

FUNDING ASSISTANCE RATES REVIEW UPDATE – THE FAR STORY

WHAT WAS THE PROBLEM?

Issues with the current system (status quo) included:

- A lack of a shared understanding of what funding assistance rates can, and should, seek to achieve. This has meant that over time the funding assistance rates system has been added to or amended, to try and achieve different policy objectives.
- The absence of a clear policy decision about what the overall split of costs between direct land transport system users and local communities (property owners and land users) should be.
- The wide range of different funding assistance rates that existed for different activities and the very high funding assistance rates for some activities created cost (and uncertainty) as people sought to ensure that activities were funded under the correct funding assistance rate.
- It was not clear that factors currently taken into account in setting funding assistance rates were reliable measures of the differences that materially affect some approved organisations' ability to deliver land transport outcomes.

THE SCOPE OF THE REVIEW

The scope of the review was very broad. It included all funding assistance rates for all local authorities, Auckland Transport, the Department of Conservation and the Waitangi National Trust Board. The following were not within the scope of the review:

- The status, ownership or control of any road.
- Anything within another organisations' control, or which would require a change in the law.
- Funding for road policing.
- Funding for state highways.
- How much of the National Land Transport Fund (NLTF) revenue can be spent on different types of land transport activities - ie the ranges of money available for different activity classes under the Government Policy Statement on Land Transport.
- Farebox recovery rates.

THE NZ TRANSPORT AGENCY BOARD IS THE DECISION-MAKER

Under section 20C of the Land Transport Management Act 2003 (LTMA), the Transport Agency must set the rate of funding assistance from the NLTF for activities or combinations of activities in accordance with any criteria set by the Minister of Transport. Some criteria have been set by the Minister of Transport in the past for enhanced funding assistance rates (FARs) for specific activities such as community transport funds. There are currently no ministerial criteria in relation to how the normal or 'base' FARs for local authorities should be set.

THE ROLE OF FUNDING ASSISTANCE RATES

Funding assistance rates are not a subsidy, but part of a co-investment system that recognises there are both national and local benefits from investing in the land transport network. Funding assistance rates are one tool within the land transport investment system to assist local government (and other approved organisations) and the Transport Agency to work together to achieve:

- The optimal national land transport outcomes within their combined financial resources.
- An integrated and appropriately consistent land transport network throughout the country.
- An appropriate sharing of the New Zealand land transport network costs between direct land transport system users and local communities.

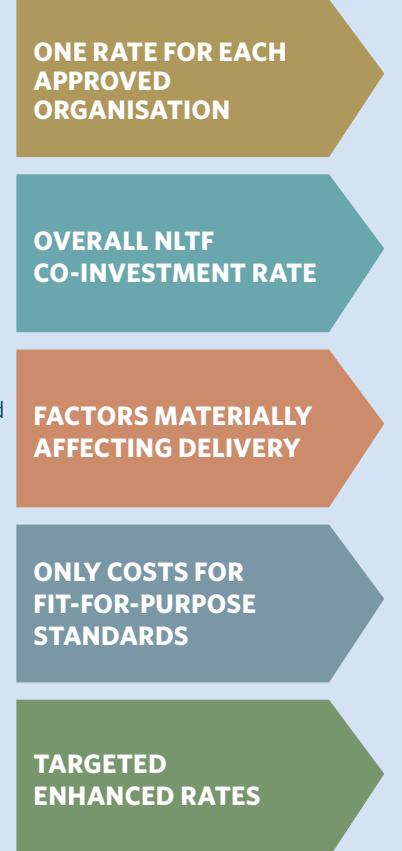
The FAR principles and overall FAR framework is the foundation for the Board's decisions on the review.

THE FAR PRINCIPLES

The funding assistance rates system should:

1. Support optimal national land transport outcomes being achieved in the right way, at the right time and for the right price. Optimal national land transport outcomes contribute to the provision of an effective, efficient, safe, responsible and resilient transport system. (A reasonable transport system addresses the potential harms of that system, including environmental and health impacts.)
2. Facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country.
3. Appropriately split the costs of the New Zealand land transport network between direct land transport system users and local communities recognising that each of those groups affects, and benefits from, that network.
4. Provide approved organisations and the NZ Transport Agency with as much investment certainty as practicable.
5. Be efficient to apply.
6. Be based on evidence and data that is readily accessible and available.
7. Ensure that if there are variations on how the funding assistance rates are set or applied to address outliers or exceptions that this is done transparently.

OVERALL FAR FRAMEWORK



WHAT HAVE WE DONE?

October 2012

Transport Agency Board approved scope for Funding Assistance Rate Review

March 2013

Discussion document released; 98 submissions received

December 2013

Funding assistance rate review options discussion document

May 2014

Initial decisions around FAR review

October 2014

Final funding decisions

THE CONTEXT FOR THE FUNDING ASSISTANCE RATES REVIEW

WHAT ARE WE TRYING TO ACHIEVE FROM INVESTING IN LAND TRANSPORT?

