

# **Regional Sector Group Submission to NZTA on targeted changes to the 2012 National Land Transport Programme FAR rates and changes to work categories, administration and professional services**

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## **General Comments**

This is a joint submission from Local Government NZ's Regional Sector Group (RSG) and represents the collective view of the regional councils and unitary authorities with significant statutory transport planning responsibilities.

We appreciate the opportunity to comment on the proposed changes to Funding Assistance Rates (FAR), work categories and administration and professional services. However, RSG members believe the consultation process for these changes has not been in keeping with the spirit of partnership.

Whilst the regional councils understand the desire for efficient use of the National Land Transport Fund, we believe that the effect of the proposed changes will be to the detriment of efficient and effective transport outcomes. We also believe that the consultation process for these proposed changes has been inadequate and do not reflect an appropriate partnership between Approved Organisations (AOs) and the Agency in jointly funding essential activities.

The timing of the proposed changes is regrettable. These proposals have been put forward:

- with the next GPS not yet delivered by Government
- changes have been signaled to the LTMA which are yet to be considered by Parliament
- a comprehensive FAR review has been scheduled for 2013
- the proposed RMA II amendments are still being developed that may well have relevance for regional transport planning.

It also comes at a time when Councils are struggling with affordability of rates and are under pressure from Central Government to minimise rating increases.

In addition, these particular proposed FAR changes and work categories have been presented by the Agency in a way that had led to some confusion. Even after several meetings and clarifications there is still considerable uncertainty of their overall effect.

They appear to be driven by a desire for a 50:50 funding split between national and regional sources. Instead, RSG believes that the FAR ratios should be determined principally by the level at which

benefits accrue. For example, road safety benefits predominantly accrue at a national level, with the costs of accidents picked up by tax-funded agencies such as the health sector. A case could reasonably be made for funding of road safety programmes should be primarily funded at a national level.

These changes also seem to demonstrate a desire by the Agency to use FAR ratios as a means to control the behaviour of AOs. This is unnecessary considering the Agency has already has the ability to control funding levels via other means, particularly the NLTP. We believe the Agency should take a principle approach to setting FARs, rather than a behaviour-management approach.

While at a national level these changes might not be particularly significant, for local government the financial impact will likely be high. The estimated fiscal impact resulting from these changes for each regional council is set out in Appendix A. RSG queries if affordability for local government was considered in drafting these proposed changes.

The implications of the proposed changes do seem to be, in essence, a considerable funding cut for the transport activities carried out by regional councils and other AOs. They will result in one of three choices: either councils will choose to fund a greater burden of the cost through rates, no longer carry out the activities or reduce the levels of service. We believe that all of these choices would be undesirable.

For many councils, the changes will place them in a very difficult position, as having committed to a strategy through the RLTS, they may well now be unable to implement it appropriately. The timing of these changes is also undesirable. The Agency has set tight deadlines for AOs to prepare their RLTPs and for many RSG members there is not the capacity or the time to review the fiscal impact of the FAR reductions and adjust work programmes to meet these deadlines.

**At the very least, these FAR reductions and changes to work categories should be phased in over a longer period of time or delayed in order to be considered as part of the comprehensive 2013 FAR review.**

## **1. W/C 001 – regional transport planning management**

We are very concerned about the proposal to remove the current grant for W/C 001. There are a number of transport planning activities that are not discretionary for local government. In many regions, other planning and modelling activities are crucial to support and inform effective transport investment.

The 2008 amendments to the Land Transport Management Act placed greater responsibilities on regional councils for transport planning and prioritisation. Regions and unitary authorities, through their Regional Transport Committees, now lead and coordinate the prioritisation of activities through the statutory Regional Land Transport Programme (RLTP) every three years on behalf of local councils and the Agency's Highways and Network Operations division (HNO).

