Submission

Financial Assistance Rates (FAR) Review – Option Discussion Document 2013

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Introduction

Ashburton District Council (ADC) wants to thank the New Zealand Transport Agency (NZTA) for the ongoing review of the Financial Assistance Rates being undertaken and for the further opportunity to comment.

ADC recognises that the New Zealand roading network is developed through a partnership between central and local government. The financial assistance rate (FAR) is the method of distributing monies collected from road users to fund the use and repair of damage done to the network. The roading activity, and in particular its funding, is a significant concern for this district given ADC has the fourth largest network in the country. The current network is 2,654 kilometres long; of which 1,164 are unsealed roads.

Our district population (from the 2013 census) is 31,041, which represents a 13.4% increase from 2006, and follows on from a 7.5% population change from the 2001 census. Together with increasing population growth, our rural areas have undergone rapid and major changes in land use and production over the last decade.

New Zealand's key export is commodities. Dairy, meat/livestock, horticulture and forestry account for 60% of the total value of New Zealand exports. These have grown by 80% in the last decade. Local roads directly support 68% of this volume. The first stage of the export journey invariably begins on a local or regional road, and for almost all industries, at the stage in the journey when the weight of the primary input is at its heaviest. This is particularly relevant for the dairy industry where the weight of the export product is only 13% of the weight of the milk input[1].

Obviously, the impact of heavy motor vehicles on the road surface and foundations is far higher than that caused by cars. These growth pressures are resulting in ever-increasing wear and tear on our roading network. This is occurring against a backdrop of a reduction in real terms in the financial assistance from the National Land Transport Fund (NLTF). Our FAR has reduced from 51% to 46% over the last decade, coinciding with the same period of rapid growth.

Given the importance of the local and regional roads to the nation's economy, it is vital that the outcome of this review gives appropriate recognition to districts where the reliance on these roads is greatest. It would be counter-intuitive to penalise those district communities through increased rate burden, which make the greatest contribution to the national economy.

[1] BERL – Transport Futures (October 2012)

General

ADC congratulates the Transport Agency on the thorough work they have done in terms of the option development and the associated analysis. The proposed options within the *Funding Assistance Rates (FAR) Review – Option Discussions Document* appear to be well developed and sufficiently robust for the purposes of comparison. It is also apparent that the Transport Agency has endeavoured to address some of the concerns raised by Local Government during the first round consultation.

ADC is largely supportive of any move to address the current inequalities that exist in regard to the FAR and its application across the country, and in particular ADC is supportive of aligning the FAR (through the use of bands) where there is fundamentally no discernible differences between how those organisations deliver the activity.

ADC finds itself as one of a small group of approved organisations (AO) which could see an improvement in its FAR. At the risk of providing what might seem a predictably parochial response, ADC considers that the options presented generally result in a more consistent approach and must result in wider benefits in terms of administration of the system. However, the impact of the one network road classification (ONRC) and the 'fit for purpose' standards remains largely uncertain and will not be fully determined until much later. Therefore, while an improvement in FAR may be realised in the near future, the total scale of programme works eligible for the FAR may reduce anyway. This remains as a substantial concern for ADC.

ADC also believes other revenue sources (fuel excise tax, road user charges, and vehicle licencing & registration) and the co-investment rate are intrinsically linked, and a discussion around one cannot be had without the other. NZTA have been promulgating terms such as "one network" for some time, so the other half of the co-investment rate (i.e. the local share) is a "revenue source" for delivering the outcomes of the one network. Keeping the funding sources of the NLTF out of the scope of the FAR review is likely to create the "perverse outcomes" the NZTA is attempting to avoid.

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?

ADC considers there to be immense benefit in having one rate for all activities. It must provide greater certainty and flexibility for approved organisations and simplify the administration of the system.

Any efficiency gained in this area will benefit both the approved organisations and the Transport Agency by optimising the use of the NLTF through reduced administration of the system.

Do you think it would facilitate an integrated and appropriately consistent land transport network throughout the country? Why? / Why not?

The framework is clearly part of a package of measures. ADC assumes that this framework will not progress in isolation but if it did proceed without the other measures, it may not achieve all of the aims of the review. The One Network Road Classification (ONRC) is a crucial part of the wider measures being currently promulgated by NZTA through the Road Efficiency Group, and while this is outside the scope of the FAR Review it may have very far reaching implications of the future of activities under the NLTF.

ADC appears to improve its position in terms of the FAR under any option, however ADC remains cautious about the impact of the ONRC, fit for purpose standards and customer levels of service.

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?*

The presentation of the framework in figure one is not in the same order as presented in the bulleted list in the executive summary. To improve understanding, any future presentation of the framework would benefit by reversing the orders of items 1 & 2 i.e. "Overall NLTF co-investment rate" is the first item and "one rate for each AO" follows.

Concerning "Factors materially affecting delivery", ADC supports an approach where the overall co-investment rate is the minimum rate an approved organisation can get. The funding of FARs at a higher level should not result in a reduction in FAR for the AOs in the bottom band.

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?*

ADC supports an overall co-investment rate of 53%.

