



IN COMMITTEE

Agenda No **4C**

Submission No TF 00/10/795
File No 540-09-04

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Submission to the Transfund Board

IN COMMITTEE

Subject **Passenger Transport: Recommended Patronage Funding Scheme and Implementation Plan**

Purpose

- 1 To seek the Board's agreement to the key design features of a patronage funding scheme to allocate funds to regional councils for passenger transport.

Recommendations

- 2 That the Transfund Board:
 - (a) **notes** the issues raised in the three industry workshops and in submissions on the discussion paper released by the Board, as outlined in Attachment B to this submission;
 - (b) **agrees** to implement a patronage funding scheme for passenger transport services as set out in Attachment C to this submission (as amended by the Board);
 - (c) **adopts** the evaluation process outlined in Attachment C (in fulfillment of the requirement in the 2000/2001 Transfund Performance Agreement to determine a revised evaluation process for community service outputs funded on a patronage basis);
 - (d) **delegates** to the Board Committee on patronage funding the authority to approve the final patronage payment rates before 31 October 2000;
 - (e) **requests** the Chief Executive to implement a patronage funding scheme for passenger transport services as set out in Attachment C to this submission in accordance with the implementation plan set out in Attachment E;
 - (f) **requests** that the Chairman writes to the Minister of Transport informing him of the Board's decisions on how it intends to implement a patronage funding scheme

by the end of October, for his confirmation that the scheme meets Transfund's Performance Agreement requirements; and

- (g) **agrees** that this submission be taken out of committee once the Minister has confirmed that the scheme meets Transfund's Performance Agreement requirements.

Context

- 3 In May 2000, Cabinet decided to implement patronage funding as the future means of subsidising public passenger transport services (bus, train and ferry). The Government also asked Transfund to look at increasing regional councils' ability to fund public transport concurrent with moving to patronage funding. These decisions by the Government were reflected in requirements in Transfund's Performance Agreement with the Minister of Transport, subsequently amended for clarification.
- 4 The relevant provisions of the revised Performance Agreement are set out in Attachment A. The Performance Agreement sets targets for increasing funding for passenger transport services above current levels (through both patronage and kick-start funding) by about \$7 million in 2000/01 and \$14 million in subsequent years (incl GST), with further increases dependent on increases in patronage levels.
- 5 At the end of August 2000, Transfund sought feedback on proposals for a patronage funding scheme from a Project Steering Group comprising key stakeholders and from industry workshops in Auckland, Wellington and Christchurch. It also invited submissions on a discussion paper sent to a wide range of stakeholders and available on Transfund's website.
- 6 This submission recommends to the Board a scheme to implement patronage funding and kick-start funding based on the proposals in the discussion paper, amended to reflect issues raised during consultation that will enhance the scheme's effectiveness in achieving its aims.

Key issues raised during consultation

- 7 Attachment B summarises key issues raised by stakeholders from the workshops and submissions on the discussion paper, and sets out how the issue has been incorporated in the revised scheme, or if not incorporated, why not. In summary, submissions were generally supportive of the concept of patronage funding. Most key concerns expressed could be addressed within the framework proposed. The major concerns were that:
- many regional councils would be restricted in the degree to which they could take advantage of 50% kick-start funding within this financial year because of constraints on regional council budgets
 - the kick-start funding period needed to be longer to give councils a realistic time to increase their budgets and to develop and tender new services
 - receiving current Transfund funding for current patronage could be inequitable particularly to the most efficient councils; Transfund should increase base funding if this is necessary to retain current passengers

- the proposal placed an increased level of risk on regional councils, given that patronage changes were often outside their control and budgets are fixed annually.
- 8 Other submissions raised wider issues that the scheme was not designed to address, for example that patronage funding would not address issues relating to funding infrastructure or funding other modes, nor would it address legislative restrictions for contracting services (particularly for assisting an increase in peak commercial services).

