



NZ TRANSPORT AGENCY
WAKA KOTAHI

FAR Review

**Summary of how we took the submissions
on the Discussion Document into account**

August 2013

Prepared by:
Clare Sinnott

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1 Introduction

1.1 Background

Whenever a land transport activity 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). Under section 20C of the Land Transport Management Act 2003 (LTMA) the Transport Agency must set funding assistance rates.

The problem/opportunity that the NZ Transport Agency is seeking to address by undertaking this review is that the current funding assistance rates system was set up a long time ago under statutory frameworks and policy settings that no longer exist.

- As the Transport Agency is a Crown agent exercising a statutory function involving significant amounts of public money, it is important that there is confidence that the way funding assistance rates are set and applied is consistent with current statutory and strategic policy settings.
- In addition, because the current system was set up so long ago, there is an uneven level of understanding about how the current system works and what its objectives actually are. Over time this had led to the system being made up of a number of components that were established at different times and seek to achieve different policy objectives.
- Prior to this review commencing, a number of local authorities had expressed significant dissatisfaction about the rates that apply to them (this was particularly apparent the last time the base funding rates for local road operations, maintenance and renewals were reset).

1.2 Process

The Transport Agency has adopted a two-stage consultation approach to the funding assistance rates review.

The first stage of consultation was on a Discussion Document and ran between 4 March and 3 May 2013. The Discussion Document looked at the principles that should sit behind how funding assistance rates are set, and the different overall approaches the Transport Agency could take to setting funding assistance rates.

The Transport Agency has now developed a provisional framework that could be used in setting and applying funding assistance rates going forward. This provisional framework is comprised of three elements:

- A statement of the role of funding assistance rates,
- Seven principles which are to sit behind how funding assistance rates are set and applied,
- A five part approach/methodology for setting and applying funding assistance rates.

This provisional framework is discussed in more detail in section 2 of this document.

We will undertake a second round of public consultation in late 2013/early 2014. This will involve consultation on different options for giving effect to the provisional framework. An Options Document will be developed and used, as the basis for this consultation. The document will provide information about what the various options would actually mean for different stakeholders.

1.3 The Discussion Document

The Funding Assistance Rates Review Discussion Document was published on the Transport Agency's external website on 4 March 2013. It identified eight overall approaches that could potentially be taken to setting funding assistance rates and eight principles that could potentially be used in assessing those overall approaches. However, the Discussion Document specifically invited

stakeholders to identify any further overall approaches the Transport Agency could use and any additional principles the Transport Agency should use in assessing the overall approaches.

We received ninety eight submissions on the Discussion Document (from 100 submitters). Copies of the submissions, and a summary of submissions document, are available on the NZ Transport Agency's website at www.nzta.govt.nz/far.

1.4 Purpose of this Document

The purpose of this document is to summarise how the submissions made on the Discussion Document informed the development of the provisional funding assistance rates framework.

This document is a summary which adopts the approach (used in written decisions on submissions received on plans and policy statements under the Resource Management Act 1991) of grouping the submissions according to the matters to which they relate. However, the Review Project Team considered the issues raised in each individual submission received, including the content of late submissions received after 5pm on 3 May 2013.

A number of submissions raised specific procedural issues such as why the Transport Agency is undertaking this review rather than the Ministry of Transport, and if the second consultation period could end in February 2014 rather than January 2014 as currently indicated. We responded to these specific procedural issues in letters written to the individual submitters. Therefore the submissions, and our responses, on those specific procedural issues are not included in this summary.

A number of submitters asked for additional aspects of the land transport planning and investment system to either be included within the review or made the subject of a separate review/reform. Again we wrote to the individual submitters advising them where the issues they raised were outside the scope of the review (and, in a number of cases, outside of Transport Agency's areas of statutory responsibility). We informed submitters that we would identify the issues they had raised in the Summary of Submissions and provide that Summary to the Ministry of Transport. This has been done.

1.5 Document Structure

This document is set out as follows:

- Section 2 provides an overview of the provisional framework for setting and applying funding assistance rates going forward.
- Section 3 summarises how submissions on the process that has been used for the review influenced that framework.
- Section 4 summarises how submissions on what the role of funding assistance rates is, or should be, and on the principles the Transport Agency should use in assessing the overall approaches for setting funding assistance rates, influenced the framework.
- Section 5 summarises how submissions received on overall approaches the Transport Agency could take in setting funding assistance rates influenced the framework.
- Section 6 summarises how submitters' comments on the current system for setting funding assistance rates, the *status quo*, influenced the framework.

In sections 3 to 6 of this Document black text is used in summarising the submissions received on a particular matter and blue text is used in describing how the Transport Agency has taken the submissions on that matter into account.

2 The Provisional Funding Assistance Rates Framework

The Transport Agency has developed the following provisional framework that could be used for setting and applying funding assistance rates going forward.

The intention is that we will now test how that provisional framework could work in practice. We will do this by developing, and consulting on, detailed options for applying the provisional framework. Following that round of consultation we will review and finalise the funding assistance rates framework and determine the specific methods that will be used in setting funding assistance rates going forward.

Provisional Funding Assistance Rates Framework

Role of Funding Assistance Rates:

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

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

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

Seven Principles underpinning how rates are set and applied:

The funding assistance rates system should:

1. Support optimal national land transport outcomes being achieved in the right way, at the right time and for the right price. Optimal national land transport outcomes contribute to the provision of an effective, efficient, safe, responsible and resilient transport system. (A responsible transport system addresses the potential harms of that system, including environmental and health impacts.)
2. Facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country.
3. Appropriately split the costs of the New Zealand land transport network between direct land transport system users and local communities recognising that each of those groups affects, and benefits from, that network.
4. Provide approved organisations and the NZ Transport Agency with as much investment certainty as practicable.
5. Be efficient to apply.
6. Be based on evidence and data that is readily accessible and reliable.
7. Ensure that if there are variations to how funding assistance rates are set or applied to address outliers or exceptions this is done transparently.

Five Part Approach to setting and applying funding assistance rates

Part 1 National Land Transport Fund revenue would only be used for the (eligible) costs of undertaking or maintaining a land transport activity to achieve fit for purpose standards. Those standards would be determined by the function of the relevant part of the land transport network, and the appropriate customer levels of service for different parts of the network.

Part 2 As a first step in calculating funding assistance rates, the NZ Transport Agency would:

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

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

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

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

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

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

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

- *What factors materially affect an approved organisation's ability to:*
 - *Deliver land transport outcomes, and*
 - *Contribute to the delivery of an integrated and appropriately consistent network throughout the country.*

- Which of those factors are outside of the control of both the relevant approved organisations and their local communities, and
- Whether or not there is readily accessible and reliable data that can be used to measure those factors and take them into account when setting funding assistance rates.

The aim of this investigation will be to identify:

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

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

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

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

Part 5 Enhanced targeted funding assistance rates can be used, transparently, in exceptional circumstances and for time limited periods, to either:

- Facilitate something that is particularly important from a national land transport perspective where it is highly likely that the activity would not proceed within an appropriate timeframe if additional assistance was not provided; or
- Give a kick start to incentivise, and enable, an approved organisation to make a step change in customer levels of service or the way they are delivering an activity.

3 Submissions on Process

3.1 The status quo

Some submissions expressed a concern that the Discussion Document did not appear to include the status quo as one of the options that the Transport Agency was considering.

The status quo is a mixture of a number of the eight overall approaches that were included in the Discussion Document:

- The base funding assistance rate for local road operations, maintenance and renewals currently uses a version of a differences approach. This means that the various other funding assistance rates currently derived from the base rate (such as the construction funding assistance rates for capital improvements to local roads, and the funding assistance rates for walking and cycling facilities, transport planning, network user information and road safety programmes) also use a differences approach.
- The funding assistance rates for public transport services and facilities, rail level crossing warning devices, stock effluent facilities, most special purpose roads and wheelchair hoists currently use a version of the flat approach.
- The funding assistance rates for Total Mobility Services (and the fact that the construction funding assistance rate is the base rate +10) are uses of an incentives approach.
- The different funding assistance rates for special purpose roads, the state highway network, and the majority of local roads are a version of a classification approach.

The Discussion Document contained “is this approach used now?” boxes to help to identify this.

Because this is a first principles review the first thing we did following the close of the first round of consultation is work out what the role of funding assistance rates is today and what principles should sit behind how they are set and applied. We then looked at whether the status quo was consistent with that role and those principles. We found that in a number of ways it is not.

In particular:

- Overall the status quo is not based on a clear policy decision as to what the overall split of costs between direct land transport system users and local communities (land users/property owners) should be.
- The wide range of different funding assistance rates that exist for different activities under the status quo, and the very high funding assistance rates that apply to some activities, are likely to work against value for money/optimal land transport outcomes being achieved.
- It is unclear whether the differences between approved organisations currently taken into account in setting funding assistance rates are differences that materially affect some approved organisations’ ability to deliver land transport outcomes. This is something we specifically want to look at in the next stage of the review.
- Because there has been a lack of a shared understanding of what funding assistance rates can, and should, seek to achieve the certainty of the system has been adversely affected by different components being added to the funding assistance rates system, or amended, at different times to seek to achieve different policy objectives.
- Most of the individual components of the current funding assistance rates system are, in themselves, reasonably efficient to apply. However, having so many different funding assistance rates applying to different activities means the system as a whole is less efficient to apply. Time spent seeking to ensure that activities are funded under the correct funding assistance rate creates cost (and uncertainty).

- Some of the metrics currently used to distinguish between approved organisations are not particularly reliable bases for calculating funding assistance rates. This is because they are based on matters such as:
 - The outcomes of negotiations on the size of an approved organisation’s approved maintenance, operations and renewals programme, and
 - Local authority decisions on how they will levy general rates, rather than reliable objective data.

3.2 Lack of a problem statement and not using a Better Business Case/ Investment Logic Mapping process

There were also concerns expressed that the Discussion Document did not, and should have, included a clear statement of what the problems with the current funding assistance rates system are. One of the concerns raised in this context was that submitters considered that no clear ‘problem statement’ had been developed for the review.

The Discussion Document contained a “Why are we doing this review?” section, which explained that:

- The last major changes to funding assistance rates were made more than 30 years ago, and
- Recently the Transport Agency had heard lots of feedback around whether the current approaches to setting funding assistance rates are still appropriate today.

It explained that the reason why the Transport Agency is undertaking the review is to test whether the way the Transport Agency sets funding assistance rates is still valid and appropriate. As the NZ Transport Agency is a Crown agent exercising a statutory function involving significant amounts of public money, it is important that there is confidence that the way funding assistance rates are set and applied is consistent with current statutory and strategic policy settings.

The review objectives set out in the Discussion Document identify that the review provides the Transport Agency with the opportunity to:

- Determine the role of funding assistance rates in achieving the purpose of the Land Transport Management Act and giving effect to the Government Policy Statement on Land Transport Funding (GPS).
- Be confident that the way we set funding assistance rates is effective in achieving the purpose of the Land Transport Management Act and giving effect to the GPS while also being reasonable and efficient.
- Develop a greater mutual understanding with approved organisations, the Ministry of Transport and other stakeholders as to what the role of funding assistance rates is and what they can, and should seek to achieve.

Because concerns about the lack of a problem statement were raised very early in the consultation period on the Discussion Document the Transport Agency had the opportunity to:

- Undertake a review, during the consultation period, of whether or not there was any information that would be included in a conventional ‘problem statement’ that was not contained in the information provided to approved organisations and other stakeholders during that consultation period. It was concluded that there were no such gaps.
- Provide more clarity to approved organisations about what problem/opportunity the review is seeking to address prior to the close of the consultation period. We did this through direct correspondence and in presentations and workshops undertaken during the consultation period. In this engagement we particularly noted that:
 - Because the current system was set up so long ago, there is an uneven level of understanding about how the current system is set up and what its objectives actually

are. Over time this had led to the system being made up of a number of components that were established at different times and seek to achieve different policy objectives.

- Prior to this review commencing, a number of local authorities had expressed significant dissatisfaction about the rates that apply to them (this dissatisfaction was particularly apparent the last time the base funding rates for local road operations, maintenance and renewals were re-set).

The Funding Assistance Rates Review Board Paper provided to the 5 July 2013 Transport Agency Board meeting, available at www.nzta.govt/far also summarises the problem and opportunity that the review is seeking to address.

Some submitters expressed the view that, as the *Better Business Case* model has not been used in undertaking the review, the review is not aligned to current Treasury advice and best practice. There were also suggestions in submissions that the Transport Agency should use an Investment Logic Mapping process to identify the major problems that the investment will be required to address, the strategic interventions and solutions that will best respond to the problem identified and the benefits which the investment will be required to deliver.

The Better Business Case model is a methodology for developing a business case for capital projects and programmes. Since July 2010 all capital proposals from state sector organisations which are high risk and/or large scale, are considering Public Private Partnerships, or require Crown investment or disinvestment with significant policy decisions need to use a Better Business Case model. Treasury also has an expectation that programmes/projects in the National Land Transport Programme will start to undertake Better Business Case processes. Investment Logic Mapping is a technique for conducting discussions before solutions are identified and investment decisions are made. Treasury's guidance on the Better Business Case model mandates the use of Investment Logic Mapping for all high risk Government capital projects that require Cabinet approval. It also recommends Investment Logic Mapping be undertaken for high risk smaller scale capital projects, as well as low risk large scale capital projects.

There is no requirement, or standard practice, of using a Better Business Case when central government agencies undertake reviews of their policies like the Funding Assistance Rates Review (as opposed to when they consider potential capital works projects or programmes). The Treasury's Better Business Case approach would need to be adapted in order to be used for such a policy review.

Following the receipt of submissions on the Discussion Document the Transport Agency undertook analysis to see whether there are any areas where the funding assistance rates review process is materially inconsistent with the approach that would have been taken if the Transport Agency had chosen to use a modified version of a Better Business Case approach. This analysis concluded that to date the funding assistance rates review has in substance addressed all the relevant matters that the Transport Agency would have looked at the same stage of the process if it had used a modified Better Business Case approach (although some of the labels used have been different to those which we would have used if we had been deliberately applying a Better Business Case model). Further, use of the FAR Review Reference Group to test thinking from very early in the review will have provided the Transport Agency with many of the benefits that an Investment Logic Mapping process would have been likely to provide.

3.3 Lack of data

Other submissions criticised the fact that the Discussion Document did not contain data in relation to how each of the different overall approaches identified in the Document would financially affect each approved organisation.

We deliberately described the overall approaches contained in the Discussion Document at a very high level because the first stage of consultation was about the high level principles and ideas that should sit behind the funding assistance rates system.

However, we have noted submitters' concerns about the lack of data and the Options Document will contain data to enable individual approved organisations to reach a view on how each of the options consulted on is likely to affect them.

3.4 Policy Objective

One submission stated that the Review should be focused on achieving a clear policy objective, as the Land Transport Management Act currently does not provide sufficient context by itself. They suggested the following policy objective "the Financial [sic] Assistance Rate provides on-going support for the maintenance and development of the transport network and acknowledges the opportunities and constraints faced across and within local government, including affordability".

The Funding Assistance Rates Review Objectives are:

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 programmes¹ 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.

The Transport Agency adopted these objectives in October 2012 and they were set out in Attachment 1 to the Discussion Document. The first of these objectives relates to another issue raised by submitters - the need to clarify what the role of funding assistance rates is within the land transport funding system. How submissions on the role of funding assistance rates were addressed is discussed in Section 4 of this Document. The provisional framework also includes seven principles that would sit behind how funding assistance rates are applied and set.

¹ In light of recent amendments to the Land Transport Management Act 2003, this objective should now refer to "regional land transport plans".

3.5 Transition

A key theme in many submissions was that, if the Transport Agency decided to make changes to funding assistance rates, those changes should be transitioned in very gradually. A couple of submitters specifically suggested that there should be no more than a 1% or 2% change in funding assistance rates per year.

During the next stage of the review we will look at how any changes to individual approved organisations' funding assistance rates would be transitioned in.

3.6 Composition of the FAR Review Reference Group

To assist with the review the Transport Agency has set up a reference group that it can call on to provide advice and test its thinking as the review progresses. This is a small group of people, mainly from local government. The NZ Automobile Association's (AA's) submission expressed concern that, while local government was represented on the reference group, road users were not represented. They requested that the AA also be represented on the reference group.

This issue was discussed with AA directly. We are not making any changes to the membership of the FAR Review Reference Group.

4 The Role of Funding Assistance Rates and Principles

4.1 Submissions on the role of funding assistance rates

A number of submitters expressed views about what the role of land transport funding or funding assistance rates should be.

There was general agreement that funding assistance rates are a co-investment tool. Many local government sector submitters expressed the view that funding assistance rates should be treated as being part of a partnership approach to funding the land transport system, rather than as a subsidy from central government.

The provisional funding assistance rates framework contains the following statement of the role of funding assistance rates within the land transport funding system.

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

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

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

The statement explicitly acknowledges that funding assistance is not a subsidy. Rather it recognises that the land transport investment system is a co-investment system where there are a number of beneficiaries and a number of investors or financial contributors into one transport network. Direct land transport system users contribute through the payment of fuel excise tax, road user charges and motor vehicle licence fees to the National Land Transport Fund. Public transport users contribute through fares, and local communities contribute through rates, developer contributions and other charges. (The funding assistance rates review does not address fare box recovery policy as that is the subject of a separate Transport Agency review.) Councils and local communities materially affect the transport system through their land use and planning decisions and materially benefit from the access and development opportunities that the land transport system provides.

However, the statement of the role of funding assistance rates also recognises that funding assistance rates are only one part of a wider land transport planning and investment system. The Transport Agency and approved organisations need to work together, and use a wide range of tools for planning and investing in the land transport network, to achieve the optimal land transport outcomes for New Zealand as a whole.

The statement also recognises that the Transport Agency and approved organisations need to work within their combined financial resources. For the Transport Agency these resources are the amounts of revenue available in the National Land Transport Fund and under the funding ranges set in the Government Policy Statement on Land Transport Funding (GPS). For approved organisations they are their ability to raise revenue and incur debt.

There was a divergence of opinion in the submissions received about the extent to which funding assistance rates can, or should, be used to influence approved organisations' decisions as to:

- What land transport activities to undertake,
- What standard to deliver them to, or
- How to undertake them, in order to assist the achievement of particular outcomes.

A number of local government sector submitters expressed the view that the role of funding assistance rates was limited to addressing issues of inequality or diversity between approved organisations and should not be used to seek to influence decisions or outcomes at all.

However some other submitters, including two local authorities, considered it appropriate for funding assistance rates to be deliberately used to seek to achieve certain outcomes that would be beneficial for the land transport system or society more broadly. This was expressed either as:

- Funding assistance rates are a tool for giving effect to strategic priorities, or
- Funding assistance rates should be used to encourage, prompt or incentivise approved organisations to make decisions that contribute to particular outcomes.

The issue of the extent to which funding assistance rates can, or should, influence approved organisations' decisions in order to assist the achievement of outcomes is directly related to the issue of the role of funding assistance rates, if any, in achieving value for money from investment of National Land Transport Fund revenue. This is because achieving "value for money" means selecting the right things to do, implementing them in the right way, at the right time and for the right price – i.e. achieving optimal outcomes in the optimal way.

Having carefully considered the submissions made on the issue, and the statutory and strategic policy framework in which funding assistance rates sit, we concluded that:

- How funding assistance rates are applied and set could work *against* optimal land transport outcomes being achieved. (This is discussed in more detail in relation to the submissions on the value for money principle contained in the Discussion Document).
- Funding assistance rates may be able to help to reduce the extent to which optimal land transport outcomes cannot be achieved due to matters outside of the relevant approved organisation's and their local community's (property owners' and land users') control.

The statement on the role of funding assistance rates in the provisional framework recognises this when it describes funding assistance rates as "*assisting local government (and other approved organisations) and the NZ Transport Agency to work together to achieve ... the optimal national land transport outcomes within their combined financial resources*".

We also specifically considered whether or not the National Land Transport Fund should be used to seek to address inequality and diversity between approved organisations.

