Significant Activity	Activity	Function
Regional Transport	Funding Public Transport	Funding Public Transport Services

Brief Function Description

Funding Public Transport Services has four components. This function:

i. plans, tenders, contracts for and monitors the provision of public transport services;
ii. provides information about public transport services (e.g. Ridewell)
iii. funds the provision of public transport in the Wellington Region (where a contribution is necessary to make services viable);
iv. funds the provision of a public transport infrastructure: bus shelters; interchanges etc.

Council Involvement

The Council is involved in providing public transport services because of market failure and the need to provide social services.

STAGE I: ECONOMIC EVALUATION

Introduction

There are two reasons why the Council is involved in providing public transport despite the fact that public transport is a private good. They are:

i. market failure in that road users in the Region do not pay a price that reflects the congestion and environmental costs they impose on others. Congestion is a regional (Auckland and Wellington) rather than a national problem. Road use in the Region is thus cheaper than it should be. Accordingly, there is not a level playing field and people are not in a position to make informed choices as they do not face the costs of their decisions.
This is a matter for consideration in stage I
ii. social issues in that there is a need to meet the needs of the transport disadvantaged.
This is a matter for consideration in stage 2 (fairness & equity)

Theoretically, in a perfect world road users would pay for the costs they impose on others and the transport disadvantaged would get directly targeted assistance. Currently, neither of these two is within the Council's control.

Benefit/ Exacerbator Assessment

The direct beneficiaries of public transport are the public transport users who get transported to their destination. There are two significant direct disbenefits where users of congested roads cause the costs to be incurred. The disbenefits are congestion and pollution. The vehicles operated by road users cause both of these. The polluter pays principle of the Local Government Act 1974 is quite clear - these people should pay for the costs they cause.

In addition, **subsidising** public transport has a positive externality in that there is less requirement for family and friends to taxi the transport disadvantaged. There is a small positive externality **from** the amenity value, but it is very **localised.**

Beneficiaries/ Exacerbator	Benefit/ Cost
Public transport users	Directly benefit by getting transported to their destination plus lower fares, more frequent services, better service quality
Road users on congested roads	Directly benefit by getting a less congested road (faster travel) Directly cause the problems of congestion and pollution.

How Benefits are reflected

Private beneficiaries can be easily identified. The benefit to public transport users is transport to their destination. This is a private benefit and they should pay the costs of this transport.

The benefit to users of congested roads, from public transport, is faster travel because there is less traffic on the road. This is a private benefit. The road users should pay a congestion charge that reflects the benefit gained by getting a road user off the congested road in that time-period.

Pollution is caused by vehicles and is very much worse in congested areas because of the stop and start nature of congested traffic. While people in the Region benefit from reduced emissions, the cars generate the emissions. However, if poor road design or poor traffic management causes the congestion, then the road operator should also pay for the emissions because their actions have added to the problem.

The Local Government Amendment Act No. 3 1996 clearly states that people who exacerbate the costs should pay. Thus, road users should pay for congestion and pollution.

Distribution of Benefits across Time/ Intergenerational Equity

No capital costs are incurred in providing this item and the benefits from operational expenditure accrue at the time of expenditure

Summary of Stage 1

Public transport is a private good. However, because of market failure (no congestion pricing) people are not able to make the appropriate transport mode choice. If congestion pricing was introduced then the costs of public transport should be collected from the users.

Economically Efficient Funding Mechanism

A congestion charge should be levied on users of congested roads and then the costs of the public transport should be recovered 100% from the users of the public transport services.

STAGE II: LEGAL, FAIRNESS AND OTHER ISSUES

Introduction

A number of issues arise from stage 1

- it is not possible to levy a congestion charge
  This is considered under Legal Constraints below
- services for the transport disadvantaged are not covered.
  This is considered under Fairness & Equity below.
- if ratepayers in some areas had to pay for the services consumed in their area then they may not be able to afford the rate burden
  This is considered under Fairness & Equity below

The Council's Strategic Transport Model shows that congestion pricing would remove completely the need to fund congestion relief services from the Council. However, the service mix would change and not all social services would be covered.

Legal Constraints

While the Council has the ability to calculate the congestion charge (and has done so) there is no legal framework for the Council to levy, or to have others levy a congestion charge on motorists. Accordingly, the funding needs to come from a surrogate for users of congested roads.

Fairness and Equity Issues

Transport Disadvantaged

There is a significant fairness issue in terms of the transport disadvantaged. Services need to be provided for people less than 16 years, the lower socio-economic group and people unfit to drive but not those with a disability (people with disabilities are covered by the Funding Policy for the Total Mobility scheme). Accordingly, there is a need to provide "social public transport services".

