Greater Wellington submission on the NZTA Funding Assistance Rates (FAR) review: Discussion Document

April 2013

1. Introduction

Thank you for the opportunity to provide feedback on the NZ Transport Agency's FAR (Funding Assistance Rates) Review: Discussion Document.

This submission has been agreed by Greater Wellington Regional Council (GWRC), and takes a holistic regional view of the issues and impacts across the region for all Approved Organisations[1], in addition to the transport activities directly managed by GWRC. The submission has been developed with input from officers of the region's territorial authorities, although it is noted that many territorial authorities will also be making a submission directly.

We note that this consultation stage involves seeking feedback on the principles that sit behind the way the NZ Transport Agency (NZTA) sets FARs and the overall approaches that could be utilised, and that further consultation relating to the options for specific methods for setting FARs will take place in late 2013. As such in this submission we have focussed our comment on the broader issues relating to the FAR system and possible changes.

2. Funding system for land transport

2.1 The different elements of the land transport funding system

At the outset we believe it is important that explicit recognition is given to the fact that funding for land transport activities comes from a number of sources, and that the allocation of National Land Transport Fund (NLTF) funding is controlled and managed by a wide range of systems, not just FARs.

The NLTF derives revenue from fuel excise duty, road user charges, motor vehicle registration and licensing fees and Crown appropriations. Some activities (such as state highways) are sourced solely from the NLTF and others require a local share contribution. The local share is sourced primarily from rates, public transport fares and other charges (such as developer contributions). Special Crown funding is another potential source outside the NLTF.

Within the transport funding system, there are several processes and elements that are used to determine how the revenue for transport activities is invested. The range of systems and their current role in relation to the funding of transport activities are described in the table below.

[1] Approved organisations refer to organisations that are eligible to receive funding from New Zealand Transport Agency for land transport activities. Approved organisations are defined in the Land Transport Management Act 2003 as including regional councils, territorial authorities or a public organisation approved by the Governor General (by Order in Council).

<table>
<tr><th>System element</th><th>Purpose</th></tr>
<tr><td>Government Policy Statement (GPS) for Land Transport and funding bands</td><td>To set priorities for investment from the NLTF and define the activity classes and the funding ranges for these classes on a national basis. The GPS defines what the government seeks to achieve from the NLTF</td></tr>
<tr><td>Local and regional council Long Term Plans</td><td>To identify the activities and services (including transport activities) to meet the needs of the relevant city, district, or region. These plans have a ten year outlook and set out the projected local share cost of providing these activities. These plans are developed to be consistent with the objectives of the Local Government Act and taking account of other relevant national policy and statutes such as the GPS for land transport.</td></tr>
<tr><td>One-off agreements between central and local government</td><td>The purpose is specific to each agreement, but generally they focus on individual activities that do not have current NZTA policy, e.g. the rail asset transfer agreement in Wellington, and generally result in “grant” type funding</td></tr>
<tr><td>Farebox recovery policies</td><td>Farebox recovery is the contribution that fares make to the cost of providing passenger transport services. NZTA has a national target to achieve a 50% national farebox recovery rate by 2018. NZTA also requires each council to have a policy in its Regional Public Transport Plan which includes a target recovery ratio. This target can be set at whatever level the council considers appropriate (after consultation). NZTA encourages Councils that are exceeding the 50% threshold to maintain and improve this percentage.

The variation of farebox recovery rates nationally means that the user and local contribution (fares and rates combined) is higher for those approved organisations with higher farebox recovery (illustrated below).

<table>
<tr><th></th><th>Approved Organisation 1</th><th>Approved Organisation 2</th></tr>
<tr><td>Assumptions</td><td></td><td></td></tr>
<tr><td>Farebox recovery rate</td><td>55%</td><td>40%</td></tr>
<tr><td>FAR rate</td><td>50%</td><td>50%</td></tr>
<tr><td>Public transport expenditure ($M)</td><td>100.0</td><td>100.0</td></tr>
<tr><td>Share of funding</td><td></td><td></td></tr>
<tr><td>Fares ($M)</td><td>55.0</td><td>40.0</td></tr>
<tr><td>Ratepayer share ($M)</td><td>22.5</td><td>30.0</td></tr>
<tr><td>NZTA share ($M)</td><td>22.5</td><td>30.0</td></tr>
<tr><td></td><td>100.0</td><td>100.0</td></tr>
<tr><td>Local contribution</td><td>78%</td><td>70%</td></tr>
</table></td></tr>
<tr><td>RLTP and regional prioritisation</td><td>The LTMA requires a region to assess and prioritise approved organisations activities within a RLTP with a purpose of indicating regional priorities and demonstrating alignment with regional strategies. This process must ‘take account’ of the GPS and as such reinforces its priorities</td></tr>
</table>