We concluded that one of the ways in which funding assistance rates could assist the achievement of national land transport outcomes would be if how funding assistance rates were set took into account matters which:

- Materially affect some approved organisations' ability to deliver optimal land transport outcomes and an integrated and appropriately consistent land transport network, and
- Are not within the control of those approved organisations or their local communities.

A number of submissions expressed the view that, as well as supporting local authorities to meet their communities' land transport needs, funding assistance rates should also be used to support local authorities to meet their communities' aspirations or to help give effect to a region/district's own strategic priorities.

In contrast, one submitter commented that one of the purposes of the funding assistance rate should be to use the limited National Land Transport Fund revenue to leverage greater total investment in transport networks and the Transport Agency should strategise to maximise the amount of the ratepayer funding contribution and to leverage the greatest quality of projects in terms of best value outcomes. The submitter stated that where the Transport Agency shares costs with local government, the Transport Agency is to achieve outcomes sought by central government and is accountable to central government.

Where a local community's strategic priorities or aspirations aligned to national strategic priorities for land transport the land transport funding system as a whole (e.g. the GPS and the Transport Agency's assessment framework) would assist the community to give effect to those aspirations and priorities.

Where a local community's priorities and aspirations do not align with those national strategic priorities then the community can still choose to pursue those priorities using alternative sources of funding.

4.2 General comments made in relation to the Principles

4.2.1 Principles too general

A number of submitters expressed the view that the principles in the Discussion Document were too general and not sufficiently focused.

Some submitters commented that the principles mostly could apply to the design of any funding or charging regime and, therefore, the submitters considered that they were not helpful in choosing between overall approaches. Some of these submitters commented that this was particularly the case given that some of the principles are statutory obligations the Transport Agency is required to consider under the Land Transport Management Act 2003.

Another submitter considered that the principles were too general because they could include judgement factors.

We have taken on board comments that some of the suggested principles in the Discussion Document were too general and not sufficiently focused and have sought to make the wording of the principles more direct.

For example, one of the suggested principles in the Discussion Document was "support a whole of network approach to a land transport network for New Zealand". The Discussion Document described a 'whole of network' approach as an approach 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. We felt that it would be clearer if the principle used in the provisional framework explicitly set out what a whole of network approach means in the context of funding assistance rates. Therefore, one of the principles in the provisional framework is that the funding assistance rate system should "facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country".

We agree that some of the principles could apply to the design of many funding systems (for example, the principles that funding assistance rates should be "efficient to apply" and "based on readily accessible and reliable data"). We also agree that those two principles do not really assist in making a choice between what overall approach(es) to take in setting funding assistance rates. However, we consider that those principles should inform the design of the system to implement the provisional funding assistance rates framework. Therefore, efficiency of application and being based on readily accessible and reliable evidence and data are two matters that we will take into account in the next stage of the review.

We have assessed the current funding assistance rates system, the *status quo*, against those two principles (as well as all the other principles in the provisional framework). We found that:

- While most of the individual components of the current funding assistance rates system are, in themselves, reasonably efficient to apply, having so many different funding assistance rates applying to different activities means the system as a whole is less efficient to apply. Time spent seeking to ensure that activities are funded under the correct funding assistance rate creates cost (and uncertainty) for both the Transport Agency and approved organisations.
- Some of the metrics currently used to distinguish between approved organisations are not particularly reliable bases for calculating funding assistance rates in that they are based upon matters such as:
 - The outcomes of negotiations on the size of an approved organisation's approved maintenance, operations and renewals programme, and
 - Local authority decisions on how they will levy rates,rather than reliable objective data.

Some of the principles in the provisional framework *are* very specifically based on the Transport Agency's statutory obligations under the Land Transport Management Act 2003 (LTMA). That directly reflects the Objectives of the Review, which include:

- Determining the role(s) of funding assistance rates in achieving the purpose of the LTMA and giving effect to the GPS.
- Reviewing both:
 - The approach the Transport Agency uses in setting funding assistance rates, and
 - The funding assistance rates themselves,to determine whether or not changes should be made to enable funding assistance rates to be more effective in achieving the purpose of the Land Transport Management Act and giving effect to the GPS, while also being reasonable and efficient.

The Transport Agency is required to act in accordance with its obligations under the Land Transport Management Act when setting funding assistance rates under that Act. If those statutory obligations were not appropriately reflected in the principles underlying the funding assistance rates system we could end up with a system that was inconsistent with the Land Transport Management Act.

Some judgment will need to be applied in giving effect to the principles in the provisional framework. However, given the complexity of the issues affecting the land transport network and the limits on the combined financial resources approved organisations and the Transport Agency are working within, it is likely that this would be true of any set of principles sitting behind the funding assistance rates system.

4.2.2 Principles too focused on the Transport Agency's obligations

A couple of submitters considered that the Transport Agency has been too narrowly focused on its statutory obligations and should have considered principles derived from other legislation which affects local government, such as the Local Government Act 2002 and the Resource Management Act 1991.

Setting and applying funding assistance rates is part of the Transport Agency's statutory functions under the Land Transport Management Act. In undertaking those functions the Transport Agency must also act consistently with other statutes that apply to its actions, such as the Crown Entities Act. In setting and applying funding assistance rates the Transport Agency is not acting under the Local Government Act or the Resource Management Act. Therefore, it would be inappropriate for it to act as if it were.

However, the statement of the role of funding assistance rates in the provisional framework explicitly recognises the constraints on the financial resources available to local authorities, and other approved organisations. In the case of local authorities, many of those constraints come from the legislation they act under, such as the Local Government Act, and the Local Government Rating Powers Act.

4.2.3 Too many principles

A couple of submissions said the eight is too many principles and the principles should be refined and amalgamated into fewer principles.

We have managed to reduce the number of principles to seven. Each of these seven principles addresses something important which is materially different to the matters addressed by the other principles. As noted above, some of the principles are more relevant to how a funding assistance rate system is designed and implemented rather than to which overall approach(es) should be used in setting funding assistance rates.

4.2.4 Principles not relevant to funding assistance rates

One submitter expressed the view that the principles are not all relevant to funding assistance rates - some should relate to funding allocations and assessments rather than funding assistance rates.

See section 4.3.1 Submissions on the value for money principle, below.

4.2.5 Priority principles should be identified

One submitter considered that the priority principles need to be identified.

We have not identified priority principles. As noted above:

- Each of the seven principles addresses something important which is materially different to the matters addressed by the other principles, however
- Some of the principles are more relevant to how a funding assistance rate system is designed and implemented rather than to which overall approach(es) should be used in setting funding assistance rates.

4.2.6 Weighting

One submitter considered that the principles should be judged on a pass/fail. If any overall approach failed to meet one or more of the principles then that proposal should fail. Therefore, they considered that a definition of what 'failed' looks like needs to be developed for each principle.

Two other submitters considered that it was inappropriate to put weightings on the principles - one commenting that all of the principles should stand in their own right.

We did not to put weightings on the principles.

Attachment 2 to the 5 July Board Paper contains a Table that assesses the eight different overall approaches identified in the Discussion Document against the seven principles recommended in that Paper. The provisional framework uses a version of a differences approach and the differences approach scored positively against all five of the principles used to determine which overall approach to take in setting funding assistance rates. As noted above, the remaining two principles are more relevant to how the funding assistance rate system should be designed and implemented and will be taken into account in the next stage of the review.

4.3 Submissions on the individual principles identified in the Discussion Document

4.3.1 Submissions on the value for money principle

One of the suggested principles in the Discussion Document was that the approach used in setting funding assistance rates should “be consistent with seeking value for money from investment of the National Land Transport Fund”. Consistent with wider Transport Agency policy, for the purpose of the review “value for money” means achieving the optimal outcomes in the optimal way – including achieving them at the right time and for the right price. Depending upon the circumstances the optimal outcomes may relate to a range of transport related issues including safety, accessibility for communities or individuals, travel time, travel time reliability, network resilience, and/or managing environmental or health impacts from the land transport system.

A number of the submissions on the Discussion Document opposed the use of a value for money principle on the basis that:

- The submitters did not consider that it was the role of funding assistance rates to seek value for money, and/or
- Taking into account value for money in determining funding assistance rates would replicate other mechanisms in the land transport system and would, therefore, mean that value for money was ‘double counted’ in the overall land transport funding system.

We considered these submissions carefully, but ultimately we disagreed with the view that funding assistance rates were not relevant to achieving value for money.

How funding assistance rates are applied and set could work *against* the optimal land transport outcomes being achieved if:

- They were applied to all of the costs of undertaking a land transport activity even if the activity was being undertaken to a higher standard than was required to achieve the appropriate customer level of service.
- They encouraged approved organisations to “FAR-chase”, i.e. to pursue a particular type of solution to address a land transport issue because using that solution would attract a higher funding assistance rate than the alternatives.
- The funding assistance rate for a particular type of activity was so high that the approved organisation bore very little of the risk of over-investing in that type of activity, or had very little incentive to achieve efficiencies in how the activity was undertaken – i.e. had insufficient “skin in the game”.
- The metrics used in calculating the funding assistance rates encouraged approved organisations to do too much, or too little, of different types of activities.

Further, funding assistance rates may be able to help to reduce the extent to which optimal land transport outcomes are not able to be achieved due to matters outside of the relevant approved organisation’s (and local community’s) control.

Funding assistance rates are not the sole mechanism through which value for money from investment of the land transport network is to be achieved. However, how funding assistance rates are set and applied needs to be consistent, and to work together, with other tools for achieving value for money.

The principle in relation to value for money included in the provisional framework is:

“Support optimal national land transport outcomes being achieved in the right way, at the right time and for the right price. Optimal national land transport outcomes contribute to the provision of an effective, efficient, safe, responsible and resilient transport system. (A responsible transport system addresses the potential harms of that system, including environmental and health impacts.)”

Some submissions commented that the value for money principle should take into account a number of factors including cost, quality, time and appropriateness.

Consistent with those submissions the principle in the provisional framework refers to optimal outcomes being achieved in the right way, at the right time and for the right price.

One submitter commented that the value for money principle should give full weight to environment, health and social wellbeing.

The “value for money” principle expressly states that optimal national land transport outcomes include outcomes that contribute to an effective, efficient, safe, responsible and resilient transport system. A responsible transport system addresses the potential harms of that system, including environmental and health impacts. An effective transport system moves people and freight where they need to go in a timely manner.

Some submitters sought for the principles to be reworded “value for money and financial prudence”.

“Financial prudence” is a phrase often used when referring to recent amendments to the Local Government Act. Those amendments enable, but do not require, the Minister for Local Government to make regulations “prescribing parameters or benchmarks for assessing whether a local authority is prudently managing its revenues, expenses, assets, liabilities, investments, and general financial dealings”.

The fact that local authorities (other approved organisations and the Transport Agency) need to work within their combined financial resources is recognised in the statement of the role of funding assistance rates in the provisional framework.

One submitter sought for the value for money principle to be split into two - “value for New Zealand Inc.” and “value to the local community”.

The statement of the role of funding assistance rates in the provisional framework recognises that part of that role is to assist local government (and other approved organisations) and the Transport Agency to work together to achieve:

- The optimal national land transport outcomes within their combined financial resources, and
- An integrated and appropriately consistent land transport network throughout the country.

It also explicitly states that funding assistance is part of a co-investment system that recognises there are both national and local benefits from investing in the land transport network.

One submitter considered that “value for money” is probably too wide ranging to be considered as a single principle and should be split into two or more (e.g. optimising whole-life asset decisions vs. enabling GPS outcomes).

As noted above, the value for money principle in the provisional framework refers to funding assistance rates supporting optimal national land transport outcomes being achieved in the right way, at the right time and for the right price. “Optimising whole-life asset decisions is an aspect of this, but only one aspect of it.

A principle worded “enabling GPS outcomes” could be interpreted as requiring the Transport Agency to set funding assistance rates in a way that is tailored to achieve the outcomes identified in an individual GPS.

As noted in Attachment 3 to the Funding Assistance Rates Review Discussion Document, tying the structure of the funding assistance rates setting process too closely to an individual GPS could be problematic as:

- It could require a substantial review of the funding assistance rates setting structure every three years.
- Approved organisations need to know the funding assistance rates that will apply for a National Land Transport Fund investment period well in advance of that period commencing (in order for the funding assistance rates to be factored into local council long-term plans and regional land transport plans). The detail of the GPS that will apply to that investment period may not be known at the time the Transport Agency advises approved organisations of their funding assistance rates for the relevant investment period.

4.3.2 Submissions on the whole of network approach principle

One of the suggested principles contained in the Discussion Document was that the approach used in setting funding assistance rates should “support a whole of network approach to a land transport network for New Zealand”.

The submissions received on the FAR Review Discussion Document were largely supportive of a whole of network principle being used in assessing different overall approaches to setting funding assistance rates.

One submitter commented that there needs to be an agreed definition of “whole of network approach” which formally recognises the important contribution of both rural and urban networks as well as other modes and inter-modal connections and the issue of network resilience.

Another submitter commented that the principle can be extended to require a consistency of standards across the network and parts of the network controlled by different bodies for users (and that this should not be affected by limits on funding such as regional costs and ability to pay local shares.)

A number of submitters sought for the wording of the whole of network principle to be amended to include specific reference to “the contributions of both rural and urban networks including their contribution to economic outcomes”. One submitter also sought for the principle to refer specifically to export related traffic, another for the principle to refer specifically to other transport modes and inter-modal connections.

Consistent with these submissions the relevant principles in the provisional framework describe what a whole of network approach is rather than simply referring to supporting a whole of network approach.

The FAR Review Discussion Document described a whole of network approach as one that is focused on the outcomes for the 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.

Two of the principles in the provisional framework are:

- *“Support optimal national land transport outcomes being achieved in the right way, at the right time and for the right price. Optimal national land transport outcomes contribute to the provision of an effective, efficient, safe, responsible and resilient transport system. (A responsible transport system addresses the potential harms of that system, including environmental and health impacts.)”*
- *“Facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country.”*

We have noted the comments made by a couple of submitters that not all approved organisations deliver public transport services and that general (as opposed to targeted) public transport services may be of questionable value in some areas.

We have not included specific references to rural networks, urban networks, the parts of the network which accommodate export traffic, alternative transport modes, or inter-modal connections in the wording of the relevant principles because all of those things, and others, form part of an integrated land transport network throughout the country.

One submitter supported the principle if it gave full weight to the environment, health and social wellbeing.

The first principle in the provisional framework recognises that optimal national land transport outcomes contribute to an effective, efficient, safe, responsible and resilient transport system. A responsible transport system addresses the potential harms of that system, including environmental and health impacts. An effective transport system moves people and freight where they need to go in a timely manner.

One submitter opposed the use of the principle on the basis that they considered that it would be more effectively achieved as part of the Transport Agency's approval processes for determining the size of local authority road maintenance operations and renewal, and public transport, programmes.

Having considered the issue carefully, we consider that how funding assistance rates are set can assist in the delivery of a whole of network approach. This is through higher funding assistance rates being provided to those approved organisations that have to deal with factors outside of their (and their local community's) control which make it harder for them to contribute to the delivery of an integrated and appropriately consistent network throughout the country.

4.3.3 Submissions on the relative interests and benefits principle

One of the suggested principles in the Discussion Document was that the approach used in setting funding assistance rates should "recognise the interests of, and benefits received by, ratepayers and users of the land transport system".

The majority of submissions that referred to this principle sought for the wording of the principle to be amended. The majority of those seeking for the principle to be reworded sought:

- The deletion of any reference to the interests of, or benefits received by, users of the land transport system,
- The deletion of any reference to the benefits received by ratepayers, and instead
- For the principle to focus solely on the contributions made by ratepayers and/or the fact that there is a partnership approach between approved organisations and the Transport Agency.

In contrast, another submitter commented that economic theory implies that those who benefit should pay, thus signalling demand and providing the funding.

A principle which simply recognises that approved organisations make a contribution to the costs of land transport activities or that the land transport funding system is a co-investment system would not assist in choosing between different possible overall approaches or mechanisms for setting what proportion of those costs approved organisations should contribute.

However, the fact that the land transport funding system is a co-investment system, with local communities meeting a substantial part of the cost of the land transport network, is recognised in the provisional framework in:

- The statement of the role of funding assistance rates, and
- The principle that the funding assistance rates system should "appropriately split the costs of the New Zealand land transport network between direct land transport system users and local communities recognising that each of those groups affects, and benefits from, that network."

One submitter expressed the view that ratepayer interests correlate closely to road use, i.e. that there is no real difference between the interests of ratepayers and road users. Two submitters stated that they consider road users and the community to be fundamentally the same. In contrast another submitter commented that there is no accountability for fuel excise duty and RUC through the local government electoral process and local ratepayers and national motorised road users are not even slightly the same people with the same interests.

The economist's report which accompanied one of the submissions noted, among other things, that one of the benefits of road investment is the general development opportunity made possible by access to a region and/or the lower local prices made possible for residents. To some extent the value of this will be reflected in local property prices but there is also a spill over of benefits to others outside the area. The development opportunity also includes opportunities in the future not necessarily clearly identified yet (and hence not priced into current property values).

While there are benefits to direct land transport system users from investment in the land transport system, there are also benefits from that investment to property owners and land users particularly in terms of access to the land they own/use and the development opportunities made possible by access to their area. This includes the development opportunities they obtain from the provision of access to their land by particular types of land transport – e.g. access to residential areas, employment hubs and retail areas by public transport, access to businesses/farms/commercial forests by heavy vehicles. Those benefits are reflected in property values (although there is also a spill over of benefits to people outside the local area.) The property owner and land user do not necessarily pay the fuel excise duty or RUC for the vehicles which use the land transport network in order to access their land. (Further, the planning decisions made by local authorities on behalf of their local communities significantly affect how the land within their area is used and, therefore, what impact use of that land has on the land transport network.)

For example if a supermarket is established on the periphery of a town the value of the land on which the supermarket is situated could be expected to increase and the person operating the supermarket is likely to make a profit. However, neither the landowner nor the supermarket operator pays the fuel excise duty for the vehicles used by the customers who drive to the supermarket and whether or not the supermarket operator pays the RUC for the trucks that deliver goods to the supermarket will depend on the nature of their contractual arrangements with their suppliers, logistics companies etc.

The provisional framework recognises that both direct land transport users and local communities affect, and benefit from, the land transport network.

Three submitters sought deletion of the word “ratepayers” from the suggested principle and its replacement with a reference to the community as a whole.

The word “ratepayers” has been replaced with “local communities”.

One submitter commented that this principle requires an examination of the distribution of costs between road users and ratepayers on both a horizontal equity and a vertical equity basis.

One part of the 5 part approach to setting and applying funding assistance rates is the setting of an “overall NLTF co-investment rate”. This is to be set to split the costs of the land transport network as a whole appropriately between direct land transport system users and local communities.

How this overall NLTF co-investment rate would be set is one of the issues that will be considered, and consulted on, in the next stage of the review.

Another submitter commented that the principle does not specifically mention the interests of users of the public transport system and does not take into consideration the spirit of partnership between local authorities and public transport providers.

The land transport investment system as a whole includes a material contribution from public transport fare payers. However, funding assistance rates only directly affect the split of costs between approved organisations/local communities and the National Land Transport Fund. The issue of what proportion of the costs of public transport should be met by fare payers is currently the subject of a separate Transport Agency review of fare box recovery policy.

One submitter considered that the principle should be amended to include a reference to taking into account an approved organisations' own strategic direction.

As discussed above, where an approved organisation's strategic direction is aligned to national strategic priorities then the land transport investment system as a whole would assist the approved organisation to give effect to that strategic direction.

Where an approved organisation's strategic direction does not align with those national strategic priorities then they can still choose to pursue that direction using alternative sources of funding.

One submitter considered that the principle should be replaced by one that refers to ability to pay.

See section 4.4.1 "Ability to pay"/ "affordability" below.

Some submitters expressed the view that how funding assistance rates are set should reflect the costs which land transport network system use can impose - such as health and environmental effects from the discharge of contaminants from motor vehicles to air - rather than the benefits obtained by different groups.

