

Board Paper	
<b>Paper no:</b>	13/08/0745
<b>Meeting date:</b>	16 August 2013
<b>Prepared by:</b>	Clare Sinnott, Project Leader (FAR Review)
<b>Recommended by:</b>	Jenny Chetwynd, Regional Director (Central), FAR Review Steering Committee Chair Ernst Zöllner, Group Manager (Strategy & Performance) Dave Brash, Group Manager (Planning & Investment)
<b>Board function:</b>	Setting organisational direction
<b>Subject:</b>	<b>Funding Assistance Rates (FAR) Review</b>

## Purpose

- 1 To provide the Board with a provisional funding assistance rates framework that has been amended to address the issues raised at the 5 July Board meeting. (We summarise the key amendments made to the framework later in this Board Paper.)
- 2 We will come back to you later this year to discuss the framework further prior to undertaking a second round of public consultation. The purpose of the second round of public consultation would be to test a range of specific options for implementing the provisional framework with approved organisations and other stakeholders.

## Recommendation

- 3 The New Zealand Transport Agency Board **agrees to** the following provisional funding assistance rates framework:

### **Role of Funding Assistance Rates:**

Funding assistance rates are one tool within the land transport investment system which:

- Assists local government (and other approved organisations) and the NZ Transport Agency to work together to achieve:
  - The optimal national land transport outcomes within their combined financial resources, and
  - An integrated and appropriately consistent land transport network throughout the country, and
- Enables the costs of the New Zealand land transport network to be shared appropriately between direct land transport system users and local communities.

Funding assistance is not a subsidy, but part of a co-investment system that recognises there are both national and local benefits from investing in the land transport network.

### **Seven Principles underpinning how rates are set and applied:**

The funding assistance rates system should:

1. 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. (A responsible transport system addresses the potential harms of that system, including environmental and health impacts.)

2. Facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country.
3. Appropriately split the costs of the New Zealand land transport network between direct land transport system users and local communities recognising that each of those groups affects, and benefits from, that network.
4. Provide approved organisations and the NZ Transport Agency with as much investment certainty as practicable.
5. Be efficient to apply.
6. Be based on evidence and data that is readily accessible and reliable.
7. Ensure that if there are variations to how funding assistance rates are set or applied to address outliers or exceptions this is done transparently.

### **Five Part Approach to setting and applying funding assistance rates**

- Part 1 National Land Transport Fund revenue would only be used for the (eligible) costs of undertaking or maintaining a land transport activity to achieve fit for purpose standards. Those standards would be determined by the function of the relevant part of the land transport network, and the appropriate customer levels of service for different parts of the network.
- Part 2 As a first step in calculating funding assistance rates, the NZ Transport Agency would:
- Look at all the land transport activities that are eligible for funding from the National Land Transport Fund undertaken by all the approved organisations

throughout the country as one group of activities, and

- Determine what percentage of the total cost of delivering that group of activities to fit for purpose standards should be met from the National Land Transport Fund.

*(What this percentage should be will be determined at the next stage of the Funding Assistance Rates Review.)* This percentage (the “overall NLTF investment rate”) would be set at a level that appropriately splits the costs of achieving fit for purpose standards across the New Zealand land transport network as a whole between direct land transport system users and local communities (i.e. property owners and land users). It would be used as the foundation for calculating individual approved organisations’ funding assistance rates in the same way the “national average Base funding assistance rate” is currently used in calculating approved organisations’ Base funding assistance rates. Following the application of Part 4, an individual approved organisation’s funding assistance rate might end up being higher or lower than the overall NLTF investment rate.

Part 3 The same funding assistance rate would apply to all of the land transport activities a particular approved organisation undertakes (other than any enhanced targeted funding assistance rates used in discrete situations for time limited periods and, potentially, the funding assistance rates for emergency works).

Part 4 There are factors (which are outside the control of both approved organisations and their local communities) that materially affect some approved organisations’ ability to:

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

Those approved organisations receiving a higher funding assistance rate would facilitate the delivery of land transport outcomes. If some approved organisations receive a funding assistance rate that is higher than the overall NLTF investment rate set under Part 2 other approved organisations would consequently receive a funding assistance rate that is lower than that overall NLTF investment rate.

