

Funding assistance rates (FAR) review

Discussion document



OUR PURPOSE

CREATING TRANSPORT SOLUTIONS FOR A THRIVING NEW ZEALAND



NZ TRANSPORT AGENCY
WAKA KOTAHI



NZ Transport Agency (NZTA)

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www.nzta.govt.nz

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Foreword



One of the most important functions of the NZ Transport Agency is to manage the investment of the revenue generated by vehicle users in New Zealand's land transport system.

This money is collected through fuel excise duty, road user charges and motor vehicle registration fees and provides the revenue for the National Land Transport Fund. A large share of the money in National Land Transport Fund is invested in land transport activities undertaken by local councils and Auckland Transport (as well as some land transport activities undertaken by the Department of Conservation and the Waitangi National Trust Board).

Funding assistance rates are a vital part of this work. Whenever a land transport activity, such as a local road maintenance programme or a public transport service, is approved for funding from the National Land Transport Fund the proportion of the approved costs of that activity that will come from the Fund is determined by the relevant funding assistance rate (FAR).

WHY ARE WE DOING THIS REVIEW?

The last major changes to funding assistance rates were made more than 30 years ago. Recently we've heard lots of feedback around whether the current approaches to setting funding assistance rates are still appropriate today.

We want to test that the way the NZTA sets funding assistance rates is still valid and appropriate. Therefore, the NZTA is taking a first principles look at the funding assistance rates setting process. The NZTA has an open mind whether or not the current approach to setting funding assistance rates should be changed, and, if it was to be changed, what changes should be made.

Our intention is to have the outcomes of the review, whether they include changes to how the NZTA sets funding assistance

rates or not, come into effect in the 2015-18 National Land Transport Programme.

WHAT THE REVIEW WON'T CHANGE

The review won't result in any change to the overall amount of money available from the National Land Transport Fund for land transport activities. Nor will it change:

- How much of the National Land Transport Fund revenue can be spent on different types of land transport activities (the funding ranges for different types of land transport activities are set by the Government Policy Statement on Land Transport Funding)
- How the NZTA determines whether or not a particular land transport activity should receive funding from the Fund
- Existing commitments to fund particular land transport activities from the Fund.

SEEKING YOUR VIEWS ON WHAT OVERALL APPROACH WE SHOULD TAKE

When we released a background document for this review late last year, we planned to have one round of formal consultation, in March to April this year, on specific options the NZTA could adopt in setting funding assistance rates.

However, it is now clear that we really need to get your input on:

- What principles should sit behind how the NZTA sets funding assistance rates, and
- What overall approach, or combination of approaches, the NZTA should take in setting funding assistance rates.

This means that there will now be a two-stage consultation approach:

- Consultation on this discussion document, which looks at the principles that should sit behind the regime and the different overall approaches the NZTA could take to setting funding assistance rates, until the beginning of May this year, and
- A second round of consultation, in late 2013, on options for specific methods for setting funding assistance rates and what those various options would actually mean for different stakeholders

WE VERY MUCH WANT TO HEAR WHAT YOU THINK.

We want to hear what you think. Have we missed anything that it is important for the NZTA to consider as part of this review? How do you think the various overall approaches identified in this document would affect New Zealand's transport network as a whole and you or your organisation? Which overall approach, or combination of overall approaches, should the NZTA consider further and how should it choose between the various overall approaches? Many thanks and we look forward to hearing your thoughts.



Geoff Dangerfield
Chief Executive



How you can give us your views

This document contains a brief set of questions on which the NZTA is seeking your views. The questions are all repeated in the submission form in Attachment 5 on page 49 and on the NZTA website at www.nzta.govt.nz/far. These questions are only intended as a guide and we welcome any feedback or ideas you have about the issues raised in this document and the approach the NZTA should take to setting funding assistance rates (FARs).

You can either:

- complete an online submission on www.nzta.govt.nz/far, or
- send us a written submission (the submission template available at www.nzta.govt.nz/far or in Attachment 5 on page 49 will help you).

You can either:

- email your written submission to farreview@nzta.govt.nz, or
- post it to:
FAR review discussion document submissions
NZ Transport Agency
50 Victoria Street
Private Bag 6995
Wellington 6141
Attention: Clare Sinnott

The deadline for submissions is **5pm on Friday 3 May 2013.**

We will make copies of submissions received available on our website. The Official Information Act 1982 (OIA) requires the NZTA to make information it holds available if asked, unless there is good reason to withhold it. If your submission contains any information which you do not want released, you need to let us know what information you would like withheld and why. However, whether or not the NZTA can withhold that information will depend upon whether it is appropriate for it to do so under the OIA.

This document should be read together with:

- the *Funding assistance rates (FAR) review: background document* released late last year which is available on our website at www.nzta.govt.nz/far
- the FAR review objectives and scope (see Attachment 1 on page 35).

The FARs for all of the following activities are within the scope of this review:

- The operation, maintenance and renewal of local roads.
- The construction of new local roads and improvements to existing local roads.
- Emergency reinstatement works to local roads.
- Transport planning, road safety promotion, and network user information.
- The operation, maintenance and renewal of, and improvements to, special purpose roads.
- Public transport services (including Total Mobility Services) and public transport infrastructure.
- Walking and cycling.

A number of matters relating to the funding of land transport activities are outside the scope of this review, including:

- The overall amount of money available for allocation from the National Land Transport Fund (NLTF).
- The funding ranges available for allocation from the NLTF for particular activity classes (types of activity).
- Farebox recovery rates (the percentage of the costs of passenger transport which are met by passenger fares).
- 100% funding of operational expenses and capital expenditure in relation to state highways from the NLTF.

What will happen next?

Once we have heard from you on these issues, the NZTA will make a decision as to what the overall approach to setting FARs will be (or, possibly, what combination of overall approaches the NZTA will use for setting FARs). At that point, before we develop options for specific methods for setting particular FARs, the NZTA will ask the Minister of Transport whether he wishes to issue criteria for how the NZTA sets FARs (which he is able to do under section 20C of the Land Transport Management Act 2003 (LTMA)). The Minister does not set FARs but he can, if he wishes, issue criteria that the NZTA must act in accordance with when it sets FARs.

We will then develop options for specific methods for setting particular FARs, based on the overall approach(es) decided on. An options document, seeking your views on those options, will be released at the end of the year. That options document will discuss the implications of different options for approved organisations.

In February or March next year the NZTA will make a decision on what specific methods to apply in setting FARs and the likely impacts, if any, on the FARs for the 2015-18 National Land Transport Programme investment period. If it is decided to make changes for how FARs are set, the NZTA will also look at what arrangements should be put in place to transition those changes in.

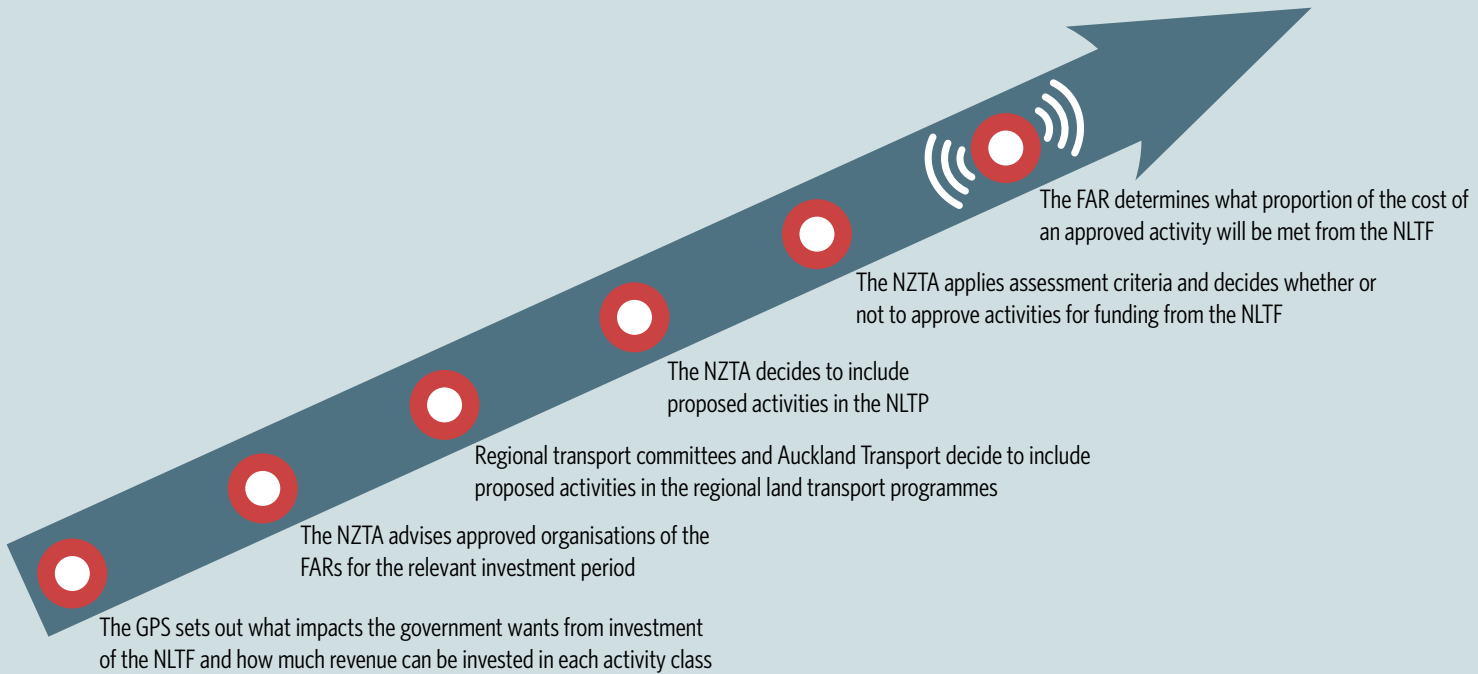
Where FARs sit in the overall investment process

Funding assistance rates (FARs) apply to the land transport activities of local councils (district and regional) and Auckland Transport. The Department of Conservation (DoC) and the Waitangi National Trust Board are also 'approved organisations' to which FARs apply. 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.

A key design characteristic that lies at the heart of the current FAR system is that of 'cost sharing'. Because the NLTF and the approved organisation each contribute part of the cost of the land transport activity, both share the benefits and the risks associated with seeking to obtain value for money from investment in that activity. The fact that the cost of land transport activities is shared between the NLTF and the relevant approved organisation acts as a moderator both on the amount of funding that approved organisations spend and on the uses the funding is put to.



Where FARs sit in the LTMA investment process



The FAR system results in the finite amount of money raised nationally from vehicle users being applied to land transport activities across the country.

When the NZTA makes its decisions about:

- whether to include proposed land transport activities in the National Land Transport Programme (NLTP)
- whether or not to approve activities for funding from the NLTF, and
- what FARs should apply,

those decisions need to be made in accordance with the NZTA's statutory obligations and strategies, policies and principles (discussed in Attachment 3).

MAIN CATEGORIES OF FAR

As discussed in the *FAR review background document* released in 2012, 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 proportion of funding for its operation, maintenance and renewal 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 individual local councils':

- Need (using the size of its road maintenance programme as a proxy)
- Ability to pay (using local councils' rating base – rateable land values – as a proxy)

This base FAR policy means that local councils with smaller rating bases but large roading networks receive higher base FARs than local 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% FAR.

A different approach is currently taken for other land transport activities – the most significant being the FAR of 50% that applies to bus and ferry passenger services for all approved organisations. 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.

Some differential FARs have been created with the aim of providing a financial incentive for local councils to deliver particular activities (this is discussed in more detail in Attachment 4). The most common is the local road construction FAR that currently provides an additional 10 percentage points over the base FAR for capital construction activities.

APPROVED ORGANISATIONS

Local councils and Auckland Transport

Providing land transport infrastructure and services is a core function of district and regional councils and Auckland Transport. Each year local councils invest around \$850 million of 'local share' in local roads, walking and cycling, public transport and other land transport activities. In addition to activities part-funded from the NLTF, district councils also fully fund some activities such as footpath maintenance and roadworks that do

not qualify for NLTF funding.

Transport spending represents, on average, about a quarter of urban and a third of rural district council spending overall. In the case of some rural district councils the proportion of transport spending, including the funding they receive from the NLTF, makes up an even larger proportion of their overall activity.

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 council, for example airport companies.

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

Local councils prepare long term plans every three years and annual plans in the middle two years. In their long term plans, they are required to determine the appropriate funding sources for their various activities. Local councils 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. Under the Local Government Act 2002, local councils are required to consider the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals when determining the various funding sources available for each local council activity.

