

Wellington Regional Council
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National Office

Level 3, BP House
20 Customhouse Quay
PO Box 233 1, Wellington
New Zealand
Phone +64 (4) 473 0220
Fax +64 (4) 499 0733

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Howard Stone
General Manager
Wellington Regional Council
PO Box 11-646
WELLINGTON

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Referred to	H. Stone
	DJW

Dear Howard

Holding Package for the Patronage Funding Scheme

I am writing to advise you that the Transfund New Zealand Board has approved the final terms of the Patronage Funding Scheme Holding Package.

The Holding Package **will take effect for a period of one year from 1 July 2003** unless it is superseded by the outcome of the First Principles Review of Passenger Transport Funding, on which Transfund has recently begun work.

Transfund will be issuing all stakeholders with updated *Interim Patronage Funding Procedures* by 30 August 2002, that will outline in more detail the key features of the Holding Package. For your information and reference, these are summarised below.

- The Holding Package will apply from 30 June 2003 (unless it is superseded by the outcome of the First Principles Review of Passenger Transport which Transfund is currently conducting and will be consulting on in the near future)
- Inflation factors will be applied to baselines from the end of 2002/03
- Patronage funding will be available for funding new services started after 30 June 2003
- kick-start funding for services started prior to 30 June 2003 will continue for one more year until 30 June 2004
- Kick-start funding will not be available for services and projects started after 30 June 2003
- Patronage payment credit accumulation shall cease on 30 June 2003
- all accrued patronage credits will expire on 30 June 2004
- Existing commercial trials may be continued during the Holding Period
- New commercial trials may be started after 30 June 2003 only for services that have been in operation for more than 3 years.

We circulated a copy of the discussion paper "*Holding Package **for** the Patronage Funding Scheme - March 2002*" in April of this year, and invited written submissions on the content of the paper. The Holding Package was also discussed with stakeholders at an informal consultation workshop in Wellington on 29 April 2002.

Thank you for your submission on the Holding Package discussion paper. The points you raised were considered, along with those from the other submissions, by the Transfund Board in finalising the details of the Holding Package. I have included as Attachment 1 a summary of the main points raised in the consultation exercise, and Transfund's response to them

With reference to your council's concern about the impact of the Holding Package on the level of your financial assistance in future years, we have arranged a meeting with your staff on Tuesday 18 June to explore this matter further. I have been asked to report back to our Board on this matter at its July 2002 meeting.

If you or your staff have further questions please feel free to contact me or your Central Regional Manager, Ian Hunter, in the first instance.

As you are aware the Holding Package was developed specifically in response to requests from some regional councils, including the WRC, to provide certainty for the 2003/04 year during the time when they were finalising their annual plans for 2002/03. We hope this outcome fulfils that purpose.

Thank you for your organisation's input into developing this Holding Package. We look forward to the opportunity to consult with you on the First Principles Review of Passenger Transport in the coming months.

Yours sincerely



Martin Gummer
Chief Executive

Attachment 1



Response to Issues Raised in Consultation on Patronage Funding Holding Package

Issue: Consistency of Holding Package with recent government policy changes

Transfund has designed the Holding Package to enable the patronage funding scheme to continue for a further year, pending the completion of the first principles review of passenger transport funding. Certain features of the original scheme, such as kick-start funding and use of patronage payment credits, which were always intended to end after the initial start up period, will continue in a scaled-down form for the further year. In Transfund's view, this approach fully reflects the high priority the government attaches to the funding and delivery of public transport, whilst also ensuring that any pressures on future funding can be managed within the resources that are available in future years.

Issue: Expenditure Cap

Transfund has considered the arguments against developing an expenditure cap mechanism, and concluded that it would be premature to develop such a mechanism for the purposes of the Holding Package. The issue of how to design the longer term passenger transport funding scheme so as to accommodate any potential funding pressures in the future is being addressed in the First Principles Review.

Issue: Timing of First Principles Review

Transfund notes the support for moving forward as quickly as possible with the First Principles Review so that it supersedes the Holding Package. Transfund is giving priority to advancing the Review, and will make progress with it as quickly as possible, consistent with devising a soundly based system that will endure in the longer term.

Issue: Use of patronage growth credits

Transfund has considered the arguments for extending the period in which credits may be used beyond June 2004. Following discussions with regional councils that have accumulated credits, Transfund has concluded that setting the deadline at 30 June 2004 will allow for the credits to be used in a cost-effective manner, whilst ensuring that this temporary feature of the scheme is phased-out over a reasonable period.

Issue: Phasing-out kick-start funding

Transfund has considered the arguments in favour of continuing kick-start funding for new projects starting in the Holding Period. However, the overall patronage funding scheme in many regions is now producing patronage growth payments that are capable of funding further new services and infrastructure projects without the need for further kick-start initiatives. In relation to regions not yet experiencing growth, Transfund notes that there will be the opportunity to initiate kick-start projects (both service related and non-service related) during 2002/03. In addition a new simplified procedure for small-scale infrastructure projects (less than \$400,000) will also be available in the *alternatives to roading* output group during 2002/03 and 2003/04.

Issue: Resetting Baselines

Transfund has considered the arguments for resetting baselines from 30 June 2003 to incorporate kick-start funding. In Transfund's view the issue of whether, and at what level, baselines should be reset is a matter to be addressed in the First Principles Review. In the meantime kick-start funding will be continued in the Holding Period for services started before 30 June 2003 at a 40% FAR, pending the implementation of the First Principles Review. Transfund is prepared to discuss this issue further with regional councils that believe that the potential delay in resetting the baseline will cause hardship.

Issue: indexing the Baseline for inflation

Transfund has considered the comments received on its proposal to index baselines for inflation from 30 June 2003, in particular whether the indexing should be backdated to incorporate inflation since the beginning of the patronage funding scheme. Transfund's view is that such indexing would unreasonably override the choice that was originally given to regional councils to decide whether or not to opt for indexing at the start of the scheme. Some councils that opted not to index the baseline at that stage might be disadvantaged by a retrospective imposition of indexing during the Holding Period.

Issue: Double funding

Transfund is giving further consideration in the First Principles Review to the implications of funding infrastructure and rolling stock through up-front capital payments in addition to making patronage growth payments. Local authorities and other stakeholders will be consulted on this issue in the First Principles Review.

Issue: Commercial Trials

Transfund notes the general support for continuing with funding of commercial trials. For commercial trials begun after 30 June 2003 this type of funding will be restricted to commercial services that have been in operation for 3 or more years (since, otherwise, there would be scope for using this type of funding to substitute for kick-start funding during the Holding Period). However, the 3-year restriction will not apply to commercial trials begun before 30 June 2003.
