



Funding Assistance Rates

NZAA submission on options discussion document

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Submission on FAR Options
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Dear Clare

FUNDING ASSISTANCE RATES: OPTIONS DISCUSSION DOCUMENT

Introduction

The Automobile Association (AA) welcomes the opportunity to provide comment on the Funding Assistance Rates: Options Discussion Document.

The AA is an incorporated society with over 1.4 million Members. It represents the interests of road users who collectively pay over \$2 billion in taxes each year through fuel excise, road user charges, registration fees, ACC levies, and GST. The AA's advocacy and policy work mainly focuses on protecting the freedom of choice and rights of motorists, keeping the cost of motoring fair and reasonable, and enhancing the safety of all road users.

The FAR proposals are extremely complex and technical, covering a mix of disciplines (economic, political, and legal, local body finances, legal, contracting, and costs underlying the various activity classes). There are clear winners and losers (and it is clear who is going to benefit from what assumptions); some of the choice points appear arbitrary. Therefore we have not felt that we could consult our Districts and we cannot even handedly represent all of them fairly. Thus this submission represents observations based on experience with Districts, and discussions with selected AA Councillors who have particular technical expertise in the area, rather than a formal internal consultative process. Hence errors and omissions are ours rather than the wider AA, and our limited understanding in struggling with a complex issue.

The AA believes that many AOs will be in the same position of having to rely on technical experts instead of their constituents. Smaller and less well resourced AOs will be at a disadvantage in this consultation. Given the substantial impact these proposals will have on AOs and road users, NZTA needs to consider whether this technical process is adequate to bring along its stakeholders, whether perhaps a lesser move might be more fruitful, or whether to make the discussion comprehensible to a wider range of the public and experts outside the transport sector. Certainly we consider that the sector is nowhere near ready to implement the FAR proposals in the 2015-2018 NLTP. The FAR is of fundamental importance to transport outcomes, and stakeholders really need more help to engage with the FAR discussion.

General Comments

The AA can see that considerable thought and analysis lies behind the FAR options presented, and congratulates NZTA on a serious attempt to tackle an extremely complex and very sensitive issue. NZTA is essentially proposing a complete overhaul of a long standing arrangement, and while some aspects are long overdue, in our view it risks being too much, too

suddenly. We wonder if perhaps NZTA is underestimating the scale of potential political fall-out. Although we have mainly focused on the areas of difference in this submission, we acknowledge there are many excellent parts of the proposal, and it would be a shame to see these derailed. From a self interested point of view, the risk is that any backlash could fall onto the road user to make up any funding to smooth over unrest (and especially so if a 53% co-investment rate is chosen, which leaves no room to adjust within the current funding envelope).

The AA proposes that NZTA takes a much more gradual approach:

- continuing to base 80% of the FAR on the status quo
- adding new metrics in a more dilute way, while still considering others over time
- considering metrics suggested by advice and literature on designing efficient tax mechanisms for different activities, network economics, local body funding and wider budgetary impacts
- understanding the impact of ONRC on RCAs as it beds in, including the how the gap analysis affects different AOs
- developing the ONRC equivalent for the different modes and other activity classes
- gaining experience with how definitions of 'fit for purpose' affect funding streams
- developing and providing significant levels of resource to assist with the changes in an evolutionary way
- installing review and feedback loops to ensure that transport outcomes are moving in the right direction.

Response to Discussion Document Questions

PFR1: Will the provisional FAR framework support optimal land transport outcomes?

The AA considers that the proposed FAR framework will not support a significant number of AA objectives below, nor the land transport outcomes sought by NZTA.

AA FAR Objectives

The AA considers that what road users want to get out of their funding system, including the FAR, include:

- a functioning national road network, that looks and feels consistent around the country
- fit for purpose customer levels of service that match the road hierarchy and customer expectations
- new investment when and where appropriate (growth, enabling economic development, safety retrofit); ensuring asset levels are optimal including new assets
- balanced outcomes per dollar invested (ie you can't improve outcomes by switching where you invest dollars, by location or output class);
- value for money (e.g. skin in the game from both parties; carefully managed service reductions in declining areas);
- a fair contribution from property owners towards the uplift in property values and enabling of local economies from the transport asset.

NZTA has a range of ways to improve these outcomes; the FAR may be only one contributor (or not even contribute), but the AA considers these are the general directions to measure against. The proposals will not support any of the above outcomes (discussed further below).

PFR2: Things you like/dislike about the provisional framework

Without wanting to repeat too much the comments already made (refer the AA's 2013 submission on the earlier FAR principles stage), the following considers the basic premises for the FAR proposal.