Regional councils play an important role in planning and funding land transport in their areas. For example, they approve regional land transport programmes (put forward by regional transport committees) that list, and prioritise, land transport activities proposed to receive funding from the NLTF in their region. Regional transport committees include, among other people, representatives of the regional council and a representative of every district council in the region. Currently

regional land transport programmes are prepared every three years. Under proposed amendments to the LTMA currently before Parliament these regional land transport programmes (and the current regional land transport strategies) would be replaced by regional land transport plans that would be prepared every six years.

Regional councils also plan for, and submit for inclusion in regional land transport programmes, public transport activities to be delivered in their region.

Things are done slightly differently in Auckland, where Auckland Transport:

- Manages and controls the Auckland transport system, and
- Prepares and approves the regional land transport programme.

When local councils make decisions about what land transport activities to propose for inclusion in a regional land transport programme, and what activities to seek NLTF funding for, they make those decisions in accordance with their statutory obligations, strategies and policies and the aspirations of the communities they represent.

The Department of Conservation and the Waitangi National Trust Board

DoC also manages a system of 'roads'¹ approximately 2280km in length. Few of them are sealed. Many of them, including many unsealed gravel DoC roads, are used by tourists. These DoC roads are largely destination roads providing access to parts of the Crown conservation estate. They often start at the end of district council maintained roads at the point where the local road crosses the boundary of the conservation estate.

Currently, only some DoC roads receive funding from the NLTF - these are roads that have been declared to be 'special purpose roads'. They tend to be roads that cater for a high proportion of tourist traffic, for example a DoC road providing access to the Franz Josef Glacier.

Some of the carriageways on the Waitangi National Trust land are also special purpose road.



¹ These DoC carriageways are available to the public but are not legally 'roads' for some purposes.

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.

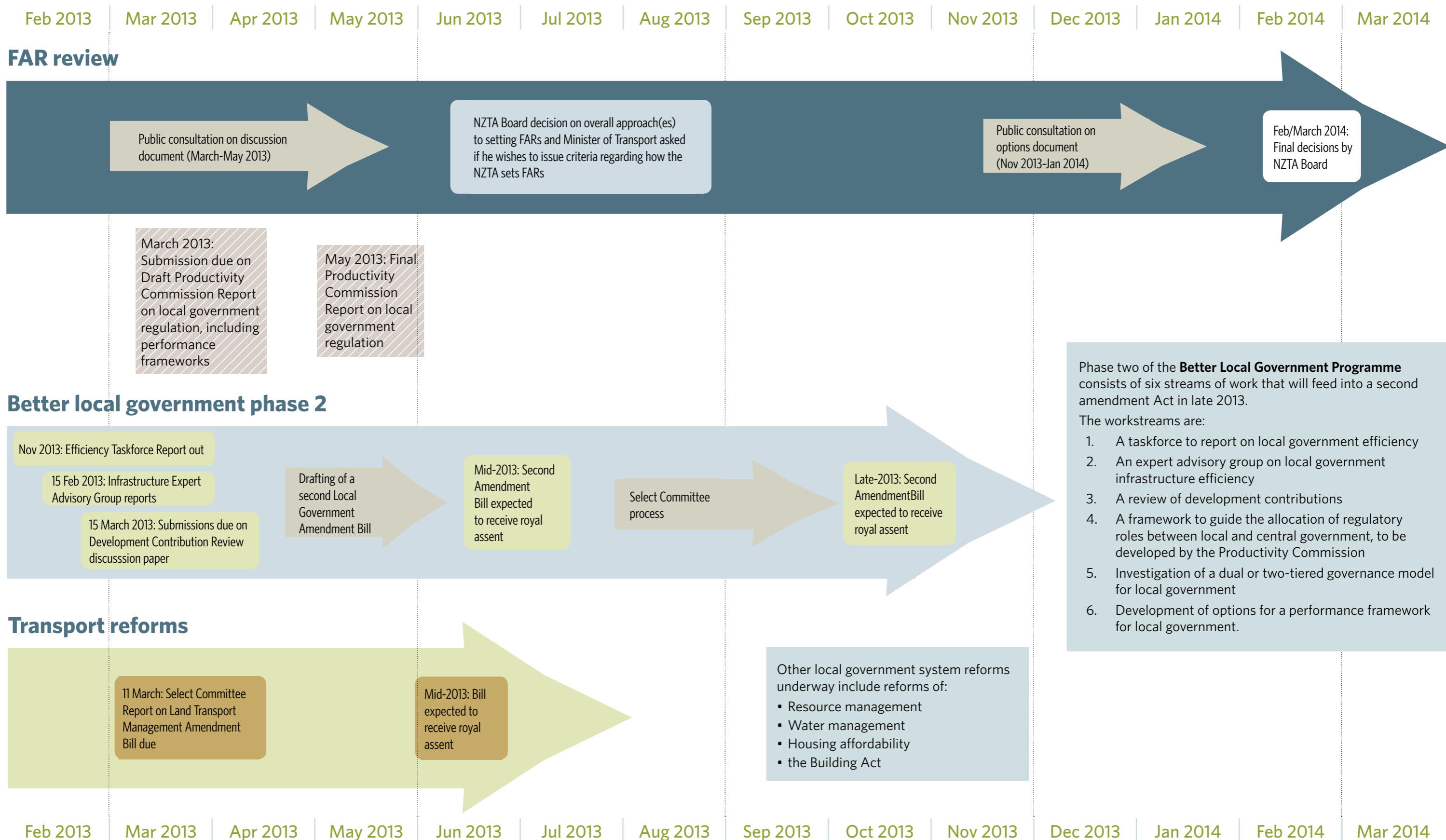
COUNTRY	GOVERNMENT BODIES (NUMBER)	NATIONAL FUNDS ALLOCATED THROUGH	COST SHARING FROM NATIONAL FUNDS
Australia	Commonwealth (1), state and territorial (6+2), local (560)	Various grants for road maintenance allocated by formulas for road length, population and historic funding level Various grants earmark 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 currently using a measure of ability to pay in determining the funding assistance provided to local councils where other countries only consider measures of need.



FAR and other local government system reforms in 2013 and 2014



FAR review

Public consultation on discussion document (March-May 2013)

NZTA Board decision on overall approach(es) to setting FARs and Minister of Transport asked if he wishes to issue criteria regarding how the NZTA sets FARs

Public consultation on options document (Nov 2013-Jan 2014)

Feb/March 2014: Final decisions by NZTA Board

March 2013: Submission due on Draft Productivity Commission Report on local government regulation, including performance frameworks

May 2013: Final Productivity Commission Report on local government regulation

Better local government phase 2

Nov 2013: Efficiency Taskforce Report out

15 Feb 2013: Infrastructure Expert Advisory Group reports

15 March 2013: Submissions due on Development Contribution Review discussion paper

Drafting of a second Local Government Amendment Bill

Mid-2013: Second Amendment Bill expected to receive royal assent

Select Committee process

Late-2013: Second Amendment Bill expected to receive royal assent

Phase two of the **Better Local Government Programme** consists of six streams of work that will feed into a second amendment Act in late 2013.

The workstreams are:

1. A taskforce to report on local government efficiency
2. An expert advisory group on local government infrastructure efficiency
3. A review of development contributions
4. A framework to guide the allocation of regulatory roles between local and central government, to be developed by the Productivity Commission
5. Investigation of a dual or two-tiered governance model for local government
6. Development of options for a performance framework for local government.

Transport reforms

11 March: Select Committee Report on Land Transport Management Amendment Bill due

Mid-2013: Bill expected to receive royal assent

Other local government system reforms underway include reforms of:

- Resource management
- Water management
- Housing affordability
- the Building Act

Principles

When the NZTA decides in July this year what overall approach (or combination of overall approaches) it should take to setting FARs going forward it will do so by assessing the various possible overall approaches against a set of principles.

The principles that we have currently identified are that the approach used in setting FARs should:

1. Be consistent with seeking value for money from investment of the NLTF.
2. Support a whole of network approach to a land transport network for New Zealand.
3. Recognise the interests of, and benefits received by, ratepayers and users of the land transport system.
4. Be financially responsible.
5. Allow social and environmental responsibility to be exhibited.
6. Be efficient to apply.
7. Be transparent (based on clearly identified principles and accessible and reliable evidence/data).
8. Strike an appropriate balance between providing certainty for approved organisations and being agile enough to respond to change.

As discussed below, these principles come from the NZTA's statutory obligations, strategies and policies (discussed in Attachment 3) and are characteristics that we consider would help a FAR setting process to be practical, effective and stand the test of time.

However, there may be other principles that the NZTA should apply in deciding what overall approach(es) to take in setting FARs.

Value for money

The LTMA requires the NZTA to use the revenue in the NLTF in a manner which seeks value for money. Value for money has been defined in a variety of ways, but in general it means selecting the right things to do, implementing them in the right way, at the right time and for the right price. Seeking value for money requires taking a long-term view of the total value for money attributable to an activity and not simply the initial capital cost. The GPS provides the NZTA with further guidance on the things to do and the way to do them.

A whole of network approach

The principles that the NZTA applies in making planning and investment decisions (which are available at www.pikb.co.nz/home/the-way-we-work/nzta-planning-and-investment-principles) include:

- Being outcomes focused – including identifying solutions that will deliver whole of network outcomes
- Optimising the provision and use of the land transport network - including by adoption of a whole of network approach
- Investing in an optimised, integrated, multi-modal transport network that targets areas of greatest transport need.

A whole of network approach is one which is focused on the outcomes for users of the land transport network and works across different modes of transport and across the parts of the transport network controlled by different bodies.

The benefits of ratepayers and users of the land transport system

As discussed earlier in this document, a key design characteristic that lies at the heart of the current FAR system is one of cost-sharing between ratepayers and land transport system users (both the vehicle users who contribute to the NLTF and, for public transport, fare paying customers). This review will not result in any change to the overall amount of money available from the NLTF for land transport activities. Nor will it change how much of the NLTF revenue can be spent on different types of land transport activities (the funding ranges for different types of land transport activities are set by the GPS). Therefore, some kind of cost-sharing will continue whatever the outcomes of this review.

Financial, social and environmental responsibility

The NZTA is legally required to:

- act in a financially responsible manner, and
- exhibit a sense of social and environmental responsibility.

Efficient to apply and transparent

We want to avoid methods for setting FARs which are complex, time-consuming or costly to apply.

The NZTA is legally required to act in a transparent manner.

A balance between certainty and agility

The NZTA appreciates that approved organisations require sufficient certainty regarding the amount of of NLTF funding they will receive to allow them to confidently plan their expenditure and to enter into contractual commitments.

However, a FAR setting system that was too rigid or too blunt might not be able to appropriately respond to changes – whether that be changes in the statutory regimes the NZTA or approved organisations work within, institutional change, or changes in government transport strategy and objectives.

Why do none of the principles refer to fairness or equity?

None of the principles we have currently identified specifically refer to fairness or equity. This is because, in the context of FARs, fairness and equity can mean very different things depending on what perspective you look at things from. For example, over the years people have argued that it is unfair if the proportion of the NLTF revenue invested in activities in an area is smaller than the proportion of NLTF revenue generated in that area. However, it has also been argued that it is unfair if one area receives less NLTF revenue per head of population than another area.

The weight to be given to different principles

We welcome your feedback on which of the principles identified above, or any additional principles you identify, are the most important and, therefore, should be given the most weight when the NZTA decides what overall approach(es) to take in setting FARs.

We note that when deciding what overall approach(es) to take in setting FARs the NZTA will be required to act in accordance with its statutory obligations (discussed in Attachment 3).

Overall approaches to setting FARs

A number of overall approaches to setting FARs have either been used to some degree in the past or have been suggested by various organisations, groups or individuals over the years. We are seeking your feedback on what overall approach, or combination of approaches, the NZTA should take in setting FARs – what should we be seeking to achieve in setting FARs?

