Funding assistance rates (FAR) review

Background document

NZ TRANSPORT AGENCY
WAKA KOTAHI

Safer Journeys

New Zealand Government

OUR PURPOSE

CREATING TRANSPORT SOLUTIONS FOR A THRIVING NEW ZEALAND

NZ TRANSPORT AGENCY
WAKA KOTAHI

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Foreword

The NZTA is undertaking a comprehensive review of the general approach to setting funding assistance rates (FARs) for land transport activities.

FARs apply to the land transport activities of local authorities, Auckland Transport, the Department of Conservation and the Waitangi National Trust Board (approved organisations). If the NZTA approves a land transport activity undertaken by one of those organisations as qualifying for funding from the National Land Transport Fund (NLTF), the FAR determines the proportion of the approved costs of that activity that will be met from the NLTF.

The same general approach to setting FARs has been around a long time – with the current system essentially being established in the 1920s and the last significant changes being made in 1979/1980 (more than 30 years ago). We think it is time to ask whether the current approach is still valid.

We have an open mind as to whether or not the current approach to setting FARs should be changed, or if it was to be changed, what changes should be made.

THE AIM OF THIS DOCUMENT

To start the review, we have been looking at whether the factors that were relevant to FARs in the past still exist and whether there are new requirements or challenges that have to be met. For example, we know that we are now required by the Land Transport Management Act to give effect to the Government Policy Statement on Land Transport Funding (GPS) when setting FARs.

We have recorded the outcomes of this thinking in this background document. Our aim with this document is to help those with an interest in the FAR system to develop a shared understanding of how we got to where we are now and what the current requirements and challenges are.

NEXT STEPS

We have set up a reference group who can provide advice and test the thinking as the review progresses. This is a small group of people, largely from the local government sector. We will be providing this document to the reference group, as well as making it available to approved organisations and other stakeholders through our website.

We will be asking the reference group to provide advice in relation to what the role of FARs is, or should be today, and what principles and parameters should be applied in setting FARs.

Through the end of this year and the beginning of next year (2013) we will develop some options for setting FARs based on the outcomes of our engagement with the reference group and other stakeholders. In March to April 2013 we expect to publicly consult on the identified options. Details of the timeframes and response process will be set out in the consultation document.

From August 2013 onwards we will communicate the outcomes, reasoning and approach to setting FARs decided on as a result of the review and the likely FARs for individual approved organisations for the 2015–18 investment period.

We intend implementing any resulting changes to FARs in time for the development of the 2015–18 regional land transport programmes and the council long-term plans commencing 2015, to ensure that the outcomes can be reflected in the 2015–18 National Land Transport Programme.

STRUCTURE

The body of this document is divided into three sections.

The first section discusses the present day:

- How FARs fit into the current transport and local government funding systems.
- Some recent trends in spending on approved organisations' land transport activities.
- A brief look at how the equivalent activities are funded in some other countries.

The second section briefly looks at broad future trends and developments which might affect approved organisations, land transport activities and the funding of those activities. This section identifies challenges which are likely to continue, or arise, in the future.

The third section discusses the past:

- Why central government funding of land transport activities undertaken by local authorities (and other entities) was established.
- The factors that affected how the current FAR system developed.
- The principles that were applied in setting up the current system.

Finally this third section summarises some thinking on the following questions:

- Are the original factors and challenges which led to the development of the FAR system still present?
- Are there any other additional relevant factors or challenges which have developed over time, or are anticipated to arise in future, which were not present at the time the current FAR system was set up?

TERMINOLOGY

In this document the principles to be applied in setting FARs mean the fundamental reasoning or rationale that did, or should, sit behind the approach to setting FARs. The parameters for setting FARs mean the specific factors that are applied to determine the FAR for a particular activity undertaken by a particular approved organisation (for example, currently one of the parameters used in calculating a territorial authority's base FAR is the five-yearly averaged net equalised rateable land value for the relevant district).

To start the review, we have been looking at whether the factors that were relevant to FARs in the past still exist...

The present

HOW FARS FIT INTO THE LAND TRANSPORT FUNDING FRAMEWORK

As noted earlier in this document, FARs apply to the land transport activities of local authorities, Auckland Transport, the Department of Conservation and the Waitangi National Trust Board (approved organisations). If the NZTA approves a land transport activity undertaken by one of those organisations as qualifying for funding from the NLTF, the FAR determines the proportion of the approved costs of that activity that will be met from the NLTF.

Therefore, at the simplest level, the FAR determines the cost sharing between central and local government for a particular land transport activity.

When some people refer to funding assistance they include the NZTA decision to approve (or not approve) funding for a proposed land transport activity from the NLTF. Our current FAR review is only looking at how we use and set the funding assistance rate as a cost share for the funded activity.

The Land Transport Management Act

Under section 20C of the Land Transport Management Act 2003 (LTMA), the NZTA 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 FARs for specific activities such as community transport funds. Currently there are no ministerial criteria in relation to how the main or 'base' FARs for local authorities should be set.

Other parts of the LTMA prescribe how the NZTA operates and are also relevant to how we set FARs. Under the LTMA we are required to:

- give effect to the Government Policy Statement on Land Transport Funding (GPS)
- exhibit a sense of social and environmental responsibility
- use our revenue in a manner that seeks value for money
- ensure that our revenue and expenditure are accounted for in a transparent manner.

MAIN CATEGORIES OF FAR

The main core of the FAR system was designed to allocate NLTF revenue to local government for maintaining and operating local roads. This is the base FAR for local road maintenance, operations and renewals. Each approved organisation is given a base FAR, which determines the level of funding for most of its activities. Base FARs are currently calculated to ensure that the national overall average rate of assistance is 50%.

The current policy is to determine FARs according to the individual council's:

- need (using the size of its road maintenance programme as a proxy)
- ability to pay (using its rating base – rateable land values – as a proxy).

This base FAR policy is an equity model and means that councils with small rating bases but large roading networks receive higher base FARs than urban councils with large networks but higher land values. Base FARs generally range from 43% up to 65%. The Chatham Islands has a base FAR of 89% as a special case, while special purpose roads looked after by the Department of Conservation, the Waitangi National Trust Board and a few councils, have a FAR for maintenance, renewals and minor improvements of 95–100%.

It should be noted that:

- the majority of councils have a base FAR between 43% and 57%
- for maintenance the base FAR is applied to the road controlling authority's whole road network, not individual roads
- while the base FAR for large councils tend to be at the lower end, because they have larger roadwork programmes the amount of money they get allocated from the NLTF for their maintenance, operation and renewal programmes is much greater than for rural or provincial councils who have higher FARs.