Summary of changes recommended as a result of consultation

- 9 Attachment C sets out the key aspects of the recommended patronage funding and kick-start funding scheme, as amended following consultation. Attachment D itemises the changes from the scheme the Board Committee considered in September 2000, and provides a rationale for the recommended amendment.
- 10 In summary, the key changes we recommend to the patronage funding scheme are to:
- increase the transition period by one year (to 30 June 2003)
 - increase the initial kick-start financial assistance rate to 80% in 2000/01, reducing to 60% in 2001/02 and 40% in 2002/03
 - review individual base funding levels where necessary up or down to reflect factors outside of regional councils' control or individual circumstances, using a similar process to that followed for the Optimal Maintenance Allocation negotiations with RCAs
 - raise the proposed cap on Transfund expenditure (of total regional passenger transport expenditure) to 80% and ensure that a regional council not reduce its own contribution below its average contribution over the last three years
 - allow regions to choose between payment rates for passenger boardings *plus* passenger kilometres, or the equivalent payment rates for passenger boardings
 - allow some flexibility for regions to choose the most appropriate peak period, and for smaller regions to opt for an equivalent flat rate.
- 11 The recommended changes in the scheme are mainly at a detail level: the scheme's key features remain consistent with the overall concept of patronage funding as released in the discussion paper. We consider that the amended scheme meets the Board's obligations under the Performance Agreement with the Minister of Transport, and therefore recommend that the Board approves the implementation of a patronage funding and kick-start funding scheme as set out in Attachment C to this submission.
- 12 We propose that the Chief Executive report to the Board quarterly on progress with implementing the scheme. The Chief Executive would resolve issues of implementation, interpretation or clarification, and seek Board approval for any changes to the approved scheme. Key issues associated with the implementation of the scheme are expanded below.

Finalising the patronage funding scheme: outstanding issues

- Congestion values

- 13 An expert panel has reviewed the congestion-related component of the patronage payment rates in the three main centres, and recommended that the congestion relief benefits should cover a four-hour window of time per peak instead of two hours. This is likely to increase payment rates in the two main centres. We will present revised payment rates that include the four-hour congestion values at the Board meeting.
- 14 Beca Carter Hollings and Ferner (Beca) is reviewing, by 27 October, Booz-Allen & Hamilton's congestion values using year 2000 data, and to ensure that the underlying assumptions are sound, and in particular that the travel-time savings are realistic (with a key focus on the Auckland region). We recommend that the Board empower the Board Committee on patronage funding to approve the final patronage rates by the end of October 2000.

Qualifying expenditure for kick-start funding

- 15 As noted in Attachment C we propose that, in addition to patronage funding payments, regional councils will be able to apply for "kick-start" funding for qualifying expenditure over a transition period to 30 June 2003. The (non-exhaustive) list of qualifying expenditure for kick-start funding would include the following:

<i>Qualifying Expenditure</i>	<i>Examples</i>	<i>Limits</i>
Improved services	New services or increased service levels	Minimum of 50% of total regional kick-start funding allocation Maximum of 50% of total regional kick-start funding allocation
Facilitating access and transfers	Electronic ticketing, off-bus ticketing, integrated ticketing	
Simpler, cheaper fares	Free transfer, time-limited, reduced fares, free bus services, fare cap	
Greater awareness	Promotion, marketing, timetable information, real-time information for passenger services	
Improved comfort, access and security	Passenger transport shelters, security systems	

- 16 Rather than this being an exhaustive list, we intend that regional councils will be able to offer other initiatives as qualifying for kick-start funding, provided they relate to the objective of increasing patronage.
- 17 A key element of the kick-start funding proposals is to dissuade regional councils from dis-establishing services and re-establishing new ones to qualify for kick-start funding on the total, rather than the additional, cost.

- 18 We propose that services qualifying for kick-start funding will need to either be:
- new services ie extensions to existing routes or new services to an area not previously serviced, or
 - increased levels of service ie the *additional* cost of increased frequency or quality of existing services, including new express services.
- 19 Regional councils would apply for allocations of kick-start funding for expenditure above current levels, based on the estimated *additional* costs of (a package of) initiatives. They would not have to seek approval for variations to initiatives in the approved package within their allocations, but could not use surpluses to fund initiatives not included in the package of projects put up for funding.
- 20 With respect to capital payments above \$10,000 per project, we have considered two options that are tabled for the Board's consideration:
- Option 1: treat capital items funded on an output basis by a regional council as qualifying for kick-start funding, up to a limit of \$400,000 total capital cost per project (ie the level proposed for simplified ATR procedures).*
- 21 Under this option, when the kick-start period ends in June 2003, the regional council would need to cover the ongoing costs through its baseline funding and patronage payments. This option gives regional councils full scope to consider what is needed to improve patronage within their regions. This option could lead to Transfund funding capital items that would not qualify for funding if evaluated on a the basis of comparable ATR and roading projects.
- Option 2: treat capital expenditure over \$10,000 total costperproject as non-qualifying expenditure.*
- 22 This would limit Transfund's exposure to funding proposals that would not otherwise qualify for funding, but it financially biases regional councils towards enhancing services rather than infrastructure and effectively reduces the options for improving patronage.

Explanatory note – some regional councils consider that significant investment is needed in capital items such as stations, carparks and ticketing systems to improve patronage in their regions, and may have rigorous analysis to support this approach. Conversely, given the lower level of evaluation rigour that is to be applied to kick-start funding proposals, infrastructure items that would not ordinarily qualify for funding from Transfund in its other expenditure areas could, under Option 1, become eligible for funding.