So far we have identified eight different overall approaches that could be taken to setting FARs:

1. Every approved organisation having the same FAR for every land transport activity – such as setting the FAR for every land transport activity of every approved organisation at, for example, 50% (the ‘flat approach’).
2. An approved organisation having the same FAR for every activity but different approved organisations having different FARs which are set to address relative differences between the approved organisations. These differences can be divided into three main categories:
 - › Differences in the ability of approved organisations to raise the local share of the cost of land transport activities (eg rates revenue).
 - › Differences in the intrinsic costs in undertaking land transport activities in different areas, due to factors such as topography, climate, and geology.
 - › Differences in the demands placed on approved organisations due to things like the percentage of heavy vehicle traffic on their network (the ‘differences approach’).
3. Different FARs would then be set for activities depending on their classification in a national road classification system and a national classification system for public transport activities (the ‘classification approach’).
4. Setting FARs to reflect where the NLTF revenue was generated (the ‘revenue approach’).
5. Determining FARs by population – the larger an approved organisation’s population, the higher its FAR, with the aim of providing a more equal financial benefit for each New Zealander from the NLTF (the ‘population approach’).
6. Setting targets which approved organisations are required to meet, like efficiency targets and outcome targets, and giving a lower FAR if targets are not met and a higher FAR if targets are met (the ‘incentives approach’).
7. Allocating NLTF funding generally in accordance with the degree to which a district/region contributes to the New Zealand economy – such as setting FARs in accordance with the GDP of a district/region, the number of heavy vehicle kilometres travelled within the district/region, or the number of vehicle or passenger kilometres travelled within the district (the ‘contribution approach’).
8. Setting FARs to reflect the extent to which particular land transport activities benefit property owners (ratepayers) and the extent to which they benefit land transport system users – in other words having higher FARs for activities which have greater land transport system user benefits when compared to property owner benefits (the ‘relative benefit approach’).

Each of these overall approaches is discussed in a separate section of this document along with some advantages and disadvantages we have identified for each overall approach. The advantages and disadvantages identified are related to the principles discussed earlier in this document. The lists of advantages and disadvantages are not intended to be exhaustive, nor are advantages and disadvantages identified necessarily equally important.

One outcome of this review could be that the NZTA adopts one overall approach for how it sets all FARs. Alternatively it might adopt a combination of approaches, for example it might apply different overall approaches to different types of activities, or different approaches to different kinds of approved organisations.

DATA

Sample data of measures that could be used in setting FARs, ie:

- the relative length of district council's local road networks
 - the shares of the vehicle kilometres travelled on New Zealand local roads that occur in different districts
 - the shares of the New Zealand population in different districts
- is included in Attachment 2 to this document.

Questions

1. Are the principles identified above appropriate? Why/why not?
2. What other principles should be taken into account in determining which overall approach (or combination of approaches) to adopt in setting FARs?
3. Which principles are the most important and, therefore, should be given the most weight when the NZTA decides what overall approach(es) to take in setting FARs?
4. This document identifies eight possible overall approaches to setting FARs. What other overall approaches could the NZTA take in setting FARs?
5. Do you agree with the advantages and disadvantages of each overall approach identified in this document? Why/why not?
6. Are there any other advantages, or disadvantages, which are not identified in this document?
7. To what extent do you consider that the different overall approaches would, or would not:
 - › be consistent with seeking value for money from investment of the NLTF?
 - › support a whole of network approach to a land transport network for New Zealand?
 - › recognise the interests of, and benefits received by, ratepayers and users of the land transport system?
 - › be consistent with the NZTA acting in a financially responsible manner?
 - › allow social and environmental responsibility to be exhibited?
 - › be efficient to apply?
 - › be based on clearly identified principles and accessible and reliable evidence/data?
 - › strike an appropriate balance between providing certainty for approved organisations and being agile enough to respond to change?
8. How do you think the various overall approaches would affect the New Zealand land transport system?
9. How do you think the various overall approaches would affect you or your organisation?
10. Which overall approach, or combination of overall approaches, do you think the NZTA should apply in setting FARs? Why?

Flat approach

Under this overall approach to setting FARs, every approved organisation would have the same FAR for every land transport activity, such as setting the FAR for every land transport activity of every approved organisation at, for example, 50%.

ADVANTAGES

Advantages of this approach include:

- Having the same FAR for all land transport activities would mean that approved organisations' choice as to what land transport activity to pursue would not be influenced by the fact that some types of activity attract a higher FAR. Instead approved organisations' decisions regarding what land transport activities to undertake would be made on the basis of factors such as:

- › best value for money, and
- › the outcomes that would be achieved from different activities.

(The levels at which FARs are set influences the mix of land transport activities that local councils undertake. This is because many local councils, understandably, seek to maximise the level of funding assistance they receive from the NLTF.)

- It would be very straightforward to apply with low administration costs.
- It would be very transparent.
- It would be stable and give a high level of certainty to approved organisations as to the rate of NLTF funding they would receive.

DISADVANTAGES

Disadvantages of this approach include:

- Differences in approved organisations' ability to raise local share and differences in costs, for example due to geology might:
 - › result in some approved organisations being unable to provide land transport activities to an adequate level of service (which could lead to them incurring greater costs over time, for example increased rehabilitation costs)
 - › potentially lead to wide variations in the levels of service provided throughout the

country. This could mean that:

- some communities received lower levels of service to that received by similar communities elsewhere in the country
- land transport system users travelling through and between different local council areas might experience a significant variation in the level of service they experience as they cross administrative boundaries
- the differences in levels of service reduce both overall safety and travel time reliability across regions and the country.
- The split of funding for a particular land transport activity would bear no relation to the proportion of the benefits of that particular activity which are received by the vehicle users (who provide the revenue for the NLTF) and property owners (rate payers) who contribute the majority of the local share of land transport costs.
- It would not be agile in the sense that it would not be able to respond to policy changes.

IS THIS APPROACH USED NOW?

The current FAR setting process contains an element of a flat approach as some activities have flat FARs across all relevant approved organisations. Currently all bus and ferry passenger services receive a 50% FAR. All relevant approved organisations receive the same FAR for eligible passenger rail services. This rail FAR is currently being transitioned down to 50% for all relevant approved organisations.

Currently the FARs for councils' local road maintenance activities are set so that the national average for those FARs is 50 percent.

However, when the different FARs for all local government activities funded through the NLTF are taken into account the actual overall effective average FAR for those activities between mid 2000 and mid 2010 has been about 55%.

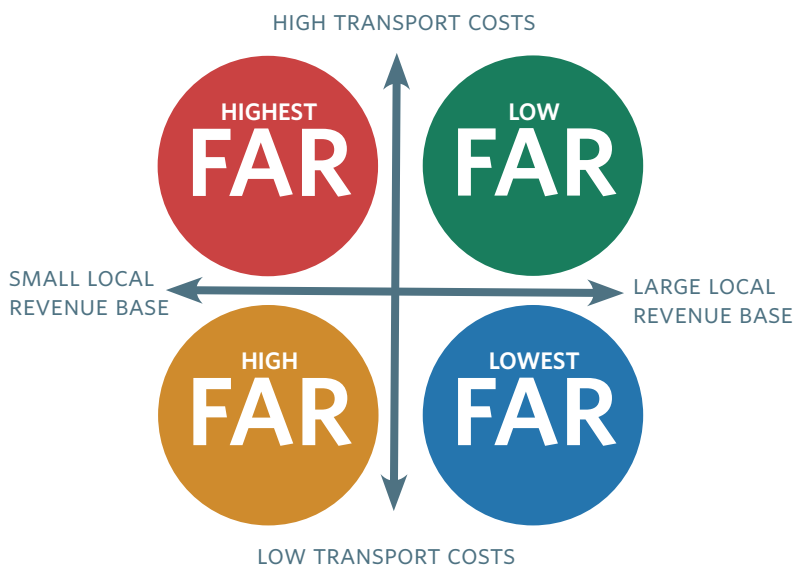
Differences approach

Under this overall approach to setting FARs, an approved organisation would have the same FAR for every activity but different approved organisations would have different FARs. The FARs for different approved organisations would be set to address relative differences between those organisations. These differences can be divided into three main categories:

1. Differences in the ability of approved organisations to raise the local share of the cost of land transport activities (such as rates revenue).
2. Differences in the intrinsic costs in undertaking land transport activities in different areas, due to factors such as topography, climate, and geology.
3. Differences in the demands placed on the approved organisations due to things like the percentage of heavy vehicle traffic on their network.

A process for setting FARs which took a differences approach might address any one or more of these differences.

What this approach might look like



IS THIS APPROACH USED NOW?

Base FARs

The current method for determining the 'Base' FARs for district councils' road maintenance, operation and renewal activities uses a differences approach. Base FARs are determined by a formula which factors in both:

- the five-yearly averaged net equalised rateable land value of the district (as a proxy for ability to raise rates revenue), and
- the cost of the district council's road maintenance, operations and renewals programme - which to some degree takes into account differences in the intrinsic costs of undertaking those activities between different district councils and the differences in the demand placed on the local road networks.

There are also other FARs within the current regime which are based on this Base FAR and, therefore, also include elements of a differences approach:

- The construction FAR for new and improved local roads is the Base FAR plus 10%.
- A regional council's FAR for transport planning and road safety promotion is the weighted average construction FAR for their region.
- A regional council's FAR for network user information funding is the weighted average Base FAR for their region.

Emergency works FARs

The current FAR for emergency works is also calculated on a basis that takes into account need (the cost of emergency works) and ability to pay (an approved organisation's total general rates). The aim of the current approach to calculating the FAR for emergency works is to mitigate the impact of emergencies on councils' road maintenance programmes.

ADVANTAGES

Advantages of this approach include:

- Having the same FAR apply to all the land transport activities undertaken by an individual approved organisation would mean that that organisation's choice as to what land transport activity to pursue would not be influenced by the fact that some types of activities attract a higher FAR. Instead approved organisations' decisions regarding what land transport activities to undertake would be made on the basis of factors such as:
 - › best value for money, and
 - › the outcomes that would be achieved from different activities.
- It would assist consistent levels of service for similar land transport activities being achieved nationally. Therefore it would help the land transport system overall to move towards a situation where land transport system users travelling through and between areas controlled by different approved organisations would experience a similar level of service on services or routes with similar functions. This would potentially have benefits for both safety and travel time reliability.
- It should be possible to design a system based on this approach in a way that was:
 - › not too complicated or ambiguous and, therefore, was efficient for both the NZTA and approved organisations to use
 - › reasonably transparent, and
 - › reasonably stable.

DISADVANTAGES

The disadvantages of this approach include:

- It would not align land transport activity funding rates with the relative benefits obtained from the groups who provide the funds that pay for those land transport activities:
 - › Property owners (ratepayers) who provide the majority of the funding for the local share of land transport costs.
 - › Vehicle users who provide the revenue for the NLTF.
 - › Public transport users who contribute by way of fares to the costs of operating public transport services.
- It would not be able to respond to policy changes.

Please see the section of this document on the contribution approach for a discussion of the advantages and disadvantages of a FAR setting process based on heavy vehicle kilometres travelled within a district or region.

SOME THINGS WE NEED TO THINK ABOUT IF THE NZTA DECIDES ON A DIFFERENCES APPROACH

If the NZTA decides to use a differences approach there are a number of issues that we will need to explore, including:

- What metric(s) should be used as a proxy for determining relative ability to raise local share. Rateable land value? Capital value? A deprivation index?
- What effect having a high proportion of non-rateable Crown land or multiple-owned Māori land has on a local council's ability to raise local share.

The current formula for calculating Base FARs excludes non-rateable land, such as Crown land (like national parks) and Māori customary land, when determining the value of land in a district council's area. Therefore, the current approach to setting FARs compensates those local councils whose areas contain a large proportion of non-rateable land.

SHOULD THE NZTA TAKE POPULATION DENSITY OR ROAD LENGTH INTO ACCOUNT IF THE NZTA ADOPTS A DIFFERENCES APPROACH?

All things being equal, the greater the length of an approved organisation's road network the more it costs to maintain and operate that network.

A study undertaken in 2006 looked at, among other things, whether more densely populated local authorities enjoyed economies of scale in the provision of services and so, all things being equal, had lower per capita expenditure relative to less densely populated authorities. The study found that a 10% increase in population density appears to enable authorities to reduce their overall per capita expenditure by almost 1%. (*Rating systems in New Zealand: An empirical investigation into local choice*, McCluskey, Grimes, Aitken, Kerr and Timmins, Journal of Real Estate Literature, Volume 14, Number 3, 2006, pages 381 to 397, page 390.)

From a number of studies that have been undertaken it appears that cities with lower population densities tend to have less efficient public transport (*Motu Note #4 - Transport infrastructure, lock-out, and urban form: Highway development in Auckland and the United States*, Andrew Coleman, page 4).

Therefore, a low population density or a relatively long roading network can increase a local council's costs in undertaking land transport activities when compared to other local councils. However, unlike factors such as climate and geography, local councils may have some level of control over the density of population and the length of the local road network in their area (including through their land use planning decisions).

The Victoria Grants Commission

The Victoria Grants Commission allocates revenue provided by the Australian Commonwealth Government to municipal councils in Victoria according to the Local Government (Financial Assistance) Act 1995 and a set of national distribution principles. This includes allocating revenue for local road funding.