Setting the strategic context, desired outcomes, direction and priorities

IS THIS THE RIGHT ACTIVITY TO INVEST IN? IS THIS THE RIGHT TIME TO INVEST IN THIS ACTIVITY?

Identifying and investing in the right activities at the right time to achieve our desired outcomes and direction

WHAT IS THE RIGHT LEVEL OF SERVICE/ STANDARD TO DELIVER THIS ACTIVITY TO?

Investing in the right standard of activity

The **Land Transport Management Act** focuses land transport investment decision makers on effectiveness, efficiency and safety in the public interest.

The **Government Policy Statement on Land Transport (GPS)** sets out the results central government will seek from investment in the land transport sector for at least 10 years. It also sets out the NLTF revenue likely to be available, and the funding range for each activity class, eg local road maintenance, operations and renewals.

Regional Land Transport Plans (RLTP) prepared by Regional Transport Committees now combine strategic elements (objectives and policies) as well as land transport programme elements.

Regional Land Transport Plans (RLTPs) set out how each region will optimise its land transport programme.

National Land Transport Programme (NLTP) is a programme of ongoing investment in New Zealand's land transport system. It is focused on delivering outcomes that are clearly aligned to the direction set by the GPS, underpinned by information and evidence to support investment decisions, and optimised in the context of a whole-of-transport system approach. Where a significant change in levels of service is proposed in an asset management plan a business case approach will apply.

The Business Case Approach (BCA) - Stakeholders work together to focus on identifying the problem, the consequences and benefits associated with the problem and the wider strategic context (the Strategic Case), before deciding which interventions, if any, are required.

The Public Transport Operating Model (PTOM) - Involves regional councils collaborating with public transport operators to plan and deliver public transport services, growing patronage and fare revenue with less reliance on public subsidy (from either local or central government). PTOM provides opportunities for operators to improve services and grow their business through features such as exclusive operating rights, long contract tenure, opportunity to negotiate rather than tender contracts and financial incentive mechanisms.

Economic Evaluation Manual (EEM) - The EEM must be used by approved organisations evaluating the economics of a transport proposal to provide an efficiency assessment as part of preparing a funding application to the Transport Agency. An updated EEM has been released.

Investment Assessment Framework (IAF) - The Transport Agency gives effect to the GPS by using its IAF to determine what activities will receive funding within the overall funding range set by the GPS. The IAF is used to support councils and the Transport Agency to prioritise activities in the RLTPs and the NLTP.

The One Network Road Classification (ONRC) - The approach to network maintenance has shifted away from maintaining networks in line with budgets, to maintaining networks at the level that delivers the best value for money while also delivering fit-for-purpose customer levels of service as defined in the Road Efficiency Group's ONRC. The ONRC and its associated customer levels of service and performance measures will help to define the fit-for-purpose standards for roads.

The Funding Assistance Rate Review is about how to appropriately share the costs of the New Zealand land transport network between local government and the National Land Transport Fund to assist us to work together to achieve the optimal national land transport outcomes in the right way, at the right time and for the right price.

FUNDING ASSISTANCE RATES REVIEW UPDATE – FINAL DECISIONS OCTOBER 2014

DECISION: SETTING NORMAL FAR

The NZ Transport Agency Board has:

- Agreed that the method for setting the normal funding assistance rate for approved organisations will use the following methodology: centreline kilometres divided by capital value (centreline kilometres/capital value), and the inverse of rating units (1/rating units) and the index of deprivation, to identify the approved organisations that will receive a funding assistance rate higher than the minimum rate.
- Agreed to revise the minimum normal funding assistance rate received by any approved organisations so that it is 51% (two percentage points below the overall National Land Transport Fund (NLTF) co-investment rate of 53%).
- Agreed that the maximum normal funding assistance rate for all local authorities will be 75%, other than the Chatham Islands Council which will have a maximum normal funding assistance rate of 85%.
- Noted that in the year prior to the National Land Transport Programme (NLTP), the inputs used in the method for setting the normal funding assistance rate will be updated and normal funding assistance rates for each approved organisation recalculated.

THE METHOD FOR SETTING NORMAL FARs

When setting the funding assistance rate for an individual approved organisation, three elements come together, the overall co-investment rate, the methodology used to identify the relative position of individual approved organisations and the minimum rate.

The methodology identifies which approved organisations have the greatest need ie factors materially affecting their ability to deliver transport outcomes. Based on information that is robust, repeatable and independent, its primary function is to identify any approved organisation's ability to deliver transport outcomes relative to other approved organisations, not provide a measure of their actual transport task.

The methodology is: *centreline kilometres/capital value, plus 1/rating units, plus index of deprivation*. Centreline kilometres over capital value, identifies what must be spent to maintain the network, relative to the rating base that can be used to raise the local share. The index of deprivation and an inverse of the number of rating units ensure that the least wealthy and smallest communities receive a higher score. Standardising the inputs so they are of a comparable scale. They are then added together using methodology, giving each individual approved organisation a 'score'.