NLTP and assessment profile	To form the NLTP the NZTA collates the activities from the RLTPs into various activity classes and applies a prioritisation using the assessment profile. When deciding what activities are included, the NZTA considers the funding bands identified for each activity class in the GPS and includes the range of activities from the highest priority down until the sum of the activity class is within the funding band. The 'funding threshold' is then the profile at which the bands are exceeded. This often results in different funding threshold profiles between activity classes, and therefore further prioritises some activity classes over others
NZTA funding approval Decision to approve using NZTA funding policies and the assessment profile based on the current GPS	The NZTA applies the assessment criteria and decides whether or not to approve activities for funding from the NLTF. As part of the assessment the activity is confirmed to be ready for funding and that it meets or exceeds the funding threshold assessment profile – giving effect to the GPS.
Financial Assistance Rates (FAR)	The purpose of the funding assistance rate is to set the proportion of the total cost to deliver an activity that is sourced from the NLTF
Procurement strategies	Activity selection, securing funding and procurement are the principal ways that approved organisations can demonstrate value for money. The NZTA requires that all approved organisations undertake procurement using an approved procurement strategy, with the principal aim of obtaining the best value for money spent. This is best done by taking a strategic approach to procurement that enables fair competition and encourages competitive and efficient markets for the supply of the outputs required for funded activities

2.2 The purpose of FAR within the funding system

The purpose of FARs is to set out the proportion of the total cost to deliver an activity that is sourced from the NLTF. FARs describe the level of co-investment in transport activities as part of a shared funding partnership between central, local government and users.

The suggested principles and overall approaches within the NZTA discussion document suggest that the role of FAR are much broader and appear to replicate the role of many of the other funding tools, policies and processes within the land transport funding system.

It is our view that the purpose of FARs is <u>NOT</u> to:

- Incentivise or influence investment in particular types of activities
  - The GPS does this by setting the funding range for different types of activities and setting out investment priorities over a three year period.
  - The NZTA assessment profile used to include/exclude activities and prioritise activities within the NLTP also does this. It includes 'strategic fit' as one of the

three assessment criteria. This ensures that investment activities reflect the relevant priorities and outcomes sought by the GPS.

  – The use of grants or special funds (such as past ‘C’ or ‘R’ funds) can also do this by providing additional funding in particular circumstances.

- Ensure value for money is sought from the NLTF

  – The NZTA assessment profile used to prioritise activities within the NLTP and to guide the funding approval process does this. It includes three assessment criteria including ‘economic efficiency’. This criteria considers how efficiently resources are used to deliver the solution and whether the proposal represents value for money.

  – The NZTA procurement strategy requirements also do this. The purpose of the approved procurement strategy is to ensure the best value for money is obtained from NLTF investment.

By using FARs as an additional mechanism to influence behaviour, central government policy direction and priorities are replicated and potentially over-emphasised in the consideration of transport activities. It also results in significant movements in the FARs which can be problematic for local council budgeting.

Higher FARs for particular activities as incentives have been used in the past with mixed results and sometimes perverse outcomes. An example is the patronage funding/ kickstart regime which was used to encourage new services (sometimes less commercially viable bus services) leading to difficulties when the FAR was subsequently reduced under a new policy setting. More successful examples are where a higher FAR has been used to drive change in a system and process (for example, the development of an electronic system to replace the old paper based system for the Total Mobility Scheme). However, alternative mechanisms such as targeted grants or other funding policy tools would be equally effective in these cases.

We recommend that the role of FAR within the wider transport funding framework is limited to setting the level of co-investment between local and central government. This will assist in establishing a FAR system that has stability and longevity – critical elements for Approved Organisations.