The Commission's approach to allocation of local road funding between Victorian municipal authorities involves an allocation model which includes the calculation of a 'network cost' which draws on each council's road length (for all surface types) and traffic volumes, using average annual asset preservation costs for given traffic volume ranges. The methodology also includes a series of cost modifiers for freight loading, climate, materials, sub-grade conditions and strategic routes and takes account of the deck area of bridges on local roads.

The influence of climate on local road costs is measured through the Thornthwaite Moisture Index. This index takes account of the effects of rainfall and evaporation. The sub-grade conditions of local roads are determined by estimating the proportion of each municipality comprising expansive clay sub-grades.



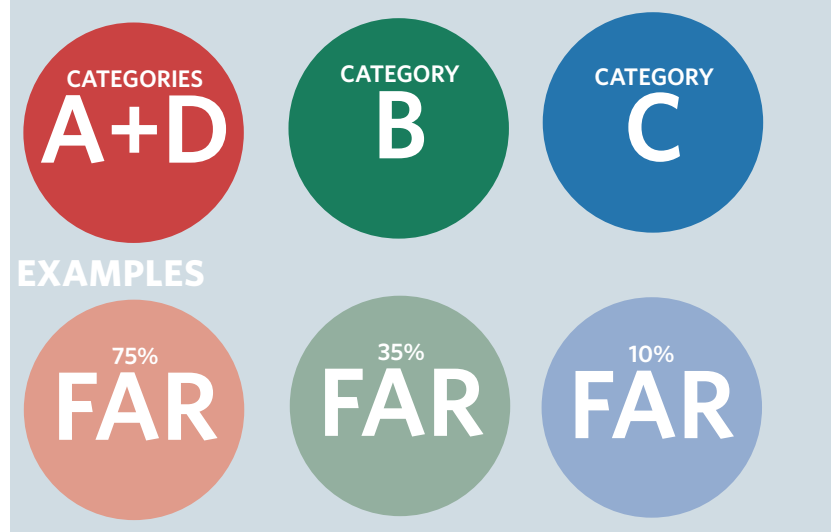
Classification approach

Under this overall approach different FARs would then be set for activities depending on their classification in a national road classification system and a national classification system for public transport activities. For example key arterial roads might be in one category and receive 75% FAR while residential cul de sacs might be in another category and receive 10% FAR. A classification approach would need to comply with the funding ranges for different types of land transport activities set in a GPS. Therefore, it would continue to be those funding ranges that controlled the allocation of funding between different activity classes.

Theoretically, a FAR system based on this approach could be set up so that some activities had 0% FAR and others were eligible for 100% FAR.

What this approach might look like

Determine for every road and every public transport service within an approved organisation's area what classification they fall within.



ADVANTAGES

Advantages of this approach include:

- Routes with similar characteristics, and similar land transport activities, throughout the country would receive the same FAR and, therefore, would be treated similarly. This could assist in achieving consistent levels of service across the country.
- It could assist in achieving value for money from investment of the NLTF by enabling the NZTA to target the proportion of funding provided depending on the economic and social value of different parts of the network.
- Once the system was set up and individual land transport activities had been classified, it would:
 - › create a reasonable level of certainty for approved organisations as to what proportion of NLTF funding they would receive for different activities
 - › be transparent.

IS THIS APPROACH USED NOW?

The current land transport funding system already uses a version of this approach for roads. This is because there are currently three categories of roads for funding purposes:

- State highways – receive 100% funding from the NLTF.
- 'Special purpose roads'/Crown Range Road – currently receive FARs of between 75% and 100% for improvements and 90% to 100% for maintenance and operations. (Some, but not all, special purpose roads were made special purpose roads because they carried a high proportion of tourist traffic and were located in remote areas with low rating bases).
- Other local roads – where an approved organisation currently receives one FAR for the maintenance and operation of all such local roads and one FAR for all road construction activities, with:
 - › the FARs for road maintenance and operations generally being between 43% and 66% (with road maintenance and operations on the Chatham Islands receiving a FAR of 88%), and
 - › the FARs for road construction activities generally being between 53% and 76% (with local road construction activities on the Chatham Islands receiving a FAR of 94%).

- Depending upon how the classification system was set up it could mean that the split of funding for a particular land transport activity would, to some degree, reflect the proportion of the benefits of that particular activity which are received by ratepayers and users of the land transport system.
- It would be able to respond to policy changes.

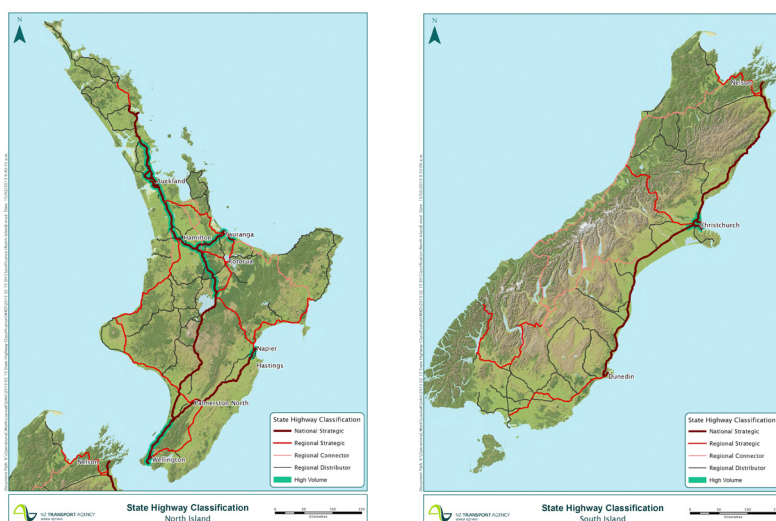
DISADVANTAGES

Disadvantages of this approach include:

- A pure classification approach would not take into account differences in approved organisations' ability to raise local share and differences in costs. This could potentially lead to some approved organisations with a lot of land transport activities receiving a lower FAR not being able to afford to maintain those activities to the relevant level of service which would accord with their category in the classification system. This could lead to them incurring greater costs over time, for example increased rehabilitation costs.
 - The potential for either the classification system, or the FARs applying to different categories, being changed over time to reflect policy changes would reduce certainty for approved organisations.
 - There would be likely to be ongoing issues in relation to whether:
 - › individual land transport activities, such as particular roads or public transport services, had been given the correct classification
 - › over the course of time particular land transport activities should be reclassified and so attract a different FAR.
- This could have some effect on the efficiency of the system and potentially lead to a degree of ongoing uncertainty. However, this issue could potentially be managed at least to significant degree by how the classification system is set up and by setting up a formal system regarding when, and on what basis, the classification of individual land transport activities would be reviewed.
- There could be significant costs, time and practical difficulties involved in developing classification systems and determining for every road and every public transport service within an approved organisation's area what category they fall within.
 - While there are various existing road classification systems and hierarchies which a classification system for local roads could draw from, a significant amount of work would be required to create a classification system for passenger transport services and we currently have limited understanding of the types of issues that would be encountered in setting up such a system.
 - For activities such as road maintenance, the approach would involve additional administration costs as it would require approved organisations and their contractors to keep records of what is being spent on each individual land transport activity within their area. However, with modern technology, this should be practicable to do.

Example of a classification system: The state highway classification system

We have set up a classification system for the state highway network. That system categorises roads in the state highway network based on their function. Function refers to the road's main purpose, such as moving freight to and from a port, or people between main centres. The categories in the state highway classification system are national strategic (with a high volume subset), regional strategic, regional connector and regional distributor. State highways are sorted into categories according to criteria such as size of population centres, traffic volume, freight volume, and tourist numbers.



ROAD MAINTENANCE TASK FORCE

In 2011 the Government established the Road Maintenance Task Force to identify opportunities to increase the effectiveness of road maintenance. One of the four general areas for improvement identified by the Task Force was improving prioritisation and optimisation through level of service differentiation. The Task Force's final report (*Road maintenance task force 2012 – review of road maintenance regime, October 2012*) states – 'There is a significant opportunity to further differentiate levels of service on each part of the total road network. Such differentiation must be linked to a classification system that recognises the economic and social value of component parts' (page 8).

Specifically they recommended that the transport sector consider and endorse, after consultation, a local road classification system being developed by a working group representing all road controlling authorities which:

- Accommodates the existing State highway classification system
- Identifies the level of service, function and road use (including economic, social and cultural aspects of local road networks)

The Task Force identified such a classification system as being part of an overall asset management framework for roads and stated that 'NZTA policies and processes would need to be aligned with this asset management framework' (page 25).

The majority of submissions received on the Task Force's interim report supported the development of a proposed national classification system. Submitters referred to the possible implications of a national classification system on the funding partnership between the NZTA and local authorities. In discussing those submissions, the Task Force's final report commented '... the principle that the NZTA can (and does) set standards which then influence the level of co-funding that it will provide for an activity is well established within NZTA policies and within the Land Transport Management Act 2003' (page 23).

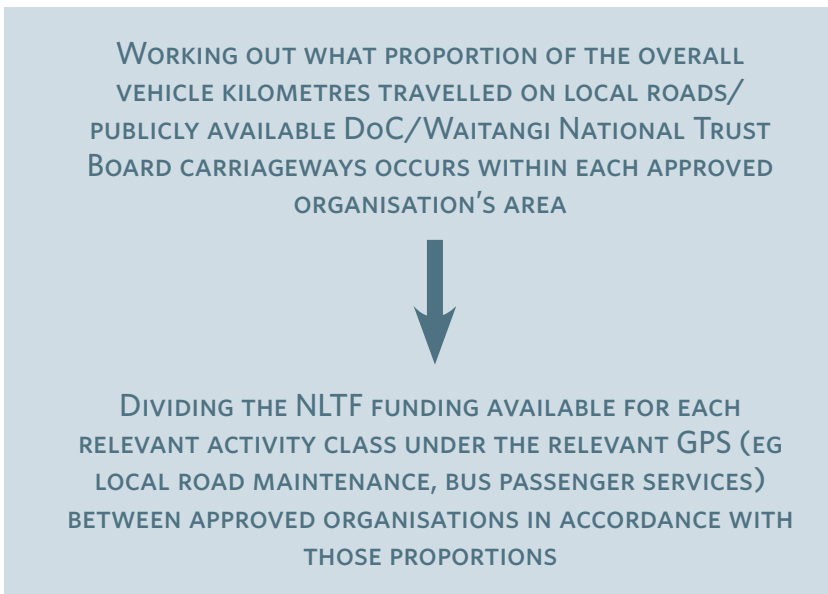
Revenue approach

Under this overall approach FARs would be set to reflect where the NLTF revenue was generated.

The fares paid by public transport users do not get paid into the NLTF, so those fares would not be counted as revenue generated in a particular area under this approach.

A key design characteristic of the current FAR system is that the NLTF and approved organisations, generally, share the cost of land transport activities that receive funding from the NLTF. Distributing NLTF revenue to the area where it was generated would move away from this cost sharing model towards more of a bulk funding or land transport grants system.

What this approach might look like



The same approach could be used to determine both district council FARs and regional council FARs.

There may be other proxies for where NLTF revenue is generated that could be used instead of, or as well as, vehicle kilometres travelled, such as the percentage of registered motor vehicles where the person/people named as the registered person on the motor vehicle register have given an address within each local council's area.

ADVANTAGES

Advantages of this approach include:

- The fact that there is data on vehicle kilometres travelled on local council roads throughout the country would mean that this approach was reasonably efficient to apply and reasonably transparent.
- A FAR setting approach based on vehicle kilometres travelled would be likely to go some way towards aligning land transport activity funding with the relative benefits obtained by ratepayers

IS THIS APPROACH USED NOW?

The current FAR regime does not use a revenue approach.

When the current system for funding local roads was set up in the 1950s it was not designed with the aim of distributing the then National Road Fund revenue between local councils in accordance with where it was generated. Instead:

- the National Roads Act 1953 determined the amount payable to boroughs or town districts by population and determined the amount payable to counties by reference to the amount of general rates and special roading purpose rates levied by the county
- the 1959 National Roads Amendment Act set a standard financial assistance rate for all local councils of 3/7ths (42.8%) of the local council's approved roading expenditure, with the National Roads Board retaining the ability to make grants on top of this.



and land transport system users.

them to provide an appropriate level of service to accommodate those activities.

