

# MIN-4800 Economic rationale for private share targets

6 March 2025

The purpose of this paper is to provide further information relating to the economic rationale for public transport private share targets.

## Background

- In 2018, private share was around 33 percent. In that year, the removal of previous farebox recovery targets, along with other factors, gradually led to a decline in cost recovery to a low of 11 percent in 2022, placing extra pressure on public funding.
- Increasing passenger fares can increase private share but can also reduce passenger boardings, if costs become prohibitive to customers. Also, decreasing service costs can increase private share but reduced service levels can impact passenger boardings and fare revenue.
- In response to the Government Policy Statement on land transport 2024 (GPS), NZ Transport Agency Waka Kotahi (NZTA) set requirements for public transport associations to actively work toward increasing private share, and in November 2024, set national private share target ranges leading up to an indicative increase of 35-40 percent in 2026/27. Since then, NZTA has worked with Public Transport Authorities (PTAs), using a starting set of indicative targets, to seek to agree regional targets by March 2025.

## How NZTA targets were set

- To set indicative targets NZTA considered:
  - passenger fares, passenger boardings, and operating costs
  - historic levels of private share
  - the national economic context
  - third-party revenue levels
  - crown fare concessions and impact of previous Government policy on concessions.
- At a regional level, NZTA has sought to account for differences in system size, need and resources, but with the following expectations:
  - private share targets for each region were expected to meet or exceed 2018/19 levels
  - private share targets were set on an interim basis for 2024/25 and 2025/26 and on an indicative basis for year 2026/27.
- Specific economic modelling of the impact of price increase on patronage was not available and not used in setting these targets. NZTA currently lacks New Zealand-specific evidence on the price elasticities related to fare setting within the established targets. The fare levels are determined by the PTAs, and such modelling would be a part of their assessment.

## PTA responses

- While still being confirmed, most PTAs have committed to increasing private share largely through gradual fare increases over the next three years. Some PTAs will also defer service changes and increase advertising activity, but the impact of these initiatives is low compared to fare revenue.
- Indicatively and subject to final council approvals, this has resulted in targets that are within the NZTA Board range for 2024/25, less than one percentage point below the range for 2025/26 and six percentage points off the range for 2026/27. These reflect an uplift in private share compared to the low point of 11.6 percent in 2022/23, 20.5 percent in 2023/24 to 27 percent in 2026/27.
- The NZTA Board will be asked to confirm these revised targets in May 2025, and this will subsequently be communicated to PTAs. In the meantime, NZTA will meet regularly with PTA officials to ensure a high level of understanding and engagement.
- The targets are indicative in this National Land Transport Programme (NLTP) period to provide time to assess the impact, including any impact on patronage, and for NZTA to undertake two research projects to increase the evidence base for setting longer term targets. The research will:
  - investigate the distribution of public and private benefits from public transport investment across PTAs to inform a policy decision on what optimal levels of private share should be; and
  - identify opportunities for accessing third-party and other funding that are used overseas, but not currently accessed in New Zealand. Examples include value capture from transit-oriented development, funding from new developments to pay for services, Park and Ride charging, and hypothecation of parking or congestion pricing revenue.

### **Wider system challenges**

- As well as increasing revenue and optimising costs, there are also factors which constrain the effectiveness of the overall system but are beyond a PTA's direct control.
- The challenges differ by region but include:
  - **Legislation, regulation and national policies** - Currently PTAs face a complex web of legislation, regulation and policies that have evolved overtime and can add to the cost of delivery.
  - **Sector roles and responsibilities** - Multiple different entities, each with different objectives can complicate planning, procurement, and delivery of public transport by PTAs. For example, PTAs can provide public transport services, but they will be less cost efficient and effective in the absence of adequate public transport infrastructure and land use planning provisions delivered in integrated and timely manner, which are within territorial authorities' remit. In general, the more entities involved, the more challenging it is to achieve efficient and effective delivery. Dependencies spread across too many entities, create excessive complexity that consumes time, resources and money.
  - **Funding availability, processes and certainty** - Public transport funding is complex and uncertain. Expenditure is funded via passenger fare revenue, third party revenue, local authority rates, the National Land Transport Fund (NLTF) and the Crown. For PTAs, there is a high degree of uncertainty with respect to having sufficient funding available across multiple stakeholders at the same time. PTAs are required to commit to service contracts of nine years but must work within three-year funding cycles. Dealing with excessive uncertainty (much of which is avoidable) significantly impacts effective and efficient delivery and consumes time, resources and money that could be more productively utilised elsewhere.

- **Sector capacity and capability** - Capability, including skilled staff, technology and resources, varies across PTAs, local authorities and NZTA. If any entity that a PTA relies on (including itself) lacks sufficient capability and capacity, it can create significant challenges.
- Addressing these system challenges will help PTAs to be more cost efficient without overreliance on unsustainable fare increases. NZTA will further assess the feasibility of addressing these challenges and report back to you.

**Noted by Minister**

Proactively released