We took this submission to mean that the submitter considered that there should be lower funding assistance rates for polluting land transport modes and higher funding assistance rates for less polluting modes.

However, expenditure on roads benefits not only private motor vehicle users but also bus users and cyclists (including through the operation, maintenance and renewal of bus and cycle lanes on roads). Therefore, it is unclear how funding assistance rates for the operation, maintenance and renewal of roads would be set using this approach.

Further, funding assistance rates are only directly relevant to how costs are split between direct land transport system users and local communities. Both local communities (through their land use decisions) and direct land transport users contribute to the environmental and health costs of transport and both benefit from the health and environmental benefits of less polluting transport modes. Therefore, it is difficult to justify changing the relative split of costs between local communities and direct land transport system users depending on the relative environmental and health costs of different modes.

4.3.4 Submissions on the financial responsibility principle

One of the suggested principles in the Discussion Document was that the approach used in setting funding assistance rates should "be financially responsible".

Two submitters commented that they were uncertain as to how the principle would be applied to funding assistance rates. A couple of submitters considered that the principle was not appropriate, or not relevant to funding assistance rates.

A number of submitters considered that this principle:

- Would be covered by one or more of the other principles,
- Would, or might, replicate other mechanisms in the land transport funding system, or
- Should be combined with the value for money principle.

Under the Crown Entities Act, the Transport Agency as a Crown entity is obliged to act in a financially responsible manner. The State Services Commission interprets this as a requirement that Crown entities must²:

- Manage their assets and liabilities prudently
- Endeavour to ensure their long-term viability
- Be successful “going concerns”.

This requirement is recognised in the part of the statement of the role of funding assistance rates which refers to funding assistance rates being one tool which “assists local government (and other approved organisations) and the NZ Transport Agency to work together to achieve the optimal national land transport outcomes *within their combined financial resources.*”

The provisional framework does not include a separate “financial responsibility” principle.

One submitter considered that this principle should include “accountability for spending”.

This issue is addressed through the principle in the provisional framework that the costs of the land transport system should be appropriately split between direct land transport system users and local communities. The Transport Agency is accountable for how the National Land Transport Fund is invested, local authorities are accountable for how the rates, and other taxes and charges, they impose on local communities are used.

One submitter interpreted this principle as meaning that investment would be focused on roads that support the economy.

As discussed above, the concept of “financial responsibility” comes from the Crown Entities Act. It is about managing assets and liabilities prudently rather than being about pursuing any particular kinds of land transport outcomes.

One submitter commented that all the approaches are financially responsible. Therefore, it does not provide a basis for distinguishing between approaches.

The provisional framework does not include a separate “financial responsibility” principle.

Another submitter considered that the principle should be amended to read “be financially responsible by allowing approved organisations to choose the best suite of activities to achieve the outcomes desired by the Government’s investment and to obtain the outcomes/value for money which they or the Government seek”.

The amended principle suggested by the submitter combines a number of ideas:

- Financial responsibility
- Who should choose what activities National Land Transport Fund revenue is invested in
- Obtaining value for money
- Obtaining land transport outcomes that the Government is seeking
- Obtaining outcomes that approved organisations are seeking which may, but may not, also be outcomes that the Government is seeking.

What is intended by financial responsibility as used in the Crown Entities Act is discussed above.

The Land Transport Management Act gives the Transport Agency the role of approving activities /programmes of activities for funding from the National Land Transport Fund. Depending upon exactly what level of autonomy for approved organisations the submitter is seeking statutory reform might be required to achieve their aim – it is not something that can be achieved by how funding assistance rates are set.

² *Crown Entities: A Guide for Ministers*, State Services Commission, section 4.5.

Where the outcomes that approved organisations are seeking are aligned to national strategic priorities then the land transport funding system as a whole would assist local authorities to achieve those outcomes. Where the outcomes a local community is seeking do not align with those national strategic priorities then the community can still choose to pursue those outcomes using alternative sources of funding.

One submitter considered that the principle should include 'demand pricing'.

"Demand pricing" is an economic term that refers to the process of calculating the price for something on the basis of the relative demand for the product. It involves assessing what the demand will be for the product at different price levels. Demand pricing is an idea that developed for the context where you have a "seller" or "provider" of a good or service and a "buyer" or "consumer" of that good or service. It is unclear how this concept would work in relation to funding assistance rates for land transport activities where both the direct land transport users (who provide the revenue for the National Land Transport Fund) and local communities (property owners and land users) invest in, and benefit from, the land transport network.

4.3.5 Submissions on the social and environmental responsibility principle

One of the suggested principles in the Discussion Document was that the approach used in setting funding assistance rates should "allow social and environmental responsibility to be exhibited". The Transport Agency is legally required to "exhibit a sense of social and environmental responsibility".

The submissions received on the Discussion Document were largely supportive of a social and environmental responsibility principle being used in assessing different overall approaches to setting funding assistance rates. (One submitter opposed the principle on the basis that it already overarches the transport activity and, therefore, should not form part of the funding assistance rates process).

Twelve submissions considered that the principle should be strengthened by amending it to read "facilitate social and environmental responsibility being exhibited".

A couple of submitters commented that they were unclear how the principle would be applied to funding assistance rates. One of these submitters commented that the principle might be more usefully reworded as "to support the provision of services which maintain a relevant level of service for current and expected future users". Two submitters commented that clear criteria need to be developed for assessing how well each overall approach identified in the Discussion Document fits the principle.

One submitter commented that environmental responsibility is often compromised through a lack of funds available to maintain adequate storm water and runoff from large unsealed networks into rivers and harbours.

Three submitters commented that land transport initiatives must be delivered in a manner that is sustainable in that they will not interfere with the natural environment in a way that could cause a detrimental effect to future generations. They also commented that social responsibility should be determined depending on the characteristics of each community; and initiatives must be able to be sustained by the relevant communities.

The Transport Agency and approved organisations can seek to achieve a number of outcomes through investment in a land transport activity – including outcomes related to safety, network resilience, good environmental management, and management of health impacts. However, there is only so much money available in the National Land Transport Fund and, under the funding ranges set by the GPS, only so much money available for each activity class from the Fund. There are also constraints on approved organisations' finances. Therefore, whatever funding assistance rates are set, it is never going to be possible to achieve all of the outcomes that approved organisations or the Transport Agency would ideally like to achieve.

However, what funding assistance rates may be able to do is reduce the extent to which optimal land transport outcomes are prevented from occurring as a result of matters that are essentially outside of both the relevant approved organisation's and their local community's control.

This concept is reflected in the statement of the role of funding assistance rates and the principles that the funding assistance rates system should:

“Support optimal national land transport outcomes being achieved in the right way, at the right time and for the right price. Optimal national land transport outcomes contribute to the provision of an effective, efficient, safe, responsible and resilient transport system. (A responsible transport system addresses the potential harms of that system, including environmental and health impacts.)”

“Facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country.”

It is also reflected in Part 4 of the 5-part approach, which states that:

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

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

Those approved organisations receiving a higher funding assistance rate would facilitate the delivery of land transport outcomes.”

One submitter considered the principle should be split into two:

- One recognising the need for funding assistance rates to contribute to positive environmental impacts where possible, or at least reduce environmental harm (ideally including a specific reference to preventing climate change), and
- The second talking about the need for the approach to calculating funding assistance rates to contribute to positive social impacts in terms of both encouraging stronger and more resilient communities.

Two submissions considered that the principle should be amended to include a specific reference to health. Three that it should include a specific reference to safety.

The principles in the provisional framework include specific references to management of environmental and health impacts from the land transport network, and contributing to the provision of a resilient and safe land transport network.

4.3.6 Submissions on the efficient to apply principle

One of the suggested principles in the Discussion Document was that the approach used in setting funding assistance rates should “be efficient to apply”.

The submissions on the Discussion Document were generally supportive of this principle.

A number of submitters considered that the principle should be amended to read “efficient and simple to apply”.

In contrast the one submitter who opposed the principle commented that, in real terms and value, the relative cost of using the system will be small. Both they and another submitter commented that efficiency of application should not be achieved at the expense of more outcome-based issues such as fairness in cost sharing or consistency of standards across the land transport network.

One of the principles in the provisional framework is “*be efficient to apply*”.

The concept of not being too complicated is inherent in the idea of a system being efficient to apply.

One submitter commented that the ease of managing funding if different funding assistance rates apply to one road controlling authority needs to be considered.

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

One submitter considered that the efficient to apply principle was part of the value for money principle.

The Discussion Document contained a very broadly worded value for money principle. However, following consideration of submissions, the first principle in the provisional framework is now focused on achieving optimal land transport outcomes whereas the efficiency principle is focused on how the funding assistance rates system is designed and administered. Therefore, they now address two different matters.

As can be seen in Attachment 2 to the 5 July Board Paper, ultimately the efficient to apply principle was not material in deciding between what overall approach(es) should be used in setting and applying funding assistance rates. Rather it is something that will need to be factored into how the provisional funding assistance framework is implemented.

4.3.7 Submissions on the transparency principle

One of the principles suggested in the Discussion Document was that the approach to setting funding assistance rates should “be transparent (based on clearly identified principles and accessible and reliable evidence/data)”.

The submissions on the Discussion Document were generally supportive of this principle.

One submission questioned whether it was really part of the value for money principle.

The Discussion Document contained a very broadly worded value for money principle. However, the first principle in the provisional framework is focused on achieving value for money in outcomes whereas the transparency principle is focused on how the funding assistance rates system is designed and applied. Therefore, we have retained them as two separate principles.

As can be seen in Attachment 2 to the 4 July Board Paper, ultimately the idea of the funding assistance rates system being based on readily accessible and reliable evidence/data was not material in deciding between what overall approach(es) should be used in setting funding assistance rates. Rather it is something that will need to be factored in to how the provisional funding assistance framework is implemented.

However, the provisional funding assistance framework does identify clear principles to sit behind how funding assistance rates are applied and set. The proper application of the other six principles in the provisional framework should result in funding assistance rates that are based on clearly identified principles. Therefore, the transparency principle in the framework only provides that funding assistance rates should be *“based on evidence and data that is readily accessible and reliable”*.

Three submitters considered that the transparency principle should also include a reference to funding assistance being predictable and reliable.

The predictability and reliability of funding assistance rates is a matter that is addressed in the principle that funding assistance rates should “provide approved organisations and the NZ Transport Agency with as much investment certainty as practicable”.

One submitter noted that any system based on current data has the potential to be flawed if it cannot allow for seasonal variations and growth.

What factors materially affect some approved organisations' ability to deliver land transport outcomes and, if so, how those factors should be taken into account in setting funding assistance rates, are things that we will look at in the next stage of the review.

One submitter commented that any approach to setting funding assistance rates must be based on data that can be collected in a consistent, transparent and affordable manner across all parts of the country.

Consistency and transparency of data collection are matters that are relevant to that data being readily accessible and reliable. One of the factors that might make the evidence or data unreliable is if the evidence or data is likely to be collected or compiled inconsistently.

The affordability of collecting the data required to support a funding assistance rates system is relevant to whether or not that system is "efficient to apply".

Six submitters commented that any options that rely on incomplete data containing unfounded policy assumptions, incomplete policy frameworks, or require judgments to be made are not acceptable to them.

It is unlikely to be practicable to develop a funding assistance rates system that does not involve an element of judgment somewhere in the system. The status quo involves a number of exercises of judgment, e.g. one of the metrics used in calculating the Base funding assistance rates for local road maintenance, operations and renewals is the size of a local authority's maintenance, operations and renewals programme which is something that is currently negotiated between the Transport Agency and the approved organisation.

Further, as a statutory body the Transport Agency must retain the ability to depart from general policy in appropriate circumstances (otherwise it would be at risk of being found to have unlawfully fettered its exercise of its statutory powers of discretion).

However, the funding assistance rate system needs to be based on reliable evidence and data and give approved organisations and the Transport Agency as much investment certainty as practicable.

The statement of the role of funding assistance rates, the 7 principles and the 5 part approach would provide a policy framework that would sit behind how funding assistance rates are set and applied.

4.3.8 Submissions on the balance between certainty and agility principle

One of the suggested principles in the Discussion Document was that the approach used in setting funding assistance rates should "strike an appropriate balance between providing certainty for approved organisations and being agile enough to respond to change".

The submissions on this suggested principle largely stressed that certainty is more important to approved organisations than agility, particularly because it helps them to develop and deliver on long-term plans, make long-term investment decisions and plan their asset management.

In recognition of this, the relevant principle in the provisional framework is that funding assistance rates should "provide approved organisations and the NZ Transport Agency with as much investment certainty as practicable".

Some of the submitters sought for the principle to refer specifically to 'stability' or 'consistency'.

Some of the submitters commented that the Transport Agency should not make any changes to funding assistance rates between Council long term plans.

Due to:

- The potential variability in the amount of revenue available in the National Land Transport Fund, and
- The fact that the funding ranges for different activity classes may change as new GPS are developed,

use of the words “stability” or “consistency” in the principle might raise unrealistic expectations as to the level of investment certainty that can practicably be provided.

How often the Transport Agency would reset funding assistance rates going forward would largely depend upon what metrics are used in setting funding assistance rates.

One submitter considered that the principle should be amended to provide for an ability to respond to change as well as the current degree of variability between approved organisations.

The provisional framework provides that if there are some factors which:

- Materially affect some approved organisations’ ability to deliver optimal land transport outcomes in the optimal way and contribute to the delivery of an integrated and appropriately consistent network, and
- Are not within the control of those approved organisations or the control of their local communities (property owners and land users) then,

those approved organisations could receive a higher funding assistance rate than most approved organisations. If some approved organisations receive a funding assistance rate that is higher than the overall NLTF co-investment rate (set under Part 2 of the 5 part approach) then other approved organisations would consequently receive a funding assistance rate that is lower than that overall NLTF co-investment rate.

The other flexibility built into the provisional framework is the ability for enhanced targeted funding assistance rates to be used in exceptional circumstances and for time limited periods (Part 5 of the 5 part approach).

4.4 Other Principles suggested by Submitters

4.4.1 “Ability to pay”/ “affordability”

Around 35 submitters sought for an additional principle to be used in assessing the overall approaches for setting funding assistance rates which addressed difference between local authorities’ ability to contribute to the cost of developing and maintaining the transport network. Many of these sought for the additional principle to refer to “affordability” or “ability to pay”. One submitter sought the inclusion of a principle that recognised local authorities’ “dependence” on the National Land Transport Fund.

In contrast one submitter commented that the local government sector is seeing increased moves toward greater collaboration and clustering, which is likely to result in regional approaches to infrastructure delivery. This may mean that funding assistance rates based on the ability to pay may no longer be as relevant, as larger organisations will have greater scope to perform these functions.

“Ability to pay” is a term that has come into common use in connection with the funding assistance rates system. There was never any statutory obligation for the Transport Agency, or any of its predecessors, to take into account approved organisations’ respective ‘ability to pay’ when setting funding assistance rates. (Prior to Transit New Zealand being set up in 1989 there was an obligation for the then National Roads Board to take into account, among other things, a local authority’s “financial position” and “other commitments”).

Of the submitters that discussed what they consider 'ability to pay' means some considered that it meant the cost impact of an approved organisation's local road maintenance and operations programme per head of population or in relation to population density. Other submitters said that ability to pay relates to the relative economic disadvantage/levels of social deprivation of an area.

Some submitters see 'ability to pay' as including issues such as how politically acceptable a rates increase would be to their local community and to what extent their community would prefer the Council's income to be spent on things other than the land transport network.

'Affordability' also means different things to different people. For example, for some stakeholders indicated that something is unaffordable if the rates increase that would be required to fund it would be politically unacceptable to their community. Some of these things can be seen as matters of community preference/'willingness to pay'. It is difficult to justify one approved organisation having a higher funding assistance rate than another because the first approved organisation's community is less willing to mobilise their potential financial resources to pay for land transport than the other community.

Because of the lack of clarity regarding what the terms 'ability to pay' and 'affordability' mean in the context of funding land transport the Transport Agency has avoided using those terms in the provisional framework.

However:

- That framework does recognise that part of the role of funding assistance rates is to support local government (and other approved organisations) and the Transport Agency to work together to achieve the optimal national land transport outcomes within their combined financial resources.
- One of the principles in the provisional framework is to facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country.
- Part 4 of the 5 part approach to setting and applying funding assistance rates acknowledges that:
 - There are factors (which are outside the control of both approved organisations and their local communities) that materially affect some approved organisations' ability to deliver optimal land transport outcomes and contribute to the delivery of an integrated and appropriately consistent network throughout the country.
 - Those approved organisations receiving a higher funding assistance rate would facilitate the delivery of land transport outcomes.

At the next stage of the review we will investigate:

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

The aim of this investigation will be to identify:

- Which approved organisations should receive funding assistance rates that are higher than the overall NLTF co-investment rate (set under Part 2 of the 5 part approach), and
- How much higher than that overall NLTF co-investment rate their funding assistance rates should be.

If some approved organisations receive a funding assistance rate that is higher than the overall NLTF co-investment rate, other approved organisations would consequently receive a funding assistance rate that is lower than the overall NLTF co-investment rate.

4.4.2 Fairness and equity

Eight submitters sought for the addition of a principle that refers to “fairness and equity” or “social equity”.

The provisional framework does not use the words “fairness” or “equity”. This is because, as signalled in the Discussion Document, in the context of funding assistance rates fairness and equity can mean very different things depending upon what perspective you look at things from.

This difference in interpretation was apparent in the submissions received on the Discussion Document:

- One submitter considered that ‘equity’ in the context of funding assistance rates means “a community’s ability to access transport options”. Another submitter considered that equity should be considered in terms of equal access to roads (as opposed to equal access to funding). Similarly, another submitter commented that transport should be seen as a ‘public good’ to be distributed to all users as equitably as possible as opposed to user pays or who deserves benefits.
- Other submitters expressed the view that a fair and equitable distribution of funding is one based on a community’s network need and/or ‘ability to pay’ (see above for a discussion on the issues with the use of the phrase ‘ability to pay’).
- Another submitter considered that ‘fairness’ should be based on benchmarking between similar road controlling authorities.
- One submitter commented that the funding assistance rates system needs to provide a fair share for Auckland and that funding assistance rates need to support a programme of growth as well as programmes to optimise/maintain existing transport systems.
- One submitter stated that fairness and equity needs to be contextualised as applying at a national level, across a ‘whole of network’ context, rather than as a criterion requiring that each funding recipient receive what it considers to be fair and equitable.
- Another submitter described equity as being “social equity” with a greater financial assistance for those with greatest need.
- One submitter stated “the NZ Transport Agency has not sufficiently proven that money collected in a city or district and then spent there, is not the most equitable method of distribution.”

In terms of whether or not funding assistance rates should be used to seek to achieve social equity, some land transport investments, e.g. those that improve or maintain access for remote communities to education and health care, or improve access for lower income communities to employment opportunities, positively affect wider social issues. However, the National Land Transport Fund is a fund that is collected, and required to be used, to achieve land transport outcomes. It is not appropriate to seek to use that Fund to seek to achieve some form of broader social equity.

4.4.3 Appropriate investment/levels of service

One submitter sought the inclusion of a principle that referred to, among other things, “preventing inadequate or excessive investment”. Others sought principles which referred to sustainable or appropriate levels of service being achieved or services received being appropriate and balanced between all communities.

One of the principles in the provisional framework is to “facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country”. Further, under Part 1 of the 5 part approach in the provisional framework National Land Transport Fund revenue would only be used for the (eligible) costs of undertaking or maintaining a land transport activity to achieve fit for purpose standards. (Those standards would be determined by the function of the relevant part of the land transport network and the appropriate customer levels of service for different parts of the network.)

4.4.4 Principles supporting specific outcomes

Some submitters sought the addition of principles based around specific outcomes, e.g.:

- Encouraging economic growth and productivity through improved access and opening up areas for production and settlement
- Realising economic potential or supporting economic or community development
- Network resilience
- Maintaining reliable access for the output of major export products
- Safe and reliable access to the conservation estate and remote rural communities to support tourism
- The network being made safer for all
- Encouraging passenger growth through the proliferation of public transport.