*(At the next stage of the review, we will investigate:*

- *What factors materially affect an approved organisation's ability to:*
  - *Deliver land transport outcomes, and*
  - *Contribute to the delivery of an integrated and appropriately consistent network throughout the country.*
- *Which of those factors are outside of the control of both the relevant approved organisations and their local communities, and*
- *Whether or not there is readily accessible and reliable data that can be used to measure those factors and take them into account when setting funding assistance rates.*

*The aim of this investigation will be to identify:*

- *Which approved organisations should receive funding assistance rates that are higher than the overall NLTF investment rate set under Part 2, and*
- *How much higher than that overall NLTF investment rate their funding assistance rates should be.*



*As noted above if some approved organisations receive a funding assistance rate that is higher than the overall NLTF investment rate, other approved organisations would consequently receive a funding assistance rate that is lower than the overall NLTF investment rate.*

*We will investigate a range of factors that may prevent approved organisations from delivering land transport outcomes. However, the fact that we are investigating a factor at this stage does not necessarily mean that ultimately approved organisations who are affected by that factor will receive a higher funding assistance rate. The factors we will investigate include:*

- Relatively high proportions of non-local traffic on the local road network, e.g. tourists*
- Climate, topography and geology which makes it more difficult to deliver land transport outcomes*
- A relatively high proportion of local roads giving access to non-rateable land*
- Low average income/high social deprivation.*
- Low average rateable land value/capital value.*
- Low population/ratepayer density, population or number of ratepayers.*

- Part 5 Enhanced targeted funding assistance rates can be used, transparently, in exceptional circumstances and for time limited periods, to either:
- Facilitate something that is particularly important from a national land transport perspective where it is highly likely that the activity would not proceed within an appropriate timeframe if additional assistance was not provided; or
  - Give a kick start to encourage, and enable, an approved organisation to make a step change in customer levels of service or the way they are delivering an activity.

## Background

- 4 In July 2013 you were provided with a Board Paper (Paper No. 13/07/0735) which proposed a framework to be used in setting and applying funding assistance rates. That framework contained a statement of the role of funding assistance rates, seven principles that could underpin how the rates were applied and set, and a five part approach to be used in setting and applying funding assistance rates.
- 5 At the 5 July Board meeting, you requested further work to provide you with further information on:
- How the land transport planning and investment system as a whole assists the NZ Transport Agency and approved organisations to work together to achieve optimal land transport outcomes (and what role funding assistance rates play within that wider system), and
  - How local authorities shape local networks and transport services to meet the needs of their communities.



- 6 You also asked us to amend the wording of the proposed framework to:
- Incorporate some of the language used to describe that framework at the Board meeting.
  - Clarify that setting a national average funding assistance rate would be the first step for determining approved organisations' funding rates, and would not mean that all approved organisations would receive the same funding assistance rate.
  - Develop and strengthen the parts of the proposed framework that would guide how differences between approved organisations will be taken into account in setting funding assistance rate.

## **Achieving Optimal Land Transport Outcomes**

- 7 The following diagram shows how different parts of the land transport planning and investment system assist the NZ Transport Agency and approved organisations to work together to achieve optimal land transport outcomes.

**2. Planning for and investing in the right activities**

The Transport Agency providing clear and early planning and investment signals

Conversations and planning early in the development of approved organisations' plans and policy documents

Inclusion of activities in the National Land Transport Programme

Approval of activities and programmes for funding

Working together on the delivery of packages of projects across multiple activity classes and funding mechanisms

**3. Investing in the right standard of activity**

Currently the maintenance and renewal guidelines and regional public transport plan guidelines help identify the levels of service to invest in

The One Network Classification will identify what customer levels of service to invest in

Negotiation and moderation of approved programmes

Monitoring key network indicators and using those to benchmark

**4. Achieving things at the right time**

Prioritisation in the National Land Transport Programme

Decisions as to whether or not to approve an activity for funding at a particular time

Negotiations as to whether the cost of an activity should be included in an approved programme for a particular investment period

