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Report to the Policy and Finance Committee
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Transport Funding Policy

1. Purpose

To defer formal review of the current Transport Funding Policy for twelve months.

2. Background

In February 2000 the Council resolved:

"To undertake a formal review of the funding policy for 'funding public transport services' prior to setting the transport rate for the 2001-2002 year."

Since that resolution was adopted, staff have spent some time examining that funding policy. Also a number of significant events have occurred since February that have a bearing on the policy and its application. These include the advent of Transfund New Zealand's Patronage Funding scheme, the Ministry of Transport's review of transport legislation and the recent announcements by Tranz Rail regarding the future of Wellington's urban rail services.

3. Comment

3.1 The Funding Policy Document

Under the Local Government Act a funding policy review involves three stages. Stage 1 is the theoretical allocation of costs. This allocation is based on economic principles and results in an "economically efficient funding mechanism". In Stage 2 the Council can modify the theoretical model to take account of considerations specified in the Act. Stage 3 is the selection of funding mechanisms or arrangements to achieve the allocation resulting from Stage 2.

The current Stage 1 analysis for "funding public transport services" stands scrutiny. In essence it is saying that about 85% of the costs result from road congestion. That road users as the exacerbaters of these costs should pay.

As this is not legally possible then the residents of the origin of the journey and commercial properties at the destination became the surrogate.

The remaining 15% is seen as social costs. 10% is for concessionary travel and 5% for regional cohesion and integration.

The Stage 1 analysis is not in dispute. The split between congestion, concessioning and social can be reviewed but only at the margins. Some of the wording in the funding policy document needs to be reviewed, this is not material to the incidence of rating, so this can be left until a future review.

3.2 Significant Recent Events

'Patronage Funding' is the new Transfund New Zealand scheme for funding passenger transport. Patronage funding is to be phased in over the next 2½ years. The transitional period will see Transfund New Zealand provide kick start funding for new qualifying expenditure and additional funding for patronage growth above a fixed baseline. The patronage element of the funding will come in the form of an amount for peak and off peak boardings and an additional amount for peak and off peak passenger kilometres. Transfund's funding support will be no longer related to expenditure. The gross cost of services provided by the Council can be allocated to areas based on the funding policy, at this stage it is hard to see how the income from Transfund can be fairly allocated without some detailed patronage data by time of day and service.

This change by Transfund from funding costs to funding patronage is important.

At the moment rail costs attract a 60% subsidy but bus costs only 40%. Patronage funding would mean that some services will be fully funded by the Transfund support and others at a lesser level than currently. This could significantly alter the allocation of net costs to areas.

It would not be realistic to allocate Transfund's funding on a basis tied to the existing allocation, nor would it be sensible to net off Transfund's support from the total network cost then allocate the remainder on the existing basis.

The recent decision by Tranz Rail to restructure and spin off its passenger services to new owners or operate them under new arrangements is also a major factor to consider. One outcome is that the long term strategy, financial and operational, that the Council working towards for rail services is now on hold. It is not known when the Council will be able to progress this strategy, if at all. No major commuter rail projects are likely to proceed in the meantime. It was these projects and their financial impact that particularly triggered the Council's desire to review this funding policy. That driver now no longer exists.

The Ministry of Transport has signalled changes to transport legislation that will have an effect on future transport rating. These legislative changes will be implemented in time for the 2002/03 financial year, if not earlier. It is understood that this legislation will cover funding issues including the funding of public transport infrastructure. Mobility pricing, charging road users for their true costs is also likely to be included in some form. Both these possible changes will impact on the Council's transport costs and hence rates.

4. **Conclusion**

For the reasons given, it now appears premature to formally review the Transport Funding Policy. Any review now cannot take into account the effect of events yet to occur, events that will themselves trigger a review.

5. **Communication**

No requirement at this time.

6. **Recommendation**

That the Policy and Finance Committee recommend to Council that it amend its resolution of 9 March 2000 to defer the review of the Funding Policy for 'funding public passenger transport services' until the 2002/03 year.

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