We are seeking the Board's view on which approach is most appropriate given the objectives of the patronage and kick-start funding proposals. We are clarifying the extent to which regional councils can fund infrastructure as an output under current legislation. A regional council has the financial incentive to evenly assess the relative effect on patronage of infrastructure and services, because under patronage funding, the choice has consequences for the region's future income and the region has to make up any costs not covered by the patronage growth. If a TLA obtains capital funding for

infrastructure, there are no consequences for the TLA's future income. For infrastructure funded as capital by a TLA to qualify for kick-start funding, Transfund would have to evaluate the proposal under comparable rigour as ATR and roading projects.

- 23 For re-assessing a region's baseline funding levels at the end of the transition period (30 June 2003), Transfund intends to take account of certain kick-start expenditures. The degree to which expenditure is of a 'one-off nature (such as a marketing initiative) or an ongoing nature will be a determinant of whether the kick-start funding should be built into base funding levels.
- 24 To apply for kick-start funding, regional councils will submit applications to Transfund on a standard template covering the following:
- brief scheme description (objectives, location, time-period, particular features, proposed date of introduction and length of contract) and supporting rationale
 - estimates of net and gross costs, passenger boardings, passenger kilometres and fare revenue (up to 30 June 2001 and annually thereafter)
 - basis for procurement (eg variation of existing contract, new CPPs)
 - legal requirements (consistency with Regional Land Transport Strategy, inclusion in relevant regional or district roading programme)
 - commitment (how the council proposes to fund the new expenditure levels over time, as evidenced in council funding strategies).
- 25 We are currently developing this template to facilitate the application process for kick-start funding by regional councils. While we prefer that kick-start funding applications are prepared as an integrated package of projects/activities, we will consider one-off interim proposals for early commencement of kick-start funding to get activities underway, provided any such proposals are subsequently wrapped back into a broader integrated package. This allows Transfund to assess councils degree of ongoing commitment to new services to support patronage arising from initiatives such as real-time timetable information or marketing. We propose that, taken over the year, a minimum of 50% of kick-start funding must be for new services.
- 26 Transfund staff will use the information contained in these kick-start funding applications to undertake a basic evaluation, to check that the expenditure qualifies, and to forecast funding allocations. We anticipate that this evaluation will be qualitative rather than quantitative (ie prioritisation or trade-offs between kick-start funding applications will not be required). The key test for the evaluation process is whether the council has shown how the kick-start proposal will increase patronage.
- 27 Transfund staff will treat kick-start funding applications with urgency and, given the basic nature of the evaluation to be completed, expect to approve funding allocations within one week unless the application is complex or necessary information has not been supplied.

Implementation

- 28 Bob Alkema, Operations Manager, is leading a patronage funding implementation team comprising Transfund's regional managers, Planning and Evaluation staff, and appropriate representatives from regional councils and operators. The team has developed an implementation plan (contained in Attachment E), which details the process and timing for setting and agreeing baselines, data collection, funding processes and infrastructure issues.

Timeframes

- 29 From 1 November 2000, regional councils may apply for allocations of kick-start funding for individual or packages of initiatives, and would claim monthly for kick-start funding based on expenditure. In order to get initiatives in place quickly, regional councils may make more than one application for kick-start funding allocation in this financial year.
- 30 Regional councils can apply to join patronage funding at any stage from Board approval of the scheme, and Transfund will start the process of establishing baselines. Baselines need not be finalised and agreed for patronage funding to start by 1 November 2000, because patronage funding payments can include patronage growth backdated to 1 November 2000. The first quarterly claims for patronage growth could be submitted in April 2001 for payments for an elongated quarter (November 2000 – March 2001).

Manuals and training

- 31 The implementation team is currently developing procedures for patronage and kick-start funding, including a 'Patronage Funding Manual', so that once the Board has made final decisions, we can finalise the procedures quickly and communicate them with regional councils as soon as possible.
- 32 We propose to release the Manual in draft form as soon as possible after the Board meeting, and liaise with regional councils to ensure that their activities are advanced as far as practicable by 1 November 2000. We will distribute a final Manual following confirmation of the final marginal patronage payments by the Board Committee on patronage funding.
- 33 The patronage funding implementation team will also lead training for regional councils on the requirements of patronage funding. We envisage that the team may also coordinate several national workshop events to facilitate the sharing of 'good ideas' and expertise among the regional councils. An example of a similar initiative is the highly successful recent visit of international passenger transport expert Professor Avi Ceder, to which Transfund contributed funding.

Setting baselines: funding and patronage

- 34 Attachments C and E outline the requirements and process for setting patronage and funding baselines.