DISADVANTAGES

Disadvantages of this approach include:

- It would not be likely to result in the best value for money being achieved from investment of the NLTF. The areas in the country with high vehicle kilometres are not necessarily the areas where there are:
 - › relatively the highest costs (while the amount of heavy vehicle traffic using a road materially affects the extent of maintenance required the amount of vehicle kilometres travelled by private cars and other light vehicles does not), or
 - › where land transport system improvements (including public transport improvements) would achieve the most benefit nationally (although the NZTA could still retain the ability not to approve land transport system improvements for funding from the NLTF if it did not consider that they had sufficient land transport benefit).
- It would not necessarily result in approved organisations that have low average road use but:
 - › have significantly higher road use at certain times, such as the summer holidays, the ski season, or during periods when commercial forests are being harvested, and/or
 - › include significant tourism attractions and routes, obtaining high enough funding to enable
- It could potentially lead to wide variations in the levels of service provided by equivalent infrastructure and services throughout the country. This could have adverse impacts on safety and journey time reliability across regions and the country.
- It would be susceptible to sudden changes in traffic volumes. For example, if a major industrial site or recreational activity closed the vehicle kilometres travelled in a particular approved organisation's area could change significantly. Therefore, this approach could lead to quite rapid changes in some approved organisations' funding that would reduce the certainty of the system.
- Setting FARs by reference to vehicle kilometres travelled within an area could also act as a disincentive for approved organisations to encourage use of public transport or other measures that would be likely to reduce single-occupancy vehicle use and therefore, might work against approved organisations pursuing the land transport activities which represented best value for money or most closely aligned with the government's land transport objectives.
- It would not be agile, in the sense that it would not be able to respond to policy changes.

Population approach

Under this overall approach FARs would be set to seek provide a more equal financial benefit for each New Zealander from the NLTF. The higher an approved organisation's resident population the higher the rate of funding they would receive.

What this approach might look like

An example of what this approach might look like in practice is for the NLTF funding allocated to each relevant activity class in the GPS (such as the funding allocated to local road maintenance or the funding allocated to bus passenger services) to be divided between the relevant local councils in accordance with what proportion of the New Zealand population is normally resident in each local councils' area.

A key characteristic of the current system is that the NLTF and approved organisations, generally, share the cost of land transport activities that receive funding from NLTF. A population approach would move away from this cost sharing model towards more of a bulk funding or land transport grants system.

Under this approach a separate method for setting FARs would be required for DoC and the Waitangi National Trust Board.

ADVANTAGES

Advantages of this approach include:

- It would result in more NLTF revenue being spent in areas where a greater number of people are likely to directly benefit from that expenditure.
- There would be reliable and relatively uncontroversial population data to use in applying this approach. This would increase the transparency and efficiency of applying this approach. Currently the New Zealand census occurs every five years. The halting of the 2011 census as a result of the Canterbury earthquakes was an exceptional event.
- While an area's population is likely to change over time, there are unlikely to be very dramatic changes in relative population between investment periods, which would increase the certainty of this approach.



IS THIS APPROACH USED NOW?

- Currently the NZTA does not use a population approach when setting FARs.

Auckland is expected to have the strongest future population growth and is predicted to have 38% of the New Zealand population by 2031 while some other parts of the country are predicted to have lower or little growth. The Auckland, Hamilton, Tauranga 'golden triangle' is predicted to be home to 53% of the population in 2031.

DISADVANTAGES

Disadvantages of this approach include:

- Given projected population trends over time this approach would be likely to result in less and less money being available for the maintenance and operation of rural roads in areas with relatively low populations and, therefore, a decline in the level of service being provided on those roads. This could potentially lead to wide variations in the levels of service provided by equivalent infrastructure and services throughout the country. This could have adverse impacts on safety and journey time reliability across regions and the country.
 - Many rural roads have benefits for the national economy such as being the routes by which:
 - › primary products can be transported from the farm gate/plantation forest to the wider land transport network (and ultimately to processing facilities, ports and markets within New Zealand)
 - › tourists obtain access to tourist attractions and/or accommodation or other services.
- Therefore, under a population approach there would a significant risk that maintaining local roads in rural areas to appropriate levels of service to safely and efficiently accommodate such activities would become unaffordable and that that would have negative impacts on the wider national economy, not just on the relevant property owners.
- There would be a risk that approved organisations which have low resident populations but have far higher land transport network use at certain times, such as the summer holidays, the ski season or during the milk flush, would struggle to maintain, operate and improve their networks to appropriate levels of service to safely and efficiently accommodate such activities.
 - It would not be agile in the sense that it would not be able to respond to policy changes.
 - It would mean that that split of funding for a particular land transport activity would bear no relation to the proportion of the benefits of that particular activity which are received by the vehicle users (who provide the revenue for the NLTF) property owners (rate payers) and public transport users.

Therefore, under a population approach there would a significant risk that maintaining local roads in rural areas to

Incentives approach

Under this overall approach the NZTA would set targets which approved organisations were required to meet, like efficiency targets and outcome targets (such as an X% reduction in the number of deaths or serious injuries on roads), and give a lower FAR if targets were not met and a higher FAR if targets were met.

This approach would involve the NZTA taking a more directive role in relation to how approved organisations undertake land transport activities than it currently does.

What this approach might look like

Either:

- The NZTA could initially provide funding to all relevant approved organisations at the rate that would apply if they did not meet any targets and then at the end of the year/ investment period pay those approved organisations any additional funds that were owing depending upon the extent to which they had met set targets, or
- The NZTA would reach agreement with each approved organisation, at the beginning of the year or investment period, regarding what targets they would meet and initially fund the approved organisation at the FAR rate that would apply if those agreed targets were met. If, at the end of the year or investment period, the approved organisation had not met all the agreed targets, the NZTA would either:
 - › seek to recover money from the approved organisation, or
 - › reduce the approved organisation's FAR for the following year or investment period to recover the overpayment made in the previous year/investment period.

ADVANTAGES

Advantages of this approach include:

- It could be used to encourage approved organisations to:
 - › take approaches to land transport activities that represented value for money.
 - › address government policy objectives.
 - › address issues of importance to the vehicle users who provide the majority of revenue for the NLTF – such as by setting targets in relation to journey time reliability.
- It would be a transparent approach in the sense that it would be very clear what the approach was seeking to achieve and what approved organisations would need to do to obtain, or retain, a higher FAR.

IS THIS APPROACH USED NOW?

The part of the current FAR setting process which applies to Total Mobility Services uses a targets approach.

Total Mobility operations provide subsidised journeys in taxis, private hire vehicles or volunteer services for people with disabilities. The aim of the Total Mobility Scheme (which resulted from a Ministry of Transport review undertaken in 2005) was to help improve the adequacy, consistency, portability, sustainability and coverage of total mobility services throughout the country. The Total Mobility Services FAR policy uses a graduated FAR based on whether regional councils are:

- not signed up to the Total Mobility Services scheme (40% FAR)
- only signed up to phase 1 of the scheme (50%), or
- signed up to both phase 1 and phase 2 (60%).



DISADVANTAGES

Disadvantages of this approach include:

- There would be complications inherent in the approach as it would not be known whether or not an approved organisation had met the relevant targets within a particular year or investment period until after the event.
 - › Therefore, there would be a need for a system which included a review of the approved organisation's performance at the end of the year or investment period and a mechanism for either recovering money, or reducing funding levels in a subsequent year/investment period, if targets were not met.
 - › Alternatively there would need to be some kind of deferred payment or at risk approach with part of the NLTF contribution paid up front and the other part only paid at the end of the year/investment period if the relevant targets were met.

This would mean that if it was used as the primary approach to setting FARs it would not provide approved organisations with certainty as to what rate of funding they would receive from the NLTF.

- For the same reasons, it would be likely to result in a FAR setting process that was complicated and, therefore, not particularly efficient for either the NZTA or approved organisations to use.
- It is unclear how effective it would be at achieving desired outcomes, as:
 - › Whether or not some potential targets are achieved will be dependent on the efforts of a number of entities, and also potentially completely external factors such as the cost of fuel, not just the efforts of the relevant approved organisation.
 - › The timeframes within which land transport targets can realistically be achieved would not work well with the NLTP funding cycle. Most targets would need to be set over a period longer than just one year, or even three years. For example, a single crash involving

multiple deaths or serious injuries can mean that in an individual year the rate of deaths and serious injuries from crashes in an area goes up even though over time it is trending downwards. Long term improvements are often the result of investment that has been made in improving the system over a number of years with the benefits not necessarily being realised, or fully realised, in the period when the investment is initially made.

- Money would need to be found to fund the higher FAR to be given to those approved organisations which met the targets. If these higher FARs were funded by reducing the FARs provided to those approved organisations who failed to meet the targets this could mean that approved organisations who faced disadvantages in seeking to achieve targets (due to things such as less ability to raise local share) would fall further and further 'behind' as they received less money from the NLTF. Therefore, over time, the approach might undermine the efficiency, effectiveness and safety of the land transport network overall, including by leading to wide variations in the levels of service provided by equivalent routes and services throughout the country. This could have adverse impacts on safety and journey time reliability.
- It would mean that that split of funding for a particular land transport activity would bear no relation to the proportion of the benefits of that particular activity which were received by the vehicle users (who provide the revenue for the NLTF) and property owners (ratepayers) who contribute the majority of the local share of land transport costs.
- Having funding for passenger transport services subject to variable FARs based on targets could result in premiums being priced into public transport service contracts which would undermine the extent to which the approach would assist in achieving value for money from NLTF revenue.

Possible use of specific short-term incentive FARs

Either as well as, or instead of, using an incentives approach as the primary approach to setting FARs, the NZTA could potentially use specific short-term incentive FARs to seek to achieve particular outcomes (in addition to whatever primary approach(es) are taken to setting FARs following this review).

There are a number of circumstances in the past where the NZTA (or one of its predecessors) have sought to use differences in FARs, or changes in FARs to incentivise or dis-incentivise particular land transport activities. The outcome of analysis of some of the examples of where this has occurred is discussed in Attachment 4.

SUGGESTED USES OF INCENTIVE FARs

The Transit New Zealand Financial Assistance Policy Review – First Discussion Paper, July 1993 discussed the possibility of providing a FAR top-up for the maintenance of local roads which are provided to stimulate economic development until the economic development has actually occurred.

In its report (*Road maintenance task force 2012 – review of road maintenance regime, October 2012*) the Road Maintenance Task Force suggested a couple of areas where the NZTA might want to use FARs to incentivise certain approaches to local road maintenance:

- The report contained a specific recommendation that the transport sector ‘[d]evelop and communicate expectations, incentives and guidance that minimise practices that emphasise short-term over whole-of-life-costs, eg changing the incentive, the FAR rate and/or the discount rate’ (page 26).
- The report also recommended that the sector ‘work together to develop policies, guidelines, processes, management and governance structures, and incentive mechanisms as necessary to ... [c]ommunicate expectations that [road controlling authorities] will consider and, where the benefits are proven, adopt different forms of collaboration and clustering arrangements, aimed at increasing efficiency, as well as quality and effectiveness of asset management practice’. The report noted that incentivising the consideration and, where appropriate, adoption of collaboration and clustering ‘could include calling for the amendment of the NZTA’s Investment and Revenue Strategy or adjustment of the co-investment arrangements’ and specifically noted that this could potentially be explored as part of this FAR Review. The report noted that any incentive proposal from the NZTA would need to be subject to careful scrutiny and consultation and the details of any incentive mechanism would need to be carefully worked through with funding partners (pages 33 and 34).



Contribution approach

Under this overall approach FARs would be set for the purpose of distributing NLTF revenue generally in accordance with the relative contributions which areas under the control of different approved organisations make to the New Zealand economy.

A key characteristic of the current system is that the NLTF and approved organisations, generally, share the cost of land transport activities that receive funding from the NLTF. A contribution approach would move away from this cost sharing model to more of a bulk funding or land transport grants system.

What this approach might look like

Two examples of what this approach might look like in practice are:²

Example A – heavy vehicle kilometres travelled

Using the heavy vehicle kilometres travelled on roads/public carriageways within an approved organisation’s area as a proxy for that area’s contribution to the economy.



Under this example, if an approved organisation’s network carried a very small percentage of the heavy vehicle kilometres travelled on local roads and publicly available DoC/Trust carriageways they would receive a proportionately small amount of funding from the NLTF.

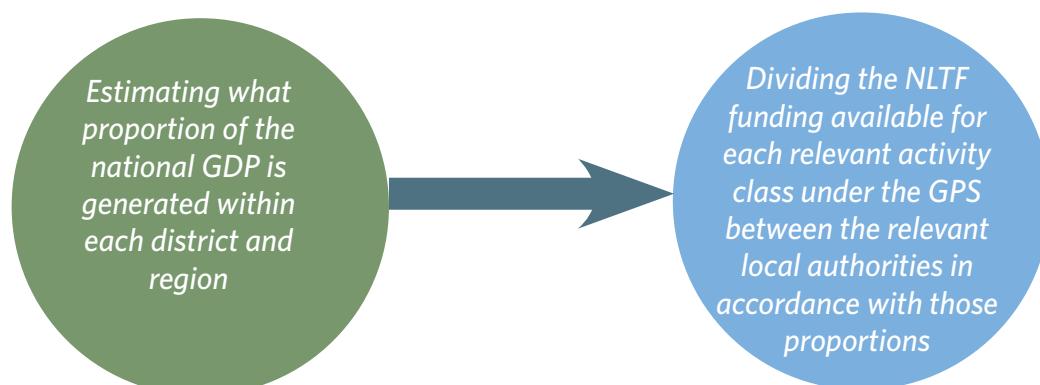
² Please see the section of this discussion document on the revenue approach for a discussion of the advantages and disadvantages of a FAR setting regime based on total vehicle kilometres travelled in a district or region.

