

Report No.	25-26
Decision Required	

PUBLIC TRANSPORT PRIVATE SHARE

1. PURPOSE

- 1.1. To update the Committee on recent work undertaken with **NZ Transport Agency Waka Kotahi (NZTA)** on increasing private share from public transport.
- 1.2. To seek endorsement from the Committee on a preferred option in response to increasing private share. This endorsed option will be taken to Regional Council for approval.

2. EXECUTIVE SUMMARY

- 2.1. The Government Policy Statement on Land Transport set expectations that Public Transport Authorities and NZTA will actively work towards increasing public transport private share by 30 June 2027, including setting targets each year.
- 2.2. NZTA is currently involved in negotiations with Public Transport Authorities, including Horizons, to confirm private share targets over the next three years. By 31 March 2025 NZTA has advised it requires comprehensive forecasts, targets, initiatives and levers, approved by Council.
- 2.3. Several options in response to this direction from Government and NZTA have been provided in this report. It is recommended that an option is selected that shifts the fare recovery for public transport back within the parameters set in the Horizons Long Term Plan.
- 2.4. The recommended option would see an increase fares by 10% in the 2025-26 year and by 25% in the 2026-27 year. This would see the one zone adult smart card fare increase from \$2.00 to \$2.75.
- 2.5. The Committee does not have the delegation to make the changes in the recommendation above, only to provide advice to the Regional Council. This item will also be taken to Horizons Council meeting Tuesday 25 March 2025. Advice on this matter can be provided by PTC to the Regional Council.

3. RECOMMENDATION

That the Committee recommends that Council:

- a. receives the information contained in Report No. 25-26 and Annexes.
- b. provides advice to Regional Council and endorses Option 2 as described in Section 11 of this report.

4. FINANCIAL IMPACT

- 4.1. Public transport revenue comes from three sources: central government funding via the **National Land Transport Fund (NLTF)**, local share via the application of rating revenue and private share contributions coming from fares and third-party revenue sources. Central government funding is contingent on meeting the funding requirements of the **Government Policy Statement on Land Transport (GPS)** and the accurate preparation of the **Regional Land Transport Plan (RLTP)** and **Regional Public Transport Plan (RPTP)** in accordance with NZTA requirements.

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- 4.2. One of the functions of the **Horizons Passenger Transport Committee (PTC)** as set out in the terms of reference, is to provide advice to the Regional Council on funding policy for passenger transport services in the Region. The Committee does not have the delegation to make the changes in the recommendation above, only to provide advice to the Regional Council.
- 4.3. The options presented in this report propose changes in fares on public transport in the region. These range from no change, through to a 50% increase over the next two years.
- 4.4. The recommended option would bring revenue from fees and charges within the range expected within the **Horizons Long Term Plan 2024-34 (LTP)**.
- 4.5. Any increase in overall fare revenue would see a corresponding decrease in the amount of subsidy claimed from NZTA and in the long-term a decrease in the rates requirement for funding public transport.

5. COMMUNITY ENGAGEMENT

- 5.1. The community have had the opportunity to have their say on public transport fare and revenue policies through past consultation on the RPTP and LTP. It should be noted though that fare and revenue policies were not highlighted as key points as part of these consultations.
- 5.2. Council has the ability to manage and adjust fares for public transport within existing policies without further community engagement. If any change is within these policies and did not trigger the significance policy, no further community engagement would be required.
- 5.3. Council could choose to consult on any public transport fare change.
- 5.4. If a proposed change to public transport fares triggered the significance policy, community consultation would be required.

6. Significant Business Risk

- 6.1. None for this item.

7. Climate Impact Statement

- 7.1. Public transport provides a lower emission alternative to the private vehicle for travel throughout our region's largest cities and towns.
- 7.2. One of the RPTP Objectives is to contribute to reductions in carbon emissions from transport and improved air quality through increased use of public transport and decarbonising the public transport fleet.
- 7.3. This report considers options to increase the private share for public transport. Options which propose the greatest increase in public transport fares have the greatest likelihood to see the lowest public transport patronage. Assuming most of those trips are made by private vehicle instead, this will result in slightly higher transport emissions across the region.

