

Board Paper	
Paper no:	13/12/0786
Meeting date:	13 December 2013
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Recommended by:	Jenny Chetwynd, Regional Director (Central)
Board function:	Setting sector and organisational direction
Subject:	Funding Assistance Rates (FAR) review: Options discussion document

Purpose

- 1 To obtain the NZ Transport Agency Board's approval to release a *Funding Assistance Rates Review Options Discussion Document* for public consultation.

Recommendation

- 2 That the NZ Transport Agency Board **approves** the release of a *Funding Assistance Rates Review Options Discussion Document*, which will support a conversation with our stakeholders to help us decide on the optimal combinations of factors and approaches for setting funding assistance rates. It contains:
 - a) five modelled options using different possible metrics, and combinations of metrics, which the Transport Agency could use as proxies for councils' relative ability to raise the local share of the costs of land transport activities
 - b) two indicative funding assistance rates for each council for each of the five options (one rate using a 50% overall co-investment rate and one using a 53% overall co-investment rate) in order to show what rates individual councils might receive under each option at each end of the range of possible overall NLTF co-investment rates
 - c) proposals for setting emergency works funding assistance rates focusing on: (1) how we should determine which natural events would attract elevated emergency works funding assistance rates because they are rare, or unusually large in magnitude or severity, for the area where they occur; and (2) how we should set those elevated emergency works rates
 - d) questions around how we determine NLTF investment eligibility for Waitangi National Trust and Department of Conservation carriageways
 - e) a discussion on how changes to funding assistance rates should be transitioned in

f) a range of questions on these topics to support the discussion.

Background

- 2 In August 2013 you approved a provisional framework for setting and applying funding assistance rates and asked us to develop options for implementing that framework. Key elements of the framework are:
- the establishment of an overall NLTF co-investment rate
 - each approved organisation having one funding assistance rate for all its eligible land transport activities (except possibly emergency works)
 - some approved organisations potentially receiving funding assistance rates that are higher than the overall co-investment rate because they have to deal with matters outside of their control, which make it harder for them to deliver optimal land transport outcomes than it is for most other approved organisations (and, consequently, other councils receiving rates that are lower than the overall co-investment rate)
 - the ability to use targeted enhanced rates where we need a quick response or a step change.
- 3 In November 2013 you agreed to the development of detailed options for implementing the provisional funding assistance rates framework which would:
- include a currently preferred option of setting the overall NLTF co-investment rate at 50%
 - concentrate on differences in local authorities' ability to raise the local share of the costs of achieving land transport outcomes, rather than factors that relate to differences in costs between local authorities, when determining which councils get funding assistance rates that are higher than the overall co-investment rate

- group councils into bands with each band getting a different funding assistance rate (rather than setting a separate funding assistance rate for each council)
- only apply elevated emergency works funding assistance rates to costs arising from natural events that are rare, or are unusually large in magnitude or severity, for the area in which they occur.

Some initial observations

- 4 So far we have had reasonably good understanding and support from councils for the provisional funding assistance rates framework. We sense that there is a growing understanding and acceptance of the justification for reviewing the funding assistance rates system, and the need to ensure it supports the delivery of optimal investment outcomes for New Zealand's land transport network.
- 5 However, the conversations to date have been largely high level. The next stage of the process is where our partners will start to see what rate they may receive, and where their rate may sit relative to their neighbours and the wider sector. The choices we ultimately make will have significant effects and this concerns them. Many councils are anxious to see this resolved. They are also keen to ensure that we have clearly thought about how any changes will be transitioned in.
- 6 Getting this system right, and having the local government sector perceive it to be generally reasonable and appropriate, will enable us to make significant gains in how we invest in the land transport system across New Zealand.
- 7 Accordingly, local government feedback on shaping the system is very important. To achieve this, our partners need to have an opportunity to understand the big picture and the inherent tensions within the system, work with us through possible options, and understand and inform the trade-offs that we need to make. We need to help them take a sector-wide perspective to the debate, as

well as their individual perspective. Therefore, it is important that we enter this next stage ready to have an explorative conversation and not simply to present options.

The engagement proposition

- 8 The fundamental engagement proposition for this phase is that the Transport Agency needs to make a decision on the best combination of factors and approaches for determining funding assistance rates for local authorities (and other approved organisations), and then decide on the specific methods it will use to set those rates.
- 9 To do this, we need to decide on the overall NLTF co-investment rate, and which factors and approaches we are going to use to determine how many, and which, councils need extra assistance and, therefore, receive higher rates.
- 10 To help us make these decisions, and to guide the conversation, the discussion document presents:
 - five different metrics, and combinations of metrics, we could use as proxies for councils relative ability to raise local share - in order to help us identify those councils that need more assistance than others
 - two sets of indicative funding assistance rates for each option (one for each end of the possible overall co-investment rate range from 50% to 53%)and asks a number of questions about how we could use funding assistance rates bands.
- 11 We want to engage our stakeholders in a conversation about these components, the trade-offs that will need to be made, and how the components should fit together so that we can make the best possible decision to support optimal outcomes for land transport investment across the country.

