



**NZ TRANSPORT AGENCY**  
WAKA KOTAHI

## ***FAR Review***

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### **Summary of Submissions on the Discussion Document**

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Prepared by:  
Siobhan Bakker, Alastair Farr (MoT) and Clare Sinnott

## Contents

1 Introduction.....	3
2 Main Themes in the Submissions.....	6
3 Submissions on Process .....	7
4 The Role of Funding Assistance Rates and Principles.....	8
5 Submissions on Overall Approaches .....	26
6 Submissions on the <i>Status Quo</i> .....	32
7 Other Matters which Submitters ask to be reviewed.....	39
Appendix - Submitters .....	40



# 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 NZ Transport Agency (NZTA) must set funding assistance rates.

The last major changes to how the NZTA sets funding assistance rates were made in 1979-1980 – more than 30 years ago. Recently the NZTA has received a lot of feedback around whether the current approaches to setting funding assistance rates are still appropriate today.

The NZTA is taking a first principles look at the funding assistance rates setting process. The outcomes of the review, whether they include changes to how the NZTA sets funding assistance rates or not, are intended to come into effect in the 2015-18 National Land Transport Programme.

## 1.2 Consultation Process

The NZTA has adopted a two-stage consultation approach to the funding assistance rates review:

- Consultation on a Discussion Document 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 NZTA could take to setting funding assistance rates, and
- A second round of consultation, which will be undertaken in late 2013/early 2014, on options for specific methods for setting funding assistance rates and what those various options would actually mean for different stakeholders.

This document summarises the submissions received in the first round of consultation.

The Discussion Document was published on the NZTA's external website on 4 March 2013. It identified eight overall approaches that could potentially be taken in 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 NZTA could use and any additional principles the NZTA should use in assessing the overall approaches.

Letters were sent to all Approved Organisations (local authorities, the Department of Conservation and the Waitangi National Trust Board) in the week beginning 4 March 2013 advising them that:

- The consultation period had commenced,
- The Discussion Document was available on the website.
- The period for making a written submission on the overall approaches the NZTA should use in setting funding assistance rates (and the principles it should use in assessing various overall approaches) closed at 5pm on 3 May 2013.

The letter included an offer for NZTA staff to meet with the stakeholders to discuss the review if they wished to do so.

The same letter (or where no postal address was identified – an equivalent email) was sent to a range of other stakeholders.

Communications on the consultation period were largely driven by staff in the NZTA's Planning & Investment Business Unit based in the relevant regional offices. Communications with some national level stakeholders such as the Bus and Coach Association and Roving New Zealand were led by NZTA National Office staff.

Briefings were given to a range of Regional Transport Committees, local authorities and other stakeholders – such as the Waitangi National Trust Board. Briefings were also given at some Local Government New Zealand zone meetings and a Road Controlling Authorities Forum meeting.

Submissions could be made by using an online submission form on the NZTA’s website, by email or by post.