Calculating the base FAR

The base FARs for approved organisations that are territorial authorities are reviewed every three years to coincide with, and apply to, the next National Land Transport Programme (NLTP). The policy for setting territorial authority FARs is based on setting a level of funding assistance that takes into account:

- the size of the authority's approved roading maintenance and renewals programme
- the net equalised land value (NELV) for the authority, which indicates the financial resource available to the authority through its ability to rate.

These factors are included in a formula that calculates the indicated base FAR for each territorial authority. The formula used for determining the indicative base FAR is:

*Base FAR = k1 + k2 * (log P/LV)*

- k1 and k2 are constants that are adjusted to ensure that the national average base FAR remains at 50%
- P = the approved local road maintenance and renewals programme for the territorial authority
- LV is the latest available five-yearly averaged net equalised land value of rateable land within the territorial authority.

The formula by which updated base FARs are determined has various features that dampen the impact of year–to-year variations, so that the base FARs are the result of sustained changes in land values or programmes rather than short-term deviations. This ensures that FARs change over time to reflect changing circumstances, but not to a degree that would create significant financial difficulty for councils. The overall average base FAR for local roads maintenance, operations and renewals programmes is targeted at 50%, while the minimum base FAR for any territorial authority is set at 43%.

The indicative base FAR is then moderated by a number of other factors. For more information on how this FAR is set refer to:

www.pikb.co.nz/home/nzta-investment-policy/determining-territorial-authority-base-and-construction-rates/

For a full list of current FAR rates refer to:

www.pikb.co.nz/home/the-way-we-work/nzta-funding-assistance-rate-tables/2012-15-funding-assistance-rates-for-approved-organisations-overview/

A different approach is taken for some activities – the most significant being the FAR of 50% that applies to passenger transport services for all approved organisations.

Some differential FARs were created with the aim of providing a financial incentive for local government to deliver particular activities. The most common for local government is the local road 'construction FAR' that provides an additional 10 percentage points over the base FAR for capital construction activities.

Under changes brought in over recent years the FAR for passenger rail services is due to reduce from 60% in 2011/12 to 50% over 10 years. This is to implement a metro rail operating model that is less reliant on the NLTF and to align it with the FARs for bus and ferry services.

THE GOVERNMENT POLICY STATEMENT ON LAND TRANSPORT FUNDING

The GPS is a direction setting document from the Minister of Transport enabled by the LTMA. The main role of the GPS is to define the government's desired impacts (ie contributions to objectives or outcomes) from investing the NLTF. It also contains definitions and funding ranges for activity classes which establish whether activities are eligible to receive funding from the NLTF and how much money from the NLTF can be spent on each activity class in any particular year.

THE NATIONAL LAND TRANSPORT PROGRAMME AND REGIONAL LAND TRANSPORT PROGRAMMES

We develop a National Land Transport Programme (NLTP) every three years to give effect to the GPS. To be included in the NLTP, land transport activities have to be:

- included in a regional land transport programme (and proposed for funding from the NLTF), or
- an activity that will be delivered nationally by the NZTA or the NZ Police.

Every three years a regional land transport programme (RLTP) is prepared for each regional council by the regional transport committee, or, in the case of Auckland, by Auckland Transport. The RLTP sets out a 10-year plan of works and outlines transport packages expected to be funded over the next three years, and the priorities for the region for the six years from the start of the RLTP. Individual approved organisations must have their proposed activities included in the RLTP to be considered for inclusion in the NLTP.

The FARs that will apply to various activities if they are approved for funding from the NLTF is one of the factors that needs to be taken into account by regional transport committees, Auckland Transport and the NZTA in preparing regional land transport programmes and the NLTP.

OUR INVESTMENT AND REVENUE STRATEGY AND PLANNING AND INVESTMENT PRINCIPLES

The Investment and Revenue Strategy (IRS) is the tool we use to ensure our investment decisions give effect to the GPS. It is also the tool we use to ensure our longer-term decisions and activities align with the direction in our strategies and to the government's longer-term outcomes for New Zealand, as stated in documents like the National Infrastructure Plan and the Safer Journeys Road Safety Strategy.

We have also developed some principles that we apply when making planning and investment decisions. Taken together, these principles provide a foundation for us and our partners to work toward developing transport solutions that give effect to the impacts sought under the GPS. The principles are:

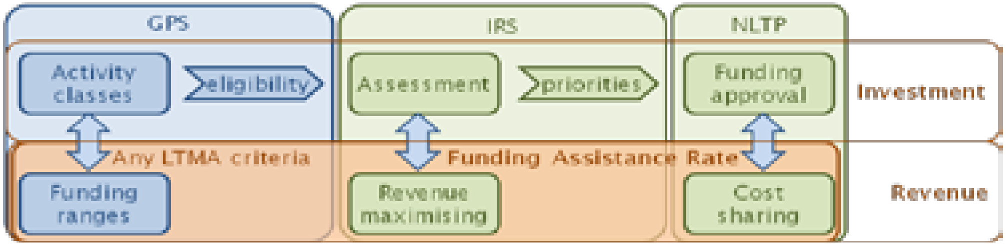
- a partnership approach to planning and investment
- outcomes focused and strategy led
- an integrated approach to land use and transport planning
- optimise the provision and use of the land transport network
- affordable and achieving value for money
- a Safe System approach
- working in a socially and environmentally responsible manner
- a risk based approach
- those who benefit from transport investment should pay.

Any decisions which we make as part of the FAR review will need to be consistent with the IRS and our planning and investment principles.

SUMMARY

How FARs fit into the land transport funding framework is illustrated in the following diagram.

Figure 1: Funding assistance rates within the funding system



HOW FARS FIT INTO THE LOCAL GOVERNMENT FUNDING SYSTEM

Local government essentially has five main sources of funds:

- Funding from ratepayers.
- Funds from central government, of which the NLTF is generally the largest contributor.
- Fees and charges for council services.
- Contributions from developers.
- Income from assets owned or partially owned, by the local authority, eg airport companies.

FARs are relevant to the amount of funding local authorities are potentially able to receive from central government as one of their main funding sources.

Local authorities are required to determine the appropriate funding sources in their long-term plans. Local authorities are also required to adopt a revenue and financing policy which sets out their policies in relation to what sources of funding they intend to use.

