Funding assistance rates (FAR) review

Options discussion document

NZ TRANSPORT AGENCY
WAKA KOTAHI

Safer Journeys

New Zealand Government

OUR PURPOSE

CREATING TRANSPORT SOLUTIONS FOR A THRIVING NEW ZEALAND

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Foreword

Setting funding assistance rates is about determining how to appropriately share the costs of local land transport activities between local government and the National Land Transport Fund.

The local government sector has expressed dissatisfaction with the current funding assistance rates system for a number of years. As a result we said we would undertake a comprehensive review of the approach to setting funding assistance rates.

For more than a year now we have been delivering on that commitment by taking a first principles look at how funding assistance rates are set and applied. We want to make sure that the rates support the work we do together to plan, invest and deliver optimal land transport outcomes.

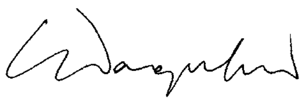
We started the review by looking at the role of funding assistance rates and what principles should sit behind them. We looked at whether the way funding assistance rates are currently set and applied is consistent with that role and those principles. We found that in a number of ways the current system does not fit those principles and as a result we developed a new provisional funding assistance rates framework.

The focus of the provisional funding assistance rates framework is to support optimal national land transport outcomes being achieved within the financial resources available. At the same time we need to make sure that customers experience an integrated and appropriately consistent land transport network throughout New Zealand.

Early next year the Transport Agency will consider the funding assistance rates to apply for the 2015-18 investment period in line with the framework we have developed. In order to make the best possible decisions, we seek local government's (and other stakeholders') views on the different factors and approaches we should use, the trade-offs that will need to be made, and how it should all fit together.

Over the last few months we have developed and modelled a number of options for how the provisional funding assistance rates framework might work in practice. We have included that modelling in this document to enable you to get a feel for what different options might look like both for individual road controlling authorities and for the land transport sector as a whole.

Getting the funding assistance rates system right will enable us to make significant gains in how we co-invest in the land transport system across New Zealand. Your feedback on shaping the system is very important. Many thanks and we look forward to hearing your thoughts.



Geoff Dangerfield
Chief Executive

THE CONTEXT FOR THE FUNDING ASSISTANCE RATES REVIEW

WHAT ARE WE TRYING TO ACHIEVE FROM INVESTING IN LAND TRANSPORT? Setting the strategic context, desired outcomes, direction and priorities	**The Land Transport Management Act** focuses land transport investment decision-makers on effectiveness, efficiency and safety in the public interest. **The Government Policy Statement on Land Transport** sets out the results central government will seek from investment in the land transport sector for at least 10 years. (It also sets out the NLTF revenue likely to be available, and the funding range for each activity class, e.g. local road maintenance, operations and renewals.) **Regional land transport plans (RLTP)** prepared by regional transport committees now combine strategic elements (objectives and policies) as well as land transport programme elements.
IS THIS THE RIGHT ACTIVITY TO INVEST IN? **IS THIS THE RIGHT TIME TO INVEST IN THIS ACTIVITY?** Identifying and investing in the right activities at the right time to achieve our desired outcomes and direction	**The NZ Transport Agency planning and investment signals** – to be upfront as early as possible in the NLTP process the signals inform the sector about the Transport Agency's planning and investment priorities and expectations (including location-based priorities). These signals set out the Road Efficiency Group's (and therefore the NZ Transport Agency's) expectation that all road controlling authorities will have applied the one network road classification to their network by April 2015. **Regional land transport plans (RLTP)** – set out how each region will optimise its land transport programme. **National Land Transport Programme (NLTP)** – a programme of ongoing investment in New Zealand's land transport system. It is focused on delivering outcomes that are clearly aligned to the direction set by the GPS, underpinned by information and evidence to support investment decisions, and optimised in the context of a whole-of-transport system approach. Where a significant change in levels of service is proposed in an asset management plan a business case approach will apply. **The business case approach** – Stakeholders work together to focus on identifying the problem, the consequences and benefits associated with the problem and the wider strategic context (the strategic case), before deciding which interventions (if any) are required. We are working with regional councils to develop guidance on RLTP development consistent with the business case approach. **The Public Transport Operating Model (PTOM)** - Involves regional councils collaborating with public transport operators to plan and deliver public transport services, growing patronage and fare revenue with less reliance on public subsidy (from either local or central government). PTOM provides opportunities for operators to improve services and grow their business through features such as exclusive operating rights, long contract tenure, opportunity to negotiate rather than tender contracts and financial incentive mechanisms. **Regionally distributed funding** – Work is underway to consider options for regionally distributed funding (post 2015). **Economic evaluation manual (EEM)** – The EEM must be used by approved organisations evaluating the economics of a transport proposal to provide an efficiency assessment as part of preparing a funding application to the Transport Agency. An updated EEM has been released.
WHAT IS THE RIGHT LEVEL OF SERVICE/STANDARD TO DELIVER THIS ACTIVITY TO? Investing in the right standard of activity	**The one network road classification** - The approach to network maintenance has shifted away from maintaining networks in line with budgets, to maintaining networks at the level that delivers the best value for money while also delivering fit for purpose customer levels of service as defined in the Road Efficiency Group's one network road classification (ONRC). The ONRC and its associated customer levels of service and performance measures will help to define the 'fit for purpose' standards for roads. It is expected that all road controlling authorities will have applied the ONRC to their network by April 2015. We are currently working with the Road Efficiency Group to develop a range of ways to encourage and incentivise asset management plan review and development.
HOW SHOULD WE SHARE THE COSTS OF A LAND TRANSPORT ACTIVITY? Appropriately sharing the costs of delivering the outcomes for the land transport network	**The funding assistance rates review** – is about how to appropriately share the costs of the New Zealand land transport network between local government and the National Land Transport Fund in order to assist us to work together to achieve the optimal national land transport outcomes in the right way, at the right time, and for the right price. (The provisional funding assistance rates framework states that National Land Transport Fund revenue would only be used for the costs of undertaking or maintaining a land transport activity to achieve fit for purpose standards. The ONRC and its associated customer levels of service and performance measures would help to define these fit for purpose standards.)

Executive summary

WE NEED YOUR FEEDBACK TO HELP US FIND THE OPTIMAL APPROACH TO SETTING FUNDING ASSISTANCE RATES

The NZ Transport Agency needs to make a decision on the best combination of factors and approaches for determining funding assistance rates for local authorities (and other approved organisations).

In doing this, we will seek to choose the options which best fit the role of funding assistance rates and best adhere to the principles in the provisional funding assistance rates framework.

Specifically, we need to decide on:

- the overall split of costs between direct land transport system users and local communities (overall National Land Transport Fund (NLTF) co-investment rate)
- which factors we are going to use to determine how many, and which, councils need extra assistance and, therefore, receive higher funding assistance rates
- how we should determine whether initial response and reinstatement works following a natural event would attract elevated emergency works funding assistance rates and how we should set those elevated emergency works rates
- NLTF funding eligibility and funding assistance rates for Waitangi National Trust and Department of Conservation carriageways
- how we transition in any changes to funding assistance rates.

We want to engage you in a conversation about these components, the trade-offs that will need to be made, and how the components should fit together so that we can make the best possible decision to support optimal outcomes for land transport investment across the country.

We need a funding assistance rates system that works as a national system. Every decision we make which potentially benefits some councils may negatively impact on other councils.

THE PROVISIONAL FUNDING ASSISTANCE RATES FRAMEWORK

In the first round of consultation (which finished in May 2013) we looked at a wide range of approaches that could be taken to setting and applying funding assistance rates. Taking into account the submissions we received during that consultation, we have developed a provisional funding assistance rates framework (see figure 1).

Key elements of that framework are:

- the establishment of an overall NLTF co-investment rate that determines what proportion of the overall costs of delivering eligible land transport activities would be met from the NLTF
- each approved organisation having one funding assistance rate for all its eligible land transport activities (except possibly emergency works)
- some approved organisations potentially receiving funding assistance rates that are higher than the overall co-investment rate because they have to deal with matters outside of their control which make it harder for them to deliver optimal land transport outcomes than it is for most other approved organisations (and others receiving lower rates)
- the ability to use targeted enhanced rates where we need a quick response or a step change.

As discussed below, there are a number of choices that need to be made in applying the framework and we are seeking your feedback to help us make the optimal choices.

FIGURE 1: THE PROVISIONAL FUNDING ASSISTANCE RATES FRAMEWORK

ONE RATE FOR EACH AO

An approved organisation (AO) would have the same funding assistance rate for all of the different land transport activities it undertakes that are eligible for funding from the NLTF (other than where targeted enhanced funding assistance rates were used and, possibly, for emergency works).

This means that local authorities who manage special purpose roads would receive the same funding assistance rate for those special purpose roads as they do for all their other local roads.

It also means that regional councils would receive the same funding assistance rate for public transport, total mobility services, road safety promotion, and transport planning.

OVERALL NLTF CO-INVESTMENT RATE

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

FACTORS MATERIALLY AFFECTING DELIVERY

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

Consequently other approved organisations would recieve a funding assistance rate that was below the overall co-investment rate.

ONLY COSTS FOR FIT FOR PURPOSE STANDARDS

NLTF revenue would be used for the eligible costs of undertaking or maintaining a land transport activity to fit for purpose standards.

TARGETED ENHANCED RATES

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

OPTIONS FOR COUNCILS' FUNDING ASSISTANCE RATES

To help us determine which councils should receive higher funding assistance rates, over the last few months we have been discussing with local authorities what factors make it materially harder for them to deliver land transport outcomes. We have carefully considered all of the matters that were raised and assessed whether or not they can, and should, be taken into account in determining which councils should receive funding assistance rates that are higher than the overall NLTF co-investment rate.

WHAT FACTORS WILL WE TAKE INTO ACCOUNT?

We have concluded that in determining which councils get higher funding assistance rates we will take into account differences in local authorities' *ability to raise the local share of the costs of achieving land transport outcomes*.

We are <u>not</u> proposing to take into account *differences in costs between local authorities*. There are a number of reasons for this, that are discussed in section 5 of this document. Some of the key reasons are:

- The fact that some councils have higher costs already affects the investment programme decisions the Transport Agency makes, ie it affects the approved costs of councils' land transport projects, and the size of councils' approved road maintenance, operations and renewals and public transport programmes.
- We are concerned that setting funding assistance rates based on differences in input costs, eg local aggregate price, could skew the market price for those inputs.
- When the prices for different land transport contracts are set, cost differences arising from things like terrain, climate, geology and local input prices tend to be overshadowed by factors such as the level of competition contractors consider there is in the local market and the amount of risk that contractors see in a particular contract.

FUNDING ASSISTANCE RATES BANDS

We are also proposing to group councils into bands, with each band getting a different funding assistance rate (rather than setting a separate funding assistance rate for each council as we currently do for some activity classes). In using bands we are seeking to avoid similar councils ending up with funding assistance rates that vary by a few percent even though they experience similar difficulties in raising the local share of costs.

Using bands would also eliminate the multi-stage process that is currently used in determining councils' Base funding assistance rates. Under that process the Transport Agency first determines an indicator rate using a formula but then may modify that indicator rate taking into account the circumstances of each council. This is time-consuming and may, ultimately, be distorting and inequitable. Therefore, using bands would increase the objectivity and transparency of the funding assistance rate system while reducing the level of distortion that can arise from the Transport Agency exercising discretion in relation to how it sets every council's individual Base rate.

THE OPTIONS WE HAVE MODELLED

To provide you with a basis to provide feedback, we have developed five options for different metrics, or combinations of metrics, we could use as proxies for councils' relative ability to raise the local share of land transport costs:

- An option which compares the relative wealth of the residents of each councils' area – using the New Zealand index of deprivation (option 1). This is the simplest option.
- An option (option 2) which uses a proxy for the relative wealth of a councils' ratepayers including corporate and non-resident ratepayers (the capital value of rateable land in an area) and a proxy for the number of ratepayers a council can obtain the local share of land transport costs from – using the ratio of:

$$\frac{\textit{Net equalised rateable capital value}}{\textit{Number of rating assessments}}$$

- An option (option 3) which uses both the ratio in option 2 and index of deprivation and, therefore, includes both a proxy for the wealth of a council's ratepayers (including corporate and non-resident ratepayers) and a proxy for the wealth of the residents of each council's area.
- An option (option 4) which compares councils by both an objective proxy for the size of the land transport activities they undertake (lane kilometres of local road) and a proxy for the relative wealth of councils' ratepayers – using the ratio of:

$$\frac{\textit{Lane kilometres of local road}}{\textit{Net equalised rateable capital value}}$$

- An option (option 5) which uses both the ratio in option 4 and index of deprivation (again this would use both a proxy for the wealth of a council's ratepayers, including corporate and non-resident ratepayers, and a proxy for the wealth of the resident local community).

The appropriate range for the overall NLTF co-investment rate is from 50% (a 50:50 cost split) to 53% (the overall effective funding assistance rate over the last few years) – see Section 4 of this document.

Given this we have included two sets of indicative funding assistance rates for each of the 5 options - one using a 50% overall NLTF co-investment rate and one using a 53% co-investment rate. This means that you can see what funding assistance rate a particular council might receive under each option at each end of the range of possible overall NLTF co-investment rates. Those indicative rates are summarised in table 1.

In that table we have also included details of what each council's overall effective funding assistance rate has been over the last few years – taking into account the fact that some of their activities are currently funded at higher rates than others. For territorial authorities we have also indicated whether or not the indicator rate (which we currently use as the starting point for calculating Base funding assistance rates for local road operations, maintenance and renewals) would be likely to go up, down or remain stable, if we stayed with the current formula for setting Base rates.[1]

THE CHOICES WE MADE IN DOING THE MODELLING

In modelling the options we have made a number of choices in relation to issues such as what proportion of councils should be included in the bands that receive higher rates (25%), how many bands we should use (5 or 6) and whether we cap the rate of the councils in the highest band at a specified maximum amount (capped at 75%). Those may not be the optimal choices. We are seeking your feedback on whether they are or not and, if not, what the optimal combination would be.

Coming up with the best combination of factors and approaches will involve making tradeoffs, for example:

- The greater the number of councils who receive higher funding assistance rates the lower the funding assistance rate that is received by the councils in the lowest band is likely to be.
- If we use a small number bands then the councils who receive the highest rate can receive a reasonably high rate, eg 75%. If we use more bands this will spread the elevated rates out and may reduce the rate received by the highest band and/or mean that fewer councils receive the highest rate.
- What effect changing a council's rate will have on other councils' rates will vary depending upon the size of the land transport spend in their area. A 1% increase in a large metropolitan council's rate could have a significant effect on the funding assistance rates that could be received by other councils.

Should there be elevated emergency works funding assistance rates? If so, what events should they apply to and what should those rates be?

When we developed the provisional framework we felt that, possibly, different funding assistance rates should apply to emergency works than apply to approved organisations' other eligible land transport activities.

1. An indicator rate trending up does not necessarily mean that a council's Base FAR would go up if we stayed with the status quo for the 2015-18 investment period, e.g. some of the councils who are currently on the 43% minimum Base rate might still be on 43% even though their indicator rate is trending up. Similarly, an indicator rate going down does not necessarily mean that a council's Base rate would go down if we stayed with the status quo for the 2015-18 investment period.

Having considered this issue further, we think that there is a place for elevated emergency works funding assistance rates - the role of those rates is to address the land transport costs of responding to 'out of the ordinary' short-duration natural events i.e. natural events that a particular approved organisation could not reasonably be expected to plan and manage for as part of normal best practice management of the resilience of the land transport network. This is because the events are unusual, or are of unusually large magnitude or severity, for the particular area where they occur.

Currently emergency works funding assistance rates are meant to apply to unforeseen significant expenditure that arises from a 'defined, *major*, short-duration natural event' [emphasis added]. However, there is no real guidance on what a 'major' natural event is for the purposes of the policy and in some cases enhanced funding assistance rates may be being applied to the costs of responding to events that are relatively common in the area where they occur.

Section 6 of this document discusses:

- Three options for how we determine whether initial response and reinstatement works arising from a short duration natural event would attract elevated emergency works funding assistance rates – (1) a statement of principle, (2) the annual return interval of an event (eg it would need to be a 1 in 20 year storm for the area where the damage was caused), and (3) only events where emergency works expenditure exceeded a certain amount.
- Three options for how we set elevated emergency works funding assistance rates – two options tied to an organisation's normal funding assistance rate (a rate half way between the organisation's normal rate and 100%, and an organisation's normal rate plus 20), and a set emergency works rate of 70% (the overall average emergency works funding assistance rate over the last few years).

We need your feedback to let us know if there are any additional options and, to help us choose the best option.

Waitangi National Trust and Department of Conservation

We also need to decide which Waitangi National Trust and Department of Conservation carriageways should be eligible for NLTF funding and at what rate(s).

Those issues are discussed in sections 7 and 8 of this document.

How do we transition in any changes to funding assistance rates?

In conversations with local authorities we have stressed that any changes to their funding assistance rates would be transitioned in gradually.

We currently see three options for transitioning in any changes to funding assistance rates that result from this review:

- Transitioning in the changes over a set period of time eg 3 years, 6 years (ie two NLTF investment periods), 9 years (three investment periods) or 10 years.
- No approved organisation's funding assistance rate decreasing by more than 2% from their overall effective funding assistance rate for the previous financial year (once the effects of any special/bespoke arrangements, emergency works funding and targeted enhanced funding assistance rates have been excluded).
- A combination of the above.

Where the Transport Agency has made a binding commitment to fund a particular identified activity at a specified funding assistance rate for a defined period, or to fund a particular project or phase of a project at a specified funding assistance rate, it would honour those commitments.

TABLE 1: COUNCILS' INDICATIVE FUNDING ASSISTANCE RATE UNDER EACH OF THE 5 OPTIONS USING THE CURRENT MODELLING APPROACHES
(see footnote regarding how overall effective funding assistance rates were calculated. The light olive shading indicates that a council would not be in the top 25% and, therefore, would not receive a higher funding assistance rate under the relevant option.)

Council	Status quo - overall effective rate[2] 2012-13[3]	Status quo - overall effective rate[4] 2009/10–2012/13	Status quo - Base FAR 2014/15	How Base FAR indicator rate is trending under the status quo	Option 1 Index of deprivation		Option 2 Rateable capital value/rating units		Option 3 Combines options 1 and 2		Option 4 Lane kms/ rateable capital value		Option 5 Combines options 1 and 4	
					50% overall rate	53% overall rate	50% overall rate	53% overall rate	50% overall rate	53% overall rate	50% overall rate	53% overall rate	50% overall rate	53% overall rate
Ashburton District Council	46.6%	48.1%	46	Was going ▼ (recently ▲)	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Auckland Transport	51.8%	51.8%	43	Don't have it due to amalgamation (predecessor councils' indicator rates were generally trending ▲ or stable)	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Bay of Plenty Regional Council	51.6%	52.8%	N/A	N/A	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Buller District Council	65.0%	66.5%	58	▼	55%	55%	60%	60%	60%	60%	55%	60%	55%	60%
Carterton District Council	54.2%	53.3%	53	Was going ▼ (recently ▲)	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Central Hawkes Bay District Council	58.3%	58.1%	58	(Was going ▼) recently ▲	49%	52%	49%	52%	49%	52%	60%	60%	49%	52%
Central Otago District Council	50.6%	52.0%	50	▼	49%	52%	49%	52%	49%	52%	55%	60%	49%	52%
Chatham Islands Council	88.2%	89.1%	90	▲	49%	52%	65%	70%	55%	60%	75%	75%	70%	75%
Christchurch City Council	47.1%	47.0%	44	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Clutha District Council	60.1%	61.4%	59	▼	49%	52%	49%	52%	49%	52%	70%	70%	55%	55%
Dunedin City Council	56.9%	58.8%	56	▲	49%	52%	55%	60%	49%	52%	49%	52%	49%	52%
Environment Canterbury	53.9%	53.2%	N/A	N/A	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%

2. These figures exclude significant special bespoke funding assistance rates, regional development funding, and funding assistance rates for emergency works. These figures will also be affected by the fact that, currently, capital improvements to local roads are funded at a higher rate than maintenance, operations and renewals and some territorial authorities will have undertaken more capital improvements in the last few years than others. Because the funding assistance rates for some public transport activities are currently being transitioned down from 60% to 50% and there have been recent changes to the funding assistance rates for transport planning and road safety promotion, councils' effective overall funding assistance rates would be likely to decrease over the next few years even if no changes were made as a result of the current review. This is particularly the case for Auckland Transport and Greater Wellington as they deliver passenger rail.
3. Following changes to transport planning and road safety promotion rates and the beginning of changes to some public transport rates.
4. See footnote 2 above.

TABLE 1 (CONT): COUNCILS' INDICATIVE FUNDING ASSISTANCE RATE UNDER EACH OF THE 5 OPTIONS USING THE CURRENT MODELLING APPROACHES (See footnote regarding how overall effective funding assistance rates were calculated. The light olive shading indicates that a council would not be in the top 25% and, therefore, would not receive a higher funding assistance rate under the relevant option.)

Council	Status quo - overall effective rate[2] 2012-13[3]	Status quo - overall effective rate[4] 2009/10–2012/13	Status quo - Base FAR 2014/15	How Base FAR indicator rate is trending under the status quo	Option 1 Index of deprivation		Option 2 Rateable capital value/rating units		Option 3 Combines options 1 and 2		Option 4 Lane kms/ rateable capital value		Option 5 Combines options 1 and 4	
					50% overall rate	53% overall rate	50% overall rate	53% overall rate	50% overall rate	53% overall rate	50% overall rate	53% overall rate	50% overall rate	53% overall rate
Environment Southland	64.6%	82.2%	N/A	N/A	49%	52%	49%	52%	49%	52%	55%	60%	49%	52%
Far North District Council	56.0%	57.9%	55	▼	60%	65%	55%	60%	60%	65%	49%	52%	60%	65%
Gisborne District Council	58.6%	59.6%	58	▼	60%	65%	55%	60%	60%	65%	49%	52%	60%	60%
Gore District Council	55.5%	56.7%	55	▼	49%	52%	49%	52%	49%	52%	60%	60%	49%	52%
Greater Wellington Regional Council	55.2%	55.6%	N/A	N/A	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Grey District Council	62.3%	63.5%	60	▼	49%	52%	60%	65%	55%	60%	49%	52%	49%	52%
Hamilton City Council	51.7%	52.3%	45	Stable	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Hastings District Council	52.6%	53.5%	51	(Was going ▼) recently ▲	55%	55%	49%	52%	49%	52%	49%	52%	49 %	52%
Hauraki District Council	53.4%	54.4%	53	▼	55%	60%	49%	52%	55%	60%	49%	52%	55%	55%
Hawkes Bay Regional Council	55.1%	57.6%	N/A	N/A	50%	55%	49%	52%	49%	52%	49%	52%	49%	52%
Horizons Manawatu	56.3%	57.9%	N/A	N/A	49%	52%	55%	60%	55%	60%	49%	52%	49%	52%
Horowhenua District Council	48.0%	47.7%	47	Stable	55%	60%	60%	65%	60%	60%	49%	52%	55%	55%
Hurunui District Council	50.8%	52.5%	50	Stable	49%	52%	49%	52%	49%	52%	60%	60%	49%	52%
Hutt City Council	49.0%	48.7%	48	Was going ▼ recently ▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Invercargill City Council	59.6%	63.6%	59	Was going ▲ (recently ▼)	49%	52%	65%	65%	55%	60%	49%	52%	49%	52%
Kaikoura District Council	47.1%	48.2%	44	▼	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Kaipara District Council	59.4%	61.1%	59	▼	50%	55%	49%	52%	49%	52%	55%	60%	55%	60%
Kapiti Coast District Council	44.5%	45.8%	43	Was going ▼ recently ▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Kawerau District Council	66.6%	67.5%	63	▼	70%	75%	70%	70%	75%	75%	49%	52%	65%	70%
Mackenzie District Council	53.7%	54.6%	53	▼	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%

Manawatu District Council	53.6%	53.0%	53	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Marlborough District Council	47.7%	48.5%	46	▼	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Masterton District Council	54.9%	56.1%	54	▼	49%	52%	55%	60%	49%	52%	49%	52%	49%	52%
Matamata-Piako District Council	48.7%	48.8%	48	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Napier City Council	48.7%	49.0%	48	Stable	49%	52%	55%	60%	49%	52%	49%	52%	49%	52%
Nelson City Council	46.7%	47.6%	43	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
New Plymouth District Council	52.5%	53.2%	50	▼	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Northland Regional Council	51.9%	56.3%	N/A	N/A	55%	60%	49%	52%	55%	60%	49%	52%	55%	60%
Opotiki District Council	50.4%	51.2%	50	Stable	70%	75%	60%	60%	70%	70%	49%	52%	65%	70%
Otago Regional Council	53.6%	54.3%	N/A	N/A	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Otorohanga District Council	52.8%	53.5%	52	Generally stable (recently ▼)	49%	52%	49%	52%	49%	52%	55%	60%	49%	52%
Palmerston North City Council	48.5%	48.7%	47	Was going ▲ (recently ▼)	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Porirua City Council	47.8%	46.8%	44	Was going ▼ recently stable	55%	60%	49%	52%	55%	60%	49%	52%	49%	52%
Queenstown-Lakes District Council	53.8%	56.1%	46	Was going ▼ (recently ▲)	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Rangitikei District Council	58.6%	62.6%	58	Was going ▲ (recently ▼)	49%	52%	49%	52%	49%	52%	60%	65%	55%	55%
Rotorua District Council	50.6%	49.4%	47	Generally ▲ (recently slightly ▼)	55%	60%	55%	55%	55%	60%	49%	52%	49%	52%
Ruapehu District Council	64.3%	66.0%	60	▼	60%	60%	55%	55%	60%	60%	55%	60%	60%	60%
Selwyn District Council	48.2%	50.0%	47	Was going ▲ (recently ▼)	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
South Taranaki District Council	51.7%	51.5%	51	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
South Waikato District Council	51.0%	50.5%	50	▲	60%	60%	49%	52%	55%	60%	49%	52%	55%	60%
South Wairarapa District Council	64.0%	60.1%	49	Was going ▼ (recently stable)	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Southland District Council	53.9%	55.2%	53	▼	49%	52%	49%	52%	49%	52%	55%	60%	49%	52%
Stratford District Council	54.2%	54.1%	52	▲	49%	52%	49%	52%	49%	52%	55%	60%	49%	52%
Taranaki Regional Council	52.8%	52.8%	N/A	N/A	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Tararua District Council	59.6%	60.6%	59	▼	49%	52%	49%	52%	49%	52%	60%	65%	55%	60%

TABLE 1 (CONT): COUNCILS' INDICATIVE FUNDING ASSISTANCE RATE UNDER EACH OF THE 5 OPTIONS USING THE CURRENT MODELLING APPROACHES (see footnote regarding how overall effective funding assistance rates were calculated. The light olive shading indicates that a council would not be in the top 25% and, therefore, would not receive a higher funding assistance rate under the relevant option.)

Council	Status quo - overall effective rate[2] 2012-13[3]	Status quo - overall effective rate[4] 2009/10–2012/13	Status quo - Base FAR 2014/15	How Base FAR indicator rate is trending under the status quo	Option 1 Index of deprivation		Option 2 Rateable capital value/rating units		Option 3 Combines options 1 and 2		Option 4 Lane kms/ rateable capital value		Option 5 Combines options 1 and 4	
					50% overall rate	53% overall rate	50% overall rate	53% overall rate	50% overall rate	53% overall rate	50% overall rate	53% overall rate	50% overall rate	53% overall rate
Tasman District Council	50.3%	50.8%	49	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Taupo District Council	44.3%	51.5%	43	▼ (recently more stable)	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Tauranga City Council	45.5%	46.7%	43	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Thames-Coromandel District Council	44.3%	44.4%	43	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Timaru District Council	55.0%	53.7%	53	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Upper Hutt City Council	47.5%	49.1%	46	▲	49%	52%	55%	55%	49%	52%	49%	52%	49%	52%
Waikato District Council	54.3%	53.2%	53	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Waikato Regional Council	51.6%	53.1%	N/A	N/A	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Waimakariri District Council	50.7%	50.5%	50	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Waimate District Council	51.3%	52.5%	51	▼	49%	52%	49%	52%	49%	52%	65%	65%	55%	55%
Waipa District Council	49.7%	49.5%	49	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Wairoa District Council	67.5%	68.4%	65	(was going ▼) recently ▲	65%	65%	65%	70%	70%	70%	65%	65%	65%	70%
Waitaki District Council	57.2%	58.2%	56	▼	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Waitomo District Council	59.3%	58.7%	59	▲	55%	60%	49%	52%	49%	52%	60%	60%	60%	65%
Wanganui District Council	63.2%	63.7%	62	(Was going ▲) recently ▼	55%	60%	65%	65%	60%	65%	49%	52%	55%	60%
Wellington City Council	45.8%	46.1%	44	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
West Coast Regional Council	55.8%	66.6%	N/A	N/A	49%	52%	60%	60%	55%	60%	55%	60%	49%	52%
Western BoP District Council	47.0%	46.5%	46	▲	49%	52%	49%	52%	49%	52%	49%	52%	49%	52%
Westland District Council	64.7%	65.5%	58	▼	49%	52%	55%	60%	49%	52%	55%	60%	49%	52%
Whakatane District Council	55.0%	54.6%	49	▲	60%	60%	49%	52%	60%	60%	49%	52%	55%	60%
Whangarei District Council	50.8%	53.4%	51	Overall stable (recently ▼)	55%	55%	49%	52%	49%	52%	49%	52%	49%	52%

1. Background

1.1 WHY WE ARE DOING THIS REVIEW

When a land transport activity undertaken by a council or other approved organisation qualifies for funding from the NLTF, the funding assistance rate (FAR) determines the proportion of the approved costs of that activity that will be paid from the fund.

The problem (or opportunity) the funding assistance rates review was set up to address was that the Transport Agency was not confident that the way funding assistance rates are being set and applied was still valid and appropriate given the statutory and strategic policy settings which exist now. This lack of confidence had arisen because the main bases of the current funding assistance rates system were set up a long time ago under statutory frameworks and policy settings that no longer exist. As a public body exercising a statutory function involving the distribution of large amounts of public money, it is extremely important that we are confident that the way funding assistance rates are set and applied is appropriate today.

Also, at least prior to the current review commencing, there was a very uneven level of understanding within the Transport Agency, approved organisations and the wider transport sector, as to why the current funding assistance rates system is set up the way it is and what it does, and does not, seek to achieve. This has contributed to the current funding assistance rates system being made up of a number of different components, with those different components seeking to achieve different policy objectives. It has also led to dissatisfaction within a number of local authorities with the funding assistance rates that apply to their organisation.