- 12 There are several trade-offs inherent in this conversation that we want stakeholders to consider, and we will need to ensure that those tradeoffs are clear during this conversation. For example, the greater the number of councils that receive higher funding assistance rates, the lower the funding assistance rate that would be received by the remaining councils in the lowest band is likely to be. In addition, if we use a small number of bands, the councils that receive the highest rate can receive a reasonably high rate (e.g. 75%). If we use more bands, this will spread the elevated rates out and may reduce the rate received by the highest band and/or mean that fewer councils receive the highest rate.

The discussion document

- 13 The discussion document is available in the resource centre of Board Books. It presents all the information required for this conversation, ordered as follows: (1) the appropriate range for the overall NLTF co-investment rate; (2) some proposals for different metrics, and combinations of metrics, we could use as proxies for councils' relative ability to raise local share and some suggestions as to how we could use funding assistance rate bands; (3) proposals for determining funding assistance rates for emergency works; (4) proposals for how to address NLTF investment eligibility and funding assistance rates for Waitangi National Trust and Department of Conservation carriageways; and (5) options for how we could transition in changes to funding assistance rates.

The overall NLTF co-investment rate

- 14 As we discussed with you in November, the appropriate range for the overall NLTF co-investment rate is somewhere from 50% (a 50:50 cost split) to 53% (the overall effective funding assistance rate over the last few years).
- 15 We are looking for feedback on where in that range the overall NLTF co-investment rate should sit and, importantly, why that is the appropriate rate.

Determining relative ability to raise the local share

16 We are presenting five options for how we could identify those councils that need greater assistance than others – using different metrics, or combinations of metrics, as proxies for councils' relative ability to raise the local share of land transport costs. These are:

- Option 1, which compares the relative wealth of the residents of each council's area – using the New Zealand Index of Deprivation. This is the simplest option.
- Option 2, which uses a proxy for the relative wealth of a councils' ratepayers, including non-resident and corporate ratepayers, (the capital value of rateable land in their area) and a proxy for the number of ratepayers from whom a council can obtain the local share of land transport costs – using the ratio of:

$$\frac{\text{Net equalised rateable capital value}}{\text{Number of rating assessments.}}$$

- Option 3, which uses both the ratio in Option 2 and Index of Deprivation and, therefore, includes both a proxy for the wealth of a councils' ratepayers (including corporate and non-resident ratepayers) and a proxy for the wealth of the residents of each council's area.
- Option 4, which compares councils by both an objective proxy for the size of the land transport activities they undertake (lane kilometres of local road) and a proxy for the wealth of councils' ratepayers – using the ratio of:

$$\frac{\text{Lane kilometres of local road}}{\text{Net equalised rateable capital value}}$$

- Option 5, which uses both the ratio in Option 4 and Index of Deprivation (again this would use both a proxy for the wealth of a council's ratepayers, including corporate and non-resident ratepayers, and a proxy for the wealth of the resident local community).

- 17 We are looking for feedback on which of these options would best achieve the outcomes we are seeking from the provisional framework. We are conscious that used on their own, Options 2 and 4 probably would not achieve those outcomes. In particular, under Option 4 some councils that face significant socio-economic issues would end up on the lowest funding assistance rate and this could materially impact on whether optimal land transport outcomes can be delivered in their areas. However, when the ratios used in those options are combined with Index of Deprivation (in Options 3 and 5), both of the resulting combination options could achieve the outcomes we are seeking.
- 18 We have modelled each of the five options – grouping councils into possible funding assistance rates bands and developing two sets of indicative funding assistance rates for each council under each option (one using a 50% overall co-investment rate and one using a 53% overall co-investment rate) in order to show what rates individual councils might receive under each option at each end of the range of possible overall NLTF co-investment rates. Figures showing how we have done this for three of the options (Options 1, 3 and 5) are included in the **Attachment** to this paper.
- 19 In undertaking the modelling we have explicitly made a number of choices in relation to matters such as:
- the proportion of councils that should be included in the bands that receive higher rates (25%)
 - how many bands we should use (5 or 6)
 - whether we cap the rate of the councils in the highest band at a specified maximum amount (capped at 75%).