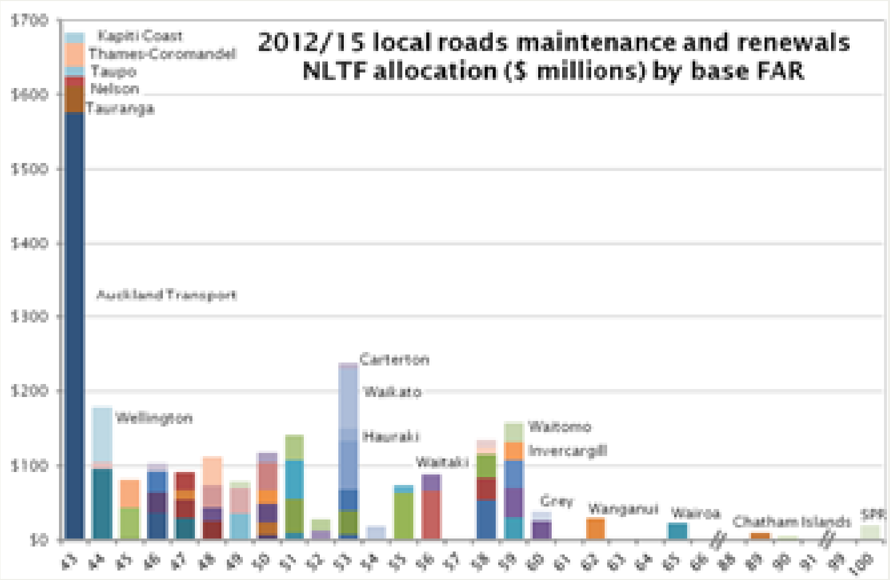
Any FAR changes need to fit with the timing of local government financial planning. We aim to conclude the FAR review in the third quarter of 2013 to allow local government to respond to any potential financial implications when preparing their long-term plans commencing 2015.

TRENDS IN LOCAL GOVERNMENT INCOME AND SPENDING ON TRANSPORT

Providing land transport infrastructure and services is a core function of local and regional government. Each year local government invest around $850 million of their 'local share' in local roads, walking and cycling, public transport and other land transport activities. In addition to activities part-funded from the NLTF, territorial authorities (city, district and unitary authorities) also fully fund some activities such as footpath maintenance and roadworks that do not qualify for funding assistance.

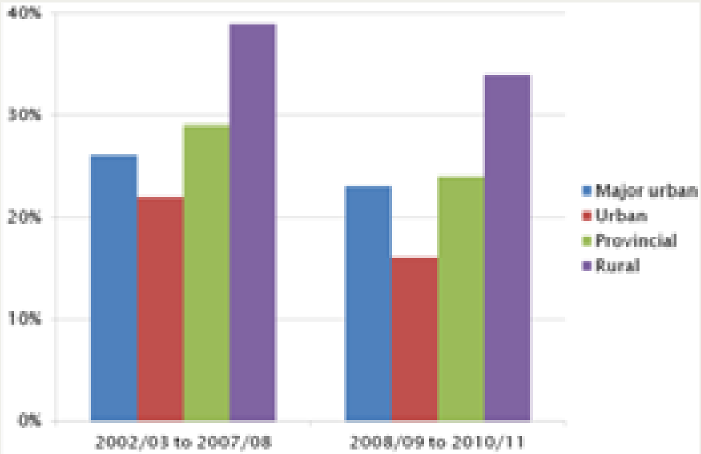
As such transport spending represents, on average, about a quarter of urban and a third of rural territorial authority spending overall (see figure 3). In the case of some rural local authorities the proportion of transport spending, including the funding assistance they receive from the NLTF, makes up an even larger proportion of their overall activity (see figure 4). Over the past nine years total local government spending on transport activities has remained relatively constant at 27% of total local government spending up until 2007/08. After that the amount reduced to 23% of total spending, as a result of both tougher economic conditions and reduced capital works by local authorities.

Figure 2: 2012–15 local roads maintenance & renewals NLTF allocations ($ million) by base FAR



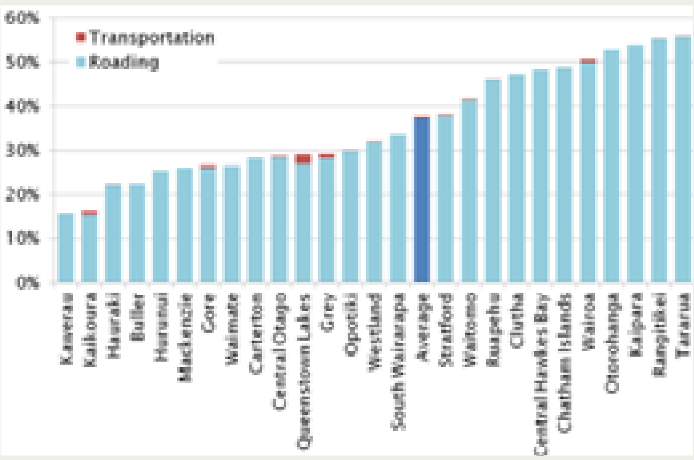
SPR=special purpose roads

Figure 3: Share of income spent on transport of total income by council type



The growth in the share of local authority income being spent on transport was above or at the rate of growth of total income up until 2007/08. This trend has generally reversed after 2008/09. Roading is the largest single financial commitment for rural councils, averaging 37% as a share of total rural council finances nationally over the period 2002/03 to 2010/11. Of 26 rural councils, five are devoting over 40% of their finances to roading and a further five are devoting over 50% (figure 4).

Figure 4: Rural council percentage of total income spent on transport 2002/03 to 2010/11 (Statistics NZ data)



WHAT HAPPENS IN OTHER COUNTRIES?

Most countries have some form of central government funding for regional and local roads. The arrangements in some countries which are similar to New Zealand are summarised below.

COUNTRY	GOVERNMENT BODIES (NUMBER)	NATIONAL FUNDS ALLOCATED THROUGH	COST SHARING FROM NATIONAL FUNDS
Australia	Commonwealth (1), state and territorial (6+2), local (560)	Various grants for road maintenance allocated by formulas for road length, population and historic funding level Various grants earmark funds for safety, or rural communities	No cost sharing as grants are paid as a capped contribution to costs
Canada	Commonwealth (1), provincial (5), municipalities (5,600)	Multiple funding allocations by population, needs, merit based from the Commonwealth to provinces for all infrastructure not just transport	Cost sharing for only one fund at 50 % maximum for maintenance in urban areas or 60 % to 2/3 for maintenance in rural areas
England	National (1), local (82), Transport for London	Allocations for maintenance, capital, services, potholes, and sustainability Maintenance allocation formula based on 9 variables including road length, number of bridges and size of street lighting stock Formula for capital has 25 variables including accidents, deprivation, congestion, environment and rurality	For maintenance no cost sharing as a fixed grant 90 % for capital schemes over £5m Local government to cover all cost variations Transport for London receives funding directly from central government
Japan	National (3), regional (6), prefectures (47), municipalities (1,804)	Formula to distribute various national revenue streams	2/3 to 70 % for improving national highways 50 % for improving other roads 50 to 55 % for maintaining national highways
United States	Federal (1), state (50)	Formula based on road length, vehicle miles and commercial vehicle miles in the state	Up to 90% for interstate highways Up to 80% for other highways

New Zealand is unique in the countries studied in having the NLTF, a fund that receives all of the revenue generated from certain land transport related sources (a 'hypothecated' fund) and using this dedicated fund to provide funding assistance to local government for land transport activities.