This dissatisfaction was evident from the negative feedback received from stakeholders by Transport Agency staff, and adverse comments made by stakeholders in the media (particularly around the time when the Base funding assistance rates for local road operations, maintenance and renewals were last reset). In response to that feedback, the Transport Agency agreed to undertake the current review.

1.2 WHAT IS, AND IS NOT, PART OF THIS REVIEW

The scope of the review is very broad and includes all funding assistance rates for all local authorities, Auckland Transport, the Department of Conservation and the Waitangi National Trust Board (including the funding assistance rates for total mobility services and special purpose roads).

Funding of road policing, and the sector research programme managed by the Transport Agency, are not within the scope of the review.

Anything within other organisations' control, or which would require a change in the law, is out of scope. For example, the following things are not within the scope of the review:

- 100% funding of state highways.
- How much of the NLTF revenue can be spent on different types of land transport activities - ie the ranges of money available for different activity classes under the Government Policy Statement on Land Transport.
- The status, ownership or control of any road.
- Farebox recovery rates.

Full details in relation to the scope of the review are available on our website at **http://www.nzta.govt.nz/consultation/far-review/docs/far-objectives.pdf.**

1.3 WHAT IS WRONG WITH THE STATUS QUO?

Because this is a first principles review, the first thing we did following the close of the first round of consultation is work out what the role of funding assistance rates is today and what principles should sit behind how they are set and applied. We then looked at whether the status quo was consistent with that role and those principles.

We found that in a number of ways it is not consistent with them. In particular:

- Overall the status quo is not based on a clear policy decision as to what the overall split of costs between direct land transport system users and local communities (property owners and land users) should be.
- The wide range of different funding assistance rates that exist for different activities under the status quo, and the very high funding assistance rates that apply to some activities, are likely to work against value for money/optimal land transport outcomes being achieved.
- It is unclear whether the differences between approved organisations currently taken into account in setting funding assistance rates are differences that materially affect some approved organisations' ability to deliver land transport outcomes.
- Because there has been a lack of a shared understanding of what funding assistance rates can, and should, seek to achieve the certainty of the system has been adversely affected by different components being added to the funding assistance rates system, or amended, at different times to seek to achieve different policy objectives.
- Most of the individual components of the current funding assistance rates system are, in themselves, reasonably efficient to apply. However, having so many different funding assistance rates applying to different activities means the system as a whole is less efficient to apply. Time spent seeking to ensure that activities are funded under the correct funding assistance rate creates cost (and uncertainty).
- Some of the metrics currently used to distinguish between approved organisations are not particularly reliable bases for calculating funding assistance rates. This is because they are based on matters such as:
  - › the outcomes of negotiations on the size of an approved organisation's approved maintenance, operations and renewals programme, and
  - › local authority decisions on how they will levy general rates

rather than reliable objective data.

1.4 THE PROVISIONAL FUNDING ASSISTANCE RATES FRAMEWORK AND WHAT WE HAVE BEEN DOING FOR THE LAST COUPLE OF MONTHS

The Transport Agency has now developed a provisional framework for how funding assistance rates could be set and applied. That provisional framework is shown in figure 1 in the executive summary and described in section 3 of this document.

Under section 20C of the Land Transport Management Act 2003, the Minister of Transport can, if he wishes, issue criteria that the Transport Agency must act in accordance with when it sets funding assistance rates. We have been advised by the Minister of Transport that, at this stage of the review, he does not intend to set any criteria that we should apply in setting funding assistance rates. However, this is a matter that will be considered within the context of developing the next Government Policy Statement on Land Transport Funding, and we are working with the Ministry of Transport to keep the Minister informed as thinking on this review develops.

During the last few months the Transport Agency has been considering how the provisional funding assistance rates framework might work in practice. In particular we have been looking at:

- what the overall split of costs between direct land transport system users and local communities (property owners and land users) should be
- what material differences between approved organisations should be taken into account
- how emergency works funding assistance rates should be set, and
- what transition requirements might be needed.

Other workstreams are looking at the standards different land transport activities should be delivered to and whether or not any targeted enhanced funding assistance rates should be used in the 2015-18 NLTF investment period.

One of the things we have been doing over the last few months is talking to local authorities about what things make it materially harder for them to deliver land transport outcomes.

A list of the factors the local authorities identified at those meetings is contained in attachment 1 to this document.

2. How you can get involved with this review and what will happen next

2.1 WE WANT TO ENGAGE WITH YOU TO HELP US FIND THE OPTIMAL APPROACH

We need a funding assistance rates system that works as a national system. Every decision we make which benefits some councils may negatively impact on other councils.

Between now and March, talking about these issues with each other, and with us, is really important in helping you to form your views. We recognise that this is not always easy to arrange, so the Transport Agency staff in your region will work with you to facilitate ways for you to engage with each other, and with us.

While each region will be different, this is likely to involve some combination of one on one meetings and workshops. If you have particular ideas about how you want to get involved at this stage of the review please talk to your regional Transport Agency Planning and Investment contact, or contact the Project Leader Clare Sinnott via email (clare.sinnott@nzta.govt.nz).

This document provides the information required for those conversations. It also contains a set of questions on which the Transport Agency is seeking your views. These questions are only intended as a guide and we welcome any feedback or ideas you have about the issues raised.

2.2 MAKING A SUBMISSION

So that we clearly understand your views, we also invite you to make a written submission, either individually or collaboratively with other stakeholders.

You can send us a written submission either:

- Emailed to **farreview@nzta.govt.nz**, or
- Posted to:

  Funding assistance rates review options discussion document submissions

  NZ Transport Agency
  50 Victoria Street
  Private Bag 6995
  Wellington 6141
  Attention: Clare Sinnott

THE CLOSING DATE FOR SUBMISSIONS IS **5PM ON MONDAY 3 MARCH 2014**.

We will make copies of the submissions received available on our website.

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

This document should be read together with:

- the review objectives and scope available at **http://www.nzta.govt.nz/consultation/far-review/docs/far-objectives.pdf**
- the provisional framework at a glance document available at **http://www.nzta.govt.nz/consultation/far-review/docs/far-glance.pdf**
- the summary of how submissions on the funding assistance rates review discussion document were taken into account available at **http://www.nzta.govt.nz/consultation/far-review/docs/far-how-submissions-informed-provisional-framework.pdf.**

2.3 QUESTIONS

Provisional funding assistance rates framework

PFR1 Overall do you think the provisional funding assistance rates framework would support the optimal land transport outcomes being achieved within the available financial resources? Do you think it would facilitate an integrated and appropriately consistent land transport network throughout the country? Why? /Why not?

PFR2 Is there anything you particularly like or dislike about the provisional framework? If so why, and what effect do you think that part of the framework would have?

Overall NLTF co-investment rate

OCIR1 For the reasons discussed in section 4 of this document, the appropriate range for the overall NLTF co-investment rate is from 50% to 53%. Where should the overall NLTF co-investment rate sit within the 50% to 53% range? Why do you consider that that is the most appropriate overall division of costs between local communities and direct land transport system users?

Councils' funding assistance rates

Council 1 What do you think is the best way for us to use funding assistance rates bands? In particular:

- What proportion of councils do you think we should include in the bands that receive funding assistance rates that are higher than the overall NLTF co-investment rate? The options we have modelled in this document have 25% of councils in those bands. Is that the optimal proportion? Should only the five councils that would find it the hardest to find the local share be included in the bands with higher rates? 10% of councils? A third?
- Should we include some councils in a band that receives the overall NLTF co-investment rate (with some other councils receiving a higher rate, and the remaining councils in a band that receives a rate that is lower than the overall co-investment rate)? If so, what proportion of councils should be included in the band on the overall NLTF co-investment rate and what proportions of councils should be included in the higher bands and the lower band?
- How many different bands should we use?

Council 2 Which of our five current options for metrics, or combinations of metrics, we could use as proxies for councils' relative ability to raise the local share do you prefer? Why?

Council 3 What other metrics or combination of metrics could we use as proxies for councils' relative ability to raise the local share? Why do you consider those to be the appropriate metrics?

Council 4 If we use an approach to setting councils' normal funding assistance rates that uses a number of different metrics, should we give different weightings to the different metrics? If so, what differential weightings should we use and why?

Council 5 Should there be a maximum council funding assistance rate? If so, what should that maximum rate be?

Council 6 Overall what combination of factors and approaches do you think we should use to set councils' funding assistance rates?

Council 7 How often should councils' funding assistance rates be re-set?

Emergency works

EW1 What types of natural events and/or reinstatement works should elevated emergency works funding assistance rates be applied to? Why?

EW2 If elevated emergency works funding assistance rates are only applied where an approved organisation incurs significant expenditure in responding to 'out of the ordinary short-duration natural events' (ie natural events that events are unusual, or are of unusually large magnitude or severity, for the particular area where they occur) what method should be used for determining whether or not an event is 'out of the ordinary'?:

- A statement of principle?
- Annual return period or similar?
- A combination of the above?
- Some other option?

Why?

EW3 How should any elevated emergency works funding assistance rates be set?

- A rate tied to an approved organisation's normal funding assistance rate?
- A set elevated rate?

Why?

EW4 Should there be a set maximum elevated emergency works funding assistance rate? If so, what should that set maximum be?

Waitangi National Trust

WNT1 Are there any additional options for setting the funding assistance rate(s) for the private carriageways within the Waitangi National Trust estate that we should consider (other than the options already discussed in this document)?

WNT2 What approach do you think we should take to setting the funding assistance rate(s) for the private carriageways within the Trust estate? Why do you prefer that approach?

Department of Conservation (DoC)

DOC1 Which DoC carriageways should be eligible for funding from the NLTF? Why?

DOC2 Are there any additional options for setting the funding assistance rate(s) for DoC carriageways that are eligible for funding from the NLTF that we should consider (other than the options already discussed in this document)?

DOC3 What approach do you think we should take to setting the funding assistance rate(s) for the DoC carriageways that are eligible for funding from the NLTF? Why do you prefer that approach?

Targeted enhanced funding assistance rates

TEFAR1 Are there any things that the Transport Agency should take into account when considering whether or not to use, or setting up, a targeted enhanced funding assistance rate in addition to the matters discussed in section 9 of this document?

Transitioning in changes to funding assistance rates

TRANS1 How should any changes to funding assistance rates be transitioned in?

2.4 WHAT WILL HAPPEN NEXT?

Once we have heard what you think, the Transport Agency will make decisions about how to set funding assistance rates going forward and how to transition in any changes to funding assistance rates (starting in the 2015-18 NLTF investment period). In making those decisions we will assess all the options we consider against the role of funding assistance rates and the principles in the provisional framework.

Role of funding assistance rates

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

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

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

The provisional framework

Seven principles would underpin the framework

The funding assistance rates systems should:

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

Given that consultation on this document will run until 3 March 2014, the Transport Agency is now likely to make those decisions in early May 2014.

We will then talk to individual approved organisations' about what their specific funding assistance rates will be for the 2015-18 investment period and make final decisions on those investment rates by July 2014.

3. The provisional funding assistance rates framework

3.1 THE FRAMEWORK

Following the first round of public consultation on the funding assistance rates review, the Transport Agency developed a provisional framework for how funding assistance rates could be set and applied.

Under the provisional framework there would be a set 'overall NLTF co-investment rate' that would determine what proportion of the overall costs of delivering land transport activities would be met from the fund.

Some approved organisations would receive a funding assistance rate that is above the overall co-investment rate to take into account factors that materially affect their ability to deliver land transport outcomes; this means other approved organisations would receive a funding assistance rate that was below the overall co-investment rate. The factors used to determine whether an individual approved organisation would receive a funding assistance rate that was above the overall co-investment rate would be factors (that are not within the approved organisation's or their local community's control) that materially affect some approved organisations' ability to:

- deliver optimal land transport outcomes, and
- contribute to the delivery of an integrated and appropriately consistent network throughout the country,

where there is readily accessible and reliable data that can be used to measure those factors and take them into account when setting funding assistance rates.

Having an overall co-investment rate, with some approved organisations receiving funding assistance rates over this rate and others receiving funding assistance rates under it, would be similar to the way the funding assistance rates for most local road activities are set now.

However, under the provisional framework:

- The overall co-investment rate would apply to all local authority land transport activities funded from the NLTF (not just local road maintenance, operations and renewals), and
- Approved organisations would receive the same funding assistance rate for all the different land transport activities they undertake that are eligible for funding from the National Land Transport Fund (except any enhanced targeted rates and, possibly, emergency works).

The provisional framework also provides that:

- NLTF revenue would only be used for the eligible costs of undertaking or maintaining a land transport activity to fit for purpose standards
- targeted enhanced funding assistance rates could be used in exceptional circumstances and for time-limited periods to:
  - › facilitate something particularly important from a national land transport perspective, or
  - › give a kick start to incentivise and enable an approved organisation to make a step change in customer levels of service or the way they are delivering an activity.

A summary of how submissions on the *Funding assistance rates review discussion document* were taken into account in developing the provisional framework is available on our website at **http://www.nzta.govt.nz/consultation/far-review/docs/far-how-submissions-informed-provisional-framework.pdf.**

In deciding on the best combination of factors and approaches for determining funding assistance rates, we will seek to choose the options that best fit the role of funding assistance rates and best adhere to the principles in the provisional framework.

3.2 PARTICULAR ISSUES

3.2.1 Special purpose roads

'Special purpose roads' are a group of local roads and other carriageways that for a number of years have received very high funding assistance rates. A number (but not all) of them run through, or provide access to, national parks.

Under the provisional framework, approved organisations would receive the same funding assistance rate for all the eligible land transport activities they undertake. This would mean that local authorities who manage special purpose roads would receive the same funding assistance rate for those special purpose roads as they do for all their other local roads.

If exceptional circumstances made it appropriate for an improvement project on a particular road to be funded at an elevated rate, under the framework that could be dealt with by a targeted enhanced funding assistance rate.

3.2.2 Cycleways and footpaths

One of the issues raised in submissions on the *Funding assistance rates review discussion document* was whether or not the costs of maintaining footpaths and cycleways should receive funding from the NLTF.

The following activities are currently eligible for funding from the NLTF at an approved organisation's Base funding assistance rate:

- The maintenance and renewal of:
  - › cycle paths (other than cycle paths and facilities used for purely recreational purposes)
  - › cycleway markings on non-separated road services,
  - › footpaths on road structures, e.g. pedestrian overbridges/ underpasses, and
- The repair and replacement of kerb and channel (if deterioration is likely to adversely affect the performance of the pavement).

Under the provisional framework it is proposed that those activities would be funded at an approved organisations' normal funding assistance rate.

Further, currently 30 percent of the total costs of cleaning channels, sumps and cesspits in urban areas are eligible for funding from the NLTF at the relevant council's Base funding assistance rate. This is because many of the benefits of cleaning channels, sumps and cesspits in urban areas are amenity benefits for the local community rather than land transport benefits. The way this is managed is that approved organisations only show 30 percent of their total expenditure on this cleaning work in their transport programmes. Under the provisional framework, it is proposed that an approved organisation's normal funding assistance rate would be applied to 30 percent of the total costs of cleaning channels, sumps and cesspits in urban areas.

3.2.3 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.

Under the provisional framework, regional councils would receive the same funding assistance rate for total mobility services as they would for all the other land transport activities they undertake that are eligible for funding from the NLTF.

If appropriate, a targeted time limited enhanced funding assistance rate could potentially be used at some point in the future to give a kick start to incentivise, and enable, regional councils to make a step change in levels of service for, or the way they are delivering, total mobility services.

3.2.4 Road safety promotion

Road safety promotion activities are local authorities' promotion, education and advertising activities which promote the safe use of the land transport network through education, advertising, awareness raising and by public information to users of the transport network.

Currently the funding assistance rate for territorial authorities' road safety promotion activities is the same as their local road and walking and cycling facility construction funding assistance rates. The funding assistance rate for regional council's road safety promotion activities is a weighted average construction funding assistance rate based on the construction rates of the territorial authorities in their region.

Local authorities' road safety promotion activities are only some of the road safety activities that receive funding from the NLTF. National level road safety promotion activities undertaken by the Transport Agency (eg the 'ghost chips' campaign) and safety related research undertaken as part of the Transport Agency research programme receive 100% funding from the NLTF. Operational changes to local roads to address safety issues are currently funded at a territorial authority's Base funding assistance rate. Capital safety improvements to local roads, and walking and cycling facilities, are currently funded at a territorial authority's construction funding assistance rate (eg their Base rate + 10). The New Zealand Police are funded at 100% from the NLTF for their land transport activities (which include safety activities).

Under the provisional framework, approved organisations would receive the same funding assistance rate for all the different land transport activities they undertake. This would mean that road safety promotion would receive the same funding assistance rate as other types of local authority activities that can be used to address land transport safety issues. This would be consistent with a Safe System approach which looks across the entire land transport system to improve safety by creating safer roads and roadsides, safer speeds, safer vehicles and safer road use.

3.2.5 Administration activities

The funding assistance for councils' land transport administration costs is currently calculated differently for different types of organisations:

- For road safety promotion, walking and cycling, public transport infrastructure, and maintenance operation and renewal of local roads territorial/unitary authorities receive an administration cost payment at a fixed rate of 2.25% of the NLTF share of the costs of the relevant activity.
- For territorial and unitary authorities' transport planning and public transport services activities, a 'fair and proportional' administration cost is included as part of the direct cost for the relevant activity.
- For non-unitary regional councils administration costs are included as a direct cost of their activities.

To be consistent with approved organisations receiving the same funding assistance rate for all the different land transport activities they undertake, we are proposing that approved organisations actual, fair and proportional administration costs for each activity should be included as part of the direct cost for those activities and funded at the approved organisations' funding assistance rate for the relevant activity.

3.2.6 Level crossing warning devices

Currently the funding assistance rate for level crossing warning devices is 100% of the eligible costs imposed by third parties. The rationale behind this funding assistance rate was because rail track authorities can unilaterally require such devices to be installed. There was concern local authorities might not have sufficient advance notice for them to budget for such facilities.

Approved organisations being funded at 100%, and therefore having no 'skin in the game', may mean that insufficient consideration is given to seeking efficiencies and value for money in how level crossings are managed. Further, it means that the direct land transport system users (who provide the revenue for the NLTF) bear the full cost of level crossing warning devices that are required by third parties, even though local communities also benefit from those devices.

Under the provisional framework it is proposed that an approved organisation's share of the cost of level crossing warning devices would be funded at that approved organisation's normal funding assistance rate.

QUESTIONS:

PFR1 Overall do you think the provisional funding assistance rates framework would support the optimal land transport outcomes being achieved within the available financial resources? Do you think it would facilitate an integrated and appropriately consistent land transport network throughout the country? Why? /Why not?

PFR2 Is there anything you particularly like or dislike about the provisional framework? If so why, and what effect do you think that part of the framework would have?

4. The overall NLTF co-investment rate

4.1 WHAT THE OVERALL NLTF CO-INVESTMENT RATE IS SEEKING TO ACHIEVE

The idea behind the overall NLTF co-investment rate is that it should appropriately split the costs of the New Zealand land transport system between direct land transport system users and local communities (ie property owners and land users).

The reason that the costs of that system are split between those two groups is because both of those groups affect, and benefit from, the land transport network.

- While there are benefits to direct land transport system users from the land transport system, there are also benefits to property owners and land users particularly in terms of access to the land they own/use and the development opportunities made possible by access to their area. This includes the development opportunities they obtain from the provision of access to their land by particular types of land transport – eg access to residential areas, employment hubs and retail areas by public transport; access to businesses, farms and commercial forests by heavy vehicles. Overall those benefits are reflected in property values (although there is also a spillover of benefits to people outside the local area).[5]
- The property owner and land user do not necessarily pay the fuel excise duty or road user charges (RUC) for the vehicles which use the land transport network to access their land. For example if a supermarket is established on the periphery of a town the value of the land on which the supermarket is situated could be expected to increase and the person operating the supermarket is likely to make a profit.

However, neither the landowner nor the supermarket operator pays the fuel excise duty for the vehicles used by the customers who drive to the supermarket, and whether or not the supermarket operator pays the RUC for the trucks that deliver goods to the supermarket will depend on the nature of their contractual arrangements with their suppliers, logistics companies etc.

5. *FAR review, Prepared for Southland District Council*, MWH, 23 April 2013, Section 2.3.

- Different land uses have different effects on the land transport network because they generate different numbers of trips and different numbers of trips by different modes of transport and types of vehicles (e.g. private cars, buses, dairy tankers). It is local authorities through their planning decisions (such as under the Resource Management Act 1991) and local communities (through their land use decisions) that primarily determine what use is made of the land within an area.
- While fuel excise duty and RUC reflect the use that is made of the New Zealand road network, even if there are very low numbers of vehicles using a road there are still ongoing costs involved in keeping that road open and functional (and, therefore, able to provide access to and from the properties served by it). What those costs are vary from road to road depending upon factors like the length of the road and whether or not it is sealed.

The overall NLTF co-investment rate also needs to reflect the fact that local government (and other approved organisations) and the Transport Agency co-invest in the land transport network and work together to provide land transport outcomes.

- Both the Transport Agency and local authorities have statutory functions that require them to contribute to land transport outcomes. For example, under the Local Government Acts, one of territorial authorities' core jobs is to maintain and operate local roads. The purpose of a local authorities' ability to raise rates is to provide funding to enable it to undertake those kinds of core jobs.
- Ultimately, it is local authorities (and other approved organisations) who decide how they will carry out their land transport activities. If there was a very high overall NLTF co-investment rate approved organisations might have insufficient 'skin in the game' to give appropriate consideration to seeking efficiencies and value for money in delivering those activities. Putting the Transport Agency in the role of having to police the value for money of investment in those circumstances would be likely to create significant ongoing tensions. It would not foster an approach where approved organisations and the Transport Agency work together to achieve the optimal land transport outcomes within their combined financial resources.

How much NLTF revenue the Transport Agency can invest in councils' land transport activities depends upon the funding ranges for those activities set in the Government Policy Statement on Land Transport Funding (GPS). We cannot assume that the funding ranges for councils' land transport activities will be materially increased in the next GPS. Therefore, we cannot pursue options for setting the overall NLTF co-investment rate that would require a material increase in those funding ranges.

4.2 WHAT IS THE APPROPRIATE RANGE FOR THE OVERALL NLTF CO-INVESTMENT RATE?

We consider that the appropriate range for the overall NLTF co-investment rate is from 50% to 53%.

The NLTF meeting 50% of the overall costs of approved organisations' eligible land transport activities would:

- most fully reflect a co-investment approach as both direct land transport system users and local communities would have equal 'skin in the game' (ie there would be a 50:50 cost split), and
- be easy to understand.

Because a 50% overall co-investment rate would be straightforward and based on a clear principle, it would also be likely to remain stable over time. This would provide both councils and the NZ Transport Agency with greater investment certainty going forward.

EFFICIENCY IN LEVYING TAX

Some stakeholders have argued that there should be a high overall NLTF co-investment rate because they consider fuel excise duty and road user charges to be a more efficient way to gather revenue than levying rates. (Currently fuel excise duty is very efficient to levy in New Zealand as the duty is collected at the refinery.)

The efficiency in gathering a tax is something that it is important to bear in mind when designing a system for raising tax revenue. However, changes to the revenue sources that are paid into the NLTF (such as increases in RUC or fuel excise duty) are outside of the scope of the funding assistance rates review. Further, efficiency in gathering a tax is not generally considered relevant to how that tax revenue is distributed once it has been raised – which is what funding assistance rates are about.

However, over the last few years, overall the NLTF has met approximately 53% of the cost of approved organisations' eligible land transport activities. (This excludes funding assistance rates received for emergency works, and special bespoke funding assistance rates that have been applied in exceptional circumstances. It includes the funding assistance rates for local roads, special purpose roads/Crown Range Road, passenger transport services and facilities including total mobility services, transport planning, road safety promotion, network user information, level crossing warning devices, and stock effluent facilities.)

We note that:

- there have been recent changes to the funding assistance rates for transport planning and road safety promotion, and
- funding assistance rates for some public transport activities (including passenger rail services) are currently being transitioned down from 60% to 50%.

Therefore, if no changes were made to the current funding assistance rates system as a result of this review, the overall proportion of the costs of approved organisations' eligible land transport activities being met by the NLTF would decrease over the next few years. This is particularly the case given the high level of expenditure on passenger rail transport in Auckland and Wellington. (Because that level of expenditure is so high, the fact that the funding assistance rate for passenger rail is reducing has a material effect on the overall proportion of the total cost of approved organisations' eligible land transport activities throughout New Zealand that is met by the NLTF.)

4.3 WHY WE ARE NOT PROPOSING TO UNDERTAKE ECONOMIC ANALYSIS TO DETERMINE THE OVERALL CO-INVESTMENT RATE

We have considered whether it would be useful to engage an economist to prepare further analysis to support the Transport Agency's decision on an overall co-investment rate. However, we do not think that this would add additional value.

There have been many studies looking at the relationship between property values and accessibility or transport infrastructure projects. Most of those studies have faced real difficulties in coming up with a reliable methodology and many have examined issues at a very local level. So far as we are aware, none have come up with an approach that could reliably be applied to all land transport activities that are eligible for funding from the National Land Transport Fund across the country.

QUESTION

OCIR1 Where should the overall NLTF co-investment rate sit within the 50% to 53% range? Why do you consider that that is the most appropriate overall division of costs between local communities and direct land transport system users?

5. How should we set councils' funding assistance rates?

5.1 WE NEED YOUR FEEDBACK TO HELP US FIND THE OPTIMAL APPROACH

The Transport Agency needs to decide on the optimal combination of factors and approaches that, together, result in:

- a workable, reasonable and appropriate way to set councils' funding assistance rates, and
- funding assistance rates that best assist the Transport Agency and local government to work together within our combined financial resources to achieve the optimal land transport outcomes across New Zealand.

We are asking you to consider a number of different factors and possible approaches together and provide us with feedback on which combination would produce the best result.

Under the provisional funding assistance rates framework, some councils would receive funding assistance rates that are higher than the overall NLTF co-investment rate because they have to deal with matters that are outside of their control which make it harder for them to deliver optimal land transport outcomes than it is for most other councils. If some councils get a funding assistance rate that is higher than the overall NLTF co-investment rate, then other councils would consequently need to have a rate that is lower than the overall NLTF co-investment rate. This is necessary so that the NZ Transport Agency can work within the funding ranges for different land transport activities set by the GPS and the amount of revenue in the NLTF.

In determining which councils receive higher funding assistance rates we will take into account differences in local authorities' ability to raise the local share of the costs of achieving land transport outcomes.

As discussed below, we are also proposing to group councils into bands, with each band getting a different funding assistance rate (rather than setting a separate funding assistance rate for each council as we currently do for some activity classes).

We need to decide on the best combination of:

- how we set the overall NLTF co-investment rate (see section 4 of this document)
- the metrics we use as proxies for councils' relative ability to raise the local share of the costs of achieving land transport outcomes, and
- how we use funding assistance rate bands.

Coming up with the best combination of factors and approaches will involve making tradeoffs, for example:

- The greater the number of councils who receive higher funding assistance rates the lower the funding assistance rate that is received by the councils in the lowest band is likely to be.
- If we use a small number bands then the councils who receive the highest rate can receive a reasonably high rate, eg 75%. If we use more bands then this will spread the elevated rates out and may reduce the rate received by the highest band and/or mean that fewer councils receive the highest rate.
- What effect changing a council's rate will have on other councils' rates will vary depending upon the size of the land transport spend in their area. A 1% increase in a large metropolitan council's rate could have a significant effect on the funding assistance rates that could be received by other councils.

To provide a basis for you to engage with us on this issue, we have developed and modelled five options for how we could set councils' funding assistance rates.

For the reasons discussed in section 4 of this document, we consider that the appropriate range for the overall NLTF co-investment rate is from 50% (a 50:50 cost split) to 53% (the overall effective funding assistance rate over the last few years). Given this we have prepared two sets of indicative funding assistance rates for each of the five options - one using a 50% overall NLTF co-investment rate and one using a 53% co-investment rate. The two sets of indicative rates show what rates individual councils might receive under the relevant option at each end of the range of possible overall NLTF co-investment rates.

5.2 WHY WE ARE LOOKING AT GIVING SOME COUNCILS RATES THAT ARE HIGHER THAN THE OVERALL NLTF CO-INVESTMENT RATE

We are proposing that some councils should receive funding assistance rates that are higher than the overall NLTF co-investment rate. This is because some councils have to deal with matters outside of their control which make it harder for them to deliver optimal land transport outcomes than it is for most other councils. Those councils receiving a higher funding assistance rate would support them to deliver optimal land transport outcomes.

If some councils receive a funding assistance rate that is higher than the overall NLTF co-investment rate, then other councils would consequently need to have a rate that is lower than the overall NLTF co-investment rate. This is necessary so that the Transport Agency could work within the funding ranges for different land transport activities set by the GPS and the amount of revenue in the NLTF. The funding assistance rate received by those other councils would receive would be determined by how much NLTF revenue would need to be freed up to fund the higher funding assistance rates.

5.3 DIFFERENCES IN ABILITY TO RAISE THE LOCAL SHARE NOT DIFFERENCES IN COSTS

As noted in section 1 of this document, to help us determine which councils should receive higher funding assistance rates, over the last few months we have been discussing with local authorities what factors make it materially harder for them to deliver land transport outcomes.

Some of the factors the local authorities identified at those meetings relate to differences in councils' costs in delivering land transport outcomes, either:

- factors influencing the intrinsic costs of delivering land transport outcomes e.g. geology and climate, or
- factors requiring the local network to be delivered/maintained to a higher standard and, therefore, increasing the cost of delivering the network.

Others relate to differences in councils' ability to raise the local share of the costs of land transport activities.

We have carefully considered each of the matters that were raised at the council meetings and assessed whether or not they can and should be taken into account in determining which councils should receive funding assistance rates that are higher than the overall NLTF co-investment rate.

In determining which councils get higher funding assistance rates we will take into account differences in local authorities' *ability to raise the local share of the costs of achieving land transport outcomes*. We discuss five potential ways of doing this in section 5.5 below.

We are **not** proposing to take into account *differences in costs between local authorities*.