3. Impact on local government affordability

Having constant and stable FARs and processes around the approval of activities allows approved organisations to plan and implement transport activities with consistency and certainty.

All local authorities are required by the Local Government Act 2002 to prepare a Long Term Plan (LTP), which outlines a 3 year detailed budget and a 10 year overall budget. LTPs, including the statutory Financial Strategy within them, are important documents for both Councils and their communities, as they setup a commitment between these parties to financial management and particularly future rate levels. As part of the development of an LTP, a local authority will often need to commit to some long term projects and programmes that extend to or beyond a 10 year period. An example of this at GWRC is the rail rolling stock replacement through the purchase of new Matangi trains.

Regional Land Transport Programmes (RLTPs) and the National Land Transport Programme (NLTP) also set out agreed transport activities to be funded over a three year period and include a ten year outlook for major projects.

Any changes to FARs can be very difficult to manage, especially those that occur over short time periods. Changes within a three year period can significantly undermine local authority LTPs and the RLTP. Even changes within a 10 year period can undermine long term transport investments. The impacts of change could be an increase in the local share and therefore rates, greater than that outlined in the LTP. If the change is significant it can undermine the entire project or programme as originally conceived as it may become unaffordable to the community. This can have the effect of undermining public confidence in an LTP.

Short term and even medium term changes to FARs could therefore work against the Government's push to minimise rates increases and leave local authorities caught between two conflicting policy directions from central Government.

The overall affordability of transport activities needs to be explicitly considered in the review of the FAR system. A decision to not undertake certain activities for affordability reason may not be the best outcomes for the overall transport network or long term economic wellbeing of NZ.

Some examples of how changes to FAR can directly impact on local government affordability are described below.

3.1 Public transport

In 2013/14 GWRC projects that it will spend just over $100 million on public transport operations and further amounts on asset renewals and new assets. Currently NZTA funds between 50-60% of this expenditure depending on the FAR category and rate.

If the overall FAR for GWRC reduced, even by a very modest 1%, this would mean that we would need at least a further $1.0 million more in rates from the community. Our total regional rates are $91.3 million so this would equate to a rates increase of over 1% on average across our different rating classes. In the current economic climate this is a significant increase and would take our total projected rates increase from 2.6% to 3.9%. A more significant reduction in FAR would have a correspondingly higher impact on rates – for example if the overall FAR for GWRC reduced by 5%, the projected rates increase for 2013/14 would be around 9.4%, and this would also translate accordingly into subsequent years.

The only choices that GWRC would have to respond to a reduction in overall FAR would be to either:

- Increase rates to the community
- Reduce the level of services provided
- Increase fare levels – if the benefits of fare increases accrue to GWRC (which is subject to commercial negotiations).

GWRC is already operating under a situation where the current FAR arrangement for rail infrastructure, which was 60% in 2011/12, is reducing at 1% a year until it reaches 50% in 2022. When GWRC completed its 2012-22 Long Term Plan it was estimated that by 2021/22 this would increase rates by $13 million dollars (including the effect of the FAR rate changes on asset renewals and allowing for inflation). This is a very significant impact on rates.

3.2 Local roads

Using the 2011/12 expenditure by territorial authorities in the Wellington region on local roads and operations as an example[2], the impact of a 1% reduction in the FAR for these activities would be an increase in local share expenditure of between 2-3% (depending on the individual authority) if the same level of activity was to be maintained. A 5% reduction in the FAR would require an increase of 9-11% in local share expenditure. In the 5% example, the increased expenditure would range between $142,000 and $1.2m for each individual council. This would raise significant affordability issues for some parts of the region.

For example, in South Wairarapa an increase in rates of 1% is equivalent to around $100,000. Given that roading expenditure makes up a significant proportion of total expenditure in rural areas such as South Wairarapa, even a minor change in the FAR for these organisations will be significant.

3.3 Road safety and travel demand management

GWRC coordinates and leads established region-wide safe and sustainable transport programmes, including travel plans, road safety promotion and education, walking and cycling promotion, cycle skills training and car-pool website.

