

# DISCUSSION PAPER

## HOLDING PACKAGE FOR THE PATRONAGE FUNDING SCHEME



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## **Purpose of this paper**

- 1 The purpose of this paper is to inform local authorities about Transfund's proposals for an extension of the patronage funding scheme and to ask them to identify any potential problems in implementation of the proposals. The period of the extension is referred to as 'the holding period' and the package of proposals for that time is called 'the holding package'.

## **Background**

### ***Introduction***

- 2 Transfund introduced the patronage funding scheme in November 2000. Its purpose was to encourage greater use of public transport at the times and places where it would (a) generate greatest transport benefits and (b) most help to reduce congestion. Transfund funding was linked to the number of passengers carried and the degree of congestion experienced at different times and places. The scheme was always intended to be reviewed in 2002/03, and accordingly the scheme was not initially programmed beyond 30 June 2003.

### ***Review***

- 3 In December 2001 the Transfund Board decided to undertake a 'first principles' review of all policies for passenger transport funding. That review will be extensive, requiring discussions with Ministry of Transport, regional councils and others at a number of stages. The scope and direction of the review is being considered in the light of the government's recent land transport policy announcements. In the meantime regional councils have sought greater certainty on the patronage funding scheme beyond 30 June 2003 to enable them to finalise their financial budgets. Accordingly Transfund proposes the holding package outlined in this paper.

## **Criteria for the holding package**

- 4 In devising the holding package, Transfund has had regard to the following criteria:
  - (a) Achieve original objectives of the scheme, among them:
    - promote congestion relief and alternatives to roading
    - provide value for money
    - grow patronage at the times and places of greatest impact on congestion
    - take account of policy decisions by government
    - be transparent and fair.

(b) Achieve sustainable funding by:

- keeping expenditure within the level of allocated funding
- not creating financial obligations which might compromise the future scheme arising from the first principles review
- ensuring projects are being backed up by good quality data collection on projected and actual patronage on an ongoing basis.

(c) Be practical and fit for its purpose by:

- containing no fundamental changes to the principles of the original scheme
- not creating precedents which preclude options or compromise the future scheme
- simplifying the current scheme where possible.

(d) Recognise regional councils' risks by:

- minimising adverse effects on investment plans
- avoiding sudden reductions in Transfund funding.

## **Overview of the holding package**

### ***Extension period***

5 The proposed holding package is an extension of the patronage scheme for a period of one year from 30 June 2003. In essence the holding package is the existing scheme with modifications. Transfund does not wish to commit itself for more than a one year extension in case the first principles review leads to a significantly changed regime after June 2004.

### ***The package outlined***

6 Because the holding package is an interim arrangement, Transfund proposes to retain the basic features of the present scheme as far as possible. The present scheme will therefore continue during the holding period subject to the changes set out in this paper.

### ***Features retained from the existing scheme***

7 The following features of the present scheme will be retained in the holding period:

- regional councils will still receive baseline funding and patronage growth payments;
  - regional councils will still have the same options for the payment rate structure: namely peak, off-peak, passenger boardings and kilometres;
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- Transfund will continue to require regional councils at least to maintain their agreed baseline contribution towards community services – that is, Transfund funding is designed to generate new services and not replace rates funding;
- kick-start funding will continue at 40% FAR for projects already under way during the holding period;
- Transfund will continue its policy of no double funding for ATR projects;
- regional councils can use their existing patronage growth credits in the holding period; and
- costs of refurbishing infrastructure will continue to be excluded from baselines.

### ***New features in the holding package***

8 The new features to be introduced in the holding period are:

- inflation factors will be applied to all baselines for the 2003/04 year;
- patronage funding will become the sole funding source for new projects;
- kick-start funding for new projects will cease to be available from 30 June 2003;
- the ability to accumulate patronage growth credits ceases on 30 June 2003;
- all accrued patronage credits expire on 30 June 2004 and must be used by this date;
- new commercial trials may be started during the holding period, though only for services that have been in operation for longer than 3 years; and
- in consultation with regional councils, Transfund may have to set a funding cap for its patronage growth payments in 2003/04, in addition to the current 80% ceiling on Transfund's contribution to total expenditure.

### **The holding package in more detail**

#### ***Kick-start funding***

##### *New projects*

9 Kick-start funding for new projects was intended to provide up-front cash to stimulate growth in services, but was not originally intended to last beyond 30 June 2003. Accordingly, the proposal is for kick-start funding to cease for new projects submitted after this date (except in relation to commercial trials – see below).

##### *Existing services*

10 Transfund recognises that regional councils may have entered into service/operational commitments beyond the 2002/03 year – to accommodate this, kick-start funding for existing services (ie not other non-service related initiatives eg integrated ticketing, real time information) is proposed to continue at 40% for the holding period. This is an intermediate solution signalling a phasing out of

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kick-start funding during the holding period.

### *Commercial trials*

- 11 The patronage scheme envisaged that funding for commercial trials would end by 30 June 2003. However, given the success of the trials in increasing patronage at low cost per passenger, Transfund will continue to fund new trials in the holding period only for those services which have been in operation for longer than 3 years.

### **Patronage growth credits**

- 12 Patronage growth credits arise where the level of possible patronage growth funding exceeds a regional council's expenditure on new services/initiatives (given Transfund's policy that it does not fund more than 100% of a council's actual costs). Councils have been allowed to carry all credits forward to 2002/03, but it is proposed that councils will not be able to accrue new patronage growth credits after 30 June 2003 and that existing patronage growth credits must be spent by the end of 2003/04.

### **Baselines and inflation**

- 13 Under the present system, each regional council can choose either to increase its baseline Transfund funding with inflation, or keep its baseline constant to the end of 2002/03 and recoup cost increases through funding from patronage growth payments. Providing regional councils with the freedom to choose allows patronage growth payments to be applied to cost increases associated with existing services rather than generating new services. It also means Transfund effectively pays 100% for service cost increases, rather than this being shared by councils. Transfund therefore proposes in the holding period to adjust both Transfund's and regional councils' baseline contributions for inflation from 30 June 2003. The index used would be Transfund's index of passenger transport inflation.

### **Expenditure cap**

- 14 To ensure value for money and reflect the funding role of regional councils, Transfund's total contribution to public transport costs under the present scheme may not exceed 80% of total expenditure. This cap will remain in place in the holding period. Transfund may have to set further limits on patronage growth payments in 2003/04 if projected expenditure is expected to be in excess of the total funding allocated for that year. This will depend on the on-going level of patronage growth funding secured by councils.

### **Comments**

- 15 Transfund invites comments on the changes to the existing passenger transport funding scheme that are proposed in this paper for the holding period. (Please
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note the scheme will continue unchanged except to the extent set out in this paper.) Comments should be submitted as soon as possible to arrive no later than 5 April 2002, so that these comments can be taken into account before the package is finalised. Submissions should to be sent to Mark Edgecombe as follows:

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