



APPENDIX ONE

Submission to: New Zealand Transport Agency

Purpose: Funding Assistance Rates Review
Options Discussion Document

From: Wellington City Council

Date: March 2014

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1. Executive Summary

Wellington City Council (WCC) is concerned about the potential implications of the proposed changes to the FAR system. In simple terms they will result in more money for the metropolitan and urban areas, and less money for rural communities. This will negatively impact on the integrity of the national transport network. In addition the country's export productivity base is undermined.

What is lacking from NZTA's discussion is clarity around the broader strategic outcomes it is seeking to achieve. These broader strategic outcomes are a recognition that transport is an enabler and not an end in itself.

Wellington City stands to benefit from all of the options being considered however the Council does not believe that this should be at the expense of other councils receiving a reduced FAR if this impacts on the integrity of the transport network.

A balance needs to be achieved between economic, social and environmental outcomes while ensuring that those using the network receive a consistent service across the country. This means servicing the needs of those, primarily rural, districts that are responsible for the majority of the country's export earnings while also delivering a network that responds to congestion and safety issues in our metropolitan regions.

Wellington City Council has taken a whole of network approach and seeks changes to the provisional framework to protect the integrity of the network. In doing so the Council is prepared to sacrifice potential gains in funding.

2. Introduction

WCC believes the current FAR model is well suited to its purpose and that the perceived problems with the model are related to the ad hoc variability applied to 'Base Rates' by the New Zealand Transport Agency (NZTA) for which there is little rationale.

In the Council's view NZTA has failed to take into account the overall mechanisms and interdependencies of land transport funding. WCC believes that the right outcome will only be achieved by considering the whole network funding allocation model and that this should be taken into account by NZTA in conjunction with the Council's specific comments on the Provisional FAR Framework.

WCC is concerned about the potential implications of the proposed changes to the FAR system. In simple terms they will result in more money for the metropolitan and urban areas, and less money for rural communities. This will negatively impact on the integrity of the national transport network. In addition the country's export productivity base is undermined.

3. Funding Assistance Rate Principles

Set out in Table 1 is a comparison of the principles agreed by the councils in the Wellington region against those included in NZTA’s provisional FAR framework.

Table 1 - Principles

| Wellington Region Councils | NZTA |
|--|---|
| Recognises the impact on local government affordability and the limits on increasing local funding share from rates | |
| Provide funding certainty and stability to AOs to support long term investment decisions, asset management planning, and the ongoing maintenance and operation of the land transport network | Provide approved organisations and the NZ Transport Agency with as much investment certainty as practicable |
| Be simple and efficient to apply | Be efficient to apply |
| Support a whole of network approach to land transport, recognising the important contribution of both rural and urban transport networks to economic outcomes | Facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country 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. |
| Facilitate social and environmental responsibility in land transport outcomes | A responsible transport system addresses the potential harms of that system, including environmental and health impacts. |
| Be transparent | Ensure that if there are variations to how funding assistance rates are set or applied to address outliers or exceptions this is done transparently. |
| Based on clearly identified principles and accessible and reliable evidence/data | Be based on evidence and data that is readily accessible and reliable. |
| Recognises the contribution made to land transport funding by AOs and reflects a partnership model between them and NZTA | Appropriately split the costs of the NZ land transport network between direct land transport system users and local communities recognising that each of those groups affects, and benefits from, that network. |

While there are areas of commonality, NZTA fails to explicitly recognise the ‘*contribution of rural and urban transport networks to economic outcomes*’ in

its proposed principles on the basis that ‘all of these form part of an integrated network’. WCC continues to seek inclusion of this point in the final set of principles.

With regard to ‘*recognising the impact on local government affordability and the limits on increasing local funding share from rates*’ NZTA notes in its summary of how submissions were taken into account, that the framework a) recognises the FARs role in supporting local government to achieve optimal land transport outcomes within their combined financial resources and b) acknowledges that there are factors that affect some Approved Organisations (AO) ability to deliver optimal outcomes. Nonetheless, Wellington City Council believes the principles should explicitly acknowledge these points.

What is lacking from NZTA’s discussion is clarity around the broader strategic outcomes it is seeking to achieve. These broader strategic outcomes are a recognition that transport is an enabler and not an end in itself.

4. The Provisional Funding Assistance Rates Framework

As noted in its May 2013 submission, the Council is concerned that the review has been undertaken in response to general dissatisfaction being expressed by some councils, rather than NZTA defining what problem the review is intending to address. The Council’s assessment is that the FAR system is not fundamentally flawed. Rather, it is the ad hoc manner in which Base Rates have been applied, the basis of which is not well understood by the sector, which has corrupted the integrity of the FAR. The solution, in our view, requires clarity about the principles upon which funding decisions are made, and applying these transparently, rather than imposing a wholesale change to the funding regime.