The cost-sharing arrangements identified in the countries above are generally maximum contributions from a national funding source. We are also unique in using a measure of ability to pay in determining the funding assistance provided to local authorities where other countries only consider measures of need.

Most significantly, New Zealand is unique in providing a funding assistance regime that seeks to provide local government with a reliable source of funding, which is calculated using an objective and transparent formula. The system is designed to provide both a degree of equity as well as the conditions for good asset management.

The future

Challenges for transport and transport funding into the future include:

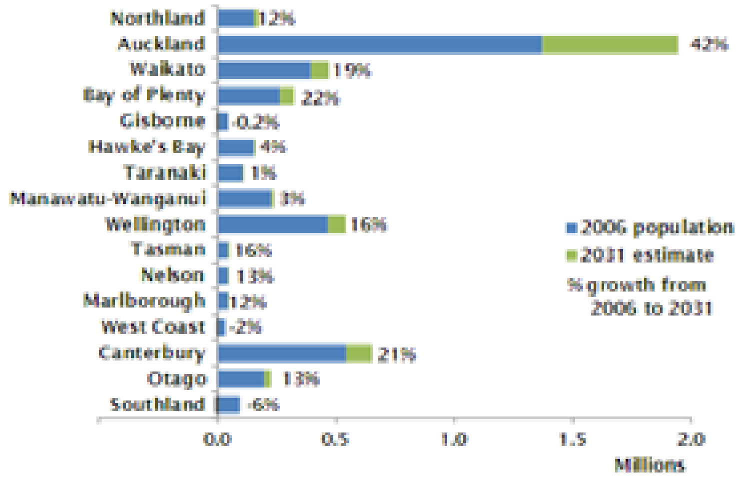
- our population is ageing
- people are changing where they live in New Zealand
- a lot of the existing infrastructure (transport, water supply, storm and waste water) is nearing the end of its life
- managing a fixed budget for approved organisations' land transport activities
- planning regionally but funding locally
- the need to strike an appropriate balance between providing certainty for approved organisations and being agile enough to respond to changes
- a greater proportion of the NLTF is being invested to improve state highways
- government is looking for more efficient ways of delivering services, including road maintenance services.

DEMOGRAPHICS

New Zealand is becoming increasingly urbanised with projected population growth concentrated in the major urban areas. Auckland dominates this projected population growth with a predicted 42% increase from 2006 to 2031 compared with the national average predicted increase of 23%. These growing urban areas face pressure to develop assets and services to meet population growth.

Movement away from rural and provincial areas is compounded by demographic change where the remaining residents are older and in general have less disposable income. The impact on FAR is that the existing proxy for ability to pay in the formula used for calculating FARs is based on land value and while home owners may have an appreciating asset, their disposable income after retirement may be limited.

Figure 5: Population growth projections (Statistics NZ data)



RENEWING AND REPLACING ASSETS

Ageing assets in all areas and sectors need to respond to the changing demographics and demands/needs. In areas of low growth decisions are required on replacing ageing assets with assets of a like or reduced standard. In areas of higher growth decisions are required on upgrading existing assets or providing new assets to handle growth.

MANAGING A FIXED NLTF BUDGET

The GPS fixes the funding ranges for activity classes and therefore the total amount of NLTF revenue available for funding assistance to local government (and other approved organisations). Any changes to FAR need to be accommodated within this fixed budget. The number of activities that can be approved for funding is dependent on the FAR within the total fixed activity class budget. Given this, if FARs were changed so that there was a greater than 50% overall average cost share from central government fewer activities would be able to be approved for funding, ie a higher FAR would mean that more money would be contributed from central government towards the cost of a particular activity but less would be available to invest in other activities.

THE LEVEL OF GOVERNMENT

The 2008 LTMA amendments made regions responsible for interfacing with central government for land transport planning. When it comes to funding activities the NLTP still deals with individual approved organisations, programmes and activities and applies the FAR at the local rather than regional level. This creates issues going forward because while the LTMA encourages transport planning at the regional level the NZTA deals with individual local authorities at the funding level and there can be large differences between the demographic and socio-economic makeup of individual districts within a single region.

STABLE OR RESPONSIVE

An issue that needs to be addressed is what approach to setting FARs strikes an appropriate balance between being stable and providing certainty for approved organizations and being agile enough to respond to changes – whether that be changes in the statutory regime the system participants work within, institutional changes (eg reorganisation of councils), or changes in government transport strategy and objectives.

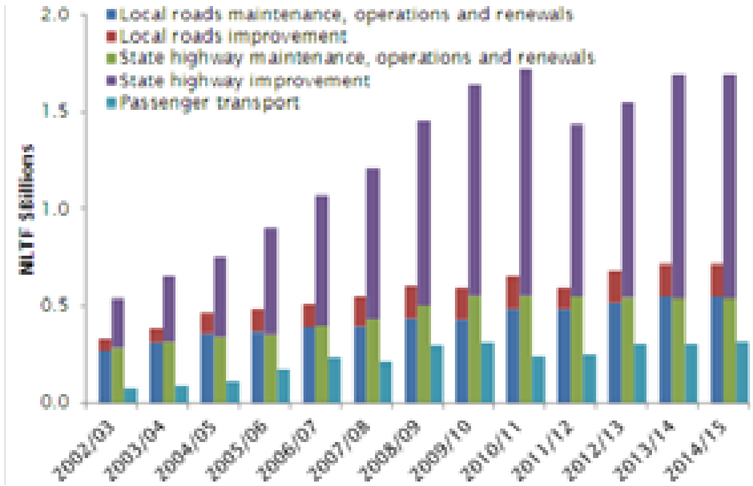
From 2007/08 to 2011/12 the base FAR was frozen. Before this, base FAR changes were made annually where the FAR was reset to maintain an overall average 50% contribution from the NLTF towards local road maintenance while recognising the changing size of individual programmes and ability to pay. The annual base FAR changes resulted in some approved organisations receiving an increased base FAR being balanced by others having a decrease in base FAR.

In the freeze period there was some perception that no winners or losers were created contrasting with the concerns raised about winners and losers being created when base FARs were changed. In reality this was not true. During the freeze period, rural land values were rising relatively faster than urban land values so that the relative ability to pay between urban and rural councils was becoming less differentiated. The councils that would have received a base FAR increase if the base FARs had been re-calculated using the current FAR formula were getting relatively poorer during this period because the FAR was not changed to reflect their reduced ability to pay.

