# Engagement on the development of a sustainable SuperGold funding allocation


NZ TRANSPORT AGENCY
WAKA KOTAHI

Safer Journeys

New Zealand Government

## OUR PURPOSE

# CREATING TRANSPORT SOLUTIONS FOR A THRIVING NEW ZEALAND

**NZ Transport Agency**
Published December 2015

ISBN 978-0-478-44579-4 (online)


15-323

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

NZ Transport Agency
Private Bag 6995
Wellington 6141.

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

## CONTENTS

# Purpose

To give effect to government policy concerning the SuperGold concessionary fare scheme the Transport Agency is collaborating with regional councils to develop a more sustainable SuperGold funding allocation methodology that will become operational on 1 July 2016.

The Transport Agency is developing a principles-based approach to the annual allocation of funding to regional councils in time for the 2016/17 year. A smaller working group comprising of representatives from the Transport Agency and the regional councils have jointly considered the various options that were discussed in detail at a workshop in October 2015. A preferred option has since been developed further and the Transport Agency is now sharing the details of the options (including the preferred option) and the process to date with regional councils and other affected stakeholders

The Transport Agency is now seeking feedback from regional councils and other affected stakeholders on the options and in particular the preferred option. The engagement period closes on 29 February 2016. The Transport Agency will continue to work closely with regional councils including to confirm the funding methodology and its implementation in April 2016.

# Context

In parallel to this policy development process, ongoing discussions are occurring between Ministry of Transport and Local Government NZ to ensure that there is no transfer of costs from the Crown to regional councils.

The Transport Agency is also working with affected regional councils on any transition issues associated with legacy net contracts to partnering contracts.

# Background

On 8 June 2015, government agreed that from 1 July 2016 the funding model for the scheme will change to better integrate into the PTOM.

From 2016/17, the appropriation will initially be $28.129 million per annum for a period of five years for contracted and exempt services, with annual consumer price index (CPI) adjustments. The level of funding may be adjusted during this period if robust data and evidence is provided to support the need for additional funding. The CPI adjustment will be calculated annually from 1 July 2016 using a formula to be agreed between the Ministry of Transport and the Treasury.

Government also agreed to lift the moratorium on new contracted services entering the scheme from 1 September 2015 and implement criteria to manage the entry of future services participating in the scheme. The criteria for managing new services that want to participate in the scheme are that a service must:

» be contracted to a regional council

» be identified in a Regional Public Transport Plan

» not be an exempt service as defined in the Land Transport Management Act 2003.

Government agreed that funding for all exempt services participating in the scheme will be capped at $3.138 million per annum with annual CPI adjustments from 2016/17, including the existing cap on the ferry service/s to Matiatia Wharf, Waiheke Island. The following exempt services will receive Crown funding for carrying SuperGold cardholders:

| EXEMPT SERVICE | ANNUAL CAPPED FUNDING ($ MILLION) |
|---|---|
| Ferry service/s to Matiatia Wharf, Waiheke Island | 1.600 + CPI adjustment |
| Sealink ferry to Kennedy Point, Waiheke Island | 0.286 + CPI adjustment |
| Fullers Group Ltd Devonport (and Stanley Bay) ferry | 0.436 + CPI adjustment |
| Wellington Airport Flyer | 0.733 + CPI adjustment |
| Wellington Cable Car | 0.083 + CPI adjustment |
| **TOTAL** | 3.138 + CPI adjustment |

**Table 1 – Exempt services receiving Crown funding for carrying SuperGold cardholders**

A condition of providing funding to regional councils is that free, off-peak travel is available to all SuperGold cardholders on all contracted services and eligible exempt services for the full financial year. Further, a one-off exemption to the criteria for new services will enable multiple operators of ferries to Matiatia Wharf, Waiheke Island to participate in the scheme. The terms and conditions are determined by Auckland Transport and agreed with the operator(s) to commence from 1 January 2016, on completion of the tender process. Auckland Transport will be responsible for identifying and managing any changes to the funding allocations (noting that any changes to the allocation will have to remain within the existing cap) that may result from the tender process.

# Implementation of government decisions

The appropriation of $28.129 million per annum for five years is subject to confirmation in Budget 2016. The Minister of Finance and the Minister of Transport will jointly approve the CPI adjustment on an annual basis from 2016/17.

The Transport Agency has been tasked with developing a principles-based approach to the annual allocation of funding to regional councils in time for the 2016/17 year. The Transport Agency is doing this in collaboration with regional councils. The Ministry of Transport will carry out a review of the effectiveness of the funding model in 2018/19.