8. Policy Background

Horizons Regional Public Transport Plan 2022-32

- 8.1. The RPTP guides the design and delivery of public transport services, information and infrastructure in the Horizons region. The RPTP sets aspirational targets, seeking to deliver public transport services that meet our community's needs, are transformative, reduce environmental impacts from carbon emissions and enhance the wellbeing of our region.

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- Targets within the RPTP included at least 10% of travel within the region to be via public transport and at least a 300% increase in public transport patronage by 2032 compared to pre-Covid.
- 8.2. It has a vision of achieving: *an attractive, integrated and convenient public transport system that connects us, enhances our wellbeing and environment, and becomes the preferred mode of transport in and between urban areas.*
- 8.3. The following six objectives guide the implementation of the RPTP and help achieve the vision:
- Objective 1: Provide a simple, connected and convenient public transport network with wide appeal that attracts and retains customers, and encourages mode shift.
 - Objective 2. Provide high quality, safe and accessible public transport infrastructure and information that supports an efficient and connected transport network, and multi-modal travel.
 - Objective 3. Contribute to reductions in carbon emissions from transport and improved air quality through increased use of public transport and decarbonising the public transport fleet.
 - Objective 4. Pursue improved, equitable access to public transport across the region.
 - Objective 5. Provide a fares and ticketing system that is simple, affordable and attracts and retains customers while balancing user contribution with public funding.
 - Objective 6. Undertake an approach to procurement and monitoring of services that supports the efficient and effective delivery of services while providing good value for money.
- 8.4. While Objective 5 deals with fare policies (amongst other things), it should be considered in the context of the wider strategic direction provided by the RPTP. The RPTP considers that fares in the region should be simple to understand, equitable and user focused. It recognises we must balance the costs and benefits of meeting community needs and demands; and this requires sustainable funding arrangements balancing user contributions (fares) with public funding, while still providing an affordable and accessible service.
- 8.5. Policies within Objective 5 of the RPTP generally focus on providing a consistent fare structure, concession fares to increase access to affordable public transport and providing incentives to encourage more frequent use.
- 8.6. Policy 5.6 states: Ensure public transport users make a sustainable and equitable contribution towards funding of the network. There are two actions associated with that policy which are:
- Review fares triennially to establish whether fare adjustments are required to balance the user contribution with public funding.
 - Consider as part of that review the cost of using a private vehicle for the same journey. Adjust fares to be competitive with private vehicles and encourage greater use of public transport.
- 8.7. It should be noted that NZTA now expects fare levels to be reviewed annually.
- 8.8. The RPTP does not set policies or targets relating to farebox recovery or private share proportions for public transport in the Horizons region.
- 8.9. The RPTP recognises Horizons will continue making funding decisions in accordance with the policies set out in the LTP.
- 8.10. The RPTP retains its currency until 2032. It is expected there will be a full review following development of the 2027 Regional Land Transport Plan. This is seen as the next main opportunity to change/update fare policies.

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Horizons Long Term Plan

- 8.11. The LTP sets out how we plan to manage our region's natural resources for the next 10 years, so we can ensure we have a healthy environment where the people are thriving.
- 8.12. It includes transport as one of its strategic priorities: *He tūhono wāhi he honohono tangata Connecting people and place through effective public transport connections.* Alongside that one of the community outcomes in the LTP is: *He whatunga waka mauritau Our region has effective transport networks.*
- 8.13. The LTP acknowledges public transport provides a vital transport option for many parts of our community. Public transport enables members of the community who have limited access to transport options to access work, education, recreation, health and social services, and maintain a connection with the rest of the community.
- 8.14. It recognises the increasing cost/affordability challenges facing public transport within the region. It also notes that an ongoing challenge in managing our public transport network is balancing the demands for increased levels of service with affordability for users and ratepayers.
- 8.15. The LTP outlines expected funding arrangements for public transport within the region. These are:
- 45-50% Grants and subsidies (NZTA revenue).
 - 30-35% Targeted rates (rated at a district level).
 - 15-20% Fees and charges (fares, Unlimited Access Scheme payments and other fare replacement revenue such as SuperGold revenue).
 - 1-2% Other revenue (advertising).
- 8.16. The rationale in the LTP for the funding split is that *individuals without vehicles require affordable alternative transport options. Public transport primarily benefits the user. However, there are also social wellbeing benefits to providing transport services to those without other transport options. Public transport can also provide wider community benefits from reduced congestion and reduced transport emissions.*