We have used the same combination of choices in modelling all five options, so that the options are easy for councils and other stakeholders to compare. However, the discussion document specifically asks for feedback on whether that is the optimal combination of choices and, if not, what the optimal combination of choices would be.

- 20 The councils that appear to face the greatest difficulty in raising the local share under the relevant metric(s) are included in the bands that receive higher funding assistance rates. The remainder of councils are included in a lower band. The funding assistance rate received by the councils in the lower band is determined by how much lower than the overall NLTF co-investment rate the rate for that band needs to be to free up sufficient NLTF revenue to fund the higher funding assistance rates for the other bands.
- 21 Changes to the choices we have made in undertaking the modelling, and changes to the overall NLTF co-investment rate used in the models, can have significant effects not only on individual councils' rates but also on how many councils would experience a significant change in their rate from the status quo and what funding assistance rate is received by the councils in the lowest band.
- 22 The purpose of the modelled options is to generate discussion. The indicative rates that they produce are intended to enable our stakeholder to get a feel for what different options might look like for them, and for the sector, in order to help them to provide us with the feedback we are looking for.

Funding assistance rates for emergency works

- 23 In the discussion document we are providing three options for how we could determine whether initial response and reinstatement works following a natural event would attract elevated emergency works funding assistance rates because the event was rare, or unusually large in magnitude or severity, for the area where it occurred – (1) a statement of principle; (2) the annual return interval of an event (e.g. it would need to be a 1 in 20 year storm in the area where the damage occurred); and (3) only events where emergency works expenditure exceeded a certain amount. Ultimately we could use some combination of these options.

- 24 We are also providing three options for how we could set elevated emergency works funding assistance rates – two options tied to an organisation’s normal funding assistance rate (a rate half way between the organisation’s normal rate and 100% and an organisation’s normal rate plus 20 percentage points) and a set emergency works rate of 70% (the overall average emergency works funding assistance rate over the last few years).
- 25 The discussion document also seeks feedback on whether we should have a maximum emergency works funding assistance rate (so that approved organisations have sufficient ‘skin in the game’ to give appropriate consideration to seeking efficiencies and value for money in how they, and their contractors, undertake emergency works) and, if so, what that maximum rate should be.

NLTF investment eligibility and funding assistance rates for Waitangi National Trust and Department of Conservation carriageways

- 26 We are proposing that the two private Waitangi National Trust carriageways that provide the main access to the Treaty House, Meeting House and William Hobson Memorial at Waitangi (Tau Henare Drive and the Hobson Memorial Loop Road) should continue to receive funding from the National Land Transport Fund.
- 27 The discussion document includes two options for funding assistance rates for those carriageways – (1) 100% (the current rate) to recognise the unique place of the Waitangi treaty grounds in New Zealand’s history and culture; and (2) the overall NLTF co-investment rate.
- 28 We are also proposing that the sections of Department of Conservation carriageway that should be eligible for funding from the NLTF are specific identified carriageways managed by the Department that are:
 - principally used to convey the public to and from the start of a recreation/tourism area and do not primarily serve activities undertaken on a commercial basis, or by clubs or similar groups,

(where the Department can address carriageway costs through licence conditions and levies); and/or

- legal local roads that the Department of Conservation is managing with the agreement of the relevant local authority.
- 29 It is likely that six of the 11 Department of Conservation carriageways that currently receive NLTF funding would remain eligible under this proposal. It would be open to the Transport Agency and the Department of Conservation to reach agreement in future that further specific identified carriageways that meet the criteria above would become eligible for funding from the NLTF. In considering whether or not additional carriageways should become eligible for funding from the NLTF the Transport Agency would need to consider the potential impact of that on the NLTF's ability to continue to fund the rest of the land transport network.
- 30 We are also looking for feedback on two options for setting the funding assistance rates for eligible Department of Conservation carriageways, either (1) the overall NLTF co-investment rate would apply to all eligible carriageways; or (2) for each eligible carriageway, the Department would receive the same funding assistance rate as the territorial authority of the district in which the carriageway is located. (This would potentially facilitate joint management of those carriageways with the surrounding local roads.)