The Transport Agency's role will include allocating the funding for exempt services to the appropriate regional council for them to distribute to operators, as shown in Table 1. Regional councils are responsible for developing their methodology for distributing funding, and any subsequent audit of the application.

# The effects of government decisions

The scheme, which commenced in 2008, enables SuperGold cardholders to travel for free on scheduled urban public transport between 9am and 3pm and after 6.30pm Monday to Friday, and all day on weekends and public holidays.

The scheme currently has annual baseline funding of $17.905 million. For 2015/16 additional funding of $10.224 million was provided in Budget 2015. This brings total funding for 2015/16 to $28.129 million. A separate appropriation of $95,000 funds the Transport Agency's administration of the scheme.

If a shortfall in funding is identified for the 2015/16 financial year, government will provide additional funding to cover this. Additional funding will be confirmed in Budget 2016.

For 2015/16 the scheme will operate based on the existing reimbursement model. Crown funding will reimburse trips based on the existing memorandums between the Transport Agency and regional councils for each free trip taken using a SuperGold card.

The scheme is aimed to increase mobility for SuperGold cardholders through utilising the spare carrying capacity on operating off-peak services. The payment from the Crown was intended to compensate operators for the original fare revenue previously derived from the seniors' concession fares and as an inducement to operators with net contracts to participate in the scheme. The scheme is voluntary. Government funding has been distributed through the 'fare reimbursement' method, as this was considered the simplest at the time the scheme commenced in the absence of true costs.

Bus services are contracted by the regional councils. They are paid for through rates and funding from the Transport Agency. Fare revenue offsets the bus service costs. Historically, most regions offered concessions (up to 60% discount) for SuperGold cardholders, often for all hours and not just off-peak. The SuperGold scheme is based on the premise that all services have spare carrying capacity during the off-peak period and that the true cost of carrying an additional person is marginal (in terms of fuel, vehicle maintenance and administration).

Bus service contracts in New Zealand are currently transitioning from net contracts (where operators get all the fare revenue) to partnering contracts (gross contracts plus incentives, where the regional council receives all the fare revenue) as PTOM is implemented. The Transport Agency will continue to work with regional councils to resolve transitional issues.

From July 2016, the method of funding the scheme shifts away from a 65% fare reimbursement to an annual allocation will now be distributed by the Transport Agency to each region, covering the direct costs that the regional council incurs through participating in the scheme. Most of this cost will be in the administration of the scheme and any fares foregone are an opportunity cost, not a direct cost. 100% of the costs of providing the services are already being paid by regional councils, the Transport Agency and other fare paying passengers. Regional councils will not be impacted as long as the direct costs to councils are less than the fundingallocation received from the distribution.

The marginal costs of carrying an additional off-peak passenger on an existing bus with spare capacity are still to be identified and quantified – and work is planned to do this. Until that is done it is likely that the allocation will be based on historic payments.

# Developing an allocation methodology

## THE PROCESS

The process that the Transport Agency has used included developing a discussion paper and holding a workshop on 20 October 2015 which was attended by representatives from all regions and from Local Government NZ. That workshop discussed the government decisions and implications, a number of options and a way forward. It established a working group comprising representatives from six regional councils which has assisted the Transport Agency to develop this discussion document.

Government's decisions encompassed the treatment of exempt services and lifting the moratorium on additional services from 1 September 2015. The funding includes $3.138 million set aside for exempt services. This reduces the amount of funding available for allocation to $24.991 million and is the subject of this discussion document.

Regional councils have provided details of the services that meet the criteria now that the moratorium has been lifted and these have been taken into account when considering options for allocation.

## THE OPTIONS CONSIDERED

The workshop on 20 October considered a range of options suggested by the Transport Agency and the workshop attendees proposed several others. This was followed by a meeting of the working group which modelled and refined the range of options. The views of the working group were taken into account by the Transport Agency to arrive at the preferred option included in this paper. Attachment 1 sets out all the options considered by the group and attachment 2 summarises the financial impacts of those options including the preferred option.

In order to satisfy the government's desire that the allocation methodology be principles-based, a number of principles were discussed by the group. These influenced the criteria used to rank the options, which were:

» investment certainty – councils will know well in advance what funding is available
» efficiency of administration – easy to calculate and administer
» simplicity – formula must be easy to apply and understand
» value for money – considers the actual costs of SGC travel
» consistency – access of SGC holders to the scheme is not affected
» fairness – no region is advantaged to another's disadvantage
» potential impact on ratepayers.