Some of the outcomes sought in suggested principles may run counter to seeking value for money from investment of the National Land Transport Fund e.g. suggested principles around:

- “No decline in ... levels of service over time”
- Maintaining existing under-utilised infrastructure to allow future generations the choice of development options
- Not encouraging people to abandon rural communities through there being lower levels of service on rural roads.

What the appropriate outcomes are is something that is determined by a combination of other parts of the land transport planning and funding system – e.g. regional transport plans, the GPS, the national land transport programme and Transport Agency decisions whether or not to approve individual activities for funding from the National Land Transport Fund.

The statement of the role of funding assistance rates in the provisional framework recognises that part of that role is to assist approved organisations and the Transport Agency to work together to achieve the optimal land transport outcomes within their combined financial resources.

What funding assistance rates can do is reduce the extent to which the optimal land transport outcomes are prevented from occurring as a result of factors that are essentially outside of both the relevant approved organisations’ and local communities’ (property owners’ and land users’) control. Part 4 of the 5 part approach to setting and applying funding assistance rates acknowledges that:

- There are factors (which are outside the control of both approved organisations and their local communities) that materially affect some approved organisations’ ability to deliver optimal land transport outcomes and contribute to the delivery of an integrated and appropriately consistent network throughout the country.
- Those approved organisations receiving a higher funding assistance rate would facilitate the delivery of land transport outcomes.

Further, under Part 5 of the 5 part approach, in appropriate cases the Transport Agency could use time limited targeted enhanced funding assistance rates to facilitate a land transport activity that would assist in achieving an outcome that is particularly important from a national land transport perspective.

4.4.5 Principles relating to sources of investment in the land transport network

Some submitters sought inclusion of principles that recognised either:

- The idea that the National Land Transport Fund shares the costs of building and maintaining local roads with local government.
- “The responsibility of Councils to provide services for their communities”.

One submitter sought the inclusion of the principle “recognise that the revenue that supports the National Land Transport Fund is funds collected from users of the transport system that need to be used for the benefit of the transport system”.

The following parts of the provisional framework recognise that investment in the land transport system is shared between the National Land Transport Fund and approved organisations:

- The statement of the role of funding assistance rates.
- The principle that funding assistance rates should “appropriately split the costs of the New Zealand land transport network between direct land transport system users and local communities recognising that each of those groups affects, and benefits from, that network”.
- Part 2 of the 5 part approach which provides for an overall NLTF co-investment rate to be set at a level that appropriately splits the costs of achieving fit for purpose standards across the New Zealand land transport network as a whole between direct land transport system users and local communities.

4.4.6 Diversity/variation

Eight submitters sought the inclusion of a principle that specifically recognises the diversity/variation between local authorities and local communities, in terms of either ability to contribute to the cost of the transport network, needs or generally. More specifically two submitters sought a principle around “recognising the distinctiveness of rural New Zealand”.

In contrast another submitter sought the inclusion of a principle about consistency.

See 4.4.1 “Ability to pay”/ “affordability” above in relation to the issue of differences in local authorities’/communities’ ‘ability to pay’.

In terms of variations in ‘need’, under Part 1 of the 5 part approach National Land Transport Fund revenue would only be used for the (eligible) costs of undertaking or maintaining a land transport activity to fit for purpose standards. Those standards would be determined by the function of the relevant part of the land transport network was, and the appropriate customer levels of service for different parts of the network. If a Council (or other approved organisation) wished to undertake or maintain the activity to higher standards to meet the wishes of its community then it could do so. However, the approved organisation would pay all of the difference between the costs of achieving the fit for purpose standards and the cost of achieving the higher standards.

The provisional framework seeks to facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country. However, it also recognises that there may be factors which materially affect some approved organisations’ ability to deliver optimal land transport outcomes that are not within that organisation’s or their local community’s control. Part 4 of the 5 part approach to setting and applying funding assistance rates acknowledges that:

- There are factors (which are outside the control of both approved organisations and their local communities) that materially affect some approved organisations’ ability to deliver optimal land transport outcomes and contribute to the delivery of an integrated and appropriately consistent network throughout the country.
- Those approved organisations receiving a higher funding assistance rate would facilitate the delivery of land transport outcomes.

4.4.7 Strategic Priorities

Two submitters sought the inclusion of a principle that the approach taken to setting funding assistance rates should “advance national and regional/local strategic priorities”.

As discussed above, where an approved organisation’s strategic direction is aligned to national strategic priorities then the land transport investment system as a whole would assist the approved organisation to give effect to that strategic direction.

Where an approved organisation’s strategic direction does not align with those national strategic priorities then they can still choose to pursue that direction using alternative sources of funding.

4.4.8 Distinction between maintenance and capital works

One submitter sought the inclusion of a principle that there should be a funding distinction between maintenance and capital works.

Under the status quo there is a distinction between the funding assistance rates for local road operations, maintenance and renewals and the rates for capital improvements to local roads, and eligible walkways and cycle ways. The funding assistance rate for capital improvements is currently set at the maintenance, operations and renewals (“Base”) funding assistance rate plus 10 percentage points.

Conversely, in the past there was a distinction between the funding assistance rate for passenger transport facilities operations and maintenance (which was set at 60%) and the rate for the capital cost of most new or improved public transport facilities and infrastructure (which was set at 50%). However, currently the funding assistance rates for passenger transport facilities operations and maintenance are gradually being transitioned down to be the same as the rates for the capital costs of public transport infrastructure.

Having different funding assistance rates for different activities sends a crude investment signal that one type of solution to a land transport problem is favoured over another type of solution and, encourage approved organisations to seek to pursue that type of solution. This may work against achieving value for money as the activity with the higher funding assistance rate might not be the optimal thing to do in the particular circumstances.

Having different funding assistance rates for different activities also makes the funding assistance rates system as a whole less efficient for both approved organisations and the Transport Agency to apply.

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

4.4.9 No change unless better outcomes

One submitter sought the inclusion of a principle that “any new funding assistance rates scheme, or modifications to the current scheme, should be likely to deliver better outcomes than the existing scheme”.

Because this is a first principles review the first thing we did following the close of the first round of consultation is work out what the role of funding assistance rates is today and what principles should sit behind how they are set and applied. We then looked at whether the status quo was consistent with that role and those principles. We found that in a number of ways it is not. See 6.1 Support for the status quo below.

4.4.10 Providing for population change

One submitter suggested that a principle should be included around providing for population change.

At the next stage of the review we will look at:

- What factors materially affect some approved organisations' ability to deliver land transport outcomes and
- How those factors should be taken into account in setting funding assistance rates.

4.4.11 Rate of change of funding assistance rates

A number of submissions sought the inclusion of a principle relating to any changes in funding assistance rates being made at a manageable rate of change. Some suggested that the principle should specify that there would be no more than a 1-2% change in any funding assistance rate per year.

One of the matters that we will consider at the next stage of the review is what arrangements would be put in place to transition in any changes to individual approved organisations' funding assistance rates.

4.4.12 Economic contribution

Some submitters sought the inclusion of a principle that the economic contribution of an area will be taken into account in setting funding assistance rates.

One of the potential overall approaches to setting funding assistance rates included in the Discussion Document was allocating National Land Transport Fund revenue generally in accordance with the degree to which a district/region contributes to the New Zealand economy (this was called the "contribution approach").

Generally, this approach was not supported by submitters. The primary reason for this was that submitters considered that the approach would provide an advantage to areas that are already economically strong and disadvantage those areas that are currently economically weaker. Ultimately it could prevent economically weaker areas from being able to take advantage of opportunities to innovate that would release a greater economic output.

The primary land transport funding tools that the Transport Agency can use to facilitate investment where it will provide most benefit to the economy are its powers to decide which land transport activities to include in the National Land Transport Programme and whether or not to approve a particular activity for funding from the National Land Transport Fund. These tools allow consideration of both:

- Activities that would improve efficiency in areas that are currently economically strong, and
- Activities aimed at unlocking economic potential (including in areas which are currently economically weaker).

In contrast taking current economic contribution into account in setting funding assistance rates could actively work against economically weaker areas being able to unlock their potential.

4.4.13 Economic efficiency

Two submitters sought the inclusion of a principle around economic efficiency.

"Economic efficiency" essentially means a state where the optimal amount is being achieved given the resources available. The statement of the role of funding assistance rates and the first principle in the provisional framework both recognise that the funding assistance rates system should support/assist the optimal land transport outcomes being achieved across the country in the right way, at the right time and for the right price.

4.4.14 Long term nature of transport assets

One submitter sought the inclusion of the principle “recognition of the continuous and long term nature of transport assets and hence their ongoing costs”.

Land transport infrastructure assets are long-term assets and give rise to ongoing maintenance, operation and renewal costs. Because of this one of the principles in the provisional framework recognises that approved organisations and the Transport Agency need as much financial planning certainty as practicable.

4.5 Principle suggested by the Funding Assistance Rates Review Reference Group

Some of the feedback received from the Funding Assistance Rates Reference Group was that the NZ Transport Agency should not try to design the main framework of the funding assistance rate system to catch all potential exceptions/outliers. Instead, if something is done with funding assistance rates to address a situation that is truly an exceptional, or outlier, situation that situation should be transparently treated as an exception/outlier.

One of the principles in the provisional framework is to *“ensure that if there are any variations to how funding assistance rates are set or applied to address outliers or exceptions this is done transparently”*.

5 Submissions on Overall Approaches

5.1 Background

The Discussion Document identified eight different overall approaches that could be taken to setting funding assistance rates:

1. Every approved organisation having the same funding assistance rate for every land transport activity – such as setting the funding assistance rate for every land transport activity of every approved organisation at, for example, 50% (the ‘flat approach’).
2. An approved organisation having the same funding assistance rate for every activity but different approved organisations having different funding assistance rates 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 (e.g. 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 funding assistance rates would 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 funding assistance rates to reflect where the National Land Transport Fund revenue is generated (the ‘revenue approach’).
5. Determining funding assistance rates by population – the larger an approved organisation’s population, the higher its funding assistance rate, with the aim of providing a more equal financial benefit for each New Zealander from the National Land Transport Fund (the ‘population approach’).
6. Setting targets which approved organisations are required to meet, like efficiency targets and outcome targets, and giving a lower funding assistance rate if targets are not met and a higher funding assistance rate if targets are met (the ‘incentives approach’).
7. Allocating National Land Transport Fund funding generally in accordance with the degree to which a district/region contributes to the New Zealand economy – such as setting funding assistance rates 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 funding assistance rates 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 funding assistance rates for activities which have greater land transport system user benefits when compared to property owner benefits (the ‘relative benefit approach’).

5.2 Submissions on the Flat Approach

There was not general support for this approach as a stand-alone option. For most submitters, the flat approach strongly conflicts with the whole-of-network approach, and they see it as inevitably leading to a lower level of service in rural or sparsely populated areas. Local authorities cited civic duty to their ratepayers, and the Government’s focus on keeping rates from rising, as key reasons why this approach alone could not deliver the best outcomes for local roads.

For submitters with a focus on public transport however, it was recognized that a flat funding assistance rate was easy to administer, could provide certainty to enable long term planning and investment in large infrastructure, and enabled local authorities to promote the uptake of a wider variety of transport modes in their area.

Only one submitter rated the flat approach as being consistent with seeking value for money and only two considered it would be consistent with a whole of network approach. Only one submitter considered that the approach would be consistent with allowing social and environmental responsibility to be exhibited.

The submitters who explained why they thought the approach would be inconsistent with those principles said it was because a flat approach:

- Would not recognise the differences and needs of New Zealand's rural areas and the contribution these make to New Zealand,
- Would lead to lower levels of service in rural areas,
- Would make it harder for some areas to raise the local share of land transport costs,
- Would take no account of differences in "ability to pay"/affordability, and/or
- Would not recognise differences in costs across approved organisations.

Only three submitters considered that a flat approach would recognise the interests of, and benefits received by, ratepayers and users of the land transport system. Submitters who explained why they thought the approach would be inconsistent with recognising those interests and benefits said it was because the approach:

- Would fail to recognise the value of farm outputs, or
- Would not recognise differences which occur across the network, including differences in 'ability to pay'.

(See the discussion in 4.4.1 "Ability to pay"/ "affordability" above about the lack of clarity about what the term 'ability to pay' encompasses.)

Twelve submitters stated that a flat approach would be efficient to apply and five that it would be transparent. No submitters stated that the approach would be inconsistent with either the efficient to apply or transparency principles.

Four submitters considered that a flat approach would strike an appropriate balance between providing certainty for approved organisations and being agile enough to respond to change – because it would provide certainty.

Assessment of the flat approach against the seven principles in the provisional framework identified that:

- Consistent with the submissions received, a flat approach:
 - Would provide approved organisations and the Transport Agency with a high level of financial planning certainty, but
 - Would not help to reduce the extent to which optimal land transport outcomes are prevented from occurring as a result of matters that are outside of both the relevant approved organisation's and their local community's control.

Therefore, on its own, a flat approach would be inconsistent with facilitating an integrated and appropriately consistent network throughout the country and might be inconsistent with achieving optimal land transport outcomes.

- Contrary to the submissions received, the Transport Agency considered that there were some elements of a flat approach that *would* be consistent with achieving optimal land transport outcomes in that the approach:
 - Would not be likely to result in very high funding assistance rates applying to a whole group, or whole groups, of land transport activities and, therefore, would avoid the situation where an approved organisation did not have sufficient “skin in the game”.
 - Would not result in different funding assistance rates for different types of activities that could be used to address the same land transport issues.
- Also contrary to the submissions received, the Transport Agency considered that a system based on a flat approach *could* be set up with a view to the costs of the land transport system being appropriately split between direct land transport system users and local communities. This could be done through setting the flat funding assistance rate at a level that provided an appropriate split.
- A flat approach on its own would not enable exceptions and outliers to be dealt with transparently.

The provisional framework includes elements of a flat approach in that:

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

5.3 Submissions on the Differences Approach

The differences approach attracted a relatively high proportion of positive feedback. There was a level of comfort reflected in many submissions that the differences approach could have the advantage that positive outcomes could be achieved relatively easily through making changes only to the measures and formulas used in the *status quo*, without having to modify the current approach overall.

Some submitters suggested that differences in intrinsic costs should be included in the differences calculation, e.g. the impacts of geology and climate on roading costs and the distance from resources like contractors and materials. One submitter commented that differences in land value meant that it was more expensive to build in Auckland than it would be in many other New Zealand regions. Another submitter commented that in areas with lower population the differences approach (understood as the closest approach to the *status quo*) was the only realistic approach due to the difficulty of lower population areas to raise necessary funding through local rates. Other submitters considered that how funding assistance rates are set should take into account the fact that high density road networks are cheaper per vehicle kilometre to maintain and that low density primary production areas are effectively paying a much larger share per household for roads supporting the national economy.

The differences approach was largely seen as simple to apply and able to take account of local government “ability to pay”, topography and geography challenges.

Only two submitters positively identified a differences approach as being consistent with seeking value for money.

Five submitters positively identified a differences approach as being consistent with a whole of network approach. One submitter stated that this was because a differences approach considers the issues affecting the network as well as the ability of the ratepayers to fund the local share of the programme. Another submitter stated that a differences approach is possibly a better reflection of the cost of delivery in meeting the variable demands of the national roading network activities than the *status quo*. Two submitters positively identified a differences approach as being consistent with allowing social and environmental responsibility to be exhibited.

Twenty eight submitters positively identified a differences approach as being consistent with some version of a relative interests and benefits/contribution/partnership principle. One submitter stated that this was because a differences approach would take into account the ability of an approved organisation's rating base to contribute to the local share.

Four submitters positively identified a differences approach as being efficient to apply and three positively identified it as being transparent. One submitter commented that the differences approach should have more variables (than the status quo) to:

- Reflect the realities of regional variances in geography, demands and ability to pay, and
- Give greater stability over time to bring the local network up to national set standards.

Two submitters positively identified a differences approach as striking an appropriate balance between providing certainty and agility. No submitters stated that they considered that a differences approach would be inconsistent with the certainty/agility principle.

The fact that no submitters identified a differences approach as being inconsistent with a principle around certainty was interesting. The current approach for calculating the Base funding assistance rate for local road operations, maintenance and renewals uses a differences approach and involves those rates being re-set every three years. There was considerable dissatisfaction expressed by a number of local authorities whose funding assistance rates were reduced the last time those Base funding assistance rates were re-set.

Assessment of the differences approach against the seven principles in the provisional framework identified that:

- A differences approach (as described in the Discussion Document) would be consistent with seeking value for money/achieving optimal land transport outcomes in that:
 - It would not be likely to result in very high funding assistance rates applying to a whole group, or whole groups, of activities and, therefore, would avoid the situation where an approved organisation did not have sufficient "skin in the game".
 - It would not result in different funding assistance rates for different types of activities that could be used to address the same land transport issues.
 - It would help to reduce the extent to which the optimal land transport outcomes are prevented from occurring, as a result of matters that are outside of both the relevant approved organisation's and their local community's control.
- Consistent with submissions received, a differences approach would facilitate an integrated and appropriately consistent network throughout the country.
- Consistent with a number of the submissions received, a differences approach:
 - Could be used to split the costs of the land transport system appropriately between direct land transport system users and local communities – through either a national average/overall NLTF co-investment rate, or a minimum funding assistance rate being set.
 - Could be set up in a manner which provided approved organisations and the Transport Agency with a practicable level of financial planning certainty if the differences taken into account related to matters outside of an approved organisation's, and their local community's, control.
- A differences approach could be set up so that outliers and exceptions were treated transparently.
- Whether a differences approach was efficient to apply or transparent would depend upon how it was designed and implemented.

The provisional framework includes a differences approach. Under that framework there would be some variations in the funding assistance rates between approved organisations to address factors which:

- Materially affect some approved organisations' ability to deliver land transport outcomes, and
- Are not within the control of those approved organisations or the control of their local communities (property owners and land users).

5.4 Submissions on the Classification Approach

Many submitters were comfortable with the concept of linking funding assistance rates to road classifications. Submitters representing the forestry industry considered this approach might respond best to particular concerns they have around provision of local roads that service heavy forestry movements, and how the future decisions of landowners are influenced. However, most submitters signalled that more detail would be needed about how this approach might be applied before they could give any real endorsement.

A classification system was considered to have potential for informing investment decisions (possibly in addition to a base funding assistance rate set using a differences or flat approach). However, using it in isolation for funding assistance rate purposes was considered:

- Risky (being likely to result in volatility); and
- Not supportive of a whole of network approach.

There was some concern that a classification approach would result in reduced funding for isolated rural areas with road infrastructure that was given a low classification but delivered high GDP by supporting heavy vehicle movements.

Other submitters considered that the approach could provide certainty on the level of services to be provided throughout the country, while allowing for adjustments over time.

It was broadly suggested that gaining consensus across approved organisations on what the agreed classification system could look like might be a long process, but that it would be reasonably easy to administer when the approach had bedded down.

The development of the One Network Road Classification is still in progress and a number of submitters commented that it would be difficult to determine the practicality and value of linking funding assistance rates to classifications until that was developed further. Some also commented that there was the potential for the approach to encourage approved organisations to 'FAR chase', i.e. to concentrate their investment on those roads and services with the classifications for which they obtained the highest funding assistance rates.

Four submitters positively identified a classification approach as being consistent with seeking value for money.

Five submitters positively identified a classification approach as being consistent with a whole of network approach. One submitter commented that a classification approach could support alignment with GPS objectives and could potentially give greater emphasis to networks that support primary production. However, another submitter stated that a classification approach would be inconsistent with a whole of network approach because it would have a detrimental impact on regions with lower populations in terms of maintaining the transport network with limited resources. One submitter commented that a classification approach would be inconsistent with a whole of network approach because attributing a low funding assistance rate to low-cost roads would risk confusing relatively low cost and/or value with a low national share.

