

BOARD PAPER

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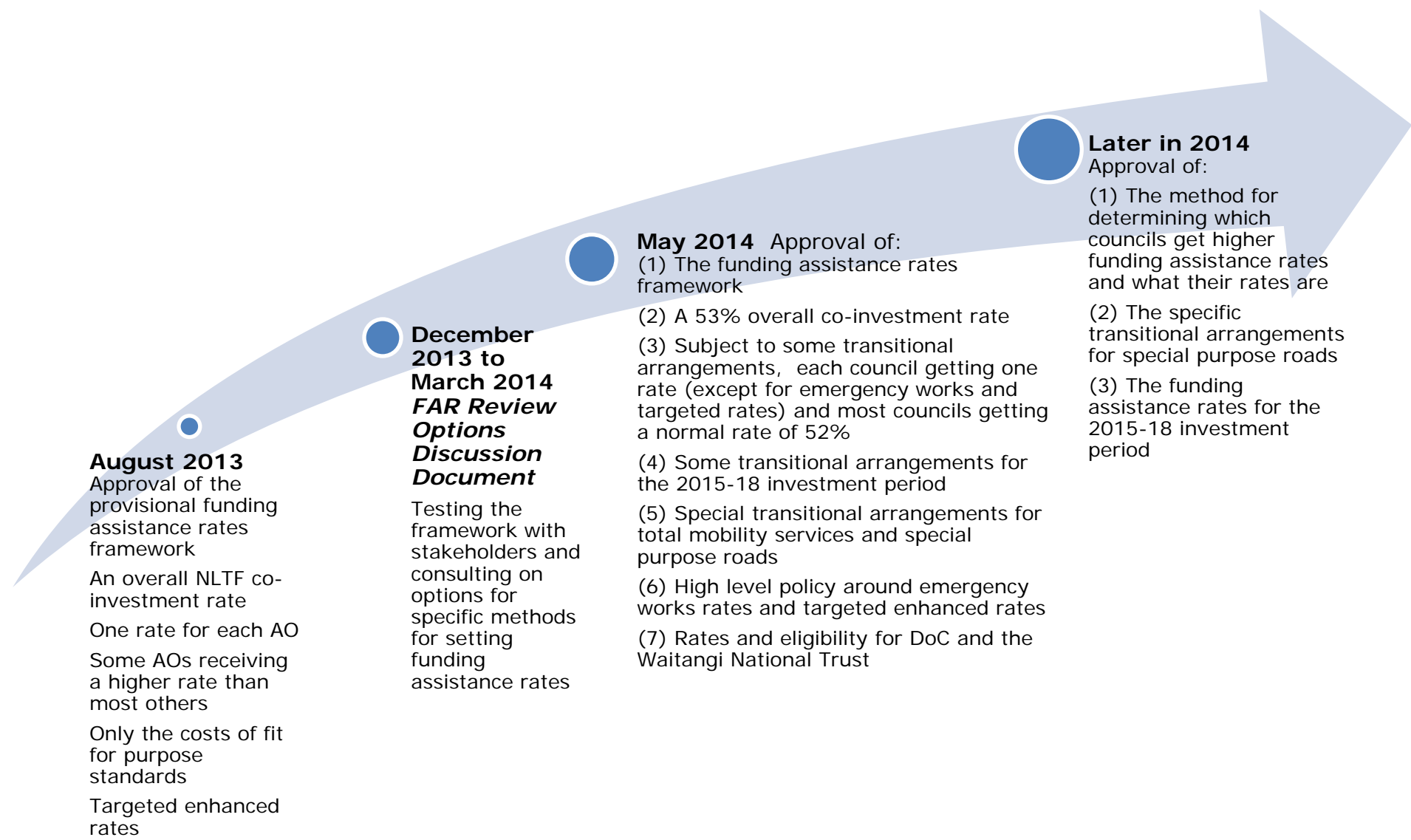
Meeting date: 2 May 2014

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Recommended by: Jenny Chetwynd, Regional Director (Central)