**5. Achieving things at the right price**

Procurement procedures and procurement manual

**6. Checking achievement**

Monitoring key network indicators

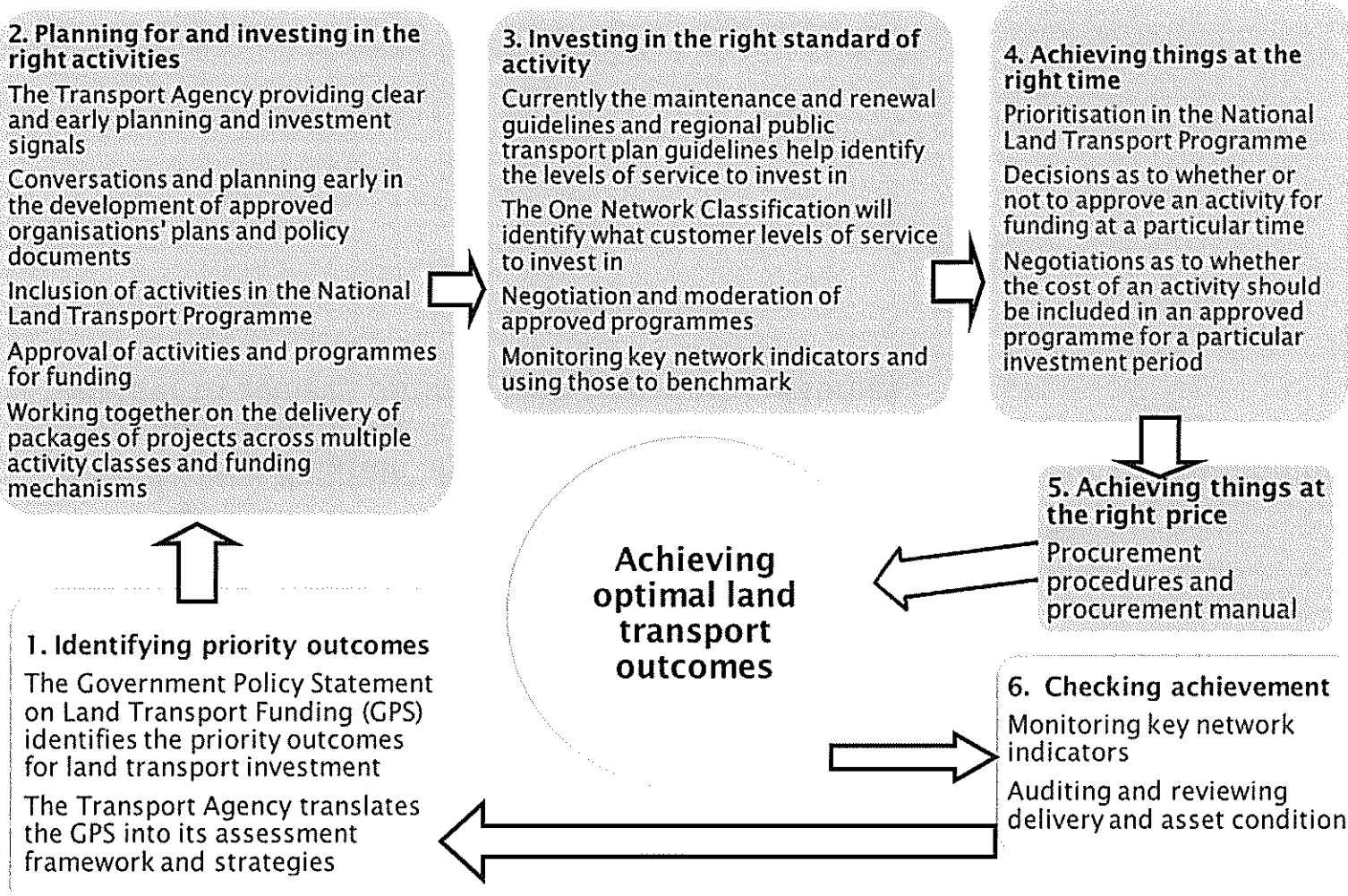
Auditing and reviewing delivery and asset condition

**1. Identifying priority outcomes**

The Government Policy Statement on Land Transport Funding (GPS) identifies the priority outcomes for land transport investment