The current grant enables regions to fund a useful range of planning activities. Many of these activities are statutory functions under the Land Transport Management Act 2003, and remain statutory functions under the proposed changes to the Act. These include:

- development and monitoring of the Regional Land Transport Strategy (RLTS),
- development of the RLTP<sup>1</sup>,
- operation of Regional Transport Committees,
- development of regional transport plans (such as corridor plans in Wellington), and
- operation of regional strategic transport models.

Even with the changes signaled (yet to be confirmed) to the Land Transport Management Act, the development of a “whole of network” strategic policy framework and consultation on a combined RLTS and RLTP are likely to be significant pieces of work for many regions.

The Agency has referred to the NZ Transport Agency General Circular Funding 10/07, which reviewed the transport planning activity class, as evidence that too much planning has been undertaken. However, it is noted that this circular supports the value of long-term planning for energy, population, industry, technology and climate change, including multi-modal studies. Much of the regional planning undertaken by councils within RSG fits well within this area, and should be distinguished from transport studies.

The rationale provided for the proposal to remove the current flat rated grant (0.15% of the relevant RLTP) is that it does not provide a strong incentive for efficient resource use and would be misaligned with the direction outlined in the Government Policy Statement (GPS) 2012 engagement document. Regions disagree that removal of this grant would improve efficiency. This proposed change significantly under-values the important role of regional planning and coordination activities, which is critical to the Agency’s own activities. It is difficult to see how efficient, integrated transport management will be achieved without this regional network planning.

The consultation document suggests that one option to maintain current funding levels is for it to be charged back as a corporate overhead against public transport activities. However, this option misses the point that regional planning covers all transport activities undertaken in a region by AOs and HNO. It would be an administrative nightmare for these organisations to factor in overheads for this activity and then refund the regional council at a later date.

We acknowledge that the Agency has recently signaled that any changes to this category will be postponed pending a further review - this is supported. We suggest that the Agency works jointly with regional councils to consider the best options for any changes to this category, as part of the proposed wider FAR review in 2013. The options that might be considered include (a) providing an alternative funding formula under this category to better reflect the likely actual cost of regional planning activities; (b) providing for these activities through another category; or (c) providing transitional arrangements to enable regions to gradually adjust Long Term Plan/Annual Plan provisions.

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<sup>1</sup> The proposed amendments to the LTMA include one for the RLTP to contain the setting regional strategic outcomes.

## **2. W/C 002 – Transport planning studies and strategies**

We agree that there is a need to be more efficient around the number of transport studies undertaken and to reduce unnecessary or duplicated work. We note that a significant proportion of studies are managed by the Agency through their HNO division.

We note that there seems to be some confusion in the consultation document between the separate activities of regional planning and studies. Councils believe that regional planning, including corridor studies where applicable, are a useful and essential tool to ensure projects are taken forward on a rational and consistent basis. The problem of duplication seems to be largely limited to the studies category, where multiple studies have been undertaken over a number of years, or where single issue approaches have been taken rather than multi-modal studies.

However, the Agency already has the ability to control expenditure within this category through their approval process of funding applications. If there is potential for duplication then surely the Agency has the means to either not approve the funding or to suggest amendments to the proposal submitted. We believe this would be a more appropriate means of controlling expenditure on transport studies rather than using a reduction in the FAR ratio as a blunt tool to manage behaviour.

The Agency has also stated that another rationale for reducing the funding ratio for this category is to provide less of an incentive to planning activities and a ‘fairer’ funding split (ie 50:50). However we have seen no evidence of any consideration of the affordability of a funding reduction. If the effect of this change was that AOs decided not to undertake studies due to affordability reasons, this may well have adverse impacts (and greater costs) later on, when unsuitable or non-optimum projects are proposed for funding.

## **3. W/C 514 and 531 – Public transport infrastructure**

Reducing FAR rates from 60% to 50% for these two work categories will have significant costs for regional and local councils. As a result, planned investment in public transport infrastructure may need to be delayed or reduced.

There is a risk that these changes may reduce the full return of patronage and associated congestion reduction benefits from recent investment in public transport networks.