Board function: Setting sector and organisational direction

Subject: **Funding Assistance Rates (FAR) review - some key aspects of the approach to setting rates**





PURPOSE

1. To update the Board on progress on the FAR review, and to make some key decisions and set direction for further work.



SUMMARY

2. Setting funding assistance rates for local authorities is a complex conversation, both technically and politically. You have already approved a provisional funding assistance rates framework and this has enabled us to address much of the detail of possible methods for setting funding assistance rates in the latest round of consultation. The submission process has provided clarity about many aspects, but has also given us insight into some issues that need a little more consideration and discussion.
3. Deciding on the method for setting funding assistance rates, and the actual rate for each individual council, for the 2015-18 NLTF investment period will need further discussion. This is because we need to undertake further modelling of the options once the 2013 New Zealand Index of Deprivation data is available.
4. We also need to discuss with each council that currently manages a special purpose road the specific transition arrangements for those roads. The outcomes of those discussions will affect the rates we can set for all councils for the 2015-18 investment period (because we will need to stay within the funding ranges in the GPS and a 53% overall NLTF co-investment rate). We will bring these issues back to you at a subsequent Board meeting.
5. However, to support the development of councils' long term plans and regional land transport plans (and, therefore, the development of the NLTP) we need to give our partners as much certainty as we can. The approach taken in this Paper is to provide you with information and recommendations on aspects of the funding assistance rates system (and transitional arrangements) that can be decided on now and will allow the sector to progress with their planning. In particular we recommend that most councils should receive a normal funding assistance rate of 52% (one below our recommended overall NLTF co-investment rate of 53%) and that for the 2015-18 NLTF investment period no council's normal rate would decrease by more than one (1) percentage point a year.



RECOMMENDATIONS

6. The NZ Transport Agency Board:

Confirming the provisional framework

a. **Confirms:**

- i. The statement of the role of funding assistance rates and seven principles that will sit behind how funding assistance rates are set and applied.
- ii. That National Land Transport Fund funds will only be used for the eligible costs of undertaking a land transport activity to achieve or maintain fit for purpose customer levels of service.
- iii. That enhanced targeted funding assistance rates may be used in exceptional circumstances and for time limited periods to either:
 1. Facilitate an activity 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
 2. Give a kick start to encourage and enable an approved organisation to make a step change.

Overall co-investment rate and the same rate for all of an approved organisation's eligible activities

b. **Agrees** that (other than for emergency works and where targeted enhanced funding assistance rates are used):

- i. The overall NLTF co-investment rate across all eligible activities undertaken by approved

organisations will be 53%.

- ii. For the 2015-18 investment period and onwards each approved organisation will receive the same funding assistance rate for all land transport activities it undertakes that are eligible for funding from the National Land Transport Fund (subject to transitional arrangements in relation to special purpose roads, total mobility services and metro rail)¹.

Councils' normal funding assistance rates

- c. **Agrees** that, following the completion of transitional arrangements, the normal funding assistance rates received by most councils will be 52% (one percentage point below the overall NLTF co-investment rate).

Transitional arrangements

d. **Agrees** that:

- i. All changes to approved organisations' funding assistance rates resulting from this review will be transitioned in over no more than nine (9) years starting in the 2015-16 financial year and finishing not later than the end of the 2023-24 financial year.

Maximum rate of change for councils' rates for the 2015-18 NLTF investment period

- ii. For the 2015-16 financial year no council's normal funding assistance rate will decrease by more than one (1) percentage point from that council's 'starting point' as shown in Attachment 2 (e.g. if a council's starting point in Attachment 2 is 60% then its normal funding assistance rate for the 2015-16 financial year will be no less than 59%).
- iii. For each of the 2016-17 and 2017-18 financial years, no council's normal funding

¹ No change is being made to the policy that only 30% of urban street cleaning costs are eligible for funding.

assistance rate will decrease by more than one percentage point from its normal funding assistance rate in the previous financial year.

Total mobility services

- iv. The funding assistance rates for total mobility services will remain at their current levels for the 2015-18 NLTF investment period to provide a window of opportunity for a review of the NZ Transport Agency's operational policy for total mobility services to be undertaken.