- 35** In summary:
- the patronage baseline will be based on 1999/00 levels, with adjustments for 'outlier' results
 - the base funding levels will generally be based on the average of the last three years of Transfund expenditure in the region (1997/98 until 1999/00).
- 36** We propose to provide flexibility to review individual base funding levels up or down where necessary to reflect factors outside of a regional council's control or for individual circumstances (eg where current funding levels may not sustain current passenger levels). We would use a similar process to that followed for the Optimal Maintenance Allocation negotiations with RCAs.
- 37** We are providing the option for regional councils to either use boardings or a hybrid of boardings and passenger kilometres as the payment measure(s). This approach provides a clearer relationship to benefits provided by passenger transport, and recognises that there are only likely to be two or three regional councils where the benefits of running a hybrid approach outweigh the costs of the more sophisticated data collection requirements.
- 38** We recommend that the cap on total Transfund expenditure in any region be 80% (instead of 60%) of total regional passenger transport expenditure. Regional councils would be required to at least maintain expenditure levels at least at the average level of the regional council's last 3 year's contributions. Transfund has the ability to reduce the risk of funding 'blow-outs' by revising base funding levels (eg for patronage increases from factors outside a regional council's initiatives).

Data collection processes

- 39** To be eligible for patronage funding regional councils will have to provide Transfund with patronage data (patronage numbers, and kilometres travelled if using the hybrid option). Discussions with regional councils and operators indicate that the information required to set and agree baselines is available and – subject to protecting the commercially sensitivity of the data – can be accessed by Transfund.
- 40** Transfund would provide best practice procedures and guidelines for providing patronage data (developed with regional councils and operators). These would include guidelines for using independent third parties to safeguard commercially sensitive data. The Bus and Coach Association has supplied a draft protocol for the collection of the data. Failure to protect operator data confidentiality will affect operator cooperation. Transfund will verify that the process followed in each region conforms with the guidelines, and will audit periodically.
- 41** Regional councils will be responsible for ensuring that commercial and contracted patronage data is provided to Transfund quarterly according to the guideline. It may be more difficult to collect data in some regions, and we may have to provide assistance.

Contracting arrangements

- 42 Several submissions pointed out the contribution that contracting arrangements will make to the success of patronage funding. At its September 2000 meeting the Board approved a number of amendments to CPPs that give regional councils more flexibility in the transition period. However, one of the key gaps in the arrangements between regional councils and operators is the ability for commercial services to benefit from kick-start funding. Submission TF 00/10/801 sets out an innovative proposal to provide commercial operators this opportunity.

Monitoring and review of patronage and kick-start funding

- 43 At its September meeting, the Board Committee indicated the importance of a formal process for monitoring and reviewing the impacts of patronage and kick-start funding. Additionally, a number of submissions strongly favoured early reviews of the impacts of patronage funding, to ensure that unintended impacts do not eventuate.
- 44 The implementation team will develop a formal process for evaluating the success of the patronage funding scheme. The Chief Executive will report to the Board six-monthly on performance of the patronage funding scheme. Issues of relevance could include:
- financial impacts
 - levels of patronage growth by region
 - expenditure by regions on kick-start initiatives
 - results of regional council surveys on new users' previous transport modes
 - any refinements required to ensure that the system runs more smoothly.
- 45 Transfund will require regional councils to analyse the estimated patronage impact of particular initiatives, and plans to develop a process for sharing the 'success stories' of different initiatives.

Financial implications

- 46 Transfund's 2000/01 Performance Agreement with the Minister of Transport anticipated that Transfund would spend \$7 million (incl GST)¹ in 2000/01 on patronage funding for passenger transport services. Transfund has had discussions with Auckland, Wellington and Canterbury Regional Councils to gauge the likely financial impact of the proposed patronage funding scheme. The rough estimate of costs for kick-start funding, patronage funding and administration for 2000/01 is \$7.7 million (excl GST) as set out in the table below.

¹ \$6.2 million (excl GST)

Funding Source	Expected Impact
Increase in Passenger Services Administration financial assistance from 25% to 33% (based on 2000/01 NRP Bids)	\$0.7 M
Kick-start funding @ 80% FAR (based on discussions with transport managers) <ul style="list-style-type: none"> - Auckland \$2.0 million - Wellington \$1.2 million - Canterbury \$0.5 million - Other \$0.2 million 	\$3.9 M
Patronage funding <ul style="list-style-type: none"> - Auckland \$2.0 million growth 7.5% - Wellington \$0.5 million growth 2.0% - Canterbury \$0.5 million growth 10% - Other \$0.1 million. 	\$3.1 M
TOTAL	\$7.7 M

- 47 The above estimates are very preliminary with significant uncertainty around regional councils' ability to identify and implement qualifying expenditure in a timely fashion to achieve the above spending and growth estimates. We will have a better indication of likely costs once regional councils have submitted applications for kick-start funding in November.

