

# FUNDING ASSISTANCE RATES REVIEW – INITIAL DECISIONS MAY 2014

## OVERALL FAR FRAMEWORK

### ONE RATE FOR EACH APPROVED ORGANISATION

Other than where targeted enhanced funding assistance rates were used and for emergency works. This means local authorities who manage special purpose roads would receive the same funding assistance rate for those special purpose roads as they do for all their other local roads.

### OVERALL NLTF CO-INVESTMENT RATE

There will be a set overall NLTF co-investment rate that determines what proportion of the overall costs of delivering eligible land transport activities would be met from the Fund.

### FACTORS MATERIALLY AFFECTING DELIVERY

Some approved organisations would receive a funding assistance rate that was above the overall co-investment rate to take into account factors which materially affect their ability to deliver land transport outcomes. Consequently other approved organisations would receive a funding assistance rate that was below the overall co-investment rate.

### ONLY COSTS FOR FIT-FOR-PURPOSE STANDARDS

National Land Transport Fund revenue would be used for the eligible costs of undertaking or maintaining a land transport activity to fit-for-purpose standards.

### TARGETED ENHANCED RATES

Targeted enhanced funding assistance rates could be used in exceptional circumstances and for time limited periods.

## PRINCIPLES

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 available.
- 7 Ensure that if there are variations to how the funding assistance rates are set or applied to address outliers or exceptions that this is done transparently.

## STATEMENT OF THE ROLE OF FUNDING ASSISTANCE RATES

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

- Assists local government (and other approved organisations) and the NZ Transport Agency to work together to achieve:
  - > 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 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 system.**

## DECISION 1 CONFIRMING THE PROVISIONAL FRAMEWORK

The NZ Transport Agency Board has confirmed the provisional framework. The Board confirmed:

- i. The statement of the role of funding assistance rates and seven principles that sit behind how rates are applied are set and applied.
- ii. That National Land Transport Funds will only be used for the eligible costs of undertaking a land transport activity to achieve or maintain fit-for-purpose customer levels of service
- iii. That enhanced targeted funding assistance rates may be used in exceptional circumstances and for time limited periods to either:
  - a) facilitate an activity that is particularly important from a national land transport perspective where it is highly likely that the activity would not proceed within an appropriate time frame if additional assistance was not provided; or
  - b) give a kick start to encourage and enable an approved organisation to make a step change.

## COMMENTARY

Many submission raised issues that have helped us refine the model, however none of the submission identified issues that caused us to reconsider its fundamental design. The ideas of an overall investment rate, one rate for all activities, investing in fit-for-purpose standards, identifying factors that materially affect delivery to enable us to assist some councils over others, and the use of targeted enhanced rates is a sound basis for the future for setting FARs.

Several submissions urged us to ensure the model took appropriate account of the economic contribution of a particular area or region to New Zealand's economic growth and prosperity and to ensure this was reflected in the FAR. Rather than reflecting this issue in the way we split the costs, this issue is better reflected in the conversation about what levels of service we are delivering the transport network to (through the One Network Road Classification primarily) in order to ensure the form of the network appropriately reflects its actual and required demand function

## DECISION 2 OVERALL CO-INVESTMENT RATE AND THE SAME RATE FOR ALL OF AN APPROVED ORGANISATION'S ELIGIBLE ACTIVITIES

The NZ Transport Agency Board confirms that

- i. Other than for emergency works and where targeted enhanced funding assistance rates are used;
  - a. That the overall NLTF co-investment rate across all eligible activities undertaken by approved organisations will be 53%.
- ii. For the 2015-18 investment period and onwards each approved organisation will receive the same funding assistance rate for all activities it undertakes that are eligible for funding from the National Land Transport Fund (subject to transitional arrangements in relation to special purpose roads, total mobility services and metro rail).

## COMMENTARY

The issue for debate here was where to set the overall NLTF co-investment rate. We proposed two options, the current overall effective rate of 53/47, or move to an even 50/50 split. Your overwhelming feedback was to fix the rate at 53/47 and we agree. This rate will reduce the day-to-day impact of the proposed changes to the sector as a whole.