MIX OF THE NLTP

The mix of investment of funds from the NLTP has changed, in accordance with the government direction, with a recent trend for a greater proportion of NLTF investment being spent on improving state highways. The level of investment towards local roads and state highway maintenance operations and renewals remains relatively constant in comparison.

Figure 6: Trends in the NLTP investment mix



LOCAL GOVERNMENT COLLABORATION

Central government has a focus on local government becoming more efficient in its delivery of services to business and households. The use of clustering and collaboration has been identified as one potential way of improving efficiency and an increasing number of shared services have been implemented in some areas of local government such as back office administrative functions of information technology. Core council services including waste, water and transport are also shared in some locations. Shared services have been used by a number of smaller councils to ensure that they have sufficient capability to perform their functions and by larger councils in seeking better efficiencies. Having different base FARs for the organisations involved is perceived as a barrier for collaboration and the sharing of road maintenance and operations.

ROAD MAINTENANCE TASK FORCE

In July 2011 the government established the Road Maintenance Task Force to drive value for money and seek opportunities to reduce costs for roading authorities around the country. The role of the task force was to identify opportunities for efficiencies in road maintenance and renewals and FAR was identified as one of the influencing factors.

To read more about the Road Maintenance Taskforce, see: www.nzta.govt.nz/resources/rmtf-report/

The past

THE ORIGINS OF THE FAR SYSTEM

New Zealand's current land transport funding arrangements, including FARs, have their origin in a series of policy and operational decisions made over the last 150 years. This section goes through how today's system evolved, what key principles were used to develop it and what the system was trying to achieve.

The early years

During the 19th century New Zealand had few formed roads, usually of a basic standard, which made up mostly isolated local networks. In this time most major settlements were connected to the rest of New Zealand by a port. The task of funding, building and maintaining roads was the responsibility of local authorities - boroughs, municipalities, roads boards and county councils. Because of this isolation, road construction and ongoing access was seen as being undertaken for the benefit of landowners. Roads allowed owners' land to be opened up, subdivided, developed, farmed, settled and sold. The cost of roads was, therefore, covered predominantly by landowners through rates and other direct charges.

In this time New Zealand had a large number of small local authorities that controlled relatively small, usually isolated, road networks. For many county councils maintaining, improving and extending the road network for the benefit of their ratepayers was their main function. However, with a small rating base the development of the road network was slow. As New Zealand's population and economy grew, so did the need for the road network to grow to provide the more direct access landowners needed to access markets, shops, community services and facilities.

EARLY MECHANISMS OF FINANCIAL ASSISTANCE

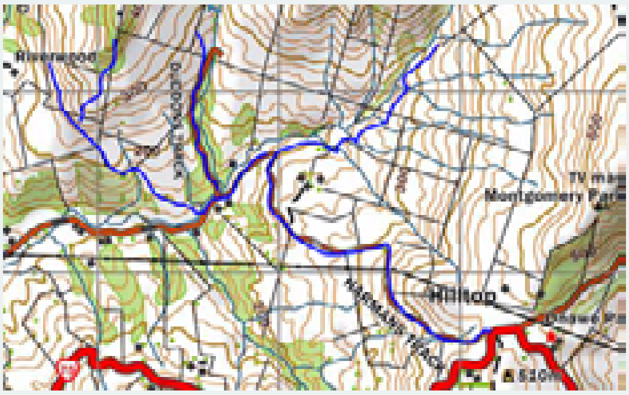
Recognising the need for a national land transport network to connect the country up, provincial and later central government focused on building the national railway network from the late 1860s and 1870s.
To speed the pace of land settlement and development locally, provincial and later central government developed mechanisms to financially assist local authorities with the cost of road building. This assistance was focused on road construction and provided in recognition of the financial constraints of local authorities, particularly those with small populations or those with large areas of non-rateable lands (such as Māori or Crown lands)[4].

INVESTING IN ECONOMIC GROWTH

At first this financial assistance began as one-off grants for construction, and the repair of extraordinary damage, primarily for 'main roads', being the principal local arterial routes. These grants were funded from the proceeds of the sale or lease of Crown lands. Effectively those buying or leasing these Crown lands later paid for the roads that allowed these lands to be accessed. Councils were required to meet a quarter of the costs of the works, either by providing a quarter of the funds upfront, or levying a special rate to pay back a quarter of the grant within 10 years[5]. The policy objectives of the legislation were to:

- assist local government with the significant cost of building new lengths of main roads, including the high cost of building bridges
- encourage economic growth through improved road access in order to encourage land settlement and open new areas up for farming and production, and
- improve the ongoing finances of local authorities by having more ratepayers settle within the area.

4 At the same time legislation was also passed to provide compensation to local authorities for non-rateable lands. See the Crown and Native Rating Act 1882.
5 Section 4, Roads and Bridges Construction Act 1882.



No roads to somewhere…

One of the reasons New Zealand has so many paper roads is that during the early years of land settlement, local and provincial government had insufficient resources to form these roads. Instead they were recorded on land surveys, to allow the sale process to proceed, with the intention that these roads would be formed later.

RATES SUBSIDIES AND PROTECTING THE CROWN'S INVESTMENT

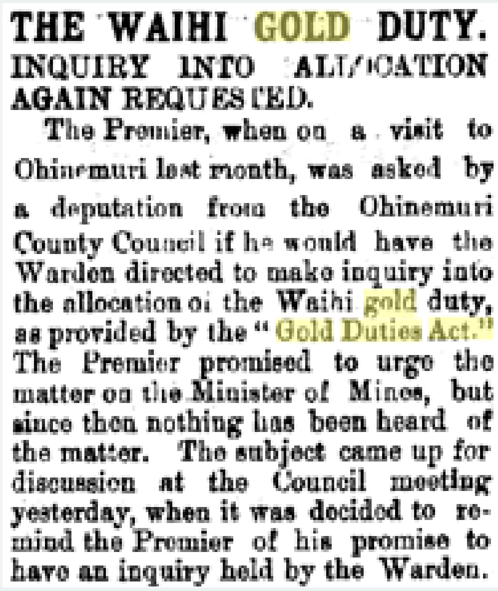
Along with providing one-off construction grants, the Crown also began providing subsidies to counties for the ongoing maintenance of the main roads. These were designed to provide funds to supplement councils' road budgets, but the aim of the policy was also to protect the roading network (and the previous Crown investment) from inadequate maintenance. From the late 1870s the Crown provided payments to both counties and boroughs. Originally for counties this subsidy was partially funded from general Crown funds and partly from the proceeds of local Crown land sales. These subsidies were set at twice the council's general rates. For borough councils the subsidies came entirely from general Crown funds and matched the general rates pound for pound.