Council’s key issues on each aspect of the provisional FAR framework are discussed below:

4.1 One rate for each Approved Organisation

This mirrors the current FAR formula. The important issue is what and how the FAR rate is set for each AO, and what are the implications for the broader transport network.

4.2 Overall NLTF Co-investment Rate

4.2.1 Rate Range

This mirrors the current FAR formula in so far as the minimum Base Rate would be 50%. It is difficult to take a view on the optimal rate without knowing the full consequences of setting a Base Rate higher than 50%. For example, will setting the Base Rate at 53% mean that councils will be required to fund emergency works out of this Base Rate? What other activities currently funded at higher than the respective individual Base Rates would reduce? It appears as though Special Purpose Roads, currently funded at 100%, would be one casualty.

4.3 Factors materially affecting delivery – how should Councils' FAR be set?

4.3.1 Assessment of approaches for setting and applying the FAR

In its May 2013 submission, WCC assessed the approaches considered by NZTA for setting and applying the FAR against the principles agreed by the Wellington region councils. Of the eight options considered most were found by WCC to be either mostly inconsistent, or completely inconsistent, with those principles. The approaches that WCC considered were mostly consistent with the principles were the 'Flat' Approach and the 'Differences' Approach. The Council notes NZTA's inclusion of elements of both approaches in the provisional framework.

In contrast to WCC's view, NZTA believes that the status quo is not consistent with the principles in the provisional framework. WCC contends that NZTA's reasons for drawing these conclusions do not reflect faults in the current FAR model but are a result of the ad hoc manner in which Base Rates have been applied, the basis of which is not well understood by the sector, and the lack of clear policy direction and set of principles against which funding decisions are made.

WCC considers that the current FAR system is mostly consistent with the principles agreed by the Wellington councils, because it provides funding certainty and takes account of affordability while not favouring urban or rural communities.

4.3.2 Bands

The proposal is to group local authorities into bands as a means of avoiding similar councils ending up with a FAR that vary even though they experience similar difficulties in raising their local share of costs. This would be different to the current approach for setting base FAR for maintenance and renewal activities under which NZTA set a separate FAR for each council and ignores the fact that no two councils are the same.

The Council is concerned that this is being done for the benefit of NZTA rather than from a customer's (AO) perspective.

4.3.3 Metrics for taking into account councils' relative ability to raise local share

This mirrors the current FAR formula which uses a proxy for ability to pay. In its discussion of the options, NZTA notes that options 2 and 4 may not achieve the outcomes it is seeking. This suggests that, given the Council's view that option 1 is of limited use on its own, only options 3 and 5 are worthy of consideration.

To understand the impact of each of the options, WCC has looked at the rates for each of the councils in the Wellington region under each option, at a 50% and 53% overall NLTF co-investment rate. These are set out in Table 2 and illustrate that WCC's rates increase under each of the five options. In contrast the rates for all three rural councils within the Wellington region decrease, in some instances, quite significantly. Within the Wellington region, the inference is that urban communities are being favoured over rural communities, despite the important economic contribution they make.

This result is generally reflected across the country. Southland District, for example, which contributes significantly to the country's export earnings, increases its FAR only under option four at the 53% overall co-investment rate (it stays the same at a 50% rate). For all other options Southland District's share of the FAR decreases at both the 50 and 53% rate.

Table 2

| | A1 50% | A2 53% | B1 50% | B2 53% | C1 50% | C2 53% | D1 50% | D2 53% | E1 50% | E2 53% |
|-------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| PCC | 55 | 60 | 49 | 52 | 55 | 60 | 49 | 52 | 49 | 52 |
| KCDC | 49 | 52 | 49 | 52 | 49 | 52 | 52 | 52 | 49 | 52 |
| WCC | 49 | 52 | 49 | 52 | 49 | 52 | 49 | 52 | 49 | 52 |
| HCC | 49 | 52 | 49 | 52 | 49 | 52 | 49 | 52 | 49 | 52 |
| UHCC | 49 | 52 | 55 | 55 | 49 | 52 | 49 | 52 | 49 | 52 |
| MDC | 49 | 52 | 55 | 60 | 49 | 52 | 49 | 52 | 49 | 52 |
| GWRC | 49 | 52 | 49 | 52 | 49 | 52 | 49 | 52 | 49 | 52 |
| CDC | 49 | 52 | 49 | 52 | 49 | 52 | 49 | 52 | 49 | 52 |
| SWDC | 49 | 52 | 49 | 52 | 49 | 52 | 49 | 52 | 49 | 52 |

| |
|----------------------------|
| Current FAR increases |
| Current FAR decreases |
| Current FAR stays the same |