Only one submitter positively identified a classification approach as being consistent with allowing social and environmental responsibility to be exhibited.

Five submitters positively identified a classification approach as being consistent with some version of a relative interests and benefits/contribution/partnership principle.

Four submitters positively identified a classification approach as being efficient to apply and four submitters positively identified it as being transparent. However, one submitter commented that a classification approach would be expensive and difficult to administer. Others commented that a classification approach would:

- Be reliant on very good data,
- Require high levels of resource to manage the administration and compliance,
- Be complicated to manage,
- Be likely to require tuning over several iterations of its immediate application which would run the risk of major volatility, serious risk of underinvestment and administrative difficulties
- Potentially be open to gaming.

Six submitters positively identified a classification approach as striking an appropriate balance between certainty and agility. One submitter commented that the classification approach seemed the most even because it would provide certainty on the level of services, but would allow for adjustments over time. In contrast, one submitter commented that using a classification approach for funding assistance rate purposes would be likely to cause volatility in approved organisations' funding. Another commented that a classification approach potentially might not allow for changes to growth.

Assessment of the classification approach against the seven principles in the provisional framework identified that:

- Consistent with the comments made in submissions, a classification approach to setting funding assistance *rates* (as opposed to using a classification system to inform decisions on what to invest in or what standards of land transport activities to invest in) would be likely to work against both:
 - Value for money/optimal outcomes being achieved, and
 - Facilitating land transport network users experiencing an integrated and appropriately consistent network throughout the country.This is because it:
 - Would be likely to result in different funding assistance rates for different types of activities that could be used to address the same land transport issues,
 - Could potentially result in very high funding assistance rates applying to some parts of the network. This could lead to the approved organisations not having much incentive to seek efficiencies when undertaking activities on those parts of the network,
 - Would not help to reduce the extent to which land transport outcomes are prevented from occurring as a result of matters that are outside of both the relevant approved organisation's, and their local community's, control.
- A classification approach could be used to seek to split the costs of the land transport system appropriately between direct land transport system users and local communities – through an appropriate split being factored into the funding assistance rates for particular classes.
- Once the system was established, a classification approach would provide a practicable level of financial planning certainty (although submitters' comments around potential volatility as such an approach was set up and fine tuned were noted).
- A classification approach could be set up so that outliers and exceptions were treated transparently.
- Whether a classification approach was efficient to apply or transparent would depend upon how it was designed and implemented – although there would be real challenges in setting up an efficient system.

The provisional framework does not use a classification approach in calculating funding assistance rates. However, it does include National Land Transport Fund revenue/funding assistance rates only being applied to the (eligible) costs of undertaking or maintaining a land transport activity to fit for purpose standards. What those standards are will be determined by what the function of the relevant part of the land transport network is, and what the appropriate customer levels of service for parts of the network with that function are. Initiatives, such as the work currently being undertaken in developing a One Network Road Classification, would improve certainty and transparency around what customer levels of service and fit for purpose standards are appropriate.

5.5 Submissions on the Revenue Approach

The revenue approach was seen by submitters as ignoring the issues of through traffic and of road freight generated from outside an urban area.

Groups with an interest in active travel, such as cycling, considered that user pays is an insufficient method for allocating transport system resources. Instead transport should be considered a public good. The Transport Agency should take into account all users who contribute to creating a balanced multi-modal system. They considered that the revenue approach would not fully reflect the widespread nature of who benefits from the land transport network.

One submitter commented that setting funding assistance rates based on National Land Transport Fund revenue generation pays no respect to the principle of there being a network.

Only one submitter positively identified a revenue approach as being consistent with a relative interests and benefits/contribution/partnership principle.

Only one submitter positively identified a revenue approach as being efficient to apply. A number of submitters considered that a revenue approach was unlikely to be practicable due to the difficulty linking the revenue generated to activity on the network.

The proposal by some submitters that the way funding assistance rates are set should explicitly address the wider public good aspect of the transport network runs up against the problem that the National Land Transport Fund does not receive any general Crown revenue. The revenue in the Fund comes from user pays type charges – fuel excise duty, road user charges and motor vehicle licence fees. Taking into account the public good element in the manner suggested would require the direct land transport users (who contribute to the Fund) to bear more of the cost of that public good element than the local communities who also benefit from the public good element.

Assessment of the revenue approach against the seven principles in the provisional framework identified that:

- While a revenue approach would not be likely to result in differential funding assistance rates for different types of activities that could be used to address the same land transport issues, it:
 - Could potentially result in very high funding assistance rates applying in some areas. This could lead to the approved organisations in those areas not having much incentive to seek efficiencies due to their bearing very little of the risk of over-investing in land transport activities,
 - Would not help to reduce the extent to which optimal land transport outcomes are prevented from occurring as a result of matters that are outside of both the relevant approved organisation's and their local community's control.

Therefore, overall the approach would not be consistent with achieving optimal land transport outcomes/"value for money".

- Consistent with the submission that a revenue approach pays no respect to there being a network, the revenue approach would not facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country.

- A revenue approach could not be used to enable the costs of the land transport system to be appropriately split between direct land transport system users and local communities.
- Under the revenue approach an approved organisation could experience sudden changes in funding assistance rates. For example if a major industrial site in an area closed, traffic volumes and heavy traffic volumes in that area could decrease rapidly. Therefore, the revenue approach would not provide approved organisations and the Transport Agency with financial planning certainty.
- It would be difficult for a revenue approach to be set up so that outliers and exceptions were treated transparently.
- Whether a revenue approach was efficient to apply or transparent would depend upon how it was designed and implemented. However, as identified in submissions, there could be difficulties in coming up with a system for attributing where land transport revenue is generated that was accepted as valid by approved organisations and other stakeholders.

The provisional framework does not use a revenue approach in either setting or applying funding assistance rates.

5.6 Submissions on the Population Approach

Submitters largely considered the population approach to be a blunt tool that was unable to meet any of the suggested principles, and offered benefits for large metropolitan areas only.

One submitter could see merit in the approach in terms of capturing benefits where there are high rates of population growth.

Others noted the limitations of the population approach if it is only based on resident population. One submitter noted that tourists and workers from other districts make up a larger proportion of land transport system users in some districts than in other districts. Another noted that areas with high student populations might suffer as students often record their original home town as being their usual place of residence rather than the place where they are studying.

Only one submitter positively identified a population approach as being consistent with seeking value for money. Another submitter commented that a population approach would be inconsistent with seeking value for money as the local authorities with the largest populations (typically the metropolitan authorities) do not have the largest roading networks or costs.

A number of submitters commented that a population approach would not support a whole of network approach. The reasons given were:

- Roads outside urban centres would deteriorate making movement of domestic and exported goods more expensive,
- The approach would have a detrimental impact on regions with lower populations in terms of maintaining the transport network with limited resources,
- It ignores the network principle,
- It does not support affordability,
- It is the overall approach least aligned to economic growth and safety objectives and would create major risks regarding the preservation of the whole of network,
- It would result in under funding of regional networks, and
- It overlooks the fact that some networks carry a significant amount of non-local traffic.

One submitter commented that a population approach would be inconsistent with a relative interests and benefits/contribution/partnership principle, as it would not support areas with small populations that generate a relatively high contribution to the New Zealand economy.

Another submitter commented that, while a population approach would not be consistent with a whole of network approach, projected population growth is an important factor that is not adequately captured in the current funding assistance rates system.

Two submitters positively identified a population approach as being efficient to apply.

The population approach was the least supported of the overall approaches identified in the Discussion Document. Even approved organisations that would be likely to financially benefit from the approach were wary of the effects this model would be likely to have on the whole of the network, considering that the approach was likely to have a detrimental impact over time on regions with lower populations.

Assessment of the population approach against the seven principles in the provisional framework identified that:

- While a population approach would not be likely to result in different funding assistance rates for different types of activities that could be used to address the same land transport issues, it:
 - Could result in very high funding assistance rates applying in some areas which could lead to the approved organisations in those areas not having much incentive to seek efficiencies due to their bearing very little of the risk of over-investing in land transport activities.
 - Would not help to reduce the extent to which optimal land transport outcomes are prevented from occurring as a result of matters that are outside of both the relevant approved organisation's, and their local community's, control.

Therefore, as identified in a number of submissions, overall the approach would not be consistent with an optimal land transport outcomes/"value for money" principle.

- Consistent with the view expressed in submissions, a population approach would not facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country.
- A population approach could not be used to enable the costs of the land transport system to be appropriately split between direct land transport system users and local communities.
- While the relative population of any area does increase or decrease over time, this happens gradually. Therefore, a population approach would be likely to give approved organisations and the Transport Agency a reasonable level of financial planning certainty.
- A population approach on its own would not allow outliers and exceptions to be treated transparently.
- Whether a population approach was efficient to apply or transparent would depend upon how it was designed and implemented – although it would be reasonably easy to design and implement a population approach based system that was efficient to apply and transparent.

The provisional framework does not use a population approach of the kind described in the Discussion Document.

5.7 Submissions on the Incentives Approach

Reliant on very good data, an incentives approach was considered by submitters to be resource-heavy and expensive to run, as it would require high levels of resources to manage the administration. Although submitters noted that the approach could offer good transparency, affordability for different approved organisations was perceived to be an issue.

As a mechanism to target specific national and regional outcomes, the incentives approach was seen by some submitters as a useful tool in certain instances, particularly as an 'add-on' to funding assistance rate set using the *status quo* or a differences approach. Other submitters were concerned that an incentives approach would not account for 'ability to pay' or Local Government Act requirements.

Only one submitter positively identified an incentives approach as being consistent with seeking value for money. In contrast, one submitter commented that the approach would be inconsistent with seeking value for money and unsustainable "because already stretched limited funding can barely fund sound asset management". One submitter commented that, while they agreed with incentivising local authorities to use methods to improve value for money (e.g. lowering maintenance costs) there is a risk that less well-resourced regions would be trapped and disadvantaged.

Two submitters positively identified an incentives approach as being consistent with a whole of network approach. Two submitters positively identified an incentives approach as allowing social and environmental responsibility to be exhibited. Conversely, other submitters commented that an incentives approach:

- Would not achieve a consistent transport network across New Zealand, and
- Would have a detrimental impact on regions with lower populations in terms of maintaining the transport network with limited resources.

Only one submitter positively identified an incentives approach as being efficient to apply. Others commented that:

- An incentives approach would be expensive and difficult to administer.
- As noted above, the approach would be reliant on very good data, resource-heavy and expensive to run. It would require high levels of resources to manage the administration.

Only one submitter positively identified an incentives approach as striking an appropriate balance between certainty and agility. However, other submitters commented that an incentives approach would create significant uncertainty for approved organisations/a high risk of funding volatility.

Assessment of the incentives approach against the seven principles in the provisional framework identified that:

- Consistent with the views expressed in submissions, use of an incentives approach as the main basis of the funding assistance rates system:
 - Would not be consistent with either:
 - An optimal land transport outcomes/“value for money” principle, or
 - Facilitating land transport system users experiencing an integrated and appropriately consistent land transport network throughout the country.
 - Would not provide financial planning certainty.
However, the use of enhanced funding assistance rates on a targeted, time limited, exceptions basis might help to facilitate value for money/optimal land transport outcomes being achieved in appropriate circumstances.
- An incentives approach could not be used to split the costs of the land transport system appropriately between direct land transport system users and local communities.
- An incentives approach could be set up/used so that outliers and exceptions were treated transparently.
- How efficient and transparent an incentives approach was would depend upon how it was designed and administered. However, as identified in submissions, there would be real challenges in setting up and administering a general incentives approach in a way that was efficient to apply.

The provisional framework only uses an incentives approach to the extent that it allows for the use of enhanced targeted funding assistance rates, in exceptional circumstances and for time limited periods, to either:

- Facilitate something that is particularly important from a national land transport perspective where it is highly likely that, if the special assistance was not given, the relevant activity would not get done or would not get done within the necessary time frame, or
- Give a kick start to incentivise, and enable, an approved organisation to make a step change in customer levels of service or the way they are delivering an activity.

5.8 Submissions on the Contribution Approach

Two submitters positively identified a contribution approach as being consistent with seeking value for money. Conversely, one submitter commented that a contribution approach based on an area's share of the gross domestic product (GDP) would not support value for money as there is only an indirect link between GDP and heavy transport and some sectors make a high contribution to GDP but do not have high transport needs.

In terms of whether or not a contribution approach would support a whole of network approach, submitters commented that the approach:

- Would not achieve a consistent transport network across New Zealand.
- Would have a detrimental impact on regions with lower populations in terms of maintaining the transport network with limited resources.
- Would provide an advantage to areas that are already economically strong and disadvantage those areas that are currently economically weaker. Some submitters noted that economically weaker areas might not be able to take advantage of opportunities to innovate which would release a greater economic output because their low transport standards would negatively influence business decisions to locate in the region.

One submitter commented that a contribution approach would incentivise poor land use decisions and distort land use decisions by approved organisations in neighbouring districts. Conversely one submitter commented that a contribution approach supports alignment of funding assistance rates with GPS objectives and could give greater emphasis to networks that support primary production.

Only one submitter positively identified a contribution approach as being consistent with some version of a relative interests and benefits/contribution/partnership principle. Another submitter considered that a contribution approach would not be consistent with such a principle because it does not recognise the ability of ratepayers to pay.

Only one submitter positively identified a contribution approach as allowing social and environmental responsibility to be exhibited. In contrast, another submitter commented that a contribution approach would not be consistent with that principle because it would not take into account non-economic benefits of the road network, e.g. environmental or social benefits.

Only one submitter positively identified a contribution approach as being efficient to apply. Another submitter commented that the approach would be reliant on very good data, require high levels of resource to manage the administration, and be complicated to manage.

Only one submitter positively identified a contribution approach as being transparent. Others commented on the difficulty of measuring areas' relative contribution to the economy – two suggested that the metric used should be export dollars earned (although they acknowledged difficulties with that metric).

It was also noted that the approach would require an area's relative contribution to the economy to be assessed at three yearly intervals, which would create uncertainty for long term business activities.

Assessment of the contribution approach against the seven principles in the provisional framework identified that:

- Use of a contribution approach would not be consistent with an optimal land transport outcomes/"value for money" principle because it would be likely to result in some areas receiving very high funding assistance rates and it would not help reduce the extent to which optimal land transport outcomes were prevented from occurring as a result of matters that are outside of an approved organisation's, and their local community's, control.

- Consistent with the submissions received:
 - Use of a contribution approach would not facilitate land transport system users experiencing an integrated and appropriately consistent land transport network.
 - Because an area's relative contribution to the economy can change quite rapidly (e.g. if a major industrial site within an area opens or closes), use of a contribution approach would not provide financial planning certainty.
- A contribution approach could not be used to enable the costs of the land transport system to be appropriately split between direct land transport system users and local communities.
- On its own, a contribution approach would not treat outliers and exceptions transparently.
- How efficient and transparent a contribution approach was would depend upon how it was designed and administered. However, there would be real challenges in finding an appropriate metric for measuring relative contribution to the economy.

5.9 Submissions on the Relative Benefits Approach

Two submitters positively identified a relative benefits approach as being consistent with seeking value for money. One submitter suggested that the relative benefits approach warrants further investigation on utilitarian grounds, in that it has the potential to enhance value for money delivery and benefits for most road users. However they noted that the system would need to be simple to apply and easy for stakeholders to understand or there would be negative impacts on the ability of approved organisations to maintain transparency. The submitter also noted that it was unclear how the approach could be applied in practice.

Submitters expressed concerns around the potential reactive responses by industry to a relative benefits approach resulting in negative impacts on economic growth in some areas. It was unpopular with approved organisation submitters because it does not take account of need, contribution to the economy or 'ability to pay' and they considered that it looked at the value for road users rather than the value for ratepayers and local residents. Some submitters commented that the approach would be particularly unfair for rural communities who generate export primary produce or would have a detrimental impact on regions with lower populations in terms of maintaining the transport network with limited resources. Another submitter commented that who benefits is less important than approved organisation's relative need or ability to raise revenue. One submitter said that the approach was flawed because it was "inputs" and not "outputs" based.

One submitter considered that ratepayers are already paying, in that they pay money into the National Land Transport Fund through road user charges, motor vehicle licence fees and fuel excise tax and therefore a relative benefits approach would double charge them.

All submitters who commented on this approach agreed it would be costly and complex to establish and administer. However, one submitter positively identified a relative benefits approach as being efficient to apply. A couple of submitters commented that the relative benefits of different land transport activities would be difficult to measure.

Some local authorities disagreed with a comment in the Discussion Document that this approach might encourage approved organisations to seek to attract State highway traffic onto their networks.

Assessment of the relative benefits approach against the seven principles in the provisional framework identified that:

- Use of a relative benefits approach would not be consistent with achieving optimal land transport outcomes/"value for money" or facilitating an integrated and appropriately consistent network. This was because the approach:
 - Would be likely to result in some areas receiving very high funding assistance rates,
 - Would result in different funding assistance rates for different types of activities that could be used to address the same land transport issues, and
 - Would not help reduce the extent to which optimal land transport outcomes were prevented from occurring as a result of matters that are outside of an approved organisation's, and their local community's, control.

- A relative benefits approach *would* enable the costs of the land transport system to be appropriately split between direct land transport system users and local communities.
- Because the relative split in the use of individual parts of the land transport network by through traffic and access traffic can change quite quickly, use of a relative benefits approach would not provide financial planning certainty.
- A relative benefits approach could be set up/used so that outliers and exceptions were treated transparently.
- How efficient and transparent a relative benefits approach was would depend upon how it was designed and administered. However, as identified in submissions there would be real challenges in developing a system based on this approach that was both efficient and transparent.

The argument that members of a local community (“ratepayers”) are the same people as direct land transport system users does not recognise that:

- There are benefits from investment in the land transport networks that specifically accrue to property owners and land users (as property owners and land users) particularly in terms of access to the land they own/use and the development opportunities made possible by access to their area. This includes the development opportunities they obtain from the provision of access to their land by particular types of land transport – e.g. access to residential areas, employment hubs and retail areas by public transport, access to businesses/farms/commercial forests by heavy vehicles. Those benefits are reflected in property values (although there is also a spill over of benefits to people outside the local area.) The property owner and land user do not necessarily pay the fuel excise duty or RUC for the vehicles that use the land transport network in order to access their land. For example if a supermarket is established on the periphery of a town the value of the land on which the supermarket is situated could be expected to increase and the person operating the supermarket is likely to make a profit. However, neither the landowner nor the supermarket operator pays the fuel excise duty for the vehicles used by the customers who drive to the supermarket and whether or not the supermarket operator pays the RUC for the trucks that deliver goods to the supermarket will depend on the nature of their contractual arrangements with their suppliers, logistics companies etc.
- Not all the people using the land transport network within an area are members of the local community of that area.

5.10 Other suggested overall approaches

Some submitters suggested that the Transport Agency should adopt a bulk funding approach. Under this approach the Transport Agency would pay a certain amount of money to an approved organisation upfront and then the approved organisation would retain any of that money that is left over if it manages to achieve efficiencies in how it delivered land transport activities. The submitters who suggested this approach considered that it would reduce administration costs and improve an approved organisation’s ability to plan and respond to issues effectively.

The Transport Agency currently uses elements of a bulk funding approach in that, as part of each National Land Transport Programme, we allocate funding for:

- Each approved organisation’s three-year approved road maintenance, operation and renewals programme – which is currently funded at the approved organisation’s base funding assistance rate, and
- Regional councils’/unitary authorities’ three-year approved passenger transport services programmes - which for bus and ferry services are currently funded at a 50% funding assistance rate and for passenger rail services are funded at a rate which is currently being gradually transitioned down from 60% to 50%.

Whether or not the Transport Agency was willing to adopt a bulk funding approach of the kind proposed by some submitters (with upfront payment of estimated amounts and the approved organisation retaining any surplus National Land Transport Fund share) would be something that would need to be carefully worked through. However, it is not directly relevant to this review. This is because even if this sort of bulk funding was used there would still need to be a funding assistance rate applied to determine what share of the approved organisation's estimated costs should be paid from the National Land Transport Fund up front.