Special purpose roads

- v. By the end of the 2023/24 financial year the funding assistance rates for local road special purpose roads will be transitioned to the relevant council's normal funding assistance rate.
- vi. The funding assistance rates for local road special purpose roads will be transitioned down separately from the transition process that is used for councils' normal funding assistance rates with the specific transition approach to be used to be determined following discussions with the relevant councils.

Specific activities

- e. **Agrees** that:

Emergency works funding assistance rates

- i. From the 2015-18 NLTF investment period onwards elevated emergency works funding assistance rates will only apply to eligible immediate response, reopening and reinstatement activities where an approved organisation incurs significant expenditure in responding to an out of the ordinary short-duration natural event that is unusual, or of unusually large magnitude or severity, for the particular area where it occurs (a 'qualifying event').
- ii. An approved organisation's eligible costs in responding to a natural event that is not an out of the ordinary short duration natural event for the particular area where it occurs

will be funded at the approved organisation's normal funding assistance rate.

- iii. An approved organisation's eligible costs in responding to a qualifying event up to an amount equal to 10% of the cost of the approved organisation's approved road maintenance, operations and renewals programme for the year in which the qualifying event occurred will be funded at its normal funding assistance rate.
- iv. Any eligible costs an approved organisation incurs in responding to a qualifying event over and above an amount equal to 10% of the cost of its approved road maintenance, operations and renewals programme for the year in which the qualifying event occurred will be funded at the approved organisation's elevated emergency works funding assistance rate.
- v. An approved organisation's elevated emergency works funding assistance rate will be its normal funding assistance rate plus 20 (up to a maximum elevated emergency works funding assistance rate of 95%).

Department of Conservation

- vi. Following the completion of transitioning arrangements (over nine (9) years starting in the 2015-16 financial year) eligible land transport activities in relation to the following Department of Conservation carriageways will be funded at 52% - the existing Tasman Valley Road, Fox Glacier Access Road, Glacier View Road, and Franz Josef Glacier Access Road special purpose roads, and the parts of the existing Papakorito Falls Access Road and Hopuruahine Landing Access Road special purpose roads that are legally local road.
- vii. For the 2015-18 NLTF investment period and onward a 0% funding assistance rate will apply to all other existing Department of Conservation special purpose roads (Sandy Bay and Stockade Access Road, Home Bay Access Road, Mokau Landing Access Road, Rosie Bay Access Road, and The Bruce special purpose road).
- viii. At the request of the Department of Conservation, the NZ Transport Agency will consider whether or not eligible land transport activities in relation to any other specific

carriageway(s) managed by the Department of Conservation should be funded at 52%.

Waitangi National Trust

- ix. A 100% funding assistance rate will apply to eligible land transport activities in relation to the existing Tau Henare Drive and Hobson Memorial Loop Road in the Waitangi National Trust estate.
- x. All other carriageways within the Waitangi National Trust estate that are not local roads managed by Far North District Council will receive a 0% funding assistance rate.

Administration costs

- xi. For all approved organisations, an approved organisation's fair and proportional administration input costs for each eligible land transport activity they undertake will be funded as part of the direct costs of that eligible land transport activity at the relevant approved organisation's normal funding assistance rate.

Level crossing warning devices

- xii. In principle a local authority's share of the costs of level crossing warning devices at local road/rail level crossings should be funded at the council's normal funding assistance rate.
- f. **Requests** the Chief Executive to work with KiwiRail to investigate an appropriate funding assistance rates system for level crossing warning devices and report back to the Board.



