

Transport Funding and Governance Proposals

Report to Councils from CEO Forum

1. Introduction

1.1 Transport Objective

The region of Auckland aspires to have **integrated and efficient regional transport networks and services**. Until this is in place, Auckland's economic and social performance will be compromised at a time when New Zealand needs Auckland to be internationally competitive in its economic performance and its attractiveness to talented people and business.

The barriers to achieving this objective are:

- **Funding** - insufficient funding to deliver functioning networks
- **Policy** – policy and regulatory constraints especially for land use and transport integration
- **Governance** - lack of coordination between the multiple agencies with transport responsibilities, and a lack of modal integration because of the separate agencies specialising in different transport modes
- **Sustainability** – lack of sustainable use of transport infrastructure because of inadequate provision of “alternatives to roading” options.

The Government announced a set of transport funding and governance proposals for Auckland on 12 December 2003 to address these issues. These proposals need to be considered by Auckland councils against their ability to deliver on our objective – completed, integrated and efficient regional transport networks and services.

The detail behind the Government's proposals has yet to be finalised, although some further detail on the proposals is also contained in the attached letter from the Minister of Finance. The Government's confirmation of the package is subject to agreement to the key elements of the proposals by Auckland local authorities.

This report summarises the key issues that have emerged from joint local authority officers' assessment of the proposals. More detail is contained in the three attached reports:

Attachment 1: Funding Package

Attachment 2: Policy

Attachment 3: Governance

1.2. The Proposals in Brief:

An integrated approach - Integrated funding, planning and management solution necessary, with transport strategies tied into land use strategies from policy and regulatory improvements. National network requirements will continue to prevail over local requirements.

A new transport entity - Government will introduce legislation into the House in April 2004 to set up a new ARC-owned entity (Auckland Regional Transport Authority - ARTA) to have the role of coordinating funding applications to Transfund for all councils, passenger service contract management, operational planning and management of any revenues from road pricing in the future. This entity does not own any assets.

The main impact of the creation of this entity for local authorities comes from its role in applying for Transfund subsidies on behalf of all transport asset owners in the region, including local authorities. State highways (Transit NZ) and the rail network (Trackco) are exempt from this gatekeeping.

Transfund role remains the same - Transfund remains the one source of government funding (via fuel excise) for transport, via the national land transport programme designed to fit within the New Zealand Transport Strategy. Transfund will manage new fuel tax (from a tax increase and from diversion of tax currently going into the consolidated fund) under existing processes.

New funding - The new funding will consist of a fuel excise increase of 5cents/litre with an equivalent RUC increase for vehicles under 5 tonnes. This increase will kick in at April 2005. It will yield approx \$200m annually of which 35% will go to Auckland – \$72m per annum.

For a period of ten years (and then reviewed), fuel excise currently going to the Crown account will be diverted to Transfund for Auckland transport. This will be to the value of \$50m for the first two years and \$100m for years 3 to 10 – a total of \$900m. The first grant will be given in July 2005.

The feasibility of road pricing is to be investigated further. The use of debt is also to be explored further for a report back in March 2004.

Asset ownership – Infrastructure Auckland (IA) assets (cash and holdings) will be transferred to a new holding company (Auckland Regional Holdings) wholly owned by the ARC. This company will also be the owners of any future assets created for transport owned regionally.

For all other assets, existing ownership arrangements remain, with some decisions around the future of ARTNL pending. As stated above, all Transfund

funding for the development of these assets has to be approved by ARTA for inclusion in a regional application to Transfund made by ARTA.

2. Key Issues and Suggested Responses

Auckland officers have identified the following issues and suggested responses to the Government's proposals. On some issues the ARC view differs from that of the territorial authorities. This is noted in the text.

2.1. Funding

Issue: Insufficient funding has been made available to deliver programme

The funding package provides for an additional \$1.62 billion in transport funding for the Auckland region over the next 10 years. This represents a significant increase over the current level of funding available. It will allow for the acceleration of a number of key transport projects, and remove some of the funding uncertainty that has plagued other projects in the past. The Government's broad priorities for allocation of the additional funds (acceleration of strategic roading, public transport (especially rail, and travel demand management) are in line with regional priorities.

- *The funding package is a major step forward.*
- *The Government's broad priorities for allocation of the additional funds should be supported.*

The funding package will not, however, enable completion of the RLTS projects within a 10 year framework, and does not allow for full funding up to the assumed buildability constraint (a 15 year timeframe). The additional funds, while significant, account for only 60% of the amount needed to achieve the buildability constraint. Additional funding will be necessary to enable project implementation to be accelerated to that level. This is likely to require some form of road pricing, especially given the need to ensure sustainability of funding beyond the 10 year horizon of this package.

- *Further new funding mechanisms, including road pricing, will be needed to bring funding up to the assumed buildability level, and to ensure sustainable long term funding.*

It is important that the Auckland region remain involved in future work on road pricing, to ensure that the regional strategic interests are taken into account in future policy decisions in this area.

- *The Government should be requested to ensure that Auckland is closely involved in future work on tolling and road pricing.*

The delay in introduction of the new funding mechanisms to mid-2005 will reduce the amount of money available to allow an early start on key projects, and offer less certainty to the construction industry.

- *The Government should be requested to make the new funding available earlier than July 2005 should projects be ready to proceed that currently have no funding.*

2.2. Policy

Issue: Review of regulatory tools, while positive may delay new funding as central government has tied new funding to their review.