This is because:

- the fact that some councils have higher costs already affects the investment programme decisions the Transport Agency makes, ie it affects the approved costs of councils' land transport projects, and the size of councils' approved road maintenance, operations and renewals and public transport programmes. (The intention is that with the development and implementation of the one network road classification the impact of differences in costs on approved costs and programme sizes would become more transparent in future). In contrast, funding assistance rates are about how those costs are shared between councils and the NLTF
- there is not a clear correlation between the councils we would expect to be most affected by things like challenging terrain, climate and geology and those with the highest local road maintenance and renewal costs
- there are differences in road metal/aggregate prices between regions but, generally, the regions with the higher prices appear to change over time. Local aggregate prices may be significantly affected by factors over which local authorities have some control or influence, such as the local aggregate market and the Resource Management Act controls affecting quarries and river gravel extraction in their area
- we are concerned that setting funding assistance rates based on differences in input costs, eg local aggregate price, could skew the market price for those inputs
- when the prices for different land transport contracts are set, any cost differences arising from terrain, climate, geology and local input prices are overshadowed by factors such as the level of competition contractors consider that there is in the local market and the amount of risk that contractors see in a particular contract.

Not factoring in differences in costs in setting funding assistance rates would be a change from the current system. We currently take the size of a territorial authority's approved road maintenance programme into account when setting base funding assistance rates for local road operations, maintenance and renewals.

In attachment 2 to this document we discuss other factors that we are currently not proposing to take into account in setting funding assistance rates, and our reasons for that.

5.4 USING BANDS

We are proposing to group local authorities into bands by:

- using a chosen metric or metrics to identify the group of councils that is likely to find it intrinsically harder to raise the local share of the costs of achieving land transport outcomes than most other councils
- dividing that group of councils into a small number of bands in accordance with their relative difficulty in raising the local share
- setting a different funding assistance rate for each of those bands
- having one more band which includes all the other councils
- determining the funding assistance rate for that last band by how much lower than the overall NLTF co-investment rate that rate needs to be to free up sufficient NLTF revenue to fund the higher funding assistance rates
- every council within a band would receive the set funding assistance rate for that band.

This would be different to the current approach for setting Base funding assistance rates for local road maintenance, operation and renewal activities under which we set a separate funding assistance rate for each council.

In using bands we are seeking to avoid similar councils ending up with funding assistance rates that vary by a few percent even though they experience similar difficulties in raising their local share of costs.

Using bands would also eliminate the multi-stage process that is currently used in determining councils' Base funding assistance rates under which the Transport Agency first determines an indicator rate using a formula but then may modify that indicator rate taking into account the circumstances of each council. This is time-consuming and may, ultimately, be distorting and inequitable.

The current system for setting Base funding assistance rates could provide for 1% differences in the rates between councils because at the time it was set up, in the late 1980s, the value of property within a district placed a legal limit on the amount of general rates that a district could levy. Under section 12(3) of the former Rating Powers Act 1988, no general rate could exceed in any one year 1.25 cents in the dollar on the net capital value, or its equivalent on the land value, or 18 cents in the dollar on the annual value, of the rateable property in the district. Therefore, a difference in the net equalised capital (or land) value between two districts made a direct difference to the amount of general rates each of the relevant district councils could levy. There is no longer any legal restriction that ties the amount of general rates a council can levy to the value of the rating units in its area.

There are a variety of ways we could divide councils between bands. In section 5.6 we discuss the choices we have made in using bands when modelling some possible options for setting councils' funding assistance rates. We are seeking your feedback on whether that is the optimal combination of choices and, if not, what the optimal combination of choices would be.

We discuss how often funding assistance rates would be re-set going forward in section 5.10 below. If any council would move to a band with a lower funding assistance rate following such a re-set, then arrangements could be made to transition that change in.

5.5 METRICS FOR TAKING INTO ACCOUNT COUNCILS' RELATIVE ABILITY TO RAISE THE LOCAL SHARE OF COSTS

We have developed five options for metrics or combinations of metrics we could use to take into account differences in councils' ability to raise the local share of costs.

The five options are:

Option 1 Determining which councils are in which bands on the basis of the New Zealand index of deprivation

Option 2 Determining which councils are in which bands on the basis of the ratio of:

$$\frac{\textit{Net equalised rateable capital value}}{\textit{Number of rating assessments}}$$

Option 3 A combination of options 1 and 2

Option 4 Determining which councils are in which bands on the basis of the ratio of:

$$\frac{\textit{Lane kilometres of local road within the council's area}}{\textit{Net equalised rateable capital value}}$$

Option 5 A combination of options 1 and 4.

We discuss each of these options in more detail in section 5.7 below.

As discussed in section 5.7.6 below, we have deliberately chosen metrics that (1) are, or can be, publicly available; (2) are independent or verifiable; and (3) are nationally consistent between different areas. This is because we want the funding assistance rates system to be objective and transparent with the exercise of discretion generally limited to situations which are genuine outliers or exceptions.

Used on their own, options 2 and 4 may not achieve the outcomes we are seeking from the provisional framework. In particular, under option 4 some councils who face significant socio-economic issues would end up on the lowest funding assistance rate and this could materially impact on whether optimal land transport outcomes can be delivered in their areas. However when the ratios used in those options are combined with index of deprivation (in options 3 and 5) both of the resulting combination options could achieve the outcomes we are seeking. This is because combining capital value and index of deprivation includes both a proxy for the relative wealth of a council's ratepayers (including its corporate and non-resident ratepayers) and a proxy for the relative wealth of the resident population in a council's area.

5.6 MODELLING THESE OPTIONS

We have modelled each of these options to produce indicative funding assistance rates for each council under each option.

In undertaking the modelling we have explicitly made a number of choices in relation to matters such as the proportion of councils that should be included in the bands that receive higher rates, how many bands we should use and whether we cap the rate of the councils in the highest band at a specified maximum amount. We discuss those choices below.

We have used the same combination of choices in modelling all five options, so that the options are easy to compare. However, we are seeking your feedback on whether that is the optimal combination of choices and, if not, what the optimal combination of choices would be.

For each model, a number of technical steps were involved in calculating councils' indicative funding assistance rates:

1. Each councils' score under the relevant metric(s) (eg for option 1 each council's population weighted index of deprivation variable interval) was determined directly from data for each council.
2. These scores were normalised, which means the councils' scores were scaled to fit a distribution of between -1 (the lowest possible score) and +1 (the highest possible score).
3. Where an option used more than one factor, the normalised score in the model was determined by evenly weighting each of the factors (eg option 3 uses two factors, index of deprivation and capital value/number of rating units, each of which was weighted at 50% to determine the normalised score for the model).
4. Councils were ranked according to their normalised scores, from highest to lowest scores.
5. The overall NLTF co-investment rate, either 50% or 53%, was set for the model.
6. Raw funding assistance rates for the councils in the upper quartile (top 25%) were calculated based on the relevant councils' normalised scores, with all the other councils being allocated a single funding assistance rates that, in combination with the upper quartile funding assistance rates, averaged to the relevant overall NLTF co-investment rate. The single funding assistance rate for the majority of councils (ie the remaining 75%) was set to be reasonably close to the relevant overall NLTF co-investment rate, e.g. where the overall NLTF co-investment rate was 50% the funding assistance rate for the remaining 75% of councils was set at 49%.
7. The raw funding assistance rates for councils in the top 25% were then divided into 5% bands with each council placed into the band with the funding assistance rate that was nearest to its raw funding assistance rate. (For example a council that had a raw funding assistance rate of 52% would be placed into a 50% band, while another with a raw funding assistance rate of 53% would be placed into a 55% band.) Where necessary, the top band was constrained to a 75% maximum funding assistance rate.

5.6.1 Bands

In the models we have included one quarter (25%) of councils in the funding assistance rate bands that receive the higher funding assistance rates. We have done this because the reason why we would give some councils funding assistance rates that are higher than the overall NLTF co-investment rate is because they have to deal with factors that make it harder for them to deliver optimal land transport outcomes than it is for most other councils. The models we have developed use either 5 or 6 bands.

However, there are a number of possible ways that councils could be divided up into bands. The possible banding options include:

- Only including the five councils that would find it the hardest to find the local share in one top band, and including all other councils in the remaining band.
- Including a different proportion of councils in the bands that receive higher rates, eg 10% of councils or a third of councils.
- Always including some councils in a band that receives the overall NLTF co-investment rate (with some other councils receiving a higher rate, and the remaining councils in a band that receives a rate that is lower than the overall co-investment rate).

The funding assistance rate for the lowest band is determined solely by how much lower than the overall NLTF co-investment rate the rate for that band needs to be to free up sufficient NLTF revenue to fund the higher assistance rates. Therefore, if we included a larger proportion of councils in the bands with the higher funding assistance rates this could push down the funding rate received by the remainder of the councils in the lowest band.

In the models we have deliberately used funding assistance rates that use 5% increments when assigning rates to the 'higher' bands, e.g. higher bands at 70%, 65%, and 55%. This keeps the system simple.

5.6.2 Weighting

Models that used more than one factor had the indicative funding assistance rates calculated by evenly weighting each of the factors, eg option 3 has two factors, index of deprivation and capital value/number of rating units, each of which was weighted at 50% to determine the indicative funding assistance rates.

5.6.3 Two sets of indicative rates for each option

As discussed in section 4, the appropriate range for the overall NLTF co-investment rate is from 50% to 53%. Given this we have prepared two sets of indicative funding assistance rates for each of the five options – one using a 50% overall NLTF co-investment rate and one using a 53% co-investment rate. The two sets of indicative rates show what rates individual councils might receive under that option at each end of the range of possible overall NLTF co-investment rates.

Ultimately, the overall NLTF co-investment rate might be somewhere between 50% and 53%. In the models we have used, for all the councils in the lowest band to receive a 50% funding assistance rate an overall NLTF co-investment rate of around 51.5% would be required.

5.6.4 A maximum normal funding assistance rate

In the models we have used a maximum normal funding assistance rate of 75%. This is because, if the funding assistance rate for a particular council was too high the council would bear very little of the risk of over-investing in land transport activities and may not have sufficient 'skin in the game' to give appropriate consideration to seeking efficiencies and value for money in how they undertook land transport activities.

For some of the options we have modelled, the top band has a 70% rate (rather than a 75% rate). This is because, under the metrics we are using in those options, the relative difference between the councils in the top band and other councils is not sufficient for them to receive a 75% funding assistance rate. Under the other options, in some cases, if we were not using a 75% cap the relative difference between councils would be sufficient for one or more of the councils in the highest band to receive a rate that was greater than 75%.

Under the current funding assistance rates system, the maximum funding assistance rate for the construction of new local roads and walking and cycling facilities, and capital improvements to those facilities, is 94%.

5.7 THE OPTIONS

5.7.1 Option 1 - New Zealand index of deprivation

Under option 1 we would determine which councils were in which bands on the basis of the population weighted New Zealand index of deprivation interval variable for all the Census meshblocks in the council's area. Meshblocks are geographical units, defined by Statistics New Zealand, each containing a median of approximately 87 people in 2006.

Using the index of deprivation would reflect the relative wealth of the resident populations in the different council areas and, therefore, the extent to which the people who live in a council's area can afford to pay the local share of the costs of land transport activities (eg can afford to pay rates and public transport fares).

The New Zealand index of deprivation 2006 (NZDep 2006) combines nine variables from the 2006 New Zealand census which reflect eight dimensions of deprivation.

A list of the variables used in NZDep2006 is given in table 2.

Indicative rates for different councils under this option using the 2006 New Zealand index of deprivation interval variable figures are shown in figures 2A and 2B. For non-unitary regional councils we have used the population weighted average of the figures for the territorial authorities within their region.

We understand that index of deprivation figures based on the outcomes of the 2013 Census will be available in April 2014. This means that the 2013 figures could be used to determine funding assistance rates for the 2015-18 NLTF investment period.

We are looking at using index of deprivation variables as a proxy for the relative wealth of the residents of an area rather than the median household income figures for each area. Household income is one of the variables used in the New Zealand index of deprivation. However, household income by itself does not necessarily reflect a household's relative wealth. Using just median household income in setting funding assistance rates would mean that reasonably high wealth areas where more members of the community use legitimate structures like family trusts and farm or property holding companies in a way which results in them having a relative low income compared to their overall wealth would disproportionately benefit. Some of the districts with the lowest median household income also have very low deprivation levels.

TABLE 2: VARIABLES INCLUDED IN NZDEP2006
Variable (proportions in small areas) in order of decreasing weight in the index[6]
People aged 18–64 receiving a means tested benefit
People living in equivalised households with income below an income threshold
People not living in own home
People aged < 65 living in a single parent family
People aged 18–64 unemployed
People aged 18–64 without any qualifications
People living in equivalised[7] households below a bedroom occupancy threshold
People with no access to a telephone
People with no access to a car

6. Source: *NZDep2006 Index of Deprivation*, C Salmond, P Crampton and J Atkinson, August 2007, page 21.
7. Equivalisation: methods used to control for household composition.

Index of deprivation variable intervals (and median household income figures) have the problem that they only relate to the resident population of a district. Therefore, solely using index of deprivation figures in setting funding assistance rates under option 1 might disproportionately benefit those areas with large non-resident and/or corporate ratepayer bases.

Some areas have a significant proportion of non-resident ratepayers – either holiday home owners or the owners of farms or other business properties located within the area who live outside of the area. Those non-resident ratepayers tend to be relatively affluent (ie they can afford to own a holiday home or business). In 2010 43% of Taupo District Council's ratepayers were non-resident ratepayers.[8] Nearly 39% of Ruapheu District is owned by people who live outside of the district and 24.5% of the people who own land in Ruapehu District live outside the district.[9] In 2008 51% of dwellings in Thames Coromandel District were owned by non-resident ratepayers.[10] All of these non-resident ratepayers are liable to pay rates.

Solely using index of deprivation in determining which councils are in which funding assistance rate bands would not address the issue that some councils have high proportions of non-rateable Crown conservation estate in their area with parts of their roading network serving that conservation estate. In 2005, a joint central government/local authority funding project team found that the existence of rating exemptions for this land, in and of itself, was not giving rise to affordability issues at the national level. However, rating exemptions might contribute to affordability issues in some individual local authorities.[11]

That project team did also note that some parts of the Crown conservation estate have tourism industries associated with them which generate benefits of some value to the local area eg by creating a need for local accommodation and associated services.[12]

The index of deprivation is currently created by the Department of Public Health, School of Medicine & Health Sciences, University of Otago. In future, they might choose to cease compiling the index. However, we understand that there is currently no intention of that and, given the wide use made of the index of deprivation, if it did occur it is likely that the index would be replaced by another index with a similar purpose. If not, the Transport Agency could in future commission a similar index to be compiled at a district and regional council level using Census data.

There may be changes to how the index of deprivation is compiled over time. However, that is true of all data sources, including the data collected by Statistics New Zealand.

8. *Taupo State of the District Report 2010*, page 6.
9. www.ruapehudc.govt.nz/Site/District/Facts_And_Figures, as at 31 July 2013.
10. Thames Coromandel District Council Submission to the Select Committee Inquiry into the 2007 Local Government elections, 29 January 2008, page 3.
11. *Local Authority Funding Issues - Report of the Joint Central Government/Local Authority Funding Project Team*, 8 July 2005.
12. Ibid.

FIGURE 2A
OPTION 1 NZDEP-2006 50% OVERALL NLTF CO-INVESTMENT RATE

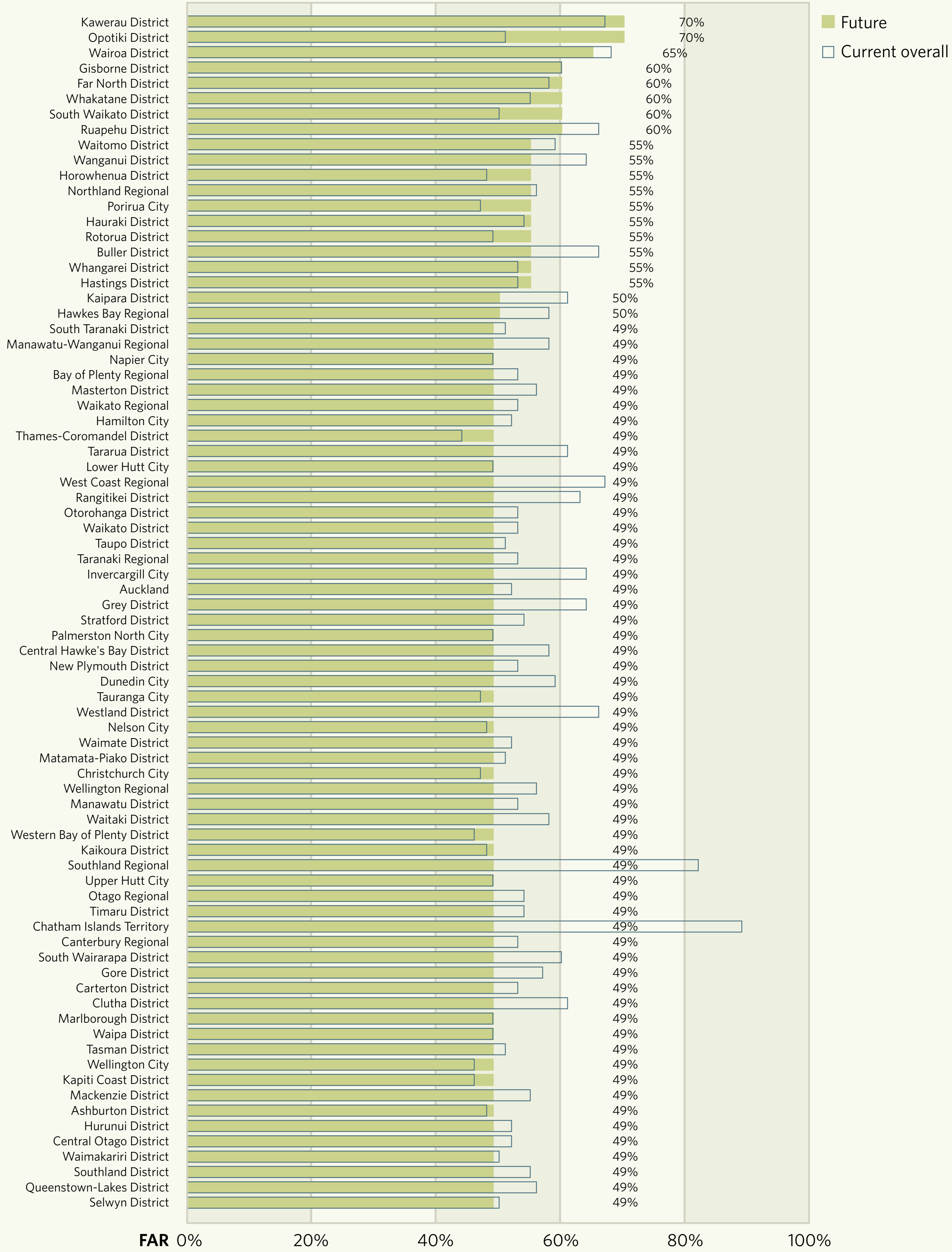
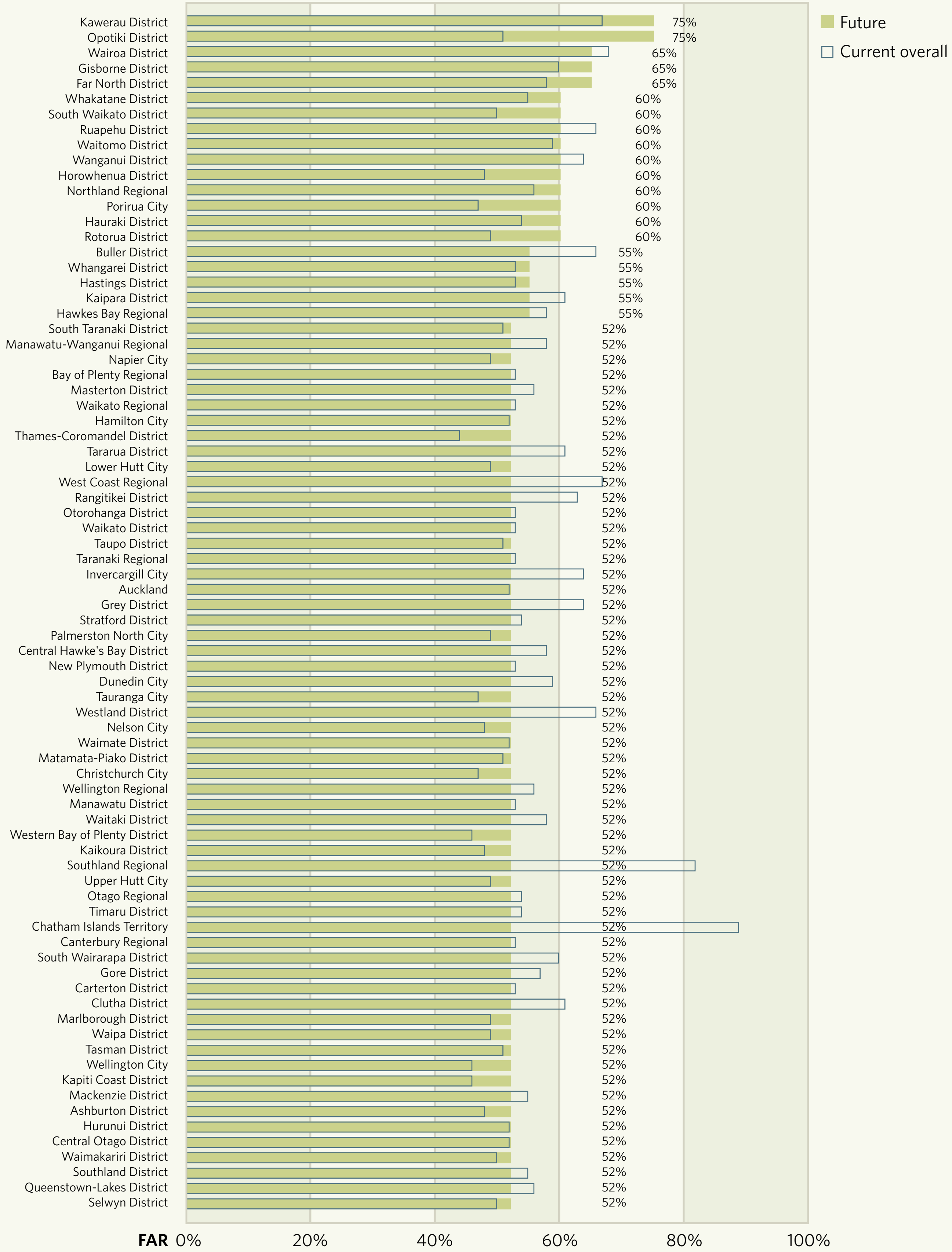


FIGURE 2B
OPTION 1 NZDEP-2006 53% OVERALL NLTF CO-INVESTMENT RATE



5.7.2 Option 2 – The ratio of net equalised rateable capital value over number of rating assessments

Under option 2 we would determine which councils are in which funding assistance rate bands on the basis of the ratio of:

$$\frac{\textit{Net equalised rateable capital value}}{\textit{Number of rating assessments}}$$

This option would use the net equalised rateable capital value of land within a council's area as a proxy for *relative wealth of a council's ratepayers* (including corporate and non-resident ratepayers) and the number of rating assessments in the council's area as a proxy for *the number of ratepayers a council can obtain the local share of land transport costs from*.

Indicative rates for different councils under this option using are shown in figures 3A and 3B below. For non-unitary regional councils we have used the population weighted average of the figures for the territorial authorities within their region.

Option 2 has the advantage (which it shares with the status quo for setting councils' Base funding assistance rates for local road maintenance, operations and renewals), of excluding non-rateable land. Therefore, it takes into account the fact that no rates income can be generated from non-rateable land such as the Crown conservation estate even though parts of a council's local road network serve the conservation estate. This would benefit councils with large proportions of non-rateable Crown conservation estate in their area. Attachment 3 to this document shows the proportion of the land within each district which is non-rateable Crown conservation estate.

This option, does not allow for the fact that some councils' areas have high deprivation which means that the residents in their area may be less able to find the money to pay for land transport (and other) activities.

5.7.2.1 WHY CAPITAL VALUE?

The current system for setting Base funding assistance rates uses the net equalised rateable land value as an indication of the financial resources available to a territorial authority. However, it uses that metric in a slightly different way to the way we are using net equalised rateable capital value in option 2.

The current system uses land value as a proxy for 'the financial resources available to a territorial authority'[13]. In option 2 we are using capital value as a proxy for the wealth of a council's ratepayers (including corporate and non-resident ratepayers).

Capital value is a better proxy for the wealth of ratepayers than land value. This is because land value figures assume that a piece of land is being used for its highest and best possible economic use – which may not be the case in practice. By taking into account the value of improvements, capital value more closely relates to the use that a piece of land is actually being put to and, therefore, the productivity of that land. (It is noted that the value of trees in commercial forests cannot be taken into account when assessing either the land value or the capital value of forestry land.)[14]

LOW WEALTH/ HIGH CAPITAL VALUE

Some areas have high proportions of retired people who may own reasonably valuable homes with reasonably high capital value but do not necessarily have a very high income or any other particularly valuable assets. However, low income home-owning households have access to the rates rebate scheme under which councils rebate the homeowners' rates but are then reimbursed by central government.

The rates rebate scheme does not address the situation where (regardless of the capital value of residential properties in an area) the low wealth of the people who live in an area affects the level of rent that can be obtained from leasing residential properties. This is because it only relates to low income homeowners.

13. http://www.pikb.co.nz/home/nzta-investment-policy/determining-territorial-authority-base-and-construction-rates, 26 November 2013.

14. Sections 20(1) and (2) Rating Valuations Act 1998.

Capital value is now the most common basis on which rates are levied. In 2010/11 51% of territorial authorities levied their general rates on capital value and 78% of targeted rates levied by territorial authorities were levied on a capital value basis. 80% of regional councils levied their general rates using capital value and 71% of regional councils' targeted rates were levied on capital value.[15]

5.7.2.2 WHY USE THE NUMBER OF RATING ASSESSMENTS?

Option 2 uses number of rating assessments (rather than resident population) as a proxy for the number of ratepayers a council can obtain the local share of land transport costs from.

This is because, as discussed above, using resident population would not take into account the fact that some areas have a significant proportion of non-resident and/or corporate ratepayers. Therefore, using resident population in setting funding assistance rates under option 2 would disproportionately benefit those areas with large non-resident and/or corporate ratepayer bases.

5.7.2.3 NOT ALL COUNCIL INCOME COMES FROM RATES

Option 2 does not take into account the fact that there is significant variation between councils as to what proportion of their income comes from rates rather than other sources of income such as dividends, subsidies and user fees (like swimming pool charges and parking fees). In 2010/11 this ranged from the Chatham Islands which only collected 5% of its income from rates to Kawerau District which collected 89% of its income from rates. In particular, many regional councils have relatively high investment income through ownership of such things as ports, and dividend payments from these shareholdings are used to offset rates – in 2010/11 Greater Wellington collected 23% of its total income through rates whereas Waikato Regional Council collected 69% of its total income from rates.[16]

However, in option 2 we are using capital value as a proxy for the wealth of an area's ratepayers. Not as a proxy for a council's actual income.

Further, it is part of a council's mandate to determine its own financial management approaches, including:

- the extent to which it will rely on rates
- the extent to which it invests ratepayers' funds in dividend paying enterprises, and
- what activities it will charge user fees for and how those user fees will be set.

15. *Local Government Information Series – Analysis of Local Government Rating Tools and Forecast Revenue, 2011/03*, Department of Internal Affairs, pages 9, 11 and 14 to 15.

16. *Analysis of Local Government Rating Tools*, pages 5 to 7.