We seek a transitional arrangement to allow councils to adjust programmes, avoid a sudden increase in rates or have the need to significantly cut planned programmes.

## **4. Changes to Work Categories, Administration and Professional Services**

There are concurrent proposals to review the funding for public transport administration costs as well as the treatment of administration and professional services for regional authorities and state highways. These are closely inter-related to the FAR review and proposals to review the Base FAR are also significant as these may have an impact on the level of local share required to fund and maintain local roads.

The proposal removes the current funding for public transport administration costs and replaces it with a new administration grant and the ability to claim professional services as an on-cost from other activities. Our concerns are as follows:

- In particular, it is unclear what costs would be covered by the new administration grant and if this would preclude similar costs being claimed in other work categories
- The proposals give the Agency more discretion over funding management costs of activities (particularly for public transport) by defining them as professional services. These can be claimed back only if the Agency gives its approval.
- Indications are that regional councils' ability to recover costs in this area could be drastically reduced. It is hard to fully assess the financial impacts from this because the engagement documents are unclear and leave considerable scope for a wide range of different interpretations. The words in the engagement document also don't seem to match the explanations that have been received from NZ Transport Agency officers, which only adds to the current confusion
- It is unclear how this initiative aids the effective and efficient management of activities and streamlining initiatives that are underway
- We would also note that the proposal specifically exempts the administration costs of the Agency's HNO division, which would continue to be funded as usual. Why are HNO's funding arrangements not being changed in a similar manner?

Definitions of some work categories have also changed, particularly relating to W/C 514 *Passenger Transport Facilities and Administration* and W/C 531 *Public Transport Infrastructure*. Our concerns with this are:

- The changed definitions are unclear
- Some expenditure that was claimable in W/C 514 now moves into W/C 531. The effect of this is to reduce the FAR from the proposed 1% reduction a year (from 60% to 50%) to 50% immediately upon adoption. This increases the cost that falls to local share without providing adequate transitional arrangements
- Of particular concern is that W/C 531 seems to include renewals of components of existing facilities (i.e. replacing a roof on a transport interchange). These items are maintenance (albeit expensive) and should remain in W/C 514.

Apart from the above, the proposal removes funding for the administration costs of total mobility before the substantive review of the scheme is complete. This increases the cost that falls to local share and seems to pre-empt the review.

## **5. Road safety, demand management and behaviour change**

Currently, all of the road safety, demand management and behaviour change activities receive a 75% FAR under the W/C 432 *Road safety promotion* work category.

## 5.1 Proposed changes

The consultation document proposes a reduction in the road safety community programmes activity class from 75% FAR to the weighted-average Construction FAR for each regional council or unitary authority. The rationale for reducing the FAR in this category is to remove the 2006 short term investment stimulus and to equalise the FARs for road safety promotion and the construction projects intended address road safety risks.

The proposal is also to remove demand management and behaviour change activities from the road safety category and fund them from the *local maintenance and operation* work category. The consultation document also proposes funding these activities at the weighted-average Base FAR, reducing their 75% FAR for all RSG members.

## 5.2 Impacts on road safety

We believe the proposed FAR reductions and the movement of demand management and behaviour change activities fails to recognise the importance of road safety education and awareness and demand management and behaviour change activities in contributing to the overall road safety objectives and outcomes.

### 5.2.1 Changes inconsistent with current and proposed Government policy

The Agency considers these changes more in keeping with the “Safe System” approach of the national-level *2020 Safer Journeys* road safety strategy. However, *Safer Journeys* recognises the need for investment across the entire system involving safer road users, safer travel speeds, safer roads and roadsides, as well as safer vehicles. The “Safe System” approach regards road user education and the construction of roads and roadsides in a holistic manner, but does not require them to be linked.

RSG therefore believes the Agency’s claim to be highly dubious considering that NLTP funding for road safety activities will be significantly reduced.

We also note that the reduced FAR for road safety activities is inconsistent with the high priority given to road safety impacts in the current GPS, which is carried onward with the indicative policy direction articulated in the 2012 GPS engagement document.