Government Policy Statement of Land Transport and Ministerial Expectations

- 8.17. The GPS outlines the Government's land transport investment priorities, and guides expenditure of over \$7 billion from the NLTF, and around \$1.5 billion from local government, each year.
- 8.18. The GPS has four key strategic priorities: Economic Growth and Productivity; Increased Maintenance and Resilience; Safety; and Value for Money.
- 8.19. This GPS reintroduced a focus on increasing economic growth and productivity as a priority for land transport expenditure. Moving people and freight as efficiently, quickly, and safely as possible was recognised as critical to achieving the GPS priorities.
- 8.20. The GPS acknowledges that effective public transport provides commuters with more choice and helps to reduce travel times, congestion, and emissions. It includes existing public transport services will continue to be funded where they are cost effective, achieve value for money, and achieve the expected outcomes of less congestion and increased patronage.
- 8.21. The GPS 2024 includes a Statement of Ministerial Expectations for NZTA and the sector in general. NZTA is expected to ensure **Public Transport Authorities (PTAs)** (which includes Horizons) take appropriate steps to meet the Ministerial expectations, where applicable.
- 8.22. Two specific expectations relating to public transport were released after the GPS. These were that PTAs are expected to:

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- Actively work towards increasing public transport private share by 30 June 2027, including setting targets each year. This includes operating within approved funding of public transport continuous programmes, reviewing services that are delivering very low farebox recovery and considering appropriate fares; and
- Support and actively work towards transition to, delivery of and operation of the National Ticketing Solution in partnership with NZTA. This includes aligning concessionary fare structures with national policy to make the National Ticketing Solution cost effective and value for money for customers.

8.23. The first expectation is more relevant to the matter being addressed in this report.

NZTA – Increasing the private share of public transport operating expenditure

8.24. In November 2024, NZTA released a discussion document titled **Increasing the private share of public transport operating expenditure (IPS Document)**. The full document can be found here: <https://www.nzta.govt.nz/assets/Walking-Cycling-and-Public-Transport/docs/Increasing-the-private-share-of-public-transport-operating-expenditure-pta-discussion-document-november-2024.pdf>

8.25. The primary purpose identified in the IPS Document is to provide context and information to support PTAs in setting and agreeing regional private share targets with NZTA.

8.26. The IPS Document notes there has been a significant increase in Crown and NLTF funding over recent years. This is shown in the following figure included in both the GPS and IPS Document.

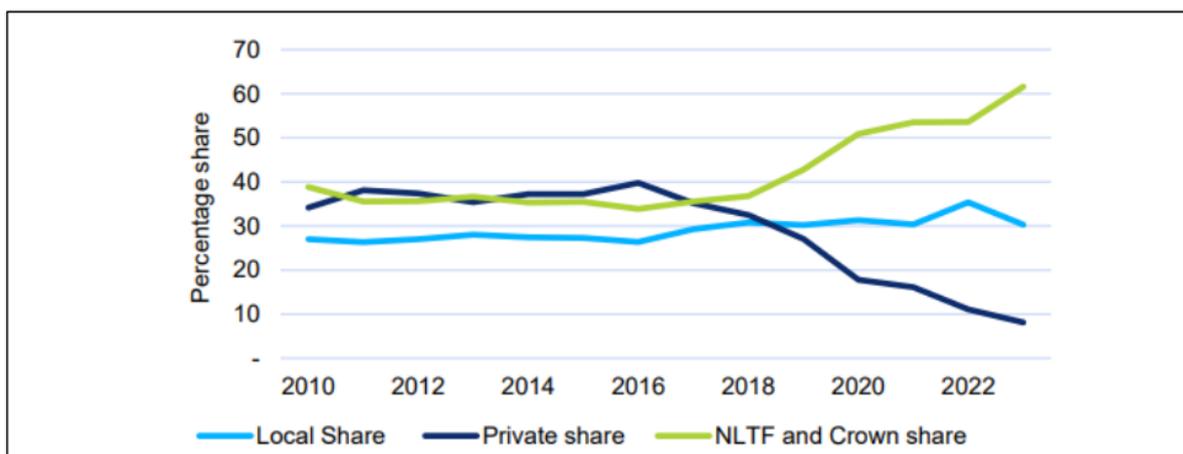


Figure 1: Local, private, NLTF and Crown share of public transport funding from 2009-10 to 2022-23

8.27. The IPS Document highlighted which sources of revenue would be considered private share and which would not. For Horizons, the majority of revenue that would be considered private share would come from fares, UAS contributions and to a much lesser extent advertising.