Transition arrangements

- 31 In the discussion document we are presenting three options for transitioning in any changes to funding assistance rates that result from this review:
- transitioning in the changes over a set period of time e.g. 3 years, 6 years (i.e. two National Land Transport Fund investment periods), 9 years (three investment periods) or 10 years
 - no approved organisation's funding assistance rate decreasing by more than 2% from their overall effective funding assistance rate for the previous financial year (once the effects of any

- special/bespoke arrangements, emergency works funding and targeted enhanced funding assistance rates have been excluded)
- a combination of the above.
- 32 In the discussion document, we make it clear that where the Transport Agency has made a binding commitment to fund a particular identified activity at a specified funding assistance rate for a defined period, or to fund a particular project or phase of a project at a specified funding assistance rate, it would honour those commitments.
- ## Risks
- 33 We have considered risks to both the development of a successful framework, and to our relationship with local government (at both a macro and micro level), as we have this conversation over the next few months.
- 34 A key risk is that a significant number of councils may perceive the framework to be unreasonable or inappropriate either because:
- they perceive it to be too complicated
 - they consider it does not appropriately deal with specific activities such as emergency works, local authorities' road safety education activities, or roads within their areas that they consider should be treated as a special case (e.g. the existing special purpose roads)
 - the rates that it produces are completely unacceptable to them.
- This also has the potential to impact on our wider relationship with our local government partners.
- 35 Having a transparent and two-staged review process has been important in managing this risk. The first stage gave local authorities time to digest the advantages and disadvantages of the various high level approaches we could have taken to setting funding assistance rates, and to understand

what we are trying to achieve from a New Zealand wide perspective. This second stage will give them an opportunity to really engage in solving the issues with us and understand exactly how we need to go about implementing the framework. This is an opportunity for them to understand and debate, both amongst themselves and with us, the compromises and trade-offs that need to be made to achieve the optimal funding assistance rates system.

- 36 At a micro level, some councils are likely to be impacted by this more than others because their rates will change to a greater extent, or in a different way, than they would have under the status quo. These may be the councils that have special purpose roads, or in recent years have received a significant amount of emergency works funding for works arising from reasonably common events. At a regional council level, we are also conscious of the need to understand the impact of any changes to the rates for public transport activities. We have already begun, and will continue, to have one on one discussion with individual councils as the next few months play out to understand and talk through the issues directly.
- 37 In addition, there is a risk that the role of funding assistance rates in the wider context of planning and investing for transport outcomes will be misunderstood, particularly the distinction between:
 - the decisions we make about what land transport activities, and what standard of activity, we will invest in
 - how we ‘split the bill’ (funding assistance rates).This risk is increased because we are also engaging in related conversations with the sector around the One Network Road Classification and 2015/18 NLTP. It will be important that the communications for all these initiatives are joined up and clear on the connections.
- 38 Finally, there is a communication and media risk that when the discussion document is released, the indicative rates are mis-interpreted by some as the final rates that councils will receive. Care

will be taken in how we message the engagement opportunity for this stage, and communicate it to our regional offices, who will talk directly with councils.

Next steps

- 39 We intend to release the discussion document for public consultation prior to Christmas 2013, with the consultation period running until 3 March 2014.
- 40 We will come back to you at the May 2014 Board meeting to seek your approval of final methods for setting and applying funding assistance rates going forward.
- 41 This Board paper will be placed on our website when the discussion document is released for public consultation.

Attachment

- 42 There are two attachments to this paper:
 - 1) Figures showing how we have modelled (and indicative funding assistance rates for) three of the options for councils' funding assistance rates - Options 1, 3 and 5
 - 2) The draft Funding Assistance Rates Review Options Discussion Document