Why do you consider that that is the most appropriate overall division of costs between local communities and direct land transport system users?

ADC believes the overall co-investment rate should be higher than the suggested range of 50-53%. ADC notes that this range has been determined based on analysis of the recent and current funding allocation from the NLTF. It appears that this range has been determined based on 'this is what we have always done'.

Notwithstanding, that changes to the revenue sources that are paid into the NLTF are outside the scope of this review, we would argue that revenue sources and the co-investment rate are intrinsically linked, and a discussion around one cannot be had without the other. If we are using terms such as "one network" then the other half of the co-investment rate (i.e. the local share), is a "revenue source" for delivering the outcomes of the one network. Keeping the funding sources of the NLTF out of the scope of the FAR review is likely to create the "perverse outcomes" the NZTA is attempting to avoid.

ADC acknowledges other benefits that fall beyond the direct users of the road network. Property owners should pay at some level for the base benefit the transport network provides. The example of the supermarket owner used in the discussion document is a good representation of justifying the local share contribution in particular based on property capital value however; ADC is not persuaded this example justifies the local share being set at 47-50%.

ADC has observed that, on its own, property capital value does not define the groups of properties that may be having a disproportionate impact on the road network. There are many cases where properties of similar capital value produce quite different impacts on the local road network. In these situations, ADC considers road user charges are a fairer way of recovering the funding for the activity. This supports our view that the funding sources for the NLTF must be available for consideration because it will directly influence co-investment rate.

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?

ADC acknowledges that some councils will find it difficult to raise their local share, particularly if they have previously enjoyed relatively high FARs to date. However, it is not clear whether this is an inherent difficulty for those councils or one that can be managed through a longer transition period or different funding (rating) mechanisms or structures. For those councils perhaps it is more of a change management issue requiring sufficient time for redefining priorities within the overall council budgets.

The number or proportion of councils grouped in the upper bands is subjective. For those approved organisations that are in the lowest band, there is sure to be support for reducing the number of councils that receive the higher assistance rates, in order to provide for increases in their band. Equally, based on the analysis there will be councils in, or near, the upper bands supporting increasing the proportion of councils in the upper bands.

ADC would support a reduction in the number of councils receiving the higher assistance rates on the basis the proposed approaches result in inequality between districts and effectively penalises districts that are contributing to the economic wealth of the nation. The higher assistance rates should be limited only to 10% of councils.

- *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?*

The rationale for the majority of councils resting in the band that has co-investment rate that is lower than the overall co-investment rate is not well defined. However, it states that this is the impact of having bands for higher assistance rates based on a maximum FAR of 75% and 25% of all councils placed in the upper band.

ADC would support an approach where the overall co-investment rate is the <u>minimum rate received</u>. If there were a need to provide additional assistance, to those councils that would find it difficult to raise the local share, then that structure should exist beyond the overall co-investment rate. This may be achieved by reducing the scope of that range to only 10% of councils and maximum rate of 70%.

- *How many different bands should we use?*

This is subjective; however, based on our proposal above, ADC considers that a maximum of five bands would be sufficient.

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?*

ADC favours the metrics used under **Option 4**.

Why?

ADC considers it is essential that recognition be given to the size of the land transport activities undertaken by an approved organisation. Of the options presented, this is best achieved using the **lane kilometres of local road** metric. ADC considers that the ability to pay aspect has been adequately addressed using the capital value metric.

The fact that the lane km of local road is "allowed for elsewhere in the land transport funding system" is irrelevant, as the local share of a potentially larger programme still has to be met by the district's ratepayers. It also has to be noted that the impact that the One Network Road Classification (ONRC) and "fit for purpose standards" has on approved programmes is yet to be determined.

The concerns that the Transport Agency have in regard to non-unitary regional councils are noted and ADC would support a variation to this option as suggested i.e. for all non-unitary regional councils to be included in a special band which receives the overall co-investment rate.

ADC notes that Option 4 is considered (by NZTA) to be undesirable, and suspects that this may be due to option 4 resulting in the most significant change to the status quo. ADC believes the incongruities of the previous system should not unduly influence the goal of getting the best system possible at this time.

***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?*

ADC has considered a number of other matters that could be used primarily around the contribution that the district network makes to national economy however the metrics that would be used are either difficult to resolve at a district level (requiring universal take-up of vehicle tracking technology and access to usage data) or simply do not currently exist. ADC proposes the inclusion of any metric that recognised the geographical scale of the network.

ADC considers that the metrics determined represent a good cross section of available options and the analysis appears sufficiently robust for the purposes of comparison.

***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?*

This is subjective. There is a risk that with the use of multiple metrics, the fundamental reason for using a particular metric is diminished. Minor variations to the weighting of metrics will give rise to concerns over rationale, equity, and potential criticism of simply manipulating the formula to get a desired result.

Whatever metric/s are finally used there needs to be a clear reason for its use and if multiple metrics are used then their proportions need to be principally simple (50:50) or if otherwise, very well justified.

***Council 5** - Should there be a maximum council funding assistance rate?*

ADC considers that a maximum funding rate should be determined. This provides certainty for councils, and facilitates administration of the system.

If so, what should that maximum rate be?