8.28. The IPS Document includes discussion on performance and trends of private share. This provides both international and national comparisons. The figure below shows private share percentages for various councils across the country for the 2018-19 and 2023-24 financial years. It can be seen that over this time the private share percentage has decreased significantly across all councils.

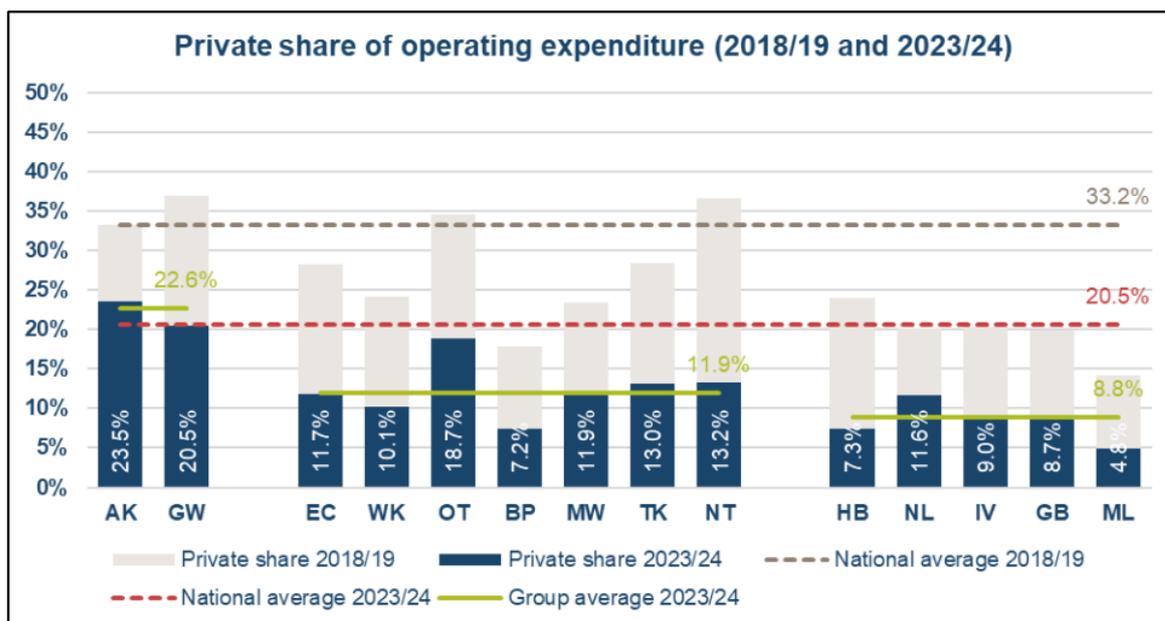


Figure 2: NZTA sourced national overview of private share of operating expenditure 2018-19 / 2023-24

- 8.29. At the same time as the IPS document was released to the sector, NZTA provided proposed private share targets to Horizons. A memo dated 18 November 2024 regarding this is included in Annex A. The proposed targets showed expectations that the private share for Horizons public transport would be increasing over the next three years. The proposed private share target for the 2026-27 financial year in the memo was 27%.
- 8.30. The IPS document highlights that private share is part of a broader focus on embedding a more commercially oriented approach and improving national and regional oversight of public transport. To improve oversight, NZTA are aiming to enhance the alignment, monitoring, reporting, and setting of both financial and non-financial measures nationally. By improving these elements, NZTA are aiming to create a more cohesive and useful oversight framework that better reflects all parts of the public transport system and performance at both regional and national levels.
- 8.31. The IPS document identifies a number of opportunities that NZTA see as ways of increasing private share of public transport. Some of the levers identified include increasing passenger fares, increasing passenger boardings, achieving greater cost efficiency, increased third-party revenue and alternative funding sources.