### 5.2.2 Changes ignore multiple benefits accruing from current activities

Regional councils coordinate and lead established region-wide road safety, demand management and behaviour change programmes that have interlinking road safety, health and congestion reduction benefits. Under this proposal, the Agency states that any activity seeking funding under the road safety category would need to show that more than 50% of the benefits contribute directly to road safety. Effectively, this change (and the movement of demand management and behaviour change activities) removes consideration of these interlinking benefits in NLTP funding allocations.

For example, the proposed change will mean that funding for activities such as school travel plan programmes (which have road safety, congestion reduction and health co-benefits) may be applied

for under the road user safety or local maintenance and operations work category. Detail or guidance on how this would actually work has not been provided by the Agency.

This will have a significant impact on what activities may continue by not considering funding applications for these interconnected activities within the same category. The proposed changes will most likely result in the inability to provide regional coordination of programmes that deliver multiple benefits to the wider regional community and transport network without significant supplemental rates funding.

### 5.2.3 Changes inconsistent with content and nature of road safety activities

The role of regional councils is to address region-wide road user behavioural and safety issues as the lead agency for the delivery, coordination (with local Territorial Authorities) and facilitation of education programmes and awareness/behaviour change campaigns. The regional councils' activities provide wider network exposure across local roads, state highways and throughout communities rather than on singular focus areas or issues.

Tying road safety funding to the Construction FAR is inconsistent with the content and nature of the road safety community programmes provided by RSG members. While some TAs provide road safety promotion for local roading projects, the majority of road safety promotion and educational activities are targeted to risk – dealing directly with local audiences on behavioural issues such as alcohol and drug consumption, young drivers, fatigue and speed.

### 5.2.4 Likely reduced road safety benefits and service levels

Adoption of the regionally-weighted average Construction FAR for road safety activities raises appropriateness issues. The change would most certainly disadvantage larger urban areas where the majority of the benefits from these road safety and demand management activities accrue. This is because regions with low populations and longer lengths of road tend to have a higher Construction FAR than regions with large urban areas.

## 5.3 Impact on demand management and behaviour change programmes

We have significant concerns with the funding reduction for these activities as well as their proposed removal from the road safety community programmes work category. These proposed changes will undoubtedly have an impact on what activities regional councils may be able to continue from 2012 on without significant additional rates funding.

There will still be an expectation for regional councils to continue this work in some form or another. However, the funding uncertainty in the next NLTP will not only make this doubtful but will most certainly mean the loss of momentum and positive gains made by these activities enacted over the last five years.

### 5.3.1 Reduced FAR

RSG members coordinate and lead established region-wide demand management and behaviour change programmes that have congestion relief and network efficiency outcomes for both larger urban centres as well as the network as a whole.

The significant FAR reduction proposed could reduce the ability for RSG members to coordinate and deliver these programmes, which also have associated road safety and health benefits.

### 5.3.2 Move to maintenance and operations work category

The Agency has advised that the reason for moving demand management and behaviour change programmes to this category is to maximise the capacity and function of existing local road assets by ensuring congestion relief and network efficiency activities are targeted and linked to local Activity Management Plans.

Currently, only the local TAs (who are the road controlling authorities for the local road network) are eligible to apply for funding under the maintenance and operations work category. We do not believe it likely that local TAs, even the larger ones, will take on the coordination and management function of region-wide activities under the work category through their local activity management plans. Nor would it be appropriate or efficient for the TAs to do so.

The Agency has suggested that local councils could apply for funding for these activities on behalf of the regional council. However, this arrangement is clearly contrary to the current Government direction on efficiency in governmental administration.

In response, the Agency advised that regional councils would now be eligible to apply for funding demand management and behaviour change activities under the maintenance and operations work category. However, it would appear that the funding eligibility criteria (must be consistent with W/C 151) and the additional requirements proposed would make it very difficult for councils to succeed.