IS THIS APPROACH USED NOW?
The NZTA currently does not use a contribution approach in setting FARs



Example B - Gross domestic product

Linking FARs to a district/region's gross domestic product (GDP).



Under this example a different system would need to be developed for determining FARs for land transport activities undertaken by DoC and the Waitangi National Trust Board.

ADVANTAGES

Advantages of this approach include:

- It would be likely to result in a greater proportion of NLTF revenue being invested in those parts of the country which are currently making the most contribution to the New Zealand economy. This could potentially result in land transport investment being more targeted to those areas where a reasonably high economic benefit could be obtained from that investment.
- An approach which linked FARs to heavy vehicle kilometres travelled within an area would better align land transport activity funding with the relative benefits obtained by the heavy vehicle users that provide a significant proportion of the revenue in the NLTF.
- A high proportion of the wear and tear on roads is caused by use of those roads by heavy vehicles (although the amount of maintenance required as a result of heavy vehicle use also depends on factors such as underlying geology, topography and climate). Because of this the operators of heavy vehicles pay a higher amount of road user charges depending upon the vehicle's carrying weight. Therefore, an approach which linked FARs to heavy vehicle kilometres travelled within an area would be likely to result in more funding being made available to those areas where more road maintenance was required due to heavy vehicle use.

DISADVANTAGES

Disadvantages of this approach include:

- It would be likely to result in less money being provided to some of the more economically disadvantaged areas in the country. Over time this approach might undermine the provision of an efficient effective and safe land transport network throughout the country and could potentially lead to wide variations in the levels of service provided by equivalent routes and services throughout the country. This could have adverse impacts on safety and journey time reliability. It could also result in councils in such areas incurring greater costs over time, for example, due to increased rehabilitation costs.
- It would not necessarily result in more investment of NLTF revenue being made in areas where land transport improvements could potentially unlock potential economic benefits that are not currently being realised.
- Currently the sources of data for some of the measures which could be used as proxies for relative contribution to the economy – such as the GDP of an individual local council area or the heavy vehicle kilometres travelled within a particular area – are of variable quality. While different regions/consultancies estimate various regions' GDPs there is no official Statistics New Zealand regional GDP series and little information on the GDP of individual districts. There would be administration

costs involved in obtaining better data regarding GDP or heavy vehicle kilometres travelled within different areas. This issue would make this approach less transparent and less efficient to apply.

- An area's relative contribution to the economy is likely to change over time (and potentially could change quite quickly – such as if a large processing or manufacturing plant was opened in an area or a major plant closed or if there was a prolonged drought in a dairying area). Therefore, this approach could lead to quite rapid changes in some approved organisations' FARs which would reduce the certainty of the system.
- It would not be agile in the sense that it would not be able to respond to policy changes
- An approach based on heavy vehicle kilometres travelled in a time period prior to the FARs being set would not address the issue which some approved organisations have in relation to commercial forests. As those forests are only harvested

periodically the average heavy vehicle use in the areas where they are located could be much lower than the level of heavy vehicles using roads in the area during the periods when those forests are being harvested.

- Also an approach based on heavy vehicle kilometres travelled would not recognise the contribution made to the economy by light weight products (particularly high value light weight products such as live bees, fresh seafood and flowers) or by the use of rail or coastal shipping. Therefore, it could result in the contribution which some areas of the country make to the economy not being adequately recognised.
- Setting FARs by reference to heavy vehicle kilometres travelled within an area could also act as an incentive for approved organisations to foster buses over other public transport modes such as rail or ferries, even if investment in those other modes would represent value for money or would assist in achieving government objectives.

Relative benefit approach

Under this overall approach FARs would be set to reflect the extent to which particular land transport activities benefit property owners (ratepayers) and the extent to which they benefit land transport system users – in other words having higher FARs for activities which have greater land transport system user benefits when compared to property owner benefits.

What this approach might look like

An example of what a relative benefit approach to setting FARs might look like in practice is that the NZTA could:

- Set a range of FARs for local roads/carriageways depending on the percentage of through traffic they carry – such as a FAR of 75% for roads which carry over a certain percentage of through traffic, a FAR of 10% for roads which carry less than a certain percentage of through traffic, and a FAR of 25% for roads which carry a percentage of through traffic which falls between those two extremes.
- Estimate, for every local road within a district council's area (and every relevant carriageway within the DoC estate) the percentage of through traffic it carries and the percentage of traffic which either commences its journey on that road/carriageway or accesses a property from that road/carriageway (access traffic).
- Either apply the relevant FAR to all land transport activities involving that road/carriageway – eg maintenance, construction and public transport services, or determine the weighted average FAR for road maintenance for a district/region and apply that to all other land transport activities within the district/region.

Under this approach a separate method for setting FARs might be required for rail services and passenger ferry services.

For passenger transport there is an additional source of revenue – the fares paid by passenger transport users. While fare box recovery rates (the percentage of the costs of passenger transport which are met by passenger fares) are outside the scope of this review, if a relative benefit approach was adopted, another alternative would be for the FARs set for passenger transport activities to take into account the relative benefits received, and the funding provided by, passenger transport users.

A pure application of this approach would probably give both the Waitangi National Trust Board and DoC a low FAR.

The relevant FARs, or the percentages of through traffic which each FAR applied to, could be set/adjusted every investment period so that overall the NLTF contributed a set percentage to the cost of approved organisations' land transport activities, such as 50%.

IS THIS APPROACH USED NOW?

In setting FARs the NZTA does not currently distinguish between different parts of a local council's land transport network depending on their relative land transport system user and property owner benefits.

PROPERTY BENEFITS OF ROADS

A type of road which has high property owner benefits is a 'dead end' street. The primary function of such roads is to provide the owners and occupiers of the properties which front, or have rights of way onto, the road with access to the wider land transport network both so that they can access that network and so that other people (such as customers and suppliers) can obtain access to their property. Examples of such 'dead end' roads are residential cul de sacs, rural roads serving a few farms or commercial forests and roads primarily serving one large facility such as a factory.

However, all roads have some property benefits. This can be seen when you look at situations where properties rely on carriageways that aren't public roads (such as in a unit titled retirement community or gated community). If there weren't contractual or common ownership arrangements in place the individual property owners, and their visitors, would not have a right to use those carriageways. In such communities the property owners generally share the costs of the ongoing maintenance of the carriageways under a contractual arrangement.

Arterial roads

A type of road which has high land transport system user benefits relative to property owner benefits is a regional arterial road. The primary functions of regional arterials are to link districts or urban areas within the region and connect regionally significant facilities.

ADVANTAGES

Advantages of this approach include:

- It would better align land transport activity funding with the relative benefits obtained from the groups who provide the funds that pay for those land transport activities:
 - › Property owners (ratepayers) who provide the majority of the funding for the local share of land transport costs; and
 - › Vehicle users who provide the revenue for the NLTF.

DISADVANTAGES

Disadvantages of this approach include:

- In many rural areas of New Zealand a high percentage of the arterial roads are state highways. Therefore, the average percentage of through traffic using the local roads in such areas is likely to be quite low. Under this approach approved organisations for such rural areas would be likely to receive a low FAR. Many such rural roads have benefits for the national economy such as being the routes by which:
 - › primary products can be transported from the farm gate/plantation forest to the wider land transport network (and ultimately to processing facilities or ports);
 - › tourists obtain access to tourist attractions and/or accommodation or other services.

Under this approach there would be a significant risk that maintaining local roads in rural areas to appropriate standards to accommodate such activities would become unaffordable. That would have negative impacts on the wider national economy, not just on the relevant property owners.

- It could also potentially lead to wide variations in the levels of service provided by equivalent routes and services throughout the country. This could have adverse impacts on safety and journey time reliability.
- Further, it could result in councils in such areas incurring greater costs over time, for example due to increased rehabilitation costs.
- It might incentivise approved organisations to make decisions aimed at attracting

through traffic from the state highway network onto local road routes which could result in:

- › decreased efficiency from the use of the state highway network; and
- › increased conflict between through traffic and access traffic on local roads, which would be likely to reduce the safety of those routes.
- Other than for cul de sacs and other dead end roads, currently we do not have data on the relative percentages of through traffic and access traffic using individual roads. Further, it is often somewhat arbitrary where one local road ends and another begins. Therefore, estimating what percentages of through traffic and access traffic use individual roads would be difficult and uncertain which would lead to a lack of transparency and the possibility of disputes.
- For activities such as road maintenance, the approach would involve additional administration costs as it would require approved organisations and their contractors to keep records of what is being spent on each individual land transport activity within their area. However, with modern technology this should be practicable to do.
- It would not be agile in the sense that it would not be able to respond to policy changes.
- If FARs were set for passenger transport activities to take into account the relative benefits received and the funding provided by passenger transport users, the method for calculating FARs could be quite complicated and not particularly efficient to apply.
- The percentages of through traffic and access traffic carried by many roads is likely to change over time and could change quite quickly. This would reduce both the certainty and the efficiency of applying the approach.

Attachment 1

FAR review objectives and scope

OBJECTIVES

To determine the role(s) of FARs in achieving the purpose of the LTMA and giving effect to the GPS.

To review both:

- the approach the NZTA uses in setting FARs, and
- the funding assistance rates themselves,

to determine whether or not changes should be made to enable FARs to be more effective in achieving the purpose of the LTMA and giving effect to the GPS, while also being reasonable and efficient.

To do this in time for any changes to FARs to be factored into the 2015-18 regional land transport programmes and council long term plans commencing 2015.

To develop a greater mutual understanding with approved organisations, the Ministry of Transport and other stakeholders as to what the role of FARs is and what they can, and should, seek to achieve.

SCOPE

In scope

- Determining the role(s) of FARs in achieving the purpose of the LTMA and giving effect to the GPS.
- Whether the NZTA can and should use FARs to incentivize particular activities or approaches, eg land transport activities aimed at unlocking the future potential of an area or particular approaches to road maintenance, and if so, how the NZTA could use FARs to incentivise those activities or approaches.
- Identifying appropriate principles and parameters for setting FARs.
- Deciding whether or not to make recommendations to the Minister of Transport that he formally set criteria for the setting of FARs and, if so, what criteria to recommend.
- All of the following current FARs:
 - › Base FARs
 - › Construction FARs
 - › FARs in relation to emergency reinstatement works, transport planning, road safety promotion, network user information, special purpose roads/Crown Range Road, level crossing warning devices, and stock-truck effluent facilities;
 - › Transitional FARs following revocation of State highway status
 - › FARs in relation to public transport activities (including Total Mobility Services).
- The FARs for all approved organisations, eg territorial authorities, unitary authorities, regional councils, Auckland Transport, DoC, and the Waitangi National Trust Board.
- What base 'cost' FARs should be applied to, eg only the cost required to achieve a certain level of service? Only the proportion of the activity cost not met by third party contributions? One way of conceptualising this is as looking at options for 'capping' the cost that the FAR applies to.
- If it is decided to make changes to FARs, what arrangements should be put in place to transition those changes in.

Out of scope

- Funding of road policing.
- Farebox recovery.
- Changes to any Act, regulations or statutory Rules, ie 100% funding of operational expenses and capital expenditure in relation to state highways from the NLTF is not within scope as statutory reform would be required to change that part of the funding regime.
- Changes to the overall amount of money available for allocation from the NLTF.
- Changes to the overall amount of money available for allocation from the NLTF for any particular activity class – as that is determined by the GPS.
- Changes to the outcomes, objectives and impacts identified in the GPS.
- Changes to the definitions of activity classes as set out in the GPS.
- The creation of any new activity classes not currently set out in the GPS.
- The relative use of in-sourcing and out-sourcing by approved organisations.
- Changes to the legal status, ownership, or control of any road, eg changes from local road to state highway or vice versa, or from special purpose road to local road or state highway.
- Changes to responsibilities in relation to the provision of public transport.
- Changes to the respective responsibilities of road controlling authorities and KiwiRail.
- The creation of any new legal categor(y)(ies) of road.
- The appropriate level of service for any road.
- Changes to the NZTA's strategy documents.
- Changes to any approved regional land transport strategy or regional land transport programme.
- Changes to the 2012-2015 National Land Transport Programme.
- Identification of additional or alternative funding sources for approved organisations.
- Changes to the revenue sources which are paid into the NLTF.
- Whether or not inter-regional passenger rail services should be funded from the NLTF.