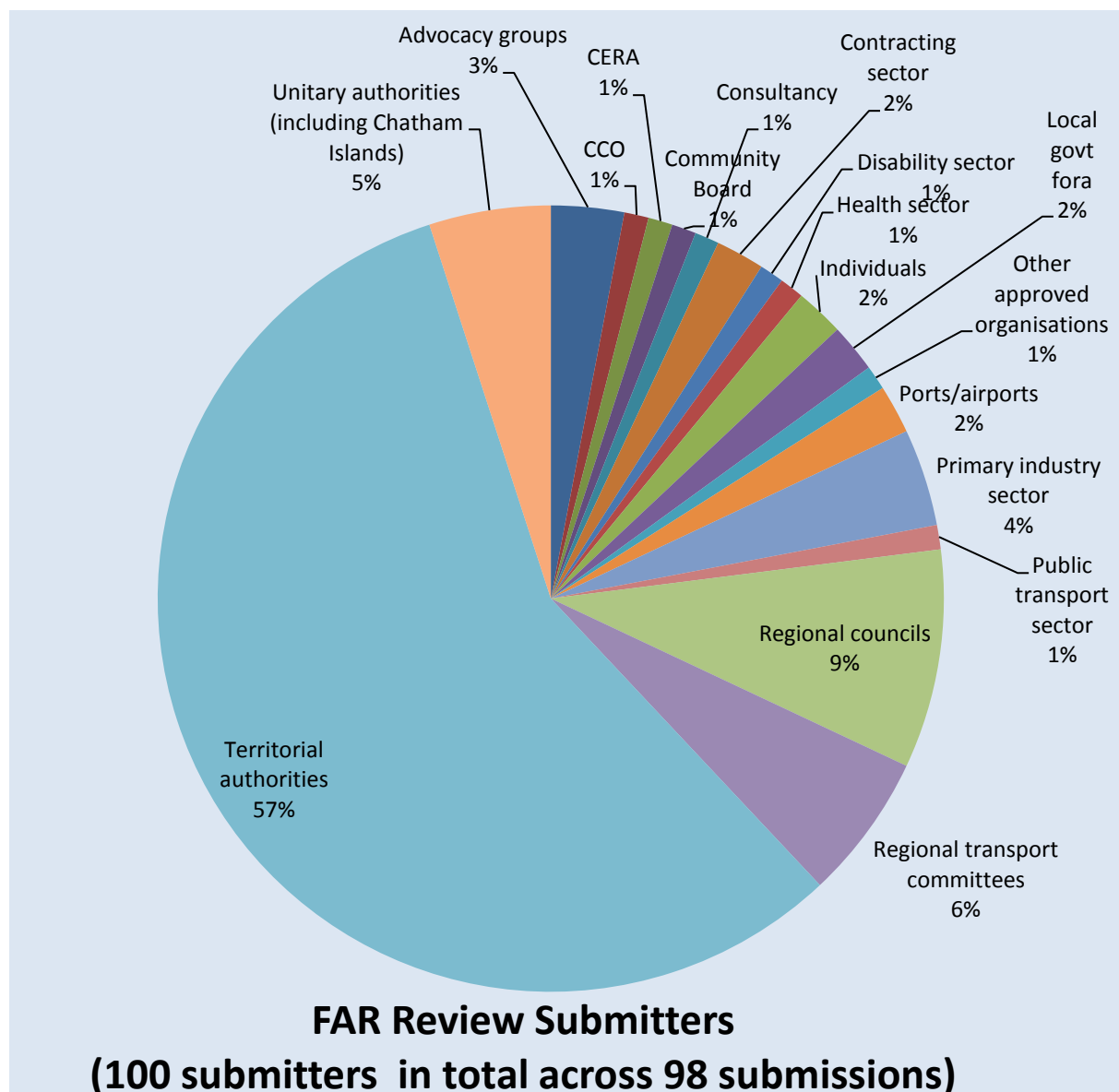
### 1.3 Submissions Received

Ninety eight submissions were received on the Funding Assistance Rates Review Discussion Document.

There are two submitters who have each provided two submissions and two of the submissions are joint submissions made by a number of local authorities.

Only five territorial/unitary authorities did not make individual submissions on the review. Two of those authorities are members of the Waikato Mayoral Forum – and the Waikato Mayoral Forum made a submission on the review.

Six Regional Transport Committees made submissions. Nine non-unitary regional councils made submissions either as well as, or instead of, there being a submission from the relevant Regional Transport Committee.



## 1.4 Analysis of Submissions

When analysing submissions:

- Where a submitter made two submissions we only counted each point they made in their submissions once, even if they repeated that point in their second submission.
- Submissions made by Regional Transport Committees and the submission made by the Waikato Mayoral Forum were each treated as if they were made by one submitter. This was because most of the individual Councils who are members of those fora also made individual submissions.
- Where there was a joint submission made by a number of local authorities each point in that submission was treated as having been made by each individual local authority separately – i.e. where a submission was made on behalf of three local authorities each point in that submission was treated as having been made by three submitters. This was practicable to do in this case because there were only two joint submissions and they were made by only six local authorities in total.
- Where a submission included a positive statement that the submitter supported the points made in another submission, that supporting submission was treated having made all the points made in the submission they supported. (Where the supporting submitter made exactly the same point again in their own individual submission the point was treated as having only been made by the submitter once).

## 1.5 Report Structure

This report summarises the submissions and is set out as follows:

- Section 2 provides an overview of main themes in the submissions
- Section 3 notes submissions on the process that has been used for the review
- Section 4 summarises the feedback on what the role of funding assistance rates is, or should be, and on the principles the NZTA should use in assessing the overall approaches for setting funding assistance rates
- Section 5 summarises the feedback received on overall approaches the NZTA could take in setting funding assistance rates
- Section 6 summarises submitters' comments on the current system for setting funding assistance rates, the *status quo*
- Section 7 notes other matters which submitters have asked to be reviewed
- Appended to this report is a list of submitters.



## 2 Main Themes in the Submissions

Many (but not all) local authorities, and local authority fora, expressed the views that:

- The status quo should be retained, or retained with only some tweaking/ improvements
- Funding assistance rates should be treated as being part of a partnership/co-investment approach to funding the land transport system, rather than as a subsidy from central government
- The key issues for them are affordability and certainty of funding.

As a result most local authorities supported some form of Differences Approach being used in setting funding assistance rates. However, there was support for public transport activities to continue to be funded on a Flat Approach on the basis that that is simple and certain.

A group of local authority sector submitters expressed the view that 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 land transport outcomes. This group was of the view that influencing decisions and outcomes is the role of other parts of the land transport funding system. However, the submissions received from individuals and groups outside the local government sector, and a couple of local authorities, considered it appropriate for funding assistance rates to be deliberately used to seek to achieve certain outcomes that would be beneficial for either the land transport system or society more broadly.

Another key theme was that if any changes are made to funding assistance rates, those changes should be transitioned in very gradually.



## 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 NZTA was considering.

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.

### 3.2 Better Business Case and Investment Logic Mapping

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 NZTA 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.

### 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 impact each approved organisation.

### 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”.

### 3.5 Transition

A key theme in the majority of submissions was that, if the NZTA 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.

### 3.6 Composition of the FAR Review Reference Group

To assist with the review the NZTA has set up a reference group which 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.

## What are a Better Business Case model and Investment Logic Mapping?

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.

## 4 The Role of Funding Assistance Rates and Principles

### 4.1 Background

One of the Objectives of the Review is “to determine the role(s) 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)”.

The Discussion Document noted that when the NZTA decides what overall approach (or combination of overall approaches) it should take in setting funding assistance rates going forward, it will do so by assessing the various possible overall approaches against a set of principles.

The Document then listed eight principles that the NZTA had identified and asked:

- Are these principles appropriate? Why/why not?
- What other principles should be taken into account in determining which overall approach(es) to adopt in setting funding assistance rates?
- Which principles are the most important and, therefore, should be given the most weight when the NZTA decides what overall approach(es) to take in setting funding assistance rates?

The eight principles identified in the Discussion Document were that the approach used in setting funding assistance rates should:

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

### 4.2 Submissions on the role of funding assistance rates

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

#### 4.2.1 Co-investment/partnership

There was general agreement that funding assistance rates are a co-investment tool. Two submitters referred to them as being “an agreement between local government and central government on the best approach for co-investing in high quality transport infrastructure and services to deliver the best transport outcomes for New Zealand”.