To ensure this did not encourage councils to collect an unsustainably low level of rates, the amount of subsidy payable was capped at: £2,500 per annum for counties and £450 per annum for towns and boroughs[3]. This differential recognised both the length of the road network in county areas and their small rating bases when compared to towns. To prevent the subsidy encouraging councils to raise rates, no subsidy was provided for any rate struck over 75d (pence) in the £ (pound) of capital value, or 1s (shilling) in the £ of annual value.

Roads paved with gold….

Under section 2 of the Gold Duties Act of 1903, the Governor could by order distribute up to half the gold duty received by the government among local authorities having regard to the locality in which the gold was produced and 'the extent to which streets, roads and other public conveniences were used in connection with such production'. The mechanism for the distribution of these funds was not clearly set out which led to some local authority dissatisfaction.

Ohinemuri gazette, 2 June 1905, page 3



THE WAIHI GOLD DUTY.

INQUIRY INTO ALLOCATION AGAIN REQUESTED.

The Premier, when on a visit to Ohinemuri last month, was asked by a deputation from the Ohinemuri County Council if he would have the Warden directed to make inquiry into the allocation of the Waihi gold duty, as provided by the "Gold Duties Act." The Premier promised to urge the matter on the Minister of Mines, but since then nothing has been heard of the matter. The subject came up for discussion at the Council meeting yesterday, when it was decided to remind the Premier of his promise to have an inquiry held by the Warden.

[3] See the Appropriation Act 1908 s9 and Sixth Schedule section 89 of the Municipal Corporations Act 1900 and section 73 of the Municipal Corporations Act 1908

By 1908 these subsidies came entirely from general Crown funds. However, they were not considered to be very satisfactory for either local councils or the government. The Minister who oversaw their discontinuation in 1954 described them as 'a hopeless method of providing roading assistance to counties in the modern age'.[4] The Minister's main criticism was that the subsidy was not tied to any agreed programme of works or maintenance. The way the subsidy was calculated also encouraged larger counties to subdivide into smaller counties in order to collect the higher subsidy. The subsidy caps also provided a disincentive to councils that raised rates above the cut-off limits.

Main Highways Act 1922

Before the 1920s road traffic in New Zealand was made up mainly of pedestrians, horses, oxen or horse-drawn carts, carriages and bicycles. Most roads were not sealed (or even metalled), being mostly narrow gauge tracks made of clay. There was also no national road network, although there were increasingly extensive regional networks. Following the First World War there was a significant growth in motor vehicle traffic - motorcycles, cars and trucks. Traffic was not only becoming motorised, it was becoming heavier and travelled further. As a result there was strong demand from motorists, farmers and industry for better quality roads that did not damage the vehicle, provided quicker more reliable travel, and allowed for travel over greater distances. It was recognised by central government that meeting these needs was beyond the capability and capacity of local authorities at that time.

To cope with the significant increase in motor-vehicle traffic the government established the Main Highways Board in 1924. The Main Highways Board provided financial assistance for some 6000 miles of important roads that were declared 'main highways'. These highways were lengthy routes that linked together counties and boroughs (but stopped at the boundary of boroughs). Initially main highway construction costs were shared 50/50 between the Board and local authorities, and the Board subsidised maintenance and repairs of main highways by a third.[5] The Board could also subsidise the maintenance and repair of any street within a borough that was a continuation of a main highway at the same rate as it subsidised the adjoining main highway.[6] Most local roads remained the full responsibility of local authorities.

Tolling main roads...

During the 1910s and 1920s both local and central government experimented with different revenue gathering models to fund the growing roading network. Along with rates and driver licence fees (which local authorities collected at the time), local authorities looked to tolls to fund main roads. The growing interest in tolling schemes reflected the frustration of local councils having to provide for main roads that carried inter-district traffic. While tolls were attractive to ratepayers, they created considerable opposition from motorists and industry. (Pictured below: map, with dots showing proposed toll booths in Taranaki in 1921.)

The Board was not required to pay financial assistance in relation to main highways unless the construction or maintenance work complied with standards fixed by the Board[7]. In setting standards the Board was supported by the staff of the Department of Public Works and the work on the ground was undertaken by the councils. A key goal of the Board was to develop a continuous network of main roads around New Zealand that were

4 Hon W.S. Goosman, 'Roads, Statement of Policy', AJHR, D-5, 1954, p.7

5 See sections 14 and 15 of the Main Highways Act

6 See section 23 of the Main Highways Act 1922

7 See section 20 of the Main Highways Act 1922

built and maintained to set standards to provide a common, and appropriate, level of service. This would connect districts together and provide consistent road access and levels of service across the country.

ROAD FUNDING ARRANGEMENTS TAKE SHAPE

The increasing motorisation of traffic also provided new revenue opportunities and a partial shift in who met the cost of main roads. The Minister of the time stated:

'The increase of motor-cars, and particularly of heavy motor-lorries, in New Zealand, with its resultant wear-and-tear on the roads, had made it evident that further income must be derived from some source other than the pockets of ratepayers, and the decision of the Government that the user of the road should pay a larger proportion.'[8]

In 1927 the Motor-spirits Taxation Act imposed a fuel tax of 4d per gallon; 92% (less administration and refunds) went into the Main Highways Revenue Fund. Lawmakers in Wellington saw the establishment of the tax as a way of providing revenue for the growing network of main highways from those using it, particularly those whose trips traversed the boundaries of a number of local authorities. The Minister of Public Works stated in 1928:

'I wish it to be clearly understood that the whole of the money derived from the motor-spirits taxation was not intended for further road-improvement, but a considerable proportion of it was intended for, and must be devoted to, the relief of county ratepayers'[9].

The Board determined the level of financial assistance, and therefore the relative contribution of local authorities, at its own discretion. This assistance was provided on the basis of need and ability to pay, such as in areas that main highways passed through that were sparsely populated. A higher level of assistance was also provided to counties that were opening up new land for settlement, as an upfront investment in order to promote economic growth. The Minister commented:

'Every care is taken by the department to ensure that such (maintenance) assistance is recommended only in cases where it is definitely proved that the finances of the (road) controlling authority are inadequate...[10]'

The legislation stipulated that 8% of the 6d in the gallon collected (less administration and refunds) went to borough councils with a population of 6000 or over. That money was required to be spent primarily on streets through a borough which formed a 'continuation of a main highway'[11]. The amount provided to the boroughs was determined by the Minister and 'the decision of the said Minister [was] final'.[12] The amounts paid had to be comparable between boroughs, based on their population and on a rate per mile no more than that paid on the adjoining main highway.

[8] Hon K.S Williams, 'Public Works Statement', AJHR, 1928, D-1, p.5

[9] AJHR, 1928, D-1, p.5

[10] AJHR, 1928, D-1, p.16

[11] See section 10 of the Motor-spirits Taxation Act 1927

[12] See section 9(3) of the Motor-spirits Taxation Act 1927

In search of charges from road users...