The FAR for these activities was changed in 2012 from 75% to 46.6% for some activities and to 56.6% for others. As a result, the additional local share cost in the 2012/13 financial year was $242,000. GWRC considered the longer term benefits associated with continuing these programmes and made a decision to fund the shortfall from ‘transport reserves’ to allow a transition for the next 6 years. This has only been possible due to the relatively low cost of these activities (less than 1 % of total expenditure on transport activities) and the availability of adequate transport reserves in this case.

However, any further reduction in the FAR for these activities may mean they are no longer affordable and that these important programmes with their associated safety, congestion reduction, and health benefits would not be delivered at all.

[2] Based on cost data and current FARs from NZTA's Transport Investment Online on 15 April 2013.

4. Principles

The FAR Review Discussion Document sets out eight principles upon which any future FAR approach would be based. These are:

1. Be consistent with seeking value for money from investment of the NLTF.
2. Support a whole of network approach to a land transport network for New Zealand.
3. Recognise the interests of, and benefits received by, ratepayers and users of the land transport system.
4. Be financially responsible.
5. Allow social and environmental responsibility to be exhibited.
6. Be efficient to apply.
7. Be transparent (based on clearly identified principles and accessible and reliable evidence/data).
8. Strike an appropriate balance between providing certainty for approved organisations and being agile enough to respond to change.

4.1 Are the identified principles appropriate?

Whilst some of the principles identified are appropriate, we consider that others are not and should be removed, and others should be amended to better reflect the intentions of the FAR system. An explanation of the amendments sought and the reasons why are set out below:

4.1.1 Principles 1 and 4

- Be consistent with seeking value for money from investment of the NLTF.
- Be financially responsible.

We consider that seeking value for money from investment in the National Land Transport Fund and being financially responsible are not relevant principles as the basis of setting FAR. There are other mechanisms within the funding system to ensure that value for money and financial responsibility are achieved through investment of the NLTF – for example, a projects assessment profile (including B/C ratio), procurement processes, and funding approvals.

In practical terms it would be very difficult to apply these principles, as the range of projects likely to be funded and their value would not be known.

We therefore suggest that these principles are removed.

4.1.2 Principle 2

- Support a whole of network approach to a land transport network for New Zealand.

This principle should be amended to as follows:

‘Support a whole of network approach to land transport in New Zealand, recognising the important contribution of both rural and urban transport networks to economic outcomes’.

This explicitly recognises the contribution of roads and other transport networks in both rural and urban areas to our economy. Rural roads provide important access to communities and are often key freight corridors for export generating industries. They also serve as vital routes for the tourism industry. Public transport provides an important role for community access in both rural and urban areas, and provides important congestion relief in urban centres. It is important that any FAR system recognises the contribution of these areas and does not unfairly discriminate between them.

4.1.3 Principle 3

- Recognise the interests of, and benefits received by, ratepayers and users of the land transport system.

This should be amended to read as follows:

‘Recognise that taxpayers, local government ratepayers and, for public transport activities, fare payers, all jointly fund land transport activities and that central and local government’s role is one of an investment partnership’.

A more important consideration is the ‘contribution’ of both rate payers and users rather than the ‘interests of’ and ‘benefits received’. This seeks to highlight the fact that revenue for the NLTF is collected by the government as a tax that supports the land transport system as a whole and the allocation of this revenue for land transport activities should be as part of a joint funding partnership between central and local government. The design of the FAR system should recognise and reflect the important role of local government in this partnership.

4.1.4 Principle 5

- Allow social and environmental responsibility to be exhibited.

This should be amended to read as follows:

‘Facilitate social and environmental responsibility in land transport outcomes’

The current wording of Principle 5 has weakened the NZTA’s requirement to exhibit social and environmental responsibility through the use of the word “allow”. The consequence of any FAR system on land transport outcomes (including social and environmental outcomes) is important and should be considered.

4.1.5 Principle 6

- Be efficient to apply.

This should be amended to read as follows:

‘Be simple and efficient to apply’

Efficiency is an important principle in any FAR system, together with ensuring that any approach is simple and does not add unnecessary complexity and administrative burden.

4.1.6 Principle 7

- Be transparent (based on clearly identified principles and accessible and reliable evidence/data).