CONTEXT AND MAIN THEMES IN SUBMISSIONS

7. The power to set the rate of funding assistance rate for each approved organisation is currently reserved to you as the Board.
8. In general, local government has not raised any fundamental objections to the proposed funding assistance rates framework, and provided good feedback that will enable refinement of the individual components of that framework. However we need to acknowledge a number of wider issues that are impacting on sector reaction to the review.
9. Some submissions consider the review will increase the funding assistance rates for metropolitan areas at the expense of rural ones. While the flattening of rates is primarily result of rising relative capital values in rural areas, there is view amongst many rural councils that declining and aging populations in rural areas will limit their ability to increase their local body rates challenging the affordability of local share.
10. Rural New Zealand is becoming increasingly concerned that its contribution to the national economy is being undervalued, and has a view that local body rates funding alone is insufficient to address the impacts on rural networks caused by forestry and dairying. As a result they are advocating for increases in the funding ranges for local authority activities in the GPS, and additional funding sources both for the National Land Transport Fund and the local government sector.
11. The funding assistance rates review is part of a suite of broader policy changes and initiatives that are being rolled out to focus the sector on key investment questions, what we seek to achieve, what is the right activity to achieve that outcome, and what is the right level of service/standard. Local government is working to understand the implications of all those changes. For example, some submissions on the funding assistance rates Options Discussion Document referred to the One Network Road Classification and the sectors' uncertainty about its effect on levels of service and eligibility for funding.

12. The main themes in the submissions on the options discussion document are discussed in **Attachment 1** to this Paper.



RISKS

A perception that the review outcomes work against rural affordability and do not recognise the rural sector's contribution to New Zealand

13. As noted above, there is a perception among a number of rural councils that the outcomes of the funding assistance rates review will increase the funding assistance rates of metropolitan areas 'at the expense' of rural areas, and that their contribution to the New Zealand economy is being undervalued. There is a risk that this will impact on the acceptability of the outcomes of the review.
14. The flattening of rates between rural and urban councils is primarily the result of rural areas now being relatively wealthier compared to urban areas than they used to be. If we re-set councils' base funding assistance rates for local road maintenance, operations and renewals using the current funding assistance rates system (the status quo) most rural councils' rates would go down (and many urban areas' rates would increase). Not all urban areas would receive increased funding assistance rates under the review proposals and not all rural councils would receive rate decreases.
15. A few submissions from rural councils sought for funding assistance rates to recognise council's relative contribution to the economy. We consulted on this sort of 'contribution approach' in the first round of consultation on the review and it was generally not supported by local authorities.

16. Related to this is a risk that the local government sector will feel that the funding assistance rates review is not taking into account their call to change or broaden the funding sources for both the National Land Transport Fund and local government activities as a whole.
17. When making decisions on the metrics to be used in determining which councils will receive higher normal funding assistance rates in the next stage of the review, we will need to be cognisant of the potential impact those decisions on rural New Zealand, and the possibility that different/additional funding sources may be used in future. These decisions are not part of the suite of recommendations in this Board Paper. However, our communications will need to demonstrate our awareness of these issues.

Risk around funding assistance rates not being seen as only one part of a wider picture

18. The funding assistance rates review is only one part of a wider picture of changes in the land transport sector. There is a risk that councils will not see the funding assistance rates changes in the wider context, e.g. will not appreciate that over time the One Network Road Classification will give them a powerful tool for 'right-sizing' their land transport spend and a greater emphasis on planning and designing for relatively common natural events will reduce their costs in responding to those events.
19. Related to this, some councils are concerned that they could experience an immediate significant drop in their funding assistance rates, and are worried about the impact of this on both the affordability of their network and their ratepayers.
20. To address concerns around the wider framework being misunderstood we will ensure that the funding assistance rates review is firmly communicated within the wider context of the three building blocks to the investment picture: (1) being clear on the outcomes we are seeking; (2) optimising the programme (through the One Network Road Classification and good asset management practices); and (3) ensuring an appropriate cost split between the parties (funding assistance rates).

21. To address concerns about a possible sudden drop in funding assistance rates, all councils will know that the maximum rate of decrease for their normal funding assistance rate over the 2015-18 NLTF investment period will be a one (1) percentage point drop in each year (rather than a sudden significant drop).
22. We have made sure that we have a rational basis for determining the 'starting point' that each council's funding assistance rate will transition from – an average funding assistance rate based on the mix of different types of land transport activities undertaken between 2009-13 and each council's usual funding assistance rates for 2014/15 (see Attachment 2). Each council has a slightly different story behind their current starting point – against which they will judge any "drop".
23. We are also proposing to transition changes to funding assistance rates transitioned in over a nine (9) year period, i.e. three full NLTF investment periods.