We appreciate that each region will have particular views that need to be listened to and considered but which may not be shared by all. The challenge for the Transport Agency is to develop a methodology to implement government's decisions and this requires it to take into account "the weight of the argument" after listening to all perspectives. This option is now presented to enable the Transport Agency to take into account the views of stakeholders in making its decision.

## THE PREFERRED OPTION

The attachment to this paper sets out all of the options considered by the working group together with the modelling used to assess the effects. After due consideration the Transport Agency has adopted option J2 as its preferred option which forms the basis of this discussion document. A final decision will be made after a full evaluation of the feedback resulting from this engagement.

Option J2 is based on the following:

1. Base funding for each region is that region's percentage of the national funding it received in 2015/16 applied to 90% of the available funding for 2016/17, eg if a region received 25% of the total expenditure of the scheme in 2015/16 it will receive 25% of 90% of the bulk funding allocation available in2016/17.

2. Each region will receive a proportion of the remaining 10% based on the ratio of its total trips for the financial year compared to the total national trips for that year e.g. if a region has 5 million trips in 2015/16 and the total national trips is 15 million in 2015/16, then that region will receive 33% of the 10% for the 2016/17 financial year.
3. A preliminary allocation for both a ( and b) will be made in April 2016 based on projected outturns, with a final reconciliation to be made for both in July 2016, once the final reported numbers are available.
4. The base allocation percentage for future years remains the same (in this example it remains at 25% of the 90%).
5. The remaining 10% will be allocated on the same basis as for the 2016/17 year but adjusted for the outturns based on the previous year eg for 2017/18 the increase will be calculated on the change between 2015/16 and 2016/17.
6. The base will be reset in 2018 in time to allocate funding for the 2018/19 financial year. The new base will be the region's percentage share of the national SuperGold trips in the 2018/19 year using a similar prediction model to that used in the 2015/16 year.

The rationale for selecting this option for engagement, in the Transport Agency's opinion, is:

» It best fits the assessment criteria;
» It uses the latest available data (2015/16), initially using predictions based on early figures for 2015/16 and previous trends, but eventually using the final out-turns;
» It has a component for growth in the number of trips being made by retaining 10% of the allocation for a final adjustment once the year's outturn is known; and
» It treats all regional councils with equity.

# Implementation and transition

Government's decisions are to be implemented such that the funding of the SuperGold scheme moves from a demand driven fare reimbursement funding basis to a sustainable fund with effect from 1 July 2016. Apart from the need to devise a funding methodology, it will affect the following, not necessarily in any order:

» Regional council's budgeting – the amount of allocation each is to receive should be known by April/May 2016. The accounting requirements will be established as part of the Memorandum of Understanding (MoU) between the Transport Agency and each regional council.
» Participation by regional councils in the scheme is voluntary and the conditions of participation are contained in a MoU. The current MoU will need to be replaced with a new document reflecting the changes. The Transport Agency will work with regional councils on a new agreement as a matter of priority once the methodology for allocation is established;
» The transition from net contracts to PTOM partnering (gross) contracts. The proposal is that the Transport Agency will allocate funds to the regional councils and each regional council will manage the arrangements with the operators. In the case of PTOM contracts this is likely to be confined to some requirements related to the carriage of eligible users and reporting and financial accounting requirements. In the case of the residual net contracts and agreement between the regional council and the operator will be necessary, recognising that operator participation is voluntary. Those agreements will set out the basis of payment negotiated between the council and the operator, noting that there is no Transport Agency requirement that this remain at 65% of the adult cash fare;
» Administration and reporting requirements. The Transport Agency will, in collaboration with regional councils, review its administration and reporting requirements, primarily in Transport Investment Online (TIO), and include these in the MoU to the extent necessary.

# Monitoring and reporting

The Transport Agency will develop the monitoring and reporting requirements in collaboration with regional councils as part of the development of a new MoU with regional councils.

# Feedback

While the Transport Agency would appreciate any feedback, the key questions are as follows:

1. Bearing in mind the need for a New Zealand wide allocation methodology, is the proposal acceptable for your region?
2. If not, why not?
3. What changes that would work for all regional councils, would you suggest?
4. What assistance, if any, would you like regarding your handling of net contracts during the transition?

Once this engagement phase is complete the Transport Agency will consider the responses and finalise the operational policy needed to implement the changes.