ADC proposes a maximum funding rate of 70%.

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

ADC supports any factor or approach that has regard for how much a council's roading network contributes to the national economy, and the scale of the road network being managed. The former could be through analysis of export receipts or dairy production figures.

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

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ADC supports a three yearly FAR setting cycle to align with the NLTF investment period. This also aligns with council long term planning cycles.

Emergency works

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

ADC considers that emergency works funding be limited to natural events where by virtue of their magnitude, or severity of impact, they would be considered not to be a regular occurrence.

Furthermore, ADC supports applying a different and specific approach to "nationally significant extremely severe natural events" when those circumstances require.

Why?

ADC is concerned that the current system has led to inconsistencies in how the emergency work category has been accessed over recent years. ADC has traditionally not accessed funding in this work category on the basis that the mid or post event reinstatement is reasonably predictable and should be planned for at some level.

***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' (i.e. natural events that 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?*

ADC supports some form of definition relying on an annual recurrence interval (ARI) or similar technical definition. ADC proposes an ARI of 15 years.

Why?

The ADC does not support the statement of principle approach as it relies on interpretation by Transport Agency managers. This may result in variations in the consideration of claims for this assistance across the country and inconsistencies in the final funding allocation. This is apparent in the current system. ADC could support a principles based approach providing that concerns regarding the potential for variances in interpretation can be addressed.

ADC believes the ARI approach provides more certainty, less room for interpretation, and as stated in the discussion document, the information is typically readily available fairly soon after the event. The selection of 15 years ARI is on the basis that it equates to a 50% probability of occurring within the life of the 10-year long-term plan. ADC considers that this represents an equitable share of risk between the AOs and NZTA.

***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?*

ADC supports a set elevated rate.

Why?

ADC believes that the setting of a set elevated rate is a simplified approach, provides clarity, and makes the application of emergency works funding fair and equitable across the Country. ADC is of the view that sufficient consideration has been given to those councils that may have difficulties meeting the local share. ADC supports the view that excessively high FAR rates means that the approved organisation may not have sufficient "skin in the game" to drive efficiencies or seek best value for money during reinstatement works.

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

The rate itself is subjective, but could be established by being midway between the overall co-investment rate and 100% i.e. for a co-investment rate of 50% then the emergency funding rate would be 75%. ADC acknowledges that this is higher than the current national average but believes that changes to the qualifying criteria are likely to reduce the access to assistance under this category.

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)?*

ADC has not identified any other options than those currently presented.

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

ADC supports the approach proposed in the discussion document of setting a 0% FAR for these private carriageways.

Why do you prefer that approach?

It is difficult to justify perpetuating isolated differences. There is clearly going to be some sensitivities around changes in this area however the FAR review presents a once in a generation opportunity to reorganise the FAR system and address anomalies such as this.

Department of Conservation (DoC)

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

ADC supports continued funding of DoC carriageways that are "principally used to convey the public to and from the start of the relevant recreation/tourist area" and do not serve activities undertaken on a commercial basis, or by clubs or similar groups.

Why?

ADC considers that the costs of the providing roads <u>through</u> the recreation areas (where that is part of the tourism experience), and to commercial activities or clubs etc. for which DoC issues licences should be borne in full by DoC and met through that department's own operational budgets. This provides more clarity about the cost of making the recreational areas available to the public of, and visitors to New Zealand.

This approach reduces inconsistencies across the country and if these costs are then passed on at some level to commercial operators it may mean that more is recovered directly from the primary users of those roads.

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)?*

ADC has assumed that under the DoC FAR setting Option 1 and using a 50% co-investment rate, under all FAR options, DoC would receive a 49% FAR. The way Option 1 reads, it suggests DoC would get 50% regardless, which sounds like another band of their own – it is unclear if this was the intention.

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?*

ADC supports DoC receiving a FAR rate aligned to the lowest band.

Why do you prefer that approach?

It is difficult to justify perpetuating isolated differences. There is likely to be some sensitivities around changes in this area however the FAR review presents a once in a generation opportunity to reorganise the FAR system and address anomalies such as this.

ADC agrees that this approach is expected to provide DoC with the most planning certainty and remove inconsistences in administration for the carriageways they manage.

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?*

ADC has not determined any additional matters to be considered.

ADC supports the use of targeted enhanced FAR for short periods to facilitate important national land transport outcomes providing that doing so does not impact on 'business as usual' FARs, or the money normally available in the NLTF.

ADC agrees that sufficient lead in time would be essential; to ensure the approved organisation has their side of the 'resource equation' in place before the TEFAR becomes available.

Transitioning in changes to funding assistance rates

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

ADC acknowledges that some approved organisations will be detrimentally impacted by any changes to the FAR based on the proposals presented.

ADC is one of a small group of AOs that will see an improvement in the FAR compared to current levels, irrespective of whichever of the five options is finally selected. Notwithstanding that, ADC believes that any changes to FAR should be transitioned in gradually but over a defined period.

ADC supports an option that sees the majority of changes implemented over a 3 year planning cycle. There could be special consideration for those AOs facing significant negative shifts in FARs to have those changes phased in over 6 years.