One Rate for each AO and All Activities

The AA opposes “One rate for each AO” and for all activities. The AA understands that NZTA has chosen to view the FAR as simply a cost sharing mechanism and not a way to achieve outcomes; this is fundamentally at odds with the AA view. The FAR is a powerful tool to align potentially conflicting objectives between national and local perspectives. It does not seem appropriate to focus on simplicity for simplicity’s sake when spending hundreds of millions of dollars (and outcomes worth even more), or purely to avoid gaming at the margins.

For example a Canadian study compared the outcomes of private sector vs. publicly provided life, injury and vehicle damage insurance on young driver crash rates. The public sector insurance requires a lot more detail but achieves significantly fewer injuries and fatalities. The private sector here achieves outcomes not through simplicity but by carefully assessing each relevant factor. Gaming is better managed through stricter controls and conditions and better managing AOs (e.g. tightly defining sought outcomes and ‘fit for purpose’ approaches).

There is a body of work around efficient tax mechanisms, which suggests that for public goods and services that are fixed and local, the best mechanism is a local tax, while for national goods and services or those which are mobile, then a national or mobile tax is both most efficient and this breakdown also best reflects political accountability lines. Consider the reasons why State highways are owned nationally and receive 100% FAR while local roads do not. Tax theory also covers the relative deadweight costs of collection, and whether taxes are progressive or regressive (for example petrol tax is highly regressive, falling heaviest on those with less ability to pay).

The FAR analysis to date does not appear to have considered this literature. Further, instead of dealing with both political accountability lines (local and national) in the consultation, NZTA has chosen to include only the local accountability line and not the mobile taxation stakeholders, in the FAR Review Reference Group. Road users are the default funders of any over-commitment by NZTA in FAR changes, and of potential deterioration in transport systems, so have a strong interest in the outcomes of the review.

The discussion paper, in relating where benefits are collected to where these are paid out, also neglects theories of network economics, and hence where the benefits lie. Local projects may have wider network benefits, and vice versa. Particular destinations may be nationally or internationally, rather than locally, significant for example. The discussion paper specifically dismisses engaging an economist, on the basis that no one has anticipated the information sought in this review. That does not seem a good basis for not engaging an area of expertise familiar with a body of theory that is directly relevant to all of the goals and objectives.

Economics provides key guidance on maximising value for money, noting that value for money is maximised when all various potential investments have the same marginal benefit to cost. NZTA possesses a model which shows that the different output classes, and investments within output classes, have very different marginal values. For example, an early stage of the model showed education had potentially the highest return of all the road safety outputs, compared with enforcement or engineering outputs, for example. By providing a tighter requirement for FAR from education than the other sectors, it is not going to maximise value for money across the output classes.

Finally the various tools and stages noted in the discussion paper for improving value for money do not consider how to best elicit value from AOs. The assertion of gaming is a clear indication that the FAR works as an incentive. None of the other levers that NZTA has (GPS, ONRC, EEM, Business Case) can elicit good value projects from AOs. FARs create an incentive to put projects forward that would otherwise not be considered. The ONRC does not identify what is *not* there, in either road or other transport modes. That NZTA is not as well

placed to identify high value local projects makes it more important to incentivise the outcomes NZTA seeks and allow local bodies to identify the 'Cinderella' projects.

If NZTA is seeking specific outcomes, particularly where these do not receive local support, it needs a way to elicit them. The rationale fails to acknowledge that if a high value project, is not put forward (eg one that benefits national users more than local), NZTA cannot do a business case on it, or prioritise it for funding. The incentive needs to aim for one consistent transport network, which is not the same as setting the same inputs for all modes and interventions. This is fundamental to why value for money is needed in the FAR stage as well as other stages – it is not something that can be done only at one stage.

For these reasons and more, the AA considers that the different activities and sub activities are so different that the rates should be aimed to achieve the right outcomes for each activity and AO. One rate for each AO fails to support the desired goals above (nationally consistent outcomes, functional road hierarchy, value for money, optimal new investment, balanced outcome per dollar invested, fair contribution from property owners).

Recommendations: The AA strongly opposes the same FAR for all activities; the reasons provided are not supported by the economics of allocating a multi-billion dollar revenue stream. We urge NZTA, as a steward of public funds, to revisit its view that the FAR is not aimed at achieving any of the above goals for its customers.

Fit for purpose

The AA strongly supports the use of the One Network Road Classification (ONRC) to set ideal levels of service and hence 'fit for purpose' standards, as this will be key to improving the key national consistency, road hierarchy, optimal investment and value for money outcomes. However, introducing the ONRC at the same time as significant changes to the FAR is problematic for RCAs because of the dual uncertainty. The ONRC heralds both a potential step change in costs for individual authorities and uncertainty about the definition of 'fit for service' to qualify for funding assistance at all.