The other overall approaches suggested by submitters were effectively variations of one or other of the eight overall approaches identified in the Discussion Document:

- The idea that 'collective good' should be taken into account in the approach to setting funding assistance rates was raised in one submission. The submitter argued that there needs to be continuing contributions made by direct land transport users as a national group towards the costs of local authority land transport activities. They argued that this is necessary because people who live outside the authority's district, e.g. people who travel into the district every day for work, place demands on a local authorities' land transport network.

All of the overall approaches identified in the Discussion Document would include some level of continuing contribution towards the costs of at least the majority of local authority land transport activities from the National Land Transport Fund.

- An "economic enabler" funding assistance rate – e.g. 5% higher funding for areas with a high economic contribution, 3% higher funding for areas with a medium economic contribution and 1% higher funding for areas with a low economic contribution.

This would be a version of, and run into many of the same issues as, the contribution approach identified in the Discussion Document. In particular, it:

- Would not help reduce the extent to which optimal land transport outcomes were prevented from occurring as a result of matters that are outside of an approved organisation's, and their local community's, control, and
 - Would not facilitate land transport system users experiencing an integrated and appropriately consistent land transport network.
- A national versus local benefits approach – a higher funding assistance rate for projects that have better outcomes from a national perspective and a lower funding assistance rate for projects that only have small, local benefits – to take the overall value for money of outcomes into account.

This would be a version of the classification and/or relative benefits approach identified in the Discussion Document but it would be applied project by project and would run into many of the same issues as those approaches.

From the way the approach is described it would probably only be used for improvement projects, not for ongoing maintenance and operation. Therefore, the approach would be likely to result in there being different funding assistance rates for capital improvements to part of a network and changes to the way that part of the network is operated. There would be a risk that the approach would encourage approved organisations to pursue capital improvements rather than other possible solutions for addressing land transport issues, such as improving the frequency of public transport services or changing the way an existing road is operated.

There would be real challenges in setting up a system that was efficient to apply and gave approved organisations a reasonable level of certainty as to what funding assistance rate they would be likely to obtain for any particular project.

- Setting a base funding assistance rate and then adjusting it in relation to population density – with every 10% their population density was below the national average population density an

approved organisation's funding assistance rate would increase by 1%, with every 10% their population density was above the national average it would decrease by 1%.

This would be a version of the Differences Approach identified in the Discussion Document. The provisional framework specifically identifies that there will be variations in funding assistance rates between approved organisations where those variations address factors which:

- Materially affect some approved organisations' ability to deliver land transport outcomes, and
- Are not within the control of those approved organisations or the control of their local communities (property owners and land users).

At the next stage of the review we will look at:

- What factors materially affect some approved organisations' ability to deliver land transport outcomes, and
- How those factors should be taken into account in setting funding assistance rates.

6 Submissions on the *Status Quo*

Many of the submissions discussed the current funding assistance rates system – the *status quo*. Most of those submissions focused on how the current “Base” funding assistance rate for local authorities’ local road maintenance, operations and renewals is calculated. The Base funding assistance rate uses a version of a differences approach.

6.1 Support for the status quo

Many local authority sector submitters expressed the view that the status quo meets their needs, and probably those of other local authorities, and should be retained, or retained with only some tweaking/ improvements. One of these submitters commented “the existing basis of FAR remains a credible approach to what is a difficult and complex issue”. Many submitters commented that the status quo should be included as a specific option when detailed options are developed.

Some submitters considered that no change should be made to the status quo unless the Transport Agency demonstrates a compelling need for change and that the amended system will be fundamentally superior to the existing one in both administrative costs and outcomes. Others commented that the Transport Agency would need to show that any change would add value for both central and local government.

Because this is a first principles review the first thing we did following the close of the first round of consultation is work out what the role of funding assistance rates is today and what principles should sit behind how they are set and applied. We then looked at whether the status quo was consistent with those principles (the results of this assessment are recorded in the following Table). We found that in a number of ways the status quo is not consistent with the principles in the provisional framework.

In particular:

- Overall the status quo is not based on a clear policy decision as to what the overall split of costs between direct land transport system users and local communities (land users/property owners) should be.
- The wide range of different funding assistance rates that exist for different activities under the status quo, and the very high funding assistance rates that apply to some activities, are likely to work against value for money/optimal land transport outcomes being achieved.
- It is unclear whether the differences between approved organisations currently taken into account in setting funding assistance rates are differences that materially affect some approved organisations’ ability to deliver land transport outcomes. This is something we specifically want to look at in the next stage of the review.
- Because there has been a lack of a shared understanding of what funding assistance rates can, and should, seek to achieve the certainty of the system has been adversely affected by different components being added to the funding assistance rates system, or amended, at different times to seek to achieve different policy objectives.
- Most of the individual components of the current funding assistance rates system are, in themselves, reasonably efficient to apply. However, having so many different funding assistance rates applying to different activities means the system as a whole is less efficient to apply. Time spent seeking to ensure that activities are funded under the correct funding assistance rate creates cost (and uncertainty).

- Some of the metrics currently used to distinguish between approved organisations are not particularly reliable bases for calculating funding assistance rates in that they are based upon matters such as:
 - The outcomes of negotiations on the size of an approved organisation's approved maintenance, operations and renewals programme, and
 - Local authority decisions on how they will levy general rates, rather than reliable objective data.

A specific concern raised in submissions was that if new metrics were used in calculating funding assistance rates Councils would need to incur costs in collecting and interpreting data and negotiating with the Transport Agency over that data.

Two of the principles in the provisional framework are that funding assistance rates are to be efficient to apply and based on evidence and data that is readily accessible and reliable. Those principles will inform the design of the funding assistance rates system to give effect to the provisional framework in the next stage of the review.

Table - Assessment of the status quo against the seven principles

Principle	Status quo	Assessment
<p>Support optimal national land transport outcomes being achieved in the right way, at the right time and for the right price. Optimal national land transport outcomes contribute to the provision of an effective, efficient, safe, responsible and resilient transport system. (A responsible transport system addresses the potential harms of that system, including environmental and health impacts.)</p>	<p>The annual funding level for an approved organisation’s local road maintenance, operation and renewals programme is currently determined by the Transport Agency, taking into account, among other things, regional negotiations, previous levels of expenditure and the relevant target levels of service in accordance with the Transport Agency’s Maintenance Guidelines for Local Roads. Where an approved organisation wishes to maintain a maintenance activity to a higher standard than that agreed to in the negotiation process, the portion of expenditure receiving funding assistance is based on the expenditure required to achieve the agreed standards and intervention levels.</p> <p>For road safety promotion approved organisations are able to accept financial contributions from other parties towards the costs. However, if the financial contribution to the activity changes the scope of the activity the amount of the financial contribution is deducted from the total cost before the calculation of the funding assistance.</p> <p>Renewal/replacement of bridges and other structures – where the costs are uneconomic the works are not generally eligible for funding assistance.</p> <p>Currently there are a range of different funding assistance rates for different activity classes:</p> <p>Total mobility services – range from 40% to 60%</p> <p>Local road, operations, maintenance and renewals – range from 43% to 88% (or for special purpose roads/Crown Range Road – 90% to 100%)</p> <p>Network user information – range from 43% to 59.47%</p> <p>Public transport (including public transport infrastructure</p>	<p>There are aspects of a value for money approach in what costs National Land Transport Fund revenue is currently applied to. However, currently target levels of service are only “taken into account” in determining the cost of approved organisations’ maintenance operations and renewals programme and the way the size of approved organisations’ maintenance, operations and renewals programmes are set is still strongly influenced by historical levels of spend.</p> <p>Differential funding assistance rates between different types of activities probably work against achieving optimal land transport outcomes/value for money. This is because different funding assistance rates are likely to encourage approved organisations to pursue one type of activity over another, or one type of solution for addressing an issue over another. Some, but not all, of the current funding assistance rates were deliberately set up to do this – e.g. the funding assistance rate for local road capital improvements being set at Base FAR plus 10. From a whole of</p>

Principle	Status quo	Assessment
	<p>improvements) – at or transitioning to 50%</p> <p>Construction of stock effluent disposal facilities – set at 50%</p> <p>Local road and walking and cycling capital improvements and road safety promotion – range from 53% to 94% (or 75% to 100% if it relates to a special purpose road/Crown Range Road)</p> <p>Construction of new local roads – range from 53% to 94%</p> <p>Transport planning – range from 53% to 69.47% (or 95% to 100% if it relates to a special purpose road)</p> <p>Wheelchair hoists – set at 60% of the approved organisation’s costs</p> <p>Total mobility wheel chair hoist use payments – set at 100% of the flat payment of \$10.00 excluding GST</p> <p>Level crossing warning devices- 100% of eligible costs imposed by third parties</p> <p>Road improvements to provide access to stock truck effluent facilities – 100%</p> <p>Emergency works – for most local roads it will depend upon the cost of the emergency works relative to the Council’s total general rates, for special purpose roads 100%.</p>	<p>network perspective, the activity with the higher funding assistance rate might not be the optimal thing to do.</p>
	<p>The funding assistance rates for some activities are very high – e.g. the funding assistance rates for activities relating to special purpose roads and the funding assistance rates for level crossing warning devices and road improvements to provide access to stock truck effluent facilities.</p>	<p>Very high funding assistance rates for particular types of activities on an ongoing basis could encourage an approved organisation to do more than the optimum amount of that activity. This is because they bear very little of the risk of over-investing in that kind of activity – i.e. they do not have much “skin in the game”.</p>
	<p>The status quo takes into account some differences between approved organisations -</p> <ul style="list-style-type: none"> • The Base FAR and construction funding assistance rate for most local roads – take into account differences in net equalised rateable land value and size of a territorial authority’s approved maintenance operations and renewals programme. 	<p>It is unclear whether the status quo currently takes into account differences between approved organisations that materially affect their ability to deliver land transport outcomes.</p> <ul style="list-style-type: none"> • One submitter on the Discussion Document noted that local authorities with low growth rates and less dispersed settlement face less issues in retaining transport programmes as a priority rather than having to prioritise their spending on

Principle	Status quo	Assessment
	<ul style="list-style-type: none"> Special purpose roads – generally the same funding assistance rates apply to all local authority special purpose roads. However, a lower funding assistance rate applies to maintenance, renewals and minor improvements of special purpose roads in Clutha District and a lower funding assistance rate for maintenance and renewals, but a higher funding assistance rate for improvements, applies to Crown Range Road in Queenstown Lakes District. These variations are both the result of specific Transport Agency decisions made at the time that approvals were given to fund capital improvements to the relevant roads. Special purpose roads managed by the Waitangi National Trust and the Department of Conservation are funded at 100% because at the time these rates were set it was deemed that neither of those bodies had the power to raise revenue. <p>The funding assistance rates for most public transport activities, level crossing warning devices, and stock truck effluent facilities do not take into account any differences between approved organisations.</p> <p>The funding assistance rates for Total Mobility Services take into account the extent to which a regional council has signed up to the Ministry of Transport’s Total Mobility Services scheme.</p> <p>Emergency works funding assistance rates vary depending on the total cost of the emergency works application plus the total cost of any existing emergency works approval for the relevant approved organisation in the current year and the relevant approved organisation’s total general rates.</p>	<p>other things such as wastewater plants. Local authorities in growth areas or with dispersed settlement may reduce the size of their approved programmes because they need to prioritise spending elsewhere.</p> <ul style="list-style-type: none"> Others commented that land value does not necessarily reflect local incomes or determine the total amount of funds that need to, or can, be raised in an area. Similarly, a Council’s total general rates does not necessarily reflect incomes within their area or the amount of funds they need to maintain the land transport network in their area in a way which mitigates the effects of emergencies, e.g. their ability to provide adequate drainage for their roads. <p>Some funding assistance rates, such as those for most public transport activities, do not take into account any differences between approved organisations.</p> <p>It is unclear whether there are any differences between approved organisations that materially affect their ability to deliver Total Mobility Services. If there are, those differences are not currently taken into account.</p> <p>(See below for comment on the reliability of some of the measures used in determining differences between approved organisations.)</p>

Principle	Status quo	Assessment
	<p>One of the metrics used in calculating the Base funding assistance rate for local road operation, maintenance and renewals is the cost of the territorial authority's road maintenance, operations and renewals programme. The larger that programme cost the higher the funding assistance rate.</p> <p>Other funding assistance rates – i.e. the funding assistance rates for local road improvements and new roads, walking and cycling facilities, transport planning, road safety promotion and network user information – are based on this Base FAR and, therefore, are also dependant on the size of relevant territorial authorities' operations, maintenance and renewals programmes.</p>	<p>One of the submissions received on the Discussion Document noted that using the cost of the approved programme as a factor in calculating funding assistance rates may encourage poor asset management practice by encouraging over investment in a network, i.e. it may reward authorities with inappropriately expensive networks and penalise more prudent authorities.</p>
<p>Facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country.</p>	<p>As discussed above:</p> <ul style="list-style-type: none"> • The funding assistance rates for some, but not all, land transport activities take into account differences between approved organisations. • The annual funding level for an approved organisation's local road maintenance, operation and renewals programme is determined by the Transport Agency, taking into account among other things regional negotiations, previous levels of expenditure and the relevant target levels of service in accordance with the Transport Agency's Maintenance Guidelines for Local Roads. This funding level is one of the bases not only for the Base FAR but also for other funding assistance rates that are derived from the Base FAR. 	<p>The Transport Agency is moving towards funding to consistent standards across the country. However, currently the way the size of approved organisations' maintenance, operations and renewals programmes is set is still strongly influenced by matters which may work against consistency, such as historical levels of spend.</p>

Principle	Status quo	Assessment
<p>Appropriately split the costs of the New Zealand land transport network between direct land transport system users and local communities recognising that each of those groups affects, and benefits from, that network.</p>	<p>For local road operations, maintenance and renewals - there is a national average funding assistance rate of 50% and a minimum of 43%:</p> <p>When the 43% minimum was set in 1959 it was intended to provide an appropriate split of the costs of the land transport network as whole between road users and local communities. In setting this minimum the fact that local communities benefit from, but do not pay for, the State highway network was taken into account. The final 43% for metropolitan local authorities was the result of negotiation - prior to negotiation with the Municipal Association the Government had intended to set the minimum funding assistance rate for municipalities at 10s in the pound (i.e. 33.33%).</p> <p>The 50% average funding assistance rate for local road operations, maintenance and renewals was the result of the historic situation at the time when the National Roads Board was seeking to codify its approach to funding assistance rates in the late 1970s and early 1980s. At that time the Board worked out that, with the top up grants it had been giving to local authorities over the years over and above their 42.8% as of right subsidy, the average effective funding assistance rate that local authorities had received had become around 50%.</p> <p>Set national funding assistance rates for stock effluent disposal facilities at 50% (and 100% for road improvements required to provide access to the facilities) - the policy principle behind this is the exacerbator pays principle. The exacerbator is the original owner of the stock who benefits from the sale of that stock for processing. It was considered that there is no cost-effective method of levying this from the stock carried. Therefore, use of local rates paid to either the relevant territorial authority or the relevant regional council, or both, is the method of raising an appropriate proportion of the construction cost from the owner of the stock. The National Land Transport Fund component is seen as general recognition of the willingness to pay by</p>	<p>Overall the status quo is not based on a clear policy decision as to what the overall split of costs between direct land transport system users and local communities (land users/property owners) should be and, generally, does not take into account the fact that local communities affect and benefit from, but do not pay for, the State highway network.</p> <p>The current 43% minimum Base FAR <i>was</i> set with a view to achieving an appropriate split in the costs of the land transport system between road users and local communities taking into account the fact that the State highway system would be fully funded by road users.</p> <p>The funding assistance rates for stock effluent facilities was set with a view to local communities and direct land transport system users meeting an appropriate share of the cost of those activities and takes into account the fact that local communities affect, and benefit from, State highways.</p> <p>However, the 50% average Base FAR and the 53% minimum funding assistance rate for local road capital improvements appear to have arisen as the result of the effects of the application of different policies over time rather than from a deliberate policy decision that they represented the appropriate split of costs between direct land transport system users and local communities.</p> <p>There is no evidence that:</p> <ul style="list-style-type: none"> • The minimum 53% funding assistance rates for walking and cycling facilities, transport planning and road safety promotion, • The 40% minimum and 60% maximum for Total Mobility Services, or • The funding assistance rates for wheelchair hoists or rail level

Principle	Status quo	Assessment
	<p>road users for the prevention of effluent spillage. The same funding assistance rates apply regardless of whether the facility is sited alongside a local road or a State highway.</p> <p>For local road capital improvements, walking and cycling facilities, transport planning and road safety there is a national minimum funding assistance rate of 53% - this is the result of:</p> <ul style="list-style-type: none"> • A decision made in 2004-5 to increase construction funding assistance rates to Base FAR + 10 in order to incentivise more construction spending. • A decision to decrease the transport planning funding assistance rate from 75% to the construction funding assistance rate on the basis that the period where the funding assistance rate was set at 75% had accomplished its aim of incentivising increased planning activity. • A decision to reduce the community programmes/road safety promotion funding assistance rate from 75% to the construction funding assistance rate from 2012-13 on the basis that having a higher funding assistance rate for road safety promotion than for engineering solutions to address safety issues (which receive the construction funding assistance rate) created a bias in favour of using promotional activities. This was seen as being inconsistent with a Safe System approach. <p>For public transport- funding assistance rates are at or transitioning to 50%. This 50% is the result of the former Urban Transport Council's policy from the late 1980s that, so far as possible, it should treat all local authorities equally when it distributed the general Crown revenue that the Government allocated for funding urban public transport. (At the time the Urban Transport Council developed that policy all of the funding it distributed for public transport came from Crown grants, none of it came specifically from land transport system users.)</p>	<p>crossing warning devices,</p> <p>were set with a purpose of reaching the appropriate split of costs between direct land transport system users and local communities.</p> <p>The 50% funding assistance rate for public transport is a survivor of the period when urban public transport was partly funded from general Crown revenue (rather than land transport user charges). Again, it was not set with a view to the costs of the land transport system being split appropriately between direct land transport system users and local communities (land users/property owners).</p>

Principle	Status quo	Assessment
	<p>For Total Mobility Services – a minimum funding assistance rate of 40% and a maximum of 60% - this is the result of a policy to incentivise regions to adopt the two phases of recommendations from the 2005 Total Mobility Review and to partially compensate for increases in cost resulting from changes. Before the review the funding assistance rate for Total Mobility Services was 40%.</p> <p>The 60% funding assistance rate for wheelchair hoists was originally intended to apply only for a short period to facilitate the replacement of aging wheelchair hoists. However, when it became clear that Total Mobility Services policy would be to seek to incentivise all regional councils to make improvements to services in order to obtain a 60% Total Mobility Services funding assistance rate it was decided to keep the wheelchair hoist rate at 60%.</p> <p>The rationale for the total mobility wheel chair hoist use payments being set at 100% of the use payment of \$10.00 excluding GST was to increase the financial viability and, therefore, the availability of wheelchair accessible taxis.</p> <p>The rationale behind the funding assistance rate for rail level crossing warning devices being set at 100% of the approved organisation’s costs was because rail track authorities can unilaterally require such devices to be installed. There was concern that rail track authorities might not give local authorities sufficient warning for them to budget for such facilities.</p>	
<p>Provide approved organisations and the NZ Transport Agency with as much</p>	<p>Currently the funding assistance rates for:</p> <ul style="list-style-type: none"> • The maintenance, operation, renewal and improvement of local roads (other than special purpose roads and Crown Range Road), • Walking and cycling, • Road safety promotion, • Transport planning, and 	<p>The Base funding assistance rates approved organisations receive are relatively stable. However, some approved organisations have experienced significant change in their Base funding assistance rates (and funding assistance rates derived from Base funding assistance rates) over time as the relative value of land in their area has increased (or decreased) in comparison with land values in the rest of the country. When this has resulted in a decrease in</p>