In addition to issues around the importance of the contribution of rural transport networks to economic outcomes, a key concern is how the reductions in FAR rates for some districts will impact on the integrity of the local and overall transport network. Like Wellington's rural communities and Southland District, Kawerau, Opotiki and Wairoa districts, three of the country's poorest rural districts according to the NZ index of deprivation, would receive a lower FAR under some, but not all, of the five options at both co-investment rates. This outcome fails to meet NZTA's proposed principles of providing 'an effective, efficient, safe, responsible and resilient transport system, which addresses environmental, and health impacts' or 'an integrated and appropriately consistent network throughout the country'.

NZTA has proposed **not** taking into account *differences in costs between councils*. WCC appreciates the challenges involved in considering cost differences when applying rates. Nonetheless the Council is also aware that in some instances the cost difference is material enough that it will create real difficulties for some councils to maintain the integrity of their local roads, which will impact negatively on the overall transport network.

4.3.4 Maximum FAR

In its models, NZTA has used a maximum normal FAR of 75%. It argues that if the FAR is too high the council would bear very little of the risk of over-investing in transport activities.

The council believes that the FAR should be applied according to need and agreed principles rather than imposing a maximum FAR.

4.4 Only Costs for Fit for Purpose Standards

WCC has a number of concerns about the potential for a gradual decline in the standard of roads in some areas as an inevitable result of a reduction in the FAR for some regions over time. Accordingly the council seeks clarification from NZTA about what customer levels are being proposed. This includes the possibility that sealed roads/streets could revert back to gravel.

4.5 Targeted enhanced rates

This mirrors the current FAR which has a 10% loading to encourage capital works. The potential remains for enhanced rates to be applied without a clear rationale.

5. Emergency Rates

WCC believes that elevated emergency works funding should be applied to all weather related events including heavy rainfall, gale force winds, flooding, snow and ice; earthquakes and land instability events.

In the Council's view, the best method for determining whether or not an event is 'out of the ordinary' is a statement of principle. This should be related to the extent and consequences of damage and clean up costs which are not routine or budgeted for.

A return period and/or magnitude which may be below the specified event threshold, may not cover localised damages which could be significant and outside the normal budgets.

The emergency works FAR could either be set, or graduated. Emergency works generally cost more to reinstate and is unplanned expenditure which in our view central government is in a better position to fund. Alternatively the FAR could be applied to insurance premiums.

Rather than a maximum rate, the Council supports the current mechanism which varies the maximum based upon the size and number of emergency events that occur within a given period.

6. Transitioning

Any changes to the FAR should be signalled before the next round of Long Term Council Plans and the 2015-18 NLTP is prepared. Changes should be transitioned from the commencement of the 2015 funding cycle over a six year period.

7. System Integration and Funding Allocations

As noted in the May 2013 submission, much of the country's infrastructure is nearing the end of its life and WCC is concerned that the current focus on new capital comes at the expense of future maintenance need. The Council is also concerned that there is no national infrastructure management plan. WCC argues that if funding allocations do not reflect the real needs of the network, or an investment strategy that is optimised across the network, it will not deliver value for money.

In considering the strategic investment outcomes sought and the principle of cost sharing between rate-payers and land transport system users, the Council also believes NZTA should be reviewing the range of activities qualifying for funding assistance. In particular footpaths and cycle ways should be considered for funding assistance.

8. Conclusion

The key focus for the Council is the integrity of the transport network and how best to achieve the government's outcomes for land transport within constrained budgets. WCC believes the current FAR model is well suited to its purpose but that in reviewing the FAR, the right outcome will only be achieved by considering the whole network funding allocation model and that the State Highway funding allocation should not be excluded from the review.

Wellington City stands to benefit from all of the options being considered however the Council does not believe that this should be at the expense of other councils receiving a reduced FAR if this impacts on the integrity of the transport network.

A balance needs to be achieved between economic, social and environmental outcomes while ensuring that those using the network receive a consistent service across the country. This means servicing the needs of those, primarily rural, districts that are responsible for the majority of the country's export earnings while also delivering a network that responds to congestion and safety issues in our metropolitan regions.

Wellington City Council has taken a whole of network approach and seeks changes to the provisional framework to protect the integrity of the network. In doing so the Council is prepared to sacrifice potential gains in funding.

The Council also believes that the current terminology used by NZTA is unhelpful and suggests the name, the '*Funding Assistance Rate*' be replaced with '*Funding Share Rate*' to better reflect the share of costs, benefit and risks associated with each organisation contributing to the cost of the transport activity.