

Board Paper	
Paper no:	13/11/0759
Meeting date:	1 November 2013
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Recommended by:	Jenny Chetwynd, Regional Director (Central)
Board function:	Setting organisational direction
Subject:	Funding Assistance Rates (FAR) review: testing our current thinking

Purpose

- 1 To test our current thinking about how the provisional funding assistance rates framework could be implemented.

Recommendation

- 2 That the NZ Transport Agency Board **agrees** to the development of detailed options for implementing the provisional funding assistance rates framework which:
 - 2.1. Include a currently preferred option of setting the overall National Land Transport Fund (NLTF) co-investment rate at 50%.
 - 2.2. Concentrate on differences in local authorities' ability to raise the local share of the costs of achieving land transport outcomes, rather than factors that relate to differences in costs between local authorities, when determining which councils get funding assistance rates higher than the overall co-investment rate.
 - 2.3. Would only apply elevated emergency works funding assistance rates to costs arising from natural events that are rare, or are unusually large in magnitude or severity, for the area.

Background

- 3 In August 2013 you approved a provisional framework for setting and applying funding assistance rates. Key elements of this framework are:
 - the establishment of an overall NLTF co-investment rate
 - each approved organisation having one funding assistance rate for all its eligible land transport activities (except possibly emergency works)
 - some approved organisations potentially receiving funding assistance rates higher than the overall co-investment rate (and others receiving lower rates)
 - the ability to use targeted rates where we need a quick response or a step change.
- 4 We have tested how the provisional funding assistance rates framework would work in practice by developing detailed options for the setting of the rates.
- 5 In the past two months we have tested:
 - what the overall NLTF co-investment rate should be
 - what factors materially affect some approved organisations' ability to deliver land transport outcomes to the extent that they should receive a higher funding assistance rate
 - how we should set and apply the funding assistance rates for emergency works.

Our current thinking

- 6 We favour setting the overall NLTF co-investment rate at 50%. We prefer to concentrate on differences in local authorities' *ability to raise the local share of the costs of achieving land transport outcomes* when determining who will get higher funding assistance rates (rather than factors that relate to *differences in costs between local authorities*).
- 7 We think we would only apply elevated emergency works funding assistance rates to costs arising from natural events that we could not reasonably expect a council to plan for.

Overall NLTF co-investment rate

- 8 We cannot assume the funding ranges for approved organisations' land transport activities will be materially increased in the next GPS. Therefore, we cannot pursue options for setting the overall NLTF co-investment rate based on such increases.
- 9 This means there are two main options for the overall co-investment rate:
 - 50% - this is the current national average base funding assistance rate for local road operations, maintenance and renewals. It is also what the funding assistance rates for public transport activities are currently set at or transitioning to.
 - 53% - this is the overall effective funding assistance rate for all eligible activities undertaken by all approved organisations other than emergency works over the past few years.

- 10 We currently prefer the 50% rate because:
- It has historic credibility.
 - It would be easy to understand and would represent a true co-investment approach at the national level.
 - It might release some funding for things like additional improvement projects or targeted enhanced funding assistance rates (this is because the overall effective funding assistance rate has around 53% over the past few years).
- 11 We decided not to engage an economist to prepare further analysis to support our decision on an overall co-investment rate because it is unlikely to add value. There have been many studies on the relationship between property values and accessibility or transport infrastructure projects. Most have faced difficulties developing a reliable methodology and many have only focused on local issues. We are not aware of any that have developed an approach that could reliably be applied to all eligible land transport activities across the country.

Determining which councils get funding assistance rates higher than the overall co-investment rate

- 12 As noted, when determining which councils get higher funding assistance rates we propose concentrating on differences in local authorities' *ability to raise the local share of the costs of achieving land transport outcomes*, rather than using any factors which relate to *differences in costs between local authorities*.

Difficulties in taking differences in cost into account

- 13 It would be expected that differences in terrain, climate, geology and aggregate costs would mean some councils faced higher costs than others in delivering land transport activities. However,

based on our analysis we do not think that such differences in costs should be taken into account in setting funding assistance rates.

- 14 Rather, we think that the planning and investment work that underpins the development of the National Land Transport Programme is the appropriate place for taking differing costs into account (that is, in determining the approved costs of councils' projects, and the size of their approved road maintenance, operations and renewals and public transport programmes).
- 15 This is because:
- There isn't a clear correlation between the councils we would expect to be most affected by challenging terrain, climate and geology and those with the highest road maintenance and renewal costs.
 - There are differences in road metal/aggregate prices between regions but the regions with the higher prices appear to change over time. Local aggregate prices may be significantly affected by factors over which local authorities have some control or influence such as the local aggregate market and the Resource Management Act controls affecting quarries and river gravel extraction. We are also concerned that setting funding assistance rates based on the differences in input costs, eg local aggregate price could skew the market price for these inputs.
 - When the prices for different land transport contracts are set, any differences arising from terrain, climate, geology and local input prices may get swamped by immeasurable factors such as the level of competition in the local market and the amount of risk that contractors see in a particular contract.
 - There appears to be a correlation between vehicle kilometres travelled and a council's roading costs. However, the vehicle kilometres travelled figures we have for each territorial authority's local roads are not particularly reliable. Further, the councils with the highest vehicle

kilometres travelled tend to be those in metropolitan areas with more ratepayers who can help fund the local share of land transport costs.