Attachment - Current modelling and indicative council rates - Options 1, 3 and 5

Figure 1A – Option 1 NZDep-2006 50% overall NLTF co-investment rate

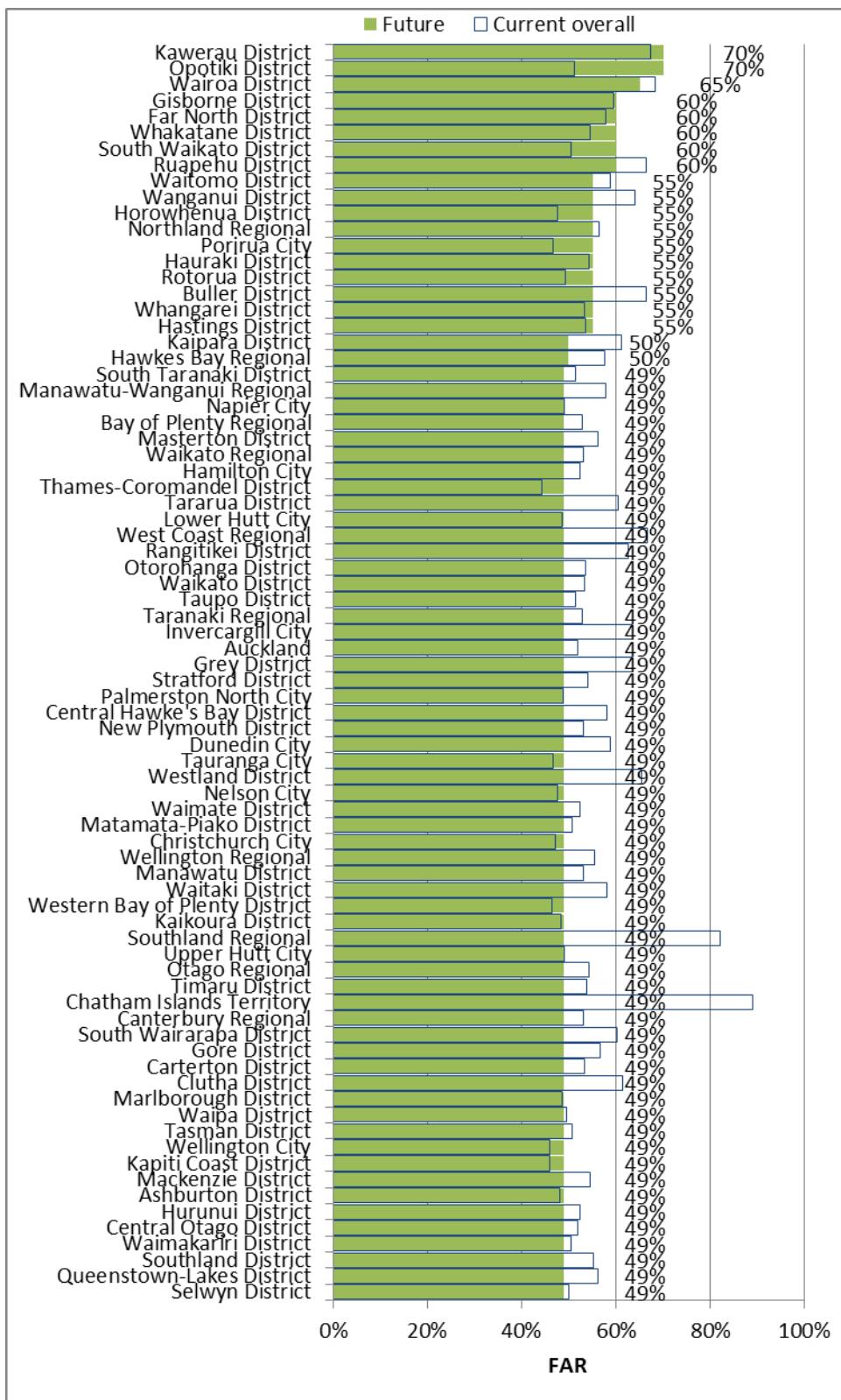