Concern at councils not yet knowing exactly how their funding assistance rates for the 2015-18 investment period will be set

24. There is a risk that councils' uncertainty over their actual funding assistance rates for the 2015-18 investment period will create uncertainty for their long term plan and regional land transport plan processes.
25. Many councils will know that (whatever metrics are ultimately chosen) they are unlikely to be among the group of councils that receive elevated normal funding assistance rates. Those councils will know that over the next nine (9) years their funding assistance rate will transition to a 52% rate. (The proposed approach to transitioning in funding assistance rates during the 2015-18 investment period discussed above will also help to address this risk.)



ASPECTS OF THE FUNDING ASSISTANCE RATES FRAMEWORK

The role of funding assistance rates and 7 principles

26. We recommend that you confirm the following statement of the role of funding assistance rates and principles to sit behind how funding assistance rates are set and applied:

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.

Targeted enhanced funding assistance rates

27. The submissions on the Options Discussion Document strongly supported the NZ Transport Agency using targeted enhanced funding assistance rates in appropriate circumstances.
28. We propose to develop guidelines about factors that should be taken into account and provided for when the Transport Agency is deciding whether or not to use targeted enhanced funding assistance rates.



THE OVERALL NLTF CO-INVESTMENT RATE

29. The issue for debate is where to set the overall NLTF co-investment rate. Consistent with the submissions received, we recommend that the overall NLTF co-investment rate be set at 53%. This would:
 - a. Reduce the day-to-day impact of the proposed changes to funding assistance rates on the local authority sector as a whole, and
 - b. Provide a greater level of certainty to councils than would a 50% overall NLTF co-investment rate coupled with greater use of targeted enhanced rates.
30. Unlike the main alternative option, a 50% overall NLTF co-investment rate, a 53% would not result in an equal cost split between direct land transport users and local communities. Further a 53% rate would solely be based on the historic cost split over the last few years.



THE SAME RATE FOR ALL OF A COUNCIL'S ELIGIBLE LAND TRANSPORT ACTIVITIES

31. Under the status quo, there are a wide range of different funding assistance rates for different kinds of land transport activities.
32. Having the same funding assistance rate for all of the different eligible land transport activities an approved organisation undertakes would:
 - a. Mean that differences in rates did not work against achieving value for money by encouraging approved organisations to choose one type of solution for addressing a land transport issue over another, and

- b. Would avoid very high funding assistance rates for some activities that would mean that an approved organisation would bear very little of the risk of over-investing in that kind of activity.
33. We recommend that, subject to transitional arrangements, from the 2015-18 NLTF investment period onwards every approved organisation would receive the same funding assistance rate for all the activities it undertakes that are eligible for funding from the National Land Transport Fund (other than emergency works and where targeted enhanced funding assistance rates are used).



COUNCILS' NORMAL FUNDING ASSISTANCE RATES

34. More work is needed around exactly how to identify those councils that would receive normal funding assistance rates that are higher than the overall co-investment rate, and how to set those councils' funding assistance rates. We intend to undertake further modelling and sensitivity testing of options for doing this once the 2013 New Zealand Index of Deprivation is available (sometime between now and June 2014). In particular we are proposing to do more modelling of an option which uses the inverse number of rating units in an area in combination with other metrics (i.e. the fewer rating units a council's area has the greater their chance of receiving an elevated normal funding assistance rate).
35. In the meantime, to provide councils with as much certainty as we can ahead of this additional modelling being undertaken, we recommend that (following the completion of transitioning arrangements) the normal funding assistance rate received by all councils that do not receive funding assistance rates that are at or higher than the overall NLTF co-investment rate will be 52%. This is because all of the modelling we have undertaken to date indicates that setting these rates at one below the overall co-investment rate (of 53%) makes enough National Land Transport Fund revenue available to fund higher rates for the remaining councils.