Part of the Government's package seeks improvements to the Regional Policy Statement (RPS) Regional Land Transport Strategy (RLTS) and district plans before new funds are allocated. The aim of the changes is to give clearer guidance on the importance of an effective transport network for the Auckland region and indicate that this network is an integrated multi-modal system covering infrastructure investment, traffic demand management, and passenger transport.

An officers' assessment has concluded that there is merit in the Government's proposal. It is recommended that the proposal be supported "in principle" at this stage, to allow officers to investigate in detail the scope, cost and timing of changes, before the region's councils can be certain that the government's July 2005 timeframe can be complied with.

This process needs to focus not only on the urban parts of the region, but also on the vital role the rural areas play in the sustainable development of the region.

The Government would like to see the changes proceed without delay, and is considering changes to the Resource Management Act (RMA) to allow RPS and district plan changes to be fast tracked. There is concern that this could undermine RMA processes and principles, and the preference would be to proceed using the established processes with all authorities committing to processing changes as fast as possible, instead of making short cuts to the process.

- *The region should agree in principle to the suggested policy changes, but request the Government to work in partnership with councils to scope the detail of the changes so that realistic timeframes can be set for their completion, and request Government funding for the changes.*

The need to ensure community support for changes to RMA documents can involve considerable time. Given the uncertainty over the timing of the changes to the RPS and district plans, there remains a risk that they will not be completed by July 2005. It would be unacceptable if process delays were to constrain the availability of new funds for projects that are "ready to go". Accordingly, it is proposed that the Government be requested to remove the link between the policy changes and allocation of new funding.

- *In view of the uncertain timing associated with the RPS and district plan changes, the Government should be requested to remove the link between completion of the changes and allocation of new funding, as it places the funding package at risk.*

The Government has also proposed establishing a working group with Auckland local authorities to assess the need for changes to other regulatory arrangements governing Auckland public transport. This is expected to include the procurement arrangements for public transport, and the existing process of commercial service registrations. This is an issue that has been of concern to local authorities for some time, and the proposal to involve Auckland local authorities in a joint review is welcome.

- *The proposal to review regulatory arrangements for public transport should be supported.*

2.3. Governance

Issue: Details of the role of ARTA are unclear, especially its role in operational planning and specification of roads and other assets owned by others

ARTA's role to carry out operational planning and coordination of a regional transport programme for application to Transfund will provide a measure of coordination currently absent. What this means in practice remains unclear, and significant further work is required to clarify the role of ARTA and the impacts of this on other agencies with transport responsibilities.

There is benefit in ARTA taking over the role of Transfund within the Auckland Region, by completing a regional land transport programme each year for application to Transfund compiled from assessment and prioritisation of applications from transport agencies including councils.

Territorial Authorities View:

- *Existing arrangements for local roads should remain, but ARTA should have the role of approving land transport programmes for the region, and act as a*

filter that evaluates programme fit with regional and national strategies, recommending to Transfund in this regard.

ARC View:

- *The role of ARTA is a purchaser of public good transport infrastructure and services through purchasing and/or contractual relationships*

Issue: The structure does not integrate national and regional planning, decision making or implementation for transport. Coordination across agencies and modes is limited by exclusion of central government transport agencies from regional planning processes. Because of this, integration of modes and networks are not assured in the proposed governance structure.

The exclusion of Transit and Trackco from coordination via ARTA is of serious concern and limits the delivery of coordinated transport policies and programmes for Auckland.

There may be little benefit to the region to place decision-making on local roads with ARTA if state highways and rail are not also in the mix. Local roads will not attract much of the new funding being made available, and apart from some key arterials are non-strategic in the regional sense.

A number of details need to be worked through prior to full implementation of the package. Many of these relate to the way in which ARTA will operate, and ARTA's relationship to councils, Transfund, Transit NZ and Trackco.

The future roles of Transit, Trackco and Transfund are being reviewed as part of the Government's review of the transport sector. This increases the uncertainty around the effectiveness of the proposed governance arrangements.

A mechanism needs to be put in place to ensure that Transit's and Trackco's development and expenditure programmes for the Auckland region are coordinated with ARTA, and actively support regional priorities, similar to the proposed treatment of local roads. In the longer term, the best answer is to formally include these programmes within ARTA's sphere of influence.

Councils may wish to limit the role of ARTA in dealing with local roads to Transfund roles should state highways and rail programmes not be coordinated via ARTA.

- *Through the government review of the transport sector and finalisation of arrangements in respect to Trackco, the Government should consider means of integrating the Auckland functions of Transit and Trackco into ARTA*

- *Councils should consider means of integrating local roading functions into ARTA should government agree to the integration of state highways and rail.*
- *In the short term, this may be achieved via contractual agreements between ARTA and councils, Transit and Trackco to ensure these agencies actively support regional priorities.*

Issue: Integration of planning for different transport modes is compromised.

While ARTA may increase coordination, this will not necessarily increase modal integration particularly in relation to the integrated planning and funding of state highways and local roads, and the responsibilities for public transport infrastructure.

