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## REPORT 8

### **SUBMISSION ON THE NEW ZEALAND TRANSPORT AGENCY'S REVIEW OF THE FINANCIAL ASSISTANCE RATE**

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#### **1. Purpose of report**

This report outlines the key matters raised in the Council's submission to the New Zealand Transport Agency's (NZTA) review of the Financial Assistance Rate (FAR). A draft copy of the Council's submission is attached as Appendix 1.

#### **2. Executive summary**

NZTA has undertaken a review of the FAR in response to concerns from some councils about the FAR system. 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 NZTA for which there is little rationale.

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.

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

### 3. Recommendations

Officers recommend that the Committee:

1. *Receive the information.*
2. *Approve the attached submission on NZTA's FAR Options Discussion Document.*

### 4. Background

The FAR determines how much of a land transport activity, approved for funding from the National Land Transport Fund, will be funded by NZTA through the Fund. Councils pay the rest. NZTA has undertaken a review of the FAR in response to concerns from some councils about the FAR system.

Wellington City Council responded to NZTA's discussion document in May 2013. An options discussion document, which took into consideration feedback received, was released by NZTA in December 2013. NZTA is now seeking submissions on its provisional FAR Framework.

#### 4.1 Current FAR Model

The formula used by NZTA to determine each council's FAR is:

$FAR = K_1 + K_2 \log_{10} (P/LV)$  where:

- P = average investment in road activity (proxy for priority)
- LV = average land value within the district (proxy for ability to pay)
- K<sub>1</sub> = constant to ensure 50% national average
- K<sub>2</sub> = constant to ensure no council gets less than 43%

**Table 1: Current FAR Rates**

Maximum FAR	89% (Chatham Islands)
Maximum FAR	63% (rest of NZ)
Minimum FAR	43% (rest of NZ)
Wellington City Base FAR (for maintenance and operation of local roads)	44%
Carterton Base FAR	53%
Hutt City Base FAR	48%
Kapiti Coast Base FAR	43%
Masterton Base FAR	54%
Porirua Base Far Base FAR	44%
South Wairarapa Base FAR	49%
Upper Hutt Base FAR	46%

The FAR for new activities (the construction FAR) is 10% higher than the Base FAR.

Wellington City Council received just over \$11 million for maintenance and around \$14 million for new roads for the 2013/14 financial year.

**5. Discussion**

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 NZTA for which there is little rationale. This has corrupted the purity of the FAR system. Different FARs have been randomly applied to incentivise specific behaviours, for example the 10% loading to encourage capital works.

Despite Wellington City benefiting under each of NZTA’s proposed options, the Council believes strongly that a whole of network approach, recognising the important contribution of both rural and urban transport networks to economic outcomes, must be adopted.

**5.1 FAR Principles**

NZTA has developed a provisional FAR framework which is principles based. Table 2 compares the principles that have been developed by Wellington City Council in conjunction with its neighbouring councils, against NZTA’s proposed principles.

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 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.

**Table 2 - Principles**

<b>Wellington Region Councils</b>	<b>NZTA</b>
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	Provide approved organisations and the NZ Transport Agency with as much

decisions, asset management planning, and the ongoing maintenance and operation of the land transport network	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  (Based on clearly identified principles and accessible and reliable evidence/data)	Ensure that if there are variations to how funding assistance rates are set or applied to address outliers or exceptions this is done transparently.  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.

## 5.2 Provisional FAR Framework

NZTA has developed a provisional FAR Framework with the following key elements:

- One rate for each AO
- A set overall NLTF co-investment rate – the Base Rate - that determines what proportion of the overall costs of delivering transport activities would be met from the Fund
  - NZTA is seeking feedback on where in the range between 50 – 53% this should be
- Some AOs would receive a FAR that is above the overall rate to take into account factors which materially affect their ability to deliver transport outcomes, consequently some AOs would receive a lower rate – Base Rate varied on ability to pay

- NZTA has modelled five proxy options at 50% and 53%
- Only costs for fit for purpose standards
  - Customer service level approach, based on the 'One Network Road Classification' (ONRC) system which is currently being developed
- Targeted enhanced rates to facilitate an important activity from a national land transport perspective, or give a kick start to an AO to make a step change in levels of service
  - NLTP incentivised priorities

### **5.2.1 One rate**

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

### **5.2.2 Overall co-investment rate – the Base Rate**

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.

### **5.2.3 Base Rate varied on ability to pay**

This mirrors the current FAR formula which uses a proxy for ability to pay. NZTA has modelled the following five options for metrics that could be used to take into account differences in councils' ability to raise the local share of costs:

- Option 1 – a comparison of the relative wealth of each council's residents (based on the index of deprivation)
- Option 2 – a proxy for relative wealth and number of ratepayers (ratio of capital value to number of rating assessments)
- Option 3 – a proxy for the wealth of a council's ratepayers and its residents (a combination of 1 and 2)
- Option 4 – a proxy for the size of transport activities and relative wealth (ratio of lane kms of roads within the council's area to capital value)
- Option 5 – a proxy for transport activities and wealth, and levels of deprivation (a combination of 1 and 4)

To understand the impact of each of the options proposed by NZTA, WCC has looked at the FAR 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 3 and illustrate that Wellington City Council'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 3**

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

Current FAR increases	Current FAR stays the same
Current FAR decreases	

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 the Wellington region’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’.

**5.2.4 Fit for purpose**

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.

**5.2.5 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.

**5.3 Outcomes**

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. The implication of this is a negative impact on the integrity of the national transport network. In addition the country's export productivity base is undermined.

#### **5.4 Wellington City Council Position**

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.

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.

#### **5.5 Consultation and Engagement**

We have been working with the councils in the Wellington region and the wider local government sector on the review of the FAR since 2012.

#### **5.6 Financial considerations**

The contribution that WCC currently receives from NZTA through the FAR will not be reduced under the options being considered, and may increase.5.7 Climate change impacts and considerations

There are no specific climate change considerations related to the FAR review.

#### **5.8 Long-term plan considerations**

It is not envisaged that there will be any material reduction to the contribution that WCC currently receives from NZTA through the FAR. Under this scenario, planned land transport activities will remain unchanged in the LTP.

## **6. 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.

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.

Against this backdrop, WCC believes the current FAR model is well suited to its purpose and that the modifications proposed by NZTA provide no additional value in terms of outcomes.

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## SUPPORTING INFORMATION

### 1) Strategic fit / Strategic outcome

*The submission supports Council's overall vision of Wellington Towards 2040: Smart Capital. The submission reinforces the importance of strong transport links and access, and connections allowing for ease of movement of people and goods.*

### 2) LTP/Annual Plan reference and long term financial impact

*Transport is Strategy Area 2 in the LTP. Wellington City Council received over \$25 million for maintenance and new roads for the 2013/14 financial year.*

### 3) Treaty of Waitangi considerations

*There are no specific Treaty of Waitangi considerations related to the FAR review.*

### 4) Decision-making

*This is not a significant decision.*

### 5) Consultation

#### a) General consultation

#### b) Consultation with Maori

*We have been working with the councils in the Wellington region and the wider local government sector on the review of the FAR since 2012.*

### 6) Legal implications

*The review does not raise any specific legal implications.*

### 7) Consistency with existing policy

*This submission is consistent with the Transport Strategy 2006.*