Figure 3A

OPTION 2 50% OVERALL NLTF CO-INVESTMENT RATE AND NET EQUALISED RATEABLE CAPITAL VALUE/NUMBER OF RATING ASSESSMENTS

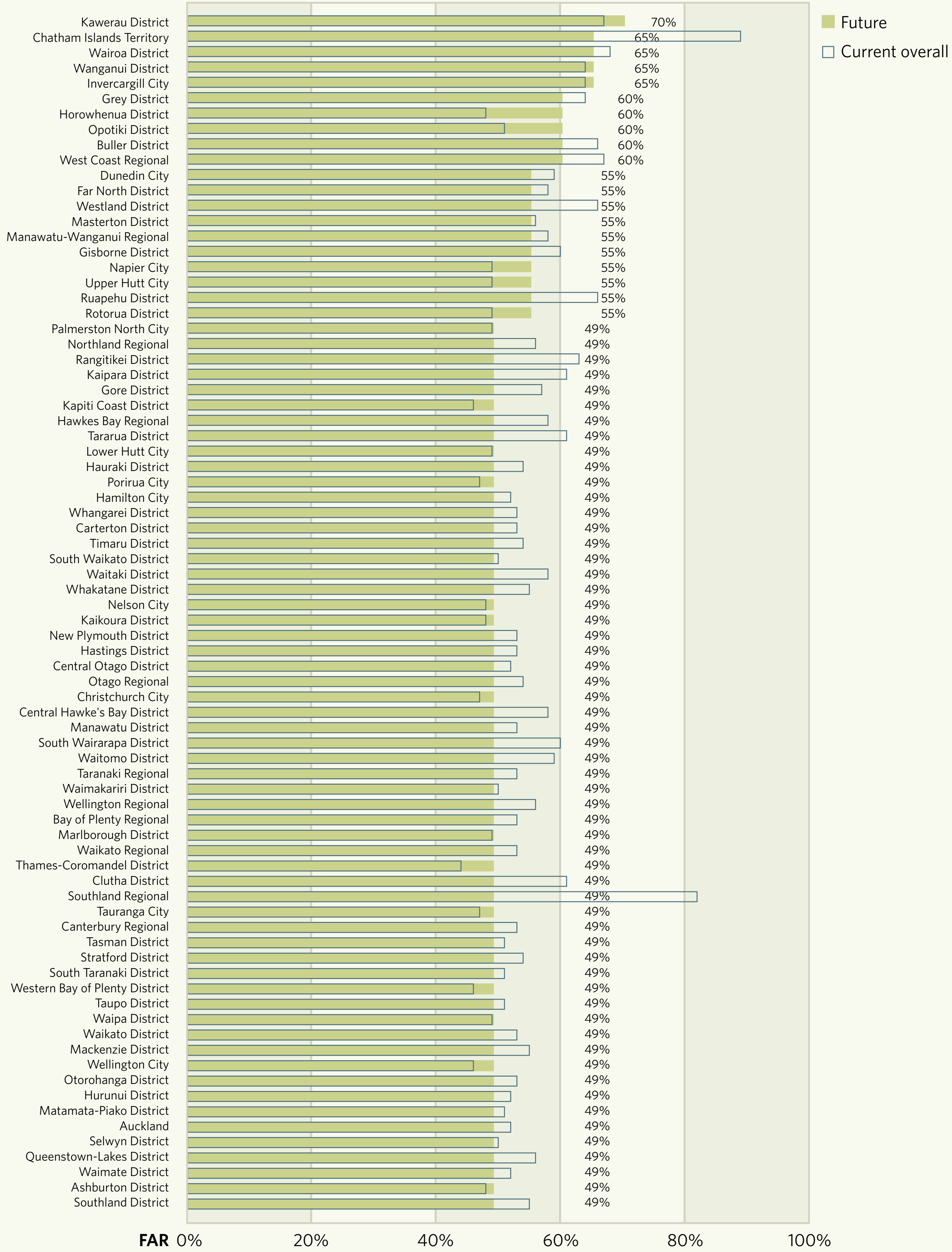
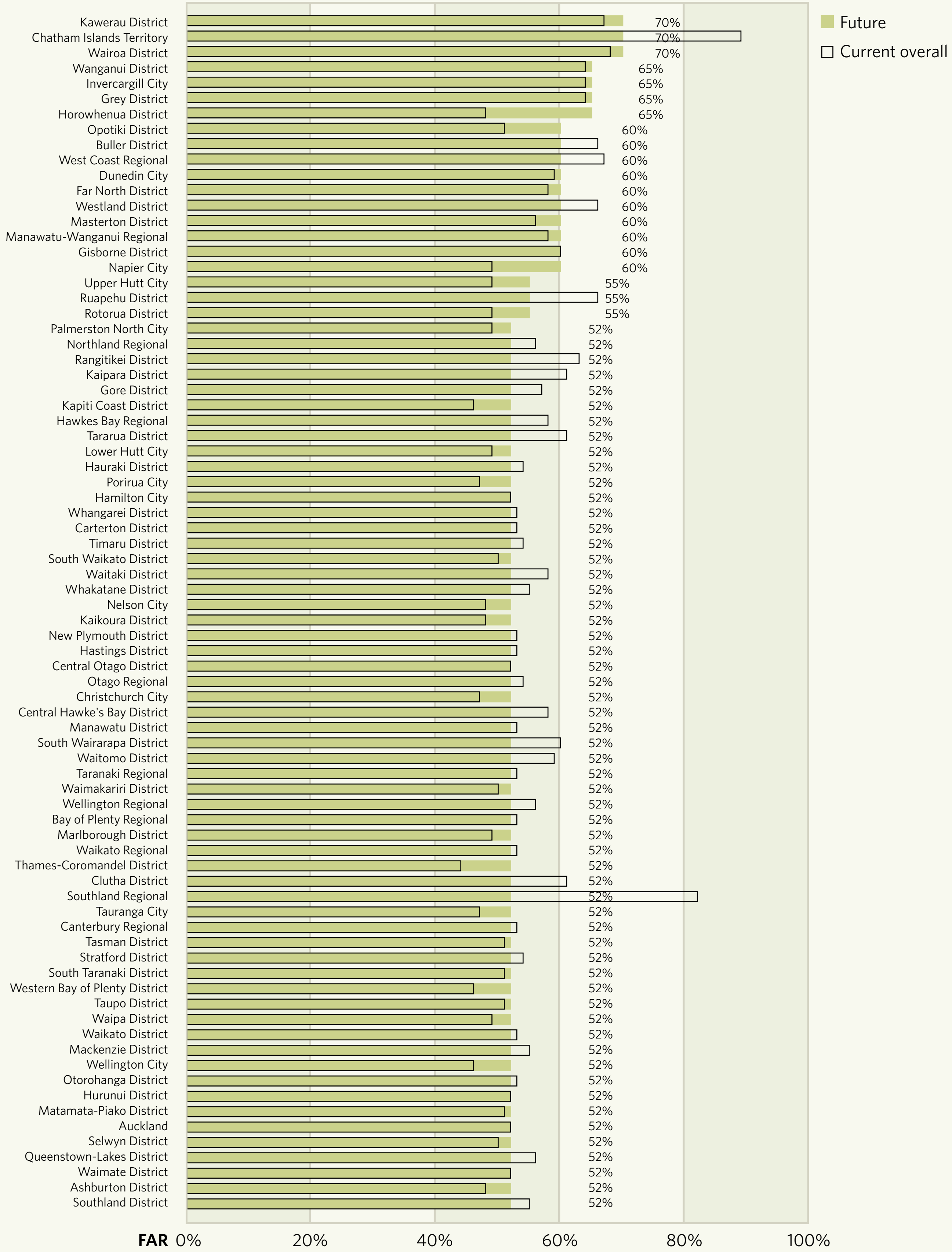


Figure 3B

OPTION 2 53% OVERALL NLTF CO-INVESTMENT RATE AND NET EQUALISED RATEABLE CAPITAL VALUE/NUMBER OF RATING ASSESSMENTS



5.7.3 Option 3 – A combination of index of deprivation and the ratio of net equalised rateable capital value over number of rating assessments

Under this option we would determine which councils are in which funding assistance rate bands using a combination of index of deprivation and the ratio of net equalised rateable capital value over number of rating assessments. It, therefore, includes both a proxy for the wealth of a councils' ratepayers (including corporate and non-resident ratepayers) and a proxy for the wealth of the residents of each council's area.

This option would:

- address the issue that some councils have a high proportion of non-rateable conservation estate in their area (as the net equalised rateable capital value would exclude all non-rateable conservation estate)
- not be restricted solely to measures that only relate to the residential population of an area – as the ratio of net equalised rateable capital value to rating assessments relates to all rateable land and all ratepayers in an area (including land owned by non-resident and/or corporate ratepayers)
- include a measure (index of deprivation) that specifically takes into account the extent to which the people who live in a council's area can afford to pay the local share of the costs of land transport activities (eg can afford to pay rates and public transport fares).

One of the principles in the provisional funding assistance rates framework is that the approach we use to setting funding assistance rates should be efficient to apply. Option 3 would be more complex than options 1, 2 or 4. However, it would still be reasonably efficient to apply.

Indicative rates for different councils under this option using the 1 September 2012 net equalised rateable capital values and number of rating assessments and NZDep2006 variable intervals are shown in figures 4A and 4B below. For non-unitary regional councils we have used the population weighted average of the figures for the territorial authorities within their region.

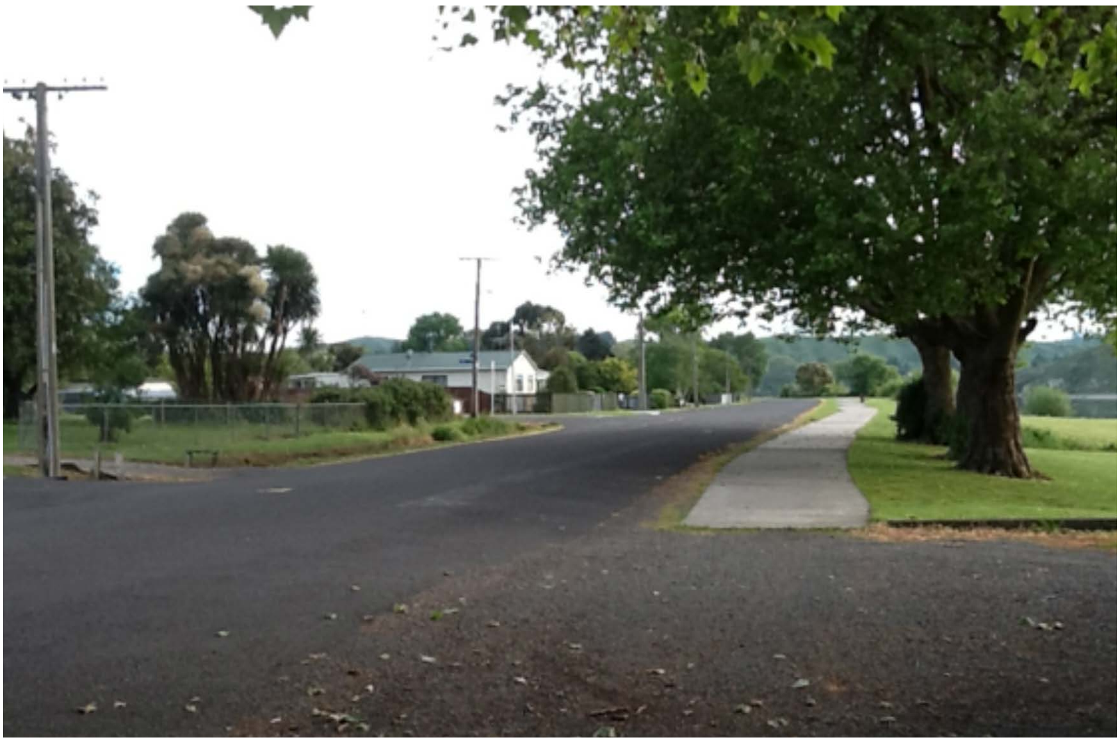


Figure 4A

OPTION 3 50% OVERALL NLTF CO-INVESTMENT RATE NZDEP_2006 AND CAPITAL VALUE/ NUMBER OF RATING ASSESSMENTS

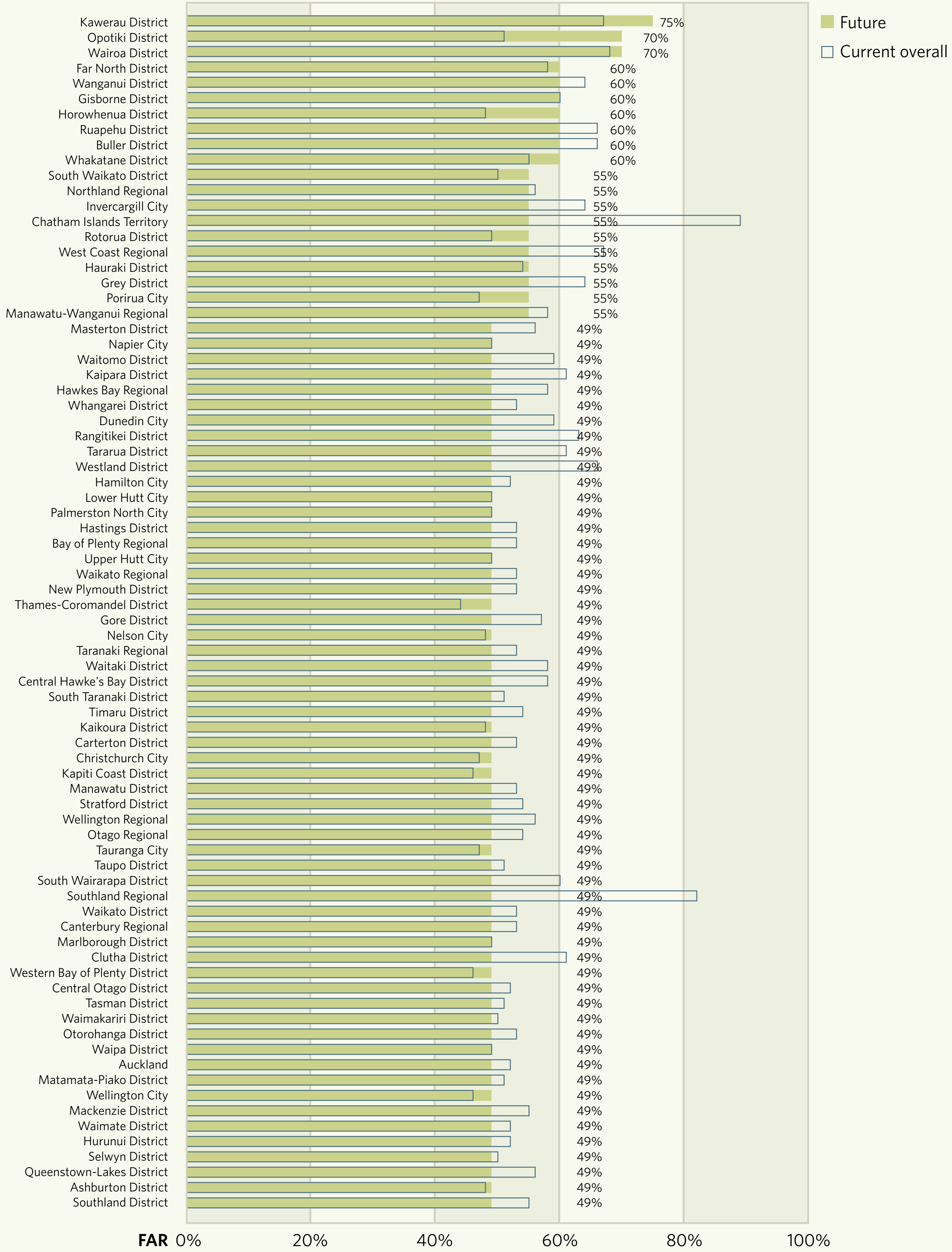
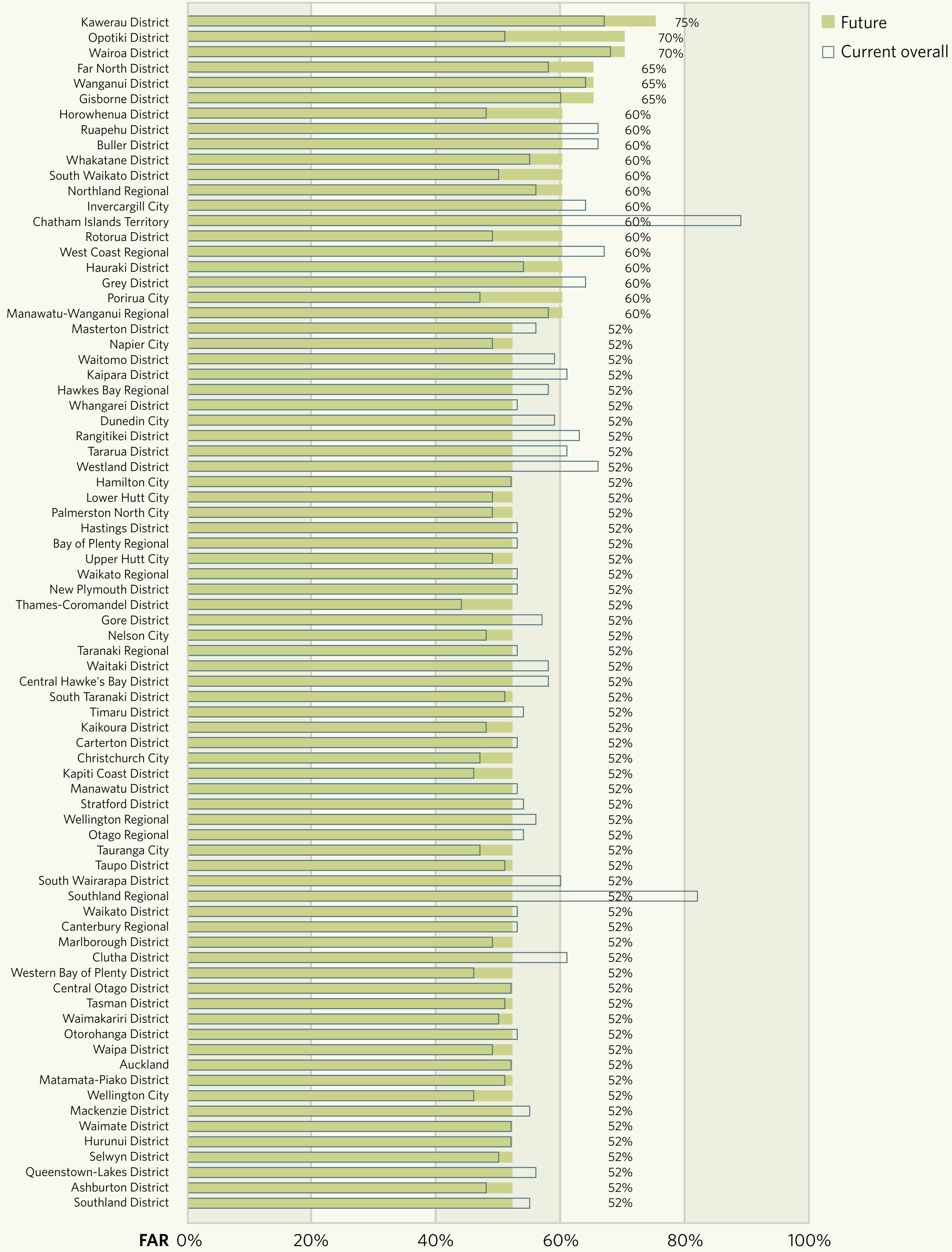


Figure 4B
OPTION 3 53% OVERALL NLTF CO-INVESTMENT RATE NZDEP_2006 AND CAPITAL VALUE/ NUMBER OF RATING ASSESSMENTS



5.7.4 Option 4 - Lane kilometres/net equalised capital land value

Under this option we would determine which councils are in which funding assistance rate bands on the basis of the ratio of:

$$\frac{\textit{Lane kilometres of local road within the council's area}}{\textit{Net equalised rateable capital land value}}$$

This ratio would use an objective proxy for size of the land transport activities a council undertakes (lane kilometres) and a proxy for the wealth of a council's ratepayers (capital value).

The reasons for using rateable capital value rather than rateable land value are discussed in section 5.7.2.1 above.

Indicative rates for different councils under this option using lane kilometres of local road and the 1 September 2012 net equalised rateable capital values are shown in figures 5A and 5B below.

Lane kilometres of local road is used as a proxy for the size of the land transport activities a council undertakes, rather than the cost of a council's approved road maintenance, operations and renewals programme (the metric that is currently used in calculating the Base funding assistance rates for local road operation, maintenance and renewals). This is because we do not currently know whether each council's maintenance, operations and renewals programme is of the right size when compared to other councils' programmes. We also do not know whether all councils are delivering activities to the right standard and using good management practices. It is intended that the development of the one network road classification would help address this issue.

The length of a territorial authority's local road network already affects the size of their approved road maintenance, operations and renewals programme. Therefore, unlike options 1 to 3, this option uses a metric which is already allowed for elsewhere in the land transport funding system.

Further, lane kilometres of local road is not a particularly good proxy for the size of the land transport activities that are undertaken by a non-unitary regional council. (In contrast capital value, index of deprivation and number of rating assessments are all metrics that are relevant to non-unitary regional councils.) Therefore, one possible variation to option 4 would be for all non-unitary regional councils to be included n a special band which receives the overall NLTF co-investment rate.

Because net equalised rateable capital value excludes non-rateable public conservation estate this option would address the issue that some councils have a high proportion of non-rateable land in their area.

We have significant concerns as to whether option 4 would work in practice if used on its own. This is because under this option a number of districts which have relatively high levels of deprivation would be included in the lowest band and this could materially impact on whether optimal land transport outcomes can be delivered in their areas. (Option 5 uses a combination of option 4 and index of deprivation.)

Figure 5A
OPTION 4 50% OVERALL NLTF CO-INVESTMENT RATE AND LANE KMS LOCAL ROAD/NET EQUALISED CAPITAL LAND VALUE

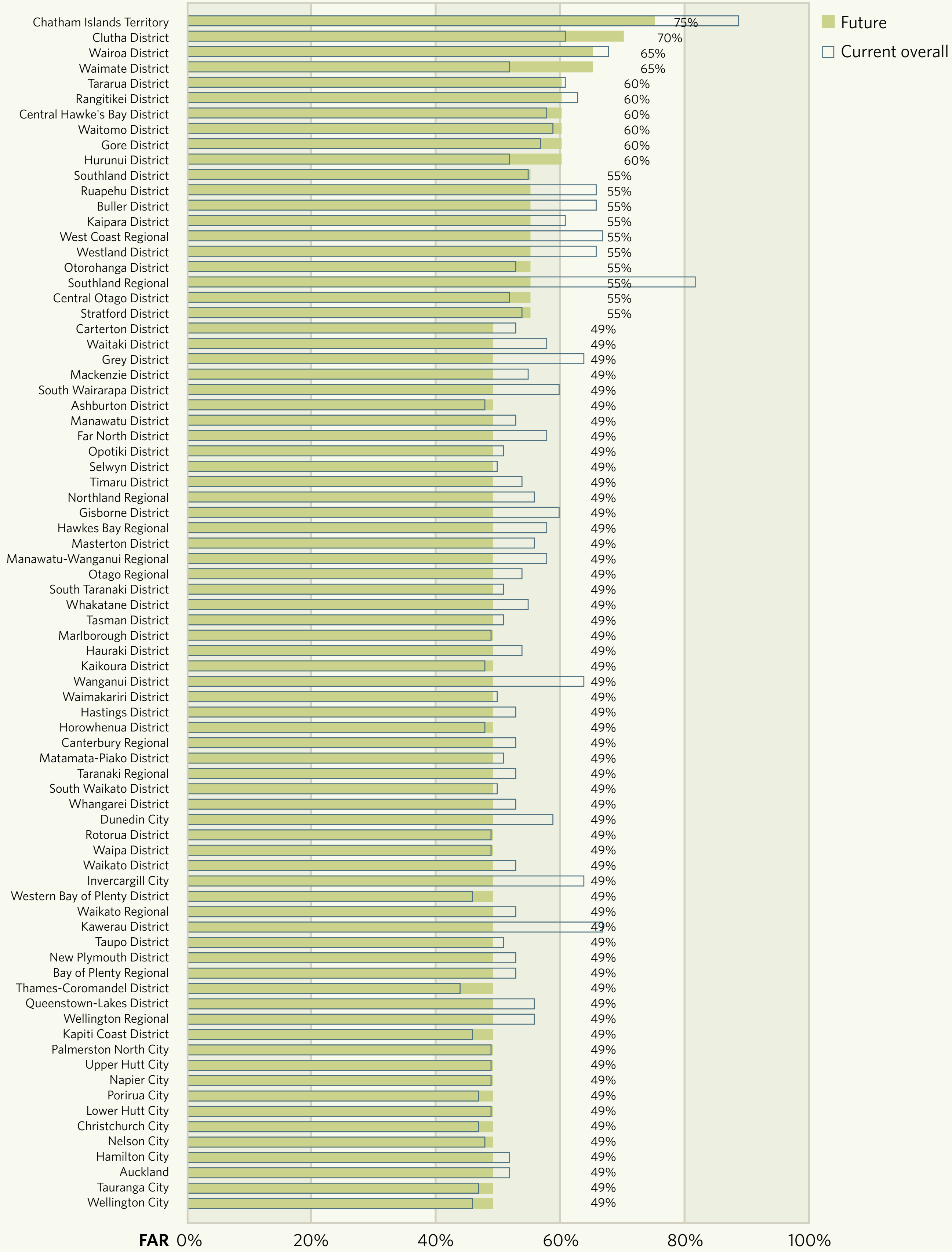
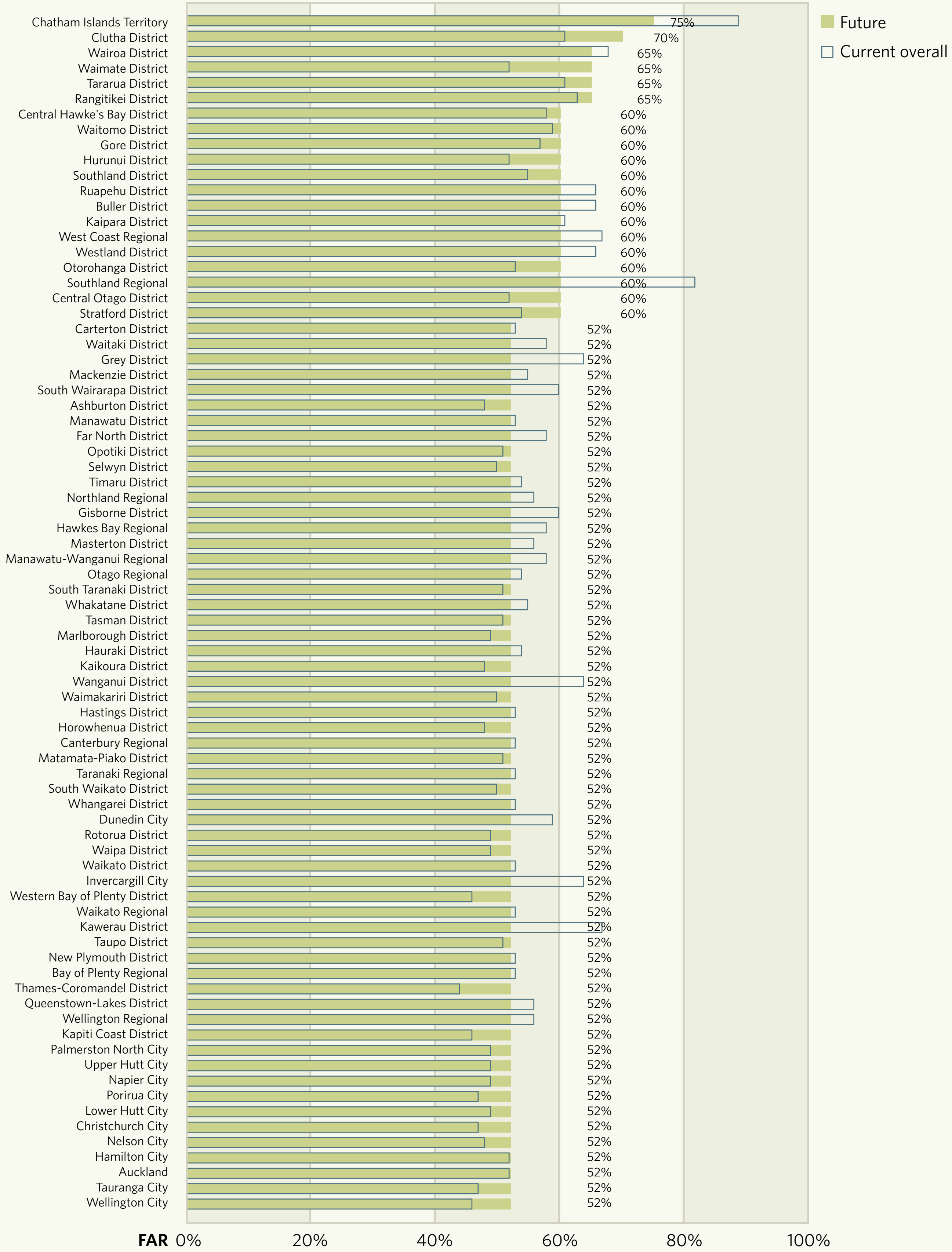


FIGURE 5B
OPTION 4 53% OVERALL NLTF CO-INVESTMENT RATE AND LANE KMS LOCAL ROAD/NET EQUALISED CAPITAL LAND VALUE



5.7.5 Option 5 – A combination of index of deprivation and the ratio of lane kilometres of local road to net equalised rateable capital value

Under this option we would determine which councils are in which bands on the basis of a combination of index of deprivation and the ratio of lane kilometres of local road to net equalised rateable land value.

This option would:

- address the issue that some councils have a high proportion of non-rateable conservation estate in their area (as the net equalised rateable capital value would exclude all non-rateable conservation estate)
- not be restricted to measures that only relate to the resident population of an area – as net equalised rateable capital value includes all rateable land in an area including that owned by non-residential and/or corporate ratepayers
- by also using index of deprivation, would include a measure that specifically takes into account the extent to which the people who live in a council's area can afford to pay the local share of the costs of land transport activities (eg can afford to pay rates and public transport fares)
- would include an objectively comparable proxy for the size of the land transport activities a council undertakes.

One of the principles in the provisional funding assistance rates framework is that the approach we use to setting funding assistance rates should be efficient to apply. Option 5 would be more complex than options 1, 2 or 4. However, it would still be reasonably efficient to apply.

Indicative rates for different councils under this option using NZDep_2006 figures, lane kilometres of local road and the 1 September 2012 net equalised rateable capital values are shown in figures 6A and 6B below.