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.



## **4.2.2 The role of funding assistance rates in influencing approved organisations' decisions/outcomes**

There was a divergence of opinion 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. Several of these submissions said that this was because transport outcome related matters are provided for at the time a project or programme is considered for funding eligibility.

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

## **4.2.3 Assisting approved organisations to fund their communities' aspirations/strategic priorities or achieving outcomes sought by central government?**

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 (as well as the national strategic priorities for transport determined by central government).

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 NZTA 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 NZTA shares costs with local government, the NZTA is to achieve outcomes sought by central government and is accountable to central government.

## **4.3 General comments made in relation to the Principles**

### **4.3.1 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 options. Some of these submitters commented that this was particularly the case given that some of the principles are statutory obligations the NZTA is required to consider under the Land Transport Management Act 2003.

Another submitter considered the principles to be too general because, as currently worded, they could include judgement factors.

### **4.3.2 Principles too focused on NZTA's obligations**

A couple of submitters considered that the NZTA 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.

### 4.3.3 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.

### 4.3.4 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.

### 4.3.5 Priority principles should be identified

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

### 4.3.6 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 principle - one commenting that all of the principles should stand in their own right.

## 4.4 Submissions on the individual principles identified in the Discussion Document

The submissions received on:

- Whether or not the principles identified in the Discussion Document are appropriate, and
- Which of those principles are the most important and should be given the most weight,

are summarised below.

Some of the submissions did not comment on the individual principles identified in the Discussion Document and some submissions only commented on some, not all, of the principles.



#### 4.4.1 Submissions on the value for money principle

	Principle should be given		Support the principle but no weighting suggested	Support with amendments	Not an appropriate principle
	High weight/importance	Lower weight/importance			
<b>Submitters</b>	12  (Including: 3 - who commented that the principle should take into account a number of factors including cost, quality, time and appropriateness  1- who considered that it should give full weight to environment, health and social wellbeing  1 - who commented that funding assistance rates should not be the sole mechanism through which value for money is sought)	3	9  (Including 1 who supports the principle so long as it is consistent with, and does not duplicate, the other systems in place for achieving value for money)	6 in total  2 - seeking for it to be reworded to "Value for money and financial prudence" <sup>1</sup>  1 - seeking for it to be split into two - "value for New Zealand Inc." and "value to the local community" <sup>2</sup>  1 - seeking for the reference to the National Land Transport Fund to be removed  2 - seeking for it to be split into two - "optimising whole of life asset decisions" and "enabling GPS outcomes")	19 in total  11 - who considered it replicated other mechanisms in the land transport funding system  1 - who considered it was not the role of funding assistance rates to seek value for money  2 - who considered it is not an appropriate assessment for funding  1 - who considered that it was more effectively achieved as part of the NZTA approval process  2 - who considered it not relevant to funding and that there are other mechanisms within the funding system which consider this (plus it is open to broad interpretation)  1 - who commented that value for money is taken into account by Council asset planning and level of service decision-making  1 - who commented that seeking to do this with funding assistance rates would add a degree of unnecessary complication and questioned what value it would add to the process

<sup>1</sup> These submitters considered that this reworded principle should be one of the most important principles.

<sup>2</sup> This submitter commented that these two amended principles should be some of the most important principles.

#### 4.4.2 Submissions on the whole of network approach principle

	Principle should be given		Support the principle but no weighting suggested	Support with amendments	Not an appropriate principle	Questioned or commented on the principle but did not actively oppose it
	High weight/importance	Lower weight/importance				
Submitters	20  (Including 1 who commented that this was if the principle gave full weight to the environment, health and social wellbeing)	9  (Including 1 who commented that the development of public transport, other than very targeted services, in rural areas is problematic and of questionable long term value)	14  (Including: 1 - who 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  1 - who 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.)	17 in total  16 - who sought the addition of specific references to the contributions of both rural and urban networks including their contribution to economic outcomes  1 - who sought the addition of the above plus a specific reference to export related traffic	1 - who considered that this principle was more effectively achieved as part of the NZTA approval process for determining the size of local authority land transport programmes	1 - a Council, who commented that their land transport network only includes roads not rail or public transport

#### 4.4.3 Submissions on the relative interests and benefits principle

	Principle should be given		Support the principle but no weighting suggested	Support with amendments	Not an appropriate principle	Questioned or commented on the principle but did not actively oppose it
	High weight/ importance	Lower weight/ importance				
<b>Submitters</b>	4	5	6	21 in total	5 in total	1 - who 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
	<p>(Including : 1 - who commented that this principle requires an examination of the distribution of costs between road users and ratepayers both on a horizontal equity and vertical equity basis</p> <p>1 - who commented that economic theory implies that those who benefit should pay, thus signalling demand and providing the funding.)</p>		<p>(Including 1 who commented that this principle means that the amount individual ratepayers pay for roading across New Zealand is allocated in a fair and even manner and reflected in the funding assistance rates calculation)</p>	<p>3 - who commented that there must be recognition that everyone benefits from the roading network, whether they directly use it or not, and that the principle needs to recognise not only the ratepayers but the community as a whole</p> <p>1 - who sought the removal of any reference to interests and benefits of ratepayers and replacement with a reference to the contributions made by approved organisations, and removal of references to the interests of, or benefits received by, users of the land transport system</p> <p>7 - who sought for the principle to be amended as above, plus inclusion of a reference to there being a partnership model between approved organisations and the NZTA</p> <p>6 - who sought for the principle to be amended to read “recognise that taxpayers, local government ratepayers and, for public transport activities, fare payers all jointly fund land transport activities and that central and local government’s role is one of an investment partnership”</p>	<p>1 - who opposed transport services being delivered on a user pays basis and considered that use of the word “ratepayers” did not take into account the interests of tenants and that the principle did not take into account the costs transport users impose on society</p> <p>1 - who commented that the principle does not recognise the partnership nature of the relationships between central and local government and the contribution made by ratepayers to the funding system</p> <p>2- who said that road users and the community are fundamentally the same</p> <p>1 - who said the principle should be replaced by one</p>	



