

Funding assistance rates (FAR) review

Questions and answers

August 2013

The Provisional Funding Assistance Rates Framework

The Transport Agency has developed a provisional framework for how funding assistance rates could be set and applied going forward.

The next stages of this Review will involve developing an understanding of how this provisional framework might work in reality.

WHAT DOES THE PROVISIONAL FRAMEWORK PROPOSE?

Under the provisional framework:

- There would be a set overall National Land Transport Fund co-investment rate that determined what proportion of the overall costs of delivering eligible land transport activities across New Zealand would be met from the National Land Transport Fund.
- Some approved organisations would receive a funding assistance rate that was above this overall co-investment rate to take into account factors which materially affect their ability to deliver land transport outcomes. Consequently other approved organisations would receive a funding assistance rate that was below the overall co-investment rate.
- Targeted enhanced funding assistance rates could be used in exceptional circumstances and for time-limited periods.

Other significant differences from the current funding assistance rates system include:

- An approved organisation would have the same funding assistance rate for all of the different land transport activities it undertakes that are eligible for funding from the National Land Transport Fund (other than where targeted enhanced funding assistance rates were used and, possibly, for emergency works).
- It would be more explicit that National Land Transport Fund revenue would only be used towards delivering land transport activities to fit for purpose standards.

HOW WOULD WE TAKE DIFFERENCES BETWEEN AOS INTO ACCOUNT?

Under the provisional framework, while every approved organisation would have the same funding assistance rate across all of its eligible land transport activities, not all approved organisations would have the same funding assistance rate as each other.

We recognise that there are factors that materially affect some approved organisations' ability to:

- Deliver optimal land transport outcomes, and
- Contribute to the delivery of an integrated and appropriately consistent network throughout the country.

However, there is only so much National Land Transport revenue available for approved organisations' activities. This means, if some approved organisations receive a funding assistance rate that is higher than the overall NLTF co-investment rate then other approved organisations would need to receive a rate that is lower than the overall NLTF co-investment rate.



During the next stages of the review we will be investigating:

- What factors materially affect some approved organisations' ability to deliver land transport outcomes,
- Which of those factors are outside of the control of both the relevant approved organisations and their local communities, and
- Whether or not there is readily accessible and reliable data that can be used to measure those factors and take them into account when setting funding assistance rates.

The aim of this investigation will be to identify:

- Which approved organisations should receive a higher funding assistance rate, and
- How much higher their funding assistance rates should be.

MY REGIONAL COUNCIL MAINLY FUNDS PUBLIC TRANSPORT - WHY CHANGE FROM A FLAT 50% FAR?

We recognise that for most regional councils the most significant activity for which they receive investment from the National Land Transport Fund is public transport.

Currently the funding assistance rate for public transport is at (or transitioning to) a flat 50%.

However, regional councils also undertake other land transport activities such as Total Mobility Services, land transport planning and road safety promotion - which currently receive different funding assistance rates.

By removing the different funding assistance rates for different activities we want to send the signal that both the Transport Agency and approved organisations need to think in terms of an integrated land transport network and to invest in whatever types of activities are the optimal places to invest to address the particular issues they are dealing with. Sometimes this will be the provision of more frequent public transport services, but sometimes it may be road safety promotion or an activity undertaken by a territorial authority (such as capital improvements to a bus lane).

As part of the next stage of the review we will be considering whether there are factors which materially affect some regional councils' ability to deliver land transport outcomes.

WHAT DOES 'FIT FOR PURPOSE' MEAN?

The provisional framework would take us a step further along the direction the Transport Agency has already been heading, by making it more explicit that National Land Transport Fund revenue would only be used for the costs of undertaking or maintaining a land transport activity to achieve fit for purpose standards.

What those standards are would be determined by the function of the relevant part of the land transport network, and the appropriate customer levels of service for different parts of the network.

If an approved organisation wanted to undertake or maintain an activity to a higher standard it could do so. However, the Transport Agency would only fund up to the National Land Transport Fund share of the costs of delivering that activity to fit for purpose standards.

If, in order to meet the wishes of its community, an approved organisation wanted to deliver or maintain an activity to higher standards it could.