The Transport Agency translates the GPS into its assessment framework and strategies

**Achieving optimal land transport outcomes**



8 The funding assistance rates framework would contribute to stages 2 to 5 in that diagram in the following ways:

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2. Planning for and investing in the right activities

By removing

- The different funding assistance rates for different activities, and
- The different funding assistance rates for different parts of the network managed by the same approved organisation,

the framework would send the signal that both the NZ Transport Agency and approved organisations need to think in terms of an integrated land transport network. This would facilitate approved organisations and the NZ Transport Agency investing in whatever parts of the network, and whatever types of activities, are the optimal places to invest to address the particular issues they are dealing with.

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3. Investing in the right standard of activity

- National Land Transport Fund revenue/funding assistance rates would only be applied to the (eligible) costs of undertaking or maintaining an activity to achieve fit for purpose standards.
  - We would seek to provide higher funding assistance rates to those approved organisations that have to deal with factors outside their control that make it harder for them to deliver land transport activities to the right standard. This
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3. Investing in the right standard of activity cont.

would help them to deliver the right standards.

- Targeted high funding assistance rates could be used on a time-limited basis to enable an approved organisation to make a step change in customer levels of service.

The Funding Assistance Rates Review Discussion Document included a possible overall approach, the Classification Approach, under which not only different standards but also different funding assistance rates would apply to different land activities depending their functions. However, that very fine-grained approach would not send the signal that both the NZ Transport Agency and approved organisations need to think in terms of an integrated land transport network. It would not facilitate approved organisations and the NZ Transport Agency investing in whatever parts of the network, and whatever types of activities, are the optimal places to invest to address the particular issues they are dealing with.

The submissions received on the Discussion Document indicate that even some approved organisations that would be likely to benefit from a Classification Approach were not particularly supportive of it. Auckland Transport's submission stated:

“... This approach does not advance some of the principles such as a whole of network approach, social responsibility or supporting strategic requirements nationally or regionally. This is an old fashioned approach to road investment and could lead to unintended outcomes. There are shortcomings such [as] a focus on infrastructure rather than activities which promote travel demand management, safety, walking, cycling and operational improvements that are unrelated to a hierarchy.”

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4. Achieving things at the right time    High funding assistance rates could be used in discrete outlier situations on a time limited basis where, unless the National Land Transport Fund contributes a reasonably high proportion of the costs of an activity at a specific time, something particularly important from a national land transport perspective probably would not get done at the right time.

We would seek to provide higher funding assistance rates to those approved organisations that have to deal with matters outside their control which make it harder for them to deliver land transport activities. This would assist those approved organisations to deliver land transport activities at the right time.

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5. Achieving things at the right price    Not setting very high funding assistance rates (except in exceptional circumstances for time limited periods) would ensure that approved organisations had sufficient skin in the game for it to be worth their while to actively seek efficiencies in delivering land transport activities.

Targeted high funding assistance rates could potentially be used on a time-limited basis to give a kick start to enable an approved organisation to make changes to how it delivers an activity in order to achieve efficiencies.

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## **Approved Organisations meeting the needs of their communities**

- 9 The funding assistance rates framework would not take away approved organisations' ability to pursue outcomes they or their local communities want to achieve:
- If a local community wanted a land transport activity to be undertaken or maintained to a standard that was higher than the fit for purpose standards they could do so. However, they would pay the difference between the cost of achieving the fit for purpose standards and the costs of achieving the higher standards.
  - Where a local community's priorities align with the national strategic priorities for land transport the land transport planning and investment system as whole (e.g. the GPS and the NZ Transport Agency's assessment framework) would assist the community to give effect to those priorities.
  - Where a local community's priorities do not align with those national strategic priorities then the community can still choose to pursue those priorities using alternative sources of funding.



## Amendments to the funding assistance rates framework

10 The key changes made to funding assistance rates framework presented at the 5 July Board meeting are summarised in the following table.