- *Regional planning processes for roads and passenger transport could be assisted by the inclusion of the strategic elements of the regional passenger transport plan in the RLTS, and the operational elements into the regional transport plan developed by ARTA. Changes to the ARC's legislative responsibilities are needed to enable this.*

Issue: There is a danger of duplication of activities by ARTA and Transfund

Much more detail will be required around the future responsibility and funding arrangements for local roads. Unless this is carefully developed and clearly identified, there is significant potential for overlap and conflict between Transfund, ARTA and territorial authorities. Similar issues arise with respect to public transport infrastructure. If Transfund is to allocate funds via ARTA, it is appropriate that ARTA take on the monitoring and review functions of Transfund.

The region needs to work closely with Government in determining ARTA's role in respect of local roads. If it were to have a strong role in funding, it would be appropriate for Transfund to delegate functions to ARTA, to avoid duplication.

- *Transfund's responsibilities for funding local roads should be delegated to ARTA, including funding assessments and audit processes.*

Issue: A collaborative approach between central and local government in the new structure is required to foster acceptance of the new arrangements needed to make them work.

A number of mechanisms are available to imbed collaboration in the new structure such as confirming council membership on the RLTC, and formalised input into the ARTA transport plan by the region's councils, Transit NZ and Trackco. A change to extend the role and composition of the appointments board would also encourage greater collaboration and acceptance.

- *The governance structure should formally incorporate incentives for collaboration.*
- *Community outcomes of all the region's councils need to be required to be taken into account in all revisions of the RLTS.*

Territorial Authorities View:

- *The appointments board should have an independent chair, appointed by the Government, and be mandated to have input into the ARTA statement of intent*

ARC View:

- *The ARC will own and be accountable for ARTA and needs to accordingly have the majority view on appointment of its Board and approve its Statement of Intent, Constitution, monitor its performance and be able to remove Directors for non-performance.*

Issue: There is a need to balance the role of ARTA in its function of transport with its need to be accountable to ARC for appropriate use of funds.

ARTA will receive funding from the ARC, through rates and ARH income, as well as Transfund. While ARTA needs to be accountable for the use of these funds they need to be applied to the functions envisaged for delivering a sustainable transport system for Auckland with reasonable discretion available to the ARTA board.

- *More clarity is needed on how funding will be provided by ARC and/or ARH to ARTA*

Territorial Authorities View:

- *Certainty is required around the sustainable use of former Infrastructure Auckland funds for both capital and operational expenditure to achieve the desired transport outcomes identified by the Joint Officials Group*

ARC View:

- *Constraining the allocation of former Infrastructure Auckland funds will not produce the best or most efficient outcomes. Consistent with the LGA 2002 and all other units of local government in New Zealand, the ARC should determine how its funding will be spent according to community priorities established via the LTCCP process.*

Issue: The future of ARTNL, and ownership of passenger transport operational assets is unclear

An appropriate entity is needed to assume responsibility for integrated development and management of passenger transport assets currently owned by the territorial authorities directly or via ARTNL. This needs to be resolved before legislation is finalised for the new structure.

Territorial Authorities View:

- *It is suggested that councils support the formation of a CCTO to own and manage these assets, with further consideration of whether it is a subsidiary of ARTA or ARH, and whether it is formed from the transfer of shares from ARTNL or as a new entity.*

ARC View:

- *ARTNL's assets should be held by ARH, either directly or as a subsidiary of ARH. ARC is opposed to a straight transfer of ARTNL's shares because of ARTNL's unknown liabilities and the poor fit of its current role with the role of ARH.*

2.4 Sustainability

Implementation of the package will also require some new measures in the area of travel demand management (TDM) in the 2004/05 year. This matter will be separately reported to councils over the next month.

3. Establishment and transition arrangements

While the key elements of the package can be supported, getting the details right will be critical in successful implementation. It is essential that the collaborative approach adopted for the JOG process be applied to the implementation phase, with input from Auckland local authorities on the details.

- *A detailed implementation plan should be developed, and should address the issues that have been raised in this report, and the supporting detailed assessment reports.*
- *Implementation needs to begin before there is legislation in place to meet the 1 July target.*

Territorial Authorities View:

- *This process should be undertaken in a collaborative manner which recognises the interests that all parties have in its successful establishment, the smooth transfer of existing functions to new entities, and the ongoing effectiveness of the new arrangements.*

ARC View:

- *The ARC will be held accountable for the establishment and ongoing performance of both of its entities. ARC proposes an ARC internal*

establishment unit for ARTA, and a transitional committee for ARH involving the ARC and Infrastructure Auckland. The ARC would consult and negotiate with territorial authorities as appropriate.

Local Government Act consultative requirements, and the process requirements to disestablish existing regional transport entities, may prevent the timely implementation of the proposed structure.

- *The Government should be requested to provide an early assurance that it will provide exemptions from the consultation requirements of the Local Government Act so that work on establishment processes can commence prior to new legislation enacting the governance arrangements*

Establishment should be done in an effective manner which allows all new bodies to readily undertake their functions while recognising the need for accountability back to the ARC.