The ONRC will identify gaps between current levels of service and ideal 'fit for purpose' levels (whether over or under), and take a fresh look at what it will take to achieve consistency across the whole road network. The AA considers NZTA should look into the Optimal Deprival Values (ODV) methodology used in other utilities, whereby the value of the network is not based on the existing network, but the optimal network that would be there given a blank slate. In some cases, this will mean that some deprived areas of the country may need to be more opened up; in others, that roads that were developed previously are no longer supported.

Further, the AA strongly supports NZTA's move towards active operational management of transport systems, and considers that AOs need to stop thinking about infrastructure only and also consider operations (getting the most out of the operation of the asset) and the technology that goes with that as part of a fit for purpose modern system. The roll out of the Traffic Operations Centres, and real time management of public transport systems, will identify potential operational improvements to the local road management systems, particularly the arterial network, traffic camera and traffic light systems, that could require step changes in investment.

Whether ONRC looks at ODV or not, the ONRC LoS will have a major impact on RCAs forward programmes (up or down), and in some cases cancel out and in others exacerbate the impact of the FAR changes. Further, because the FAR policy is framed in terms of 'fit for purpose', and while ONRC 'fit for purpose' has yet to be decided, it creates uncertainty about what proportion of RCA programmes will receive the new FAR, and what proportion will have to be funded 100% local funding (or cancelled).

RCA's with standards below fit for purpose will face step increases in budget to lift investment above current levels for a sustained period, working gradually towards achieving the national standards. NZTA needs to envisage what completely new local road routes would be justified as part of an optimal national network to enable regional economic development.

RCA's with standards above fit for purpose have a different but equally challenging problem. They will have to decide whether to fund 100% the LoS above the fit for purpose levels, or allow their LoS to degrade, which may run counter to public expectation built up over decades.

The FAR principles include not matching funding above a level that exceeds the 'fit for purpose' standard. These RCA's will face the difficult political task of reducing levels of service below what their ratepayers have been used to. This may mean setting lower standards for road quality, however there is a limit to how much money can be saved on whole of life maintenance costs. In some cases, the correct answer will be 'stopping' roads or transferring to public ownership.

The implications of both the changes to the FAR, and the ONRC (and to some extent infrastructure changes to support the National Speed Plan) bring questions about how to increase or decrease service levels into sharp focus. The interaction of FAR and ONRC, and these questions, need to be openly on the table.

Recommendations: The AA supports the use of a fit for purpose principle in the FAR system, in order to improve either value for money (where standards are too high) or quality (where standards are too low). The AA strongly supports working towards nationally consistent fit for purpose roads based on the ONRC, and hence supports its use in the FAR system – but hand in hand with this the FAR should reflect total programme 'need' in terms of the funding gap between what is needed to reach the ONRC standard and how hard it is for a local RCA to raise local share to meet that gap. This differs to the current approach of simply maintaining current networks irrespective of need/ standard.

The AA recognises that this 'fit for purpose' rule introduces uncertainty for RCA's (particularly as the ONRC levels of service are being developed now), and recommends that in considering transitional arrangements, NZTA consider the combined effect of the FAR and ONRC LoS on RCA budgets.

The AA recommends that NZTA urgently develop a system like the ONRC for the other types of activities that NZTA co-funds, to achieve fit for purpose levels in other funding areas than road infrastructure.

The AA recommends that, just like the Roding Efficiency Group, NZTA urgently develop a resources, systems and expertise to assist AOs realistically achieve a transition to 'fit for purpose' standards. AOs will need substantial assistance to accurately assess the budgetary impacts of programmes that may no longer attract co-funding (for some or all of the work, because they exceed the standard), or how much they will need to make a step change to reach 'fit for purpose' from programmes that are substandard.

Note that in other activity classes, this 'fit for purpose' requirement may mean developing levels of service. For education activities, for example, NZTA may have to develop national funding guidelines for what constitutes appropriate education.

OCIR1: Overall Co-Investment Rate

The AA supports the concept of an overall weighted average co-investment rate to disincentivise AO pressure to gradually increase the average FAR outgoings.

It is unclear whether the discussion on overall co-investment rates is referring to rates that are weighted by the total programmes or not; and whether these are current programmes or future programmes. This makes a huge difference to the discussion, in particular the impact on the NLTP and the road user funding available for other valuable projects. Auckland currently has an ambitious funding forward programme, of the order of \$60 billion over 30 years. Each 1% increase in the base FAR for Auckland will remove \$600m from the NLTP, while achieving the same transport outcomes as before. This \$600m would make a significant difference to smaller authorities. How will regional authorities view this transfer in light of NZTA's role to be a responsible steward of value? Has anyone costed out the implication of the FAR proposals on funding available in the forward 30 year indicative plan and what projects will be deferred or brought forward?