9. Background and Current Status

- 9.1. Horizons private share proportion has been decreasing over recent years as patronage decreased during Covid and cost associated with the delivery of public transport increased. Per NZTA’s calculation methodology, Horizons private share in the 2018-19 financial year was 23.4%. This has decreased to 11.9% in the 2023-24 financial year.
- 9.2. Horizons private share for the 2024-25 financial year is forecast to be approximately 9.7-10.2%. This decrease from the previous financial year is due to increased costs associated with the delivery of the new Palmerston North bus network and lower revenue from the renegotiated Massey UAS contract. While the full network cost begins from day one; patronage and fare revenue take time to grow.
- 9.3. NZTA is currently involved in negotiations with PTAs, including Horizons, to confirm private share targets over the next three years. By 31 March 2025 NZTA has advised it requires comprehensive forecasts, targets, initiatives and levers, approved by Council. A letter setting out NZTA expectations is included as Annex B.

- 9.4. In working with NZTA over the past three months, it is clear to officers the intent is not to meet the original private share targets proposed in the memo dated 18 November 2024, but rather see meaningful steps taken to increase the private share proportion for public transport.
- 9.5. Following engagement with NZTA throughout December 2024 and January 2025, officers sent a letter dated 29 January 2025 to NZTA with proposed alternative targets. This letter is included in Annex C. These alternative targets reflected the current operating environment and gave consideration to short-term levers Horizons currently have. The three main short-term levers available to Horizons are to increase passenger fares, not proceed with proposed service level increases and/or increased patronage.
- 9.6. While these are the three most obvious short-term levers, there are many others that would support even more in achieving the outcomes sought by Government and NZTA. National and local policies on transport greatly influence the choices people back when choosing their mode of travel. Limited parking controls and pricing in our largest cities make driving a private vehicle an easy and cheap transport option. The lack of public transport prioritisation on the transport network means that buses are not used as efficiently as they could be.
- 9.7. It was noted the three short-term levers could all represent modest improvements to Horizons private share. However they wouldn't all work together. For instance you are unlikely to see an increase in patronage if fares are increasing at the same time.
- 9.8. The letter to NZTA reiterated the need to take a longer term approach to best inform decisions made now, and into the future.
- 9.9. NZTA, after reviewing the information Horizons provided, sought for the proposed targets to be higher. NZTA requested taking additional higher target options to our Passenger Transport Committee and Council for deliberation, in addition to the options already presented.
- 9.10. Several of the options outlined below have come about as a result of this further work between NZTA staff and Horizons officers. These options could be considered to be seeking a balance between the strategic direction provided by Horizons, and current Government policy.
- 9.11. It is important to note that there are differences between how NZTA are calculating the private share proportion and how the LTP considers revenue. The NZTA calculation excludes SuperGold and Community Connect revenue. This is considered to be Crown subsidies and therefore not private share. Horizons consider these revenue elements to be fare replacements, similar to our UAS revenue. This is important to take into account when considering what the target is being measured against. For the 2024-25 financial year, we are forecast to have a private share proportion of 9.7-10.2%. LTP 'Fees & Charge' revenue for the 2024-25 financial year is forecast to be approximately 12%.
- 9.12. The last time the base adult smart card fare was increased was in 2011. This saw it increase to the \$2.00/trip rate that still exists now. Using a general New Zealand based CPI calculation a \$2.00 trip in 2011 would now be valued at approximately \$2.73. Farebox recovery (which is different to the current private share calculation) across the Horizons public transport network at the time in 2011 was greater than 40%.
- 9.13. Previous research commissioned by NZTA and published in 2002 found that for every 10% fare increase patronage would decrease by 3.5%. However this assumes that fares are already at a 'sweet spot' in terms of fare levels and are choosing to increase fare levels beyond what is considered 'optimum'. Where fares are not at this level, the impact on patronage was found to be less.
- 9.14. There are some recent examples across the country of fare increases made by regional councils on their public transport networks. Waikato Regional Council (WRC) increased fares by 20% in July 2024 (from \$2.00 to \$2.40). They have seen patronage continue to

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rise subsequent to this fare increase along with a corresponding increase to overall fare revenue. Another example is the 10% fare increase on Wellington's public transport in July 2024. Patronage has remained stable since the fare increase while fare revenue has increased.

