R3/14/1

5 March 2014

Ms Clare Sinnott
FAR Review Options Discussion Document Submissions
NZ Transport Agency
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Dear Clare

Submission on FAR Review Options Discussion Document

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This submission has been prepared on behalf of the Timaru District Council (TDC).

We welcome the opportunity to provide feedback on the NZ Transport Agency (NZTA) Funding Assistance Rate (FAR) Review Options discussion document. This submission has been prepared in response to the NZTA options discussion document 2013.

TDC acknowledges that this is a complex issue and that obtaining an agreed or collective view from a range of parties will be difficult, as any change will result in both winners and losers.

Our specific feedback on the proposed FAR options and our response to some of the questions raised in the discussion document are as follows:

1. Provisional funding assistance rates framework

PFR1 Does the provisional funding assistance rates framework support the optimal land transport outcomes being achieved within the available resources?

Many of the Government's policies including those on transport, focus on economic growth. This appears to be absent from the FAR review, so councils that are investing in infrastructure to support economic development are not supported.

The significant transfer of financial assistance funding from rural to metro councils is considered unfair and does not support economic growth. The rural areas are creating New Zealand's economic wealth that requires greater investment on road infrastructure but those same rural areas do not have the ratepayer base to fund the required work.

Many rural councils experiencing growth in transport intensive industries, such as dairy farming and dairy processing, are worse off under the FAR review. This appears to be odds with the Government's growth agenda and we believe the proposed FAR framework does not support optimal transport outcomes being achieved.

PFR2: Anything we like or dislike about the provisional framework?

The FAR represents a financial assistance through nationally derived funds through petrol taxes and road user charges. The reason for different financial assistance rates is in recognition of the differences across the country. The models presented are quite inequitable when it comes to real dollars.

The methods used to reflect ability to pay suggest 'wealth' and ability to pay are the same thing. If measured by capital value this is unreasonable for valuable primary production as assets do not equate to cash flow or recognise levels of debt. Capital value is loosely used as an indicator of traffic generation which is also considered not appropriate.

The maintenance and renewal of level rail crossings and devices, such as bells and barrier arms, should continue be fully funded by NZTA. Fundamentally these are not council assets and therefore ratepayer funds should not be funding these. Furthermore, council has little control over what work is required and how it is undertaken, therefore there is little opportunity for efficiency gains.

2. Overall NLTF co-investment rates

OCIR1: Overall co-investment rate range and overall division of costs between local communities and direct land transport system users?

The overall local authority share of between 50% and 53%, based on the need to have equal benefit, has no analysis to support this and such analysis has been discounted by NZTA. We strongly support that NZTA provide an economic analysis to ensure a robust business case of a fundamental issue.

Within the consultation document it is proposed that the activities that receive a higher FAR do not encourage efficiency, as the local authorities don't have “enough skin in the game” (quoted). The idea being, that if an authority doesn’t have much of a local share involved, there will be little drive for efficiency. This statement is very difficult to accept when the other 66% of the NLTF allocation receives 100% FAR. It is noted that large city councils that spend the greatest share of the NLTF have an increased FAR under all options. Therefore, these councils will have less “skin in the game” as currently and may be less efficient which is in direct opposition to what is trying to be achieved with this review.

The NLTF is entirely funded from road users. These users use council roads and therefore council should receive a fair share of this tax revenue. The FAR distributes the tax, it is not NZTA co-investing. The distribution of taxes for road purposes is no different to funding provided to other government sectors such health and education. The term “co-investment” is fundamentally wrong and should be challenged. The discussion document also fails to acknowledge that rates are also a tax and both sources of revenue are being paid by the same communities.

We are concerned that the Roads of National Significance (RONS) are fully funded from the National Land Transport Fund and effectively cash funded by today’s road users. Although it could be argued that this issue is outside the scope of the review, it does influence the funding available to council’s and the FAR. The RONs are “lead infrastructure” that will provide future capacity. Therefore future road users should pay some of the cost and today’s road user should not pay the full amount. This is the principle of inter-generational equity and achieved through loan funding. Councils apply this principle for there own infrastructure.

3. Councils’ funding assistance rates

Council 1: Funding bands views?

Rather than a range of rates, only the exceptional cases are being considered for a higher level of funding. This means 75% of councils are treated the same, irrespective of the metrics and the option considered. This compresses the FAR range significantly, typically increasing the FAR in metropolitan areas (where the cost per person is low) and reducing the FAR in rural areas (where the cost per person is high).

This is not a fair reflection of the differences approach that many council’s supported in the first round of consultation. The discussion within the document states that if some authorities get more than the national co-investment rate, then others will receive less; this is not demonstrated in the tables showing the rates under each option.

Council 2: which option is preferred?

We believe that the options presented do not support key taxation distribution principles such as equity and fairness or allocation to those who need financial assistance. The options are not supported by a robust business case that must consider the cost of providing roads that are fit for purpose and the ability of a community to afford this particularly economies of scale that rural councils generally do not have.