TRANSITIONAL ARRANGEMENTS

36. To address local government's concerns around the impact of sudden change, a gradual but not entirely open-ended transition should be adopted, and we recommend that all changes to councils' funding assistance rates resulting from this review should be transitioned in by the end of the 2023/24 financial year.
37. No council's normal funding assistance rate for the 2015-16 year will decrease by more than one (1) percentage point from that council's current 'starting point' as shown in **Attachment 2** (e.g. if a council's starting point is 60% then its normal funding assistance rate for the 2015-16 financial year will be no less than 59%). No council's normal funding assistance rate for the 2016-17 financial year will decrease by more than one percentage point from its normal funding assistance rate for the 2015-16 financial year, and no council's normal funding assistance rate for the 2017-18 financial year will decrease by more than one percentage point from its normal funding assistance rate for the 2016-17 financial year.
38. In order to transition in decreases in some approved organisations' funding assistance rates, councils whose funding assistance rates would increase would have that increase gradually transitioned in to enable the NZ Transport Agency to remain within the relevant funding ranges in the GPS and a 53% overall NLTF co-investment rate.
39. Also to provide councils with as much certainty as we can at this stage, we recommend that we advise councils now what the maximum rate of change in their funding assistance rates will be for each year of the 2015/18 NLTF investment period.

Total mobility services

40. Given some councils' views that they only deliver some or all total mobility services 'on behalf of' the Crown or the NZ Transport Agency, we are concerned that if the funding assistance rates for total mobility services were immediately changed to a council's normal funding assistance rate at least some councils might (1) cease making some payments under the total

mobility services scheme and/or (2) significantly reduce the levels of service of the total mobility services in their area. Further there have been a number changes in technology and other changes in the sector since the current total mobility services scheme was developed.

41. As a transitional measure, we recommend that the funding assistance rates for total mobility services should remain as they are for the 2015-18 NLTF investment period to provide an opportunity for a review of the NZ Transport Agency's operational total mobility services policy to be undertaken.

Special purpose roads

42. Local authority 'special purpose roads' are a group of local roads that for a number of years have received very high funding assistance rates - generally 100% for operations, maintenance, renewals and minor improvements and 75% for other improvements.
43. Having such funding assistance rates means that councils have no, or insufficient, 'skin in the game' to seek efficiencies and value for money in how special purpose roads are managed. While the group of special purpose roads is quite diverse some of them do predominantly serve the public conservation estate and some were former State highways. Because of this some councils do not feel any ownership of special purpose roads (even though they own them and it is their legal responsibility to manage them).
44. We recommend that by the end of the 2023/24 financial year the funding assistance rate for a local road special purpose road should be transitioned to the relevant council's normal funding assistance rate.
45. For some councils this would have a significant effect (e.g. for a couple of councils special purpose roads currently make up about 10% of their local road network). Therefore, a special arrangement could be used to transition down the funding assistance rates for special purpose roads separately from the transition process that is used for the relevant councils' normal funding assistance rates. This special transitional arrangement for special purpose roads is

likely to affect the funding assistance rates that councils can receive for other eligible land transport activities during this nine (9) year period.

46. Individual discussions will be held between the NZ Transport Agency and each council with a local road special purpose road (and any other key stakeholders such as the Department of Conservation where appropriate) to discuss:
 - a. Whether each special purpose road currently provides an appropriate level of service given its classification under the One Network Road Classification and whether it is likely to require significant expenditure in the next few years e.g. for renewals or to upgrade the resilience of the road.
 - b. If significant expenditure on a special purpose road is likely to be required in the next few years, what programme would be needed to address those issues and whether it would be appropriate for a targeted enhanced funding assistance rate to be used to have those issues addressed within an appropriate timeframe.
 - c. For those sections of special purpose road which run through and terminate in the Crown conservation estate, whether or not control of the carriageway should be transferred to the Department of Conservation.
 - d. Transition arrangements for the funding assistance rates for special purpose roads.

SPECIFIC ACTIVITIES

Emergency works funding assistance rates

47. Currently enhanced 'emergency' funding assistance rates may sometimes be being applied to councils' costs in responding to natural events that are relatively common in the area where they occur.

