Implementation guidance

Changes to indexation for public transport operating contracts

April 2025

Purpose of document

To outline key changes to indexation methods for public transport operating contracts and provide implementation guidance.

Background

Indexation is a method used to adjust the price of multi-year public transport operating contracts to account for general input cost inflation and deflation (fluctuation) effects. Indexing contracts helps enable efficient pricing and financial sustainability for service providers and PTAs.

All public transport operating contracts co-funded from the National Land Transport Fund (NLTF), that have a term exceeding 12 months, must have their contract payments periodically adjusted to account for general input cost fluctuations using an indexation mechanism approved by NZTA.

In 2024, NZTA undertook a review of the indexation approach for public transport operating contracts and consulted with the sector on proposed changes.

Those changes have been given effect in a new requirements and guidance document, available here *Indexation for Public Transport Operating Contracts April 2025*.

Indexation changes

Attachment 1 provides an overview of key changes along with implementation guidance for new and existing contracts.

Questions

If you have any questions of wish to discuss any aspects of this guidance note further, please email public.transport@nzta.govt.nz or touch base with the relevant regional point of contact from NZTA's public transport team.

Attachment 1 – Implementation guidance

Topic	Summary of change	Implementation guidance
Indexation method	The composite indexation mechanism, developed in 2008, has served as the standard indexation methodology for bus and ferry contracts through to 2025. NZTA will continue to publish and maintain the existing composite indexes until all existing contracts using this method expire. From June 2025, the elemental indexation mechanism will be the standard mechanism for new public transport operating contracts. The elemental method better manages cost fluctuation risk by reflecting the actual cost structure of individual contracts, as opposed to an industry average used by the composite method. It can also readily and transparently accommodate changes over the term of the contract	**New contracts** PTAs must use the elemental method for all new contracts tendered or negotiated from 1 June 2025 onwards, unless otherwise agreed with NZTA. **Transitional period** For contracts tendered or negotiated before June 2025, but not yet awarded, PTAs can choose between the existing composite method or new elemental method. **Existing contracts** Contracting parties may transition to the elemental method by way of contract variation agreed by both parties. For clarity, there it is no requirement to adopt the elemental method for existing contracts. Unless otherwise agreed by both parties, indexation for existing contracts must continue to be applied in the manner specified in the contract.
Pricing workbooks	The elemental indexation method must be used in conjunction with a pricing workbook. An essential function of the workbook is to group and map input costs to relevant indexation categories. Workbooks will also foster greater transparency and trust between parties regarding change management throughout the contract term. NZTA is currently developing guidance and requirements of pricing workbooks, along with a template example for bus contracts that will be subject to sector consultation prior to being finalised.	**New contracts** PTAs must use a pricing workbook that meets nationally consistent minimum requirements when tendering for new contracts. These workbooks must be included in contract documentation and maintained throughout the contract term. **Existing contracts** If contracting parties choose to transition to the elemental method by way an agreed contract variation, this will need to include development and maintenance of pricing workbook. For clarity, there it is no requirement to adopt the elemental method for existing contracts.

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Base quarter	The base quarter for calculating indexation throughout a contract must be specified in all public transport operating contracts. Previous guidance recommends using the quarter in which tenders close or the prior quarter if tenders close early in a quarter. To ensure consistency, the 2025 updated requirements and guidance standardises the base quarter as being the one before the quarter in which tenders close. This allows tenderers to know (for example) the average fuel cost. By contrast, the average fuel cost for the quarter in which tenders close will not be known until after tenders close.	**New contracts** For all new public transport contracts with procurement documents released after the 4th of April 2025, PTAs must set the base quarter as the quarter before the tender closes. **Existing contracts** No change. Indexation for existing contracts must continue to be applied in the manner specified in the contract.
Timing of indexation payment adjustments	To ensure consistency in applying indexation in current and future bus operating contracts, updated requirements and guidance standardise the frequency of indexation adjustments. The standardised approach calculates indexation monthly based on the latest available index values, with monthly payment adjustments and quarterly wash-ups as indexation values are updated. This change improves cash flow and reduces risk for bus operators without altering the total value of indexation adjustments over the contract term.	**New contracts** All new bus contracts tendered or negotiated from the 4th of April 2025, must calculate and apply indexation payment adjustments monthly, along with quarterly wash-ups in accordance with the 2025 updated requirements and guidance. **Existing contracts** Where current practices differ from the 2025 updated requirements and guidance, PTAs and operators should update their practices as soon as practicable. This may require system changes and variations to existing contracts. Existing practices will continue according to current contract terms until both parties agree to a change.

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Excluding some costs from indexation	Under the existing composite indexation method, all input costs making up the contract price are indexed. Under the elemental method, PTAs may exclude certain costs from indexation. Any decision to exclude costs from indexation must be: • signalled in PTAs' procurement strategy along with supporting rationale, • informed by engagement with the supplier market • clearly communicated to the market to ensure tenderers are fully aware of any costs that will not be index adjusted through the term of the contract • appropriate to the specific context of a contract and either be limited to costs that will not be subject to material cost fluctuation during the contract term or where the fluctuation risk can be managed more effectively through other contract mechanisms.	**New contracts** PTAs may exclude certain costs from indexation subject to meeting criteria set out in the 2025 updated requirements and guidance. **Existing contracts** No change. Indexation for existing contracts must continue to be applied in the manner specified in the contract.
Bus driver labour	The 2025 updated requirements and guidance include two key changes relating the bus driver labour component of indexation: • Introduction of a buffer mechanism that prevents the potential for convergence between sector minimum bus driver wage rates and New Zealand's minimum wages rates. • A requirement for operator to pass through the labour component of indexation payments in full to bus drivers at least annually. The buffer threshold was established via prior wage uplifts nationally, and the pass requirement formalises current practice for existing contracts that was also established as part of prior wage uplifts.	NZTA will assess the buffer mechanism annually. If triggered, adjustments will be made to the index values for the bus driver labour component of indexation and be applicable to all contracts and index methods. No change is required by PTAs and operators, other than being aware of how the mechanism works as set out in the 2025 updated requirements and guidance. **New contracts** As PTAs procure new contracts, the pass-through requirement must be embedded in contract terms. **Existing contracts** No change. The requirement for operators to pass through the labour component of indexation payments to bus drivers was established for most (if not all) existing contracts as part of prior wage uplifts.

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Variations	The 2025 updated requirements and guidance clarifies the intended approach for application of indexation in relation on to contract variations. While not a change per se, the updated guidance aims to foster greater national consistency.	**New contracts** All new bus contracts tendered or negotiated from the 4th of April 2025, should align with the 2025 updated requirements and guidance. **Existing contracts** Where current practices differ from the 2025 updated requirements and guidance, PTAs and operators should update their practices when practicable. This may require system changes and variations to existing contracts. Existing practices should continue according to current contract terms until both parties agree to a change