Attachment 2 – Council data

District Council (includes unitary authorities)	Share of national lane kilometres (2010/11) ¹	Ranking	Share of national VKT (vehicle kilometres travelled 2010/11) ²	Ranking	Share of national population (2011/12) ³	Ranking
Ashburton District	3.4%	3	0.8%	29	0.7%	34
Auckland	9.4%	1	37.3%	1	33.7%	1
Buller District	0.8%	46	0.2%	58	0.2%	54
Carterton District	0.6%	58	0.2%	61	0.2%	62
Central Hawkes Bay District	1.7%	23	0.3%	46	0.3%	50
Central Otago District	1.9%	17	0.3%	49	0.4%	45
Chatham Islands	0.2%	66			0.0%	67
Christchurch City	2.8%	8	9.2%	2	8.3%	2
Clutha District	3.1%	6	0.5%	40	0.4%	47

¹ This column shows what percentage of the New Zealand local road network by length is located within different districts. Lane kilometres take into account the number of lanes on a stretch of road so that the total length of 'single vehicle width' lanes is taken into account.

² This column shows what percentage of the total vehicle kilometres travelled on New Zealand local roads occurs on local roads within different districts.

³ The figures in this column have been derived from Statistics New Zealand's estimated population figures for 2011/12.

District Council (includes unitary authorities)	Share of national lane kilometres (2010/11) ¹	Ranking	Share of national VKT (vehicle kilometres travelled 2010/11) ²	Ranking	Share of national population (2011/12) ³	Ranking
Dunedin City	2.3%	9	2.1%	8	2.9%	5
Far North District	3.3%	4	1.2%	14	1.3%	14
Gisborne District	1.9%	19	1.0%	24	1.1%	21
Gore District	1.1%	35	0.2%	52	0.3%	52
Grey District	0.6%	54	0.2%	54	0.3%	49
Hamilton City	0.8%	47	3.1%	4	3.3%	4
Hastings District	2.1%	12	2.1%	9	1.7%	10
Hauraki District	0.8%	50	0.4%	45	0.4%	44
Horowhenua District	0.8%	51	0.6%	37	0.7%	33
Hurunui District	1.9%	18	0.3%	48	0.3%	53
Hutt City	0.6%	55	2.2%	6	2.3%	7
Invercargill City	0.8%	49	1.1%	17	1.2%	16
Kaikoura District	0.2%	65	0.1%	65	0.1%	66
Kaipara District	1.8%	22	0.4%	42	0.4%	43
Kapiti Coast District	0.5%	59	0.7%	34	1.1%	18
Kawerau District	0.1%	67	0.1%	66	0.2%	64
Mackenzie District	0.9%	38	0.1%	64	0.1%	65
Manawatu District	1.9%	20	1.0%	21	0.6%	37
Marlborough District	2.0%	15	0.6%	36	1.0%	25
Masterton District	0.9%	42	0.6%	38	0.5%	40
Matamata-Piako District	1.3%	28	0.9%	26	0.7%	32
Napier City	0.4%	61	1.2%	15	1.3%	15
Nelson City	0.3%	62	0.9%	25	1.0%	22

District Council (includes unitary authorities)	Share of national lane kilometres (2010/11) ¹	Ranking	Share of national VKT (vehicle kilometres travelled 2010/11) ²	Ranking	Share of national population (2011/12) ³	Ranking
New Plymouth District	1.2%	30	1.1%	20	1.7%	11
Opotiki District	0.5%	60	0.1%	63	0.2%	60
Otorohanga District	1.0%	36	0.3%	51	0.2%	57
Palmerston North City	0.6%	57	1.6%	11	1.9%	8
Porirua City	0.3%	63	0.9%	27	1.2%	17
Queenstown Lakes District	0.9%	40	0.8%	31	0.7%	36
Rangitikei District	1.4%	25	0.3%	50	0.3%	48
Rotorua District	1.3%	29	1.0%	22	1.6%	12
Ruapehu District	1.2%	31	0.2%	53	0.3%	51
Selwyn District	3.2%	5	1.4%	13	0.9%	29
South Taranaki District	1.5%	24	0.5%	41	0.6%	39
South Waikato District	0.6%	56	0.3%	47	0.5%	41
South Wairarapa District	0.9%	41	0.2%	57	0.2%	56
Southland District	6.5%	2	1.1%	18	0.7%	35
Stratford District	0.8%	48	0.1%	62	0.2%	58
Tararua District	2.1%	13	0.4%	44	0.4%	46
Tasman District	2.0%	14	1.1%	16	1.1%	20
Taupo District	1.0%	37	0.7%	33	0.8%	31
Tauranga City	0.7%	53	2.5%	5	2.6%	6
Thames-Coromandel District	0.8%	44	0.4%	43	0.6%	38
Timaru District	2.1%	11	0.8%	28	1.0%	26
Upper Hutt City	0.3%	64	0.7%	35	0.9%	28
Waikato District	2.8%	7	2.1%	7	1.5%	13

District Council (includes unitary authorities)	Share of national lane kilometres (2010/11) ¹	Ranking	Share of national VKT (vehicle kilometres travelled 2010/11) ²	Ranking	Share of national population (2011/12) ³	Ranking
Waimakariri District	2.0%	16	1.4%	12	1.1%	19
Waimate District	1.1%	34	0.2%	60	0.2%	63
Waipa District	1.4%	26	1.1%	19	1.0%	23
Wairoa District	0.8%	45	0.2%	55	0.2%	61
Waitaki District	1.8%	21	0.5%	39	0.5%	42
Waitomo District	1.1%	33	0.2%	56	0.2%	55
Wanganui District	0.8%	43	0.8%	30	1.0%	27
Wellington City	0.9%	39	3.1%	3	4.5%	3
Western Bay of Plenty District	1.3%	27	0.7%	32	1.0%	24
Westland District	0.7%	52	0.2%	59	0.2%	59
Whakatane District	1.2%	32	1.0%	23	0.8%	30
Whangarei District	2.2%	10	2.0%	10	1.8%	9

Attachment 3 – NZTA statutory obligations, strategy and policies

This section discusses the statutory obligations that are relevant to how the NZTA sets FARs and some of the relevant strategies, policies and principles the NZTA has developed to guide how we give effect to those obligations.

MINISTERIAL CRITERIA

Under section 20C of the LTMA the NZTA must set FARs in accordance with any criteria set by the Minister of Transport.

CONTRIBUTING TO A BETTER LAND TRANSPORT SYSTEM

Currently the NZTA's statutory objective under section 94 of the LTMA is to undertake its functions 'in a way that contributes to an affordable, integrated, safe, responsive and sustainable land transport system' and it must act consistently with that obligation when exercising its statutory functions, including when it sets FARs.

Under the Land Transport Management Bill 2012, currently before Parliament, the purpose of the LTMA is proposed to be 'to contribute to an effective, efficient, and safe land transport system that supports the public interest' and the NZTA's statutory objective is proposed to be changed to require it to undertake its functions in a way that contributes to that purpose.

While the purpose of the LTMA and NZTA's statutory objective are likely to be changed as a result of the Bill, whatever the final wording of the statutory purpose and objective, they are likely to be about achieving outcomes – achieving the right kind of land transport system. Therefore, when setting FARs, the NZTA needs to act in a way which contributes to achieving those outcomes.

GIVING EFFECT TO THE GPS

The NZTA is required to 'give effect to' the Government Policy Statement on Land Transport Funding (GPS) when performing its functions in respect of land transport planning and funding, including when setting FARs.

The GPS is prepared under the LTMA. It is the Minister of Transport's direction setting document for the land transport sector. The main role of the GPS is to define the government's desired outcomes and investment priorities for the sector. It also contains definitions and funding ranges for different activity classes (types of activities), which establish what land transport activities are eligible to receive funding from the NLTF and how much funding from the NLTF can be allocated to each activity class in a year.

The NZTA's obligation to set FARs is only one of the tools available to it to give effect to the GPS. The most powerful of these tools is the NZTA's ability to approve land transport activities for funding from the NLTF.

Tying the structure of the main FAR setting process too closely to an individual GPS could be problematic as:

- it could require a substantial review of the FAR setting structure every three years which is not something envisaged by the LTMA
- approved organisations need to know the FARs that will apply for an NLTF investment period well in advance of that period commencing (in order for the FARs to be factored into local council long-term plans and regional land transport programmes). The detail of the GPS that will apply to that investment period may not be known at the time we advise approved organisations of their FARs.

When developing or considering a FAR setting process, we need to bear in mind whether or not that process:

- could potentially inhibit the NZTA's ability to give effect to the impacts, outcomes, objectives or policies contained in a future GPS as government priorities change over time
- would be likely to need significant amendment as government priorities change, or
- could or should be applied across all activity classes.

Also the NZTA needs to set FARs that work within the funding ranges for different activity classes specified in the relevant GPS. If the NZTA sets the FAR too high for a particular activity then we might have to restrict the amount of that type of activity we invest in order to stay within the relevant GPS funding range. The NZTA is consulted as a GPS is being developed. However, the GPS funding ranges for particular activity classes are set by the Minister of Transport.

OUR OTHER STATUTORY OBLIGATIONS

The NZTA also has statutory obligations, under section 96(1) LTMA that, in undertaking its functions, it must:

- 'exhibit a sense of social and environmental responsibility', and
- 'use (the revenue in the NLTF) in a manner that seeks value for money'
- ensure that the NLTF revenue and NZTA's expenditure are accounted for in a transparent manner
- act in a transparent manner in making decisions under the LTMA.

We have taken these obligations into account in developing our strategies, policies and planning and investment principles and any approach the NZTA takes to setting FARs will need to be consistent with these obligations.

Under the Crown Entities Act the NZTA Board must ensure that the NZTA operates in a financially responsible manner.

INVESTMENT AND REVENUE STRATEGY

Consistent with the NZTA's obligation to seek value for money, our Investment and Revenue Strategy states that 'all funds available to the NZTA will be allocated to land transport activities that provide best value for money within the provisions of the LTMA and the GPS'.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY POLICY

We have also developed a policy for giving effect to the NZTA's statutory obligation to exhibit a sense of social and environmental responsibility. Relevant to FARs we do that by, among other things:

- promoting an accessible and safe transport system that contributes positively to New Zealand's economic, social and environmental welfare, and being committed to acting in an environmentally and socially responsible manner
- being committed to enhancing the quality of life for New Zealanders by improving community liveability including land transport safety and providing meaningful and transparent engagement with stakeholders, customers and the general public.

PLANNING AND INVESTMENT PRINCIPLES

The NZTA has developed 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 full text of the principles and supporting guidelines is available at:

www.pikb.co.nz/home/the-way-we-work/nzta-planning-and-investment-principles

The aspect of those the principles that are most relevant to setting FARs are:

- being outcomes focused - including identifying solutions that will deliver whole

of network outcomes and address national and, where aligned, regional and local priorities

- optimising the provision and use of the land transport network including by adoption of a whole of network approach
- investing in an optimised, integrated, multi-modal transport network that targets the areas of greatest transport need and provides best value for money
- affordability and achieving value for money – delivering the right outcomes, at the right time at the right cost
- working in a socially and environmentally responsible manner by aiming to make land transport investments that improve community wellbeing overall
- ‘those who benefit from transport investment should pay’, using our investments to benefit the land transport system users that provide revenue into the NLTF.

Any decisions the NZTA makes as part of the FAR review will need to be consistent with the NZTA’s Investment and Revenue Strategy and planning and investment principles.

Attachment 4 - The analysis of previous uses of FARs to incentivise or disincentivise

The NZTA has analysed a number of circumstances where differences in FARs, or changes in FARs, have been used to seek to incentivise or dis-incentivise particular land transport activities. This analysis looked at whether, and if so when, FARs can work effectively as an incentive or disincentive to achieve outcomes. A summary of the outcomes of each of the case studies looked at is given at the end of this section of this attachment.