The whole basis for the overall co-investment rate has to be a weighted difference based on actual projected programmes to be valid.

Further, the FARs are partly through a process of rationalising several anomalies, with FARs for rail and bus moving (from 60:40 to 50:50) to eliminate the modal bias towards rail, which is compounded by a higher modal cost for rail. Combining these two effects, the overall weighted FAR would be lower once the rationalisation process is complete. The AA strongly considers that using the partial transition as a basis for setting a fixed amount is ad hoc, without basis and cannot be supported. Cementing the upper value, 53%, as the base means further adjustments will inevitably result in upward creep in the average. There is no 'wobble room' to ease the transition or address any issues that emerge.

The AA supports a 50% overall co-investment rate, and opposes moving to the maximum 53%. Moving FAR is controversial and some AOs will face extreme difficulties in transitioning. NZTA may find it necessary to move some AOs faster than others, particularly those at the extremes. If NZTA adopts 53% as the average co-investment rate, there is little they can do, but by using the 50% rate, NZTA can use the 3% difference to ease transitions, address anomalies that may emerge, and complete transitions that are already in process.

RUC and FAR

A specific issue that needs to be addressed is correcting for the balance between heavy vehicles, light vehicles and local share that is brought about through the RUC collection systems and cost allocation model (CAM) assumptions. This is particularly true for changes to the heavy vehicle collection systems for HPMVs.

Recommendations: The AA supports having an overall co-investment rate as a principle.

The AA recommends using an overall co-investment rate of 50%, and using the 3% to address transitional issues and anomalies that may emerge with the new methodology.

The AA suggests that the FAR should align with the CAM and RUC systems, in particular for changes such as the impact of overdimension/weight HPMVs, on the local roading system and how to use the partnership model to pass through some of the additional RUC collected to meet those costs can be distributed to those local authorities affected.

How Many (and Which) Councils Receive Higher FARs: Options

It seems fairly fundamental that NZTA does not know whether more or less work will be done at a lower FAR than would be otherwise. This has to be the basis for investment – is NZTA going to get better or worse outcomes for its funds as a result of these changes?

For those AOs receiving a lower FAR, will it result in standards below those deemed suitable through the ONRC? And for those AOs receiving a higher FAR: is it going to result in more

NLTP money being spent and getting the same outcome (eg the Council simply pockets the savings and uses it (non transport) spending)? This will raise questions about NZTA's stewardship of NLTP money. Until this is addressed, it seems that changes should be made extremely carefully and gradually.

Council 1: Bands

The AA opposes the sudden introduction of an ad hoc approach like bands, and considers there is no real problem with the current approach of a slightly different FAR for each AO. If there have to be bands, the AA considers there need to be both unders and overs, with those Councils with low ability to pay being given an extra boost to achieve land transport outcomes, while those with a high ability to pay being able to achieve land transport outcomes without as much assistance. This would be a much fairer approach than moving up all the urban Councils to achieve no net transport gain for road users who are funding this additional cost. Given the AA opposes bands, it would support an increased number of bands to give greater definition so as to more accurately target funds to achieve land transport outcomes.

The AA finds it difficult to comment on choice for number of Councils to have at higher FARs, as there is no rationale provided and it is essentially ad hoc. NZTA needs a clear outcomes driven reason for providing higher and lower FARs. The ad hoc nature of the proposed bands illustrates that there is no clear set of guiding principles on which to base a decision that affects individual AOs significantly.

Given the proposal (25% in the two upper bands, 50% in the lower band) there is a mathematical issue with basing it on the number of Councils, rather than total programme cost or average number of ratepayers. Excluding the costs is an issue throughout the document, but most easily illustrated here, because the measure is not resilient to Council merger/ amalgamation. There needs to be some way of weighting the Councils to provide a stable and relevant number, rather than giving each one equal weight, which has only an ad hoc historical basis. The test for a stable basis for clustering Councils is whether the measure changes appropriately if a large number of Councils merge. The proposed 25% measure does not pass this test; it relates to no real world concern about transport outcomes.

The AA supports a link in the banding to some equivalent of the old P (total programme) which was a surrogate for how much total cost is affected by the bands. This roughly determines how much money is impacted by the change in FAR and hence how much it will affect the other FARs to balance it out to the 50% overall coinvestment rate. The issue with the old P was that it solely related to one output class, and not the others. Hence it was backward looking and focused on road maintenance only. Take for example the Auckland forward spend and consider how changing Auckland Transport from one FAR to another will affect the overall coinvestment rate for all AOs moving forward over time.