Principle should be given		Support the principle but no weighting suggested	Support with amendments	Not an appropriate principle	Questioned or commented on the principle but did not actively oppose it
High weight/ importance	Lower weight/ importance				
			<p>1 - who suggested that the words “and benefits received by” should be deleted from the principle because they consider that ratepayer interests correlate closely to road use.</p> <p>1 - who 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 but that the principle should include wording to reflect the partnership model between joint funding agencies and that 50/50 funding goes hand in hand with 50/50 decision making.</p> <p>1 - who considered that the principle should be amended to include a reference to taking into account an approved organisations’ own strategic direction<sup>3</sup></p> <p>1 - who considered that the principle should be extended to reflect the partnership arrangement between the NZTA and local government</p>	which refers to ability to pay	

<sup>3</sup> This submitter considered that particular consideration should be given to this amended principle.

#### 4.4.4 Submissions on the financial responsibility principle

	Principle should be given		Support the principle but no weighting suggested	Support with amendments	Not an appropriate principle	Questioned or commented on the principle but did not actively oppose it
	High weight/importance	Lower weight/importance				
<b>Submitters</b>	7  (Including 1 who interpreted the principle to mean that investment would be focused on roads that support the economy)	5	9  (Including 1 – who supported it as long as it is consistent with, and does not duplicate or attempt to supersede, the other systems in place for achieving value for money  1 – who considered that the principle should include accountability for spending)	4 in total  2 – who considered it should be reworded as “financial prudence” and combined with the value for money principle  1 – who considered that it should be amended to “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”  1 – who considered that the principle should include demand pricing	19 in total  13 – who said it was replicating other mechanisms in the land transport funding system  1 – who considered that it is not an appropriate assessment for funding  1 – who considered it not relevant to funding assistance rates and that there are other mechanisms within the funding system that consider the issue  1 – who said that the principle already overarches the transport activity and, therefore, should not form part of the funding assistance rates process or should be merged with the value for money principle  3 – who consider that all the approaches are financially responsible, therefore, it does not provide a basis for distinguishing between approaches	5 in total  3 – who considered it to be covered by one or more of the other principles  2 – who were uncertain as to how it would be applied to funding assistance rates

#### 4.4.5 Submissions on the social and environmental responsibility principle

	Principle should be given		Support the principle but no weighting suggested	Support with amendments	Not an appropriate principle	Questioned or commented on the principle but did not actively oppose it
	High weight/ importance	Lower weight /importance				
<b>Submitters</b>	19  (Including 3 who 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 which could cause a detrimental effect to future generations, social responsibility should be determined depending on the characteristics of each community and that initiatives must be able to be sustained by the relevant communities.	6  (Including: 1 - who commented that they were not sure how the principle would reflect on funding assistance rates  1 - who commented that environmental responsibility is often compromised through a lack of funds available to maintain adequate stormwater and runoff from large unsealed networks into rivers and harbours)	10	19 in total  1 - who 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 and improving health.  1 - who suggested that the principle be amended to include a specific reference to health  12 - who considered that the principle should be amended to "facilitate social and environmental responsibility	1 - who considered that the principle already overarches the transport activity and, therefore, should not form part of the funding assistance rates process	3 in total  2 - who commented that clear criteria need to be developed for assessing how well each approach fits the principle  1 - who commented that they were uncertain how this principle would specifically be applied to funding assistance rates

Principle should be given		Support the principle but no weighting suggested	Support with amendments	Not an appropriate principle	Questioned or commented on the principle but did not actively oppose it
High weight/ importance	Lower weight /importance				
			<p>to be exhibited”.</p> <p>1 - who submitted that the principle as worded was too weak and should give full weight to environment, health and social wellbeing.</p> <p>3 - who considered that the principle should be amended to include a specific reference to safety</p> <p>1 - who commented that it is unclear how this principle would be used in a comparative consideration of the approaches and that it might be more usefully be reworded as “to support the provision of services which maintain a relevant level of service for current and expected future users”</p>		

#### 4.4.6 Submissions on the efficient to apply principle

	Principle should be given		Support the principle but no weighting suggested	Support with amendments	Not an appropriate principle	Questioned or commented on the principle but did not actively oppose it
	High weight/ importance	Lower weight/ importance				
<b>Submitters</b>	9 <sup>4</sup>	8	15  (Including 1 who commented that, while they supported the principle, it should not be at the expense of fairness to stakeholders in relation to cost sharing and consistency of standards across the whole network)	15 - who considered that the principle should be amended so that it specifically referred to the system being simple to apply	1 - who commented that the principle already exists through NZTA's funding requirements and, therefore, should not form part of the funding assistance rates process; and that in real terms and value the relative cost of using the system will be small. The important aspect is that the system is fair and can be applied with equity across all approved organisations	2 in total  1 - who commented that the ease of managing funding if different funding assistance rates apply to one road controlling authority needs to be considered.  1 - who considered that the principle was part of the value for money principle, which they supported

<sup>4</sup> One submitter considered that it was crucial that any approach to setting funding assistance rates was not contrary to this principle.