48. Most territorial authorities (other than those who are currently heavy users of emergency works funding) supported the principle that elevated emergency works funding assistance rates should only apply to clean-up and reinstatement following out of the ordinary short-term natural events.
49. From the 2015/18 NLTF investment period onwards, elevated emergency works funding assistance should only apply to eligible immediate response, reopening and reinstatement activities where an approved organisation incurs significant expenditure in responding to an out of the ordinary short-duration natural event that is unusual, or of unusually large magnitude or severity, for the particular area where it occurs (a 'qualifying event'). The annual return interval (ARI) for a particular size of event in an area could be used as a guide to determining whether or not an event is a qualifying event.
50. To appropriately share the risks of short term natural events and ensure that councils retain an incentive to plan for, and seek efficiencies in how they respond to, such events, we are also recommending that a council's eligible costs in responding to a qualifying event up to an amount equal to 10% of the cost of their approved local road maintenance, operations and renewals programme for the year in which the natural event occurred should be funded at a council's normal funding assistance rate. Any eligible costs a council incurs in responding to a qualifying event over and above an amount equal to 10% of the cost of that programme will be funded at the council's elevated emergency works funding assistance rate.
51. Most submissions supported elevated emergency works funding assistance rates being linked to a council's normal funding assistance rate. We are recommending that a councils elevated emergency works funding assistance rate be set at its normal rate plus 20, i.e. if a council has a normal funding assistance rate of 52% its elevated emergency works rate would be 72%.
52. A number of submissions sought more detail on how the proposed approach to emergency works funding assistance rates would work in practice (in particular there was concern about how using ARIs would work). We therefore propose to revise the current emergency works funding assistance policy to make it consistent with the policy principles set out above and

conduct a further round of consultation on the detail of how those policies would be applied in practice.

53. If a particular short-duration natural event was estimated to give rise to over \$50 million of costs over the NZ Transport Agency's normal emergency works expenditure in a 3 year period consideration should be given as to whether or not a bespoke emergency works funding solution was required. An event that resulted in less than \$50 million additional costs over the Transport Agency's normal emergency works expenditure would be able to be accommodated within NLTF cash-flows without materially impacting the agency's ability to give effect to the GPS. An event causing \$50 million to \$100 million of costs over the Transport Agency's normal emergency works expenditure in a 3 year period might be able to be accommodated through use of existing short-term debt facilities, by establishing an additional short-term facility or by entering a funding assistance rate adjustment arrangement with one or more approved organisations. An event that caused over \$100 million of costs over the normal emergency works expenditure in a 3 year period would be likely to require an injection of Crown funding or a medium to long term debt arrangement.

Department of Conservation and Waitangi National Trust

54. Currently some Department of Conservation carriageways are funded at 100% which means that the Department bears very little of the risk of over-investing in them. Following completion of transitioning arrangements, the normal funding assistance rate for eligible Department of Conservation carriageways should be 52% (the funding assistance rate that applies to the majority of councils). This is for administrative efficiency and to be more consistent with the one rate for each approved organisation framework.²
55. We are recommending that this 52% funding assistance rate should apply to a list of named existing Department of Conservation special purpose roads which either:

² Consistent with current policy, carparks on Department of Conservation special purpose roads would not be eligible for funding from the National Land Transport Fund.

- a. (1) Are principally used to convey the public to and from the start of a recreation or tourism area; (2) Do not primarily serve activities undertaken on a commercial basis, or by clubs or similar groups; (3) Are not primarily used by Department of Conservation staff or contractors for the purpose of managing the conservation estate; (4) Are not ones where use of the carriageway itself is a key part of a recreation or tourism activity; and (5) Are at least 2 km in length; or
- b. Are a legal local road where the Department of Conservation has taken over management of the local road with the specific agreement of the relevant local authority.

(We are recommending that a 0% funding assistance rate should be set for the other existing Department of Conservation special purpose roads, i.e. they should no longer receive NLTF funding.)

