

Submission on the Transfund New Zealand Proposed Funding Scheme for Bus and Ferry Services

The Greater Wellington Regional Council does not support the proposed patronage funding scheme for buses and ferries. It is particularly disappointed that there has not been a true “back to basis” review of bus funding; the proposed scheme is seen as merely a refinement of the existing scheme.

1. Scheme objectives

It is our understanding that the Transfund objectives of the proposed funding scheme for bus and ferry services are:

- To implement the objectives of the New Zealand Transport strategy
- To support two of the governments priorities for land transport expenditure, namely reducing severe congestion and improving the funding and delivery of public transport
- To provide funding support based on passenger transport outputs.

There is one additional implied objective that permeates the proposal that is:

- To limit overall Transfund funding support to an annual budget figure

Regional Council’s objectives when funding bus and ferry services are:

- To implement the policies of their regional land transport strategies (including their passenger transport plans)
- To get best value for money
- To increase patronage overall by 4% per year for three years

It is clear that Transfund and regional councils have similar objectives. However the Council is purchasing non commercial services to achieve a series of community benefits. These services are either – the peak of the peak services, that is high cost services that contribute to congestion relief, or – social services that provide access, these are usually lower cost services with low usage. Neither service purchased is solely about increasing patronage numbers.

An issue for the Council is their limited direct influence on passenger transport patronage as patronage is effected by:

- Economic conditions
- New road construction
- Overall congestion

In mature passenger transport markets like Wellington the key driver is the retention of patronage and not growth. In Auckland growth is currently the issue, driven by demographic change and economic function, but will revert to retention at some future point.

The focus on patronage and patronage growth creates some perverse incentives which are contrary to the other policy objectives. Some examples are:

- It encourages urban sprawl, patronage numbers might remain stable but passenger kilometers grow as urban sprawl takes a group
- It supports schemes to increase peak hour use which is less cost effective

The Greater Wellington Regional Council does not therefore support the scheme in general.

2. A better scheme

The Council suggest that Transfund needs to develop a different scheme.

The Auckland region calculated that the cost of their congestion was \$1 billion a year. That is a loss to their economy and the nation of \$1 billion a year. Provision of passenger transport in Auckland contributes to that cost being as low as \$1 billion, what would be the economic cost to Auckland if there was no subsidised public transport?

Additional to these benefits is the range of social, environmental and cultural benefits provided that meet or go towards achieving the stated objectives of the NZTS. These are not easily calculated.

It is suggested that the benefits will add up to a substantial sum.

Transfund's current annual funding allocation to passenger transport results from a number of historical mishaps and nobody can, at the moment, say whether it is too much or too little. All we know is that it is arbitrary. It seems wrong to design a funding scheme around an arbitrary figure.

The Greater Wellington Regional Council believes that a better scheme is to find a proportion of the cost incurred by regional councils. This is a form of bulk funding, the ideal approach we have advocated for many years.

The regions are required to prepare RLTS's that are in keeping with Government policy directions. Transfund should be a participant in the development of these strategies to assure themselves that they achieve that objective. Transfund should then be prepared to help fund these strategies. Funding a fixed proportion of the cost of delivering these strategic appears to have the following features:

- It is delivering the objectives of the NZTS
- It is supporting the funding and delivery of public transport
- It is getting best value for money

The only down side is that it is not a patronage output measure. Transfund could collect patronage data to convert their funding into so much per passenger so as to compare regions and come to some conclusion on what the differences mean. It is interesting to note that over time the Transfund scheme settles down to cost sharing scheme in all but name.

The benefits of this approach are:

- It is simple
- It shows the cost between Transfund and regions (Transfund's proportion of the cost could be reset from time to time to match their budget)
- It minimises administrative costs

The only downside is that Transfund has to trust the regions to pursue:

- Value for money
- Achievement of RLTS objective

No regional council has any reason not to this.

The other benefits of this proposed scheme are:

- The risk of new expenditure is shared
- There is certainty of funding levels
- Officials time is focused on achieving outcomes

The Greater Wellington Regional Council wishes this suggested ideal scheme to be considered.

Detailed comments on the proposed scheme

What follows are our views on the details of the Transfund proposed scheme. This should not be viewed as an endorsement of the scheme, it is clearly not.

The following is a summary of the key points that are elaborated on later.

- Core funding and growth funding should be combined by leaving only one financial assistance rate and one patronage payment rate.
- The patronage payment rates should be on average and not split into peak and off-peak.
- The patronage payment rates for core and growth should be the same. They should not be based on historical expenditure but on actual benefit.
- There should be no ATR funding for bus or ferry capital expenditure as the core funding payment rates should reflect the overall planned expenditure over a ten year period.

Financial assistance rates

It is clear that the financial assistance rates (FARs) will be used by Transfund to match its funding to its budget. Neither the FAR for core funding or growth funding have therefore a theatrical basis other than the total budget. The only reason why the growth rate is greater than the core rate is that it is assumed necessary to provide greater support for expenditure on new services during the early years until patronage on these services matures. Transfund see this as being an incentive to experiment with new services. However the risk of failure fully rests with the regions and after a rolling three year period the rate returns to that of the core.

Patronage payment rates

The patronage payment rate for the core will continue the historic nature of these rates. The rate is not a reflection of benefit but a mathematical calculation based on current costs. The growth patronage rate is however based on the benefits of an additional passenger. These rates should be the same. Transfund would control their funding by setting their FAR at the appropriate level.

Patronage rates are currently calculated for peak and off-peak, this distinction is too arbitrary. Regions know that commuter trips are two way and not always both at peak periods. Services provided in the afternoon and evening often influence many peak trips behaviour. These trips need to be given equal value. In Auckland and the other larger urban areas the peak is an ill defined time. Trips at the shoulder of the peak are growing because of congestion both on the roads and passenger transport.

The collection of patronage data by time of day has proved problematic in some cases. The cost of collection and auditing is increasing.

Considering the level of error that is clearly involved in the process the outcome is unreliable. A simpler system is proposed. One patronage value per region and one FAR per region. Then the funding formula will be:

Transfund's contribution is:

$(\text{patronage count}) \times (\text{patronage rate}) \times (\text{FAR})$

Funding of infrastructure

Passenger transport infrastructure should be funded by Regional Councils from their overall funding pool by ensuring that the level of Transfund support reflects the level of expenditure expected to be incurred on a year by year basis. Regions produce a ten year forecast of passenger transport expenditure, these forecasts should include infrastructure and should be reflected in the ten year funding plans of Transfund.