

Greater Wellington Regional Council's Submission on NZ Transport Agency's Funding Assistance Rates (FAR) review – Options discussion document

25 February 2014

1. Introduction

Greater Wellington Regional Council (GWRC) welcomes the opportunity to provide feedback on the NZ Transport Agency's *Funding Assistance Rates (FAR) review: Options discussion document 2013*. We note that this is the third consultation stage for the FAR review process and that previous feedback stages have informed this current discussion document.

This submission has been agreed by GWRC and while primarily focused on the transport activities directly managed by GWRC, takes a wider view of the potential impacts from a regional transport planning perspective. Many territorial authorities in the region will also be making a submission directly.

2. Summary of key issues for Greater Wellington Regional Council

The key feedback themes provided by GWRC through previous stages of the review can be summarised as follows:

- That the role of FAR within the wider transport funding framework should be limited to setting the level of co-investment between local and central government. They should not be used to replicate other funding tools, policies and processes.
- Stability and certainty around the application of FAR is crucial for local government planning and budgeting processes.
- It is important that the FAR system is simple, efficient and transparent.
- Any reductions in FARs are likely to have significant budgeting and affordability impacts on local government.
- The overall affordability of transport activities needs to be explicitly considered in the review of the FAR system.

The proposed overall framework for setting and applying FARs described in the discussion document (Figure 1, page 5 of the NZTA discussion document) takes account of the feedback themes provided through earlier rounds of consultation and is generally supported. It provides a relatively simple and transparent approach, recognises the need for some Approved Organisations (AOs) to receive additional assistance to deliver land transport outcomes, and allows for targeted enhanced rates for exceptional circumstances.

This submission concentrates on the potential impacts for the region of any change to the current assistance rates under the proposed new provisional framework as a result of the overall NLTF co-investment rate and the method for determining each AO's FAR. The key feedback points for NZTA's consideration can be summarised as:

- GWRC supports an overall National Land Transport Fund (NLTF) co-investment rate of 53% to ensure that changes to each AO's average FAR under the new framework do not result in significant affordability issues for GWRC and local councils in the region.
- GWRC seeks an approach to determining each AO's FAR that takes account of the different role of regional councils in providing public transport services, particularly for the large urban areas, and the varying fare-box recovery levels throughout the country.
- GWRC seeks appropriate transitional arrangements to minimise the impact on the ability of local and regional councils to deliver on planned programmes and activities.
- GWRC strongly supports the proposal that any previous central government commitments to fund particular activities at a specified FAR for a defined period will be honoured.

More detailed comment on these points and other key areas of feedback sought by the NZ Transport Agency is set out in the following sections.

3. Overall NLTF co-investment rate

The discussion document identifies the proposed range for the overall NLTF co-investment rate as between 50% to 53%. Over the last few years, overall the NLTF has met 53% of the cost of approved organisations' eligible land transport activities.

Over recent years the proportion of land transport activities funded from the NLTF has been reduced for GWRC (and other regional councils) as a result of interim changes to FAR relating to transport planning, road safety promotion, travel demand management and public transport activities. GWRC is already currently moving through a ten year transition period to manage a 10% reduction in the FAR for some public transport activities.

As a result of these FAR reductions and increasing costs associated with providing a modern and reliable public transport network, Wellington regional transport rates are projected to increase by approximately 45% from \$60M to \$88M over the 6 year period covered by the next Regional Land Transport Plan (RLTP).

Any further reduction in the current FAR for activities is likely to have a significant impact on the affordability of planned programmes in the future. For large investment programmes such as the delivery of the Wellington region's public transport network, the impact of any changes to FARs will be accentuated.

At the overall NLTF co-investment rate of 50%, and under the modelled assumptions for determining each AO's FAR, GWRC's FAR would sit at 49%. GWRC's average FAR for 2014/15 currently sits at 55%, although this is already planned to trend down over future years as a result existing transitional arrangements for some public transport activities and has been factored into the current rates projections. The impact on GWRC rates if a FAR of 49% was applied with no transitional arrangements would be an increase of approximately \$1.3M to \$1.5M per annum over the next 6 years. This equates to a 1.5 - 2% increase in the overall transport rate. Should a transitional arrangement of 6 years be applied, the impact is reduced but would still involve an increase in rates between \$200k and \$1.3M per annum in the final 3 years of the next RLTP 2015-21. This equates to an increase of between 0.3% and 1.5% in the overall transport rate.

At the overall NLTF co-investment rate of 53%, and under the modelled assumptions for determining each AO's FAR, GWRC's FAR would sit at 52%. The impact on GWRC rates if a FAR of 52% was applied would be much more acceptable from an affordability perspective with slight savings possible (depending on assumptions) of between \$200k and \$500k. This improves with transitional arrangements.

