inter-regional services must be registered with regional councils.	This allows flexibility for regional councils to establish contracted inter-regional services. Waka Kotahi retains oversight of service procurement if the service receives NLTF funding.	Ad hoc arrangements for establishing contracted inter-regional services could result in higher transaction costs.
Classify as excluded services	All inter-regional services would be established outside the PTOM framework. Operators would not need to register commercial inter-regional services with regional councils.	The same advantages as the status quo. Operators of commercial inter-regional public transport services would also have greater flexibility and lower compliance costs.	The same disadvantages as the status quo. Councils would not have the opportunity to decline a registration if it would be detrimental to the region's public transport network.
Require inter-regional public transport services to be contracted (unless exempt/commercially operated)	This would mean inter-regional services that are integral to a regional network and/or that are subsidised are planned and procured under PTOM. Exempt commercial inter-regional services are registered with councils. This would treat inter-regional public transport services the same as intra-regional public transport services.	PTOM may enable more consistency in the planning, procurement, funding and establishment of inter-regional public transport services. Councils would still have the opportunity to decline a commercial registration if it would be detrimental to the region's public transport network.	The PTOM framework may not be well suited to contracted inter-regional services – given multiple councils would be involved in establishing a service. There could be less flexibility for regional councils when establishing inter-regional services.

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Process for registration, variation and withdrawal of exempt services

The LTMA specifies requirements in relation to exempt services.

Questions for consideration

- Do you think the processes for registration, variation, and withdrawal of services are appropriate? Why/why not?
- Do you operate or intend to operate an exempt service? If so, what has been your experience with the processes? (e.g. notifying regional councils prior to operation or variation of an exempt service).

These specific requirements include:

- the process for registration or variation;
- grounds for declining a registration or variation;
- the grounds and process for a regional council to deregister an exempt service;
- the process and requirements for an operator to withdraw an exempt service; and
- the penalties for breaches of the requirements for exempt services.

We are not aware of any specific issues with these requirements and processes. However, we are interested in the views in the sector on how well these requirements and processes are working. For example, we are interested to know whether all exempt services are registered with regional councils, and whether regional councils are being notified about variations to these services.

Our initial view is the processes and requirements appear appropriate to give regional councils the opportunity to assess the impact of exempt services on regional public transport systems prior to their provision. The notification process, which requires route and timetable details to be provided, may also enable some integration between exempt and contracted services. However, we note that the ability of operators to withdraw an exempt service within 15 days of notifying a regional council may be problematic, particularly where an exempt service has been identified as integral⁹ to a public transport network in the region's RPTP. Conversely, it may also be unreasonable to have a long notification period before withdrawal – since it could require an operator to maintain a service that is no longer commercially viable.

⁹ This relates to existing exempt services that have been identified as 'integral services' in the relevant RPTP, but are still being provided commercially.

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Order in Council processes to create or remove exemptions for existing services

The LTMA also sets out Order in Council processes to create or remove exemptions for existing services.

Questions for consideration

- Do you think the current tests are sufficient? If not, should they be supplemented with any additional tests or replaced with a test relating to the contribution of an exempt service to the new PTOM objectives? Please explain.
- Do you think the test needs to be simplified? For example, should a regional council identifying a service as integral to its network be sufficient to trigger a transition to contracting the service? Please explain.
- Should the LTMA specify under what circumstances Waka Kotahi would undertake an assessment to inform decisions around whether an exempt service should be brought under PTOM? Why/why not? If you think it should specify the circumstances, what should they be?

There are three key tests that must be satisfied before an exemption is created:

- the operator will not receive a subsidy for the provision of the service;
- the service will not be integral to the region's public transport network; and
- the fares for the service will not need to be regulated.

These tests (except for the subsidy test) are mirrored for the removal of an exemption – the service must be integral to the network and the fares need to be regulated. There are also requirements for consultation before making an Order in Council.

These Order in Council processes have not been used since PTOM was introduced in 2013, so it is hard to judge their appropriateness or efficacy in practice. Our initial assessment of the current tests and the likely key considerations for the tests to be satisfied are outlined below.

- If a service is *integral to a network* it may be advantageous for a regional council to contract the service. This would enable it to set timetables (ensuring integration) and service levels (ensuring the service meets the needs of the community). Under the LTMA regional councils must identify services that are integral in their Regional Public Transport Plan. RTPs are the most obvious means to determine whether a service is *integral to a network* – but further network analysis may be necessary or appropriate for a minister to be satisfied of this.
- If the fares need to be regulated, contracting the service would allow a regional council to set fare levels and integrate the fares with the rest of the public transport network. Assessing whether fares need to be regulated might involve considering:
 - whether the fares set by a commercial operator are high relative to comparable contracted services;

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- the level of integration required with any integrated/electronic ticketing;
- composition of the customer base (e.g. visitors versus residents); and
- potential funding and financial implications.

While these tests appear reasonable, they also take a relatively narrow view of why it might be desirable to contract and potentially subsidise a service that is currently being provided commercially. As outlined above, it may be desirable to contract a commercial service in order to increase its contribution to the objectives of PTOM. We are interested in sector views around whether the current tests are sufficient or whether they should be augmented or replaced with a test relating to the contribution of an exempt service to the new PTOM objectives.

Alongside these considerations, we are also conscious that the LTMA does not specify under what circumstances Waka Kotahi might undertake the assessment to support an Order in Council. It is clear that the Minister of Transport would recommend an Order in Council, and this would be on the request of Waka Kotahi. We are interested in sector views on whether the LTMA should specify under what circumstances Waka Kotahi might undertake an assessment to support an Order in Council process.