Territorial Authority View:

- *Clarity should be established as to the process by which funds will be provided by the ARC to ARTA*
- *Consideration should be given to providing an initial allocation of funds to ARTA, from IA proceeds, which will enable it to continue the timely implementation of agreed transport projects and plans*

ARC View:

- *Consistent with the LGA 2002 and all other units of local government in New Zealand, the ARC should determine how its funding will be spent according to community priorities established via the LTCCP process.*

4. Recommendations

General:

- a) That the region's councils pass on to Government their thanks for its engagement in the JOG process, and its positive responses to Auckland's transport funding problems.
- b) That the region supports an integrated transport governance structure that supports the effective and efficient delivery of transport and related economic, social, environmental and land use outcomes in the best interests of the Auckland region; and notes that there are some issues embodied in the following recommendations that require resolution in order to achieve this aim.
- c) That the broad priorities for expenditure identified in the Government's announcement (accelerated strategic roading programme, passenger transport (especially rail) and travel demand management) be endorsed.
- d) That it be noted that the Government has advised that the funding package announced on 12 December 2003 is dependent upon councils accepting the basic governance structure announced at the same time, but there are some elements of the structure which remains open to further consideration.
- e) That it be noted that some of the measures in the following recommendations require legislative change, while others require agreement between the parties within existing legislative frameworks; and that to the extent possible, matters agreed between the region's councils, and between the councils and the government, be formalised in an appropriate instrument such as a memorandum of understanding which is referred to in the legislation giving effect to the new governance arrangements.

Funding:

- f) That it be noted that the funding package will not allow for full funding up to the assumed buildability constraint, and that the Government be requested to consider introducing further new funding mechanisms, including road pricing, to bring funding up to the buildability level, and to ensure sustainable long term funding.
- g) That the Government be requested to ensure that future work on tolling and road pricing is undertaken jointly with the Auckland region.

All

- h) That the Government be requested to ensure that the additional funding is able to be allocated earlier than July 2005 if necessary, to ensure that funding is available to be allocated to projects as they become "ready to go".

Policy:

- i) That it be agreed in principle to proceed with changes to the RPS, RLTS and district plans.
- j) That the Government be requested to work in partnership with councils to scope the detail of RPS and district plan changes so that realistic timeframes can be set for their completion; and that Government funding be made available for the changes.
- k) That the timing risks associated with these changes be noted, and the Government requested to the condition requiring completion of these changes before any new funding is allocated for transport in Auckland.
- l) That the Government's proposal to jointly review the regulatory aspects of public transport be supported.

Governance

- m) That incentives for collaboration be formally incorporated into the proposed governance structure, and that:
- TA membership on the RLTC be confirmed
 - The executive support group (comprised of senior ARC and TA executives) for the RLTC be formalised
 - An Officer Working Group (comprised of TA and ARC representatives) be formally established to work closely with the ARC and ARTA on the development of the RLTS and the Regional Land Transport Programme
 - ARTA be required by legislation and/or by its statement of intent to work collaboratively with stakeholders and partners such as Transit, TrackCo and the TA's in the development of the Regional Transport Plan.
 - ARTA be required to develop agreements and/or supporting Memoranda of Understanding with implementers of transport project, including the TA's, to encourage integrated implementation of the Regional Land Transport Plan
 - Strategic documents such as the Triennial Agreement be used to reinforce an intention to work collaboratively and inclusively

- n) TA view:
That an independent chair be appointed by Government to chair the appointments panel in order to recognise the significance which both the ARC and TA's will have in the success of ARTA and to encourage collaborative decision-making to support this.
- ARC view:*
That as the ARC will own and be accountable for ARTA, it needs to accordingly have the majority view on appointment of its Board
- o) TA view:
That formal opportunity be provided for the appointments board to contribute to the development of ARTA's Statement of Intent.
- ARC View:*
That as the ARC will own and be accountable for ARTA, it needs to approve its Statement of Intent, Constitution, monitor its performance and be able to remove Directors for non-performance.,
- p) That steps be taken to better integrate national and local networks, and that:
- Through the government's forthcoming review of the transport sector and the finalisation of arrangements in respect of TrackCo, serious consideration be given to integrating the Auckland functions of Transit and TrackCo into the regional governance structure
 - The relationships between ARTA and Transit, and ARTA and TrackCo be strengthened by contract or some other form of agreement in the short term
 - Responsibility for the Traffic Management Unit be transferred to ARTA.
- q) That in order to avoid duplication of functions between Transfund and ARTA in the interim, either (i) Transfund's responsibilities for local roads be delegated to ARTA under a joint protocol which provides for the bulk allocation of funds and the delegation of some of Transfund's audit and monitoring responsibilities; or (ii) existing arrangements for local roading remain, but ARTA would become involved in the process of approving land transport programmes for the region. It would act as a filter which evaluates the degree to which programmes are consistent with, and support regional strategies and plans and by providing recommendations to Transfund in this regard.
- r) That the ARC's legislative mandate be amended to ensure that the strategic elements of the Regional Passenger Transport Plan become part of the Regional Land Transport Strategy, and the operational planning elements become part of the ARTA Regional Land Transport Plan.

s) TA view:

That the following actions be taken in respect of operational assets:

- A council controlled trading organisation (CCTO) be established with responsibility for owning, developing and managing operational assets in a sustainable manner which is consistent with delivery of passenger transport services determined in the Regional Land Transport Plan.*
- That further consideration be given as to whether the CCTO is more appropriately a subsidiary of ARH or ARTA*
- That further consideration also be given as to whether this is best achieved by transferring the shares in ARTNL from the existing shareholders to ARTA or ARH or by disestablishing ARTNL and creating a new entity.*

ARC view:

That ARTNL's assets be held by ARH, either directly or as a subsidiary of ARH.

t) TA view:

That the basic intent of current legislative provisions in respect of Infrastructure Auckland be retained, that is, that the funds and assets of Infrastructure Auckland are held primarily to be applied to the capital components of transport and stormwater projects.