This principle suggests that any approach to setting FARs should be transparent. This principle is supported as currently worded.

4.1.7 Principle 8

- Strike an appropriate balance between providing certainty for approved organisations and being agile enough to respond to change.

<u>This should be amended to read as follows:</u>

‘Provide funding certainty and stability to approved organisations to support long term investment decisions, asset management planning, and the ongoing maintenance and operation of the land transport network’.

It is crucial for local government planning and budgeting purposes to have a good level of certainty about the level of funding assistance from the NLTF likely to be available for land transport activities. This is particularly important in relation to maintaining existing infrastructure and operating existing services, as well as for long term investment decisions. A FAR system that is agile and able to respond to change is considered less important. Other mechanisms within the overall transport funding system will be more appropriate for this purpose.

4.1.8 Proposed additional principle

An additional principle should be added as follows:

‘Recognise the impact on local government affordability and the limits on increasing local funding share from rates’.

An adequate and reasonably consistent level of service for similar parts of the transport network across the country is considered to be an important core value for our transport network. However, an area with a relatively low population has less ability to raise local share from rates but may have high costs associated with maintaining its road network due to its length or topography. It is important, therefore, that any FAR system recognises the fact that different councils have different degrees of ability to pay for maintaining and improving their transport networks.

4.2 Recommended new list of principles

The following set of principles is therefore recommended to be adopted:

1. Recognise the impact on local government affordability and the limits on increasing local funding share from rates.

2. Provide funding certainty and stability to approved organisations to support long term investment decisions, asset management planning, and the ongoing maintenance and operation of the land transport network
3. Be simple and efficient to apply
4. Support a whole of network approach to a land transport network, recognising the important contribution of both rural and urban local networks to land transport economic outcomes.
5. Facilitate appropriate social and environmental outcomes
6. Be transparent (based on clearly identified principles and accessible and reliable evidence/data).
7. Recognise that taxpayers, local government ratepayers and, for public transport activities, fare payers, all jointly fund land transport activities and that central and local government's role is one of an investment partnership.

5. Approaches to setting FARs

Eight possible overall approaches to setting FARs are identified in the discussion document. To help us to understand the potential issues associated with the different approaches we assessed the eight approaches and the current approach against the identified principles set out in section 4.2 above.

Where an approach was considered to make a positive contribution in relation to a principle it was given one or two 'ticks', depending on the extent of contribution. Where an overall neutral contribution was anticipated (ie. there were considered to be equally positive and negative aspects) or it was difficult to anticipate what the impact would be, a 'horizontal dash' was given in the assessment table. Where an approach was considered inconsistent with a principle, one or two 'crosses' were allocated.

While we did not consider it useful to give a weight to our principles, we do consider that the first three principles represent 'fatal flaws' if a particular approach is inconsistent with one or more of these.

An assessment table and a summary of key points highlighted by the assessment of each approach against our identified principles is provided as **Appendix A** to this submission. The conclusion from this assessment work is set out in the section below.

5.1 Conclusions on possible approach to FARs

Our conclusions, based on the analysis of the eight approaches against the identified principles, are that the Classification Approach, Incentives Approach, Contributions Approach and Relative Benefits Approach will not deliver what is intended with the FAR system. These all have a large number of inconsistencies against the identified principles, including two or more of the three 'fatal flaw' principles. The Revenue Approach and Population Approach also have a number of inconsistencies with the principles.

An approach which includes a combination of elements from the Differences Approach and Flat Approach appears to have some merit, depending on system design and how the base rate is determined. The Flat Approach on its own would not be acceptable as it would not recognise different approved organisations' ability to pay, however it could be used for some activities, alongside a Differences Approach, to improve simplicity.

A bigger issue with the various approaches proposed is that some are a mechanism for determining a base rate (e.g. population) whilst others are about what happens once a base rate is determined. Individually none offer a complete solution.

The Current Approach (status quo) performs positively overall against our identified principles. A key conclusion from our discussion in developing this submission is that the current approach itself is not necessarily broken. The key problem appears to be the way ad-hoc adjustments are made to the base rates for different activities. The FAR system should be based upon a set of clear principles.