The Crown also looked at possible sources for transport funding and during the 1920s made use of tyre (including inner tube!) taxes, vehicle registration fees (based on the vehicle type), heavy traffic fees (paid to the local authority where the trucks were garaged), and mileage tax (on diesel vehicles). These charges were generally unpopular with users, with heavy transport operators particularly unhappy at differential vehicle licensing fees. In 1927 the government passed the Motor-spirits Taxation Act. This provided a more predictable and steady stream of revenue from road users who, along with landowners, directly benefited from the roading network.

Road construction between Wellsford and Te Hana. c. 1920s. Photographer unidentified. Ref: PACoII-6181-41, Alexander Turnbull Library.

The Board also had other equity principles of revenue distribution to adhere to. As the Board was also partly funded from custom duties on rubber tyres and motor vehicle licence fees, it was required to distribute that part of its funding between the North Island and the South Island according to the number of vehicles in use in each island.[13] Along with part-funding main roads (and some roads in boroughs) under the Main Highways Act, the Crown continued the rates subsidies, although from 1930 until 1947 the subsidies were paid for out of the Main Highways Revenue Fund rather than general Crown funds[14].

ESTABLISHMENT OF STATE HIGHWAYS

From 1936 the Board could classify all or part of a main highway as a 'state highway'. The costs of construction and maintenance of state highways were fully funded by central government (except where local authorities wanted the Board to undertake work on a state highway which was to a higher standard than the Board would otherwise have undertaken when the local authority could be required to pay the additional cost)[15] . The Board also decided to contribute 75% of the cost of maintenance and construction of the remaining 'main roads'[16].

[13] See section 21 of the Main Highways Act 1922

[14] See section 37 of the Finance Act 1930 and Schedule 1 of the Finance (No.2) Act 1947

[15] See sections 4 and 5 of the Main Highways Amendment Act 1936

[16] Roads – Statement of Policy', AJHR, 1954, p.5

National Roads Act 1953

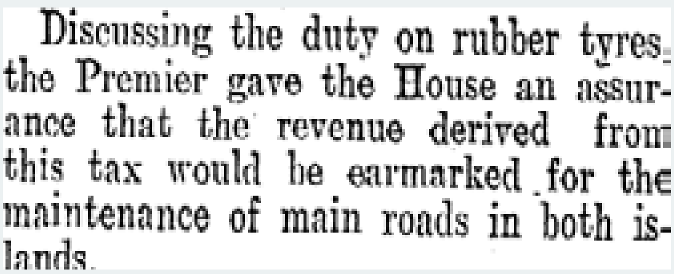
In 1954 the National Roads Board and National Roads Fund were established to oversee investment in the road system from a national perspective with the intention of providing an equitable, transparent and cost effective way of funding the increasingly national road network. The previous rates subsidies provided to local authorities were ended.

Some of the problems the new system was designed to address included that under the old system of grants and rates subsidies some councils received such a high level of financial assistance that they spent little of their own ratepayer funds on their roads. Other councils, however, spent a considerable portion of their general rates on the road network. The 1953 legislation was, in the words of the then Minister of Works, designed to 'ensure a more equitable distribution of moneys paid by the motorist'.

The old system was also seen as having failed to encourage appropriate asset management with some councils under-maintaining their roads due to ongoing affordability problems, war-time rationing or poor asset management. The intention was that the Fund would provide the different components of the transport network with a steady, reliable source of funding[17] and a road network that provided appropriate and consistent levels of service. The Hon W.S. Goosman the Minister of Works stated:

'Under the new administration there will be an all-out attack on potholes, and poor roads will be made good roads before good roads are made better.'

[17] See section 23(9) of the National Roads Act 1953


Discussing the duty on rubber tyres, the Premier gave the House an assurance that the revenue derived from this tax would be earmarked for the maintenance of main roads in both islands.

Hawera & Normanby Star, 3 December 1921, page 4.

Small and many...

In 1876 New Zealand established county councils. These were based on the boundaries of the old road boards and had a core function of maintaining, improving and extending the local road network. In 1882 the Road Boards Act divided the country into road districts, each governed by a road board. Initially there were 319 boards; this reduced to 209 in 1907 and 59 in 1922, as the county councils took over road boards.

By 1966 New Zealand had in terms of road controlling authorities:

County councils	115
City and borough councils	144
Town councils (independent)	14
Town councils (dependent)	9
Road boards	3
Total	275

Plus the National Roads Board

DISTRIBUTION OF FUNDING TO LOCAL AUTHORITIES

Under the National Roads Act 1953 the National Roads Fund was allocated according to fixed amounts with the Board having discretion as to how it distributed any remaining funds.

Initially the fixed amounts were:

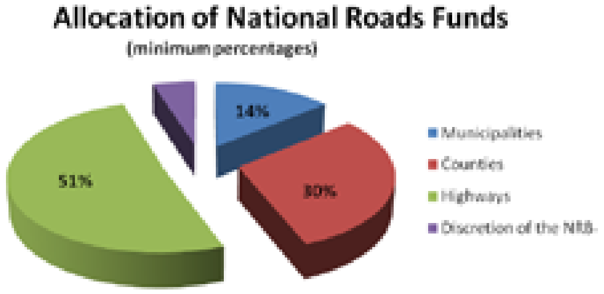
- for boroughs with populations 6,000 or greater, a rate of 22 shillings per person
- for boroughs or town districts (that were not part of a county) with populations less than 6000, a rate of 15s per person
- with the total of the subsidies paid to boroughs or town districts (not located within a county) not to exceed 10% of the money received into the fund in the relevant year
- for counties a rate of 8s for each pound of general rates and special roading purposes rates with the total of the subsidies paid to counties not to exceed 12% of the money received into the Fund in the relevant year
- for main highways that were not state highways, at least ¾ (75%) of the cost of construction and maintenance.
- for state highways, 100% of the cost of construction and maintenance (unless a local authority wanted work done to a higher standard in which case it would meet the additional costs).

With any remaining funds, the Board could pay any local authority such additional financial assistance as it thought justified, with regard to:

- other commitments of the fund and the local authority
- the financial position of the local authority
- the nature and urgency of the work and of other roading works requiring expenditure by the local authority in that financial year
- any additional cost of construction or maintenance that was caused wholly or in part by traffic related to a particular industry
- the length or special costs of any bridge
- any other consideration the Board regarded as relevant.

NATIONAL ROADS AMENDMENT ACT 1959

The system in operation today was largely created with the National Roads Amendment Act 1959. The 1959 act eliminated 'main highways', with some becoming state highways and most others becoming local roads.