ARC view:

That consistent with the LGA 2002 and all other units of local government in New Zealand, the ARC should determine how its funding will be spent according to community priorities established via the LTCCP process.

u) TA view:

That there be some relaxation to allow income derived from Infrastructure Auckland's assets to meet the operational expenditure requirements of ARTA for the transport purposes defined by the existing Infrastructure Auckland provisions.

ARC view: see (t) above

v) That from July 2006, revisions of the Regional Land Transport Strategy (RLTS) be sequenced to align with the completion of community outcomes processes for the Auckland local authorities to allow those outcomes to be taken into account in the RLTS.

Establishment and Transition

w) That the Government be requested to provide an early assurance that it will provide exemptions from the consultation requirements of the Local

Government Act so that work on establishment processes can commence prior to legislation being amended.

x) TA view:

That an establishment unit comprised of representatives from each of the Auckland local authorities, Infrastructure Auckland and ARTNL, be established with urgency to determine the process and critical path for implementation.

ARC view:

That the ARC be held accountable for the establishment and ongoing performance of both ARTA and ARH, through an ARC internal establishment unit for ARTA, and a transitional committee for ARH involving the ARC and Infrastructure Auckland. The ARC would consult and negotiate with territorial authorities as appropriate.

y) That the Government be urged to work collaboratively with the councils of the Auckland region in developing the details of the implementation plan, taking into account the matters raised in this report and the supporting detailed assessment reports.

z) TA view:

That ARH and ARTA should be established in an effective manner which allows them to readily fulfil their functions and that -

- Clarity be established as to the process by which funds will be provided by the ARC to ARTA
- Consideration be given to providing an initial allocation of funds to ARTA, from IA proceeds, which will enable it to continue the timely implementation of agreed transport projects and plans*

ARC view: see (t) above

ATTACHMENT 1

Transport Funding and Governance Proposals

Report to Councils: Funding Package

From: Jill McPherson, Convenor Funding Steering Team (FaST)

Executive Summary

The Government announced a package of transport funding and governance proposals on 12 December 2003. This report gives an initial assessment of the funding proposals from an Auckland local authority perspective, and highlights areas where further details will need to be worked through to enable implementation of the proposals. The report should be read in conjunction with the accompanying reports on governance and policy issues.

The funding package represents a significant step forward in the current level of funding available for transport in the region. It will allow for the acceleration of a number of key transport projects, and remove some of the funding uncertainty that has plagued other projects in the past.

- *The funding package is a major step forward.*

The funding package will not, however, enable completion of the RLTS projects within a 10 year framework, and does not allow for full funding up to the assumed buildability constraint (a 15 year timeframe). The additional funds, while significant, account for only 60% of the amount needed to achieve the buildability constraint. Additional funding will be necessary to enable project implementation to be accelerated to that level. This is likely to require some form of road pricing, especially given the need to ensure sustainability of funding beyond the 10 year horizon of this package.

- *Further new funding mechanisms, including road pricing, will be needed to bring funding up to the assumed buildability level, and to ensure sustainable long term funding.*

The delay in introduction of the new funding mechanisms to mid-2005 will reduce the amount of money available to allow an early start on key projects, and offer less certainty to the construction industry.

- *The Government should be requested to make the new funding available earlier than July 2005 should projects be ready to proceed that currently have no funding.*

The Government requires a number of policy documents to be updated before the new funds can be allocated. There is a risk that process delays could constrain the allocation of funds to key transport projects.

- *The Government should be requested to remove the requirement that policy changes be completed before new funding is allocated.*

The Government has indicated that the new funds should be focused on strategic roads, public transport (especially rail) and travel demand management. These priorities match those of the region, and should be endorsed. Note, however, that a prioritisation process for allocation of the funds between projects will still be necessary. The package is lacking detail on how this will be achieved, and the relationship between the RLTS and ARTA's operational plan.

- *The Government's broad priorities for the new expenditure should be endorsed.*

A number of details need to be worked through prior to full implementation of the package. Many of these relate to the way in which ARTA will operate, particularly in relation to the integrated planning and funding of state highways and local roads. These issues are addressed in more detail in the accompanying governance report.

It is important that the Auckland region remain involved in future work on road pricing, to ensure that the regional strategic interests are taken into account in future policy decisions in this area.

- *The Government should be requested to ensure that Auckland is closely involved in future work on tolling and road pricing.*

While the key elements of the package can be supported, getting these details right will be critical in successful implementation. It is essential that the collaborative approach adopted for the JOG process be applied to the implementation phase, with input from Auckland local authorities on the details.

Recommendations

- a) That the report be received.
- b) That the region's councils pass on to Government their thanks for its engagement in the JOG process, and its positive responses to Auckland's transport funding problems.
- c) That it be noted that the funding package will not allow for full funding up to the assumed buildability constraint, and that the Government be

requested to consider introducing further new funding mechanisms, including road pricing, to bring funding up to the buildability level, and to ensure sustainable long term funding.