The FAR should provide equity within the road networks to financially assist councils to provide a good quality and accessible road network that meets the needs of road users, is fit for purpose for communities and contributes to government direction.

Council 3: What other metrics or combination of metrics could be used?

NZTA states that the differences in FAR should reflect the ability (or inability) to raise the local share, not the difference in costs, (refer section 5.3). This ignores the relative differences in what it costs to provide roading services. The cost per person for road services amongst NZ council's ranges from less than $50 per year to over $500, with Timaru District being around $135 per person per year.

The Audit NZ report on the transport sector results of the 2011/12 audits highlights that local authorities with the largest populations (typically the metropolitan authorities) do not have the largest road networks or costs. Rural and often small local authorities typically have larger road networks to maintain and service, with less people to pay the local share. This raises a fundamental principle of ensuring sustainability of road controlling authorities.

There is no recognition of differences between rural and urban roads, particularly roads with high numbers of heavy vehicles proportionally. Percentage of the heavy vehicles should be a factor. Also, use of lane-km favours urban road networks. There are economies of scale such as 1km of four lane road is more cost effective to maintain than 2km of two lane road, as in both cases there is 4 lane km but less of kerb and channel for the four lane road for example. Similarly, narrow rural roads are considered one lane. Road km is a better measure not lane km.

Ability to pay is a combination of the proportion and the amount. The NZTA share is a 'tax' which is derived to support the wider community and provide for those less able to provide for themselves. Without considering the disproportionate amounts being funded by different council's to provide roading services, the FAR review is of limited benefit. Affordability should be a factor which is a function of ability to pay and cost.

Council 4: Should weightings be used when using a combination of metrics?

In principle weightings are supported when using combinations of metrics but without detail of such weightings we are unable to fully assess this and provide informed feedback.

Council 5: Should there be a maximum FAR?

The FAR should be based on need. The maximum FAR is 100% that is what Highways and NZ Police receive currently and proposed to continue to do so. An additional question that needs to be considered is should there be a minimum FAR.

Council 6: Overall what combination of factors and approaches should be used to set FAR's?

The consultation document appears to discount the use of the deprivation index as a metric. This appears unusual given its wide use across central Government, particularly education and health services.

Council 7: How often should FAR be re-set?

The FAR is a critical input into the Council Long Term Plan and the Regional Land Transport Plan. The Long Term Plan is reviewable every three years and the Regional Land Transport Plan every six years. Therefore, on this basis to ensure that the plans retain creditability a review period of six years should apply.

4. Emergency works

EW1: What type of natural events and/or reinstatement works should elevated emergency works funding assistance rates be applied?

While it is acknowledged that 'typical' situations should be managed under council's maintenance activities, councils do rely on emergency works as a form of insurance. Under the current system the FAR increases proportionally to the size of the event. This is effectively an insurance excess with small events funded at or near to base rate (high excess) and large events at high financial assistance rates.

EW2: What method should be used for determining whether or not an event is 'out of the ordinary'?

Generally maintenance and renewals budgets are prepared with no contingency funding allocation. Fundamentally emergency works financial assistance funding is an insurance policy an should cover any natural event that causes network damage or failure prior to expected useful life. These events may be isolated in one part of the network or widespread.

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

The impact is relative to the size of the council's roading operations, and for some councils' small events will have a significant financial impact. This is recognised under the current system with emergency works FAR based on cost versus rates revenue. The proposed approach needs to consider the event relative to the size of the road controlling agency.

EW4: Should there be a maximum elevated emergency works FAR?

Given that emergency works funding is effectively an insurance policy, a reasonable 'excess' could be applied that would determine the maximum emergency works FAR. The current maximum is widely accepted and should continue.

5. Targeted enhanced funding assistance rates

TEFAR1: Are there any other matters that the NZ Transport Agency should take into account when considering to use, set up a targeted enhanced FAR?

Administration of NZTA processes and claims is a cost to council and certainty of financial assistance to fund this is essential. In addition, transport planning including asset management is essential to plan long term and ensure renewals are optimised to minimise maintenance costs and get the most out of the existing assets. Maximising useful lives of existing assets is a key Government objective and also a key recommendation of the road maintenance task force. NZTA seem to have ignored this. Reductions in this area will compromise the overall objectives of efficiency and effective delivery of services.

6. Transitioning in changes to funding assistance rates

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

The proposed FAR options will have a significant funding impact on Timaru District Council. This impact is between $1.5 million and $3.0 million reduction in roading financial assistance over a three year NLTP period. Council has the choice of funding this reduction through additional community rates, up to 2.5% increase 'across the board' or reducing the level of service with up to $6.0 million of work no longer able to be undertaken.