Risks and gaps

- 48 When the Board agreed to release the discussion paper, it considered a paper prepared by Sinclair Knight Merz on the risks and gaps presented by the proposed scheme at that time. Attachment F contains a re-assessment of the extent of the risks and gaps in the revised scheme presented to the Board. The scheme as now proposed eliminates or significantly reduces the majority of those risks.

Legal issues

- 49 We have received preliminary legal advice from Chapman Tripp on an early draft of this submission. Chapman Tripp has raised several issues of clarification to ensure that the patronage funding scheme as set out in this submission meets the Board's obligations under the Transit New Zealand Act. We will work with Chapman Tripp to resolve these issues, and provide their final advice to the Board at the meeting.

Canterbury pilot

50 In submission TF 00/9/788 the Board agreed to pilot patronage funding in Canterbury, and that, from the introduction of patronage funding nationally, ECan would have the option of continuing on the basis of the pilot, or entering the national system. ECan states in its submission that it plans to move to the national patronage funding scheme from 1 November 2000. Despite its short duration, the trial has proved extremely useful in considering issues of both principle and detail in designing the patronage funding scheme.

Infrastructure: Alternatives to roading procedures

51 A number of submissions commented on the importance of infrastructure improvements in growing patronage, and that patronage funding as currently proposed is aimed solely at the provision of services. We recognise the importance of improving funding for infrastructure, but also that patronage funding is a mechanism primarily for improving funding for services. The Ministry of Transport is currently considering passenger transport infrastructure policy issues. Pending those developments, Transfund will continue to make capital funding available to territorial authorities for passenger transport infrastructure under its current ATR funding policies, and deal with infrastructure projects in the interim on an individual basis.

52 Transfund's 2000/01 Performance Agreement with the Minister of Transport requires that, by October 2000, the Board will "*have determined appropriate revisions to the evaluation process for passenger transport capitalfunding...*" (see Attachment A). We have fulfilled this obligation by determining that the current Alternatives to Roothing (ATR) evaluation procedures will continue to apply, with revisions as outlined below.

53 Transfund plans to undertake three pieces of work relating to the ATR procedures following the implementation of patronage funding as follows:

- adjust the ATR procedures for combined capital and patronage payments to make sure that the same project is not being paid for twice
- develop simplified procedures for the evaluation of smaller ATR projects (for projects up to a value of \$400,000)
- review the financial assistance rates for passenger transport ATR projects for comparability with patronage funding:
 - under patronage funding, Transfund pays for 100% of road user benefits and 25% of passenger transport user benefits
 - under the ATR procedures Transfund does not pay for passenger transport user benefits, and pays for road user benefits divided by total benefits at the relevant roading FAR (between 43%- 100%).

54 There are only a few ATR passenger transport projects that are likely to be ready for evaluation in the near future. We will discuss the degree of urgency with the relevant parties, and advise the Board of a timeframe to complete the work at the Board meeting.

Views of key stakeholders

- 55 We have circulated this submission on a confidential basis to key regional council personnel and the Ministry of Transport. We will inform the Board of their views on the recommended patronage funding scheme at the Board meeting.

Attachments

- 56 There are 6 attachments to this submission:
- Attachment A Relevant Provisions from the 2000/01 Performance Agreement with the Minister of Transport
 - Attachment B Summary of Key Issues Raised in Submissions and Transfund Responses
 - Attachment C Recommended Patronage Funding Scheme: Key Elements
 - Attachment D Changes in Recommended Scheme from the Discussion Paper
 - Attachment E Patronage Funding Implementation Plan
 - Attachment F Risks and Gaps of the Recommended Patronage Funding Scheme

Submitted by _____ **Approved by** _____

Andrew Body
Policy and Strategy Manager

Martin Gummer
Chief Executive

Attachment A to Submission TF 00/10/795

Passenger Transport Funding Provisions from the 2000/01 Performance Agreement with the Minister of Transport

“The Board will by October 2000 have determined a new community services allocation and evaluation system based on patronage.

The Board and the Minister agree that the new patronage funding system will give regional councils the option of retaining the existing funding approach or receiving funding for all community service outputs based on patronage (Patronage Funding).

The Government anticipates changes in funding levels associated with Patronage Funding will provide the opportunity for additional funds to those regional councils that exercise the Patronage Funding option. These are estimated to be in the order of \$7 million in total (GST inclusive) over the latter half of the 2000/01 year and in the order of \$14 million in total (GST inclusive) in subsequent years, with further increases dependent on increases in patronage levels.

The Board and the Minister recognise that take up by those regional councils which exercise the option of Patronage Funding will be progressive and that that option is only likely to be funded in the last half of the current financial year.