- 9.15. Officers consider that a significant increase in fare prices would have an impact on public transport patronage. Passengers are price sensitive and fare increases can have a negative impact on patronage levels. It is important to be able to minimise the impact on users and patronage levels through careful application of any fare increases.

10. Options

- 10.1. The options presented within this report have been developed between Horizons and NZTA. The Base option see no change to the status quo within the Horizons LTP. Option 1 was developed by Horizons and presented to NZTA in the letter dated 29 January 2025. Options 2 and 3 have been subsequently developed by Horizons officers giving consideration to the RPTP fares policy and LTP funding expectations. The final three options have been developed in conjunction with NZTA staff. These final three options seek a greater increase in private share proportion.
- 10.2. As above, the three main short-term levers available to Horizons are to increase passenger fares, not proceed with proposed service level increases and/or increased patronage. The options presented propose changes in these three areas to differing levels in order to achieve a greater private share proportion.
- 10.3. **Base option:** Would see no changes to fares or levels of investment from those in the Horizons LTP.
- 10.4. **Option 1:** As per Horizons letter to NZTA dated 29 January 2025. This would see fares increase by 5% each of the next two years. Upcoming Council funded service improvements will proceed. Patronage is assumed to continue to grow significantly over that same period.
- 10.5. **Option 2:** Increase fares by 10% in the 2025-26 year and by 25% in the 2026/27 year. This would see the one zone adult smart card fare increase from \$2.00 to \$2.75. This option assumes additional investment in public transport.
- 10.6. **Option 3:** Increase fares by 5% each year for the next two years. This would see the one zone adult smart card fare increase from \$2.00 to \$2.20. This option assumes no additional investment in public transport with costs only increasing in line with inflation.
- 10.7. **Option 4:** Increase fares by approximately 20-25% each year for the next two years. This would see the one zone adult smart card fare increase from \$2.00 to \$3.00. This option assumes additional investment in public transport.
- 10.8. **Option 5:** Increase fares by 10% each year for the next two years. This would see the one zone adult smart card fare increase from \$2.00 to \$2.40. This option assumes no additional investment in public transport with costs only increasing in line with inflation.
- 10.9. **Option 6:** Increase fares approximately 20-25% each year for the next two years. This would see the one zone adult smart card fare increase from \$2.00 to \$3.00. This option assumes no additional investment in public transport with costs only increasing in line with inflation. Estimated patronage growth for this option is lower.
- 10.10. The following table provides an overview of each of the options including the estimated private share proportion for future years. The assumed patronage growth for each of the options has been derived from the Base option. Options with a greater fare increase or lower level of future investment see a lower assumed patronage growth. All options remain relatively high, even with no further investment, as the majority of patronage on the Horizons public transport is on the Palmerston North network.

Option	Fare increase over two years	New one zone adult smart card fare	Assumed patronage growth / annum	Increased Public Transport investment	2025/26 private share	2026/27 private share
Base	None	\$2.00	35%	Yes	10.4%	11.5%
1	10%	\$2.20	35%	Yes	10.9%	12.7%
2	37.5%	\$2.75	30%	Yes	11.2%	14.3%
3	10%	\$2.20	30%	No	12.1%	14.3%
4	50%	\$3.00	30%	Yes	12.0%	15.4%
5	20%	\$2.40	30%	No	12.2%	15.9%
6	50%	\$3.00	25%	No	13.0%	17.7%

Table 1: Overview of estimated private share percentage proportion for the options

10.11. Meeting NZTA’s original private share targets for Horizons are not considered to be a feasible option. This would require a fare increase of approximately 175% without any corresponding decrease in patronage. Options to achieve this level of private share have not been explored further.

11. Recommendation

11.1. It is clear that the public transport private share proportion has fallen over recent years. This is due to a number of factors outlined throughout this report. Some of these factors are through local decision making, some government, while others such as general inflationary pressures are outside of our control.