The National Roads Board was also able to declare roads a 'subsidised highway' (later a 'special purpose road'). These subsidised highways were mostly in tourist and conservation areas, often in sparsely populated counties where there were significant constraints on the counties' ability to raise revenue through rates. To compensate for this these roads received such additional financial assistance that the Board deemed was required.

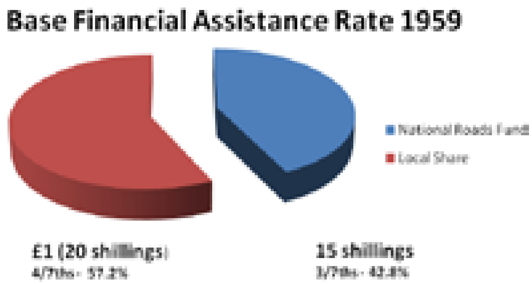
The other main change was that financial assistance was no longer provided by way of a rates subsidy but determined by the actual approved roading expenditure incurred by the local authority. National Road Fund expenditure was also allocated according to fixed, legislated percentages being:

- not less than 30% for counties
- not less than 14% for municipalities
- not less than 51% for state highways (which were fully funded)
- leaving 5% to be spent at the discretion of the National Roads Board.

BASE RATES AND THE 3/7THS RULE

Along with determining how the National Roads Fund would be divided up between road classes, the 1959 amendments also set the rate at which local authorities would receive financial assistance. The share of financial assistance from the fund was allocated on the basis of 15 shillings being paid for every pound (being 20 shillings) spent by a local authority. This equated to 3/7ths of the total amount spent (15 shillings out of 35 shillings) or 42.8%. In addition to this base financial assistance rate the National Roads Board continued to be able to make grants, depending on the specific circumstances, from whatever funds remained. Most road construction projects were funded on this basis, depending on the circumstances of the project and the finances of the council.

In 1980 the system was further reformed to make the setting of FARs more objective



and open to scrutiny. Maintenance was still funded at at least 43% (rounded up from 42.8%) - being 75c for every dollar spent by the local authority on its approved roading programme accepted by the Board for that financial year.) However, some local authorities continued to receive additional financial assistance beyond the proscribed 43% minimum.

Notably the Board adopted a formula to provide a consistent method of assessing a council's base financial assistance rate. This formula used the total cost of the approved local authority road programme (excluding loans and bridge and construction projects) as the relative measure of the local authority's 'need' for money and the average net equalised land value for the local authority's area as the relative measure of the financial resources available to the local authority.[18]

URBAN PUBLIC TRANSPORT

In 1980 the Urban Transport Council was set up. One of its functions was to give financial assistance (from money appropriated by Parliament for the purpose) to local authorities to fund urban transport services – including buses, rail services, harbour-ferries, and tramways.

[18] Scoping Study of Transfund Financial Assistance Rates, Working Paper No. 1: Historical Basis for Current Financial Assistance for Local Roads, Allan Kennaird Consulting Ltd, 12 February 2003, page 7

The financial assistance could either be a grant of money or a loan and could be provided on any terms and conditions the council saw fit. Loans were also provided to private companies. Before 1980 public transport had either been provided by private companies or more usually through companies owned, and in effect subsidised, by the municipalities. In 1989 responsibility for managing public transport shifted to the newly formed regional councils.

1989 until the present

The National Roads Act was repealed, and the National Roads Board and the Urban Transport Council were abolished, when Transit New Zealand and the National Land Transport Fund were established in 1989. The Transit New Zealand Act 1989 (now renamed the Government Roading Powers Act 1989) did not contain any set subsidy rates or any criteria in relation to what proportion of local authority roading activities were required to be funded from the Land Transport Fund. It simply provided that Transit should pay such financial assistance as was required in Transit's opinion for approved projects for which local authorities were responsible. Transit decided to retain the National Roads Board's basis for determining the relative levels of financial assistance.[19]

The Transit New Zealand Act enabled the former Transit New Zealand (and subsequently Transfund New Zealand) to use money from the fund to subsidise both passenger transport operations contracted by regional councils and safety (administration) activities such as education and enforcement.

WHAT IS STILL THE SAME? WHAT HAS CHANGED?

What is still the same?

Many of the original factors and challenges which led to the current FAR system are still present:

- New Zealand still largely has a rural export driven economy – getting rural products to processing facilities and then to the market is still key to the economy.
- There continues to be a category of key arterial roads (now state highways) that is not the responsibility of local authorities and local authorities (and therefore ratepayers) currently have no financial responsibility for this category of roads.
- The source of the main central government funding for land transport activities is still from motor vehicle users.
- The local share of funding for land transport activities still primarily comes from ratepayers – being landowners (and property owners in areas with capital value rating).
- There are still large areas of non-rateable Crown land in some local authority areas.
- Large areas of multiple-owned Maori land still create significant revenue challenges for some local authorities, particularly in areas of high social deprivation.
- Road safety outcomes are still important.

[19] Scoping Study of Transfund Financial Assistance Rates, 2003

What has changed?

However, other things have changed which are particularly relevant to land transport funding:

- There are fewer local authorities, which means they govern larger geographic areas and generally have larger ratepayer bases than in the past with the potential for this to change again due to possible local government reforms, including more collaboration and amalgamation.
- The way people use vehicles has changed with very large increases in car ownership ratios and vehicle kilometres travelled per person and lower car occupancy levels.
- Tourism is a bigger factor in the New Zealand economy, with tourists opting to drive themselves, take tour buses or simply fly to destinations and then walk or use public transport.
- Demographics are changing with an aging population, and continued urbanisation.
- Funding of public transport is now a much bigger factor for some local authorities – particularly Auckland.
- Freight travels greater distances, there are more frequent freight movements and the relative share of freight travelling by rail has decreased. Freight is forecast to double by 2040, with even higher growth in freight trips in some areas.
- As noted previously, there is more central government direction in relation to land transport activities – a greater emphasis on planning land transport investment and a focus on using land transport funding to achieve objectives or outcomes (this is both directed by, and reflected in, the current legal regime around land transport funding, eg the LTMA requirement to give effect to the GPS).
- There is also more of a focus on (and legal requirements to) planning land transport (and other investment) at the local government level (eg the planning requirements under the Local Government Act 2002 (LGA)).
- Local authorities have some access to non-ratepayer funding for road construction – ie some access to developer contributions (either development contributions under the LGA or financial contributions under the RMA).
- There is now a range of different kinds of roads included in the central government managed category (state highways) – ie they are not all the primary link between main centres.
- The vast majority of revenue from fuel excise tax, motor vehicle licensing and RUC now goes to funding land transport activities.

Road construction workers, c. 1905–10 McAllister, Ref: 1/2-C-21078, Alexander Turnbull Library.

If you have further queries, call our contact centre on 0800 699 000 or write to us:

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