Financial Assistance Rate for Public Transport

The present financial assistance rate for rail is 60% and for buses is 40%. The Board will review the financial assistance rates for those additional outputs mentioned in the preceding paragraph (implementation by October 2000). Subject to the requirement for the Board to comply with its statute the Government expects the Board to look favourably on increasing the rate for the additional outputs.

Evaluation

The Board will continue to evaluate individual outputs and capital projects for approval in accordance with section 17 (1) of the Act using the procedures set out in the current Project Evaluation Manual and Manual of Procedures for Alternatives to Roothing. The Board will by October 2000 have determined appropriate revisions to the evaluation process for passenger transport capital funding and a revised evaluation and allocation process for community service outputs funded on a patronage basis.”

Summary of Issues Raised in Submissions and Transfund Response

This attachment sets out a summary of the key points raised by submitters, grouped by relevant issue. A response setting out how the issues have been incorporated in the proposals, or if not why not, is provided for each group of issues raised.

Theme	Raised by	Suggested Changes in Submissions	Transfund Response
<p>Complexity of the Proposal</p> <ul style="list-style-type: none"> The system appears overly complex, technical and administratively expensive. There is potential for increased funding to be funnelled into administration costs with little impact on passenger numbers. 	<p>Auckland RC Wellington RC Campaign for PT Red Bus Co</p>	<ul style="list-style-type: none"> Use FAR and adjust the rate Make RCs accountable for targets. 	<p>Transfund will review the scheme annually until 2003 to ensure that it is achieving the desired results. The proposed system provides significant incentives for regional councils to grow patronage.</p>
<p>Patronage rates</p> <ul style="list-style-type: none"> Rates are set on a regional basis and do not reflect the higher benefits generated by increased patronage on very congested corridors. The numbers are at best rough estimates. However, marginal patronage funding estimates made suggests that Transfund is underfunding passenger services. Recommend adjust the FAR. Setting the baseline is critical The indicated rates for Auckland seem intuitively wrong when compared with Wellington. A single rate for the whole country is supported. 	<p>Auckland RC Christchurch CC Wellington RC Environment BOP Auckland RC Campaign for PT AC Bellamy</p>	<ul style="list-style-type: none"> No specific suggestions Adjust the FAR Review the rates. 	<p>The scheme is based on regional benefit estimates. The additional level of complexity associated with location-specific patronage rates was felt to outweigh the benefits of higher rates in specific corridors. The scheme will be reviewed to ensure that it is achieving the desired outcomes. Periodic review of base payment levels will seek to remove any significant funding disadvantages faced by councils.</p> <p>The hybrid patronage rates have higher boarding and km rate for Auckland. Higher rates will be presented to the Board at its October meeting. Transfund has commissioned an independent review of the rates prior to the scheme's implementation and is committed to reviewing the rates over time.</p> <p>Transfund considers that better outcomes are likely to be achieved by targeting rates to the areas of greatest congestion.</p>

<p>Distinction between New and Existing Services</p> <ul style="list-style-type: none"> The distinction between new and existing services should be removed in the medium term. The distinction between new and existing services should be retained in the medium term. 	<p>Wellington RC Stagecoach Bus & Coach Assoc Otago RC</p>	<ul style="list-style-type: none"> As stated 	<p>In 2003, when baselines are re-set, the distinction between existing passengers and passengers gained in that period will cease. New passengers after that period will be funded at marginal patronage rates.</p>
<p>Risks and incentives</p> <ul style="list-style-type: none"> Proposed method of reimbursement doesn't provide the necessary financial stability to invest in new services Patronage funding shifts the risks to the RCs RCs are risk averse and may not deliver the innovative solutions sought. 	<p>Otago RC Northland RC Bus & Coach Assoc Auckland RC Northland RC Wellington RC Campaign for PT</p>	<ul style="list-style-type: none"> Baseline funding should be paid on an even monthly basis Existing funding should be used to support the existing network with additional funds targeted at new/expansion of services Establish a minimum level of funding to be retained in the region regardless of changes in patronage 	<p>Baseline funding will be paid on an even monthly basis, as will kick-start funding, from the point that it is requested. Transfund will maintain stable payment rates within each financial year.</p> <p>Transfund recognises that patronage funding imposes more risk on regional councils than the current funding system. However, patronage funding also provides opportunities more significantly greater rewards for regional councils. Transfund has reduced the risk to regional councils by ensuring that existing funding levels will be maintained until 2003. At that point Transfund will undertake individual analysis of patronage decreases in each region and take account of where these are outside of a council's control.</p>
<p>The Kick-start System</p> <ul style="list-style-type: none"> Kick-start processes may not work in this financial year as council budgets have already been established. Cessation in June 2002 may be too soon. 50% ratio may need to be adjusted upwards. 	<p>Auckland RC Dunedin CC Christchurch CC Stagecoach Campaign for PT² Environment BOP Rotorua DC</p>	<ul style="list-style-type: none"> Adjust the support ratio upwards (particularly for 2000/01) Increasing 'kick-start' level of contribution above 50% Extend the scheme beyond June 2002 (June 2003 was a common date) 	<p>Kick-start funding will extend until June 2003 at the following rates::</p> <ul style="list-style-type: none"> 80% to 30 June 2001 60% to 30 June 2002 40% to 30 June 2003 <p>From that time the kick-start funding is embedded into the baseline on an annual basis at the average of the payments from 1 November 2000 to 30 June 2003.</p>