Principle	Status quo	Assessment
<p>investment certainty as practicable.</p>	<ul style="list-style-type: none"> • Network user information, are reset every three years, in line with National Land Transport Programme and council long term plan financial planning cycles. The funding assistance rates for these activities take into account the size of relevant territorial authorities’ maintenance, operations and renewals programmes and the net equalised value of land within relevant districts. <p>The funding assistance rates for Total Mobility Services only vary upwards i.e. a regional council can move up to 60%.</p> <p>The funding assistance rates for public transport are generally set at 50%, or are slowly being transitioned down to 50%.</p> <p>There are set funding assistance rates for special purpose roads, Crown Range Road, stock effluent disposal facilities, wheelchair hoists and level crossing warning devices.</p> <p>As noted in submissions on the Discussion Document, some funding assistance rates, such as those for transport planning and road safety promotion, have changed on more than one occasion over time to reflect changes in policy settings and a number of bespoke changes to funding assistance rates have been made over the years.</p>	<p>funding assistance rates significant dissatisfaction has often been expressed by the relevant approved organisation.</p> <p>Because there is a lack of a shared understanding of what funding assistance rates can, and should, seek to achieve the certainty of the system has been adversely affected by different components being added, or amended, at different times to seek to achieve different policy objectives.</p> <p>Setting an overall NLTF co-investment rate would assist the funding assistance rates system to remain stable over time, in the same way the current national average Base FAR has enabled the current approach to setting Base FARs to remain relatively stable over time. This would help to provide both approved organisations and the Transport Agency with greater investment certainty.</p>
<p>Be efficient to apply</p>	<p>As noted above, currently there is a range of different funding assistance rates for different activity classes.</p>	<p>Most of the individual components of the current funding assistance rates system are, in themselves, reasonably efficient to apply. However, having so many different funding assistance rates applying to different activities means the system as a whole is less efficient to apply.</p> <p>Where there are material differences in funding assistance rates that apply to quite similar activities there is an understandable tendency for approved organisations to seek to have their activity included in the class with the higher funding assistance rate. This can require the Transport Agency to spend a lot of time seeking</p>

Principle	Status quo	Assessment
		to ensure that activities are funded under the correct funding assistance rate and creates cost (and uncertainty) for both the Transport Agency and approved organisations.
Be based on evidence and data that is readily accessible and reliable	<p>The net equalised rateable land values used in calculating Base funding assistance rates are readily accessible and reliable.</p> <p>However, the other metric used in calculating Base funding assistance rates, the cost of an approved organisations' approved maintenance operations and renewals programme, is a less reliable basis for distinguishing between approved organisations in the sense that it is a negotiated figure rather than one that is directly derived from objective data.</p> <p>Similarly, the total general rates metric currently used in calculating funding assistance rates for emergency works is also not a particularly reliable basis for distinguishing between approved organisations, as that figure is determined by local authority decisions (including political decisions) on how they will levy rates.</p>	Some of the metrics currently used to distinguish between approved organisations are not particularly reliable bases for calculating funding assistance rates. This is because they are based on matters such as the outcomes of negotiations on the size of an approved organisation's maintenance, operations and renewals programme and local authority decisions on how they will levy rates rather than on readily accessible and reliable objective data.
Ensure that if there are variations to how funding assistance rates are set or applied to address outliers or exceptions this is done transparently.	<p>The Base FAR for most local roads is currently set by applying one formula to all territorial authorities.</p> <p>The construction funding assistance rate for most local roads and walking and cycling (and transport planning and road safety promotion) is generally set by adding +10 to all Base funding assistance rates. However, where a territorial authority's Base FAR is greater than 80%, the construction rate is half-way between the Base rate The NZTA's funding assistance rate to augment a territorial authority's funding of its maintenance, operations and renewals programmes determined on its relative ability to pay and programme size across all territorial authorities and 100%, rounded up to a whole percent up to a maximum of 94%.</p>	The status quo does treat exceptions and outliers differently in a number of cases. It does so in a number of different ways and for a number of different policy reasons. Often there are no clear endpoints for when, if ever, those exceptions/outliers will cease to be funded differently. Over time there tends to be an uneven level of understanding of the rationale for the differences.

Principle	Status quo	Assessment
	<p>Most local authority special purpose roads are funded at the same rate. However as discussed above there have been some ongoing variations made for some individual special purpose roads. These were made at the time funding for capital improvements to the relevant roads was approved. Department of Conservation and Waitangi National Trust special purpose roads are funded at 100% because at the time the rates were set it was deemed that neither of those bodies had the power to raise revenue.</p> <p>The same public transport funding assistance rates apply to all public transport activities.</p> <p>Ongoing different funding assistance rates have been set for Total Mobility Services and wheelchair hoists for the policy reasons discussed above.</p> <p>Different ongoing funding assistance rates have also been set for level crossing warning devices and stock effluent facilities to reflect specific policy decisions around those particular activities.</p>	

6.2 Concerns about the status quo

6.2.1 General concerns about the status quo

Some submissions raised general concerns with the status quo. The general concerns expressed were:

- **Lack of underlying principles** - There is currently a lack of clear underlying principles to the funding assistance rates system.
The provisional framework includes a statement of the role of funding assistance rates and seven principles which are to sit behind how funding assistance rates are set and applied going forward.
- **Unclear alignment to strategies** - There is an unclear alignment of the funding assistance rates system with national and regional priorities.

The statement on the role of funding assistance rates and the seven principles in the provisional framework are derived from, and consistent with, the statutory and strategic policy framework within which funding assistance rates sit.

Tying the funding assistance rates system too closely to the set of national priorities that are current at a particular time would be problematic as it could require substantial review of the funding assistance rate system every few years as priorities change.

However, one of the principles in the provisional framework is that the funding assistance rates system should support optimal national land transport outcomes being achieved across the country in the right way, at the right time and for the right price. What the optimal land transport outcomes are at any time is matter that is addressed by other parts of the land transport planning and investment system, e.g. the GPS, regional transport plans and the National Land Transport Programme.

Where a region's strategic priorities or aspirations aligned to national strategic priorities for land transport the land transport funding system as a whole (e.g. the GPS and the Transport Agency's assessment framework) would assist the community to give effect to those aspirations and priorities.

- **Too many reviews/changes** -
 - The simplicity of the status quo has been corrupted with additions to the Base funding assistance rate for some activities and a flat rate for others.
 - The certainty and transparency of the status quo has been undermined by frequent reviews.
- **Not efficient and effective** - The status quo is not an efficient and effective method for allocating the investment of funding and needs to be replaced with an approach which provides better logic, transparency and robustness.

At least prior to this review commencing, there was a very uneven level of understanding within the Transport Agency, approved organisations and the wider transport sector as to why the current funding assistance rates system is set up the way that it is and what it is, and is not, seeking to achieve. This has contributed to the current funding assistance rates system being made up of a number of different components, with those different components seeking to achieve different policy objectives.

The provisional framework includes a statement of the role of funding assistance rates, principles to sit behind how funding assistance rates are set and applied and a 5-part approach to setting and applying funding assistance rates. This framework is intended to enable a logical, transparent and consistent approach to be taken to setting and applying funding assistance rates going forward.

- **Not transparent/easily understandable** - The status quo is not clear or easily understandable to local authorities. One submitter referred to the status quo being something of a “dark art” with the consequence that differences in funding rates between road controlling authorities are difficult to rationalise.

The provisional framework specifically identifies that (other than where time limited targeted enhanced funding assistance rates are used and, possibly, the funding assistance rates for emergency works) there will only be variations in funding assistance rates between approved organisations where those variations address factors which:

- Materially affect some approved organisations’ ability to deliver land transport outcomes, and
- Are not within the control of those approved organisations or the control of their local communities (property owners and land users).

At the next stage of the review we will look at:

- What factors, if any, would lead to some approved organisations receiving funding assistance rates that are higher than the overall NLTF co-investment rate,
 - How much higher than the overall NLTF co-investment rate there rates would be, and consequently
 - How much lower than the overall NLTF co-investment rate other approved organisations rates would be.
- **High compliance costs** - The current system requires considerable input as some low value activities lead to high compliance costs for comparatively little benefit. The submitter who raised this issue suggested that using a flat subsidy or bulk funding might lead to greater efficiency.

The suggestion that the Transport Agency should use bulk funding is discussed in Section 5.10 above.

Some of the overall approaches included in the Discussion Document were effectively versions of a flat subsidy approach – i.e. the population approach, the revenue approach and the contribution approach. Under all of those approaches an approved organisation would receive a set amount determined by either:

- The proportion of the national population resident in their area,
- The proportion of National Land Transport Fund revenue generated in their area, or
- Their relative contribution to the New Zealand economy.

Significant concerns were expressed about all three of these overall approaches in the submissions received on the Discussion Document. All three of these approaches:

- Could result in very high funding assistance rates applying in some areas which could lead to the approved organisations in those areas not having much incentive to seek efficiencies due to their bearing very little of the risk of over-investing in land transport activities.
- Would not help to reduce the extent to which optimal land transport outcomes are prevented from occurring as a result of matters that are outside of both the relevant approved organisation’s, and their local communities”, control.

Therefore, as identified in a number of submissions, overall the approaches would not be consistent with the optimal land transport outcomes/“value for money” principle in the provisional framework. Further all three approaches:

- Would not facilitate land transport network users experiencing an integrated and appropriately consistent network throughout the country.
 - Could not be used to enable the costs of the land transport system to be split appropriately between land transport system users and local communities.
- **Inequity** - There is significant inequity with ratepayers in urban areas paying far less per head of population towards land transport costs than those in rural areas.

At the next stage of the review we will look at:

- What factors materially affect some approved organisations’ ability to deliver land transport outcomes,
 - Whether those factors are matters outside of the approved organisation’s/local community’s control, and
 - How those factors should be taken into account in setting funding assistance rates.
- **Not recognising change/providing for growth** - The current system does not recognise change. Funding assistance rates are currently based on maintaining current levels of service rather than providing for growth/intensification of use.

The Transport Agency’s primary tools for providing for growth/intensification of use are:

- Decisions as to whether or not to fund improvements to infrastructure, and
- The approval of the size of maintenance, operations and renewals and public transport programmes.

As was noted above, currently the way the size of approved organisations’ maintenance, operations and renewals programmes are set is still strongly influenced by historical levels of spend. The provisional framework provides that National Land Transport Fund revenue will only be used (funding assistance rates will only be applied to) the (eligible) costs of undertaking or maintaining a land transport activity to achieve fit for purpose standards. Such standards are determined by what the function of the relevant part of the land transport network is, and what the appropriate customer levels of service are for parts of the network with that function. If the function/appropriate customer levels of service for part of the network change as a result of growth/intensification of use then the fit for purpose standards are also likely to change.

- **Bound to local authority boundaries** – Because the status quo uses metrics which only relate to the individual local authority it does not:
 - Address the issue of through traffic where road users travel through a local authorities’ area and make use of, or damage, the roads but do not contribute to the local share through rates, or
 - Recognise the social and economic interactions that take place within and across local authority boundaries.

At the next stage of the review we will look at:

- What factors materially affect some approved organisations’ ability to deliver land transport outcomes, and
- How those factors should be taken into account in setting funding assistance rates.

6.2.2 Submissions on how the Base FAR for local road maintenance, operations and renewals is currently calculated

What factors materially affect some approved organisations' ability to deliver land transport outcomes and, if so, whether those factors are matters outside of the approved organisation's/local community's control, and how those factors should be taken into account in setting funding assistance rates, are things that we will look at in the next stage of the review.

6.2.2.1 Goods networks versus people networks

A number of submitters expressed a concern that the existing Base FAR formula does not adequately take into account the higher per ratepayer costs of maintaining an extensive, low volume network geared towards moving goods (rather than a higher volume network geared at moving people).

6.2.2.2 The current proxy for ability to pay - rateable land value

One of the metrics currently used in the formula for calculating the "Base" funding assistance rate is the five-yearly averaged net equalised rateable land value of a district (as a proxy for ability to raise rates revenue).

Some submitters expressly supported the use of this metric - one commenting that it provides a sound basis for a fair system across all of New Zealand.

A number of submitters specifically supported the current exclusion of Crown and Maori customary land from this measure of ability to pay used in the status quo. However, they queried whether Maori freehold land should also be excluded due to the difficulties inherent in collecting rates levied on Maori freehold land in multiple ownership.

Concerns expressed about using rateable land value in calculating the Base FAR were:

- **Penalises growth** - Wherever land value increases in response to economic growth this has the potential to reduce the funding assistance rate. Higher land values indicate increased production which in turn places higher stress on roading infrastructure. The current funding assistance rates system penalises the local community by reducing the funding assistance rate in these circumstances.
- **Not an appropriate measure of ability to raise rates revenue** - One submitter commented that land value is a basis on which Councils can proportionately allocate between properties within their district the amount which they need to collect to fund particular activities. However, it does not reflect local council incomes or determine the total amount of funds that need to, or can, be raised. Another submitter commented that the ability to pay rates can differ across areas with the same land value.
- **Does not reflect per capita costs** - Another submitter stated that land value is not an appropriate basis for setting funding assistance rates because it is no determinant of the actual cost impact of funding the local road network on a per capita basis.
- **Does not reflect actual use** - Quotable Value assesses the value of land on its best use which does not necessarily equate with the actual use.
- **The current formula double counts ability to pay** - One submitter commented that Councils may already have taken ability to pay into account in reducing the size of their maintenance and operations programmes.

Suggested alternative metrics to reflect ability to raise revenue were:

- The cost of a local authority's approved maintenance, operations and renewals programme per head of population,
- Average household income
- Deprivation index
- Income per population head/household
- Capital value
- Population per vehicle kilometre travelled
- Inverse population – e.g. for each + or – 10% of the average population a district's Base FAR should be adjusted by 1%.

6.2.2.3 The current proxy for need – the cost of a local authority's approved maintenance, operations and renewals programme

The current Base FAR formula uses the costs of a territorial authority's road maintenance, operations and renewals programme as a proxy for the differences in "need" between territorial authorities.

Some submitters commented that factors such as geology, topography, climate, population, traffic volumes, and percentage of heavy vehicles are taken into account in determining the size of territorial authorities' maintenance, operations and renewals programmes and, therefore, there is no need to also include those differences separately in the funding assistance rates calculation. One commented that road classifications and levels of service should also be included in determining programme size rather than in calculating funding assistance rates.

Another submitter expressed the view that approved programme size is a good indicator of need because it:

- Takes into account the local authority's local community consultation and priorities, local land use changes and the local authority's long term plans,
- Already categorises local roads based on use and traffic volumes,
- May take into account seasonal factors.

They stated that, therefore, there was no need to take into account centralised classification of roads.

Similarly two submitters stated that asset management plans prepared by local authorities should be treated as representing the genuine or real needs of a district.

The problem with the arguments that what an approved organisation chooses to include in its road maintenance, operations and renewals programme and/or asset management plans should be treated as representing the 'needs' of their community is that those programmes/plans are shaped by issues such as community aspirations expressed during local government consultation. It is difficult to justify the nationally collected National Land Transport Fund revenue being used to fund higher standards in one area than in others solely because the community in that area wants higher standards.

In contrast, a number of submitters expressed concerns with the use of approved programme cost in the Base FAR formula. These concerns were that:

- **Encourages poor asset management practice** - Using the cost of the approved programme encourages poor asset management practice by encouraging over investment in a network. It rewards authorities with inappropriately expensive networks and penalises the more prudent authorities.

- **In practice does not respond to change** - One submitter considered that what has happened over the years is that the size of approved maintenance, operations and renewals programmes has been more based on historical spend rather than need. Therefore, when something like forestry harvesting increases the use of a road network or significant improvements have been made to a road network this is not necessarily appropriately reflected in the size of local authorities' approved maintenance, operations and renewals programmes. The submitter commented that realistically to achieve approved programmes linked to asset management planning and demonstrated need there would need to be some standardisation to transportation asset management plans, inputs, outputs, levels of service and KPIs to allow proper assessment and benchmarking between different roading authorities.
- **Doesn't recognise the differences in the priority that can be given to transport** - One submitter noted that local authorities with low growth rates and less dispersed settlement face less issues in retaining transport programmes as a priority rather than having to prioritise their spending on other things, such as wastewater plants. Local authorities in growth areas or with dispersed settlement may reduce the size of their approved programmes because they need to prioritise spending elsewhere.

Some submitters who expressed concern about the use of approved programme cost in the Base FAR formula noted that a consistent classification/asset management approach applied nationally would be required for size of the approved programme to be a valid proxy for need.

Alternative metrics to reflect need suggested by submitters were:

- Population growth
- Output growth
- Vehicle kilometres travelled
- Inverse vehicle kilometres travelled per lane kilometre (to reflect the difference in cost in maintaining low density road networks based on moving goods when compared to high density networks based on moving people)
- Safety requirements
- Length of network
- Topography
- Geology
- Climate
- Transport of exports.

6.2.2.4 Application of judgment

Under the current system, once an indicative Base FAR has been determined using the Base FAR formula, the Transport Agency then makes a judgment about what a particular local authority's Base funding assistance rate should be taking into account:

- The indicative Base funding assistance rates for the current and previous two years
- The approved Base funding assistance rates for the current and previous two years
- The indicative Base funding assistance rates for the next year
- Changes in the road operations, maintenance and renewals programme
- Changes in net equalised land value
- The resultant change in local share.

One submitter expressed the view that the perceived problems with the current model are related to the ad hoc variability applied to Base funding assistance rates by the Transport Agency.

It is unlikely to be practicable to develop a funding assistance rates system that does not involve an element of judgment somewhere in the system. Further, as a statutory body the Transport Agency must retain the ability to depart from general policy in appropriate circumstances (otherwise it would be at risk of being found to have unlawfully fettered its exercise of its statutory powers of discretion).

However, the funding assistance rate system does need to be based on reliable evidence and data and to give approved organisations and the Transport Agency as much financial planning certainty as practicable. These matters are reflected in the principles in the provisional framework.

6.2.2.5 43% Base FAR floor

Currently the Base FAR system is set so that the minimum Base funding assistance rate any Council will receive is 43%.

One submitter expressly sought for this 43% minimum Base funding assistance rate to be retained. Another submitted that a minimum Base funding assistance rate should be retained, as this provides a degree of certainty over the long term, but a sounder basis for that minimum may need to be established.

A number of submitters considered that the need for this floor should be reviewed and others expressed a positive view that this floor should either be removed or lowered.

Some submitters commented that removing, or lowering, the floor would move funding from the higher density land transport networks (that are cheaper to maintain) to the less dense land transport networks (that are more expensive to maintain).

Research we have recently undertaken has established that when the 43% minimum Base funding assistance rate was set in 1959 it was deliberately intended to provide an appropriate split of the costs of the land transport network as whole between road users and local communities. In setting this minimum the fact that local communities benefit from, but do not pay for, the State highway network was taken into account. The final 43% for metropolitan local authorities was the result of negotiation – prior to negotiation with the Municipal Association the Government had intended to set the minimum funding assistance rate for municipalities at 10s in the pound (i.e. 33.33%).

We considered whether the provisional framework should include a national minimum funding assistance rate. However, a national minimum rate would be subject to constant upward pressure as top ups to address special circumstances were added to the minimum rate over time. This is what happened when the current Base FAR formula was established in the early 1980s. The National Roads Board looked at what the effective national average funding assistance rate was taking into account all the top ups that had been applied to the statutory minimum rate of 42.8% over the years and came up with a national average funding assistance rate of 50%. Setting a minimum funding assistance rate would be likely to mean that over time the share of land transport costs met by direct land transport system users went up and the share of land transport costs met by local communities went down without any deliberate policy decision being made that the relative shares *should* change.

The provisional framework provides for an overall NLTF investment share to be set, but not a minimum rate.

6.2.2.6 50% average FAR

Currently the Base funding assistance rate is calculated so that the national average for Base funding assistance rates is 50%.

Some submitters noted that there is no evidence as to how this 50% average was reached. Others expressed a view that it should be reviewed.