- d) That the Government be requested to ensure that the additional funding is able to be allocated earlier than July 2005 if necessary, to ensure that funding is available to be allocated to projects as they become "ready to go".
- e) That the timing risks associated with introducing changes to the RPS, and district plans be noted, and the Government requested to remove the link between completion of these changes and the allocation of new funding.
- f) That the priorities for expenditure identified in the Government's announcement (accelerated strategic roading programme, passenger transport (especially rail) and travel demand management) be endorsed.
- g) That the Government be requested to ensure that future work on tolling and road pricing is undertaken jointly with the Auckland region.
- h) That the Government be urged to work collaboratively with the councils of the Auckland region in developing the details of the implementation plan.

Introduction

The region and central Government agree that transport is a critical economic and social issue for Auckland. Following work by central and local government officials on this last year, the Government announced a set of transport funding and governance proposals for Auckland on 12 December 2003. The detail behind the Government's proposals has yet to be finalised, and confirmation is subject to agreement to the key elements of the proposals by Auckland local authorities.

The purpose of this report is to recap on the joint officials group (JOG) process, summarise the Government's funding proposals, and provide an initial assessment of the proposals from an Auckland local authority perspective. The report also highlights areas where further details will need to be worked through to enable implementation of the proposals. The report should be read in conjunction with the accompanying reports on governance and policy issues.

Background

The JOG process was established in mid-2003 in response to concerns that had been raised by the RLTC and the Auckland Region Mayoral Forum over the inadequacy of existing transport funding mechanisms to enable timely completion of the projects identified in the Auckland Regional Land Transport Strategy (RLTS).

A meeting of the Mayoral Forum, RLTC members and Ministers on 30 May 2003 considered a report on the transport funding gap, and a range of possible new funding mechanisms to close the gap. At this meeting, Ministers agreed to the formation of JOG.

JOG comprised officials from central government and Auckland local authorities. Its objective was to develop a funding package that enables the timely implementation of an agreed network strategy, having assessed the fit of the Auckland RLTS with the New Zealand Transport Strategy (NZTS) and other public policy outcomes.

JOG was supported by a number of work stream teams which examined detailed elements of the overall objective, including:

- Network completion
- Travel demand management: non-pricing
- Travel demand management: pricing
- Interim funding and debt finance
- Mitigation and consents
- Social and economic impacts.

The final JOG report was completed in November 2003. A full copy of the JOG report is available from <http://www.beehive.govt.nz/transport-package/home.cfm>.

JOG's conclusions were discussed by Ministers and Mayors during October and November 2003, and formed the basis of consideration by Ministers which led to Cabinet approval of the proposals that were announced on 12 December 2003. All councillors in the region were invited to the announcement of the proposals.

Government Proposals

The Government's proposals announced on 12 December 2003 included two main components: a funding package (including new funding sources and proposals for allocation); and a set of governance and regulatory proposals.

The Government has made it clear that these two parts are inter-related. This means that the funding package will only be available if the governance and regulatory changes are also accepted. It is acknowledged, however, that specific details of the funding and governance arrangements will need to be developed over the next few months.

Details of the two packages, to the extent that they have been developed, are included in a series of fact sheets that were issued on 12 December. The key elements of the funding package are as follows:

- A national increase in petrol excise of 5 cents per litre (excluding GST) from April 2005.
- A national increase in road user charges (RUC) for vehicles 5 tonnes and under, by an average of 24%, from April 2005.
- These increases will generate additional revenue of \$207 million per annum (excluding GST). Of this, 35% or \$72 million per annum will be allocated to Auckland over the first 10 years; the remaining 65% will be allocated to other regions on a population basis.
- An additional \$900 million will be allocated to Auckland over the 10 year period from July 2005 (\$50 million per annum for the first 2 years, and \$100 million per annum thereafter). This will be funded by diverting the amount of petrol excise currently diverted to the Crown account.
- Implementation of tolls on new roads, as provided for in the new Land Transport Management Act, with some debt used to help finance these new roads.
- Further work on the feasibility and desirability of pricing existing roads, and further work on infrastructure bonds.
- All additional funds to be dedicated to land transport, and allocated by Transfund under the National Land Transport Programme.

The governance and regulatory proposals are discussed in more detail in the accompanying reports. Some of the key elements of these proposals are relevant to the funding package, however, including the following:

- The establishment, from July 2004, of a new body, the Auckland Regional Transport Authority (ARTA), accountable to the ARC for developing and implementing a transport plan for Auckland. The ARTA Board will be appointed by a group on which territorial authorities and the ARC are represented (with an ARC majority), and will be made up of people who are not elected members or officers of Auckland councils.
- ARTA's objective will be to deliver a sustainable Auckland transport system consistent with the relevant strategic documents and Government policy. It will be responsible for:
 - operational planning of integrated roading and passenger transport infrastructure and services;
 - purchasing of Auckland transport projects and services, including contracting of passenger transport services;
 - implementation of operational plans
 - distributing Transfund funding for all roads other than state highways, in conjunction with territorial authorities.
- The establishment, from July 2004, of Auckland Regional Holdings (ARH) as a wholly owned subsidiary of the ARC, responsible for the prudent management of investments and transport assets in the long term interest of the Auckland region. ARH would receive the assets of Infrastructure Auckland (IA), and make funds available to the ARC to fund transport and stormwater projects.
- IA would be disestablished from July 2004 and its assets and liabilities transferred to ARH
- Changes to the Auckland Regional Policy Statement to give clearer guidance about transport priorities and integration with land use policies. The Government has indicated that these changes need to be made before any new funding can be allocated.

