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Report to the Policy and Finance Committee
By Dr D J Watson, Division Manager Transport

Transport Division : Long Term Financial Strategy Scenarios

1. Purpose

To provide the Council with an understanding of the future transport rating over the next nine years under different assumptions on patronage growth and project timing.

2. Background

At the 20th February 2001 special meeting of the Passenger Transport Committee held to consider the proposed 2001-2010 Transport Division Operating Plans the following recommendations were made:

"(2) Request officers to produce a set of Long Term Transport Funding Scenario Models for patronage funding based on a range of reasonable assumptions including the availability or otherwise of road pricing changes and including a set of possible responses the Council may have to these scenarios and that this be reported back to a meeting of all Councillors.

(3) That projects labelled 4(a) to 4(i) under the heading "Proposed Kick Start" on page 3 of Report 01.15 be considered for inclusion in the Annual Plan 2001/02 subject to public consultation on the proposed Annual Plan 2001/02."

3. Comment

... Attached are three graphs illustrating a number of scenarios. **Attachment 1** shows the rating effect of bringing forward projects 4(a) to 4(i) as kick start projects. It includes the transport rating graph from the original (June 2000) Long Term Financial Strategy, the graph for the proposed (February 2001) Long Term Financial Strategy and the graph that applies if the additional kick start projects are included.

As was explained at the Passenger Transport Committee meeting bringing projects forward into kick start allows these to be partly funded by Transfund New Zealand. They would then continue to receive Transfund funding after 30 June 2003 even though kick start funding ceases on that date. Projects started after this time have to be fully funded by the Council from rates and any patronage funding resulting from patronage growth.

Attachment 1 shows that bringing the 4(a) to 4(i) projects forward into the 2001/02 and 2002/03 years results in an increase in transport rating in these years but that this is more than compensated for by reductions in rating from the 2003/04 year onwards. This effect needs to be kept in mind when the Council considers these projects at the end of the Annual Plan consultation process.

... **Attachments 2 and 3** look at different patronage growth scenarios. Remember that the base assumption made for the Operating Plans was for a 2% patronage growth in each of the 2001/02 and 2002/03 years, with no additional growth beyond that year. Attachment 2 shows the effect of changing that assumption to 4% growth in those years and Attachment 3 shows the effect of no patronage growth.

These two attachments show how the patronage growth assumption is critical in the calculation of the ongoing transport rate. Patronage growth of more than 2% or growth that is sustained beyond 2002/03 would see transport rates dropping well below those currently predicted in future years. No patronage growth would result in the opposite.

The Patronage Funding scheme is placing the Council on a rollercoaster dictated by patronage change. This is something the Council has not had to contend with previously and it will take time to adjust to this new approach. As previously advised the necessary detailed patronage data is being collected by PricewaterhouseCoopers and they are also establishing the procedures to enable us to continue its collection on a regular basis. The first comparative information should be available in late April or early May.

No attachment is provided to show the effect of changes to the assumption regarding road pricing income. The current Operating Plans assume an income to the Council of \$6m in 2005/06 from some form of road pricing. This coincides with the current expectation of a major investment in new suburban rail rolling stock. If road pricing income is not available to the Council at that time then decisions on future rolling stock requirements might have to be delayed. It is unlikely that a future Council would be prepared to increase transport rating by \$6m as an alternative.

It is understood that Government is looking for a way of ensuring Governments long term support for passenger transport reflects the infrastructure replacement needs identified by Councils. Road pricing might be the method chosen to achieve this, other ideas are also being considered.

4. **Recommendation**

That the Policy and Finance Committee:

- (1) *Receive the report.*
- (2) *Recommend Council note that:*
 - (a) *bringing public transport projects forward into the kick start funding period has a long term positive transport rating effect regardless of any assumption on patronage growth.*
 - (b) *the assumption made in the Transport Division Operating Plans on patronage growth is critical.*
 - (c) *information on current patronage growth will be available in late April or early May.*
 - (d) *it is understood that government are considering ways to ensure ongoing government fund support for passenger transport reflects the need to replace major infrastructure.*

Report Prepared by:

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Attachment : 1 – Transport Rates – Scenario 1
Attachment : 2 – Transport Rates – Scenario 2
Attachment : 3 – Transport Rates – Scenario 3