Further, the GPS 2012-2022 engagement document signalled reduced funding ranges for the maintenance and operations category, which will lead to greater competition for the funding of individual local road works. Having demand management and behaviour change programmes added to this already heightened funding competition can only be detrimental to these beneficial programmes.

## 5.4 Summary

The proposed changes to the FAR coupled with the movement of demand management and behaviour change activities to the maintenance and operations work category will have an impact on what activities regional councils may be able to continue from 2012 onward without significant rates funding. These changes will have the following impact:

- A significant reduction in the coordination, delivery and support of region-wide road safety, demand management and behaviour change programmes and activities;
- A reduction to the number of staff resources employed to run and maintain programmes;

- The termination of support for local authorities with their own resources and programmes;
- The termination of coordinated ‘on the ground’ road safety, demand management and behaviour change programmes and activities.

## **6. Process and engagement**

We were disappointed with the consultation process for these important changes. Clearly there are important interconnections between the changes proposed in multiple documents, that have not been drawn together, and the consultation documents are difficult to understand, with little explanation provided. There have been delays receiving comprehensive information from the Agency and there has been considerable inconsistency in the information provided through regional offices and the national office.

The proposed changes to the FARs are anticipated to result in a significant reduction in NLTP contribution to activities and programme, many of which have been committed to over a long period. This reduction in contribution will need to be covered through an increase in Council rates or a reduction in services Councils deliver. The estimated fiscal impact for each region resulting from these changes is set out in Appendix A.

Given the potential financial impact, and our role as joint funders and partners, we believe that the Agency should have engaged with Authorised Organisations about the proposed changes at a much earlier stage. The engagement process does not seem to match the Agency’s promise of working in partnership.

It is also unclear whether the Agency undertook an impact assessment on the proposed changes to activity classes and funding assistance rates, and whether affordability was considered in developing these proposals. This should have been considered as a core part of the review.

In anticipation of the wider FAR review in 2013, we strongly urge the Agency to work closely with AOs to develop and undertake the review process as key partners.

**APPENDIX A: ESTIMATED IMPACT OF FAR AND ACTIVITY CATEGORY CHANGES ON REGIONAL COUNCILS (JUNE 2011)**

	Wellington	Auckland	Canterbury	Hawkes Bay	Bay of Plenty	Waikato	Otago	Taranaki	Manawatu	Nelson	Tasman	Marlborough	Gisborne	Northland	Southland	West Coast
<b>TOTAL</b>	-2,658,300	-13,629,000	-740,000	-273,450	-440,000			-122,400	-307,000						-\$260,826	-70,400
<b>IMPACT ON RATES</b>	3.1% increase		Not known	8.4%	2% increase	To follow		TRC Minimum 1% increase	Approx. 1.5% increase						2.06%	3.7% increase
<b>001 Regional Transport Planning</b>	-325,000	-980,000	-330,000	-110,400	-254,000	-500,000	-150,634	-71,150	-150,000	-15,000			-52,369	-163,000	-\$79,826	-57,100
<b>002 Transport Planning Studies</b>	-97,000	-331,000	0	-12,550	-50,000	-100,000 to -200,000	6,253	-6,600	Nil at this point						-160,000	
<b>432 Road Safety</b>	-581,800	-1,749,000	-43,000	-42,000	-40,000	-400,000		-31,050	-50,000	-50,000				-304,173		-9,100
<b>151 Network and Asset Management</b>																
<b>531 Public Transport Infrastructure</b>	-134,000	-9,625,000	0 (but indirect impacts on ability to grow demand)	-17,500	-96,000	To follow	173,156	-13,600	-10,000							20'000
<b>514 Passenger Transport facilities operations</b>		-943,000					-706,452									1,000
<b>Admin and Professional Services Changes</b>	-1,400,500	-3,500,000	-367,000	-65,000	-254,000		8,218	TBA	-97,000							
<b>633 Total Mobility Admin</b>	-120,000		?	-26,000	?		0	TBA								-4,200