FIGURE 6A
OPTION 5 50% OVERALL NLTF CO-INVESTMENT RATE, NZDEP_2006 AND LANE KMS LOCAL ROAD/NET EQUALISED RATEABLE CAPITAL LAND VALUE

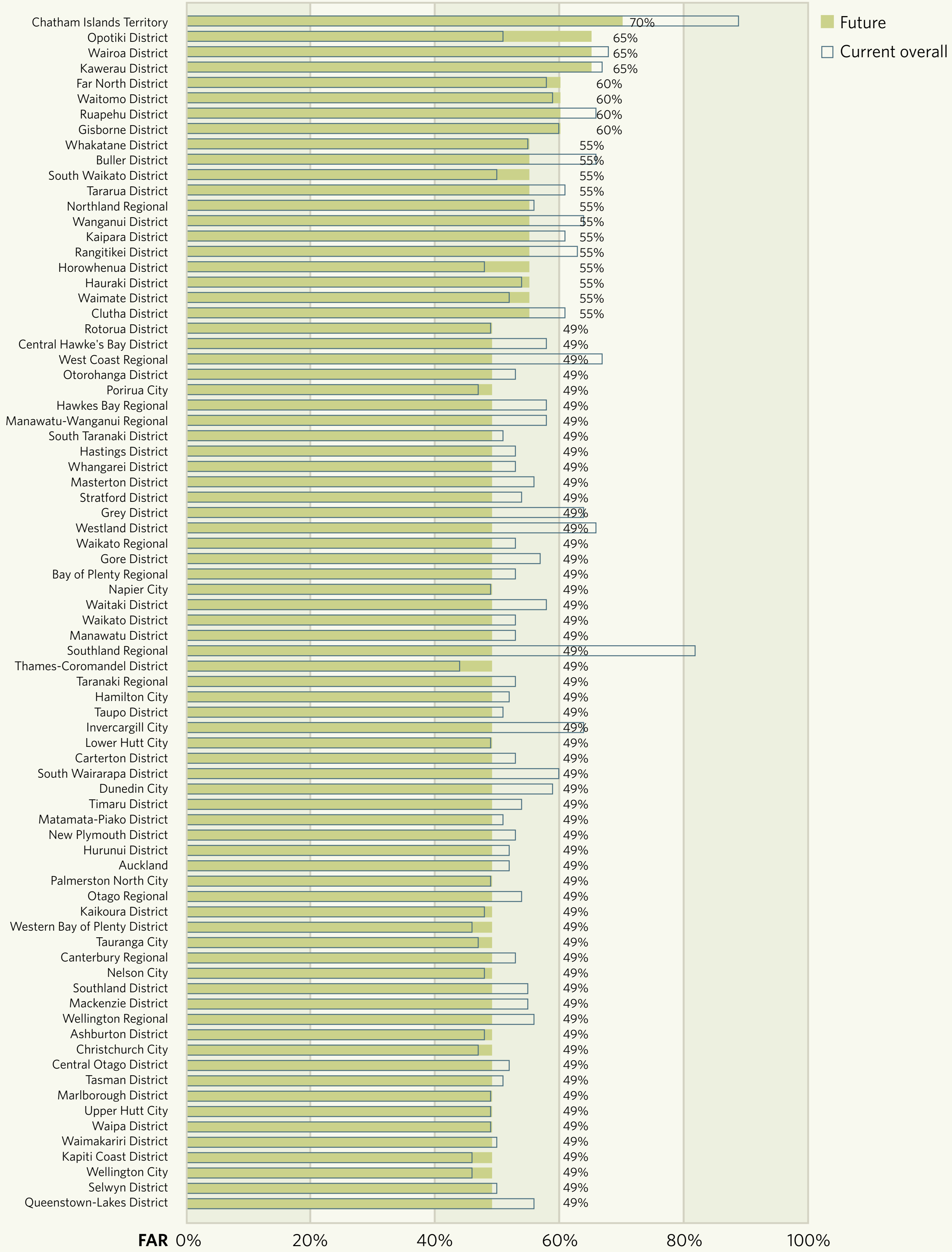
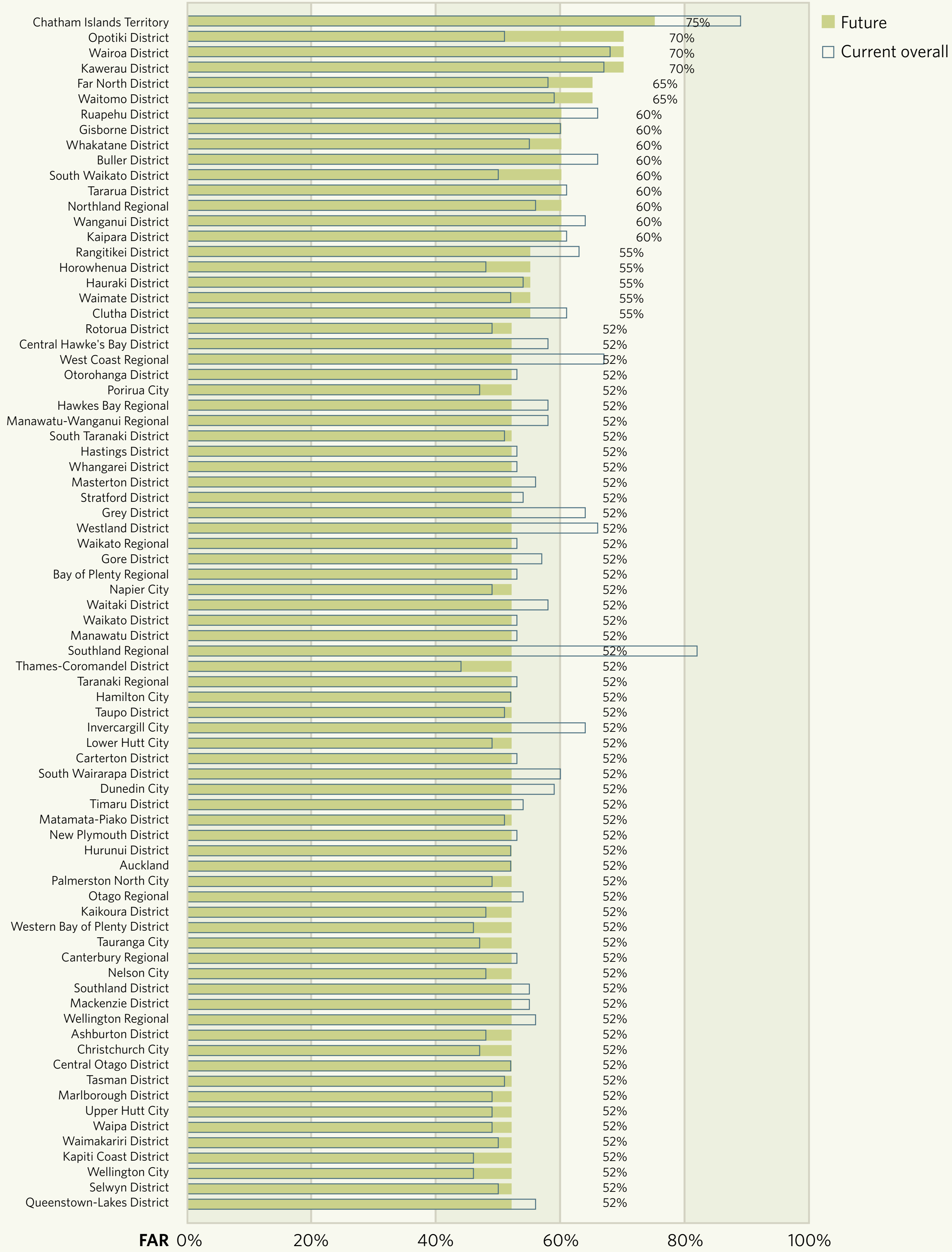


FIGURE 6B
OPTION 5 53% OVERALL NLTF CO-INVESTMENT RATE, NZDEP_2006 AND LANE KMS LOCAL ROAD/NET EQUALISED RATEABLE CAPITAL LAND VALUE



5.7.6 Comparison of the 5 options

Using the provisional funding assistance rates framework we have developed a list of factors to assess the options against.

These assessment factors are:

- Is the factor significant (ie does it materially affect an approved organisation's ability to find the local share of the costs of land transport)?
- Does the factor affect some approved organisations more than others?
- Can the factor be quantified?
- If so, is the data available to quantify the factor:
  - › publicly available?
  - › available at an appropriate spatial level?
  - › independent/verifiable?
  - › regularly updated/not overly lagged to the NLTP?
  - › nationally consistent between spatial areas?
  - › inexpensive to obtain and use?
- Is the factor stable over time/not subject to extreme variability?
- Would using the factor to set funding assistance rates create perverse outcomes?
- Does the factor relate to an ongoing issue?
- Would using the factor to set funding assistance rates be readily explainable and avoid complexity?
- Is the factor adjusted for elsewhere in the land transport funding system (e.g. in determining a council's road maintenance programme size)?

As discussed above, one of the things we have been doing over the last few months is talking to local authorities about what things make it materially harder for them to deliver land transport outcomes. All of the factors local authorities identified at those meetings (listed in attachment 1) were assessed against the assessment factors listed above, plus two other assessment factors (1) Does the factor relate to an issue that an approved organisation cannot avoid through planning or management? and (2) Is the factor outside the local community's control?

In table 3 below we assess each of the 5 options included in this document against the assessment factors listed above. (The metrics used in all of the 5 options included in this document are factors that an approved organisation could not materially avoid through planning or management and are not effectively within a local community's control.)

Table 3 shows that the five options included in this document generally measure up well against the assessment factors. The main exceptions are that:

- index of deprivation variable intervals only relate to the resident population of a district. therefore, solely using index of deprivation figures in setting funding assistance rates (as in option 1) might disproportionately benefit those areas with large non-resident and/or corporate ratepayer bases
- solely using index of deprivation in determining which councils are in which funding assistance rate bands (as in option 1) would not address the issue that some councils have high proportions of non-rateable Crown conservation estate in their area with parts of their roading network serving that conservation estate
- options 2 and 4 do not allow for the fact that some councils' areas have high deprivation which means that the residents in their area may be less able to find the money to pay for land transport (and other) activities
- options 4 and 5 use lane kilometres of local road. However, the length of a territorial authority's local road network is already adjusted for elsewhere in the land transport funding system as it affects the size of a council's approved road maintenance, operations and renewals programme
- lane kilometres of local road (used in options 4 and 5) is not a particularly good proxy for the size of the land transport activities a non-unitary regional council undertakes.

TABLE 3: ASSESSMENT OF THE 5 OPTIONS AGAINST THE ASSESSMENT FACTORS

Factor	OPTION 1 Index of deprivation	OPTION 2 Capital value/number of rating assessments	OPTION 3 Combination of options 1 and 2	OPTION 4 Lane kms/capital value	OPTION 5 Combination of options 1 and 4
Significant	High deprivation means that an area's residents are less able to find the money to pay for land transport (and other) activities. Index of deprivation only relates to the resident population of a district. Would not address the issue that some councils have high proprotions of non-rateable Crown conservation estate.	Capital value is a proxy for the wealth of a council's ratepayers (including corporate and non-resident ratepayers). Number of rating assessments is a proxy for the number of ratepayers. If there are less ratepayers to spread the costs over this may affect affordability. Capital value excludes Crown conservation land and Māori customary land that is unrateable but still often served by local authority roads and services either to the boundary or, in some cases, some distance into the land. Does not allow for the fact that some councils' areas have high deprivation.	High deprivation means that an area's residents are less able to find the money to pay for land transport (and other) activities. Capital value is a proxy for the wealth of a council's ratepayers (including corporate and non-resident ratepayers). Number of rating assessments is a proxy for the number of ratepayers. If there are less ratepayers to spread the costs over this may affect affordability. Capital value excludes Crown conservation land and Māori customary land that is unrateable but still often served by local authority roads and services either to the boundary or, in some cases, some distance into the land.	Length of local road is a proxy for the size of the land transport activities a territorial authority undertakes. It is not a particularly good proxy for the size of the land transport activities a non-unitary regional council undertakes. Capital value is a proxy for the wealth of a council's ratepayers (including corporate and non-resident ratepayers). Capital value excludes Crown conservation land and Māori customary land that is unrateable but still often served by local authority roads and services either to the boundary or, in some cases, some distance into the land. Does not allow for the fact that some councils' areas have high deprivation.	Length of local road is a proxy for the size of the land transport activities a territorial authority undertakes. It is not a particularly good proxy for the size of the land transport activities a non-unitary regional council undertakes. Capital value is a proxy for the wealth of a council's ratepayers (including corporate and non-resident ratepayers). Capital value excludes Crown conservation land and Māori customary land that is unrateable but still often served by local authority roads and services either to the boundary or, in some cases, some distance into the land. High deprivation means that an area's residents are less able to find the money to pay for land transport (and other) activities.
Affects some councils more than others	Yes	Yes	Yes	Yes	Yes
Can be quantified	Yes	Yes	Yes	Yes	Yes
Data publicly available	Yes	Data is available from QV or equivalent. We have QVs permission to use the data for the purposes of this review.	Data is available from QV or equivalent. We have QVs permission to use the data for the purposes of this review.	Capital value data is available from QV or equivalent. We have QVs permission to use the data for the purposes of this review. Lane km data is publicly available.	Capital value data is available from QV or equivalent. We have QVs permission to use the data for the purposes of this review. Lane km and index of deprivation data is publicly available.
Data available at an appropriate spatial level	Can be	Yes	Can be	Yes	Can be

Factor	OPTION 1 Index of deprivation	OPTION 2 Capital value/number of rating assessments	OPTION 3 Combination of options 1 and 2	OPTION 4 Lane kms/capital value	OPTION 5 Combination of options 1 and 4
Data independent or verifiable	Yes	Yes	Yes	Capital value data is. Lane km data is self reported by councils but is verifiable.	Capital value and Index of Deprivation data is. Lane km data is self reported by councils but is verifiable.
Data regularly updated and not overly lagged to the NLTP	Index of deprivation is updated every census. We may move to a 10 yearly census. However, relative levels of social deprivation may not change significantly in less than 10 years.	Yes	Index of deprivation is updated every census. We may move to a 10 yearly census. However, relative levels of social deprivation may not change significantly in less than 10 years.	Yes	Index of deprivation is updated every census. We may move to a 10 yearly census. However, relative levels of social deprivation may not change significantly in less than 10 years.
Data nationally consistent	Yes	Yes	Yes	Yes	Yes
Data inexpensive to obtain and use	Yes	Capital value data is currently affordable in the context.	Capital value data is currently affordable in the context.	Capital value data is currently affordable in the context.	Capital value data is currently affordable in the context.
Stable over time	Not subject to extreme variability.	Not subject to extreme variability.	Not subject to extreme variability.	Not subject to extreme variability.	Not subject to extreme variability.
Avoids perverse outcomes	Yes	Yes – councils are unlikely to seek to reduce the capital value of land or the number of rating units in their area even if that would positively affect their funding assistance rate.	Yes – councils are unlikely to seek to reduce the capital value of land or the number of rating units in their area even if that would positively affect their funding assistance rate.	Councils are unlikely to seek to reduce the capital value of land in their area even if that would positively affect their funding assistance rate. Some councils may have less incentive to stop lengths of road that are uneconomic. However, this is likely to have a marginal effect overall.	Councils are unlikely to seek to reduce the capital value of land in their area even if that would positively affect their funding assistance rate. Some councils may have less incentive to stop lengths of road that are uneconomic. However, this is likely to have a marginal effect overall.
Ongoing issue	Yes	Yes	Yes	Yes	Yes
Readily explainable/ avoids complexity	Yes	Yes	Yes	Yes	Yes
Factor not adjusted for elsewhere in the land transport funding system	Not adjusted for elsewhere.	Not adjusted for elsewhere.	Not adjusted for elsewhere.	The length of a territorial authority's local road network affects the size of their road maintenance, operations and renewals programme.	The length of a territorial authority's local road network affects the size of their road maintenance, operations and renewals programme.

5.8 INDIVIDUAL COUNCILS' EFFECTIVE OVERALL FUNDING ASSISTANCE RATES OVER THE LAST FEW YEARS

To help compare the five options discussed above to the current funding assistance rates system, we have worked out what each approved organisation's effective overall funding assistance rate has been over the last few years (excluding significant special bespoke funding assistance rates, regional development funding, and funding assistance rates for emergency works).

Those rates are shown in table 4 below.

Given the range of options for the overall NLTF co-investment rate we have included shading in this table to indicate which councils are currently sitting around a 50% overall effective rate and which councils are currently sitting around a 53% overall effective rate.

As noted above:

- there have been recent changes to the funding assistance rates for transport planning and road safety promotion, and
- funding assistance rates for some public transport activities (including passenger rail services) are currently being transitioned down from 60% to 50%.

Therefore, if no changes were made to the current funding assistance rates system, the overall proportion of the costs of approved organisations' eligible land transport activities being met by the NLTF would decrease over the next few years. This is particularly the case given the high level of expenditure on passenger rail transport in Auckland and Wellington. Because the level of expenditure is so high, the fact that the funding assistance rate for passenger rail is reducing has a material effect on the overall proportion of the total cost of approved organisations' eligible land transport activities throughout New Zealand that is met by the NLTF. (Auckland Transport and Greater Wellington are shown shaded blue in the Table).

These figures will also be affected by the fact that currently capital improvements to local roads are funded at a higher rate than maintenance, operations and renewals and some territorial authorities will have undertaken more capital improvements in the last few years than others.

In some cases the figures are affected by the fact that a council has undertaken a significant amount of activity on special purpose roads in the last few years (activities on special purpose roads currently receive very high funding assistance rates).

TABLE 4: APPROVED ORGANISATIONS' EFFECTIVE OVERALL FUNDING ASSISTANCE RATES 2009-13 (AND 2012/13)

Organisation Name	2012/13 Average FAR	2009-13 Average FAR
Thames-Coromandel District Council	44.3%	44.4%
Kapiti Coast District Council	44.5%	45.8%
Wellington City Council	45.8%	46.1%
Western BoP District Council	47.0%	46.5%
Tauranga City Council	45.5%	46.7%
Porirua City Council	47.8%	46.8%
Christchurch City Council	47.1%	47.0%
Nelson City Council	46.7%	47.6%
Horowhenua District Council	48.0%	47.7%
Ashburton District Council	46.6%	48.1%
Kaikoura District Council	47.1%	48.2%
Marlborough District Council	47.7%	48.5%
Palmerston North City Council	48.5%	48.7%
Hutt City Council	49.0%	48.7%
Matamata-Piako District Council	48.7%	48.8%
Napier City Council	48.7%	49.0%
Upper Hutt City Council	47.5%	49.1%
Rotorua District Council	50.6%	49.4%
Waipa District Council	49.7%	49.5%
Selwyn District Council	48.2%	50.0%
Waimakariri District Council	50.7%	50.5%
South Waikato District Council	51.0%	50.5%
Tasman District Council	50.3%	50.8%
Opotiki District Council	50.4%	51.2%
Taupo District Council	44.3%	51.5%
South Taranaki District Council	51.7%	51.5%
Auckland Transport	51.8%	51.8%
Central Otago District Council	50.6%	52.0%
Hamilton City Council	51.7%	52.3%
Hurunui District Council	50.8%	52.5%
Waimate District Council	51.3%	52.5%
Bay of Plenty Regional Council	51.6%	52.8%
Taranaki Regional Council	52.8%	52.8%
Manawatu District Council	53.6%	53.0%
Waikato Regional Council	51.6%	53.1%
New Plymouth District Council	52.5%	53.2%
Environment Canterbury	53.9%	53.2%
Waikato District Council	54.3%	53.2%
Carterton District Council	54.2%	53.3%
Whangarei District Council	50.8%	53.4%
Hastings District Council	52.6%	53.5%
Otorohanga District Council	52.8%	53.5%

TABLE 4 (CONT.): APPROVED ORGANISATIONS' EFFECTIVE OVERALL FUNDING ASSISTANCE RATES 2009-13 (AND 2012/13)

Organisation Name	2012/13 Average FAR	2009-13 Average FAR
Timaru District Council	55.0%	53.7%
Stratford District Council	54.2%	54.1%
Otago Regional Council	53.6%	54.3%
Hauraki District Council	53.4%	54.4%
Mackenzie District Council	53.7%	54.6%
Whakatane District Council	55.0%	54.6%
Southland District Council	53.9%	55.2%
Greater Wellington	55.2%	55.6%
Queenstown-Lakes District Council	53.8%	56.1%
Masterton District Council	54.9%	56.1%
Northland Regional Council	51.9%	56.3%
Gore District Council	55.5%	56.7%
Hawkes Bay Regional Council	55.1%	57.6%
Far North District Council	56.0%	57.9%
Horizons Manawatu	56.3%	57.9%
Central Hawkes Bay District Council	58.3%	58.1%
Waitaki District Council	57.2%	58.2%
Waitomo District Council	59.3%	58.7%
Dunedin City Council	56.9%	58.8%
Gisborne District Council	58.6%	59.6%
South Wairarapa District Council	64.0%	60.1%
Tararua District Council	59.6%	60.6%
Kaipara District Council	59.4%	61.1%
Clutha District Council	60.1%	61.4%
Rangitikei District Council	58.6%	62.6%
Grey District Council	62.3%	63.5%
Invercargill City Council	59.6%	63.6%
Wanganui District Council	63.2%	63.7%
Westland District Council	64.7%	65.5%
Ruapehu District Council	64.3%	66.0%
Buller District Council	65.0%	66.5%
West Coast Regional Council	55.8%	66.6%
Kawerau District Council	66.6%	67.5%
Wairoa District Council	67.5%	68.4%
Environment Southland	64.6%	82.2%
Chatham Islands Council	88.2%	89.1%
DOC (Hawkes Bay)	100.0%	100.0%
DOC (Hokitika)	100.0%	100.0%
DOC (Manawatu-Wanganui)	100.0%	100.0%
DOC (Mt Cook)	100.0%	100.0%
Waitangi National Trust	100.0%	100.0%
Grand Total	**52.5%**	**53.2%**

Figures include all claimed expenditure in all activity classes except emergency works, regional development and SuperGold card, which are excluded. Other data modifications for specific approved organisations are as follows:

- Auckland Transport – the renewals funding assistance rate for 11/12 has been reinstated to 44.33% (from the special 7.78% deferred funding rate).
- Hamilton City Council – the construction funding assistance rate for the Hamilton Ring Road project has been reinstated to 55% (from the special front loaded funding assistance rates).
- Taupo District Council – the construction funding assistance rate for the East Taupo Arterial project has been reinstated to 53% (from the special funding assistance rates of 76.5% and 100%).
- Greater Wellington - the 90% funding assistance rate rail infrastructure projects have been excluded from the figures.
- Kapiti Coast District Council – the construction funding assistance rate for the Western Link Road project has been reinstated to 53% (from the special funding assistance rate of 90%).
- Wanganui District Council and Ruapehu District Council – the funding assistance rate for the River Road/Raetihi-Pipiriki Road project has been reinstated to 72% (from the special funding assistance rate of 79%).

Environment Southland's effective overall funding assistance rate is so high because Environment Southland has delegated the provision of public transport to Invercargill City Council and until recently they (like other regional councils) received a 100% funding assistance rate for the preparation of their regional land transport programme and a 75% funding assistance rate for transport model development.

5.9 TRANSITIONING

Section 10 of this document discusses options for transitioning in any changes to funding assistance rates that result from the funding assistance rates review.

5.10 HOW OFTEN SHOULD COUNCILS' FUNDING ASSISTANCE RATES BE RE-SET?

How often councils funding assistance rates would be re-set would depend upon the metrics used in determining those rates.

For example, if funding assistance rates were determined solely by the population weighted New Zealand index of deprivation for a council's area then any re-sets would be tied to how often the New Zealand Census was held. The funding assistance rates would need to be re-set for the NLTF investment period immediately following the release of updated New Zealand index of deprivation figures based on the Census statistics.

If net equalised capital value figures, number of rating units or lane kilometres of local road network were used in setting councils' funding assistance rates then the rates could be re-set three yearly, ie for each NLTF investment period.

If any council would move to a band with a lower funding assistance rate following such a re-set, then arrangements could be made to transition that change in.

QUESTIONS:

Council 1 What do you think is the best way for us to use funding assistance rates bands? In particular:

- What proportion of councils do you think we should include in the bands that receive funding assistance rates that are higher than the overall NLTF co-investment rate? The options we have modelled in this document have 25% of councils in those bands. Is that the optimal proportion? Should only the five councils that would find it the hardest to find the local share be included in the bands with higher rates? 10% of councils? A third?
- Should we include some councils in a band that receives the overall NLTF co-investment rate (with some other councils receiving a higher rate, and the remaining councils in a band that receives a rate that is lower than the overall co-investment rate)? If so, what proportion of councils should be included in the band on the overall NLTF co-investment rate and what proportions of councils should be included in the higher bands and the lower band?
- How many different bands should we use?

Council 2 Which of our five current options for metrics, or combinations of metrics, we could use as proxies for councils' relative ability to raise the local share do you prefer? Why?

Council 3 What other metrics or combination of metrics could we use as proxies for councils' relative ability to raise the local share? Why do you consider those to be the appropriate metrics?

Council 4 If we use an approach to setting councils' normal funding assistance rates that uses a number of different metrics, should we give different weightings to the different metrics? If so, what differential weightings should we use and why?

Council 5 Should there be a maximum council funding assistance rate? If so, what should that maximum rate be?

Council 6 Overall what combination of factors and approaches do you think we should use to set councils' funding assistance rates?

Council 7 How often should councils' funding assistance rates be re-set?

6. Emergency works funding assistance rates

6.1 IS THERE A PLACE FOR ELEVATED EMERGENCY WORKS FUNDING ASSISTANCE RATES?

We think that there is a place for elevated emergency works funding assistance rates. The role of those rates is to address the situation where an approved organisation has incurred significant expenditure in responding to 'out of the ordinary' short-duration natural events ie natural events that a particular approved organisation could not reasonably be expected to plan and manage for as part of normal best practice management of the resilience of the land transport network. This is because the events are unusual, or are of unusually large magnitude or severity, for the particular area where they occur.

Under current Transport Agency policy emergency works funding assistance rates are meant to apply to unforeseen significant expenditure that arises from a 'defined, *major*, short-duration natural event' [emphasis added][17]. However, currently there is no real guidance on what a 'major' natural event is for the purposes of the policy and in some cases enhanced funding assistance rates may be being applied to the costs of responding to events that are relatively common in the area where they occur.

Having elevated funding assistance rates for out of the ordinary short-duration natural events would:

- reduce the financial impact of those events on approved organisations and, therefore, assist them to maintain their investment in the land transport network as a whole, and
- assist land transport function to be restored, and any permanent reinstatement work to be completed, in a timely manner and to fit for purpose standards following those kinds of events.

Understandably, approved organisations are concerned to restore services as quickly as possible after an emergency event. However, given the significant amounts of public money involved, it is also important that approved organisations, and their contractors, give appropriate consideration to seeking:

- efficiencies in how emergency works are undertaken, and
- best value for money when reinstating an asset.

6.2 OUR CURRENT THINKING ABOUT WHAT EVENTS ELEVATED EMERGENCY WORKS RATES SHOULD <u>NOT</u> APPLY TO

We currently think that applying elevated emergency works funding assistance rates to the costs of responding to events that are relatively common in the different parts of an approved organisations' area would not support optimal national land transport outcomes being achieved. This is because, as responsible managers of their part of the land transport network, approved organisations need to appropriately plan and manage their network (and their financial arrangements) to be sufficiently resilient to cope with those kinds of natural events. A council could, for example, choose to create a reserve fund to help it meet the local share of the costs of responding to relatively common events, or it could choose to manage that financial risk in another way.

Under this approach any clean up or reinstatement work to address the effects of natural events that are relatively common in a particular area would be funded at the approved organisations' normal funding assistance rate (which is likely to be based on some measure of a council's relative ability to find the local share of the costs of delivering land transport outcomes).

17. http://www.pikb.co.nz/i-want-to/create-an-activity-and-or-make-a-funding-application-for/emergency-works/work-categories/work-category-141-emergency-works/.

There would be two potential options for how this could be managed by the Transport Agency:

- Continuing to fund initial response and reinstatement work following relatively common events from the emergency works funding assistance rates pool but at a different funding assistance rate than initial response and reinstatement work resulting from 'out of the ordinary' events (this would mean that the risk in relation to such events across the land transport network continued to be managed using a central funding pool).
- Including an allowance for initial response and reinstatement work following relatively common events in approved organisations' approved maintenance programmes. (There would be a risk with this approach that if fewer events than normal occurred on a particular approved organisation's network within an investment period the NLTF revenue that did not need to be spent on initial response/reinstatement would be tied up and would not be able to be used for initial response and reinstatement work in other areas or other land transport activities.)

As part of other work that is being undertaken outside of the funding assistance rates review (such as the development of the Transport Agency's investment signals for the 2015–18 NLTF investment period, the Transport Agency's resilience framework and the development of appropriate levels of service for different types of roads) the Transport Agency would work with councils to help them appropriately plan and manage for such relatively common natural events. This could affect the size of some councils' approved road maintenance, operations and renewals programmes.

'Elevated' emergency works funding assistance rates would also not apply to deficiencies that have developed from events occurring over a period of time (only to the effects of out of the ordinary short-duration natural events). This is because deficiencies that have developed from events occurring over a period of time should be dealt with as part of programmed activities (rather than emergency works).

We also think that the normal elevated emergency works funding assistance rates system should not apply to nationally significant extremely severe natural events - such as the Canterbury earthquakes. The costs of clean up and reinstatement of the land transport infrastructure affected by such an event may be more than the NLTF can cover while still providing sufficient investment in the ongoing operation of the rest of the land transport network. For events of that magnitude a bespoke/one-off solution would be required.

The trigger for the Transport Agency to consider whether or not a bespoke solution would be required could be either:

- a minister declaring a state of national emergency in an area as a result of a short-duration natural event, or
- the estimated initial response and reinstatement costs for responding to a particular event being over a certain cost threshold, eg more than a specified percentage of the relevant approved organisation's approved maintenance, operations and renewals programme for the year in which the event occurred.

6.3 THE CURRENT EMERGENCY WORKS FUNDING ASSISTANCE RATES SYSTEM

The current emergency works funding assistance rates system evolved out of flood damage funding policy developed by the former National Roads Board in the 1950s. The history of the current approach to emergency works funding assistance rates is explained in attachment 4 to this document.

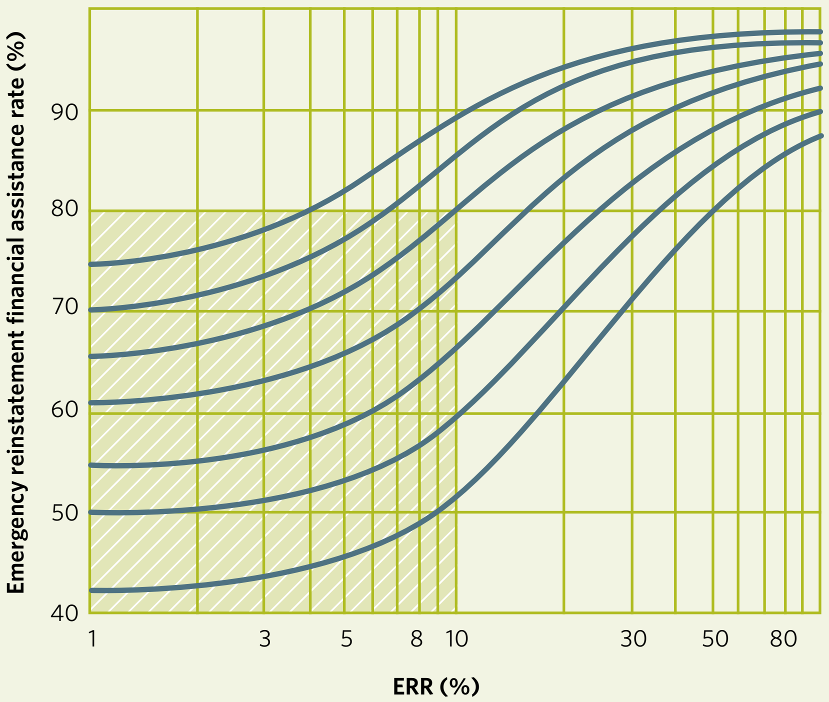
Currently emergency works funding assistance rates are meant to apply to unforeseen significant expenditure that arises from a 'defined, major, short-duration natural event'. They apply to the costs associated with the immediate response, reopening and/or restoration (to a standard no better than that which existed before any damage occurred) of roads, road structures, eligible pedestrian and cycle facilities, and other eligible land transport infrastructure owned by territorial authorities. They do not apply to deficiencies that have developed from events occurring over a period of time, minor scour in drainage facilities, or dropouts and/or slips that do not require the restriction of a traffic lane (provided that they do not need urgent attention to remove a threat to safety or to the road structure).

The emergency works funding assistance rate for a group of roads and carriageways that have been classified as 'special purpose roads' (and for state highways) is currently 100%.

The current method of calculating the funding assistance rate that applies to other emergency works is:

- working out F ÷ R as a percentage (the 'ERR') where:
  - F = the total cost of the current emergency works application plus the total cost for any existing emergency works approval for the relevant council approved in the relevant financial year
  - R = the council's total general rates (exclusive of GST)
- using that ERR figure and the following graph to determine the emergency works funding assistance rate for that council.