NZTA should limit the number of ad-hoc adjustments. The FAR system should be administratively simple and should be designed to take account of inter-related activities wherever possible (for example, in the current FAR system road safety community programmes and demand management/sustainable transport have separate work categories and different FARs despite these activities being closely linked) and any changes to FAR rates for AOs or individual activities should be forecast well in advance so they can be taken into account for local planning purposes.

Other aspects of the current approach that could be tested through this review include:

- the differential treatment of maintenance/renewal activities compared with new/capital activities
- the appropriateness of the indicators used to determine ability to pay and need
- the most appropriate basis for regional council activities such as transport planning and road safety promotion, which are currently based on the weighted average construction FAR.

6. Overall conclusions

Our conclusions are as follows:

- The FAR system needs to be considered as part of the wider funding system, and should not be used to replicate other funding tools, policies and processes. The role of FAR is to set out the fair and reasonable proportion of co-investment in transport activities as part of a shared funding partnership.

- Stability and certainty around the application of FAR is crucial for local government planning and budgeting processes.

- Reductions in financial assistance rates are likely to have significant budgeting and affordability impacts on local government. Even minor changes to FARs may be unaffordable and result in important activities being deferred or dropped from Long Term Plans and the RLTP.

- A number of amendments should be made to the proposed principles set out in the discussion document to reflect the important characteristics of any future FAR system. It is our strong view that these principles should be those set out in section 4.2 of this submission, with the most critical principals relating to affordability, certainty, and simplicity.

- In terms of the proposed overall approach, the assessment against our redrafted principles suggests that either the Current Approach (with minor improvements) or a combination of elements from the Differences Approach and Flat Approach are most likely to be acceptable and appropriate.

Appendix A – Assessment of Approaches against Principles

Possible approaches:	Flat approach	Differences approach	Classification approach	Revenue approach	Population approach	Incentives approach	Contributions approach	Relative benefits approach	CURRENT APPROACH
Principles:	Every approved organisation would have the same FAR for every land transport activity (eg. 50%)	An approved organisation would have the same FAR for every activity but different approved organisations would have different FARs.	Different FARs would be set for activities depending on their classification in a national classification system for roads and public transport.	FARs would be set to reflect where the NLTF revenue was generated.	FARs would be set to provide a more equal financial benefit for each New Zealander.	NZTA set targets which approved organisations were required to meet, like efficiency targets and outcome targets, and give a lower FAR if targets were not met and a higher FAR if targets were met.	FARs set for the purpose of distributing NLTF revenue generally in accordance with the relative contributions made to the NZ economy.	FARs would be set to reflect the extent to which particular land transport activities benefit property owners (ratepayers) and the extent to which they benefit land transport system users.	This is a mixture of approaches. Differences approach for determining the base and construction FAR for each AO. Flat for other activity types.
Recognises the impact on local government affordability and the limits on increasing local funding share from rates.	✗	✓	✗	✗	✗	✗✗	✗	✗	✓
Provide funding certainty and stability to approved organisations to support long term investment decisions, asset management planning, and the ongoing maintenance and operation of the land transport network	✓✓	-	-	-	✓	✗✗	✗✗	-	✓
Be simple and efficient to apply	✓✓	✓	✗	✓	✓	✗✗	✗	✗✗	✓
Support a whole of network approach to a land transport network, recognising the important contribution of both rural and urban local networks to land transport economic outcomes.	✓	✓	-	✗	✗	-	✗	✗	✓
Facilitate appropriate social and environmental outcomes	-	-	-	✗	✗	-	✗	✗	-
Be transparent (based on clearly identified principles and accessible and reliable evidence/data).	✓	✓	✓	✓	✓	✓	-	✗	✓
Recognise that taxpayers, local government ratepayers and fare payers, all jointly fund land transport activities and that central and local government's role is one of an investment partnership.	✓	✓	-	✗	-	✗	✗	-	✓

Summary assessment of each approach

Flat approach

<u>Description:</u> Every approved organisation would have the same FAR for every land transport activity (eg. 50%)

- **Mostly consistent** with our identified principles.
- Very simple and efficient to apply, is transparent, and provides very good certainty. Reflects a shared funding partnership in its approach.
- The flat rate for activities means there are no incentives in the FAR system to invest in one activity over another.
- Does not take account of different councils' ability to raise local share – same flat rate applied to all AO and all activities.