This effectively means that the road user, as the source of the NLTF will contribute 53% of the costs of the local road and public transport network costs across the country, and ratepayers will contribute 47% of those costs.

## DECISION 3 COUNCILS' NORMAL FUNDING ASSISTANCE RATE

The NZ Transport Agency Board confirms that following completion of transitional arrangements, the normal funding assistance rate received by most councils will be 52% (one percentage point below the overall co-investment rate).

## DECISION 4 TRANSITIONAL ARRANGEMENTS

The NZ Transport Agency Board confirms:

- i. All changes to approved organisations' funding assistance rates resulting from this review will be transitioned in over no more than nine (9) years starting at the 2015-16 financial year and finishing not later than the end of the 2023-24 financial years.
- ii. For the 2015-16 financial year no council's normal funding assistance rate will decrease by more than one (1) percentage point from that council's 'starting point', eg if a council's starting point is 60% then its normal funding assistance rate for the 2015-16 financial year will be no less than 59%.
- iii. For each of the 2016-17 and 2017-18 financial years, no council's normal funding assistance rate will decrease by more than one percentage point from its normal funding assistance rate in the previous financial year.
- iv. In order to transition decreases in some approved organisation's funding assistance rates, councils whose funding assistance rate will increase will have that increase gradually transitioned in to enable the NZ Transport Agency to remain within the relevant funding ranges in the GPS and the overall 53% NLTF co-investment rate.

### Total Mobility Services

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

### Special Purpose Roads

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

## COMMENTARY

*Many submissions noted significant concerns at the prospect of a sudden and significant drop in the funding assistance rate, citing the impact this may have on ratepayers. While it's important to understand that the FAR rate goes hand in hand with a discussion about 'what' we will be investing in (and the One Network Road Classification is an important tool here), the Board recognised these concerns. It has responded by ensuring transparent and workable transitional arrangements.*

*Of significance is how your current overall FAR is calculated and expressed as it will form the basis of the starting point for your transition. The reasons behind current overall FARs varied significantly between councils as they have very different programme profiles and different rates applying to various activities.*

*To address this, we have determined a method for defining a council's 'starting point' for transitioning-in changes to council FARs, to ensure this is calculated consistently across all councils.*

***A council's starting point is an average funding assistance rate based on the mix of different types of land transport activities (other than special purpose roads, total mobility services and emergency works) undertaken from 2009-13 and each council's usual funding assistance rates for 2014/15.***

*Finally, FARs for metro rail will continue on their current glide path from 60%.*

### Total Mobility Services

*Some councils held the view that they only deliver some or all total mobility services 'on behalf' of the Crown or the NZ Transport Agency. In addition, some submission noted there have been a number of changes in technology and in the sector since the current total mobility services scheme was developed. In response, we've retained the current rates for total mobility services for the 2015-18 NLTF period but this is a transitional measure only, and we will be reviewing this operational policy.*

### Special Purpose Roads

*Feedback on this issue indicated significant concern with the proposal to apply your normal funding assistance rate to special purpose roads, rather than the current higher rates you are receiving for a range of historic reasons. Concerns were around the prospect of a significant drop, the current state of those roads, and more philosophically, that their history and the nature of their use demanded continuing current funding levels.*

*Given the functions of these roads, eg in many cases serving public conservation estates, and the fact that some of these roads were former state highways, it's important councils have sufficient incentives to seek efficiencies and value for money in how special purpose roads are managed. The current system doesn't deliver this and this is the reason for the decision to transition the rates to a council's normal assistance rate.*

*However, the Board recognises that this could have a significant effect for some councils. Therefore, a special arrangement will be used to transition the rates for special purpose roads separately from the transition process used for the relevant council's normal FAR.*