Savings of this magnitude cannot be achieved through efficiencies, smarter procurement or collaboration. Six million dollars of work is equivalent to deferring two years of our road resealing programme, clearly not good asset management practice.

Given the significant impact that will further burden our communities, any reduction in FAR must be carefully planned for. The transition must be gradual over a period of time to minimise cost increases or service reductions in our communities. With the FAR reducing no more than 1% every three years to match our Long Term Plan processes.

As a local authority we are accountable to our community to provide a road network that is safe, reliable and robust, generally termed as "fit for purpose". Our network must meet the needs of residents, visitors, businesses, some of which contribute substantially to the New Zealand economy and our rural farming community, the foundation of New Zealand's export earnings.

Section 14 of the Local Government Act 2002 outlines principles relating to local authorities. These include “a local authority should ensure prudent stewardship and efficient and effective use of its resources in the interests of its district or region.” As a council our revenue to achieve this is through taxes, both property tax and a share or road user tax. Our communities ultimately pay.

Thank you for the opportunity to provide feedback and present our views.

Yours sincerely

Peter Nixon
Chief Executive

R3/14/1

3 October 2014

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Dear Siobhan

Submission on Emergency Works Policy Review

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This submission has been prepared on behalf of the Timaru District Council (TDC).

We welcome the opportunity to provide feedback on the proposed NZ Transport Agency (NZTA) Emergency Works Policy Review Sector engagement document. This submission has been prepared in response to this document.

TDC acknowledges that this is a complex issue and that obtaining an agreed or collective view from a range of parties will be difficult, as any change will result in both winners and losers.

Our specific feedback on the proposed policy outlined in the engagement document is as follows:

1. General principles

While it is acknowledged that 'typical' situations should be managed under Council's maintenance activities, Councils do rely on emergency works funding as a form of insurance. Under the current system the FAR increases proportionally to the size of the event. This is effectively an insurance excess with small events funded at or near to base rate (high excess) and large events at high financial assistance rates (low excess).

2. Definition of major event

The proposed policy defines an emergency works funding event as an annual return period of not less than 1 in 20 years. The impact of an event can be relative to the geography and climate of the Council's district. Timaru district for example has significant flat topography that is prone to flooding and consequential road damage, even in a relatively minor event. Mitigation measures available are neither affordable nor cost effective, with the lowest cost solution being acceptance of flooding and repair of damage.

A rainfall event of 1 in 20 years would be a major event in our district and may be a civil defence emergency, whereas in other districts there may only be minor impacts. Furthermore, significant events can occur beyond our district boundaries, with resultant flooding of our rivers that may result in damage to our infrastructure. Quantifying these high country events is a challenge. Parts of our district are remote being typical of many other districts. The quantifying of the return period of a localised significant event in these areas will not be possible.

Even in urban centres where good data is available, the calculation of the return period is difficult and will contain some subjective elements. A recent example in Timaru was a localised rainfall event that had intensities ranging from a 1 in 5 year to 1 in 20 year events over a very short distance. However the cumulative effects were significant.

What should be considered is the level of resilience designed or accepted in our infrastructure beyond the roads. In Timaru district the design for stormwater drainage networks is based on an event of return period of 1 in 5 for residential and 1 in 10 for commercial/industrial. Therefore an event greater than 1 in 10 will cause extensive flooding and may damage road infrastructure.

Return period data for some natural events, such a high winds, is not readily available, yet these events cause a considerable level of service disruption with fallen trees blocking roads.

We believe that the criteria for determining a major event must be effects based not statistically based.

3. Expenditure thresholds

Generally maintenance and renewals budgets are prepared with no contingency funding allocation. Fundamentally emergency works financial assistance funding is an insurance policy and should cover any natural event that causes network damage or failure prior to expected useful life. These events may be isolated in one part of the network or widespread across the whole network.

If the threshold for emergency works financial assistance is increased, then provision for this potential expenditure for non-qualifying emergency works must be provided through increases in our maintenance and renewals funding allocation. In doing so this reduces the transparency of emergency works costs that is contrary to one of the principles of the emergency works policy.

If additional funding is not provided then other planned maintenance or renewals work will be deferred to ensure expenditure is within approved allocation. These deferrals could be significant if a number of events occur that do not meet the emergency works criteria. If we get two events per annum at $95,000 cost per event, then over the three year funding period this is 10% of our maintenance and renewal funding allocation. Reducing our planned work by 10% to match is significant. This will have an unacceptable compounding effect on the road network, with potential reductions in level of service, safety and resilience.

4. **Conclusion**

The proposed policy is likely to be a significant financial burden on our communities. It also has the potential to prevent the first key principle of the FAR framework of delivering the national transport outcomes in the right way, time and price, as planned maintenance and renewal works will be deferred to fund emergency works from unexpected natural events that do not meet proposed financial assistance thresholds. We ask that further rational consideration be given to the proposed policy.

Thank you for the opportunity to provide feedback and present our views.

Yours sincerely

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