Differences approach

<u>Description:</u> An approved organisation would have the same FAR for every activity but different approved organisations would have different FARs.

- **Mostly consistent** with our identified principles.
- Takes account of affordability issues by having a different FAR for different Approved organisations.
- Would be a relatively simple, efficient, and transparent approach.
- Does not incentivise investment in one activity over another because every activity has the same FAR.
- But the outcome of this approach does depend on the detailed design. For example, the level of FAR proposed for each AO and how the system would respond to changes in affordability over time.

Classification approach

<u>Description:</u> Different FARs would be set for activities depending on their classification in a national road classification system and a national classification system for public transport activities.

- **Mostly inconsistent** with our principles.
- Would not recognise affordability impacts for local government, no provision is made for assistance rates based on ability to pay.
- Very high time and cost requirements and practical difficulties with developing and agreeing the classification systems for the whole road network and all public transport services. Therefore not considered to be a simple and efficient approach.
- It is unclear whether this approach would provide certainty for long term investment – while some certainty would be provided once classification process is completed there would be a risk of ongoing classification changes and disagreement about how parts of the network were classified.

- This approach would be transparent in terms of providing clear criteria for setting FARs.

Revenue approach

<u>Description:</u> FARs would be set to reflect where the NLTF revenue was generated.

- **Mostly inconsistent** with our principles.
- The area where revenue is generated does not necessarily align with need, contribution to economy or ability to pay.
- Approach would not recognise affordability impacts and ability to maintain an appropriate level of service across the transport network. Areas with low vehicle kilometres travelled, may have higher relative costs – for example, where the proportion of heavy vehicles is higher than average or road networks are longer or involve more difficult terrain.
- Does not support a whole of network approach and would have potential negative impacts on social and environmental outcomes. For example, revenue from public transport fares would not be counted and the important contribution of public transport in urban areas would not be recognised. The approach could also act as a disincentive to investing in public transport and other measures that would reduce vehicle kilometres travelled.
- Does not reflect a partnership or cost sharing model.
- The approach would be relatively simple to apply, and transparent.

Population approach

<u>Description:</u> FARs would be set to provide a more equal financial benefit for each New Zealander

- **Mostly inconsistent** with our principles.
- Approach would have significant affordability issues for many parts of the country with lower populations. It would not recognise the role and contribution of rural local roads.
- Negative social outcomes would likely result. For example, areas with smaller populations may be unable to provide needed road safety improvements or basic public transport services.
- There are both positive and negative elements of this approach in relation to recognising ratepayer contribution. While areas with larger numbers of ratepayers would receive a higher proportion of central government funding, ratepayers in some lower populated areas would be shouldering a high local share to provide a transport network for freight and tourism traffic that benefits the economy.
- The approach would provide certainty, as population does not change dramatically over time. It would also be relatively simple to apply and transparent.

Incentives approach

<u>Description:</u> NZTA would set targets which approved organisations were required to meet, like efficiency targets and outcome targets, and give a lower FAR if targets were not met and a higher FAR if targets were met.

- **Completely inconsistent** with our principles.

- Would not take account of different approved organisations ability to pay.
- It would create significant uncertainty for local government around what funding would be provided from the NLTP and would be a difficult process to align with legislative process governing the way local government budget for local share through rates.
- Does not reflect a partnership model. For example, having NZTA set targets and then decide if these have been met and if funding assistance is warranted would weaken local government role and duplicate NZTA's role that is already provided for through other parts of the funding system.
- Involves a very complex system administratively. For example, determining whether targets have been met would be difficult, particularly where targets are affected by other external factors. Also, a system that involves only part payment upfront or requires NZTA to recover money from Approved organisations who don't meet targets would be very complicated and inefficient.
- The approach would be transparent once targets have been agreed and set – although the difficulty in assessing achievement of targets would affect this principle.
- Consistency with a whole of network approach would be dependent on the design of the system and the targets set. The risk is that central government policy direction is over-emphasised through a combination of FARs and other mechanisms in the funding system.