The overall findings of that analysis were that FARs *can work effectively as an incentive* to achieve the outcomes the NZTA is seeking where:

- They are used as a short to medium term tool to either:
 - › Give a kick start to encourage, and enable, approved organisations to make a step change such as in the level of service they are delivering or the way they are delivering an activity, in circumstances where the approved organisations would not themselves necessarily move in that direction without an impetus because either:
 - The initiative is less of a priority for them than it is for central government, or
 - There are material initial costs required for the approved organisation to make that change, or
 - › To facilitate a certain type of activity to occur reasonably quickly for a specific purpose.
- There is a set pool of money set aside to fund the incentive FAR and there is sufficient money in that pool for it to be worth approved organisations' while to organise themselves to take advantage of it (ie there is enough money in the pool that they have a reasonable chance of getting some of it).
- The outcomes that are intended to be achieved by approved organisations as a result of the FAR are clearly identified from the outset.
- Monitoring is undertaken to determine whether or not those outcomes are being achieved.
- There is an end date - with the passage of time a higher FAR is likely to become 'business as usual' rather than an incentive and the analyses undertaken have indicated that once approved organisations have made a step change in a particular land transport activity a reduction in FAR does not result in them going back to where they were before they made that change.
- The FAR scheme is reasonably easy to understand and administer.
- Approved organisations have either sufficient capability, or sufficient guidance, to organise themselves to take advantage of the FAR.
- There is sufficient time allowed in setting the FAR up before it is introduced for the FAR to be set up properly (for the desired outcomes to be clearly identified, the monitoring process to be determined, and the FAR setting to be carefully thought through) and for approved organisations to organise themselves to be able to take advantage of the FAR once it is introduced.

The analysis indicated that:

- Overall the amount of money available for a particular activity class from the NLTF is probably a bigger driver for increases/decreases in spending on that activity class than the

FAR (particularly when supported by clear policy and messaging from central government and consistent decision making in relation to what activities are approved for funding from the NLTF).

- However, FARs can effectively be used in the manner described above as an additional tool to seek to incentivise behaviour.
- Particular care needs to be taken to avoid or manage the situation where two very similar activities have markedly different FARs. In those circumstances there is an understandable tendency for approved organisations to seek to have their particular activity included in the class with the higher FAR. This can require the NZTA to spend a lot of time seeking to ensure that activities are funded under the correct FAR and creates uncertainty and cost for both the NZTA and affected approved organisations.

Some of the factors which influence the effectiveness of FARs as incentives are matters outside of the NZTA's control, such as differences in the relative ability/willingness of approved organisations to take advantage of an incentive FAR due to:

- Their relative ability to raise or reallocate their local share of the costs towards an incentivised activity,
- Whether they have sufficient capacity to organise themselves to take advantage of the incentive FAR, and
- The extent to which the activity/approach the NZTA is seeking to incentivise is consistent with the approved organisation's own priorities.

The NZTA could do some things that go towards addressing the second of these issues – like having FAR schemes which are reasonably easy to understand and administer, providing robust guidance to approved organisations seeking to take advantage of the FAR, and giving sufficient lead in time before incentive FARs come into effect.



CASE STUDIES

FARs as a 'kick start' – patronage funding

An example using FARs to give a kick start to encourage approved organisations to make a step change is the patronage funding for public transport used in the early 2000s. This resulted in 191 projects being approved as kick start services, kick start minor facilities or kick start promotion or commercial public transport service trials which provided a significant increase in public transport services and amenities.

During the three year period of the scheme there was a 25% increase in public transport patronage nationally. While a number of other factors contributed to this patronage increase (such as the construction of the Britomart transport terminal in Auckland, the Christchurch bus exchange, and the growth in foreign student numbers in Auckland and Christchurch) patronage funding may have made a contribution to this increase in patronage.

There were problems with the patronage funding scheme – in particular the scheme was very complicated, and therefore confusing and costly to administer, and there was insufficient guidance over what approved organisations could spend the patronage growth credits they earned as part of the scheme on.

FARs to encourage a particular type of activity to occur quickly – Regional Development Funding

An example of using FARs to facilitate a certain type of activity to occur reasonably quickly is the Regional Development Funding that was available from 2002 to 2011 to facilitate job creation in regions with high unemployment and high forecast wood volumes from commercial forests. Regional Development Funding provided 100% funding for improvements in local roads to allow for all-weather road access to commercial forests. The idea was that improving this access, and providing certainty of wood supply, would encourage private sector investment in wood processing facilities in those areas.

Due largely to changes in global economic conditions the planned increase in wood processing did not occur. However, the scheme did result in the forestry industry being provided with better access roads for logging (and had a side effect of significantly improving roading access to some remote communities).

There were some initial problems when the FAR was introduced due to there having been little lead time to either develop funding guidelines and monitoring mechanisms or to ensure that appropriate projects were ready to proceed when the funding initiative went live. Initially, the levels of service required for the all-weather forestry access roads were not agreed on so some of the early projects were built to higher standards than were actually required by the forestry industry. Further initially there was no time limit or monetary cap on the scheme which is likely to have resulted in sub-optimal prioritisation of investment.

Increasing the transport planning FAR to 75% between 2004-5 and 2011-12

Analysis of expenditure on transport planning immediately before and during the period when the transport planning FAR was increased to 75%, and forecast spending on transport planning up until 2014, does not show a clear pattern that the increased FAR resulted in increased spend on transport planning. There were peaks in spending on model development, travel demand management studies and project investigation studies in 2005-6 (the year after the FAR was increased) but it is not clear whether these would have occurred in any case without the increase in FAR (particularly given that central government, and much local government, policy at the time was supportive of travel demand management studies).

The phased reduction of the FARs for metro rail from 60% to 50%

There has been an intention since the late 1980s to phase in a drop in the FAR for rail public transport services from 100% to 50% in order to encourage regions to make tradeoffs between bus, ferry and rail public transport modes on a level playing field. However, this graduated reduction got 'stuck' at the 60% level for about three decades. There has been a big step change in the quality and level of service of metro rail in Auckland, and a steady rebuild of metro rail in Wellington, during this period. A significant proportion of the investment in metro rail in this period has been borne by the Crown in the form of Crown grants. However, there were also significant investments by both regions and the NLTF in this period. Higher FARs may have been a factor in this investment occurring or at least in it occurring sooner than it might otherwise have done.

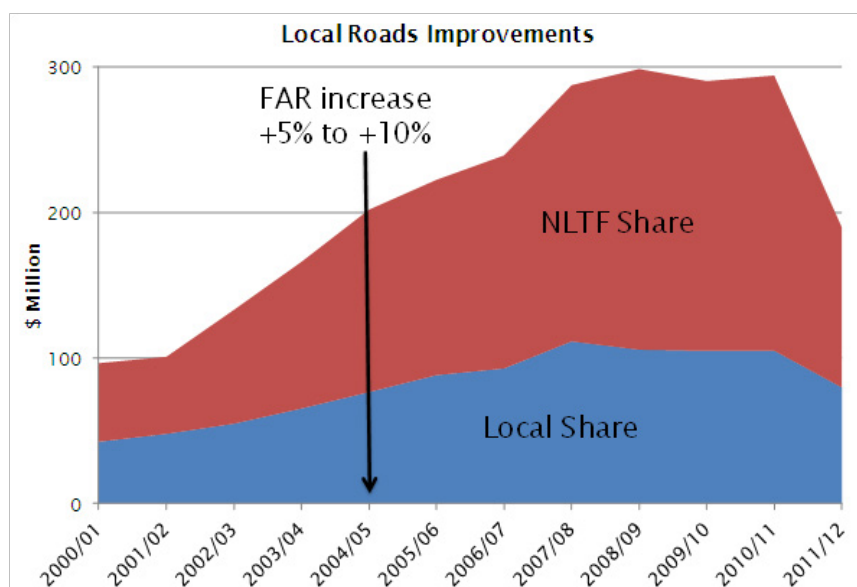
The increase in the FAR for community programmes to 75% in 2006-7 and its reduction to approved organisations' construction FAR from 2012-13

Analysis of amounts claimed/approved for community programmes from the NLTF shows that spending on community programmes increased markedly when the FAR was increased to 75%. Local council spending on community programmes is forecast to drop materially in the 2012-14 period. However, this is likely to be as much the result of a reduction in the overall amount of money available for local council community programmes and changes in policy settings (such as a greater focus on national level community programmes given findings that national level programmes are relatively more effective) than a result of the reduction in FAR. The analysis showed that when the FAR for safety programmes dropped the local share being invested in safety programmes did not drop.



The increase in the construction FAR to Base FAR + 10% (up from Base FAR + 5%) in 2004-5

Analysis of spending on construction before and after this increase indicates that the increase does not appear to have incentivised more construction spending – approved organisations' construction spending was already increasing prior to the FAR being increased and continued to increase at about the same rate following the increase in the FAR. This suggests that the additional 5% in the Construction FAR may have prompted little new activity that would not otherwise have occurred. Some additional financial assistance was provided to local councils which had acute ability to pay problems through R funds.



Total Mobility Services

Total Mobility operations provide subsidised journeys in taxis, private hire vehicles or volunteer services for people with disabilities. The aim of the Total Mobility Scheme (which resulted from a Ministry of Transport review undertaken in 2005) was to help improve the adequacy, consistency, portability, sustainability and coverage of Total Mobility Services throughout the country. The Total Mobility Services FAR policy now uses a simplified graduated FAR based on whether regional councils are:

- Not signed up to the Total Mobility Services Scheme (40% FAR),
- Only signed up to Phase 1 of the Scheme (50%), or
- Signed up to both Phase 1 and Phase 2 (60%).

The FAR has incentivised 80% of the affected regional councils to sign up to the recommendations of the Total Mobility Services review. However, it is not clear that regional councils have implemented all the initiatives they have signed up to or that improvements have been made to the adequacy, consistency etc. of Total Mobility Services throughout the country. The Total Mobility Services FAR policy was originally very complicated which was a dis-incentive for regional councils to sign up and made it time consuming to administer. However, since it was simplified, the main issue with the policy has been that the FAR is only based on regional councils signing up to the Scheme not on their actually achieving outcomes and regional councils' Total Mobility Services activities have not been formally monitored. The number of total mobility trips taken under the scheme has actually reduced during the life of the FAR policy.

Attachment 5

FAR review discussion document submission form

This submission form contains a set of questions on which the NZTA is seeking your views. However, these questions are only intended as a guide and we welcome any feedback or ideas you have about the issues raised in the FAR review discussion document and the approach the NZTA should take to setting FARs.

You can either:

- Complete an online submission on www.nzta.govt.nz/far, or
- Send us a written submission. You can either:
 - › email your written submission to farreview@nzta.govt.nz, or
 - › post it to:
FAR Review Discussion Document Submissions
NZ Transport Agency
50 Victoria Street
Private Bag 6995
Wellington 6141
Attention: Clare Sinnott

The deadline for submissions is **5pm on Friday 3 May 2013**.

Name of submitter	
Contact person) (if the submission is made on behalf of an organisation or group)	
Contact details – postal, email or phone (in case we need to contact you about your submission)	

Questions

PRINCIPLES

1. Are the principles for determining what overall approach(es) to adopt in setting FARs identified in the discussion document appropriate? Why/why not?
2. What other principles should be taken into account in determining which overall approach (or combination of approaches) to adopt in setting FARs?
3. Which principles are the most important and, therefore, should be given the most weight when the NZTA decides what overall approach(es) to take in setting FARs?

OVERALL APPROACHES

4. The discussion document identifies eight possible overall approaches to setting FARs. What other overall approaches could the NZTA take in setting FARs?
5. Do you agree with the advantages and disadvantages of each overall approach identified in the discussion document? Why/why not?
6. Are there any other advantages, or disadvantages which are not identified in the discussion document?
7. To what extent do you consider that the different overall approaches would, or would not:
 - › Be consistent with seeking value for money from investment of the NLTF?
 - › Support a whole of network approach to a land transport network for New Zealand?
 - › Recognise the interests of, and benefits received by, ratepayers and users of the land transport system?
 - › Be consistent with the NZTA acting in a financially responsible manner?
 - › Allow social and environmental responsibility to be exhibited?
 - › Be efficient to apply?
 - › Be based on clearly identified principles and accessible and reliable evidence/data?
 - › Strike an appropriate balance between providing certainty for approved organisations and being agile enough to respond to change?
8. How do you think the various overall approaches would affect the New Zealand land transport system?
9. How do you think the various overall approaches would affect you or your organisation?
10. Which overall approach, or combination of overall approaches, do you think the NZTA should apply in setting FARs? Why?

We will make copies of submissions received available on our website. The Official Information Act 1982 (OIA) requires the NZTA to make information it holds available if asked unless there is good reason to withhold it. If your submission contains any information which you do not want released you need to let us know what information you would like withheld and why. However, whether or not the NZTA can withhold that information will depend upon whether it is appropriate for it to do so under the OIA.



NZ TRANSPORT AGENCY
WAKA KOTAHI

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

NZ Transport Agency
Private Bag 6995
Wellington 6141.

This publication is available on
NZ Transport Agency's website at
www.nzta.govt.nz

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