The potential NLTF contribution to approved organisations transport programmes is set by the overall co-investment rate. The NLTF funds available to be allocated as an enhanced rate are the difference between the minimum rate and the overall co-investment rate. Using a common number to multiple the scores of all individual approved organisations, we work from the top of the list (i.e. local authorities with the highest scores), to progressively increase the NLTF contribution for each approved organisations transport programme until all of the available NLTF funds are distributed. An approved organisations' normal funding assistance rate (expressed as a percentage) is the NLTF contribution to their transport programmes. Any approved organisation that does not receive an enhanced rate will receive the minimum rate.

The minimum and maximum rate

Funding assistance rates are also capped at a maximum rate. In May 2014, the Board agreed the minimum funding assistance rate would be 52%, one percentage point below the national co-investment rate of 53%. At the time, this was considered sufficient 'headroom' to enable councils who needed it to receive an enhanced FAR.

Further modelling found the lowest rate had a more significant impact than was anticipated on the funds available to allocate enhanced FARs to those approved organisations that had factors that materially affected their ability to deliver land transport outcomes. As a result the Board has also agreed to reduce the minimum funding assistance rate by one percentage point to 51%.

Reducing the minimum funding assistance rate to 51% enables a larger group of approved organisations to receive an enhanced FAR, spreading the impacts of the transition to the new FAR regime more evenly.

Some approved organisations may have made commitments in the 2015-16 financial year on the basis that their minimum normal FAR would be 52%. In recognition of those councils who may have made such commitments the lowest rate any approved organisation will receive for this period is 52%.

Funding assistance rates are part of a co-investment system that recognises there are both national and local benefits from investing in the land transport network. To ensure that both partners adopt a co-investment approach, it is important that councils continue to have 'skin in the game', so we have set the maximum FAR at 75%.

PROGRESS UPDATES

EMERGENCY WORKS

The Transport Agency has consulted on a revised emergency works policy and is working through feedback from the sector, addressing issues such as the ability to respond to extreme event, and identifying a nationally consistent definition for a qualifying event. We expect the operational policy to be finalised by the end of November 2014.

SPECIFIC ACTIVITIES

SPECIAL PURPOSE ROADS

The NZ Transport Agency Board agrees that the funding assistance rate for special purpose roads will remain at current levels for the 2015-18 NLTP, to allow approved organisations to develop individual plans to transition special purpose roads to the normal funding assistance rate by 2023/24.

Commentary

Good progress has been made with affected approved organisations on the development of transition plans to identify what (if any) 'works' may be required so that the road can be absorbed into the local road programme. The funding assistance review will require councils to implement a number of changes and allow the Transport Agency and approved organisations to complete discussions, to take this into account the existing funding assistance rate for special purpose roads will be maintained over the 2015-18 NLTP.

DEPARTMENT OF CONSERVATION

The NZ Transport Agency Board agrees that that the 'Bruce' Special Purpose Road is eligible to receive NLTF investment, and that the Transport Agency will work with the Department of Conservation (DOC) to identify a programme of transport activities on carriageways managed by the Department that are eligible for NLTF investment.

Commentary

DOC are an approved organisation but currently only receive funding for special purpose roads. In May 2014, the decision was made to exclude the Bruce Road from the roads eligible for NLTF funding. Following further investigation, that decision has been revisited to ensure there is a consistent approach on other special purpose roads, in particular the Ohakune Mountain Road. Looking forward, the Transport Agency will work with DOC to assist them to identify a programme of transport activities on carriageways managed by the Department that are eligible for NLTF investment.

LEVEL CROSSINGS

The NZ Transport Agency Board agrees that from the start of the 2015-18 NLTP, the costs of maintaining level crossings will be funded at approved organisations' normal funding assistance rate, but that the funding assistance rate for level crossing improvements will remain at current levels for the 2015-18 NLTP, transitioning to the relevant approved organisations normal funding assistance rate thereafter.

Commentary

To give effect to the Board's decision that, in principle, level crossings should be funded at an approved organisations' normal funding assistance rate, we have separated the level crossing improvements from the maintenance of existing level crossings. From 2015-16 the ongoing maintenance of existing level crossings should be included in an approved organisations' asset management programme. However, the issues associated with level crossing improvements are more complex. Further work is required across all of the partner organisations before we have a clearer pathway forward on how to address this issue.

STOCK EFFLUENT FACILITIES

The NZ Transport Agency Board agrees that the funding assistance rate for stock effluent facilities will remain at current levels for the 2015-18 NLTP and will transition to normal funding assistance rates thereafter.

Commentary

Historically, the NLTF has contributed 50% of the costs of stock effluent facilities. Most of the programme for the development and construction of stock effluent facilities has been completed. To allow the remaining parts of that programme to be completed the current funding assistance rate will be maintained for the 2015-18 NLTF. Stock effluent facilities will transition to normal funding assistance rates thereafter.

TARGETED ENHANCED RATES

If a targeted enhanced rate meets certain criteria it can be used to accelerate the delivery of specific land transport outcomes in exceptional circumstances, for a limited time period, and at a specified investment rate.

The Transport Agency has developed an operational policy and guidelines on how and for what targeted enhanced funding assistance rates should be used to deliver a specific transport outcome, which will be available on our Knowledge Base site www.pikb.co.nz.