Contributions approach

<u>**Description:**</u> **FARs would be set for the purpose of distributing NLTF revenue generally in accordance with the relative contributions made to the New Zealand economy.**

- **Completely inconsistent** with our principles.
- Would not recognise local government affordability impacts nor recognise the funding contribution of ratepayers. Affordability issues in areas that generate lower levels of GDP may affect their ability to provide an adequate, safe level of service on roads and basic public transport for community accessibility.
- Using a proxy such as Heavy Vehicle VKT would not contribute to a whole of network approach as it would focus on one aspect of the network and economy.
- It is unlikely to be a simple approach to apply. Measuring contribution to the economy would need to involve more than one indicator and is likely to require a complex system of indicators. GDP information for individual territorial authorities is limited and unreliable.
- Would not be consistent with providing certainty as the indicators could be very changeable over time. For example HCV movements may change as new infrastructure is built or freight generating activities change or relocate.
- The transparency of this approach would be dependent on the indicators chosen to reflect contribution to the economy.
- It is noted that assessing this approach was difficult at a high level as much depends on the system design and what measures are used as a proxy for 'contributions to the economy'. However, a number of general inconsistencies with our principles were apparent.

Relative benefits approach

<u>Description:</u> FARs would be set to reflect the extent to which particular land transport activities benefit property owners (ratepayers) and the extent to which they benefit land transport system users

- **Completely inconsistent** with our principles.
- Does not provide for the differences in the ability to pay of different councils. Would have affordability impacts for councils who would still be required to maintain a road to a reasonable standard whether it carries through traffic or not.
- The approach would not recognise the different but important role of rural local roads. It is likely to result in perverse outcomes, such as investment decisions to attract state highway traffic onto local roads.
- It is unclear whether this approach would provide certainty for long term investment – while some certainty would be provided once roads have been 'classified', there would be a risk of ongoing changes (for example, new subdivisions or activities served by a particular road). Therefore it could be complex to administer and inefficient to apply. Also complicated to apply to public transport activities.

Current Approach (Status Quo)

<u>Description:</u> The current FAR system involves a different base FAR designated for each approved organisation and also for individual activities. However, for some activities a flat FAR across all approved organisations applies.

Most local councils transport activities are covered by either a FAR for maintenance activities (the base FAR) or a FAR for new activities (the construction FAR). A small number of other local council activities are covered by a flat FAR (such as Special Purpose Roads) that applies to that specific activity at the same rate across New Zealand.

This base FAR is set so that the national average for these FARs is 50%. The FAR is based on the total rateable land value in an Authority's area and the cost of the Authority's road maintenance activities, as a proxy for ability to pay and need respectively. The construction FAR is 10% higher than the Authority's base FAR.

For regional councils, the FAR for transport planning and road safety promotion is the weighted average construction FAR for the region (56% for the Wellington region). A flat rate is applied to most activities relating to public transport infrastructure and services across all regional councils in New Zealand.

The base and construction FAR are reviewed at every 3 year funding cycle with the last review undertaken in 2011 for the 2012-15 programme period. This review includes updating the inputs to the formula used to determine the base FAR. Other FAR are reviewed by NZTA on an ad-hoc basis and have been used in the past to encourage or discourage investment in particular transport activities.

- **Mostly consistent** with our identified principles.
- Takes account of affordability issues and need for different Approved organisations by allocating a FAR rate based on their total rateable land value and the cost of their road maintenance activities.

- Recognises the contribution of both rural and urban transport networks. Does not significantly favour urban areas or rural areas as an overall approach.
- Does reflect a joint partnership model, recognising the contribution of ratepayers. However, the role of local government in this partnership could be strengthened through the system design.
- The current approach is fairly simple and transparent. Aspects of the approach have the appearance of complexity, although the 'base' FAR is calculated using only two variables which are both relatively simple to understand. Some aspects of the system design could be simpler, however these tend to relate to the application rather than the approach itself.
- The current approach can encourage investment in particular activity classes as a result of different FAR rates for different activities.
- While the current approach itself provides a level of funding certainty, this is undermined by its application. For example, continuous ad-hoc reviews and tweaks to FAR rates and a lack of clear underlying principles. However, it is noted that this could equally be the case for any other approach that involves a 'base' FAR.