2 Campaign for PT notes that uptake will be next year but don't perceive the need to increase the kick-start ratio.

Theme	Raised by	Suggested Changes in Submissions	Transfund Response
<p>Evaluation</p> <ul style="list-style-type: none"> RCs already have developed strategic transport plans - don't need Transfund's involvement in the evaluation of new service proposals. 	<p>Wellington RC</p>	<ul style="list-style-type: none"> Transfund does not participate in the evaluation of new funding proposals. 	<p>The Transit New Zealand Act places a clear requirement on Transfund to evaluate expenditure. The evaluation process for kick-start funding will not impose delays on regional councils. Patronage payments are 'evaluated' when the payments are set (based on the benefits provided by an additional passenger).</p>
<p>Small vs Large Regions</p> <ul style="list-style-type: none"> The congestion-based system may not be well suited to smaller regions or regions with static or declining populations. Regions receiving little or no funds from Transfund may need time to establish services before patronage funding implemented. 	<p>Otago RC Dunedin CC Northland RC Campaign for PT AC Bellamy</p>	<ul style="list-style-type: none"> Base funding should be established and index adjusted for inflation. Base funding reset every 3-4 years. Population changes should be taken into account in setting rates. Transfund could play an education role. 	<p>The base patronage funding levels will be set at an average of Transfund expenditure in each region over the last three years, divided by patronage for 1999/00. Transfund will assess whether, in special circumstances, adjustments to the base funding levels may be appropriate because of costs or patronage changes that are outside a region's control. Transfund's implementation team will provide ongoing support to regions.</p>
<p>Commercial Operations and Contracting Approaches</p> <ul style="list-style-type: none"> Not clear how commercial operations will be supplemented by or benefit from the proposal. The proposal should have the goal of rewarding good operators. The proposal doesn't appear to cater for operator initiated trials or operator innovation. System could encourage operators to fill to overcapacity. Operators are more likely to respond to appropriate signals and revenue signals would be best attached to customers. 	<p>George Wood Red Bus Co Bus & Coach Assoc Campaign for PT Environment BOP Dunedin CC Red Bus Co Red Bus Co Red Bus Co Robin Dunlop AC Bellamy</p>	<ul style="list-style-type: none"> RCs should be able to assist commercial operations add capacity over a transition period Incentivise operators. 	<p>Transfund is proposing a process that could provide access to kick-start funding for commercial operators. Transfund is committed to working with the Ministry of Transport, regional councils and passenger transport operators to develop contracting methods that may in the longer term allow commercial operators to benefit from patronage payments from Transfund. Transfund is also keen to work with operators and regional councils on contracting approaches that provide greater financial incentives to operators.</p>

Theme	Raised by	Suggested Changes in Submissions	Transfund Response
<p>Inclusion of Externalities</p> <ul style="list-style-type: none"> The proposed system does not specifically cover other externalities such as wider land use factors, the impact of the price of petrol, energy savings, water quality, psychological stresses on drivers, mobility, sustainable development, targets for greenhouse gas emissions, “closing the gaps” social or safety benefits. 	<p>Dunedin CC Auckland RC Christchurch CC Northland RC AC Bellamy³</p>	<ul style="list-style-type: none"> No specific suggestions 	<p>The payment rates for patronage funding do not specifically account for these externalities. However, Transfund considers that the scheme provides the ability for considerable expansion of passenger transport services, which will have significant positive benefits in a number of these areas, in particular improving mobility and environmental outcomes. The patronage rates contain a component that values the safety benefits of passenger transport.</p>
<p>Infrastructure Funding</p> <ul style="list-style-type: none"> The patronage system does not provide up-front capital for infrastructure or investment in new facilities. ATR procedures not popular. 	<p>George Wood Auckland RC Auckland CC Hamilton CC⁴ Bus & Coach Assoc</p>	<ul style="list-style-type: none"> Incorporate a “capital bounty” for additional passengers Provide capital subsidies or suspensory loans 	<p>The scheme could provide for the payment of kick-start funding for minor infrastructure works (a limit of \$400K total cost) as long as it is funded by an RC as an output. Transfund is developing simplified ATR evaluation procedures, and reviewing the financial assistance rates for passenger transport ATR projects to ensure that they are consistent with patronage funding. The Ministry of Transport’s wider policy programme is considering the funding and ownership of infrastructure.</p>
<p>Provision of Information</p> <ul style="list-style-type: none"> Obtaining patronage information is key to the effective implementation of the system. However this may not be easily obtained. 	<p>Otago RC Northland RC AC Bellamy</p>	<ul style="list-style-type: none"> Transfund independently secure key patronage information Further work needed in this area 	<p>Transfund is proposing that regional councils will be responsible for ensuring that all patronage data is supplied to Transfund, and will be financially assisted for this through the Passenger Services Administration output class (at 33%). RCs would report this data to Transfund quarterly. Transfund is discussing a protocol for the collection of commercial information with the Bus and Coach Association, and will provide guidelines for the collection of the information.</p>