#### 4.4.7 Submissions on the transparency principle

	Principle should be given		Support the principle but no weighting suggested	Support with amendments	Not an appropriate principle	Questioned or commented on the principle but did not actively oppose it
	High weight/ importance	Lower weight /importance				
<b>Submitters</b>	20  (Including 6 who stated that any options that rely upon incomplete data containing unfounded assumptions, incomplete policy frameworks, or require judgments to be made are not acceptable)	6  (Including 1 who stated 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)	25  (Including 1 who noted that any system based on current data has the potential to be flawed if it cannot allow for seasonal variations and growth)	3 - who considered that the principle should be amended to also include a reference to funding assistance rates being predictable and reliable.	0	1 - who considered this principle to be part of the value for money principle, which they supported

#### 4.4.8 Submissions on the balance between certainty and agility principle

	Principle should be given		Support the principle but no weighting suggested	Support with amendments	Not an appropriate principle	Questioned or commented on the principle but did not actively oppose it
	High weight/importance	Lower weight/importance				
Submitter	8	7  (Including 3 who commented that certainty is more important to them than agility as it helps them to deliver on long term plans)	11	17 in total <sup>5</sup>  1 – who considered that a specific reference to the planning done by territorial authorities in looking after their networks should be included in this principle  1 – who considered that the principle should also refer to stability  1 – who considered that the principle should refer to consistency  13 – who considered that the principle should be amended to read “provide funding certainty and stability to approved organisations to support long term investment decisions, asset management planning, and ongoing maintenance and operation of the land transport network. 6 of these submitters, and one other submitter, commented that the NZTA should make no changes to funding assistance rates between long term plans.  1 – 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.	0	3 in total  1 – who commented that certainty of funding is one of the attributes which the funding assistance rates system should have  1 – who commented on the importance of an approach which is stable and consistent and allows approved organisations to plan and implement land transport activities with certainty  1 – who commented that the NZTA should aim for funding assistance rates to provide stability and certainty of funding for approved organisations

<sup>5</sup> One submitter considered that it was crucial that any approach to setting funding assistance rates was not contrary to an amended principle of providing funding certainty and stability for local authorities.

## 4.5 Other Principles suggested by Submitters

The submissions that identified other principles that the NZTA should take into account in determining which overall approach(es) to adopt in setting funding assistance rates are summarised in the Table below.

Theme behind the proposed principle	No. Submitters <sup>6</sup>	Suggested wording (if any)	Comments on the importance/weight that should be given to the principle
Affordability/ability to pay	35 <sup>7</sup>	<p>“Take into account affordability for local government and recognise differences among communities’ ability to pay”</p> <p>“Fairness and equity based on network need and ability to pay”</p> <p>“Recognise that there will be variation between local authorities in both need and ability to contribute to the cost of developing and maintaining the transport network”</p> <p>“Recognise the impact on local government affordability and the limits on increasing local funding from rates”</p>	<p>One submitter considered that it was crucial that any approach to setting funding assistance rates was not contrary to this principle.</p> <p>6 other submitters considered that this principle was one of the most important principles.</p>
Dependence by local authorities on the NLTF	1	“Recognise the dependence of local authorities on the National Land Transport Fund and their need for certainty.”	
Fairness and equity	8	<p>“Fairness and equity based on network need and ability to pay”</p> <p>“Fairness and equity”</p> <p>“The approaches chosen must be the most fair and equitable across a country of diverse circumstances”</p> <p>“Social equity – greater financial assistance for those with greatest need”</p>	3 submitters commented that this should be one of the most important principles.
Appropriate level of investment	1	“Sharing the significant cost of building and maintaining roads with local government and preventing inadequate or excessive investment”	

<sup>6</sup> Some submissions are counted more than once in this Table – e.g. if a submission sought for a principle which referred to both ability to pay and need it will be recorded as both a submission seeking a principle relating to ability to pay and a submission seeking a principle relating to need.

<sup>7</sup> Note – in contrast on submitter suggested that, in the medium term, collaboration/clustering across the sector and upskilling of local authorities may mean that delivery of road works and services through smaller local authorities has substantially reduced and ability to pay may no longer be as relevant.

Theme behind the proposed principle	No. Submitters <sup>6</sup>	Suggested wording (if any)	Comments on the importance/ weight that should be given to the principle
Cost sharing/ collaboration	2	“Sharing the significant cost of building and maintaining roads with local government and preventing inadequate or excessive investment”	
Transport system benefits	1	“Recognise that the revenue that supports the National Land Transport Fund is funds collected from users of the transport system that needs to be used for the benefit of the transport system”.	
Sustainability/no decline in safety or levels of service	9	<p>“Contribute to a sustainable transport system, ensuring no decline in safety and levels of service over time”</p> <p>“To continue to sustainably maintain the large past investment in key transport networks in an efficient manner”</p> <p>“To continue to maintain existing under-utilised infrastructure to allow future generations the choice of development options including oil and gas exploration and production, windfarms and more intensive agricultural operations, including forestry”.</p> <p>“Sustainability in relation to approved organisations having the ability to provide appropriate levels of service given the level of investment available”</p> <p>“To support the provision of services which maintain a relevant level of service for current and expected future users”</p> <p>“Financial sustainability - an adequate funding assistance rate to provide a sustainable and affordable level of service”</p>	4 submitters considered that this principle was one of the most important principles.
Consistent/balanced levels of service	4	<p>Aiming to achieve a set standard or minimum standard across the country.</p> <p>“The services received must be appropriate and balanced between all communities”</p>	One submitter considered that the principle of aiming to achieve a set standard was a very important principle.
Network resilience	1		
Recognising the responsibilities of local authorities under the LGA	7	“Recognise the responsibility of Councils to provide services for their communities”	4 submitters considered that this principle was one of the most important principles.