The AA considers selecting Councils for additional assistance ("overs") should be based on greatest gaps between existing and ONRC standards or the step change in programme divided by ability to pay, however that may be calculated. It should be outcome focused rather than arbitrarily decided. The amount needed to achieve the national standards should be the basis for any distinction in FARs. Note that this is likely to vary for each modal sector or activity class.

In deciding how often to review the bands, the AA considers that for those AOs that transition down in FAR are going to face difficulties. Any transitional arrangements to move AOs more slowly into another band will need to be factored into the cost of the overall co-investment rate.

Council 2: Metrics

The AA does not know enough about options for how Councils raise funds (targeted rates, investment earnings, user charges) and in what proportions and how these can be balanced. But it does not seem right to ask AOs to submit on this directly, as their incentive is to simply

plead self interest. The AA acknowledges the amount of work that NZTA has undertaken thus far in understanding the FAR, but strongly recommends that NZTA further engage a consultant with expertise in the full range of options for local body funding, to assess how these are represented by the different options and the effect on transport outcomes (and the impact on other areas of local body spending). This should be used as the basis for metrics and the weighting of metrics, rather than by popularity contest, relying on potentially self-interested reasoning by AOs or an ad hoc approach.

Although the FAR document does not provide any analytical basis for it, we assume NZTA has observed a relationship between 'Ability to Pay' and the gap between current standards and desired transport outcomes (such as nationally consistent ONRC standards) whether maintenance standards, new investment, public transport facilities or services, other modes, road safety outcomes and education. This is presumably the basis for wanting an ability to pay factor in the FAR. (If this has not been demonstrated, it would be useful to commission this work so we can all understand the relationship).

Also, without having expertise in local body funding, it appears that residents are not necessarily the same as ratepayers. Without having investigated, for example it may be that the Housing Corporation is the predominant property owner in some deprived areas, with the Crown adequately resourced to provide transport outcomes through rates. In Ruapehu District, many non-residents would be wealthier people owning ski lodges; ditto for Coromandel and Northland holiday homes. Non-resident interests through shareholding in companies also benefit from local transport options and can be expected to contribute. Thus a deprivation index may not fully reflect the *ratepayers'* (and hence the Council's) ability to pay.

Despite this, the AA supports the use of a deprivation index being a part contributor to the FAR, because it affects some ratepayers' ability to pay, but also because it speaks to the needs for the rest of the Council budget. The deprivation index is not just simply a proxy for transport inequity, it also relates to the pressures on a Council's non-transport expenditure priorities.

That is, Councils in deprived areas will be balancing transport expenditure of their community against health education and other deprivation needs that the same Council budget also has to cover. We can't have a situation where we have great roads, instead of the medical centre needed by sick kids. Therefore, an ability to pay factor needs to take account of both deprivation of residents and ability to pay of ratepayers.

Further, any metric for 'ability to pay' needs to take into account the ability of Councils to levy *targeted* rates – for example, a forestry company for forestry roads or roads that serve large farming blocks, or specific high load factories or industries.

It seems a good idea to encourage Councils to be fiscally responsible and financially literate, so when assessing wealth we need to include the depreciated value of the assets and ongoing asset management plan, not just current account ingoings and outgoing to ensure long term whole of life costings are taken into account of ability to pay, rather than short term savings at the expense of greater expenses later.

The AA supports the use of capital value compared to land value, with the caveat that there may stand out situations where someone is not using land in the optimal way, and capital value rather than opportunity cost value could be seen as subsidising a choice (eg undeveloped section in central Auckland).

It seems strange to combine options where capital value on the denominator in one (Option 2) but the numerator in another (Option 4), so if you decide to weight 50:50 Options 2 and 4 say, the capital value would tend to cancel out.

Council 3: Alternative metrics

The AA suggests some alternative metrics for consideration.

Impact on outcomes could be a strong contender for the basis for which Councils should receive higher or lower FARs. In particular, which FARs are going to result in nationally consistent standards around the country? We suggest, in addition to including an ability to pay measure (whether capital value or deprivation), the new approach should also include an assessment of the step change funding gap to achieving ONRC levels of service (and use an ODV methodology).

In identifying the funding gap, it is important to acknowledge that costs are not symmetrical with respect to population/traffic growing vs declining or stable. It is difficult to save costs from declining population/ traffic, as the programme costs are fairly flat whether it is stable or declining traffic. However, the costs of expanding the network to meet growing demand are much steeper than the costs of the status quo.