EMERGENCY REINSTATEMENT FINANCIAL ASSISTANCE RATE



The effect of this is that:

- the more a council spends on emergency works in any one year the higher their emergency works funding assistance rate
- the lower a council's total general rates are the higher their emergency works funding assistance rate
- a council will not know until the end of the financial year what their emergency works funding assistance rate for that year is as it will depend on how much in total they spend on emergency works over the year.
- the maximum funding assistance rate for emergency works is 95%.

Data on emergency works spending by different councils over the last few years is shown in the following tables.

Table 5 shows emergency works spending as a percentage of a council's local road maintenance, operations and renewals spending and what percentage of the total national emergency works spend was spent on a particular council's activities. Christchurch City Council understandably has the highest figures as a result of the Canterbury earthquakes. It is notable that some councils have significantly higher emergency works spending than neighbouring councils.

TABLE 5: EMERGENCY WORKS FUNDING 2005/6 TO 2011/12

Council	AO's EW/AO's Maintenance costs (%)	EW for TA/ total national EW (%)
Christchurch City Council	102.36%	24.23%
Wairoa District Council	75.64%	5.90%
Wanganui District Council	61.27%	6.03%
Rangitikei District Council	57.86%	5.75%
Whakatane District Council	52.73%	3.62%
Ruapehu District Council	52.04%	4.54%
Hurunui District Council	42.23%	1.95%
Tararua District Council	37.86%	3.95%
Manawatu District Council	35.89%	3.01%
Far North District Council	33.28%	6.27%
Whangarei District Council	30.09%	4.09%
Marlborough District Council	26.26%	1.75%
Kaikoura District Council	25.45%	0.14%
Gisborne District Council	21.15%	3.76%
Central Hawkes Bay District Council	20.94%	1.80%
Kaipara District Council	19.38%	2.46%
Tasman District Council	18.91%	1.75%
Hauraki District Council	17.81%	0.85%
Grey District Council	17.32%	0.72%
Waitomo District Council	16.64%	1.19%
South Wairarapa District Council	16.45%	0.50%
Opotiki District Council	15.99%	0.27%
South Taranaki District Council	13.79%	1.22%
Thames-Coromandel District Council	12.09%	0.83%
Palmerston North City Council	10.25%	0.53%
Waitaki District Council	10.13%	0.65%
Waimakariri District Council	9.81%	0.61%
Selwyn District Council	9.60%	0.60%
Westland District Council	9.23%	0.34%
New Plymouth District Council	8.35%	0.84%
Masterton District Council	7.90%	0.44%
Stratford District Council	7.71%	0.23%
Horowhenua District Council	7.42%	0.23%
Hastings District Council	7.25%	0.85%
Nelson City Council	6.97%	0.19%
Carterton District Council	6.43%	0.13%
Porirua City Council	5.94%	0.13%
Rodney District Council	5.17%	0.88%
Timaru District Council	4.69%	0.38%
Manukau City Council	4.46%	0.77%

TABLE 5 (CONT): EMERGENCY WORKS FUNDING 2005/6 TO 2011/12

Council	AO's EW/AO's Maintenance costs (%)	EW for TA/ total national EW (%)
Buller District Council	4.34%	0.17%
Waikato District Council	4.26%	0.75%
Wellington City Council	3.69%	0.56%
Otorohanga District Council	3.62%	0.15%
Upper Hutt City Council	3.55%	0.08%
Auckland Transport	3.54%	0.86%
Western BoP District Council	3.52%	0.31%
Hutt City Council	2.96%	0.27%
Queenstown-Lakes District Council	2.28%	0.28%
Kapiti Coast District Council	2.27%	0.07%
Dunedin City Council	2.08%	0.39%
Southland District Council	1.80%	0.34%
Chatham Islands Council	1.64%	0.06%
Mackenzie District Council	1.45%	0.03%
Waitakere City Council	1.38%	0.13%
Franklin District Council	1.37%	0.14%
Rotorua District Council	1.27%	0.09%
Clutha District Council	1.00%	0.12%
Hamilton City Council	0.90%	0.07%
Tauranga City Council	0.85%	0.06%
Waipa District Council	0.79%	0.07%
Auckland City Council	0.67%	0.21%
Central Otago District Council	0.66%	0.03%
Matamata-Piako District Council	0.53%	0.04%
South Waikato District Council	0.50%	0.02%
North Shore City Council	0.41%	0.05%
Taupo District Council	0.00%	0.00%
Waimate District Council	0.00%	0.00%

Table 6 shows different approved organisations' emergency works funding assistance rates over the period 2009/10 to 2012/13 (not including data relating to the Canterbury earthquakes). As can be seen from these figures some councils have received high or very high emergency works funding assistance rates every year during this period, many councils have made emergency works claims every year but some councils have made no emergency works claims at all during the relevant period. This indicates that emergency works funding may not currently be used consistently throughout the country.

TABLE 6: OVERALL EMERGENCY WORKS FUNDING ASSISTANCE RATES 2009/10 TO 2012/13

Organisation Name	2009/10 Average FAR	2010/11 Average FAR	2011/12 Average FAR	2012/13 Average FAR	2009–12 Average EW FAR	Current 2013/14 Base FAR
Far North District Council	63%	68%	65%	61%	65%	55
Kaipara District Council	91%	75%	61%	64%	85%	59
Whangarei District Council	52%	64%	55%	52%	59%	51
Auckland Transport	45%	45%	44%	43%	45%	43
Hamilton City Council	45%	45%		45%	45%	45
Hauraki District Council	85%	58%	54%	70%	78%	53
Matamata-Piako District Council			48%	48%	48%	48
Otorohanga District Council		53%			53%	52
South Waikato District Council				50%	50%	50
Taupo District Council				43%	43%	43
Thames-Coromandel District Council	44%	45%	45%	43%	45%	43
Waikato District Council	54%	53%	53%	54%	53%	53
Waipa District Council				50%	50%	49
Waitomo District Council	66%	71%	66%	64%	67%	59
Opotiki District Council	52%	71%	53%	51%	64%	50
Rotorua District Council		46%	46%	48%	47%	47
Tauranga City Council			43%		43%	43
Western BoP District Council	45%	45%	45%	46%	45%	46
Whakatane District Council	55%	79%	69%	78%	72%	48
Gisborne District Council	75%	81%	72%	71%	75%	58
Central Hawkes Bay District Council		87%	81%	82%	84%	58
DOC (Hawkes Bay)		100%			100%	100
Hastings District Council	51%	53%	52%	51%	52%	51
Wairoa District Council	94%	92%	94%	93%	94%	65
New Plymouth District Council	52%	53%	52%	51%	52%	50
South Taranaki District Council	52%	55%	54%	51%	54%	51
Stratford District Council	51%	51%	58%	53%	55%	52
DOC (Manawatu-Wanganui)						100
Horowhenua District Council	47%	48%	52%		49%	47
Manawatu District Council		70%			70%	53
Palmerston North City Council						47
Rangitikei District Council	87%	91%	89%		89%	58

TABLE 6 (CONT): OVERALL EMERGENCY WORKS FUNDING ASSISTANCE RATES 2009/10 TO 2012/13

Organisation Name	2009/10 Average FAR	2010/11 Average FAR	2011/12 Average FAR	2012/13 Average FAR	2009-12 Average EW FAR	Current 2013/14 Base FAR
Ruapehu District Council	91%	91%	89%	79%	89%	60
Tararua District Council	67%	73%	73%	80%	75%	59
Wanganui District Council	64%	89%	86%	65%	84%	62
Carterton District Council		52%	69%	59%	57%	53
Hutt City Council						48
Kapiti Coast District Council	43%	43%		43%	43%	43
Masterton District Council	55%	58%	56%	58%	57%	54
Porirua City Council	44%	44%		44%	44%	44
South Wairarapa District Council		65%	100%	100%	86%	49
Upper Hutt City Council						46
Wellington City Council	43%	43%	43%	44%	43%	44
Nelson City Council		43%	45%	45%	45%	43
Marlborough District Council	46%	64%	50%	51%	57%	46
Tasman District Council	65%	54%	68%	56%	62%	49
Christchurch City Council	43%			83%	43%	44
Hurunui District Council	100%	60%	57%	57%	59%	50
Kaikoura District Council	48%	61%		55%	58%	45
Mackenzie District Council	54%		55%	84%	83%	53
Selwyn District Council		77%	50%	48%	73%	47
Timaru District Council	52%	52%		58%	56%	53
Waimakariri District Council		64%	51%	57%	60%	50
Waimate District Council				57%	57%	51
Buller District Council	72%	61%	74%	80%	76%	58
DOC (Hokitika)	100%	100%		100%	100%	100
Grey District Council	75%	71%	71%	65%	71%	60
Westland District Council	76%	80%	72%		77%	58
Chatham Islands Council		92%			92%	89
Central Otago District Council	51%		53%		53%	50
Clutha District Council		61%			61%	59
Dunedin City Council	55%	55%	57%	57%	56%	56
Queenstown-Lakes District Council	45%	56%	57%	44%	52%	45
Waitaki District Council	73%	85%	60%	70%	77%	56
Southland District Council	60%	55%	54%	53%	56%	53
Total across the country	**72%**	**70%**	**70%**	**66%**	**70%**	

6.4 WHAT IS WRONG WITH THE STATUS QUO?

We have a number of concerns with the current approach to setting and applying funding assistance rates for emergency works.

- In some cases enhanced funding assistance rates may be being applied to the costs of responding to events that are relatively common in the area where they occur.
- For most infrastructure, the more money an approved organisation spends on emergency works the higher their funding assistance rate. This may penalise those councils who are very efficient in how they respond to emergency events.
- As noted above, understandably, approved organisations are concerned to restore services as quickly as possible after an event. However, given the significant amounts of public money involved, it is also important that they and their contractors give appropriate consideration to seeking efficiencies in how emergency works are undertaken and best value for money when reinstating an asset. The very high funding assistance rates potentially available under the current system – 100% for special purpose roads and up to 95% for other infrastructure – may not encourage this to occur. (The very high funding assistance rates also do not represent a co-investment approach.)
- The system does not take into account factors which really make it harder for some approved organisations to have an emergency works reserve fund/reprioritise funds in order to respond to an emergency than others. A council's total general rates do not necessarily reflect the relative wealth of their ratepayers.
- One of the key themes in the submissions we received on the first *Funding assistance rates review discussion document* was that approved organisations want certainty in relation to their funding assistance rates. The current approach to emergency works funding assistance rates does not provide approved organisations and the Transport Agency with much certainty because neither approved organisations nor the Transport Agency know until the end of a year what an approved organisation's emergency works funding assistance rate for that year will be.
- The current system is not efficient to apply. There is often a need to do reconciliations at the end of each financial year to ensure that the correct funding assistance rate has been applied to all emergency works undertaken by a particular approved organisation in that year.
- The current system is not based on evidence and data that is reliable. The total general rates a council levies is the result of decisions made by an individual council which are influenced by what level it is willing to tax its ratepayers at and, therefore, it is not necessarily a measure of a council's relative ability to find the local share of the costs of emergency works.

6.5 OPTIONS FOR DETERMINING WHETHER OR NOT AN EVENT IS 'OUT OF THE ORDINARY'

As noted above, we are considering only applying elevated emergency works funding assistance rates to the land transport response and reinstatement costs arising from 'out of the ordinary' natural events, i.e. natural events that a particular approved organisation could not reasonably be expected to plan and manage for as part of normal best practice management of the resilience of the land transport network because they are unusual, or are of unusually large magnitude or severity, for the particular area where they occur.

We have identified three options that could be used for determining whether or not an event is 'out of the ordinary' for the particular area where it occurs:

- A statement of principle.
- Annual return period or similar.
- A minimum cost threshold.

We could also use some combination of these options. Under all of these options an approved organisation would receive the same emergency works funding assistance rate for all works it undertook to respond to a particular natural event that were approved by the Transport Agency for funding as emergency works.

6.5.1 A statement of principle

Rather than defining what an unusual event is, the Transport Agency's funding assistance rates policy could simply state that elevated emergency works funding assistance rates only apply where an approved organisation has incurred significant expenditure in responding to damage to the land transport network caused by an event that is unusual, or of an unusually large magnitude of severity for the particular area where the damage occurred, and leave it to individual Transport Agency managers with appropriate delegation to apply that principle to any given event.

A statement of principle is essentially the approach used now as the current definition is that emergency works funding applies to 'unforeseen expenditure that arises from a defined, *major*, short-duration natural event' [emphasis added]. However, currently there is no real guidance on what a 'major' natural event is for the purposes of the policy.

The statement of principle approach provides a lot of flexibility for the policy to respond to unexpected events. However, it would be likely to result in inconsistency in how the policy was applied throughout the country (as appears to be the case under the current emergency works policy).

IS THE APPROACH USED OVERSEAS?

Under the Welsh "Bellwin" Scheme there is no automatic entitlement to financial assistance. Where the relevant Minister decides that an incident is exceptional by local standards and damage to the local authority infrastructure or communities is exceptional in relation to normal experience they can decide to activate a scheme.

This would mean that it:

- would not give approved organisations and the Transport Agency as much fund management certainty as practicable
- could be inefficient to apply as a result of disputes as to whether or not a particular event qualified for funding or whether or not the expenditure incurred in responding to that event was significant, and
- would not be based on readily accessible evidence and data.

6.5.2 Annual return period (ARI) or similar

The second option would be to have a general policy that elevated emergency works funding assistance rates only apply where:

- an approved organisation has incurred significant expenditure in responding to damage to the land transport network caused by a short term natural event, and
- in the area where that damage occurred, the event had an annual recurrence interval greater than a certain period of time.

In New Zealand, councils plan to different levels of detail over 10, 6 and 3 year periods, eg:

- Council's long term plans must cover a period of not less than 10 consecutive financial years.
- Regional land transport plans need to be prepared every six financial years.
- Council long-term plans have a life of 3 years and territorial authority local road maintenance, operations and renewals programmes for inclusion in the National Land Transport Programme need to be prepared and approved every three years.

In any three year period there is a 6% chance of a 50 year annual recurrence interval (ARI) event occurring and a 14% chance of a 20 year ARI event occurring. In any six year period there is an 11% chance of a 50 year ARI event occurring and a 26% chance of a 20 year ARI event occurring. In any 10 year period there is an 18% chance of a 50 year ARI event occurring and a 40% chance of a 20 year annual recurrence event occurring.

One option would be that elevated emergency funding assistance rates would only apply to significant damage to land transport infrastructure caused by defined short-duration natural events with an annual recurrence interval of ≥ 50 years. Another alternative would be ≥ 20 years.

Under these options the Transport Agency would need to retain a discretion to address situations such as a particularly unusual combination of events occurring together when each event alone would not exceed the relevant ARI threshold. However, that sort of situation could be dealt with on an exceptions basis.

This approach:

- would give approved organisations and the Transport Agency a reasonable amount of investment certainty as generally it is known very quickly whether an event is so unusual to be around an annual recurrence interval of 50/20 years or more
- evidence and data to verify the ARI of a particular event could probably be obtained reasonably promptly, eg from NIWA.

IS THE APPROACH USED OVERSEAS?

Under the Western Australia Flood Damage Supplementary Fund, flood damage assistance is available for abnormal damage caused to roads by a flood event that is not declared a natural disaster under the Australian Natural Disaster Relief and Recovery Arrangements (NDRRA) which has a return period greater than or equal to 1 in 20 years average recurrence interval (ARI) or a probability of exceedence which is less than or equal to 5%.

Under a natural disaster assistance scheme in Alberta, Canada funding is only available if the event is considered extraordinary and there is evidence that the event is widespread. In the case of flooding caused by a waterway the stream flow must exceed a 1 in 100 year level for the event to be considered extraordinary. If the rainfall has been at least at a one in 25 year level in urban areas or a one in 50 year level in rural areas, it is considered extraordinary.

6.3.3 Minimum cost threshold

Under this option elevated emergency works funding assistance rates would only be available for events where expenditure on emergency works measures that were eligible for funding exceeded either:

- a set monetary amount
- a certain percentage of the council's overall maintenance, operations and renewals programme cost for the year in which the event occurred, eg 15%
- a certain percentage of the council's overall annual expenditure for the year in which the event occurred, or
- a certain amount of money per rateable unit within a council's area.

IS THE APPROACH USED OVERSEAS?

The Western Australia Flood Damage Supplementary Fund (as well as having an ARI threshold) only applies to events where the estimated cost of repairing the damage is greater than $25,000.

The Welsh 'Bellwin' Scheme, as well as having a principle that the scheme is only available for conditions that are exceptional by local standards, also includes a threshold of 0.2% of a local authority's annual budget requirement.

Under the English Department of Transport emergency capital highway maintenance funding, claims for emergency funding are only considered where the costs of the works needed to restore infrastructure to the level of provision applying before the event exceed 15% of an authority's relevant year formulaic capital allocation for highway maintenance.

Under the Canadian Federal disaster financial assistance arrangements (DFAA) assistance is available when a province's eligible expenses incurred in carrying out its own disaster response and recovery programme are above $1 (Canadian) per capita of the estimated provincial population.

Using a set monetary amount would mean that very minor costs would be covered by an approved organisation's normal road maintenance programme or normal passenger transport facilities maintenance.

Using a minimum cost threshold may provide more certainty for both approved organisations and the Transport Agency than using ARI.

However, setting a limit based on the percentage of the council's overall maintenance programme cost, overall annual expenditure or cost per rating unit/ head of population may not encourage councils or their contractors to give appropriate consideration to seeking efficiencies and value for money in how they deliver emergency works.

Also for some events it would not be known until after the council had completed all emergency works whether or not the council's spending on the event exceeded the relevant threshold. This would adversely affect the certainty of the approach.

This approach would essentially work like an insurance excess. Experience from the insurance industry suggests that there is a tendency for people to inflate insurance claims in order to reach the insurable loss threshold. If this approach was adopted it is likely that additional monitoring and auditing would be required so that the Transport Agency could demonstrate that this was not happening.

6.6 OPTIONS FOR SETTING ELEVATED EMERGENCY WORKS FUNDING ASSISTANCE RATES

6.6.1 Elevated rate tied to the organisation's normal funding assistance rate

One option for how elevated emergency works funding assistance rates could be set would be to tie those rates to each approved organisations' normal funding assistance rate. A council's normal funding assistance rate is likely to be based on some measure of the council's relative ability to find the local share of the costs of land transport activities and it would make sense if elevated emergency works funding assistance rates were also tied to relative ability to find the local share.

If this option was chosen then it would be a question of how that rate should be tied to an organisation's normal rate. One option would be to have the rate set half way between the organisation's normal rate and 100%.

Another option would be to have the rate set at the organisation's normal rate plus 20 – ie if their normal rate was 50% their elevated emergency works funding assistance rate would be 70%.

The current maximum emergency works funding assistance rate for infrastructure other than special purpose roads is 95%. One issue we would like feedback on is whether a maximum emergency works funding assistance rate might be needed to ensure that all approved organisations retain sufficient 'skin in the game' to give appropriate consideration to seeking efficiencies and value for money in how they undertake emergency works. If so, what should that maximum funding assistance rate be?

6.6.2 Set elevated rate

Another alternative would be to use a high, but not very high, set elevated emergency works funding assistance rate that applied to all approved organisations where 'out of the ordinary' short-duration natural events occurred. As shown in table 6 above, over the last few years the overall national average emergency works funding assistance rate (excluding emergency works expenditure relating to the Canterbury earthquakes) has been 70%. Therefore, one option is that this set rate could be 70%.

QUESTIONS

EW1 What types of natural events and/or reinstatement works should elevated emergency works funding assistance rates be applied to? Why?

EW2 If elevated emergency works funding assistance rates are only applied where an approved organisation incurs significant expenditure in responding to 'out of the ordinary' short-duration natural events (ie natural events that events are unusual, or are of unusually large magnitude or severity, for the particular area where they occur) what method should be used for determining whether or not an event is 'out of the ordinary':

- A statement of principle?
- Annual return period or similar?
- A combination of the above?
- Some other option?

Why?

EW3 How should any elevated emergency works funding assistance rates be set?

- A rate tied to an approved organisation's normal funding assistance rate?
- A set elevated rate?

Why?

EW4 Should there be a set maximum elevated emergency works funding assistance rate? If so, what should that set maximum be?

7. The Waitangi National Trust Board

7.1 LAND TRANSPORT FUNDING AND THE WAITANGI ESTATE

The 506 hectare Waitangi estate was gifted to the Waitangi National Trust by Lord and Lady Bledisloe in 1932. The Trust Board manages the estate as a place of historic interest, recreation, enjoyment and benefit for the people of New Zealand. The estate includes the Treaty Grounds where the Treaty of Waitangi was first signed between Māori and the British Crown.

Currently the trust receives a 100% funding assistance rate for:

- the part of the main carriageway through the estate that is not local road (known as Tau Henare Drive), and
- four sections of carriageway/accessway that in the mid 1980s (when funding for the trust was last reviewed) were primarily used for the convenience of the public rather than to facilitate trust operations.

These are the purple carriageways shown on the map below.

Tau Henare Drive has been funded from the NLTF and its predecessors since 1969. The initial decision to subsidise part of the carriageway in the trust land was made because it was considered to be in the national interest for the Waitangi National Trust to be eligible for grants from the former National Roads Board for maintenance of the carriageway.[18] When the funding of the trust carriageways was reviewed in the mid 1980s it was decided that carriageways within the trust land should be eligible for funding if they were available for the use and convenience of the public. Carriageways that were primarily there to facilitate the trust's operations were not eligible for funding.

Far North District Council currently receives a 100% funding assistance rate for maintenance, renewals and minor improvements (and a 75% funding assistance rate for other improvements) for one section of local road providing access into the trust estate (the road shown with a thick yellowy/orange line on the map below). Under the provisional funding assistance rates framework Far North District Council would receive the same funding assistance rate for this section of road as it would for any other local road within its district.

Tau Henare Drive links two sections of local road (Te Karuwha Parade and Haruru Falls Road/Bayly Road). Therefore it acts as part of the wider land transport network. In practice the trust does not currently maintain Tau Henare Drive. It is maintained by Far North District Council's contractors as part of the Far North District roading network.

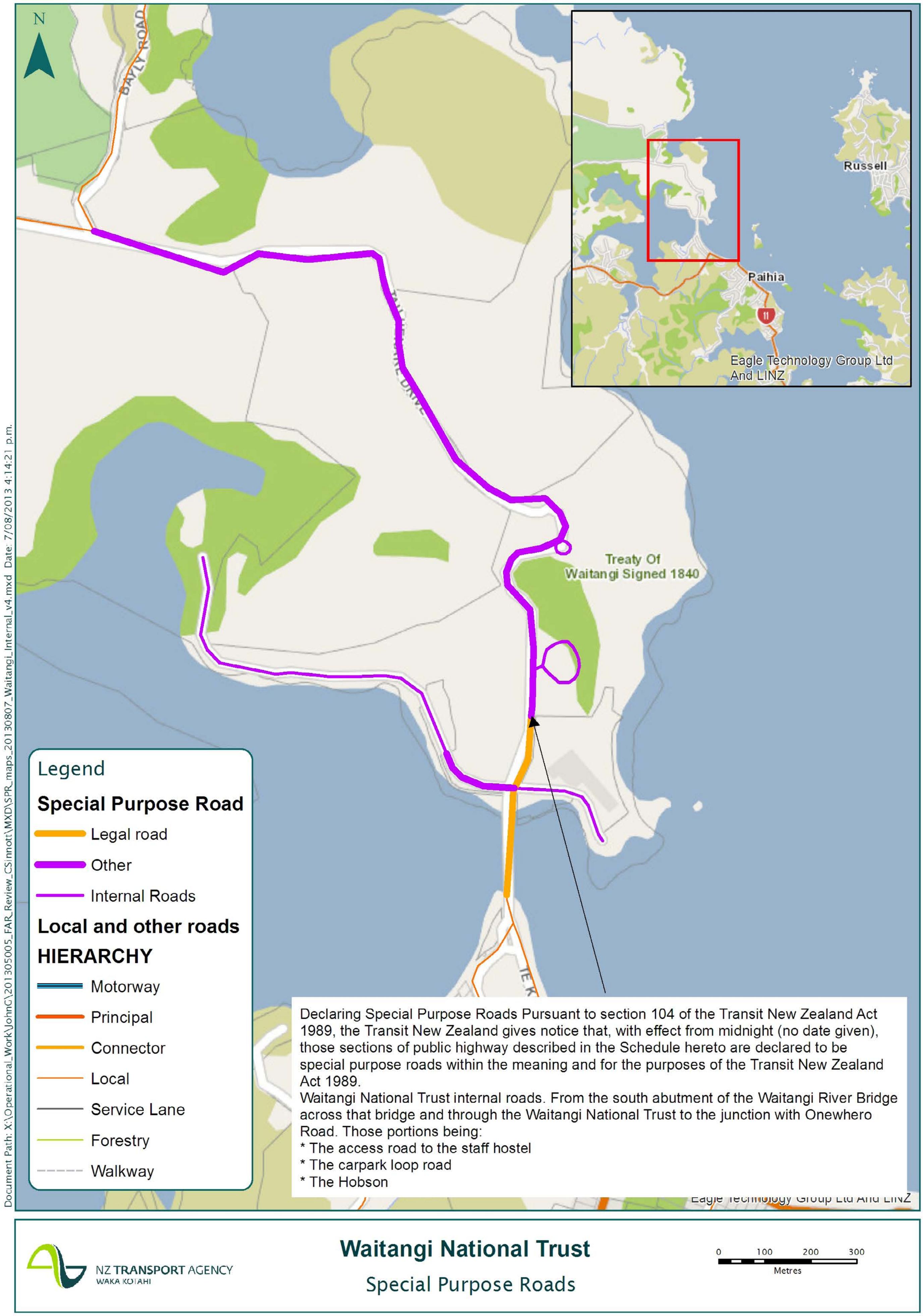
The Hobson Memorial Loop Road is a 71m section of carriageway coming off and rejoining Tau Henare Drive which provides access to the memorial to William Hobson New Zealand's first governor who was instrumental in the drafting and signature of the Treaty. Given its size and function, it is essentially part of Tau Henare Drive.

7.2 MOST CARRIAGEWAYS WITHIN THE TRUST ESTATE (OTHER THAN TAU HENARE DRIVE AND THE HOBSON MEMORIAL LOOP ROAD)

Other than Tau Henare Drive and the Hobson Memorial Loop Road, all the private carriageways within the trust estate now either primarily provide vehicle access to leased sites within the estate (such as the Copthorne Hotel and Resort Bay of Islands and the Waitangi Golf Club) or form part of a carpark (although one of those carriageways may also be used by some members of the public to access a boat ramp).

It is currently proposed that a 0% funding assistance rate would apply to all those private carriageways.

18. Minutes of the National Roads Board, 18 September 1968 and National Roads Board Submission 6048, August 1979.



NZ TRANSPORT AGENCY
WAKA KOTAHI

Waitangi National Trust

Special Purpose Roads

7.2 THE OPTIONS FOR THE FUNDING ASSISTANCE RATE FOR TAU HENARE DRIVE AND THE HOBSON MEMORIAL LOOP ROAD

We are consulting on two options for setting funding assistance rates for Tau Henare Drive and the Hobson Memorial Loop Road going forward.

7.2.1 Retaining a 100% funding assistance rate

Under this option a 100% funding assistance rate would be retained for Tau Henare Drive and the Hobson Memorial Loop Road.

Retaining a 100% funding assistance rate for Tau Henare Drive and the Hobson Memorial Loop Road would mean that the Trust had no 'skin in the game' and would bear none of the financial risk of over-investing in those carriageways. It would also mean that the funding arrangements for Tau Henare Drive and Hobson Memorial Loop Road were not using a cost splitting/co-investment approach. For those reasons giving a 100% funding assistance rate for Tau Henare Drive and the Hobson Memorial Loop Road would treat them as exceptions to the provisional funding assistance rates framework.

However, the Treaty Grounds and marae within the Waitangi National Trust estate have a unique position in New Zealand history as the place where New Zealand's founding constitutional document was signed. Further, over the years they have come to be a symbol of both what has been good, and what has been not so good, in the history of race relations in New Zealand.

The costs of maintaining Tau Henare Drive and the Hobson Memorial Loop Road are not large. The total expenditure on the Trust carriageways and the section of local road funded at 100% from 2009 to 2013 was $163,333. For the 2009-12 investment period the total spend was only $29,919 (a little less than $10,000 per year). In the 2012–15 investment period, the current anticipated expenditure on the carriageways/road is $43,700 for maintenance and operations (a little less than $15,000 per year) and $157,500 for renewals - giving a total of $204,500.

The Northland Regional Land Transport Programme 2012-2015 indicates that the total anticipated expenditure on the carriageways/road in the 10-year period from 2012-2021 is $262,700. It also indicates that no further renewals on the carriageways/road are anticipated for the 2018-2021 investment periods but that the Trust and Far North District Council might seek $70,000 NLTF funding for improvements to the carriageways/road over that six-year period.

Further:

- Tau Henare Drive and the Hobson Memorial Loop Road are not part of Far North District Council's local roads. If the funding assistance rate for Tau Henare Drive and the Hobson Memorial Loop Road was less than 100% the Far North District Council could choose not to have its contractors maintain them.
- Together Tau Henare Drive and the Hobson Memorial Loop Road are approximately 2km in length and would be the only part of the wider land transport network within the control of the Trust that would be funded from the National Land Transport Fund. They are unlikely to be of sufficient scale for many efficiencies to be achieved if the Trust managed those carriageways on its own, rather than the carriageways being managed as part of the Far North District Council network.
- The Transport Agency would retain a level of control over how Tau Henare Drive and the Hobson Memorial Loop Road were managed through its approval of the maintenance and renewal programme that applied to them and the need for Transport Agency approval for any future improvements to the carriageways to be eligible for NLTF funding.

7.2.2 The overall NLTF co-investment rate

As discussed in section 4, the appropriate range for the overall NLTF co-investment rate is from 50% to 53% .

As discussed in section 8 of this document, one of the options we are considering for setting funding assistance rates for Department of Conservation carriageways that are eligible for funding from the NLTF is to give them a funding assistance rate that is the same as the overall NLTF co-investment rate. If the overall NLTF co-investment rate was used for Tau Henare Drive and the Hobson Memorial Loop Road this could mean that the two non-local authority approved organisations were treated consistently. That approach would recognise that the Department of Conservation and the Trust are funded differently from all of the other approved organisations.