PART 3.6: ON-DEMAND SERVICES

When PTOM was introduced, the framework was designed with conventional fixed-route timetabled public transport services in mind. While on-demand public transport services have existed in some form for a long time, technology has increased the attractiveness and potential efficiency of on-demand public transport services. Historically, on-demand public transport services were typically run using a call centre and manual route planning to arrange pick-ups and drop-offs. Technology has enabled more efficient systems, with app based bookings, real time tracking of services, and routes for drop-offs and pick-ups determined by algorithms.

This part of the Discussion Paper considers the relationship between PTOM and on-demand services. It seeks views on the way that legislation treats on-demand services and whether any changes are required.

Questions for consideration

- How should on-demand public transport services be treated under the LTMA and PTOM? Which of the options do you prefer, and why?
- Are there other options we have not identified?

On-demand public transport services are being considered by councils to complement, supplement or replace existing scheduled services. For example, they have been used in lower demand areas that may find it difficult to sustain scheduled services. In these cases contracting an on-demand service and subsidising fares may be an option to provide a reliable transport option for the community.

In this section, on-demand public transport services refer to passenger transport services that are:

- not operated to a timetable and are only operated when there is demand;
- provided in shared vehicles – users that book to use a service will usually share the vehicle with other users; and
- available to the public generally – anyone can book to use an individual service, subject to vehicle capacity.

This differs from other forms of on-demand transport service, including small passenger services such as taxis and ride hailing platforms like Zoomy and Uber that are not typically shared, and once booked are not available to the public generally.

Because they are not typically operated to a schedule, on-demand public transport services are likely excluded from Part 5 of the LTMA¹⁰, which sets out the regulation of public transport.

¹⁰ Under section 5 of the LTMA passenger transport services that are not operated to a schedule are not considered “public transport services” for the purposes of Part 5.

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This means on-demand services:

- do not need to be contracted to regional councils;
- do not need to be included in a RPTP;
- do not need to be registered as exempt services;
- are not subject to the principles in Part 5 or the procurement guidance set by Waka Kotahi; and
- can operate on the same route or in the same area as contracted services.

Where on-demand public transport services are provided by councils, we anticipate some of the requirements above will be adhered to in order to attract funding from the NLTF – such as inclusion in a RPTP and being contracted. However, exclusion from Part 5 also raises the prospect that on-demand public transport services could be established commercially that complement or compete with contracted public transport services. If they were complementary, such as addressing ‘first and last mile’ issues to help people access transport hubs, these services could improve accessibility outcomes. If they were in competition with contracted services they may still improve accessibility by providing more transport options. However, there is a risk that they could be detrimental to both the contracted operator and the relevant regional council by cannibalising demand and requiring increasing public subsidy for existing services.

We have identified three broad options for the treatment of on-demand services under PTOM, which are outlined, with our assessment, in the table below.

Options for the treatment of on-demand services under PTOM

Option	Description	Advantages	Disadvantages
Status quo	On-demand services would remain unregulated for the purposes of PTOM.	This allows the maximum level of flexibility and innovation for operators and councils to develop and implement on-demand services.	On-demand services may be established that negatively impact contracted public transport services/networks.
Classify as exempt services	All on-demand services would be exempt from PTOM, but operators would still need to register the services with regional councils.	Councils would have the opportunity to decline a registration if it would be detrimental to the region’s public transport network.	Unless they are included in an RPTP and contracted to a regional council, it is likely that, as exempt services, on-demand public transport services would not be eligible for funding from the NLTF.

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Option	Description	Advantages	Disadvantages
Require on-demand public transport services to be contracted (unless exempt/commercially operated)	This would mean on-demand services that are integral to a regional network and/or that are subsidised are planned and procured under PTOM and commercial on-demand services are registered with councils. This would treat on-demand public transport services the same as scheduled public transport services.	Clear framework for planning, procurement, funding and establishment of on-demand public transport services. Councils would have the opportunity to decline a commercial registration if it would be detrimental to the region's public transport network.	Less flexibility and potentially less opportunity for innovation from operators.

We are interested in sector views on these options, including whether there are other options, and whether you agree with our assessment of the options.

PART 4: REFORMS TO PTOM

Reforms to PTOM may be necessary as a result of the PTOM Review. For example, reforms to PTOM might be required to address issues and implement potential options set out in this Discussion Paper or identified through public consultation and engagement with the sector.

We anticipate further engagement with the sector, following the six week consultation period, may be necessary to identify preferred options for any reforms.

Some options for reform could be implemented through changes to policy and guidelines, such as Waka Kotahi's Procurement Manual or Waka Kotahi's 2013 Guidelines for preparing RTPs. These types of changes could be implemented relatively quickly – potentially within a matter of months from policy decisions.

More fundamental changes, for example to give effect to new overarching objectives, may require changes to the legislative framework in the LTMA. Legislative changes would likely take at least one year from policy decisions.

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PART 5: NEXT STEPS

We intend to prepare advice to the Government on the outcomes of public consultation and sector engagement. We have signalled this advice will be provided in the second half of 2021. As part of this advice we will prepare a summary of consultation and engagement, which will be published once policy decisions are made. We anticipate further engagement with the sector, following the six week consultation period, may be necessary to identify preferred options for any reforms.

Further information on PTOM and the PTOM Review can be found at:

<https://www.transport.govt.nz/area-of-interest/public-transport/public-transport-operating-model>.

If you want to contact the Ministry of Transport about the PTOM Review or the Discussion Paper please email us at PTOMReview@transport.govt.nz.