However, any additional cost to achieve the higher standards would need to be covered entirely by the local community.

There are initiatives currently underway to improve the certainty and transparency around what customer levels of service and fit for purpose standards are appropriate - e.g. the One Network Road Classification.

WHAT'S THE APPROPRIATE SPLIT OF COSTS (FOR THE PROPOSED OVERALL NLTF CO-INVESTMENT RATE)?

Currently across the country as a whole the National Land Transport Fund meets 50% of the cost of normal local road maintenance, operations and renewals and 50% of the cost of most public transport activities.

However, with different funding assistance rates for different activities being added over the years, currently, there is no clear overall cost split between the direct land transport users who provide the revenue for the Fund and local communities.

In the next stages of the review we will work out what that overall split could be - we are currently calling this the "overall NLTF co-investment rate".

Setting an overall NLTF co-investment rate would help provide planning certainty to both approved organisations and the Transport Agency and help the land transport funding system to remain stable over time.

WHAT WOULD MY ORGANISATION'S FUNDING ASSISTANCE RATE BE UNDER THE PROVISIONAL FRAMEWORK?

It's still too early to say. We won't be able to answer this question until we know:

- What the 'overall NLTF co-investment rate' would be
- Which approved organisations would receive funding assistance rates that are higher than the overall NLTF co-investment rate
- How much higher than that overall NLTF co-investment rate their funding assistance rates would be
- Consequently, how much lower other approved organisations' funding assistance rates would be.
- How we would transition in any changes to individual approved organisations' funding assistance rates.

We want to work with approved organisations and other stakeholders in sorting out these issues. We also want to work with you to determine how funding assistance rates for emergency works should be set going forward.

WHAT HAPPENS NEXT?

The next stages of this review will involve developing an understanding of how this provisional framework might work in reality. In particular we will be looking at what the overall co-investment rate should be, what material differences might impact on this rate, how emergency works funding assistance rates should be set and what individual transition requirements might be needed.

To help inform this process we will be having a range of discussions with stakeholders across the country between now and next February. The focus of discussions over September and October will be at the technical level to help shape up options. We'll then move to a more structured consultation starting in November.

WERE THE SUBMISSIONS MADE ON THE FUNDING ASSISTANCE RATES REVIEW DISCUSSION DOCUMENT TAKEN INTO ACCOUNT IN DEVELOPING THE PROVISIONAL FRAMEWORK?

All submissions received on the Discussion Document were carefully reviewed and taken into account in developing the provisional framework.

There is a document available on our website (at www.nzta.govt.nz/far) which explains how the submissions made on the Discussion Document influenced the development of the framework.

WHAT IS WRONG WITH THE STATUS QUO?

Because this is a first principles review the first thing we did following the close of the first round of consultation is work out what the role of funding assistance rates is today and what principles should sit behind how they are set and applied. We then looked at whether the status quo was consistent with that role and those principles. We found that in a number of ways it isn't.

In particular:

- Overall the status quo is not based on a clear policy decision as to what the overall split of costs between direct land transport system users and local communities (land users/property owners) should be.
- The wide range of different funding assistance rates that exist for different activities under the status quo, and the very high funding assistance rates that apply to some activities, are likely to work against value for money/optimal land transport outcomes being achieved.
- It is unclear whether the differences between approved organisations currently taken into account in setting funding assistance rates are differences which materially affect some approved organisations' ability to deliver land transport outcomes. This is something we specifically want to look at in the next stage of the review.
- Because there has been a lack of a shared understanding of what funding assistance rates can, and should, seek to achieve the certainty of the system has been adversely affected by different components being added to the funding assistance rates system, or amended, at different times to seek to achieve different policy objectives.
- Most of the individual components of the current funding assistance rates system are, in themselves, reasonably efficient to apply. However, having so many different funding assistance rates applying to different activities means the system as a whole is less efficient to apply. Time spent seeking to ensure that activities are funded under the correct funding assistance rate creates cost (and uncertainty).
- Some of the metrics currently used to distinguish between approved organisations are not particularly reliable bases for calculating funding assistance rates in that they are based upon matters such as:
 - The outcomes of negotiations on the size of an approved organisation's approved maintenance, operations and renewals programme, and
 - Local authority decisions on how they will levy general rates, rather than reliable objective data.