This option would mean that the Waitangi National Trust Board had sufficient 'skin in the game' to give appropriate consideration to seeking efficiencies in how they manage Tau Henare Drive and the Hobson Memorial Loop Road. The approach would also be consistent with a cost splitting/co-investment arrangement. However, as noted above Far North District Council could choose not to have its contractors maintain Tau Henare Drive and the Hobson Memorial Loop Road and in those circumstances it is unlikely that the Trust could achieve many efficiencies in how it managed the maintenance of those carriageways on its own.

QUESTIONS

WNT1	Are there any additional options for setting the funding assistance rate(s) for the private carriageways within the Waitangi National Trust estate that we should consider (other than the options already discussed in this document)?
WNT2	What approach do you think we should take to setting the funding assistance rate(s) for the private carriageways within the Trust estate? Why do you prefer that approach?

8. Department of Conservation

8.1 DEPARTMENT OF CONSERVATION CARRIAGEWAYS AND VEHICLE ACCESSES

The Department of Conservation (DoC) has approximately 2280 kilometres of different kinds of vehicle carriageways/accesses (including everything from sealed carriageways to 4WD tracks).

Some of the current DoC vehicle carriageways/accesses were originally local roads or state highway and some may have been constructed along 'paper roads' – ie land that is legally local road but where the local authority never actually constructed or 'formed' a road carriageway. However, most of the DoC carriageways and vehicle accesses are not legally local road – which means that the Department has the right to restrict or stop public access along those routes at any time.

8.2 THE DoC CARRIAGEWAYS THAT CURRENTLY RECEIVE NLTF FUNDING

The mechanism that was previously used to decide which DoC carriageways would be eligible to receive NLTF funding was to declare some carriageways 'special purpose road'. More information on special purpose roads is available at **http://www.nzta.govt.nz/consultation/far-review/docs/far-special-purpose-roads.pdf**

The last time the list of special purpose roads was comprehensively reviewed (in the 1980s) one of the main criteria used was that, to be a special purpose road, a carriageway had to cater for a high proportion of tourist traffic. The statutory power to declare carriageways 'special purpose roads' no longer exists.

Currently 100% funding assistance rates apply to approximately 39 kilometres of DoC carriageways/vehicle accesses that were previously declared special purpose road.

8.3 THE OPTIONS

8.3.1 Most DoC carriageways/vehicle accesses not eligible for funding

Our current thinking is that most DoC carriageways/vehicle accesses would not be eligible for funding from the NLTF - ie would have a 0% funding assistance rate.

In particular (subject to the discussion below regarding some legal local roads managed by DoC with the agreement of the relevant local authority), DoC carriageways/accesses would not be eligible for funding:

- where the use of that carriageway/access is in itself a key part of a recreation/tourism activity
- where the carriageway/access is primarily used for the purpose of managing the conservation estate (eg by DoC staff and contractors)
- where they primarily serve activities undertaken on a commercial basis, or by clubs or similar groups under licences, permits or similar authorisations from DoC
- where the carriageways/accesses are very short, effectively driveways. (The administrative costs of approved NLTF maintenance programmes being developed for very short individual lengths of carriageway, or of improvement projects for those carriageways being approved for funding from the NLTF, are likely to be prohibitive.)

In addition no DoC parking areas would be eligible for funding from the NLTF.

8.3.2 DoC carriageways eligible for NLTF funding

8.3.2.1 WHICH CARRIAGEWAYS SHOULD BE ELIGIBLE FOR FUNDING?

Some sections of carriageway in the conservation estate are principally used to convey the public to and from the start of the relevant recreation/tourism area (rather than use of the carriageway being part of the recreation/tourism experience, or primarily for the management of the conservation estate). These sections of carriageway form the link between the start of the relevant conservation area and the wider land transport network.

Of the current DoC special purpose roads the ones that:

- are principally used to convey the public to and from the start of a recreation/tourism area, and
- do not primarily serve activities undertaken on a commercial basis, or by clubs or similar groups

are Tasman Valley Road (which runs for approximately 13km from the end of the state highway network to the start of the Hooker/Mueller Tracks in Aoraki/Mount Cook National Park) and the DoC carriageways which provide access to the Fox Glacier or Franz Josef Glacier. With the exception of any parking areas, it is proposed that those four carriageways would remain eligible for funding from the NLTF.

In addition two DoC carriageways within Te Urewera National Park (Papakorito Falls Access Road and Hopuruahine Landing Access Road) are legal local road managed by DoC with the agreement of the relevant local authority (Wairoa District Council). It is currently proposed that (again with the exception of any parking areas) those two carriageways would remain eligible for funding from the NLTF subject to the Transport Agency's uneconomic roading facilities policy. (Under the Transport Agency's uneconomic roading facilities policy where the cost of renewal, reinstatement or structural upgrading of any roading facility is determined to be uneconomic, such works will not be eligible for funding assistance as a rule. However, the Transport Agency will continue to provide funding assistance for the cost-effective maintenance of the facility.)

If there are any other DoC carriageways which meet the above criteria and/or are legal local roads that the DoC is managing with the agreement of the relevant local authority it would be open to the Transport Agency and DoC to reach agreement in future that specific identified carriageways that fall into those categories would become eligible for funding from the NLTF. In considering whether or not additional carriageways should become eligible for funding from the NLTF, the Transport Agency will need to consider the potential impact of that on the NLTF's ability to continue to fund the rest of the land transport network.

8.3.2.2 OPTIONS FOR SETTING FUNDING ASSISTANCE RATES FOR THOSE CARRIAGEWAYS

The sections of DoC carriageway that are eligible for funding from the NLTF could:

- Option 1 - All receive a funding assistance rate that is equal to the overall NLTF co-investment rate, or
- Option 2 – Each receive the same funding assistance rate as the normal funding assistance rate of the territorial authority of the district in which the carriageway is located.

Both of these options would represent a cost sharing/co-investment approach to investment in the carriageways.

Option 1 would provide DoC with the most planning certainty as the overall NLTF co-investment rate is intended to remain stable over time.

However, in some cases the DoC does, or may in future, work with a territorial authority so that some of its carriageways are managed by the same contractors as the local roads within the district. Further, we understand that in some cases the department currently contributes to the cost of maintaining the last section of local road managed by the territorial authority that its carriageway connects to. Option 2 would mean that the eligible carriageways had the same funding assistance rate as the local roads managed by the territorial authority within the relevant district. This may facilitate joint management of those carriageways with the surrounding local roads. Such joint management may create opportunities to realise efficiencies in how the DoC carriageways are managed.

Option 2 would result in an additional exception being added to the part of the provisional funding assistance rates framework which provides that each approved organisation would have the same funding assistance rate for all the different activities it undertakes that are eligible for funding from the NLTF. That exception would recognise that the department is in a different position to other approved organisations because it manages discrete sections of carriageway scattered throughout the country.

QUESTIONS

DOC1 Which DoC carriageways should be eligible for funding from the NLTF? Why?

DOC2 Are there any additional options for setting the funding assistance rate(s) for DoC carriageways that are eligible for funding from the NLTF that we should consider (other than the options already discussed in this document)?

DOC3 What approach do you think we should take to setting the funding assistance rate(s) for the DoC carriageways that are eligible for funding from the NLTF? Why do you prefer that approach?

9. Targeted enhanced funding assistance rates

9.1 WHAT THE PROVISIONAL FUNDING ASSISTANCE RATES FRAMEWORK PROVIDES

The provisional funding assistance rates framework provides that enhanced targeted funding assistance rates can be used, transparently, in exceptional circumstances for time limited periods, to either:

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

WILL THERE BE ANY TARGETED ENHANCED RATES IN 2015–18?

Outside of the funding assistance rates review itself, the Transport Agency is considering whether targeted enhanced funding assistance rates should be used for specific purposes in the 2015–18 investment period. This would depend in part on the availability of funding and the potential impact of using such rates on the remainder of the National Land Transport Programme. It will also depend upon whether there is sufficient time available to set up such a targeted rate and allow approved organisations to organise themselves to be able to take advantage of it.

9.2 WHAT IS NEEDED FOR A TARGETED ENHANCED RATE TO BE EFFECTIVE

As set out in attachment 4 to the first *Funding assistance rates review discussion document* released in February 2013, we have analysed a number of circumstances where differences in funding assistance rates, or changes in funding assistance rates, have been used to seek to incentivise or dis-incentivise particular land transport activities.

Based on that analysis we consider that:

- enhanced rates should only be used as a short to medium term tool with a set end date. (With the passage of time a higher funding assistance rate is likely to be become ‘business as usual’ rather than an incentive and once an organisation has made a step change in a particular land transport activity the removal of an enhanced rate does not appear to result in the organisation going back to where they were before they made the change)
- for enhanced targeted rates to be effective:
  - › they need to be funded from a set pool of money that:
    - is set aside solely for use for the targeted enhanced rates
    - is of sufficient size so that it is worth the relevant approved organisations’ while to organise themselves to take advantage of the enhanced rates
    - can be accommodated within the funding range set for the relevant activity class under the GPS

- the outcomes that are intended to be achieved by the relevant approved organisations as a result of the enhanced rates need to be clearly identified from the outset and monitoring needs to be undertaken to determine whether or not those outcomes are being achieved
- the scheme for the particular targeted rate needs to be easy to understand and administer
- the relevant approved organisations need to have either sufficient capability, or sufficient guidance, to organise themselves to take advantage of the enhanced funding assistance rate
- there needs to be sufficient time allowed in setting up the targeted rate before it is introduced, for it be set up properly and for approved organisations to organise themselves to be able to take advantage of it.

QUESTION

TEFAR1 Are there any things that the Transport Agency should take into account when considering whether or not to use, or setting up, a targeted enhanced funding assistance rate (in addition to the matters discussed in this document)?

10. Transitioning

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

We have currently identified three options for transitioning in any changes to funding assistance rates that result from the funding assistance rates review:

- Transitioning in the changes over a set period of time, eg 3 years, 6 years (two NLTF investment periods), 9 years (three investment periods), or 10 years.
- No approved organisation's overall effective funding assistance rate decreasing by more than 2% from their overall effective funding assistance rate for the previous financial year (once the effects of any bespoke arrangements, regional development funding, emergency works funding and targeted enhanced funding assistance rates have been excluded).
- A combination of the above, e.g. generally transitioning the changes in over 10 years but taking longer for some councils if transitioning in over 10 years would result in their overall effective funding assistance rate for any year during that transition period decreasing by more than 2% from their overall effective funding assistance rate for the previous financial year.

Approved organisations effective overall funding assistance rates for the period from 2009/10 to 2012/13 (and their effective overall funding assistance rates for the 2012/13 year) are given in section 5 of this document.

These figures will be affected by the fact that currently capital improvements to local roads are funded at a higher rate than maintenance, operations and renewals and some territorial authorities will have undertaken more capital improvements or activities on special purpose roads in the last four years than others. We will need to take this into account if we use an approach that links how we transition in changes to funding assistance rates to an approved organisation's overall effective funding assistance rate for the previous financial year.

In order to transition in any decreases in some approved organisations' funding assistance rates, approved organisations whose funding assistance rates would increase under the chosen option would also have that increase gradually transitioned in so as to enable Transport Agency to remain within the relevant funding ranges in the GPS.

Where the Transport Agency has made a binding commitment to fund a particular identified activity at a specified funding assistance rate for a defined period, or to fund a particular project or phase of a project at a specified funding assistance rate, it would honour those commitments.

QUESTION

TRANS1 How should any changes to funding assistance rates be transitioned in?

Attachment 1

Running list of factors which make it materially harder to deliver land transport outcomes

AS IDENTIFIED BY LOCAL AUTHORITY STAFF/COUNCILLORS AT MEETINGS ON THE FUNDING ASSISTANCE RATES (FAR) PROVISIONAL FRAMEWORK IN SEPTEMBER AND OCTOBER 2013

Factors influencing the intrinsic costs of delivering land transport outcomes

- A large proportion and length of bridges on the local road network.
- A large number of bridges on the local road network nearing the end of their life.
- Bridges and other assets in a coastal environment requiring a higher level of expenditure to maintain to a good condition.
- Local metal resources – quality and quantity.
- Higher aggregate carrying costs in some areas.
- Speculative consenting for aggregate by property owners which constrains the availability of aggregate and drives up the unit costs.
- Less forgiving sub-foundation geology– eg unstable moisture sensitive clays and volcanic ashes.
- High annual rainfall.
- Temperature extremes requiring special materials.
- Lower numbers of local suppliers (eg contractors/consultants) leading to less competition (including for public transport contracts) – contributed to by distance from large service centres and low usually resident population.
- The contracts tendered by some councils not being big enough to attract new contractors to work in their area and local contractors who are growing in size no longer being interested in the smaller contracts.
- It being more expensive for contractors to set up/do business in some areas (which can be due to remoteness, high rental costs etc).
- Ensuring a long term viable supplier pool.
- Contractors being drawn off to work on big projects in Christchurch or Auckland.
- Difficulty attracting and retaining experienced staff in more rural areas leading to lower staff productivity while inexperienced staff are trained and/ or greater use of consultants (who are more expensive due to their being risk averse) and contractors factoring more risk into their prices. This can get worse if the contractors/consultants recruit local authority staff once they have been trained and become more experienced.
- Difficulty for contractors/consultants to attract and retain core capacities and competencies in more rural areas.
- Road layout and length of network – eg long roads with branches coming off rather than a grid pattern. This type of layout means that there are:
  - large lengths of road that only serve one or a few properties (even if these roads are not delivered to a very high standard there is still a base cost in keeping them open)
  - generally, no alternative routes and, therefore no ability to rationalise the network/maintain some parts of the network to lower standards, and a need for the spine roads to be more resilient.
- Short construction season due to climate/ environmental factors – cooler and/or wetter seasons .
- Short construction season due to consent conditions.
- Variable weather affecting the number of days on which works can be undertaken.
- Remoteness of some sites and networks – making it costlier to monitor and maintain.
- Mix between urban and rural networks.

- Regular flooding of sections of road at spring tide which reduces pavement life.
- COPTTM and health and safety costs.
- Terrain/topography/geography that limits viable and affordable treatments and access.
- Vehicle kilometres travelled.
- Length of network.
- Large land area.
- Higher costs per vkt to maintain low vkt roads.
- Percentage of heavy vehicles using the network.
- Change in demand compared to the original asset design.
- Maintaining the asset to the current condition.
- Sealed roads – there is a view that these are more expensive to maintain than unsealed roads.
- Increasing road networks due to new subdivisions/land development or State highways having their state highway status revoked.
- Relationships between council staff and contractors – can lead to a reduction in the amount of risk factored into a contract price.
- Higher environmental management costs due to topography and climate.
- In some cases NZ Historic Places Trust constraints on the changes which can be made to historic roads or historic structures.
- The size of the contracts for maintaining/size of the network of unsealed local roads meaning that contractors have insufficient incentive to invest in the best machinery and equipment for or innovate in how they maintain unsealed roads.
- A number of contracts in the same area coming up for tender at about the same time – reducing the competition for each contract.
- High property prices increasing the cost of retrofits.
- Use of the transportation corridor by other utilities.

Factors requiring the local network to be delivered/maintained to a higher standard and, therefore, increasing the cost of delivering the network

- Heavier and longer vehicles, and increasing amounts of forestry harvesting vehicles and equipment, using the local roads:
  - › reducing pavement life, and
  - › leading to a need to strengthen bridges, ease tight corners and make improvements to seek to avoid truck rollovers (eg improvements to road camber).
- Needing to maintain networks to cope with peaks in demand due to use by forestry vehicles.
- Established housing close to unsealed roads with increasing numbers of heavy vehicles – this can give rise to health issues due to dust and potentially a need to take measures to address dust issues.
- Community demand for higher levels of service – eg community demand for sealed roads leading to possible ongoing increased maintenance costs, higher expectations around the standards that rural roads should be provided to.
- Greater demand for public transport in urban centres.
- Poor safety record – giving rise to a need for safety improvements.
- Need for some local roads to be available as state highway bypass routes if state highways become unavailable due to slips etc.
- High population and/or economic growth leading to a need for land transport improvements to service greenfield and brownfield development areas.
- Increasing travel demand resulting in:
  - › a need for land transport to be delivered to a higher standard (including providing for peak demands)
  - › an increased need to undertake/promote demand management initiatives (such as bus lanes, improved public transport services, walking school buses, carpooling, and work from home initiatives).
- Changing land use patterns.

- Need to provide routes for tsunami evacuation.
- Use of local roads by tourists (domestic and international) particularly to access parts of the Conservation estate and key tourist routes. This affects the amount of traffic the roads need to take/demand in peak seasons, the type of traffic using the roads, and the requirements and road users' expectations in relation to environmental management.
- Use of local roads by normally non-resident ratepayers during summer, the ski season etc.
- Higher passenger expectations around the standard of public transport.
- Councils' development standards/ consenting conditions.
- Any national expectations regarding what fit for purpose standards are (if those standards are higher than the existing standards) – eg minimum levels of service for buses.
- Inherited infrastructure with high levels of service, eg very wide local roads as a result of historic community aspirations or revoked state highways – there are costs involved in reducing the levels of service of that infrastructure.
- Proportionately high population growth/ growth in house numbers in some parts of a district.
- High mix of heavy vehicles and general traffic using the same road giving rise to a need for more safety interventions.
- Lack of a rail alternative to the roading network increasing the need for the roading network to be resilient and the standard to which the roading network needs to be delivered.
- Central government pressure to improve asset and risk management.
- Previous investment decisions made by ratepayers in expectation that roads will be provided and maintained to a certain standard.
- Changes in the amount of risk a council is prepared to take in relation to road maintenance.
- Increasing use of road network by cyclists – when the roads were not originally designed to accommodate cyclists.
- In more densely settled areas the need to provide and maintain footpaths.
- Increasing costs of mitigating the effects of infrastructure on the environment eg:
  - › sumps
  - › stormwater management
  - › re-painting bridges
  - › weed control and issues of weed infestation on roadsides
  - › noxious plant management/control.

Factors influencing councils' ability to find the money to meet the costs of delivering land transport outcomes

- Low ratio of number of ratepayers to length of road network - with a smaller ratepayer base it takes a greater percentage rates increase to raise the same amount of money.
- The extent of use of a local network by non-ratepaying tourists.
- Aging infrastructure leading to a large number of renewals being required over a short period of time.
- Poor existing condition of network/ previous underinvestment requiring significant remedial work/upgrading (including inherited networks following local authority reorganisation).
- Competing demands from other core infrastructure – eg:
  - › underground infrastructure nearing the end of its economic life
  - › increased compliance costs for the delivery of the three waters
  - › upgrades to other infrastructure required as a result of growth

  and debt levels associated with delivering these and transport activities.
- Additional work required by central government – eg earthquake assessments.
- Unplanned events, eg floods, resulting in money having to be reallocated from other activities (e.g. planned road maintenance).
- Large proportions of unrateable land eg conservation land, any other Crown land that is unrateable or has restrictions on how it can be rated, and Māori customary land.
- Large proportions of Māori freehold land in multiple ownership where there are real practical difficulties in recovering rates from that land (and increasing amounts of Māori freehold land due to Treaty of Waitangi settlements).

- Logging trucks and quarry traffic travelling through a district where the forest being harvested/quarry is located outside of the district, therefore, the council managing the road does not receive rates from owner of the land on which the forest or quarry is located.
- Problem that if a council sets differential targeted rates that are too high it can kill an industry within its area.
- Relative willingness of ratepayers to pay rates.
- Willingness of councils to increase rates/ councillors being elected on a platform of not raising rates.
- Willingness/ability of public transport users to pay higher fares.
- Socio-economic factors eg levels of deprivation.
- What percentage of total council spend is spent on land transport.
- Having a higher funding assistance rate makes it politically easier for councils to find the local share of the costs of a land transport activity.
- Willingness of councils to fund/value given to particular types of activities eg road safety promotion and education.
- Inability to take into account the value of trees when rating forestry land/adequately rate forestry land for the impacts imposed.
- Short term events such as an outbreak of foot and mouth affecting local incomes and, therefore, ability to pay rates.
- How councils manage depreciation.
- Funding the rate of depreciation on assets required by auditors/differences between asset consumption and financial depreciation.
- Ability to levy developer contributions (Local Government Act development contributions, RMA financial contributions and contributions by side agreement).
- Ability to increase debt funding.
- Legislative constraints on the ability to develop alternative funding sources.
- Lack of clarity and certainty around government funding of rail infrastructure.
- Aging populations on a fixed income/a high proportion of the ratepayers being on fixed incomes. The value of pensioners property may not reflect their income available.
- Static or declining populations – also affects regional councils particularly where they set targeted rates for each community which has public transport and the population in some of those communities is static or declining.
- Low growth.
- Low development.
- Dealing with the financial consequences of previous investments.
- Higher community and/or tourist expectations around things such as amenity plantings that are not eligible for NLTF funding.
- Providing infrastructure in advance in anticipated growth areas.
- Transport Agency decisions around what improvements to fund – means some councils are funding the full costs of some improvements.
- Lack of certainty about obtaining NLTF funding for improvements – this leads to existing roads having lower standards than new roads which perform the same function.
- Choice of rating system – eg land value or capital value.
- Small dispersed communities – leads to a need to provide infrastructure locally with only small communities to spread the cost of that infrastructure over.
- Rural areas having activities like farming and quarrying which generate heavy vehicle traffic but only having a low number of ratepayers to spread the cost of land transport activities over.
- Lower economic activity.
- Percentage of council income obtained from rates – some councils get the vast majority of their income from rates others get significant proportions of their income from things like ports and electricity companies which the council owns or part owns.
- Farebox recovery rates.
- Limited accountability of/ability to collect costs from road users for damaging components of the transport network.
- Potential funding constraints for research and development.

Factors influencing the need for emergency works

- Storm cycles –approximately every 5 to 7 years there are more storms in an area.
- Slash left on deforested land.
- Proximity of roads to rivers and, therefore, increased risk of flooding.
- Unstable land/land along eroding river banks.
- Parts of the roading network being protected by seawalls that can get damaged in storm events and earthquakes/ exposure to coastal zones – dealing with coastal erosion often involves using very specialised and expensive solutions.
- Hilly terrain.
- Likelihood of being hit by severe weather events due to climate or topography.
- Possible increasing number, frequency and intensity of extreme weather events as a result of climate change.
- Long road networks/remoteness leading to difficulties in monitoring the condition of all roads.
- Road layout and length of network – eg long roads with branches coming off rather than a grid pattern. This means that more roads are the only road access to a group of properties or part of the Conservation estate. Therefore, if they are affected by an emergency event they need to be reopened quickly.
- Scale of the emergency – eg large scale volcanic eruption or earthquake.
- Using 'cheap' solutions to get roads reopened quickly which have reduced life/ larger whole of life costs.
- Droughts followed by wet weather.
- Farmers pushing the productivity of their land.
- Difficulty in convincing councils to have an emergency works reserve when there is pressure on to reduce rates. This can lead to the local share of emergency works being debt funded.
- Changes in river management practices leading to more trees coming down and causing damage to roads/drainage.
- Emergency events only having localised effects but quite severe effects in the part of the district where they hit.
- Not being able to get emergency works funding for slips that do not affect road carriageways.
- Dealing with extreme random events where the financial risk is too great for individual councils to efficiently manage.

Process

- Difficulties in getting all relevant statutory plans and policies consistent – eg long-term plan and regional transport plan.
- Differences in planning timeframes for transport and local government legislation eg 3, 6, 10 and 30 years.
- The amount of process requirements for getting funding approval for smaller capital projects.

How often should FARs be reset

- Cycle of updates should be at least 6 years given that local government has a ten year financial planning cycle.
- Some councils supportive of a three-yearly review.

Attachment 2

Other factors we are not proposing to take into account in setting councils' funding assistance rates

MĀORI FREEHOLD LAND

One of the factors raised in our discussions with local authorities was that some councils' areas contain more Māori freehold land than others. While most Māori freehold land is rateable, in practice there can be significant issues in collecting rates from Māori freehold land. Partly this is due to the fact that, as the land often has a sizeable number of co-owners, it can be difficult to determine who to seek payment of the rates from. Further, the ultimate sanction for non-payment of rates on other land – sale of the land by the council – is not available for Māori freehold land.

We have specifically looked at the issue of whether the percentage of Māori freehold land in an area should be taken into account in setting funding assistance rates. Table 7 below shows the percentage land in each district, and region, that is Māori freehold land.

However, taking into account the percentage of Māori freehold land within each area in setting funding assistance rates could create a moral hazard issue – essentially incentivising the owners of Māori freehold land not to pay, and local authorities not to collect, the rates that are legally payable on that land.[19]

Issues around recovering rates from Māori freehold land have implications that go further than land transport funding – they also affect councils' ability to fund other activities which the owners and occupiers of Māori freehold land benefit from. Even if the Crown should be taking a role in addressing the impacts of difficulties in collecting rates from Māori freehold land, that still leaves an issue as to whether the NLTF, which contains revenue generated by road users rather than general Crown revenue, should be used to address those issues. Broader reform of the rating system would be required to fully address the issue.

Therefore, on balance, we currently consider it inappropriate to seek to address issues relating to collecting council rates on Māori freehold land through NLTF funding assistance rates.

19. *Future funding of local government activities*, NZIER and McKinlay Douglas Limited, November 2001, pages 41 to 42.

TABLE 7: PERCENTAGE OF MĀORI FREEHOLD LAND WITHIN EACH DISTRICT AND REGION (DECEMBER 2012)

TLA Name	Percentage
Māori Freehold Land in each District - December 2012	
Taupo District	29.98[20]
Opotiki District	29.10
Gisborne District	22.34
Rotorua District	17.95
Whakatane District	16.60
Rangitikei District	15.35
Chatham Islands Territory	14.86
Far North District	14.65
Tauranga City	13.85
Ruapehu District	12.45
Wairoa District	12.21
Wanganui District	11.84
Hastings District	10.21
Waitomo District	10.08
Otorohanga District	8.43
Western Bay of Plenty District	8.18
Kawerau District	7.71
South Taranaki District	6.13
Horowhenua District	5.31
Waikato District	4.32
Stratford District	4.22
Whangarei District	3.88
Thames-Coromandel District	3.68
Kaipara District	3.64
Hauraki District	3.24
New Plymouth District	2.71
Central Hawke's Bay District	2.46
South Waikato District	2.38
Kapiti Coast District	2.18
Tararua District	2.16
Matamata-Piako District	1.86
Waipa District	1.53
South Wairarapa District	1.49
Auckland	1.47
Porirua City	1.02
Southland District	0.98
Manawatu District	0.85
Lower Hutt City	0.83

20. Note includes Lake Taupo which has an area of 61,452.66 Ha.

TABLE 7 (CONT): PERCENTAGE OF MĀORI FREEHOLD LAND WITHIN EACH DISTRICT AND REGION (DECEMBER 2012)

TLA Name	Percentage
Māori Freehold Land in each District - December 2012	
Invercargill City	0.83
Christchurch City	0.76
Masterton District	0.70
Marlborough District	0.68
Carterton District	0.67
Dunedin City	0.46
Clutha District	0.43
Kaikoura District	0.38
Waimakariri District	0.32
Hamilton City	0.26
Westland District	0.21
Grey District	0.17
Timaru District	0.13
Napier City	0.08
Ashburton District	0.06
Selwyn District	0.05
Palmerston North City	0.05
Buller District	0.04
Wellington City	0.03
Nelson City	0.03
Waimate District	0.02
Gore District	0.02
Waitaki District	0.01
Upper Hutt City	0.00
Tasman District	0.00
Queenstown-Lakes District	0.00
Mackenzie District	0.00
Hurunui District	0.00
Central Otago District	0.00

TABLE 7 (CONT): PERCENTAGE OF MĀORI FREEHOLD LAND WITHIN EACH DISTRICT AND REGION (DECEMBER 2012)

Region Name	Percentage
Māori Freehold Land in each Region - December 2012	
Gisborne Region	22.3
Bay of Plenty Region	18.1
Chatham Islands Territory	14.9
Hawke's Bay Region	12.0
Waikato Region	11.2
Northland Region	9.6
Manawatu-Wanganui Region	8.0
Taranaki Region	4.0
Auckland Region	1.5
Wellington Region	1.5
Southland Region	0.9
Marlborough Region	0.7
Canterbury Region	0.1
Otago Region	0.1
West Coast Region	0.1
Nelson Region	0.0
Tasman Region	0.0

RAW DATA SUPPLIED TO THE NZ TRANSPORT AGENCY BY THE MĀORI LAND COURT UNDER LICENCE
PERCENTAGES CALCULATED BY THE NZ TRANSPORT AGENCY, NOVEMBER 2013.

PERCENTAGE OF HOUSEHOLD INCOME SPENT ON RATES

We considered using on option which used the relative percentage of household income spent on rates in each area.

The Local Government Rates Inquiry undertaken in 2007 used the metric of what percentage of gross household income was spent on rates when assessing whether or not there was a rates affordability issue in New Zealand.[21] They found that there was not likely to be an affordability problem for the average household but there were likely to be pockets of affordability problems. They noted that low-income groups, one-person households, single-parent households and those whose principle income was New Zealand Superannuation illustrated particular rates affordability concerns.