11.2. It is recommended that an option is selected that shifts the fare recovery for public transport back within the parameters set in the LTP (15-20% Fees and Charges). Options 2-6 would all achieve this by the 2026-27 financial year when additional revenue such as SuperGold and Community Connect revenue is considered. Officers consider that this is an appropriate timeframe to target coming back within the LTP funding expectations for public transport.

11.3. The recommended option by officers is Option 2. This option includes a 10% fare increase in the 2025-26 financial year and a further 25% fare increase in the 2026-27 financial year. A breakdown of what potential fares could be within different zones is shown in Table 2 below. Note: For simplification not all fares are shown in the table, however all fares would increase as per the option.

Fare	Current fare	FY 2025/26 fare	FY 2026/27 fare
Smart card 1 zone adult	\$2.00	\$2.20	\$2.75
Smart card 1 zone concession / child	\$1.20	\$1.30	\$1.65
Cash 1 zone*	\$3.00	\$3.20	\$3.80
Smart card 2 zone adult	\$3.50	\$3.85	\$4.80
Smart card 2 zone concession / child	\$2.40	\$2.65	\$3.30
Smart card 3 zone adult	\$5.00	\$5.50	\$6.90
Smart card 4 zone adult	\$6.50	\$7.15	\$8.95

Table 2: Overview of estimated private share percentage proportion for the options

* Cash fares are \$1.00 more than the corresponding adult fare. These will not match the percentage fare increase.

- 11.4. The majority of travel on public transport in the region occurs within one zone (Palmerston North and Whanganui urban services) and two zones (Feilding to Palmerston North) trips.
- 11.5. Table 2 above assumes no changes are made to the current fare structure except for the percentage increase to fare levels. The cash premium of \$1.00 would remain. Transfer rules and fare capping would be as per the existing structure. It is not recommended to make any changes to the fare structure as part of any change to fare levels at this time.
- 11.6. The primary reasons for this recommendation are that it would:
 - Bring revenue from fees and charges within the range expected within the LTP by the 2026-27 financial year.
 - Maintain further investment across the public transport network as planned within the LTP.
 - Minimise fare increases and promote public transport usage in line with the overall direction sought by the RPTP.
 - Demonstrate to NZTA the desire to move in response to updated national policy.
 - Provide an opportunity for Council to consult on the more significant fare increase ahead of the 2026-27 financial year if they wished.
 - See fares increase more significantly after the **National Ticketing Solution (NTS)**. This provides the opportunity for more people to access the cheaper smart card fare.
- 11.7. A full financial assessment of the impact on rates has not been undertaken. It is recommended that any resolution is taken into account when finalising budgets for the upcoming financial year.
- 11.8. NZTA have not advised what the implications are of not agreeing to NZTA approved targets or not meeting approved targets in the future. It is therefore unclear to officers what all the future impacts could be of the particular options.
- 11.9. This recommendation is predicated on Council proceeding with further investment in public transport as set out in the LTP and per the upcoming Annual Plan consultation. If this

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investment were not to proceed, Council could choose to increase fares to a lesser extent and still fall within the LTP funding expectations (as per Option 3).

12. Next Steps

- 12.1. One of the functions of the Horizons Passenger Transport Committee as set out in the terms of reference is to provide advice to the Regional Council on funding policy for passenger transport services in the Region. As highlighted earlier in this paper, Committee does not have the delegation to make the changes in the recommendation above, only to provide advice to the Regional Council.
- 12.2. This item will also be taken to Horizons Council meeting Tuesday 25 March. Advice on this matter can be provided by PTC to the Regional Council as per the terms of reference.
- 12.3. The Regional Council have the ability to make changes to fare levels. If these changes are within the RPTP fare policies and LTP funding expectations, no further public consultation is required. Depending on the scale of change proposed, Council could choose to undertake public consultation on the matter.
- 12.4. Officers will provide written notification to NZTA of any resolution of Regional Council.
- 12.5. Ongoing performance against the financial forecast will be monitored over the coming months to ensure that revenue continues to track in line with current projections.

13. Significance

- 13.1. This is not a significant decision according to the Council's Policy on Significance and Engagement.

Mark Read

MANAGER TRANSPORT SERVICES

ANNEXES

- A Proposed private share targets for Horizons 18 November 2024
- B PTA letter from NZTA 17 December 2024
- C Horizons private share letter 29 Jan 2025