Theme behind the proposed principle	No. Submitters <sup>6</sup>	Suggested wording (if any)	Comments on the importance/weight that should be given to the principle
Economic potential/development/growth	6	<p>“Be used to realise economic potential or development”</p> <p>“Recognise the need for regional integration of transport infrastructure with community infrastructure to support community and economic development opportunities”</p> <p>“Encouraging economic growth and productivity through improved access and opening up areas for production and settlement”</p> <p>“The importance of the contribution of transport to local and regional economies and economic development, including future economic development”</p> <p>“The importance of economic development and in particular the contribution to the local and regional economy”</p>	2 submitters commented that this should be one of the most important principles.
Economic contribution of an area	4		
Providing for exports	1	“The need to ensure that reliable access is maintained for the output of the major export products that drive the New Zealand economy”	
Tourism	1	“Provide safe and reliable access to the conservation estate and remote rural communities to support the New Zealand Tourism Strategy 2015”.	
Safety	4	<p>“Support the network to be made safer for all”</p> <p>Reference to WHO road safety targets and the strategic importance of the safe system in Safer Journeys</p> <p>“Maintaining safety levels on New Zealand’s rural roads”</p>	<p>One submitter stated that the safer for all principle should be one of the principles that was given the most priority.</p> <p>Two submitters considered that the principle of maintaining safety levels on New Zealand roads should be one of the principles given the most weight.</p>



Theme behind the proposed principle	No. Submitters <sup>6</sup>	Suggested wording (if any)	Comments on the importance/ weight that should be given to the principle
Need	6	<p>“Fairness and equity based on network need and ability to pay”</p> <p>“Social equity – greater financial assistance for those with greatest need”</p> <p>“Recognise that there will be variation between local authorities in both need and ability to contribute to the cost of developing and maintaining the transport network”</p>	One submitter commented that need was one of the principles that is most important.
Diversity	8	<p>“Recognising diversity”</p> <p>“Recognise that there will be variation between local authorities in both need and ability to contribute to the cost of developing and maintaining the transport network”</p> <p>“There must be recognition that each community is different and has different needs”</p> <p>“Recognition that each community is different and has different needs”</p>	One submitter considered that this was one of the principles that should be given the most weight.
Rural New Zealand	2	“Recognising the distinctiveness of rural New Zealand and its economic contribution”	
Not abandoning rural New Zealand	2	“Not encouraging people to abandon rural communities through there being lower levels of service on rural roads”.	These submitters considered that this principle should be one of the principles given the most weight.
Population change	1		
Economic efficiency	2		
Regional strategies/priorities	2	“Advance national and regional/local strategic priorities”	
Funding distinction between maintenance and capital works	1		
Consistency	1		
Manageable change/moderation	9	“Ensure appropriate transitional provisions for changes to funding assistance rates, with no more than a 1-2% change in FAR/year”.	
Public transport	1	The importance of encouraging passenger growth through the proliferation of public transport	

<b>Theme behind the proposed principle</b>	<b>No. Submitters<sup>6</sup></b>	<b>Suggested wording (if any)</b>	<b>Comments on the importance/weight that should be given to the principle</b>
Long term nature of assets	1	“Recognition of the continuous and long term nature of transport assets and hence their ongoing costs”	
Access	1	“Recognise the fundamental importance of access to and connections with the transport system”	
Any changes must deliver better outcomes	1	“Any new funding assistance rates scheme, or modifications to the current scheme, should be likely to deliver better outcomes than the existing scheme”.	

## 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 (eg rates revenue).
  - Differences in the intrinsic costs in undertaking land transport activities in different areas, due to factors such as topography, climate, and geology.
  - Differences in the demands placed on approved organisations due to things like the percentage of heavy vehicle traffic on their network(the ‘differences approach’).
3. Different 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’).

The Discussion Document asked:

- What other overall approaches could the NZTA take in setting funding assistance rates?
- Do you agree with the advantages and disadvantages of each overall approach identified in the Discussion Document? Why/why not?
- Are there any other advantages or disadvantages which are not identified in the Discussion Document?
- To what extent do you consider that the different overall approaches would, or would not:

- Be consistent with seeking value for money from investment of the National Land Transport Fund?
- Support a whole of network approach to a land transport network for New Zealand?
- Recognise the interests of, and benefits received by, ratepayers and users of the land transport system?
- Be consistent with the NZTA acting in a financially responsible manner?
- Allow social and environmental responsibility to be exhibited?
- Be efficient to apply?
- Be based on clearly identified principles and accessible and reliable evidence/data?
- Strike an appropriate balance between providing certainty for approved organisations and being agile enough to respond to change?
- How do you think the various overall approaches would affect the New Zealand land transport system?
- How do you think the various overall approaches would affect you or your organisation?
- Which overall approach, or combination of overall approaches, do you think the NZTA should apply in setting funding assistance rates? Why?

## 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.

## 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.

## 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.

While 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, using it in isolation for funding assistance rate purposes was generally thought to be risky (being likely to result in volatility) and seen as not supporting a whole of network approach. For example, there was some concern that this 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 may be a long process, but that it would be 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 for which they obtained the highest funding assistance rates.