Background to the Review

WHAT ARE FUNDING ASSISTANCE RATES (FARS)?

Whenever a land transport activity, such as a local road maintenance programme or a public transport service, is approved for funding from the National Land Transport Fund the proportion of the approved costs of that activity that will come from the Fund is determined by the relevant funding assistance rate (FAR).

Section 20C of the Land Transport Management Act 2003 requires the Transport Agency to set funding assistance rates. In doing that the Transport Agency must act in accordance with any criteria set by the Minister of Transport. The Minister can, but is not required to, set such criteria.

WHY IS THE TRANSPORT AGENCY DOING THIS REVIEW?

The problem or opportunity the funding assistance rates review was set up to address was that the Transport Agency was not confident that the way funding assistance rates are currently set and applied is still valid and appropriate given the statutory and strategic policy settings which exist now. This lack of confidence had arisen because the main bases of the current funding assistance rates system were set up a long time ago under statutory frameworks and policy settings that no longer exist. As a public body exercising a statutory function involving the distribution of large amounts of public money, it is extremely important that we are confident that the way funding assistance rates are set and applied is appropriate today.

Also, at least prior to the current review commencing, there was a very uneven level of understanding within the Transport Agency, approved organisations and the wider transport sector as to why the current funding assistance rates system is set up the way that it is and what it is, and is not, seeking to achieve. This has contributed to the current funding assistance rates system being made up of a number of different components, with those different components seeking to achieve different policy objectives.

It has also led to dissatisfaction within a number of local authorities with the funding assistance rates that apply to their organisation. This dissatisfaction was evident from the negative feedback received from stakeholders by Transport Agency staff, and adverse comments made by stakeholders in the media (particularly around the time when the Base funding assistance rates for local road operations, maintenance and renewals were last reset). In response to this negative feedback the Transport Agency agreed to undertake the current review.

WHAT DOES THIS REVIEW COVER?

The funding assistance rates for the following land transport activities are within the scope of this review:

- The operation, maintenance and renewal of local roads.
- The construction of new local roads and improvements to existing local roads.
- Emergency works to local roads.
- Transport planning, road safety promotion, and network user information.
- The operation, maintenance and renewal of, and improvements to, special purpose roads.
- Public transport services (including Total Mobility Services) and public transport infrastructure.
- Walking and cycling.

WHAT IS NOT COVERED BY THE REVIEW?

The following things are outside the scope of the review:

- The overall amount of money available from the National Land Transport Fund.
- How much of the Fund can be spent on different types of land transport activities (activity classes) - the funding ranges for different activity classes are set by the Government Policy Statement on Land Transport Funding.
- How the Transport Agency determines whether or not, and when, a particular land transport activity should receive funding from the Fund.

- Farebox recovery rates – the percentage of the costs of passenger transport which are met by passenger fares. Farebox recovery rates are being looked at in a separate Transport Agency review.
- 100% funding of operational expenses and capital expenditure in relation to state highways from the National Land Transport Fund
- The funding of road policing and the Transport Agency Research Programme.

WILL THIS REVIEW AFFECT THE FUNDING ASSISTANCE RATES FOR CURRENT PROJECTS?

Where the Transport Agency has already formally approved a particular land transport activity, or a phase of a particular land transport activity, for funding from the National Land Transport Fund that commitment will not be changed as part of the review.

WILL THIS REVIEW MEAN THAT MORE MONEY IS AVAILABLE FOR ROADS OF NATIONAL SIGNIFICANCE?

No. How much of the revenue in the National Land Transport Fund is available for improvements to State highways (including the Roads of National Significance) and how much revenue in that Fund is available for local road maintenance, operations and renewals or improvements to local roads and other activities undertaken by local authorities is determined by the funding ranges for different activities specified in the Government Policy Statement on Land Transport Funding. It is not determined by what the funding assistance rates for different activities are.

How to get more information

Talk to your regional Planning and Investment contact, visit www.nzta.govt.nz/far or contact the Project Leader Clare Sinnott via email clare.sinnott@nzta.govt.nz or Ph 04 894 6487.