It is a concern that some AOs deal with growth by ignoring it, and hence it does not appear in AO costings, but instead imposes costs on road users. This is a key issue in growing towns and cities (that investment has not kept pace with population growth), hence c/km or c/vkt are low compared to what there should be there. Current metrics for P only looks at what already exists, not what programme should be in place to move from the current level of service to optimal provision of services (in all modes). The AA suggests that more work needs to be done to understand the optimised deprivation values (ODV) to determine what is fit for purpose rather than looking at what it costs to maintain what already exists, ie the status quo.

The number of ratepayers (number of 'wallets') tacitly assumes ratepayers are roughly equal, not some very rich and many very poor, for example. This does not acknowledge that many Councils distinguish commercial vs residential, and have a higher rating level for commercial or CBD ratepayers for example. It seems possible to have higher discriminatory ability among different types of ratepayers as any Councils already include some form of targeted rates and so distinguishing by targeted ratepayers should be investigated eg CBD, commercial, or forestry ratepayers.

There is an issue that forestry ratepayers pay rates over some 25-30 years in order to have roads capable of carrying the log loads at harvest time. However, instead of setting aside these funds for that purpose, Councils can become used absorbing the forestry rates into general rating expenditure. This is part of the issue over asset management plans and such timescales exceeding those of Council election cycles. Hence there is a case for the liability to provide roads of a particular standard for forestry ratepayers being represented in their accounts so as to make the liability transparent.

We would support investigation of what would be the result to set similar amounts to be paid towards transport per similar ratepayer (based on a programme modified to reflect fit for purpose standards derived from the ONRC).

We suggest that in discussions on where money is collected vs where it is spent, NZTA consider the body of work on network economics for example for phone, rail or post networks, which show that the value of a network depends on the number of points of connection. This is not reflected in local body economics. That is, an urban road user will value the ability to travel on the rare occasion to the isolated beach, not just the regular trip around town. These non use values are real and a basis for urban users to pay a contribution towards keeping the distant reaches of the network open. As an observation on the comments in the Discussion paper, urban users pay more petrol tax than would appear from the vkt because congestion dramatically reduces fuel efficiency and hence results in higher petrol tax per kilometre.

Council 4: Weighting of metrics

Without having access to the data or modelling, the AA can only offer an uninformed view. Ideally, as noted above, NZTA could further analyse the appropriate weightings based on expert advice as to various Councils' ability to pay and the effect of the different metrics on transport and other outcomes. That said the AA considers a relevant version of the deprivation index plus capital values, weighted as appropriately to account for high value targeted ratepayers, may be a good proxy for ability to pay, and the cost difference to move from the current standard to fit for purpose ONRC standards could be an estimate of the size of the programme.

Council 5: Maximum FAR

Outside of short term targeted assistance FARs, which can be high, the AA supports the 75% maximum for road maintenance. An AO needs at least 25% skin in the game to incentivise their own value for money. This is also linked to the issues of Special Purpose Roads, DoC and Waitangi National Trust roads.

Special Purpose Roads

Subject to the proviso that it does not result in road closures or significant deterioration in LoS, AA supports proposals to remove the high FARs for SPRs. There have been examples in the past where very high SPR FARs led to an ongoing liability for NZTA, with the AO having little or no 'skin in the game'. The AA does support in some circumstances (see Targeted Enhanced FARs below) having a higher FAR as a temporary measure to make a step change in infrastructure provision that would otherwise not occur (eg the Crown Range Rd) but this should revert to local control and local FAR for the year on year maintenance.

Total Mobility Services

The issue with Total Mobility was different treatments in different places, very political, so the FAR incentives are for Councils to be consistent with best practice. Putting all on the same FAR will result in places that are not complying getting the same as those that are – with unequal outcomes. Hence funding for outcomes is the AA's strongly preferred position.

Recommendation: The AA opposes changing the current approach to funding for Total Mobility until the system has achieved consistent approaches across regions delivering similar outcomes for disabled people.

Road safety promotion

Road safety promotion and other education activities should include local contribution in kind. Roading and public transport do not have this kind of contribution, but this is no reason to exclude it from the one activity that does have an in kind contribution. Experts in national economics will acknowledge that an in-kind contribution has a recognised resource value, and should be counted in the national economic benefit cost ratio just as physical resources are costed into roads and public transport costs and benefits.

Recommendation: NZTA should reintroduce a value for 'in kind' contributions to community education and road safety promotion projects, while at the same time vetting them as 'fit for purpose'. The AA supports NZTA developing an approval system for funded education providers to ensure they meet a recognised standard of excellence.