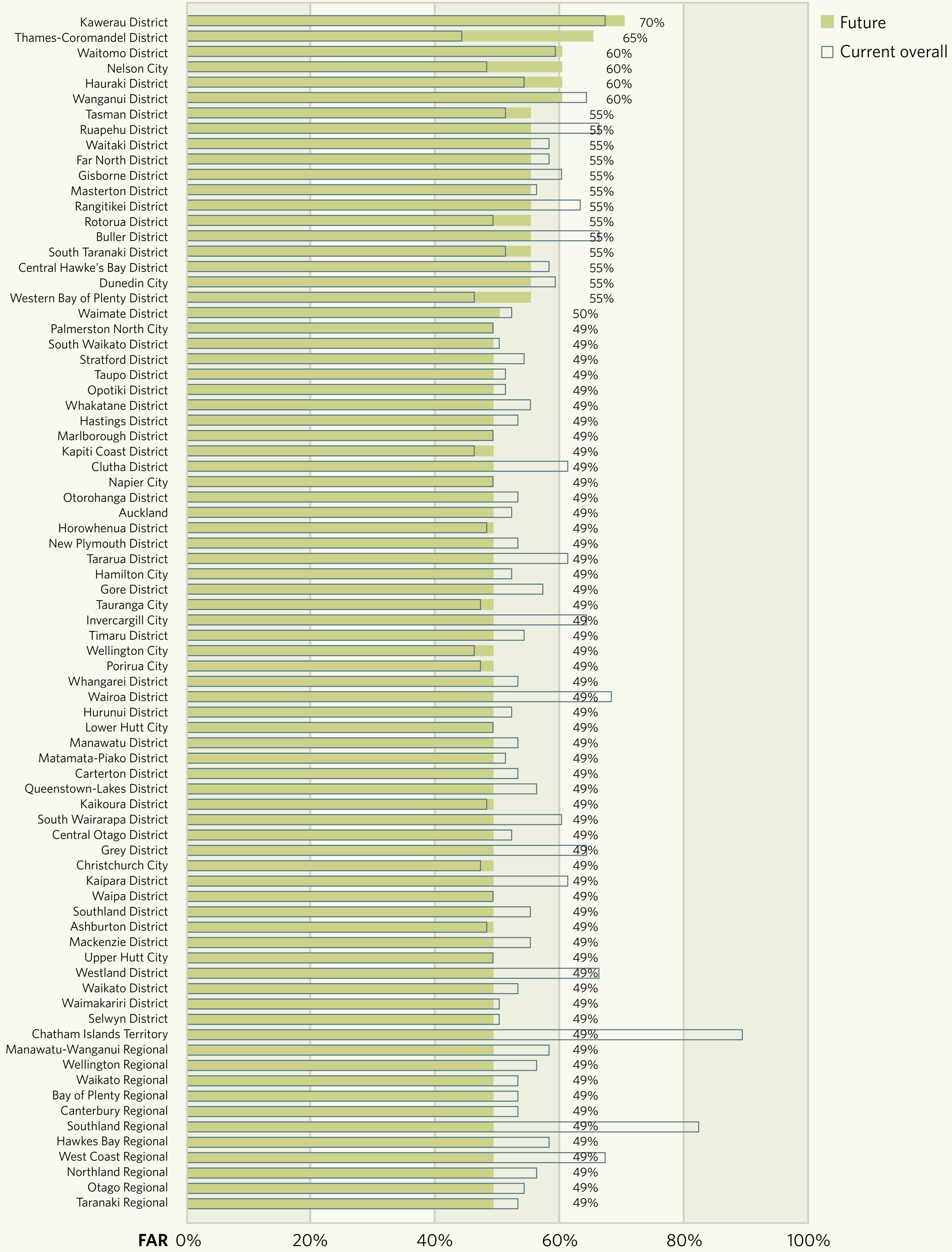
However, using the metric of percentage of household income spent on rates in setting funding assistance rates into the future would be problematic. This is because:

- the level of rates a council chooses to set is significantly affected by decisions around what activities the local community and the council want to spend money on. If a council and community choose to invest in more activities such as libraries, swimming pools, community centres, and cultural events then, all other things being equal, their rates will be higher than in an area that chooses to invest in less of those activities. It is part of a council's mandate to determine its own financial management approaches, including what level of rates it sets
- household income by itself does not necessarily reflect a household's relative wealth. Using just median household income in setting funding assistance rates would mean that reasonably high wealth areas where more members of the community use legitimate structures like family trusts, and farm or property holding companies in a way which results in them in having a relative low household income compared to their overall wealth would disproportionately benefit. Some of the districts with the lowest median household income also have very low deprivation levels.

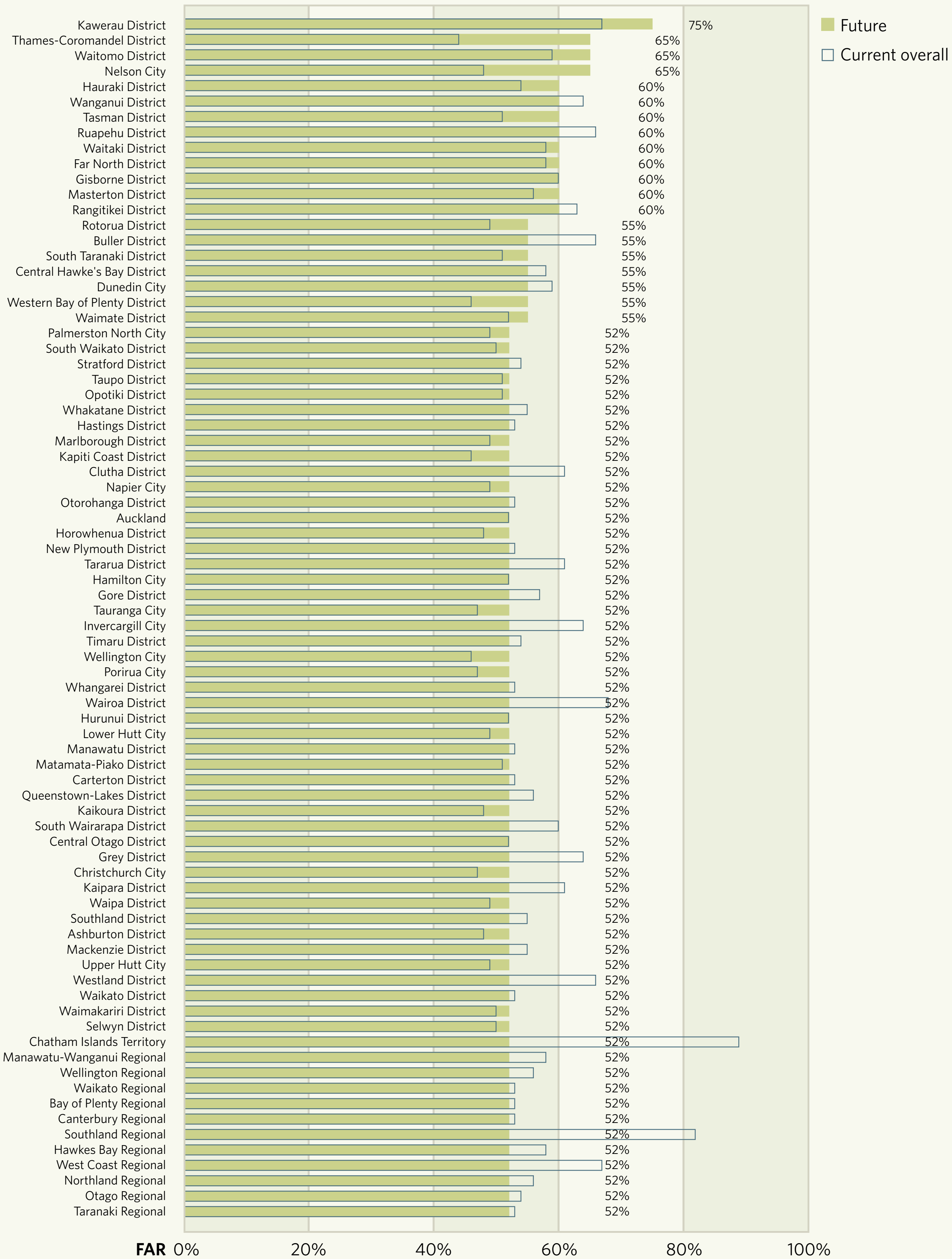
We have modelled what the funding assistance rates could be if we used the 2009–12 council rates revenue per rateable unit and 2006 territorial authority median household income in setting funding assistance rates. The outcomes of that modelling are shown below.

21. *Report of the Local Government Rates Inquiry 2007*, pages 183 to 209.

ANNUAL 2009/12 RATES REVENUE / RATEABLE UNIT 2006 MEDIAN HOUSEHOLD INCOME - 50% OVERALL NLTF CO-INVESTMENT RATE



USING ANNUAL 2009/12 RATES REVENUE / RATEABLE UNIT 2006 MEDIAN HOUSEHOLD INCOME - 53% OVERALL NLTF CO-INVESTMENT RATE



OTHER FACTORS WE ARE NOT PROPOSING TO TAKE INTO ACCOUNT IN SETTING FUNDING ASSISTANCE RATES

Other reasons why we are not currently proposing to use factors identified at the recent council meetings in setting funding assistance rates are that the relevant factors:

- affect all relevant local authorities so they are not a basis for distinguishing between local authorities, eg additional work required by central government such as requirements to undertake earthquake assessments of buildings and legislative constraints on the ability to deliver alternative sources of funding
- are within the local authority's and/or the local communities' control eg the relative willingness of ratepayers to pay rates and the relative willingness of councils to increase rates
- cannot be quantified and reliably and objectively compared between councils at present, eg the percentage of heavy vehicles using local roads. (Currently we do not have reliable or comparable heavy vehicle counts for local roads)
- would be likely to create perverse incentives e.g. setting a higher funding assistance rate for the parts of the network (if any) that are in poor condition would penalise those councils who keep their part of the network in good condition.

Attachment 3

Percentage of Crown conservation estate within each district

District	Public Conservation Land as % of District area
Westland District	87.3
Buller District	86.5
Grey District	68.3
Tasman District	64.8
Southland District	60.9
Opotiki District	52.5
Kaikoura District	48.5
Kapiti Coast District	48.2
Marlborough District	45.9
Queenstown-Lakes District	43.1
Thames-Coromandel District	38.4
Whakatane District	37.6
Stratford District	32.1
Selwyn District	31.9
Hurunui District	31.4
Ruapehu District	28.7
Mackenzie District	28.2
Wairoa District	26.5
Ashburton District	26.2
South Wairarapa District	24.3
New Plymouth District	23.6
Taupo District	23.4
Horowhenua District	22.5
Carterton District	22.0
Waitaki District	20.3
Hauraki District	19.7
Western Bay of Plenty District	19.3
Lower Hutt City	18.8
Far North District	17.9
Otorohanga District	16.9
Wanganui District	16.8
Hastings District	16.3
Waitomo District	16.3
South Taranaki District	16.0
Timaru District	15.6
Waimakariri District	14.5

District	Public Conservation Land as % of District area
Nelson City	13.9
Rangitikei District	12.7
Invercargill City	11.6
Manawatu District	11.1
Matamata-Piako District	11.1
Clutha District	10.3
Dunedin City	10.1
Central Otago District	10.0
Chatham Islands	9.7
Gisborne District	9.0
Rotorua District	8.2
South Waikato District	8.0
Kaipara District	7.8
Whangarei District	6.5
Kawerau District	6.4
Waimate District	6.1
Auckland	6.0
Tararua District	6.0
Waikato District	5.9
Masterton District	5.8
Napier City	5.3
Central Hawke's Bay District	5.1
Christchurch City	3.0
Porirua City	2.6
Waipa District	1.9
Upper Hutt City	1.4
Gore District	0.8
Palmerston North City	0.4
Tauranga City	0.1
Wellington City	0.1
Hamilton City	0.0

SOURCE – DEPARTMENT OF CONSERVATION, SEPTEMBER 2013.

Attachment 4

The history of emergency works funding

BEFORE THE NATIONAL ROADS BOARD – TO THE EARLY 1950S

Prior to the National Roads Board being established the Ministry of Works (formerly the Department of Public Works) had the ability to subsidise road flood damage restoration costs from general Crown funds (the consolidated fund).

The Ministry had a discretion whether or not to grant any subsidy and could grant whatever rate of subsidy it saw fit.

The primary information that was taken into account in determining whether to grant a subsidy, and what level of subsidy to grant, was the financial position of the local authority seeking the subsidy, eg the amount of general rates per pound of rateable capital value of the country, the total rates levied and collected, the council's total revenue, the balance of its general fund and the council's level of indebtedness. There was also a general rule that when the estimated flood damage to roads was less than £100 that cost should be borne by the local authority as ordinary maintenance. The policy position of both the Ministry and the Treasury was that before a local authority was entitled to receive flood damage assistance from the Government its financial position should be such, and the damage sustained of such an amount, as to constitute a hardship to restore out of local body resources.[22]

1954 – FLOOD DAMAGE FUNDING ASSISTANCE - AN EXCESS AND THEN ON THE MERITS

The National Roads Board was established in 1954. It was statutorily required to allocate the National Roads Fund so that, among other things, counties received a rate of 8s for each pound of general rates and special roading purposes rates they collected. (The amounts paid to municipalities – ie boroughs and town districts – were a set rate per head of population.)

It could also, if there was money available in the fund, grant any additional financial assistance in respect of subsidised works as it thought justified, having regard to[23]:

- other commitments of the fund
- the financial position of the local authority
- the nature and urgency of any subsidised works requiring expenditure by the local authority in that financial year
- any additional cost of construction or maintenance that was caused wholly or in part by physical or climatic conditions or by traffic related to a particular industry
- such other considerations it regarded as relevant.

In November 1954, the Board developed a policy for how it would fund flood damage to local roads. Under that policy:

- in any one financial year, the amount of flood damage equivalent to 5% of general, separate and special roading rates would be borne in full by the local authority
- the balance of the total estimated cost of restoring the damage would be subsidised 'according to the merits of the particular case'.

The National Roads Board policy stated '[a]s flood damage to streets in municipalities is seldom a major item, the Board has not finalised a definite policy in this respect but will decide each application on its merits'.

1956 – AN EXCESS AND THEN 66.67%

In 1956 the Board amended its policy so that[24]:

- in any one financial year each county had to bear in full the costs of repairing flood damage to the extent of 2.5% of general, separate and special roading rates collected in the previous financial year
- counties would receive a subsidy on a £2:£1 basis (ie of 66.67%) on the balance (i.e. above the 2½% limit) of the total estimated cost of restoring the damage.

22. Letter from the District Commissioner of Works to the Resident Engineer of the Ministry of Works Dannevirke and Wairoa circa. 1950.
23. Section 23(6) National Roads Act 1953.
24. General Instruction No. 1956/57 21 August 1956.

The reason for the 'no claim' was that the flood damage subsidy was intended to cover situations where significant damage occurred and was not meant to cover minor damage such as small slips or blocked watertables.

The Board considered that it was the responsibility of local authorities to budget for minor flood damage repair works within their normal maintenance programme. Therefore, the no claim amount was fixed in order to avoid claims for minor flood damage repair work being made under the flood damage policy[25].

Applications for subsidies for flood damage from municipalities were still decided on their merits.

The 1956 policy stressed '[l]ocal authorities are still to be encouraged to keep a special account or a special section of an account to cover flood damage'.

AFTER THE 1959 AMENDMENT ACT

One of the main changes made by the National Roads Amendment Act 1959 was that instead of a counties' normal funding assistance being determined on the basis of the counties' rates take the amount of National Road Fund revenue a local authority normally received was determined by the actual approved roading expenditure incurred by the local authority. The share of financial assistance from the fund was allocated on the basis of 15s being paid for every pound (being 20 shillings) spent by a local authority (ie a 42.8% funding assistance rate).

The National Roads Board reviewed its policy for flood damage assistance and decided that for the costs of addressing flood damage local authorities would receive whichever of the following was the larger amount:

- 66.67% of the balance of the costs after a no claim amount equal to 2.5% of the general, separate and special roading rates collected in by the council in the previous year had been deducted, or
- 42.8% of the total costs.

This policy applied to both counties and municipalities. In exceptional cases the Board would consider applications for flood damage assistance at a greater rate. The reason why the National Roads Board might decide to give increased financial assistance at a greater rate was 'in those cases where the extent and cost of the damage is beyond the reasonable means of the local authority'.[26]

This flood damage special assistance policy was only[27]:

> '... intended to cover damage of a more or less major nature resulting from severe storm conditions. From time to time, normal rain conditions bring down minor slips that block water tables etc. but this cannot be classed as flood damage and should be handled as normal maintenance. Following a storm that has caused considerable damage, a few small slips often occur and it is expected that these be handled as maintenance, but in cases where major slips continue to move or can be attributed to the previous storm, such instances could be the subject of a follow up application for inspection and flood-damage assistance'.

LATE 1970S EARLY 1980S - CHANGES TO THE NO-CLAIM

In 1980 the flood damage costs 'no claim' based on a percentage of rates income was replaced by a no-claim amount of 5% of the council's total approved general maintenance expenditure. The reason for this change were that[28]:

- a 'no claim' based on a percentage of rates income was seen as a hangover from the past when there was a statutory relationship between rates income and roading subsidy and overall harsh on municipalities that had a low percentage of expenditure on roading compared to other works

25. National Roads Board Submission No. 4801, September 1976.
26. Letter to A Blackburn (writer for the Automobile Association) from the Secretary of the National Roads Board, c1963.
27. National Roads Board Local Authority Subsidised Works Procedure July 1964, Appendix I.
28. National Roads Board Submissions No. 4801, September 1976 and No. 5974, June 1979.

- a 'no claim' based on a percentage of approved maintenance expenditure had a more direct relationship to a local authority's roading expenditure.

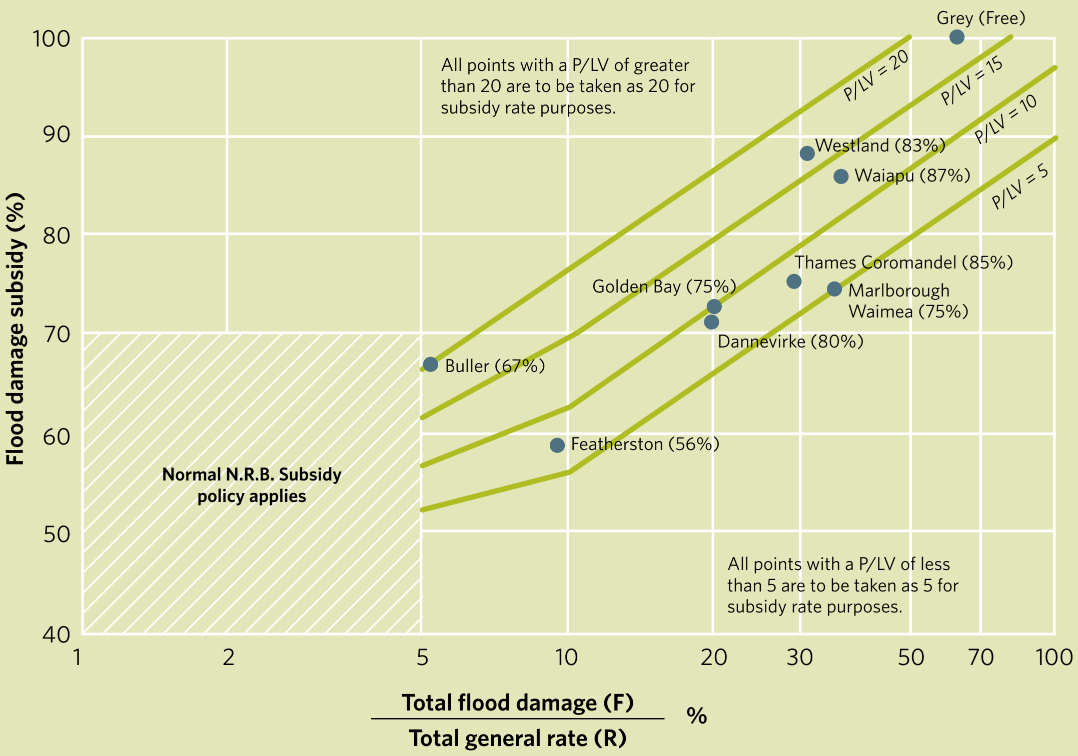
Where the 'no claim' limit was not reached the council would receive the same funding assistance rate for works to address flood damage as it received for its general maintenance activities.

In exceptional cases the National Roads Board continued to consider applications for flood damage assistance at a greater rate. As it was explained in 1981, '... the 5% rule and a 2 for 1 subsidy applies unless a sound case can be presented for an improved rate. Local authorities must put in a one share. Free money is out.'[29]

1983 – DEVELOPING GUIDELINES FOR EXCEPTIONAL FLOOD DAMAGE FUNDING ASSISTANCE RATES AND POTENTIAL TO WAIVE THE NO-CLAIM

In 1983 the National Roads Board changed its policy so that where the total flood damage claim was greater than 5% of the general rates it would use the following chart as a guide for determining the funding assistance rate for flood damage incurred in any one year.

FIGURE 1. SUBSIDY RATE VERSUS FLOOD DAMAGE CLAIM OVER GENERAL RATE FOR LOCAL AUTHORITIES



This chart had been prepared by plotting:

- the funding assistance rate that had been given by the Board to particular local authorities for particular flood events, against
- the ratio of:

$$\frac{\textit{the total of the local authorities' flood damage claim in one year}}{\textit{the relevant council's total general rates in that year}}$$

29. Telex from R B Fisher Ministry of Works to S Robson, 20 January 1981.

- lines showing different percentages of the council's total maintenance programme cost (P) over the net equalised land value in their area (for the year just previous to the year of the flood) (LV).

Therefore, the chart was entirely based on empirical data.

These factors were used because:

- equalised land value was taken to represent 'potential ability to finance work', and
- current general rate take was taken to indicate 'the financial reserves available in that year'.

It was considered that together these factors also indicated the 'willingness on the part of the local authority to mobilise their financial potential'[30].

The chart would be used by:

- determining the ratio of the flood damage claim in one year (F) over the council's general rates as a percentage
- determining the appropriate ratio of:

$$\frac{\textit{the council's total road maintenance programme cost (P)}}{\textit{net equalised land value in their area (for the year just previous to the year of the flood) (LV).}}$$

- working out where the two ratios intersected on the chart and then reading off the flood damage subsidy rate from the X axis.

The Board would then use its judgement to set the final funding assistance rate payable based on any other factors which might be relevant to the particular local authority.

It also decided that the 5% no claim could be waived depending on the individual circumstances.

1984 – REMOVAL OF NO-CLAIM AND 95% MAXIMUM FUNDING ASSISTANCE RATE

At the end of 1984 the National Roads Board got rid of the 5% no claim for local authority flood damage claims.

The stated reason for this was[31]:

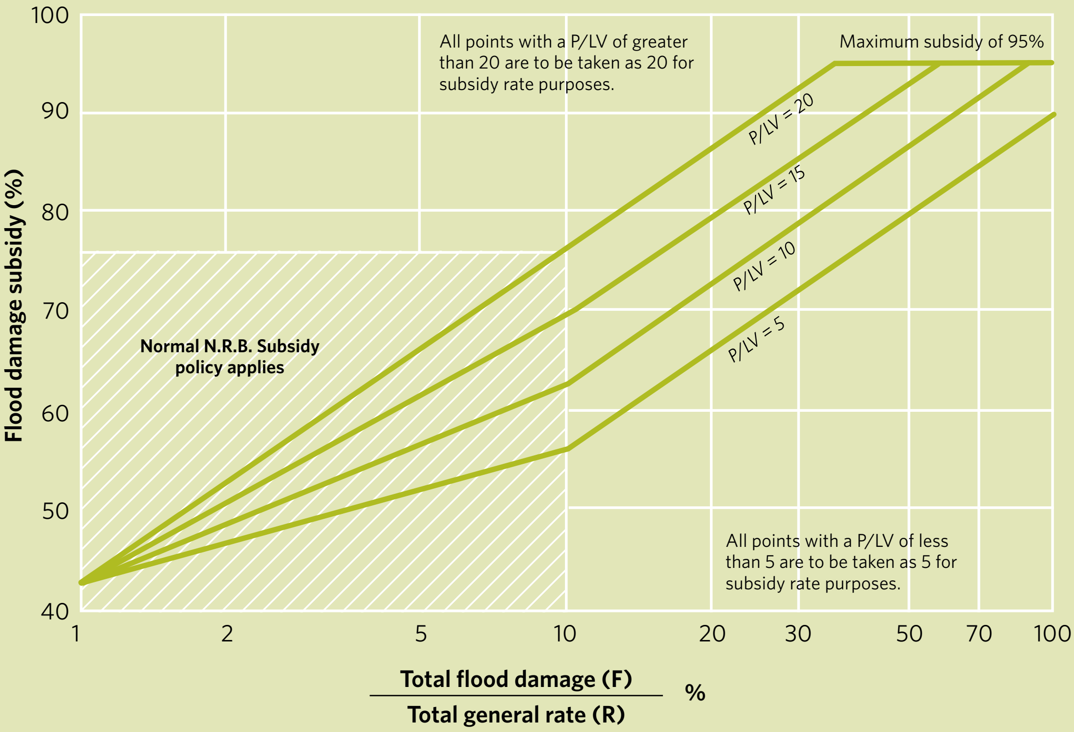
> 'Many local authorities have been confused over the 5% 'no claim' provision in that they do not know whether they should apply for subsidy or not especially in the case of the first flood in any financial year. Subsequent floods in the same financial year will more than likely result in a local authority requesting subsidy for the total amount. The District Commissioner of Works will not have had the opportunity to inspect the first flood damage and hence has to rely on the local authority's assessment.
>
> By changing the policy to ensure that all flood damage claims, apart from minor essentially maintenance works, are eligible for subsidy and therefore subject to the set reporting procedures, less confusion will result and better administration by the District Commissioner of Works will be possible.'

30. National Roads Board Submission No. 7727 – Subsidy Rates for Local Authority Flood Damage Claims, October 1983.
31. National Roads Board Submission 8148, November 1984 considered and adopted at the 14 November 1984 National Roads Board meeting.

With the removal of the no-claim the funding assistance rate for most flood damage was whichever was the greater of:

- the local authority's base rate, or
- the rate obtained from the cross hatched area of figure API-1 (below) which was an amended version of the 1983 chart.

FIGURE API-1. SUBSIDY RATE VERSUS FLOOD DAMAGE CLAIM OVER GENERAL RATE FOR LOCAL AUTHORITIES



The Board used the remainder of figure AP1- 1 to obtain guidance as to what funding assistance rate to use in exceptional circumstances. The Board also adopted a policy of a 95% maximum subsidy 'recognising the need for local authorities to make some contribution to flood damage restoration expenditure'.[32]

1985 – EXTENSION TO OTHER EMERGENCIES

In 1985 the National Roads Board decided to redefine what events were eligible for funding under the flood damage policy. It had recently approved payments to fund damage attributable to other events such as earthquakes, coastal erosion and snow. It decided to change the name of the policy to 'Flood Damage and Emergency Restoration'. Payments under the policy were to be[33]:

> '... restricted to cover damage of a major nature resulting from severe storms, earthquakes, tsunami, volcanic eruptions and any other convulsion of nature or adverse weather conditions causing significant damage to the roading system over a short time span.'

32. National Roads Board Submission 8148, November 1984.
33. National Roads Board Submission 8490, October 1985.

'Restoration of minor damage caused by weather conditions normal for the area" did not qualify and were to be handled as normal maintenance.

In cases where damage of a continuing nature occurred as the result of a previous storm (eg slips continuing to move) that could be the subject of a follow up application for inspection and emergency reinstatement funding.

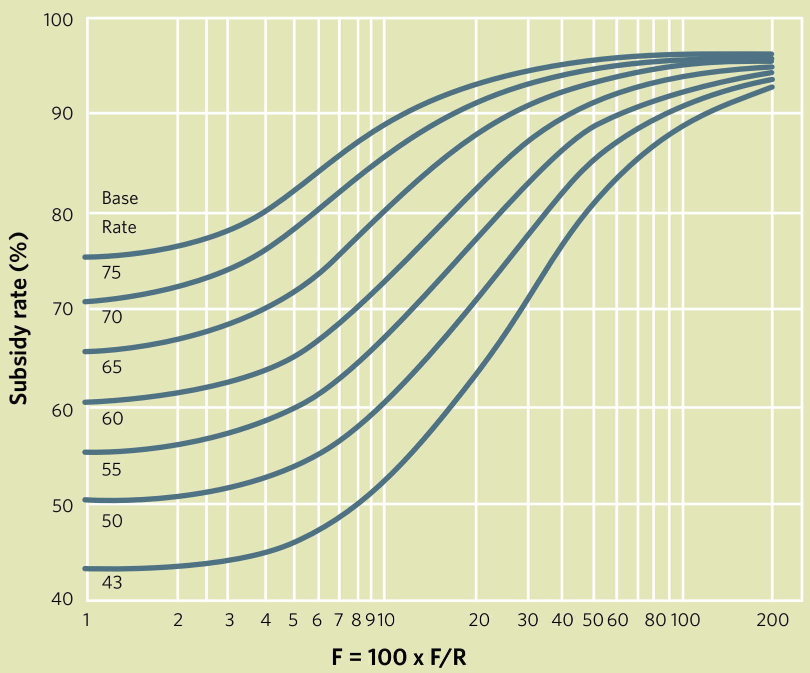
As a result the policy was amended to provide that emergency reinstatement funding was to "restore or assist in the restoration of roading facilities damaged by a defined major short duration event resulting from a natural phenomena [sic]'.

1986 – ADDRESSING AN ANOMALY AND ADOPTING THE CHART AS POLICY

By 1986 the National Roads Board had discovered that when figure API-1 was applied in practice as the magnitude of a flood increased the local share (in dollars) at first increased, then decreased and finally increased again.

It addressed this by adopting the following amended flood damage subsidy chart which had the local share (in dollars) increasing continuously with increasing flood damage cost while still retaining the basic form of the original figure. The new chart also used the local authority's base funding assistance rate rather than P/LV lines.

FLOOD DAMAGE SUBSIDY RATES



This chart is essentially the same as the chart used by the Transport Agency in 2013.

1989 – TRANSIT NEW ZEALAND – THE CHART BECOMES THE POLICY

The National Roads Board was dis-established in 1989 and Transit New Zealand was established.

By 1998 the chart was no longer used as a guideline to inform the Board's exercise of its discretion. Instead, the Board's policy was that it would subsidise the total cost of restoration 'at the rate obtained from the figure'.[34]

BY 2008 – EXTENDED TO OTHER LAND TRANSPORT INFRASTRUCTURE BUT LIMITED TO SIGNIFICANT EXPENDITURE

By 2008 emergency works funding assistance rates applied to:

> 'Unforeseen significant expenditure that arises from a defined, major, short-duration natural event [and] the restoration (to a standard no better than that which existed before any damage occurred) of the following:
> - roads
> - road structures
> - eligible pedestrian and cycle facilities
> - other land transport infrastructure owned by territorial authorities.'

This is essentially the same as the current (2013) policy except that the current policy explicitly refers to immediate response and reopening works as well as or instead of restoration.

34. July 1998 Local Authorities Subsidised Works Policy and Procedure Manual.

Safer Journeys

The NZTA is part of, and contributes to, the Safer Journeys programme.
Safer Journeys is the government's strategy to guide improvements in road safety over the period 2010–2020. The strategy's vision is a safe road system increasingly free of death and serious injury. It is a co-ordinated effort across partner agencies to improve each aspect of road safety – better behaviors, a safer road environment, safer speeds and higher vehicle standards.

For more information visit **www.transport.govt.nz/saferjourneys**

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

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This publication is available on NZ Transport Agency's website at
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New Zealand Government