*We'll be holding individual discussions with those affected councils to discuss this transition, taking into account: the current and appropriate levels of service for that road; whether significant expenditure is required in the next few years, and if so, what programme needs to be put in place to address those issues; possible use of targeted enhanced FARs for a limited timeframe; the transitional arrangements for FARs for these roads; and whether or not control of the carriage way should be transferred to DOC where that road runs through and terminates in the Crown conservation estate.*

## DECISION 5 SPECIFIC ACTIVITIES

The NZ Transport Agency Board confirms:

### Emergency Works

- i. From the 2015-18 investment period, onwards elevated emergency works funding assistance rates will only apply to eligible immediate responses, reopening and reinstatement activities where an approved organisation incurs significant expenditure in responding to an out of ordinary short duration event that is unusual, or of unusually large magnitude or severity, for the particular area where it occurs - a 'qualifying event'.
- ii. An approved organisation's eligible costs in responding to a natural event that is not an out of ordinary short duration natural event for the particular area where it occurs will be funded at the approved organisation's normal funding assistance rate.
- iii. An approved organisations eligible costs in responding to a qualifying event up to an amount equal to 10% of the costs of the approved organisation's approved road maintenance, operations and renewals programme for the year in which the qualifying event occurred will be funded at its normal funding assistance rate.
- iv. Any eligible costs an approved organisation incurs in responding to a qualifying event over and above an amount equal to 10% of the costs of its approved road maintenance operations and renewals programme for the year in which the qualifying event occurred will be funded at the approved organisation's elevated emergency works funding assistance rate.
- v. An approved organisation's elevated emergency works funding assistance rate will be its normal funding assistance rate plus 20 (up to a maximum elevated emergency works funding assistance rate of 95%).

### Department of Conservation

- vi. Following the completion of the transitional arrangements (over none years starting in the 2015-16 financial year) eligible land transport activities in relation to the following Department of Conservation carriageways will be funded at 52% - the existing Tasman Valley Road, Fox Glacier Access Road, Glacier View Road, and Franz Josef Glacier Access Road and Hopuruahine Landing Access Road special purpose roads that are legally local road.
- vii. For the 2015-18 NLTF investment period and onward, a 0% funding assistance rate will apply to all other existing Department of Conservation special purpose roads (Sandy Bay Access Road, and the Bruce special purpose road).
- viii. At the request of the Department of Conservation, the NZ Transport Agency will consider whether or not eligible land transport activities in relation to any other specific carriageway(s) managed by the Department of Conservation should be funded at 52%.

### Waitangi National Trust

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

### Administration costs

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

### Level Crossing Warning Devices

- xii. In principle a local authority's share of the costs of level crossing warning devices at local road/rail level crossings should be funded at the council's normal funding assistance rates.

## COMMENTARY

*Currently, enhanced emergency FARs are sometimes being applied to a council's costs of responding to natural events that are relatively common in the area where they occur. Most of the submissions supported the principle that elevated emergency works funding assistance rates should only apply to clean up and reinstatement following out of the ordinary short term natural events. This decision clarifies the principles around emergency works funding.*

*However, as many of you sought more detail on how the approach will work in practice. In response we will revise the current emergency works operational policy in line with these principles above. We'll engage with you on the detail of how those policies will be applied.*

### Department of Conservation, Waitangi National Trust, Administration costs and Level Crossing Warning Devices

*Currently, for a range of historic reasons and agreements, the Transport Agency covers 100% of the relevant council's share of the costs of installing and operating warning devices on local road/rail level crossings. Several submissions expressed a view that these historic agreements should stay in place, on the basis that local authorities feel they have little influence over the programme for installing and upgrading these devices.*

*Level crossing warning devices provide benefits to local communities in the same way that all other parts of the local network do. We want to ensure that local authorities have sufficient incentive to seek efficiencies and value for money in how level crossings are managed.*

*Therefore in principle, a local authority's share of the costs of level crossing warning devices at local road/rail level crossings should be funded at the council's normal FAR. The Transport Agency will work with KiwiRail to investigate an appropriate FAR system for level crossing warning devices.*