Railway Level Crossings

Having uncontrolled railway level crossings is as far from the safe system as you can get. Given the particular difficulties of co-funding and access agreements with KiwiRail and local bodies, high public support, appallingly slow movement on top level crash sites, and benefits to road users, the AA **strongly opposes** the proposals to remove full funding of railway level crossings. This is almost the only area where the AA, in representing the road user public, supports 100% funding on local roads. Some time ago hundreds of level crossings were

identified and prioritised under the ALCAM assessment methodology through the Level Crossings Working Group, but at the rate that these were being installed (KiwiRail aims to upgrade 8 crossings per year) it was going to take over decades to achieve these top priority sites let alone the remaining lower priority crossings. Creating a funding obstacle that does not currently exist is not helpful to achieving safety outcomes.

It is disappointing that the only real mention of road users being disadvantaged is for 'over funding' level crossing warning devices, when the AA has been fully behind accelerating this programme for many years, has supported removing funding obstacles and has supported the advocacy of the Chris Cairns foundation for their improvement.

Recommendation: The AA strongly supports retaining the 100% funding for railway level crossing devices, and indeed to accelerate their introduction rather than place yet another obstacle in their way and reason to delay.

Emergency Works

EW1: Emergency Works Definition

The AA supports the proposal to better define emergency works. Certainly it goes against the concept to have annual access to emergency works,

Local bodies have been struggling to engage with their communities to transition towards managing mitigating or prevent damage resulting from climate change, such as coastal erosion. Certainly, NZTA should not be rewarding AOs for not preparing for predictable emergencies, which is what the current approach does. On the other hand, NZTA needs to understand the ultimate impact of an unprepared AO is on road users and communities. If lack of AO planning combined with lack of funds results in roads being closed for considerable periods while waiting for local funding share, NZTA might need to instigate some financing arrangements to spread the local share over time.

Also NZTA needs to consider how to handle uneconomic roads. There have been cases where significant sums have been spent on emergency works to recover access for a handful of properties. Further, this has been done despite the 'emergency' being likely to reoccur, for example a road along a bluff that is going to keep slipping into the sea. In some cases, although it is not popular, it might need options such as 'fit for purpose' meaning that in some cases the road or service is not reinstated, and the residents are bought out. This would need very careful development, but is more important with climate changes likely to increase the range of emergency events.

Recommendation: The AA supports an effort to improve incentives to better manage predictable emergency events. However where an AO is inept in this regard, at the end of the day road users are the ones disadvantaged by an extended transport closure. NZTA needs to work closely with authorities that are not managing emergency preparedness well, to ensure that any reduced FAR does not result in perverse outcomes. NZTA needs to carefully develop specific guidelines for fit for purpose emergency restoration.

EW2: Defining Emergencies

NZTA needs to develop a clear set of agreed principles defining emergency events. This should be combined with annual return figures. The AA suggests that a 1 in 20 year event seems eminently predictable and needs to be planned for, but that a 1 in 100 year event seems outside of normal scope; so the definition should lie somewhere between.

EW3: Emergency Works FAR

The AA supports a higher FAR for emergency works. This should be set to ensure realistic restoration times to fit for purpose levels of service. This may vary over time, with immediate

recovery being at a lower level of service, for example. The AA considers this should be based initially on the normal FAR for that AO, but at an increased rate.

EW4: Maximum Emergency Works FAR

The AA considers the Emergency Works FAR should not be over 90% as this leaves AOs little incentive to develop a resilient network.

Waitangi National Trust and Department of Conservation

The AA is unable to analyse the impact of the specific options, and bearing in mind the network economics means users value the extreme ends of the network hence would revisit these view if it meant road closures. So we have given without prejudice a 'knee jerk' reaction.

The original reasons for providing different FARs for the Waitangi National Trust (WNT) and the Department of Conservation (DOC) seem to be based on ability to pay. One wonders whether the best option is to transfer road ownership and management to the contiguous local RCA. This would have the advantage of allowing the roads to be owned, managed and maintained by an agency that has that as core business, as well as of gaining the advantage of amalgamation to reduce maintenance costs. Neither DOC nor WNT are in the roading business, and this seems like an 'add on' to their core business that is not really wanted in some ways. The surrounding local bodies benefit through tourism from these economic drivers in their community, while DOC in particular does not directly benefit financially.

There may also be some argument for a national tourism benefit where these are internationally important tourism attractors. In these few cases, it might be appropriate for the roads to be handed over as State highways. In the bulk of cases, however, the local RCA is best placed to manage and maintain the roads.

Waitangi National Trust

WNT1: Basis for setting WNT FAR

Recommendation: The AA supports neither option, instead supports the WNT receiving the local RCA FAR. Far North is an area with a high deprivation index and is likely to receive a higher FAR than the overall co-investment rate, but also a 100% FAR provides no skin in the game.

WNT2: Waitangi National Trust FAR

Recommendation: The roads should be maintained consistent with the surrounding network and benefit the local community, hence the Far North FAR should be used.

