



Land Transport Policy Development: Land Transport Funding Systems

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Current Situation

There are three main activities related to roads that are currently funded:

1. *The Safety (Administration) Programme*

The Police and the Land Transport Safety Authority (LTSA) undertake a range of educational and enforcement activities to promote safe vehicles and safe driving. The Government, through the Safety (Administration) Programme (S(A)P), purchases these outputs, and some community and local authority safety projects. Applications for the latter are processed through LTSA, and approved by the Minister of Transport. The funds spent on the S(A)P come from the National Roads Fund (NRF).

2. *The construction and maintenance of roads*

Expenditure on State Highways is paid for entirely out of the National Roads Fund. Expenditure on roads by territorial local authorities is paid for partly from property rates raised by the local authority and partly from the NRF.

Transfund administers the NRF and the National Roads Programme. Transfund's Financial Assistance Rates (FAR's) vary between councils, and average 50% for maintenance and 55% for capital expenditure. In general, rural councils have higher FAR's than urban councils. Allocations by Transfund are based on Benefit-Cost calculations (for capital works) and RAMM (for maintenance).

3. *Passenger transport subsidies*

Transfund contributes towards subsidising bus, ferry and rail public transport services administered by regional councils. Regional councils contribute further subsidies out of their rates revenues. From October 2000 the newly approved patronage funding system will be used to determine the allocation from Transfund to regional councils.

Transfund also contributes to three public transport social service programmes operated by regional councils:

- Total mobility, a taxi voucher scheme for people with disabilities and older people.
- Concession fares for older people, school children and other targeted groups.
- Urban school bus services.

Regional councils also contribute to these programmes from rates revenue.

Transfund's contributions come from the NRF, and hence from road users throughout New Zealand. Its contributions go mainly to the major urban areas.

Discussion

1. The Role of the NZTS

The Government intends to develop a New Zealand Transport Strategy (NZTS) setting out its strategic objectives and policies for the transport sector overall. The NZTS will influence the allocation of funds between alternatives, although the means by which this will be done has yet to be defined.

2. The Allocation to Safety

Currently, the Minister of Transport decides the amount devoted to the S(A)P. It is, therefore, done separately from the allocation of funds to roads and passenger transport subsidies. Clearly, however, road construction and maintenance and passenger transport provision impact on safety. They can be substitutes for and complements to education and enforcement as means of achieving safety outcomes. In fact, it is estimated that approximately 35% of the total benefits from expenditure on roads by Transfund are safety related.

3. The Common Threshold

Currently, all outputs funded by Transfund are supposed to be ranked against a common efficiency test. However, comparing urban school bus services against developing a new motorway, has proved very difficult with the tools used. The practice has become to use different tools (and arguably to set different funding thresholds) for road maintenance, road construction and passenger transport services. The allocation of funds to the S(A)P, and among various options within the programme, is not integrated with other allocations at all.

4. Output Funding of Roads

Currently, Transfund allocates money to road construction and maintenance using administrative procedures: B/C for construction, and RAMM for maintenance. It effectively buys inputs – roads and road maintenance.

One suggestion is that the B/C approach places no real constraint on costs for projects with high benefits as they will “qualify” even if more elaborate and expensive design options are taken. By the same reasoning, it is suggested that the B/C approach leads to corner cutting in design and expenditure for marginal projects so they can meet the cut-off B/C ratio to qualify for funding. There are also suggestions that RAMM leads to an engineering approach to when maintenance should be undertaken and not necessarily the optimum programme from the point of view of users.

While providers may focus on inputs, users are not usually interested in them. They want outputs, and the outcomes that flow from them. Patronage funding of passenger transport is about to be introduced. This is a form of output funding. Accountability for results is an obvious issue with output or outcome funding.

Issues

- What role should the NZTS play in decisions about the allocation of funding?
- Is it sensible to have decisions about the allocation of funds to the S(A)P divorced from roading and passenger transport decisions?
- Should the practice of setting different funding allocations for safety, roading and passenger transport be officially recognised, and different thresholds and efficiency tests be set for these different kinds of expenditure?
- Should an attempt be made to develop methods to make better comparisons between expenditure on diverse outputs, including the S(A)P?
- Should walking and cycling have separate allocations? Expenditure on these modes is currently “hidden” within general road expenditure.
- Should Transfund develop output and performance based funding systems that pay for the availability of the road network and for the level of traffic it actually carries?
- What other funding alternatives are there to the Government?