Assessment of Funding Proposals

As noted above, the announcements on 12 December were at a relatively high level, and further details will need to be worked through in the coming months. From the information that is available, however, Auckland officers have identified the following issues in relation to the funding package, which will need to be addressed in order for the package to succeed:

- Amount of additional funding

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- Timing of additional funding
- Timing in relation to policy changes
- Funding allocation and prioritisation
- Stormwater funding
- Integration with State Highways, rail network and local roads
- Tolls and road pricing

The following sections consider each of these issues.

Amount of Additional Funding

Although the additional funding is significant, it will not be sufficient to allow Auckland to accelerate transport infrastructure implementation to reach the buildability constraint identified by JOG. It is estimated that the Auckland package will take over 20 years to complete without further additional funding being made available. The region will need to pursue additional funding opportunities to close the remaining funding gap. This is likely to include some form of road pricing.

The total additional funding available to the region over the 10 years from 2005/06 will be \$1,620 million (\$720 million from the increases in petrol excise and RUC, and \$900 million from the Government diversion from the Crown account). For the first two years, this will deliver an additional \$122 million per annum to the region; from the third year (2007/08) this increases to an extra \$172 million per annum.

JOG estimated the funding gap between existing funding sources and the requirements of the Auckland package at approximately \$5.26 billion. JOG also concluded that completion of the Auckland package over 10 years would not be possible due to the so-called "buildability constraint", relating to the limits to construction industry capacity to increase activity.

JOG noted that by increasing funding to the level needed to reach the buildability constraint the Auckland Package could be completed within approximately 15 years. The Government's funding package, while significant, is not sufficient to enable construction to be increased to the level required to reach the buildability constraint and to meet the projected shortfall in operating costs.

The gap between the existing level of funding and the funding needed to implement the Auckland Package within the buildability constraint is approximately \$300 million per annum in 3 years time. The additional funding of \$172 million from 2007/08 therefore represents approximately 60% of the gap between current funding and a buildability constrained Auckland Package. Given this shortfall, it is estimated that the Auckland Package could take at least 21 years to complete unless further funding is made available (and even longer for

other potential projects not included in the RLTS, such as an additional harbour crossing or further upgrade of the rail network).

Timing of Additional Funding

The new arrangements will not commence until the 2005/06 financial year. This raises a concern as to whether this timing will provide sufficient encouragement for the construction industry to take the steps necessary to address the buildability issues identified by JOG.

Although the current Transfund surplus is understood to be the reason for the delay in introduction of the new package, this is to be expected given the moratorium placed on large projects in 2003 while they were reviewed.

An earlier boost to funding would send a clearer and more urgent message to the industry. Officers understand that there is close to \$1 billion worth of Transit projects in the Auckland region which have an earliest start time of 2003/04 or 2004/05, which could be progressed if the funds were made available earlier.

Given the continuing funding gap, and the importance that JOG attached to developing a higher level of certainty for the construction industry, the earlier of funds would send a clearer and more urgent message to the industry. It is important, therefore, that additional funding is able to be allocated earlier than July 2005 should there be "ready to go" projects that cannot proceed through the non-availability of funding.

Timing in Relation to Policy Changes

The Government has required that a number of changes to policy documents be made before any new funding is allocated. These changes are as follows:

- the Auckland Regional Policy Statement (RPS) is to be updated to give clearer guidance about the integration of transport priorities and land use policies, and to allow greater certainty in the consideration of resource consents for key Auckland projects
- the RLTS is to be reviewed in accord with the Land Transport Management Act
- Auckland local authorities are to ensure that there is appropriate integration between the RPS, RGS, RLTS, and notify changes to integrate District Plans.

The time required to achieve these changes is uncertain, and may be lengthy for changes which require notification through the RMA process (the RPS and district plans). This issue is dealt with in more detail in the accompanying paper on policy issues. Although the proposal to update the RPS is supported, it would

be unacceptable if process delays were to constrain the availability of new funds for projects that are "ready to go" Accordingly, it is proposed that the Government be requested to remove the link between the policy changes and allocation of new funding.

Funding Allocation and Prioritisation

The Government announcement provides an indication of the priorities for spending the additional funding. The Minister of Transport stated that "the additional funding for Auckland will be focused on an accelerated programme of key strategic roads, within identified constraints on their buildability, as well as public transport, especially rail, and transport demand management." It is appropriate for councils to endorse these priorities for the additional funding.

A key issue is the means by which funds will be allocated to projects, given the continued existence of a funding gap. Some form of prioritisation will still be necessary.

The respective roles of the RLTC, ARTA and Transfund will be important in this regard. Under the new Land Transport Management Act provisions for the preparation of an RLTS, the availability of funding must be taken into account. This means that future reviews of the RLTS will need to be undertaken within a financial constraint, and suggests that some prioritisation at a strategic level will be made as part of the RLTS process. It remains unclear, however, how this process will interact with the new role of ARTA to prepare and implement a transport plan for the region, and the continued role of Transfund in allocating funds via the National Land Transport Programme.