## 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. Submitters considered that it was unlikely to be practicable due to difficulty linking the revenue generated to activity on the network. Groups with an interest in active travel, such as cycling, considered that user pays is an insufficient method for allocating transport system resources, preferring instead to consider transport to be a public good that should take into account all users who contribute to creating a balanced multi-modal system and that the Revenue approach would not fully reflect the widespread nature of who benefits from the land transport network. One submitter commented that there are likely to be major problems with the availability and reliability of data on where revenue was generated across the country.

## 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. The Population approach was the least supported of the overall approaches identified in the Discussion Document. Even approved organisations that could 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.

## 5.7 Submissions on the Incentives approach

Reliant on very good data, this 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. Submitters commented that if an Incentives approach was used as a funding tool on its own, there would be the potential to create uncertainty and complexity.

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 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.



## 5.8 Submissions on the Contribution approach

Submitters considered that this approach would provide an advantage to areas that are already economically strong and disadvantage those areas which 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 the approach would incentivise poor land use decisions and distort land use decisions by approved organisations in neighbouring districts. It was also noted that the approach would:

- Require an area's relative contribution to the economy to be assessed at 3 yearly intervals which would create uncertainty for long term business activities, and
- Would not recognize the non-economic benefits of the land transport network such as social benefits.

## 5.9 Submissions on the Relative Benefits approach

All submitters who commented on this approach agreed it would be costly and complex to establish and administer. There were concerns around the potential reactive responses by industry resulting in negative impacts on economic growth in some areas. Some local authorities disagreed with a comment in the Discussion Document that this approach might encourage approved organisations to attract State highway traffic onto their networks. It was unpopular with approved organisation submitters because it does not take account of need, contribution to the economy or ability to pay and 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. Another submitter commented that who benefits is less important than approved organisation's relative need or ability to raise revenue. Another 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. One submitter said that the approach was flawed because it was "inputs" and not "outputs" based.

However, 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 the 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.

## 5.10 Other suggested overall approaches

Other approaches to setting funding assistance rates suggested by submitters were:

- Bulk funding – the NZTA paying a certain amount of money to an approved organisation upfront and then the approved organisation retaining any of that money that was left over if it managed 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.
- A 'collective good' approach – which would respond to the fact that residents of one local authority use and rely on neighbouring local authorities' roading networks.
- 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 a 1% higher funding for areas with a low economic contribution.
- 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.
- 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%.

## **5.11 Submitters' assessment of the overall approaches against the principles**

A number of submitters assessed the eight overall approaches identified in the Discussion Document against either the principles identified in that document or their own proposed amended set of principles. A summary of submitters' assessment of the overall approaches against the principles identified in the Discussion Document is set out in the following Table

## Submitters' assessment of the overall approaches against the principles identified in the Discussion Document

Principles	NUMBER OF SUBMITTERS WHO RATED THE OVERALL APPROACH AS BEING CONSISTENT WITH THE PRINCIPLE								
	FLAT	DIFFERENCES	CLASSIFICATION	REVENUE	POPULATION	INCENTIVES	CONTRIBUTION	RELATIVE BENEFITS	STATUS QUO
1. Be consistent with seeking value for money from investment of the NLTF.	1	2	4	-	1	1	2	2	8
2. Support a whole-of-network approach to a land transport network for New Zealand.	2	5	5	-	-	2	-	-	17
3. Recognise the interests of, and benefits received by, ratepayers and users of the land transport system.	3	28	5	1	-	-	1	-	56
4. Be financially responsible.	-	-	-	-	-	-	-	-	-
5. Allow social and environmental responsibility to be exhibited.	1	2	1	-	-	2	1	-	3
6. Be efficient to apply.	12	4	4	1	2	1	1	1	10
7. Be transparent (based on clearly identified principles and accessible and reliable evidence/data).	5	3	4	-	-	-	1	-	12
8. Strike an appropriate balance between providing certainty for approved organisations and being agile enough to respond to change.	4	2	6	-	-	1	-	-	16

## 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 that “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 NZTA demonstrates a compelling need for change and that the amended system will be fundamentally superior to the existing one both in administrative costs and outcomes. Others commented that NZTA would need to show that any change would add value for both central and local government. A specific concern raised 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 NZTA over that data.

### 6.2 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
- **Unclear alignment to strategies** - There is an unclear alignment of the funding assistance rates system with national and regional 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 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
- **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.
- **High compliance costs** - The current system requires considerable input as some low value activities lead to high compliance costs for comparatively little benefit
- **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.
- **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.
- **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 and does not recognise the social and economic interactions that take place within and across local authority boundaries.

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

### 6.3.1 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).

### 6.3.2 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, but queried whether Maori freehold land should also be excluded.

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 but the current system penalises the local community by reducing the funding assistance rate in these circumstances.
- **Not a measure of ability to raise rates revenue** - One submitter commented that, while 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, 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.
- **Doesn't 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.
- **Doesn't 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.

Alternative metrics to reflect ability to pay which submitters suggested the NZTA should explore 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%.

### 6.3.3 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:

- 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.

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. Because of this 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 which submitters suggested the NZTA should explore 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

### 6.3.4 – Application of judgment

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

- The indicative Base FARs for the current and previous two years
- The approved Base FARs for the current and previous two years
- The indicative Base FAR 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 FARs by the NZTA.

### 6.3.5 43% Base FAR floor

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

One submitter expressly sought for this 43% minimum Base FAR to be retained. Another submitted that a minimum Base FAR 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 which are cheaper to maintain to the less dense land transport networks which are more expensive to maintain.

### 6.3.6 50% average FAR

Currently the Base FAR 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 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's district's roads and through traffic are reduced.

In contrast another submitter commented that if this average 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-riding local purposes and this would work against greater total investment in the land transport system.