A summary of key points made by the individual submitters, together with an explanation how the comments were considered and accounted for will be provided back to all submitters.

# Engagement timeframes

The engagement period is 8 weeks (taking into account the Christmas holiday period). Responses should be provided in writing to Sarah Downs by 5pm 29 February 2016. Email responses to sarah.downs@nzta.govt.nz or call Sarah on 04 894 6432. Verbal comments (for example, questions raised at any engagement meetings and workshops) will also be considered.

# What happens next?

» Stakeholder feedback will be analysed and a recommended methodology will be presented to the Transport Agency Board for approval in April 2016.

» Regional councils will be advised of the approved methodology in April 2016.

» Regional councils will be informed of their allocated funding in late April 2016.

» The new funding allocation will come into effect on 1 July 2016.

# Attachment 1: Sustainable funding options

In addition to the now preferred method of funding (option J2), the following sustainable funding options (using the letters given to the options in the option development process) were selected for further analysis and modelling after the regional council workshop on 20 October 2015:

**A.** Payment for 2016/17 is the regions percentage share of the 2015/16 expenditure, with that percentage applied to the available 2016/17 funding.

*EXAMPLE*

If a region received 8.9% of the 2015/16 funding, then it will receive 8.9% of the available 2016/17 funding.

That percentage will remain unchanged when calculating the payments for the following years.

**C**. Payment for 2015/16 is the regions percentage share of the 2015/16 expenditure, adjusted for the change in the number of SuperGold trips in the region compared to the national change. That adjusted percentage is then applied to the available 2016/17 funding.

*EXAMPLE*

If a regions received 8.9% of the 2015/16 expenditure, and its SuperGold trips increased by 5.6% between 2014/15 and 2015/16 compared to the national increase of 4.2%, then the regions payment percentage to be applied to the available funding for 2016/17 would be 8.9% plus 1.4% (5.6% minus 4.2%) of 8.9%, ie 9.02% (8.9% x 1.014).

The base percentage (in this example 8.9%), would remain unchanged when calculating the payments for the following years, but the adjustment would be recalculated each year based on the annual changes in the number of SuperGold trips.

**I.** This option, involving a recalculation of the current re-imbursement rate, was ultimately included as a variation of Option J in the evaluation process.

**J.** See body of the report for a full explanation of this option (J2 the preferred option is a variation on Option J using a 90:10 split and 2015/16 figures).

## NOTES

1. The use of 2014/15 and an average of the last three years were considered instead of 2015/16 as the base year but 2015/16 was preferred. For Option J, the use of an 80:20 split (and some other combinations) instead of 90:10 was considered but 90:10 is preferred
2. The following options (using the letter given to the options in the consultation process) were also considered and discarded by the regional councils at the workshop on 20 October 2015:
   - B. Payment for 2016/17 is the regions percentage share of the 2014/15 total payment, adjusted for any new off-peak services introduced during the year, that percentage then applied to the total funding available in 2016/17.
   - D. Payment for 2016/17 is the regions percentage share of the 2014/15 total payment, adjusted by the regional deprivation index that percentage then applied to the total funding available in 2016/17.
   - E. Payment for 2016/17 is the regions percentage share of the 2014/15 total payment, adjusted for changes in annual patronage levels, that percentage then applied to the total funding available in 2016/17.
   - F. Payment for 2016/17 is the regions percentage share of the 2014/15 total payment, adjusted for the change in the percentage of SGC trips in the region compared to total trips, that percentage then applied to the total funding available in 2016/17.
   - G. Payment for 2016/17 is the regions percentage share of the national number of SGC holders, that percentage then applied to the total funding available in 2016/17.
   - H. Payment for 2016/17 is the regions percentage share of the 2014/15 national service levels, that percentage then applied to the total funding available in 2016/17.