Figure 1B – Option 1 NZDep-2006 53% overall NLTF co-investment rate

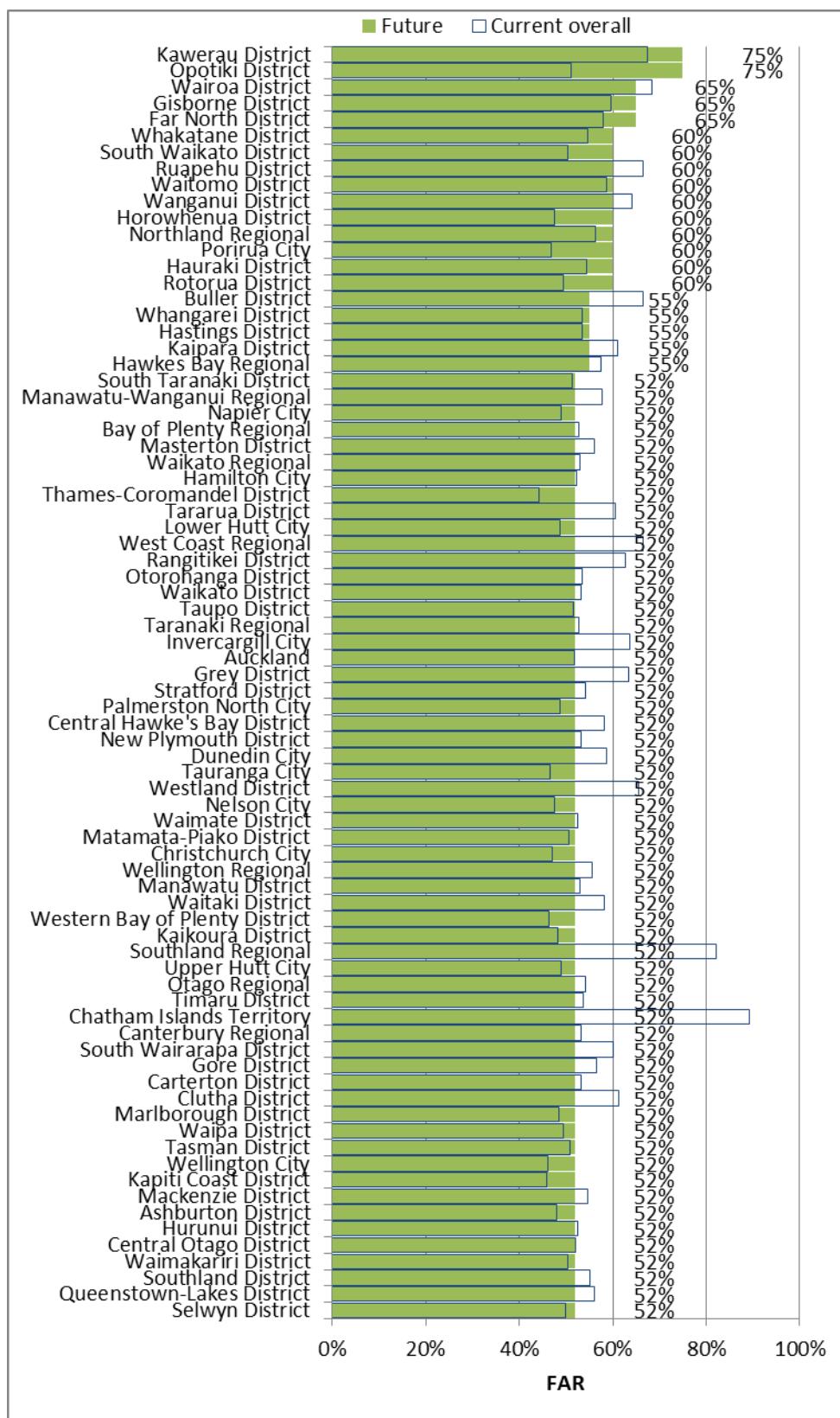


Figure 2A – Option 3 - 50% overall NLTF co-investment rate NZDep_2006 and capital value/number of rating assessments