<p>Changes to reflect the language used to describe the proposed funding assistance rates framework at the 5 July Board meeting</p>	<p>The statement of the role of funding assistance rates has been amended so that it:</p> <ul style="list-style-type: none"><li>• Refers to the fact that funding assistance rates assist local government (and other approved organisations) and the NZ Transport Agency to work together to achieve an integrated and appropriately consistent land transport network throughout the country.</li><li>• Specifically states that funding assistance is not a subsidy but part of a co-investment system.</li></ul> <p>We have changed the order of the seven principles within the framework to give more emphasis to the aim of achieving an integrated and appropriately consistent land transport network throughout the country.</p> <p>In engaging with approved organisations, and others, on the provisional framework we will be open about the fact that it is part of wider move away from a subsidy system to a system where the NZ Transport Agency and approved organisations work together to plan for and invest in optimal land transport outcomes.</p>
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Changes to clarify what was meant by a “national average funding assistance rate”

The previous version of the proposed framework could be interpreted as meaning that every approved organisation would receive the same funding assistance rate, i.e. that every approved organisation would receive the suggested “national average funding assistance rate”. This is not the intention.

The amended version of Part 2 of the 5 part approach explains that we would:

- Look at all the eligible land transport activities undertaken by all approved organisations throughout the country as one group of activities, and
- Determine what percentage of the total cost of delivering that group of activities to fit for purpose standards should be met from the National Land Transport Fund.

That percentage would be set at a level that appropriately splits the costs of achieving fit for purpose standards across the New Zealand land transport network as a whole between direct land transport system users and local communities (i.e. property owners and land users).

It would be used as the foundation for calculating individual approved organisations’ funding assistance rates in the same way the “national average Base funding assistance rate” of 50% is currently used in calculating approved organisations’ Base funding assistance rates. An individual approved organisation’s funding assistance rate might end up being higher or lower than the overall NLTF investment rate.

<p>Changes to develop and strengthen the parts of the framework that recognise differences between approved organisations</p>	<p>We have made changes to Part 4 of the 5 part approach to clarify that, in setting funding assistance rates, we will only take into account differences:</p> <ul style="list-style-type: none"><li>• That materially affect some approved organisations' ability to deliver land transport outcomes, and contribute to the delivery of an integrated and appropriately consistent land transport network throughout the country.</li><li>• That are effectively outside of the control of both the relevant approved organisation and their local community. (For example it would be difficult to justify one approved organisation receiving a higher funding assistance rate than another solely because the first approved organisation had chosen to set their rates at a particular level or in a particular way.)</li><li>• If we can do so in a way that is based on readily accessible and reliable data. (With the information available at present, there may not be any way of transparently measuring some factors and taking them into account in setting funding assistance rates.)</li></ul> <p>It would be problematic to be more specific about how we will address differences between approved organisations at this stage of the review. In our engagement with approved organisations and other stakeholders to date we have told them that we will come back to them at the next stage of the review to discuss what particular metrics should be taken into account when setting funding assistance rates.</p>
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	<p>The process for developing options for how to take into account differences between approved organisations will be:</p> <ul style="list-style-type: none"> <li>• To seek to use the next couple of months to engage with some operational staff at local authorities, and other approved organisations, about the differences that they consider materially affect their ability to deliver land transport outcomes and how such differences could be taken into account when calculating funding assistance rates, and</li> <li>• To identify a short-list of differences to analyse further and include in the Options Document for the second round of public consultation.</li> </ul>
<p>Change to reflect the language used in the NZ Transport Agency/s Statement of Intent 2013-16</p>	<p>We have amended the wording of the first principle in the provisional framework to refer to optimal national land transport outcomes contributing to the provision of an effective, efficient, safe, responsible and resilient transport system.</p>

## Next Steps

- 12 The next steps in the funding assistance rates review will be:
- The Chief Executive will test how the provisional funding assistance rates framework would work in practice by:
    - Using that framework to develop detailed options for setting funding assistance rates; and
    - Coming back to you later in the year to obtain approval to consult on those options.
  - Following that second round of consultation, we will ask you to:
    - Review and finalise the funding assistance rates framework, and
    - Determine the specific methods that the NZ Transport Agency will use to set funding assistance rates going forward.
- 13 We will make this Board Paper and Board Paper No. 13/07/0735 available on the NZ Transport Agency's website.

## Attachments

- 14 There are no attachments.