56. We will develop a policy framework for making future decisions as to whether or not any further Department of Conservation carriageways should be eligible for funding. Activities on any additional Department of Conservation carriageways that become eligible to be part funded from the National Land Transport Fund in future would need to go through the normal regional land transport plan, National Land Transport Programme and activity approval processes under the Land Transport Management Act 2003.
57. We recommend that the main carriageway in the Waitangi National Trust estate (and the Hobson Memorial Loop Road which comes off it) should continue to be funded at 100%. This is because those carriageways provide access to parts of the Trust estate which have a unique role in New Zealand history and culture and because, given the length of the carriageways, it is unlikely that the Trust could achieve many efficiencies in managing them in Far North District Council chose not to have them managed under its local road contracts. (The other carriageways on the Waitangi National Trust estate, that are not legal local road, either primarily provide vehicle access to leased sites within the estate or form part of a carpark.)

Administration costs

58. The NZ Transport Agency should adopt a consistent approach across all approved organisations of funding fair and proportional administration input costs for each eligible land transport activity an approved organisation undertakes as part of the direct costs of that eligible land transport activity at the relevant approved organisation's normal funding assistance rate. (Currently, some territorial authority administration costs are funded using a fixed rate of 2.25% of the National Land Transport Fund share of the cost of each activity.)
59. This might result in an increase in National Land Transport Fund administration costs across the country as a whole, above the 2.25% currently allocated from the National Land Transport Fund. However, any increase in administrative costs would not automatically result in an increased allocation for any particular council. Each council's programmes would be considered as a whole, and explanation sought for significant increases in costs to ensure a fair and equitable outcome.
60. We will develop guidelines to assist all approved organisations to include a fair and proportional administration cost in their claims to the NZ Transport Agency for eligible land transport activities.

Level crossing warning devices

61. Currently warning devices on local road/rail level crossings are funded at 100% of the relevant local authority's share of the costs. On a principles basis a council's costs in relation to warning devices at local road/rail level crossings should be funded at a territorial authority's normal funding assistance rate. Level crossing warning devices provide benefits to local communities in the same way that all other parts of the local road network do – they contribute to the safety of the network which provides access to and from properties within an area.

62. KiwiRail has a programme of rolling-out improvements to level crossing across the country. For the 2012-2015 NLTF co-investment period that programme covered 19 level crossings (some of which were on State highways) at a total programme cost of 2.65M (i.e. less than \$1M a year).
63. We will work with KiwiRail to investigate and implement an appropriate funding assistance rates system for those level crossing warning devices that both provides for ongoing maintenance and renewal of those devices in a manner that is consistent with the funding assistance rates principles and framework and facilitates the roll-out of new level crossing warning devices at high priority level crossings.

FINANCIAL IMPLICATIONS

64. Over the last few years overall the NLTF has met approximately 53% of the costs of approved organisations' eligible land transport activities (excluding emergency works and special bespoke arrangements, but including funding for special purpose roads). As it is proposed that the overall NLTF investment rate would be 53% (and that we be more consistent in what natural events attract elevated emergency works funding assistance rates throughout the country) we anticipate that the recommended approaches to setting funding assistance rates will be able to be accommodated within the funding ranges for the relevant activity classes that are likely to be included in the next GPS.
65. Further, Ministry of Transport staff involved in the review are aware that it is possible that some reasonably minor adjustment might need to be made to the relative sizes of the local authority road maintenance, operations and renewals funding range and the local authority local road capital improvements funding range to reflect the move to one funding assistance rate for all eligible land transport activities that a council undertakes.



COMMUNICATION AND ENGAGEMENT

66. In our communications with stakeholders we will explain what decisions have been made now and what decisions will be made a bit later. We will also explain what they can expect next, e.g. consultation on a draft written emergency works policy and, for those councils who manage special purpose roads, an invitation to meet with NZ Transport Agency staff to discuss the transitional arrangements for each special purpose road (particular risks relating to communications and engagement have been discussed above.)



ATTACHMENTS

67. There are two attachments:
- a. The main themes in submissions on the options discussion document
 - b. The 'starting points' for transitioning-in each council's funding assistance rate