It is likely that future RLTS's will broadly prioritise by matching the strategic programme to funding and that ARTA will then manage this by prioritising on an annual basis within the general strategy. Under current legislation, however, Transfund is not bound by the RLTS and will prioritise using its own processes. Ultimately the Government prioritises by determining the amount of money in each of Transfund's output classes each year. Because of this, the Government will also have to accept some accountability for the performance of the Auckland transport system.

Stormwater Funding

The manner in which funds will be allocated from ARH to ARTA and stormwater projects via the ARC is unclear at this stage. This matter will need to be specifically addressed as part of the implementation plan.

Integration with State Highways, Rail Network and Local Roads

These issues have important implications for funding decisions, but are dealt with in more detail in the accompanying report on governance.

Tolls and Road Pricing

The package makes reference to the use of tolls on new roads, using the new provisions of the Land Transport Management Act. Auckland officers' assessment is that the likely revenues from new toll roads will be modest, and will only permit debt servicing to a limited extent. It is important, therefore, that the potential revenues from this mechanism are not overestimated.

The JOG report has shown that far greater revenue potential exists from the introduction of road pricing on the existing network, however. The Government's package has paid limited attention to this potential, but it does propose to undertake further work on the feasibility and desirability of pricing existing roads, taking into account social, economic and environmental impacts, and other potential revenue sources such as parking levies.

In view of the gap that still remains between the new funding package and the transport requirements of the region, it is important that the potential for road pricing continue to be actively investigated. The JOG report demonstrated some significantly different outcomes for the region and its transport system under pricing and non-pricing futures. It is therefore important that the region continues to be jointly involved in this work as it progresses.

ATTACHMENT 2

Transport Funding and Governance Proposals

Report to Councils: Policy

From Craig Shearer, Convenor Transport Policy Working Party

The attached report is an Executive Summary of a report prepared in response to the government's "Investing for Growth" transport package for Auckland, released in December 2003.

Part of the Government's package seeks improvements to the Regional Policy Statement (RPS) Regional Land Transport Strategy (RLTS) and district plans before new funds are allocated. The aim of the changes is to give clearer guidance on the importance of an effective transport network for the Auckland region and indicate that this network is an integrated multi-modal system covering infrastructure investment, traffic demand management, and passenger transport.

The report considers possible responses to that part of the government's 12 December package which seeks changes to Auckland's statutory documents. The report was prepared by a consultant, and overseen by a working party on which all councils in the Auckland region were represented.

The report concludes that there is merit in the Government's proposal. It is recommended that the proposal be supported "in principle" at this stage, to allow officers to investigate in detail the scope of changes, the cost of them, and then look at possible timelines associated with the process (submissions, hearings, appeals etc) before the region's councils can be certain that the government's July 2005 timeframe can be complied with. This work, "phase two", has already commenced in anticipation of support from all councils and because time is very short if the timeframes are to be achieved.

Although there was unanimous support for the report and its recommendations, there were some additional comments that officers agreed should be included if it was agreed that this work progress. These are as follows.

Firstly it was considered that the suggested way forward was too focussed on the urban parts of the region, and that consideration must be given, and incorporated, in any future statutory changes to the vital role the rural areas play in the sustainable development of the region.

Secondly, the Government would like to see the changes proceed without delay, and is considering changes to the Resource Management Act (RMA) to allow RPS and district plan changes to be fast tracked. There is concern that this

could undermine RMA processes and principles, and the preference would be to proceed using the established processes with all authorities committing to processing changes as fast as possible, instead of making short cuts to the process.

The need to ensure community support for changes to RMA documents can involve considerable time. Given the uncertainty over the timing of the changes to the RPS and district plans, there remains a risk that they will not be completed by July 2005. It would be unacceptable if process delays were to constrain the availability of new funds for projects that are "ready to go". Accordingly, it is proposed that the Government be requested to remove the link between the policy changes and allocation of new funding.

The Government has also proposed establishing a working group with Auckland local authorities to assess the need for changes to other regulatory arrangements governing Auckland public transport. This is expected to include the procurement arrangements for public transport, and the existing process of commercial service registrations. This is an issue that has been of concern to local authorities for some time, and the proposal to involve Auckland local authorities in a joint review is welcome.

Conclusions

- The region should agree in principle to the suggested policy changes, but request the Government to work in partnership with councils to scope the detail of the changes so that realistic timeframes can be set for their completion, and request Government funding for the changes..
- In view of the uncertain timing associated with the RPS and district plan changes, the Government should be requested to remove the link between completion of the changes and allocation of new funding, as it places the funding package at risk.
- The proposal to review regulatory arrangements for public transport should be supported.

Recommendations

- a) That it be agreed in principle to proceed with changes to the RPS, RLTS and district plans.
- b) That the Government be requested to work in partnership with councils to scope the detail of RPS and district plan changes so that realistic timeframes can be set for their completion; and that Government funding be made available for the changes.

- c) That the timing risks associated with these changes be noted, and the Government be requested to remove the condition requiring completion of these changes before any new funding is allocated for transport in Auckland.
- d) That the Government's proposal to jointly review the regulatory aspects of public transport be supported.

Attachment: Executive Summary, Kathleen Ryan report

Investing for Growth

**Implementing the Government's 12.12.03
Transport, Growth and Development
Package for Auckland:**

**Proposals to Introduce Changes to the
Auckland Regional Policy Statement
and the
District Plans of Auckland Councils**

A report to Auckland Councils

Kathleen Ryan
Independent Planning Consultant

January 2004

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