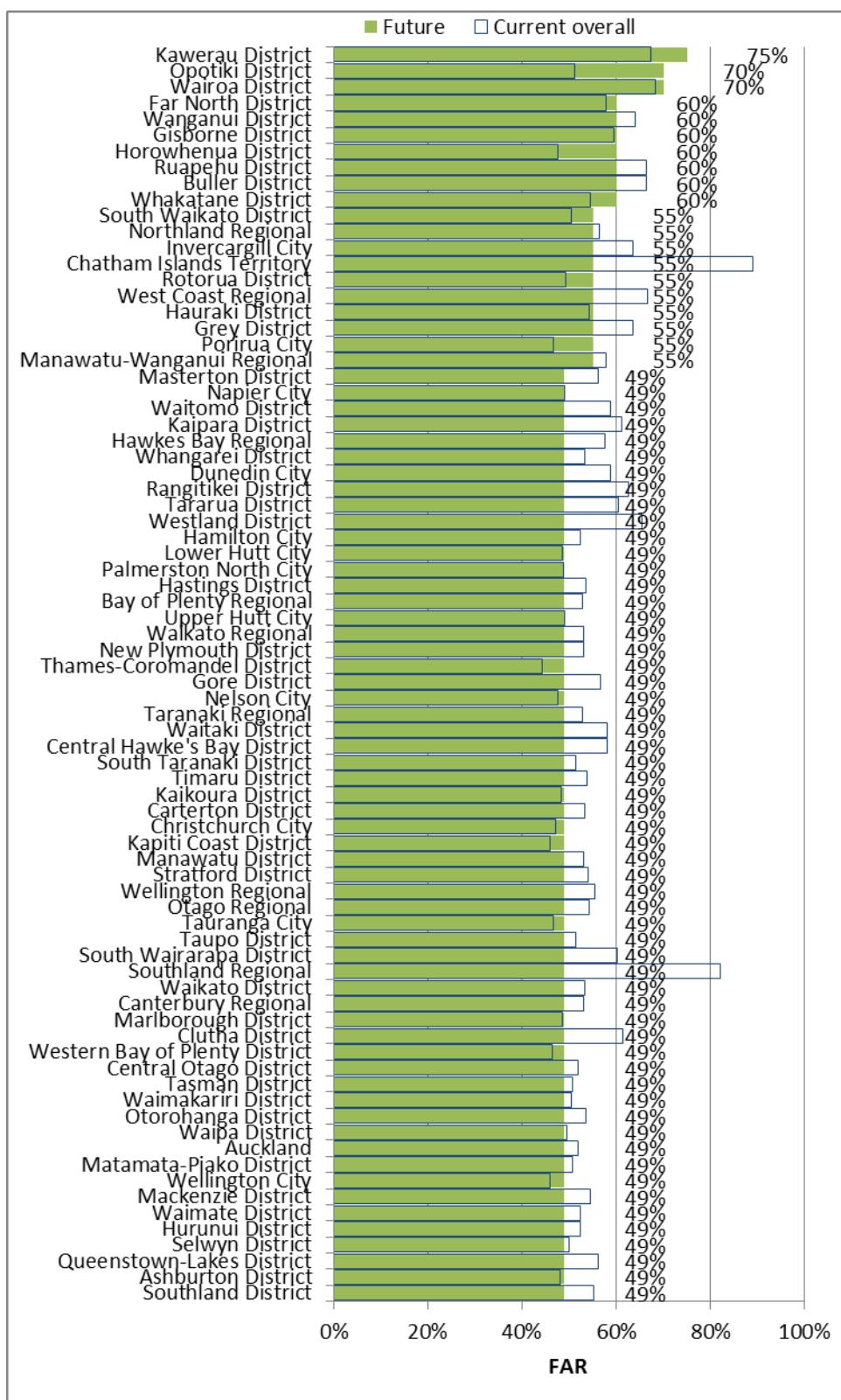


Figure 2B – Option 3 - 53% overall NLTF co-investment rate NZDep_2006 and capital value/number of rating assessments

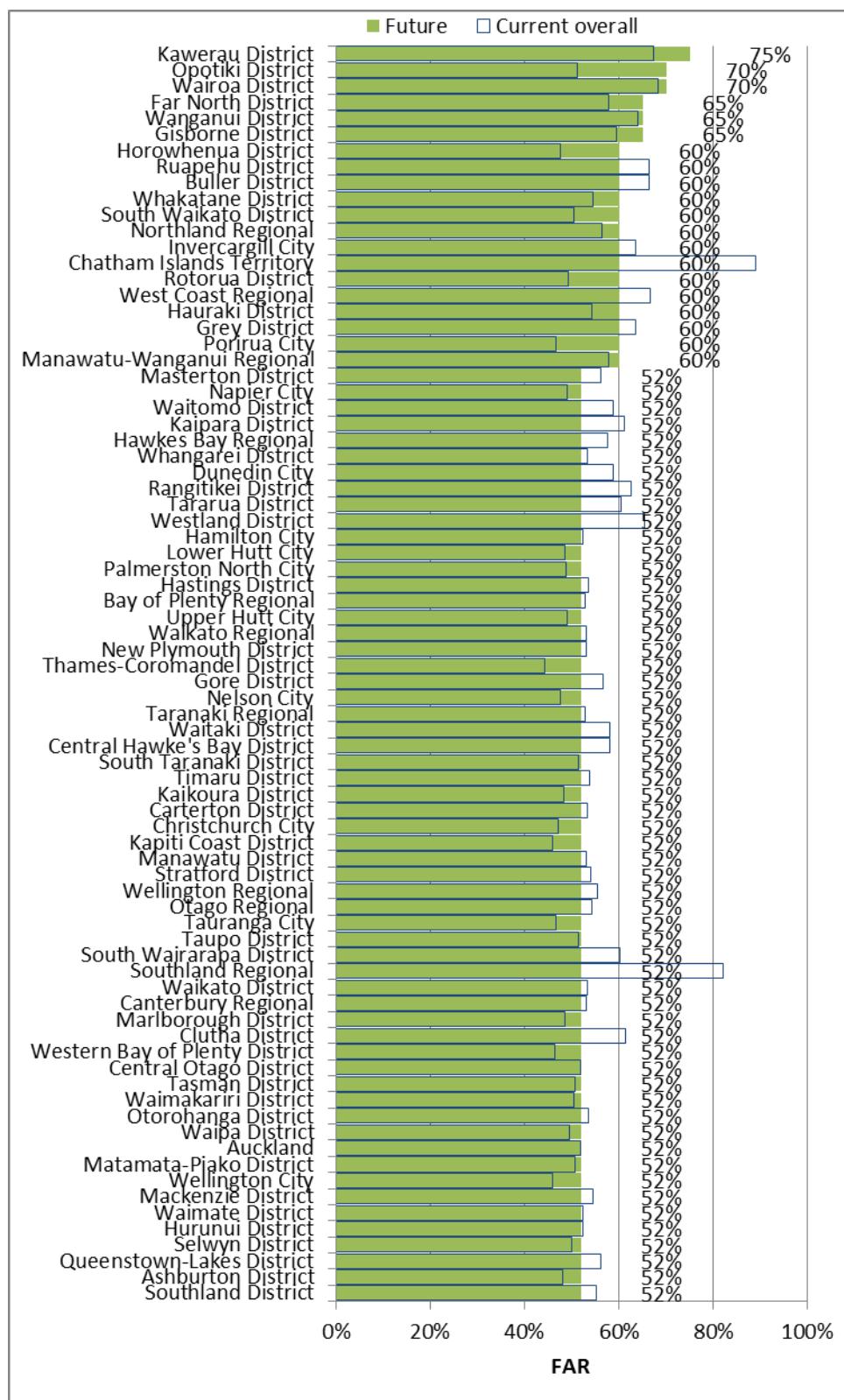


Figure 3A – Option 5 50% overall NLTF co-investment rate, NZDep_2006 and lane kms local road/net equalised rateable capital land value