Currently, 10% of the Council's expenditure is on concessions (elderly and school services). Since concessions may not include services for all those on low incomes, it is estimated that 15% of services qualify as "social services".

The Council also values the contribution of the public transport network to a sense of regional cohesion and integration. Access to public transport assists in integrating rather than potentially isolating communities across the Region. A regional contribution for this value is appropriate.

Ability to Pay

Some areas in the Region may not be able to afford the rate burden necessary to pay for the public transport services they consume. This has to be considered against the need to avoid over taxing the principal destination.

Other Relevant Issues

There is small positive externality from the amenity value, but this is very localised. The Council considers this is captured in the social component.

Summary of Stage 2

The benefits are:

i. congestion relief 85%
ii. social 15%, includes amenity
iii. environmental (included with the congestion relief)

Surrogates

Surrogates for Congestion Pricing

The surrogates open to the Council are very blunt instruments, only loosely related to a congestion charge and themselves introduce a new range of significant issues. These issues include ability to pay and equity between those who travel and those who do not.

The surrogates considered were: charging people in the district of origin; charging businesses in the district of destination; car park charges; and a general rate across the Region. Choosing between surrogates is essentially a pragmatic decision as no one option is clearly superior.

For example, rating residents in the district of origin as a surrogate for congestion relief raises both ability to pay issues across districts and equity issues between residents in a district (those that commute and those who do not). However, businesses at the destination do "cause congestion" by their location and they do get some employee and retail benefit. Accordingly, some funding should be from businesses in the district of destination.

Surrogates for Concessionary Fares

It is not possible to directly target transport disadvantaged individuals who benefit from concessionary fares. Whilst rating such social costs across the Region seems the fair approach, this implies that all residents have equal access to the services. Accordingly, funding concessionary services from residents in the district of origin and business in the district of destination is proposed as a surrogate.

Incentives

None of the surrogates force road users to face the costs of their decisions. This is the incentive to get people to make the appropriate choice between transport mode. There is an incentive for people to live further away as others meet a component of their travel costs.

The surrogates are all some way away from the economically efficient funding mechanism. It appears that charging a combination of people in the district of origin and businesses in the district of destination may be a reasonable surrogate for users of congested roads. However, it is not clear what the balance between origin and destination should be.

Conclusion from Stage 2

None of the surrogates force road users to face the costs of their decisions. Moreover, they introduce new issues including ability to pay and equity between those who travel and those who do not. These surrogates are pragmatic answers to the need for a funding mechanism. They are some distance away from the economically efficient funding mechanism.

Accordingly, as a pragmatic solution (until congestion pricing is possible), taking into account ability to pay across the Region and equity within a district, the congestion relief and concessionary services should be funded equally by origin and destination. Remaining social services should rated across the Region because the Council values access to public transport.

STAGE III: Funding Mechanism

Current Funding Policy

In 1999/00, the Funding Policy was as follows:

70% user charges - collected and held by the providers ***(note: refers to all services; equals 60% when only contracted services are considered)***

30% national and regional community contribution ***(note: refers to all services; equals 40% when only contracted services** are **considered).*** This component is **funded:**

i. 50% nationally funded road user grant reflecting the benefits to all road users and the road network
ii. 50% Council contribution: funded via a works and services rate set as follows:
    a. (access to jobs) 42.5% from residential ratepayers in the district of origin
    b. (increased sales) 42.5% from commercial ratepayers in the district of destination
    c. (less congestion) 10% from residential ratepayers in the district of origin and from commercial ratepayers in the district of destination
    d. (social) 5% from ratepayers across the Region with a 50% reduction for Kapiti and a 75% reduction for Wairarapa ***(note: the reduction reflecting lesser number of services available in those areas).***

Funding Mechanism Issues

Rural Vs Urban Benefit

High rural capital values, and the inability to distinguish between farms and life style blocks and residential housing, mean that if a rate was struck uniformly then that rate would be disproportionate to the relative level of benefit that most rural ratepayers receive. Accordingly, a correction factor of 25% is applied to rural capital values. Without this factor, rates paid by rural ratepayers would be disproportionately high in comparison to urban rates.

Social Services

The Council values social services, ie. access to public transport services is important for regional cohesion, so a portion should be rated across the Region. However there would be a disproportionate rating impact on Kapiti and Wairarapa so a discount is required. Accordingly a 50% reduction for Kapiti and a 75% reduction for Wairarapa is applied.