# Attachment 2: Summary of the comparative data for the modelled options

| SUPERGOLD FUNDING SCENARIOS | | OPTION A: STRAIGHT APPORTIONMENT | | | OPTION C: TRIP VARIANCE ADJUSTED | | | OPTION J: BASE AND TOP UP BASED ON | | TRIPS PROPORTION |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2016/17 | | | | | 90% |
| | | OPTION A1 | OPTION A2 | OPTION A3 | OPTION C1 | OPTION C2 | OPTION C3 | OPTION J1 | OPTION J2 | OPTION J3 |
| | SGC (forecast) 2015/16 expenditure LESS EXEMPT SERVICES WITH FULL MORATORIUM SERVICES ADDED | Based on: SGC (actual) 2014/15 expenditure LESS EXEMPT SERVICES variance | Based on: SGC (forecast) 2015/16 expenditure LESS EXEMPT SERVICES WITH FULL MORATORIUM SERVICES ADDED variance | Based on: average of SGC expenditure last three years LESS EXEMPT SERVICES WITH FULL MORATORIUM SERVICES ADDED (2015/16 only) variance | Based on: SGC (actual) 2014/15 expenditure LESS EXEMPT SERVICES [ADJUSTED BY TRIPS] variance | Based on: SGC (forecast) 2015/16 expenditure LESS EXEMPT SERVICES WITH FULL MORATORIUM SERVICES ADDED [ADJUSTED BY TRIPS] variance | Based on: average of SGC expenditure last three years LESS EXEMPT SERVICES WITH FULL MORATORIUM SERVICES ADDED (2015/16 only) [ADJUSTED BY TRIPS] variance | Based on: SGC (actual) 2014/15 expenditure LESS EXEMPT SERVICES [BASE % WITH TOP UP variance | Based on: SGC (forecast) 2015/16 expenditure LESS EXEMPT SERVICES WITH FULL MORATORIUM SERVICES ADDED [BASE % WITH TOP UP] variance | Based on: average of SGC expenditure last three years LESS EXEMPT SERVICES WITH FULL MORATORIUM SERVICES ADDED (2015/16 only) [BASE % WITH TOP UP] variance |
| Northland Regional Council | $109,338 | $1,956 | -$843 | $3,268 | $5,201 | $2,157 | $6,542 | $3,730 | $1,211 | $5,823 |
| Auckland Transport | $13,681,762 | -$895,982 | -$105,431 | -$853,239 | -$751,613 | $27,732 | -$709,437 | -$766,516 | -$55,019 | -$605,438 |
| Waikato Regional Council | $785,653 | $106,538 | -$6,054 | $104,034 | $48,619 | -$57,732 | $46,211 | $98,865 | -$2,467 | $86,132 |
| Bay of Plenty Regional Council | $619,311 | $83,007 | -$4,772 | $85,461 | $35,898 | -$46,834 | $38,134 | $86,620 | $7,618 | $86,711 |
| Gisborne District Council | $15,201 | $20 | -$117 | $489 | $864 | $696 | $1,358 | $1,212 | $1,089 | $2,391 |
| Hawke's Bay Regional Council | $223,665 | $37,868 | -$1,724 | $40,029 | $11,984 | -$23,982 | $13,913 | $33,473 | -$2,159 | $30,130 |
| Taranaki Regional Council | $107,079 | $11,172 | -$825 | $9,692 | $8,832 | -$3,080 | $7,372 | $9,964 | -$833 | $7,413 |
| Horizons Manawatu-Whanganui | $141,968 | $19,847 | -$1,094 | $19,689 | $9,156 | -$10,595 | $8,996 | $22,999 | $4,153 | $24,047 |
| Greater Wellington | $6,018,719 | $120,952 | -$46,380 | $128,326 | $230,691 | $51,454 | $237,691 | $19,382 | -$131,216 | -$53,763 |
| Nelson City Council | $133,141 | $642 | -$1,026 | -$772 | $12,429 | $10,404 | $10,879 | $2,708 | $1,207 | $2,987 |
| Marlborough District Council | $19,099 | $906 | -$147 | $1,046 | $899 | -$181 | $1,037 | $2,285 | $1,337 | $3,298 |
| Environment Canterbury | $2,815,784 | $263,379 | -$21,698 | $212,375 | $167,519 | -$112,653 | $117,865 | $235,630 | -$20,940 | $163,637 |
| Otago Regional Council | $684,645 | $63,236 | -$5,276 | $62,595 | $31,503 | -$35,055 | $30,832 | $59,161 | -$2,500 | $52,497 |
| Invercargill City Council | $27,189 | -$9,137 | -$210 | -$8,590 | -$7,581 | $2,073 | -$6,988 | -$5,111 | $2,924 | -$1,461 |
| Total variance | | -$195,597 | -$195,597 | -$195,597 | -$195,597 | -$195,597 | -$195,597 | -$195,597 | -$195,597 | -$195,597 |
| **All of New Zealand** | **$25,382,555** | **$25,186,959** | **$25,186,959** | **$25,186,959** | **$25,186,959** | **$25,186,959** | **$25,186,959** | **$25,186,959** | **$25,186,959** | **$25,186,959** |