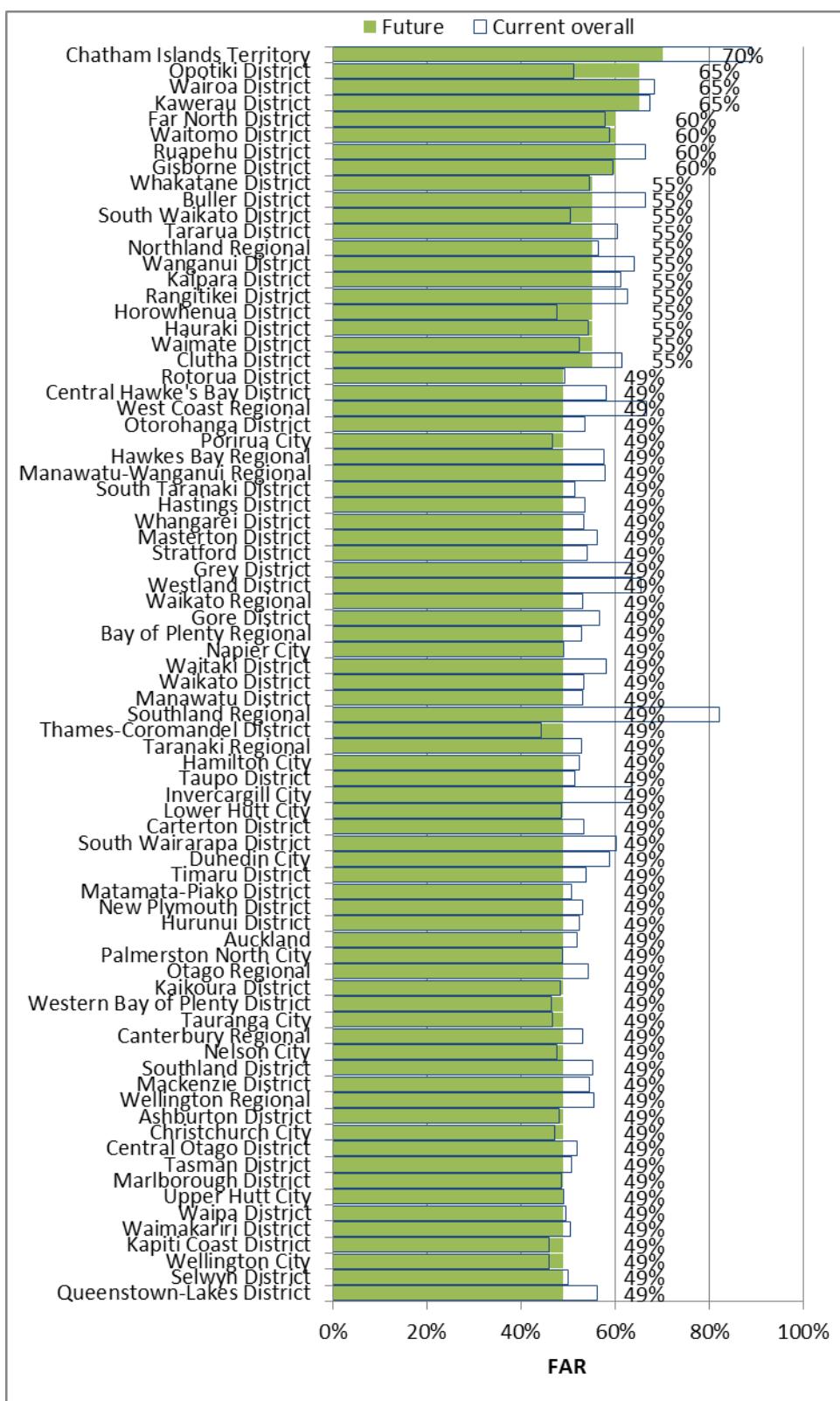


Figure 3B – Option 5 53% overall NLTF co-investment rate, NZDep_2006 and lane kms local road/net equalised rateable capital land value