The above analysis does not take account of non-debt funded capex or further work required towards implementing the Wellington City Public Transport Spine improvements, which would have additional impacts on rates. It also assumes that all existing commitments to fund specific 'Grandfathered' activities at the agreed rates are honoured (refer section 6 of this submission).

In summary, while an overall 50% co-investment from the NLTF may be a tidy '50:50' figure that is simple and transparent, it would mean a reduction in the current level of investment by central government from the NLTF which we believe is unacceptable from a local affordability perspective. An overall co-investment rate at or close to 53% is therefore supported.

4. Determining each AO's financial assistance rate

4.1 Five options for determining where higher assistance rates are required

The discussion document outlines five options for different metrics that could be used as proxies for councils' relative ability to raise the local share of land transport costs. These include the NZ deprivation index, capital value of rateable land divided by number of ratepayers, lane kilometres of local road divided by capital value of rateable land and several combinations of these (refer pages 6 and 7 of the NZTA discussion document).

GWRC does not have a particular view as to which of the five options modelled is the preferred approach. We note that for GWRC, as with almost every other regional council in the country, all five options result in the same FAR.

For most of the local councils in the Wellington region, the modelled FAR under any of the five options for determining an AO's individual FAR would result in a favourable scenario compared with the status quo and would assist these areas in delivering on transport outcomes.

The exceptions are Carterton and Masterton District Councils. Masterton District Council could face a reduction of up to 5% under most of the options, but conversely would see an increase of up to 6% under Option 2 'Rateable capital value/rating units'. Under all five options Carterton District Council would see a reduction between a 1% and 4% depending on the overall co-investment rate. A higher 4-5% reduction in their FAR would have significant affordability impacts for these councils which have a number of important rural roads connecting communities in Wairarapa. This reinforces the need for an overall NLTF co-investment rate of 53% to be retained and for appropriate transitional arrangements to help councils plan for any reduced assistance.

4.2 Use of bands to group FARs

We generally agree with the approach of grouping AOs into bands. This would be simpler and more efficient by eliminating the complex, multi-stage process currently used to determine a council's base FAR. It should also provide greater certainty for planning purposes.

It will be important to design the bands in a way that balances the need to provide higher assistance rates to some AOs with the impact of a reduced assistance rate on other AOs. Therefore we recommend a conservative approach to the number of AOs in the higher bands and to the level of assistance received in the higher band(s).

5. Transitional arrangements

Several options are proposed for transitioning to the new FARs as a result of this review. GWRC wishes to thank NZTA for taking on board the previous feedback from regarding the need for certainty and a gradual transition to any new FAR system.

GWRC believes that a combination of transitioning the changes over a minimum of 6 years (allowing two Long Term Plan cycles to work through the changes) and ensuring that no AO's overall effective FAR decreases by more than 1% from the previous year, is appropriate. These transitional arrangements are critical to enable councils to incorporate the impact of changes into long term budgets and planning.

6. Government commitments

A key concern for GWRC is that central government honours its previous commitments to fund certain activities at a particular rate. Council has made investment decisions based on these previous commitments and these will have long term cost implications relating to the capital, operational and maintenance aspects.

These previous commitments are:

- Real time information – operational funding at 60%
- Total Mobility at 60%, and 100% for flat rate payments – for phase 2
- All rail activities (including rail infrastructure and funding Matangi 2 debt) – reducing FAR over ten years
- Residual Matangi 1 debt at 60%.

The analysis used to inform the affordability impacts discussed in section 3 of this submission is based on the assumption that all of the above commitments are honoured.

7. Emergency works

GWRC agrees that there is a place for elevated emergency works FARs to assist an AO respond to 'out of the ordinary' short-duration natural events. We also agree that it should not apply to events that are relatively common in a particular area and which can reasonably be expected to be addressed as part of an AO's planning and managing for a reasonably resilient transport network.

We think the method for determining whether an event is 'out of the ordinary' should use a combination of a statement of principle, annual return period and/or cost threshold – to provide greater certainty.

Continuing to fund these works from a dedicated emergency works pool, at a higher FAR tied to an organisation's normal rate, would seem the most sensible approach to ensure that this assistance is available where it is needed in any particular year.

8. Targeted enhanced funding assistance rates

GWRC supports the proposal to enable enhanced targeted FARs to facilitate an activity that is considered particularly important but would likely not proceed without additional assistance, or to give a kick start and incentivise/enable a desired step change in an activity.

When considering whether to set up a targeted enhanced FAR for the above scenarios, we believe NZTA should take account of:

- Activities that may be of particular importance from a regional perspective, as well as a national perspective
- How such activities will continue to be funded in a sustainable way at the end of the limited time period.

We suggest that a targeted enhanced FAR for road safety activities carried out by local and regional authorities that focus on the Safer Journeys priority areas may be a good candidate for additional assistance in the next programme period.