One submitter commented that they have a long standing policy of advocating for an increase in funding assistance rates to 90% on the basis that:

- Fuel excise duty and road user charges (RUC) are more equitable than relying on property values, and
- Funding by central government means that broader issues such as a firm in one district making extensive use of another district's roads and through traffic are reduced.

In contrast another submitter commented that if the national average Base funding assistance rate was increased, while some of the rates funding that was released might be used for road maintenance, it is likely that much of it would be used for non-roading local purposes and this would work against greater total investment in the land transport system.

The levels that road user charges and fuel excise duty are set at are outside the scope of this review (and are matters outside of the Transport Agency's control).

The 50% average funding assistance rate for local road operations, maintenance and renewals was the result of the historic situation at the time when the National Roads Board was seeking to codify its approach to funding assistance rates in the late 1970s and early 1980s. At that time the Board worked out that, with the top up grants it had been giving to local authorities over the years over and above their 42.8% as of right subsidy, the average effective funding assistance rate that local authorities had received had become around 50%. It was not the result of a deliberate policy decision that 50% represented the appropriate split of costs between direct land transport system users and local communities.

The provisional framework provides that there would be an overall NLTF co-investment rate. This would be set with a view to the costs of the land transport network as a whole being split appropriately between land transport system users and local communities (i.e. property owners and land users) recognising that both of those groups affect, and benefit from, the New Zealand land transport network as a whole.

What that overall NLTF co-investment rate would be is an issue to be addressed, and consulted on, during the next stage of the review.

One option we considered was having the effective average funding assistance rate determined by the funding range for a particular activity class under the relevant GPS, i.e. determining the average funding assistance rate for that activity class by what average rate is possible within the available funding.

However, allowing the effective average funding assistance rate to be determined by the funding range set for a particular activity class:

- Could not be used to enable the costs of the land transport system to be split appropriately between direct land transport system users and local communities.
- Would be likely to result in different funding assistance rates applying to different types land transport activities that could be used to address the same land transport issues (and therefore might work against achieving optimal land transport outcomes/value for money).
- Would create uncertainty for approved organisations and the Transport Agency as to what approved organisations' funding assistance rates would be over time.

6.2.2.7 Footpaths and cycleways

A number of submitters considered that the Base funding assistance rates should also apply to the costs of maintaining footpaths and cycleways.

The maintenance and renewal of cycleway markings on non-separated road services are currently eligible for funding at the Base funding assistance rate. However, the costs of maintaining and renewing footpaths are not.

If the maintenance of such footpaths became eligible for funding from the National Land Transport Fund, we cannot assume that the amount of money available for allocation to local authority maintenance activities from the Fund would increase. Therefore, making the maintenance of footpaths eligible for funding could potentially result in a lower overall NLTF co-investment rate being set. What that overall NLTF co-investment rate would be is an issue to be addressed, and consulted on, during the next stage of the review.

6.2.3 The status quo for capital improvements

Currently the Base funding assistance rate is also used as the basis for the construction funding assistance rate (which is currently the Base funding assistance rate plus 10 percentage points). Therefore, the same metrics are used in calculating the construction FAR as are used in calculating the Base funding assistance rate.

6.2.3.1 The differential between the Base FAR and the construction FAR

A number of submitters considered that the differential treatment of maintenance and renewal activities compared with new/capital improvements in setting funding assistance rates should be tested through the review. In particular submitters commented that the differential incentivises construction and reconstruction over maintenance and renewal activities and, therefore, may encourage outcomes that do not deliver the best whole of life value.

However, one local authority submitter specifically commented that it was appreciative of there being a higher funding assistance rate for minor improvement works, as it assists in delivering safety improvements.

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

This removes the role of funding assistance rates in providing crude investment signals and allows other more appropriate tools to signal priority. Differential funding assistance rates between different types of activities may work against achieving optimal land transport outcomes/value for money. This is because, different funding assistance rates are likely to encourage approved organizations to pursue one type of activity over another, or one type of solution for addressing an issue over another. From a whole of network perspective, the activity with the higher funding assistance rate might not be the optimal thing to do.

6.2.3.2 Use of rateable land value in determining the construction FAR

One submitter questioned whether use of the five-yearly averaged net equalised rateable land value metric in the formula for determining construction funding assistance rates was the most appropriate in situations where, following a large event, a Council is facing significant costs for capital works across a range of assets.

The current approach to calculating emergency works funding assistance does not use the five-yearly averaged net equalised rateable land value metric. Instead, it uses the relevant approved organisations' total general rates (i.e. any rates levied on an approved organisation wide basis, which includes general rates and uniform annual charges³ and any separate roading rate). Emergency works funding is only used for the costs associated with the immediate response, reopening and/or restoration (to a standard no better than that which existed before any damage occurred) of eligible infrastructure where that work arises from a defined, major, short-duration natural event.

The provisional framework provides that (other than the funding assistance rates for emergency works, and any enhanced targeted funding assistance rates used in discrete situations for time limited periods) the same funding assistance rate would apply to all land transport activities a particular approved organisation undertakes. During the next stage of the review, we will look at options for setting funding assistance rates for emergency works that would be consistent with the seven principles and the statement of the role of funding assistance rates in the provisional framework.

The large scale reconstruction of a city (such as currently occurring in Christchurch and previously occurred in Napier) is something that only arises in exceptional circumstances and is not something that the regular funding assistance rates system can practicably be designed to provide for.

³ As defined in the Rating Valuations Act 1998.

6.2.3.3 Reducing State highway expenditure

One submitter stated that there needs to be a higher construction funding assistance rate where a project reduces the need for State highway expenditure (which they consider already occurs).

Current Transport Agency policy is that a local road improvement project may, at the Transport Agency's discretion, be partly funded as a State highway improvement project. The following criteria apply:

- Greater State highway benefits can be purchased per dollar when compared with upgrading the State highway,
- The Transport Agency and the local authority, any territorial authority or regional council within the meaning of the Local Government Act 2002. have agreed that the project is the best investment option,
- The Transport Agency and the local authority, any territorial authority or regional council within the meaning of the Local Government Act 2002. have agreed on attribution of benefits and construction costs,
- The project is unlikely to proceed if left to the local authority, any territorial authority or regional council within the meaning of the Local Government Act 2002.

Under this policy, normal funding assistance rates apply to each party's share of the cost of the improvements. We are not currently proposing to change this policy as part of this review.

6.2.4 The status quo for special purpose roads

Currently very high funding assistance rates are given for special purpose roads throughout the country, in some cases a 100% funding assistance rate.

In its submission the Waitangi National Trust Board sought for the 100% funding assistance rate for the special purpose road within its land to remain unchanged because the Waitangi Treaty Grounds fulfil a role of national importance and because the Trust "receives no operational funding from any external sources and is completely independent of government, central and local".

One local authority also expressly supported the retention of special funding assistance rates for special purpose roads.

However another local authority, that has special purpose roads within its district, noted that having different funding assistance rates for special purpose roads and other roads complicates matters and means that separate accounts need to be managed.

Another submitter commented that the Transport Agency should consider treating those sections of networks that have been identified as route security/bypasses for the State highway network, tourism routes and roads shared by the New Zealand Cycle Trails network in a similar way to special purpose roads. (This submission was effectively advocating for a classification approach to be applied under which the type of routes the submitter identified would receive a higher funding assistance rate than most other local roads.)

As identified in the Discussion Document the current use of higher funding assistance rates for special purpose roads is a version of a classification approach.

A special purpose road is a carriageway that was declared a "special purpose road" under a statutory power that no longer exists. Essentially declaring a carriageway to be a special purpose road enabled the Transport Agency's predecessors to overcome restrictions that used to exist in relation to what land transport activities they could fund and what rate those activities could be funded at. The only legal effect that declaring a carriageway a special purpose road had was that it meant that it could be funded by the Transport Agency's predecessors even if it was not a legal road and, if it was a local road, it could be funded at a different rate to the majority of local roads.

In 1991, the former Transit New Zealand adopted criteria that a carriageway should meet to qualify for consideration as a special purpose road. These were that the carriageway should:

- Cater for a high proportion of tourist traffic
- Be of a standard that was deemed inadequate for consideration for State highway status
- Pass through an area where the rating potential of the surrounding land was significantly lower than the maintenance cost of the carriageway.

As discussed in Section 5 above, assessment of the classification approach against the seven principles in the provisional framework identified among other things that using a classification approach to setting funding assistance *rates* would be likely to work against value for money/optimal outcomes being achieved. In particular, where a classification approach resulted in very high funding assistance rates applying to particular activities the approved organisation would bear very little of the risk of over-investing in that type of activity. They would have very little incentive to achieve efficiencies in how the activity was undertaken – i.e. would have insufficient “skin in the game.” Another issue identified with a classification approach is that it would not facilitate land transport system users experiencing an integrated and appropriately consistent network throughout the country.

The provisional framework does not use a classification approach in calculating funding assistance rates. It provides that the same funding assistance rate will apply to all of the land transport activities a particular approved organisation undertakes (other than any enhanced targeted funding assistance rates used in discrete situations for time limited periods and, potentially, the funding assistance rates for emergency works). This means that works on a local authority’s special purpose roads would receive the same funding assistance rate as works on their other local roads.

However, the provisional framework does include:

- Provision that National Land Transport Fund revenue/funding assistance rates will be applied to the (eligible) costs of undertaking or maintaining a land transport activity to fit for purpose standards. What those standards are will be determined by what the function of the relevant part of the land transport network is, and what the appropriate customer levels of service for parts of the network with that function are. (Therefore, if part of the function of a particular activity is providing for a high proportion of tourist traffic or route security if part of the State highway network becomes unavailable, under the provisional framework that could be taken into account in determining what the fit for purpose standards for that activity were.)
- Variation in funding assistance rates between approved organisations if there are factors which:
 - Materially affect some approved organisations’ ability to deliver optimal land transport outcomes in the optimal way, and
 - Are not within the control of those approved organisations or the control of their local communities (property owners and land users).

One of the factors that we will investigate at the next stage of the review is relatively high proportions of local road giving access to non-rateable land.

The maintenance, renewal and improvement of identified special purpose road carriageways on the Waitangi National Trust land are the only activities on Trust land that receive revenue from the National Land Transport Fund and all of those activities are currently funded at 100%. The practical arrangements are that currently Far North District Council’s contractors undertake activities on the part of the special purpose road within the Trust’s land (as well as on the adjoining section of special purpose road that is local road).

One of the issues that we will look at during the next stage of the review is whether or not there are some factors which:

- Materially affect the Waitangi National Trust Board's (and/or the Department of Conservation's) ability to deliver land transport outcomes on their special purpose roads, and
- Are not within their control,

that mean that the Board and/or the Department should receive different funding assistance rates than most other approved organisations.

6.2.5 The status quo for emergency works

The aim of the current approach to calculating funding assistance rates for emergency works is to mitigate the impact of emergencies on Councils' road maintenance programmes. Currently the funding assistance rates for emergency works are determined by applying the following formula:

$$\text{Emergency works rate} = (F \div R) \times 100 \text{ percent}$$

Where:

F = total cost of the current emergency works application plus the total cost of any existing emergency works approval in the current year

R = Total general rates (exclusive of GST)

then plotting that rate on a chart to determine the funding assistance rate. Recent research has established that the emergency funding assistance rates chart is based purely on empirical data. It was developed in the mid 1980s by plotting historic National Roads Board decisions around funding assistance rates for flood damage on a graph.

A number of submitters expressed support for this existing approach to setting funding assistance rates for emergency works.

The provisional framework provides that the funding assistance rate for emergency works could potentially be different to the funding assistance rate that applies to the other land transport activities a particular approved organisation undertakes.

During the next stage of the review, we will look at options for setting funding assistance rates for emergency works that would be consistent with the seven principles and the statement of the role of funding assistance rates in the provisional framework.

6.2.6 The status quo for public transport

Currently all regional councils receive the same funding assistance rates for public transport activities. This is, or is currently transitioning to, 50% of whatever the relevant regional council's costs are in providing the public transport activity.

A number of submitters, including most of the regional councils/Regional Transport Committees, expressed the view that this flat approach "seems to work effectively" and provides budgeting certainty for local authorities. One submitter said that the good level of stability and certainty provided by the current approach outweighs the disadvantages of the approach such as contributing to variations in levels of service throughout the country. Another submitter noted that they consider that the approach is transparent in that both taxpayers and local ratepayers contribute an equal amount to the funding of passenger transport.

One submitter thought there should be a modification of this flat approach to include a financial incentive for Councils to reach a 50% farebox recovery rate, i.e. the Transport Agency should only pay 25% of the total costs with the remaining 75% being met by either the regional council or fare payers.

However, some submitters considered public transport should be funded using a differences approach to recognise that smaller public transport networks are not able to achieve the economies of scale of large cities. Some of these submitters said that this should be at the same rate as the Base funding assistance rate. Stated reasons for this were:

- There should not be a financial differential by travel mode (bus, walk, cycle, car freight).
- Because public transport is complementary to the local road maintenance, operations and renewals programme and is an alternative solution to alleviate congestion and maintenance or capital expenditure.
- Public transport has its own revenue stream (fares) which reduces the net requirement from rates.

One submitter expressed the view that there should be a higher funding assistance rate for public transport services that better address congestion.

During the consultation on the Discussion Document we identified the need to undertake research to find out where the 50% funding assistance rate for public transport activities came from. That research has established that the 50% funding assistance rate is the result of the former Urban Transport Council's policy from the late 1980s that, so far as possible, it should treat all local authorities equally when it distributed the general Crown revenue that the Government approved for use in funding urban public transport. (At the time the Urban Transport Council developed that policy all of the funding it distributed for public transport came from Crown grants, none of it came specifically from direct land transport system users.) However, one difference between the Urban Transport Council's policy and current funding assistance rates policy is that for public transport services the Urban Transport Council's policy was to treat all the local authorities they funded as if they had a farebox recovery policy of recovering 50% of total gross expenditure from fares. Therefore, the Urban Transport Council's policy was only to pay a 50% subsidy on local authorities' net expenditure on public transport up to 50% of total gross expenditure (reduced to 45% of total gross expenditure in 1988).

The Urban Transport Council was never able to give full effect to its 50% funding policy because:

- The Government required the Council to fund the New Zealand Railway Corporation's deficits on urban passenger rail services at 100%,
- The budget allocation they received from the Government was not sufficient to fund a 50% funding policy.

In 1989 the Urban Transport Council resolved in principle that there should be a move away from a policy of a flat 50% subsidy for all local authorities towards a more targeted policy based on a report on the economic and social reasons justifying public transport subsidies prepared by Travers Morgan consultants. Those recommendations would have seen subsidies focused largely, although not entirely, on peak time public transport services in major urban areas. However, the Urban Transport Council did not implement this proposal because they were shortly to be disestablished and their functions transferred to the new Transit New Zealand.

The proportion of the costs of public transport that should be met by public transport fare payers (the fare box recovery rate) is currently the subject of a separate Transport Agency review.

It is recognised that having a set funding assistance rate for public transport that does not change over time provides a high level of certainty to regional councils.

However, having that flat rate means that there are significant differences between the funding assistance rates that unitary authorities receive for most public transport activities (including for capital improvements to public transport infrastructure) and those they receive for:

- Maintaining, operating and renewing local roads (including for maintaining and renewing the bus lanes which form part of local roads), and
- Capital improvements to local roads.

Currently if a unitary authority is looking to address a land transport issue where public transport is a relevant component they will receive different funding assistance rates depending upon which mechanism they use to address that issue.

We recognise that for non-unitary regional councils the most significant activity for which they receive investment from the National Land Transport Fund is public transport services. However, regional councils also undertake other land transport activities such as Total Mobility Services, land transport planning and road safety promotion, which currently receive different funding assistance rates.

By removing the different funding assistance rates for different activities we want to send the signal that both the Transport Agency and approved organisations need to think in terms of an integrated land transport network and to invest in whatever types of activities are the optimal places to invest to address the particular issues they are dealing with. Sometimes this will be the provision of more frequent public transport services but sometimes it may be road safety promotion or an activity undertaken by a territorial/unitary authority such as capital improvements to a bus lane.

As part of the next stage of the review we will be considering whether there are factors that materially affect some regional council's ability to deliver land transport outcomes.

6.2.7 The status quo for "Total Mobility Services"

Currently the funding assistance rates for total mobility services are set on an incentives approach. There is a graduated funding assistance rate based on the extent to which regional councils are signed up to the Ministry of Transport's Total Mobility Services scheme.

One submitter considered that regional councils' ability to retain the higher graduated funding assistance rate for total mobility services should be made dependant on them implementing further reforms.

Some submitters commented that while the graduated funding assistance rate system for total mobility services appeared to have been successful in improving total mobility services, an alternative mechanism such as targeted grants might have been equally effective without the need to move away from the flat approach used for other public transport funding.

No submissions specifically advocated for the retention of the current Total Mobility Services funding assistance rates system although one submitter commented that Total Mobility Services should be funded for clear outcomes and for value.

Under the provisional framework the general situation would be that a regional council/unitary authority would receive the same funding assistance rates for Total Mobility Services as it would for all other land transport activities that it undertook that were eligible for investment from the National Land Transport Fund.

However, there would be the possibility for targeted time limited enhanced funding assistance rates to be used at some point in order to give a kick start to incentivise, and enable, an approved organisation to make a step change in levels of service or the way they are delivering services.

6.2.8 The status quo for road safety and transport planning

Currently the funding assistance rates for territorial/unitary authorities' road safety promotion and transport planning activities are the same as their construction funding assistance rates. The funding assistance rates for regional council's road safety promotion and transport planning activities are the weighted average construction funding assistance rates of the territorial authorities in their region.

One submitter commented that the current approach to setting funding assistance rates for road safety does not reflect the regional risk and importance of road safety activities and a funding assistance rate system based on road safety statistics (e.g. fatal and serious crashes) could perhaps better target road safety promotion effort into areas of greatest need.

One submitter expressly supported the current approach for transport planning because it meets their needs for consistency, stability and certainty. They commented that a previous grants approach was cumbersome and not reflective of the level of work carried out and the associated costs. However, another submitter commented that the current approach to setting funding assistance rates for transport planning is perhaps not reflective of the nature of transport planning. One submitter suggested that the method for setting funding assistance rates for regional transport planning should combine a differences approach and a contributions approach to reflect the importance of a region's transport system to the national economy.

The Transport Agency's decisions in relation to what activities to address road safety, and what transport planning activities, are approved for investment from the National Land Transport Fund are primary tools for targeting the investment of National Land Transport Fund revenue to the areas where it will achieve the greatest benefit.

As identified in the Government's Safer Journeys strategy, a safe system approach to land transport looks across the entire system to improve safety by creating safer roads and roadsides, safer speeds, safer vehicles and safer road use. This includes not only road safety promotion, education and advertising but also capital improvements to address safety issues, and ongoing operation, maintenance and renewal of those improvements. Under the provisional framework the general situation would be that an approved organisation would receive the same funding assistance rates for road safety promotion, education and advertising as it would for all other land transport activities that it undertook that were eligible for investment from the National Land Transport Fund. This would be consistent with a safe system approach.

Under the framework, an approved organisation would receive the same funding assistance rate for transport planning as it would for all other (eligible) land transport activities that it undertook. However, there might be some variations in the funding assistance rates between approved organisations if there are factors which:

- Materially affect some approved organisations' ability to deliver optimal land transport outcomes, and
- Are not within the control of those approved organisations or the control of their local communities (property owners and land users).

6.2.9 The status quo for administration support

The funding assistance for administration is currently calculated differently for different types of organisations. Relevant to this review:

- Territorial authorities/unitary authorities:
 - Are eligible for administration at a fixed rate of 2.25% of the National Land Transport Fund share for road safety promotion, walking and cycling, public transport infrastructure, and maintenance operation and renewal of local roads.
 - For transport planning and public transport services a "fair and proportional" administration cost is included as part of the direct cost for the activity.
- For non-unitary regional councils administration costs are included as a direct cost of their activities.

One submitter stated that the rate for administration support should be raised for smaller territorial authorities.

Whether or not there should be any changes to how administration costs are dealt with is a matter of detail that could be considered at the next stage of the review.