Department of Conservation

DOC1 DOC 2 DOC 3: Recommendation: The AA suggests that consideration be given to transferring responsibility for DOC roads to the surrounding RCA to own, operate and manage. The AA supports Option 2 given that the DOC road is benefitting the local community and hence should be maintained to a similar level as the surrounding roads.

TEFAR1: Targeted enhanced FARs

Recommendation: The AA strongly supports the principle that targeted rates should enable a step change but revert over time to business as usual. The SPRs are an historical example where reverting to normal FARs did not follow quickly enough after a generous initial boost. The AA considers that the targeted enhanced rates should come from the existing 53% average FAR and hence supports the stance that the overall rate should start at 50%, as the 53% already includes some targeted enhanced FARs that have outlived their day.

The AA strongly supports a targeted enhanced FAR for road safety retrofit work on local roads to support a step change in safety outcomes aligned with the high risk rural roads high risk intersections, safe system motorcycle routes and rural schools guides and to enhance the resilience of the road network and functionality of the road hierarchy. The AA also considers that some RCAs will need support in moving towards the National Speed Plan when that starts to be implemented, as some RCAs will need to upgrade corridors to meet their function under the ONRC, while others may need to provide traffic calming or self explaining treatments to their lower hierarchy roads to better protect vulnerable users.

Transition to new FARs

TRANS1: Evolution not Revolution

The proposal changes not only the funding basis, but also introduces a concept of average bands (and percentiles above), which is a new approach altogether. The rationale is to set all AOs at the same FAR, whether or not they can achieve the outcomes at a lower FAR, and only provide a higher band for AOs that cannot meet the outcomes. Instead of looking at the specific outcomes sought, the bands are proposed based on general concepts of ability to pay, rather than the specific ability to pay for a specific activity. As noted earlier, this assumes that all AOs have the same ability to pay for all the different activities. This has not been demonstrated. Indeed over a long period of time RCAs have had rising maintenance budgets and falling new construction budgets as a proportion of the NLTF, despite a shortfall of new local road investment. This demonstrates that a step change in budget to afford a new outcome is more difficult, than budgeting for the stable activity of maintaining an existing outcome (as mentioned in our earlier submission).

We acknowledge a managed transition is proposed, and this might be designed to be quite gradual but it remains, however, a step change from the status quo to a completely new and untested approach. While this transition may result in amelioration of the actual financial implications, there are also the risks of a new approach and the psychological/political effects to be considered. The proposals are presented as a complete overhaul of a long standing and well understood institution. In one clean sweep, the status quo is wiped in its place a raft new underlying ideas, each of which has potentially radical consequences. Fit for purpose; banding; single FAR for all output classes; new definitions underlying the FAR calculation; new emergency works policies; redefining special purpose roads and so on.

This has the potential to create a political backlash, which may have the result of having to 'throw the baby out with the bathwater'. Further, any one of these initiatives could backfire with unintended consequences, which could entail back pedalling or tweaking. Given this is a contentious move under the best circumstances, it would be particularly awkward if NZTA finds it has to reverse direction.

One way to gain greater acceptance is to start with the status quo and move gradually, adding the new measures and processes gradually. That is, the AA suggests the status quo being used as the basis of the new system. There could be, for example 80% status quo in year 1, with a couple of the other measures (eg deprivation at 15% and lane kms 5%), then after experience with these measures move slowly (annually) towards a greater share for the new measures, as and when experience with the measures confirms their usefulness and the direction local transport investment is heading. The AA recommends using the status quo FARs for different activity classes as the basis for the new FARs and transitioning gradually to the new approach.

The AA also suggests it could be extremely reassuring for AOs if NZTA institutes a process of feedback, testing and review, providing some checks and balances. To reduce stress, this review process needs to be put in place urgently to ensure all is working as expected.

Recommendation: The AA is extremely concerned about the positioning of the proposals as a 'clean sweep' change and their likelihood to result in unrest around the country. The AA strongly recommends retaining a substantial portion of the status quo in terms of both underlying formula and overall non-banded system, combined with small weighting on the new aspects. Gradually moving to the new system will result in an easier transition. The combined impact on individual RCAs not only of the FAR changes in themselves, but also the fit for purpose standards and the gap analysis resulting from the ONRC LoS needs to be taken into account in any transition. NZTA should use the 53% marginal funding in excess of the 50% co-investment rate to offset the transition burden on any one AO.

The AA recommends also initiating a process of feedback and review, to allow NZTA, AOs and stakeholders to gain experience and confidence in the new approach.

Once again thank you for the opportunity to make a submission on such a critical issue. I hope the AA feedback is useful to the review team and am more than happy to answer any queries or provide clarification, and the AA is keen to further engage on this topic as it develops.

Yours sincerely

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