- 16 Not factoring in differences in costs would change our current practices. We currently take the size of a council's approved road maintenance programme into account when setting base funding assistance rates. Not doing so would make it clearer that approved organisations need to take appropriate steps to plan for their land transport costs varying from year to year. For example, costs will be higher in years when they are undertaking a lot of roading renewals.

Ability to raise the local share

- 17 This leaves us with differentiating funding assistance rates on the basis of councils' relative *ability to raise the local share of costs*. We could do this by:
- Some measure of the relative wealth of an area, for example, the New Zealand deprivation index or the average rates in a council's area as a percentage of the average household income, and/or
 - Some measure of ratepayer density, for example, the number of rating assessments per square kilometre of land area or per lane kilometre of road.
- 18 We think that the number of rating assessments is a better measure than resident population as some areas have very high proportions of non-resident ratepayers.

- 19 When we publicly consult later this year we would also look at the ‘ability to find the local share’ factor which is currently taken into account when setting some funding assistance rates – the net equalised rateable land value within a district and possibly also net equalised rateable capital value.
- 20 We are also proposing to group councils into bands with each band getting a different funding assistance rate (rather than setting separate funding assistance rates for each council as we currently do for some activity classes). This would avoid similar councils ending up with funding assistance rates that vary by a few percent even though they experience similar difficulties in raising their local share of costs.
- 21 When modelling options, we will need to monitor how they affect the regional councils which deliver significant amounts of public transport services. Currently the funding assistance rate for all regional councils’ public transport activities is set at, or transitioning to, 50%.
- 22 The proposed approach would differentiate between regional councils based on their relative ability to find the local share of public transport costs. Our co-investment in public transport in each region would not be affected by our proposed approach. Rather, it would continue to be determined by decisions on each regional council’s approved public transport programme size and approved public transport improvement projects.

Emergency works

- 23 Emergency works funding assistance rates currently apply to any significant clean up or reinstatement expenditure following a major, short-lived natural event. It does not matter whether such events are relatively common in an area.

- 24 A council's emergency works rate also increases depending on how much they spend on emergency works in a financial year. Councils do not know until the end of the year what their emergency works funding assistance rate will be. From 2009/10 to 2012/13 the overall national average emergency works funding assistance rate for local authorities and the Department of Conservation (excluding funding in relation to the Canterbury earthquakes) was 70%.
- 25 We think it would be better to only apply elevated emergency works funding assistance rates to the costs arising from natural events that we would not reasonably expect a council to plan for. These would be rare or unusually large or severe events for a particular area. In these cases the elevated emergency works rate could be half way between a council's normal funding assistance rate and 100% up to a set maximum. This would ensure councils retain sufficient 'skin in the game' to seek efficiencies in delivering clean up and reinstatement activities. It would give them more certainty than the current system.
- 26 We would expect councils to plan their network to address natural events which are relatively common to their area. Any clean up or reinstatement work would be funded at the council's normal funding assistance rate. As noted, this is likely to be based on some measure of the council's relative ability to find the local share of the costs of delivering land transport outcomes.
- 27 We would work with councils to help them plan for such natural events. We would do this as part of other work being undertaken outside the funding assistance rates review such as the development of our investment signals, resilience framework and the appropriate levels of service for different types of roads.
- 28 The normal emergency works funding assistance rates system would not be designed to cope with extremely large events such as the Canterbury earthquakes. These events would require a bespoke solution.

Targeted enhanced funding assistance rates

- 29 Outside the funding assistance rates review, we are also considering whether targeted enhanced funding assistance rates should be used for specific purposes in the 2015-18 investment period. This would depend in part on the availability of funding and the potential impact of using such rates on the remainder of the National Land Transport Programme.

Next steps

- 30 We want to ensure you are comfortable with the direction we are heading before modelling detailed options and developing an options document. We will report back to you at the December 2013 meeting and seek your approval to the release of an options document for public consultation. The document will contain the results of the modelling of options.
- 31 We intend to consult on the options document until the end of February 2014 (rather than January 2014 as previously proposed). This will give newly-elected councillors time to come up to speed and regional transport committees time to be established and approve any submissions on the options document.
- 32 We have tested our current thinking on the overall co-investment rate and cost difference issues with some stakeholders. After we explained the issues to them, they were reasonably accepting of our direction. It will be important to explain in the options document and supporting material how our thinking has developed.
- 33 We intend for this paper to be placed on our website when the options document is released for public consultation.

Attachments

34 There are no attachments.