### **6.3.7 Footpaths and cycleways**

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

## **6.4 The status quo for capital improvements**

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

### **6.4.1 – 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.

### **6.4.2 – 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.

### **6.4.3 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).

## **6.5 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.

Waitangi National Trust 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.

Another submitted that the NZTA 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.

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.

## **6.6 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:

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

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)

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

## 6.7 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 NZTA 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 FAR. Stated reasons for this were:

- There should not be a financial differential by travel mode (bus, walk, cycle, car freight).
- Public transport activities should be at the same level as the Base FAR for the relevant authority because public transport is complementary to the local maintenance 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.

## 6.8 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.

## 6.9 The status quo for road safety and transport planning (including travel demand management)

Currently the funding assistance rates for territorial/unitary authorities' road safety promotion and transport planning activities are 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 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, a couple of other submitters considered that how these rates are set should be reviewed. One commented that:

- The current approach 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.
- The current approach for transport planning is perhaps not reflective of the nature of transport planning.

Another 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.

## 6.10 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.

## 7 Other Matters which Submitters ask to be reviewed

Some submitters asked for other aspects of the land transport funding system which are outside the scope of this review to either be included within the review or made the subject of a separate review/reform. These were:

- How the funding ranges for particular activity classes are set, including how the funding ranges for State highway land transport activities are set relative to the funding ranges for local authorities' land transport activities and how the funding ranges for maintenance activities are set relative to the funding ranges for capital improvements
- 100% funding of State highway maintenance, operations and improvements from the National Land Transport Fund
- The long term revenue streams for transport both at a national and a local level, including the funding streams for total mobility services and whether additional funding for land transport activities should be provided from general taxation, congestion charging or targeted charges on users of new transport projects
- Giving pedestrians the same priority as other people travelling on the land transport network
- Providing flexibility to re-allocate funding between the different activity classes set out in the GPS
- The methods used for measuring and recovering the cost caused by the movement of heavy vehicles on the land transport network
- The amount of National Land Transport Fund revenue allocated to police activities
- Whether road maintenance planning and activities should be managed regionally by regional roading entities.

These are matters which are not within the NZTA's control (for example in order to change the 100% funding of State highway activities from the National Land Transport Fund statutory change would be required to give the NZTA's Highways and Network Operations Business Unit access to a sufficiently certain alternative source of funding).

**Note: Where a submitter has made a positive statement that the scope of the Funding Assistance Rates Review should be broadened to include one or more of these matters (as opposed to making a general comment that the matter should be reviewed) we have written to the submitter advising them why that matter is outside the scope of the review. In those letters we noted that we would be recording the issue they raised in this Summary of Submissions and would provide a copy of this Summary to the Ministry of Transport.**

## Appendix - Submitters

Ashburton District Council  
Auckland Council  
Auckland International Airport Ltd  
Auckland Transport  
Bay of Plenty Regional Transport Committee  
Buller District Council  
Bus & Coach Association New Zealand  
Canterbury District Health Board  
Canterbury Earthquake Recovery Authority  
Canterbury Regional Transport Committee  
Central Hawke's Bay District Council  
Central Otago District Council  
Chatham Islands Council  
Christchurch City Council (staff)  
Clutha District Council  
Cycle Action Auckland  
Dunedin City Council  
Environment Canterbury  
Environment Southland  
Far North District Council  
Federated Farmers of New Zealand  
Gibson, Don  
Gisborne District Council  
Gore District Council  
Greater Wellington Regional Council  
Grey District Council  
Hamilton City Council  
Hastings District Council  
Hawke's Bay Forestry Group  
Hawke's Bay Regional Transport Committee

Horizons Regional Transport Committee  
Horizons Regional Council's Passenger Transport Committee  
Horowhenua District Council  
Human Rights Commission  
Hurunui District Council  
Hutt City Council  
Invercargill City Council  
Kaikoura District Council  
Kaipara District Council  
Kāpiti Coast District Council  
Kawerau, Opotiki & Whakatāne District Councils  
Living Streets Otautahi / Christchurch  
Local Government NZ (2 submissions)  
Mackenzie District Council  
Manawatu District Council  
Masterton, Carterton and South Wairarapa District Councils  
Matamata-Piako District Council  
Mauro, John  
MWH New Zealand Limited  
Napier City Council  
Nelson City Council  
New Plymouth District Council (staff)  
New Zealand Automobile Association  
New Zealand Contractors' Federation  
New Zealand Forest Owners' Association  
Northland Regional Council  
Opotiki District Council  
Otago Regional Council  
Otorohanga District Council  
Palmerston North City Council  
Pan Pac Forest Products Ltd  
Porirua City Council

Port CEO Group  
Queenstown Lakes District Council  
Rangitikei District Council  
Roading New Zealand  
Rotorua District Council  
Ruapehu District Council  
Selwyn District Council  
South Taranaki District Council (staff)  
Southland District Council  
Stratford District Council  
Taranaki Regional Council  
Taranaki Regional Transport Committee  
Taranua District Council  
Tasman District Council  
Taupō District Council (staff)  
Tauranga City Council  
Thames-Coromandel District Council  
Timaru District Council  
Waikato District Council  
Waikato Mayoral Forum  
Waikato Regional Council  
Waikato Regional Transport Committee  
Waimate District Council  
Waipa District Council  
Wairoa District Council  
Waitaki District Council  
Waitangi National Trust  
Waitomo District Council  
Wanganui District Council  
Wanganui Rural Community Board  
Wellington City Council  
West Coast Regional Council

Western Bay of Plenty District Council

Westland District Council

Whangarei District Council