³ AC Bellamy suggests that Vote social welfare should contribute to PT outcomes.
⁴ Hamilton CC also considers that the double dipping argument is irrelevant.

Attachment C to Submission TF 00/10/795

Recommended Patronage Funding Scheme: Key Elements

- 1 Regional councils may join the patronage funding scheme at any time from 1 November 2000. Upon joining, they will qualify for both patronage funding and kick-start funding. Patronage funding replaces the existing funding procedures for the community services output class.

Baseline patronage and funding

- 2 Patronage funding will apply to changes in patronage from a baseline patronage agreed with each regional council, generally based on patronage in the 1999/00 year, adjusted where necessary for significant anomalies.
- 3 Calculation of the base patronage level and patronage growth will include passengers on commercial and contracted services. The payment rates will apply to passengers irrespective of the mode they use (bus, rail or ferry).
- 4 For the baseline patronage, regions will receive a base level of funding agreed with each regional council (in general based on the average of the previous three years' regional expenditure).
- 5 The base funding levels may be reviewed up or down to account for factors outside of a regional council's control (eg where cost increases are required to retain current patronage).

Payment measure

- 6 A regional councils may choose whether to be paid:
 - per passenger boarding, or
 - the equivalent amounts in a hybrid measure of passenger boardings plus passenger kilometres (provided they can provide trip length data of a suitable quality on which to base funding).

Both options are set out in Table 1 below.

Payment rates

- 7 Funding for patronage above the agreed base patronage level will be at the rates in Table 1 below (note that the rates here are provisional; we will present revised rates for the three major urban areas at the Board meeting, and final rates to the Board Committee by the end of October).

- 8 Regions with major urban areas would have a two-tier patronage payment rate:
- **Peak:** a higher rate, specific to each region, for patronage during times of peak passenger transport use, to reflect the higher benefits of traffic congestion relief.
 - **Off-peak:** a lower rate for patronage at other times, to reflect benefits that apply all day (benefits to passengers, safety and environmental benefits).
- 9 These rates include funding to achieve benefits in proportion to payments comparable to that achieved on Transfund's other investments (a BCR/ER of 4.0), as adjusted for the lower risk of patronage funding as opposed to capital funding (in effect a BCR equivalent to 3.0).
- 10 The payment rates assume Transfund funding for 100% of road user benefits plus safety and environmental benefits, and 25% of passenger user benefits.
- 11 Each region may choose an appropriate peak period for the whole region, based on peak use of the passenger transport system and data availability, as long as it is four hours per week-day. The same peak will apply throughout each region. Small regions may choose no peak (ie an equivalent flat rate) to reduce costs of data collection.
- 12 Table 1 shows provisional rates (excluding GST) that Transfund would pay each region. Transfund's staff and consultants are currently reviewing the congestion values, with final rates to be provided to the Board Committee by 3 1 October.

Table: Payment Rates Per Additional Passenger (excl GST)

Passenger boarding rates for additional passengers					
Period	Measure	Auckland	Wellington	Canterbury	Other Centres
Peak	\$/pass. boarding	1.90	2.70	1.10	1.00
Off-peak	\$/pass. boarding	0.70	0.70	0.70	0.70
Equivalent hybrid rates for additional passengers					
Peak	\$/pass. boarding	\$1.15	\$1.00	\$0.45	\$0.35
	\$/passenger km	\$0.16	\$0.14	\$0.09	\$0.08
Off-peak	\$/pass. boarding	\$0.23	\$0.23	\$0.23	\$0.23
	\$/passenger km	\$0.06	\$0.06	\$0.06	\$0.06

Stability of payments

- 13 Transfund will fix the payment rates for a financial year. Transfund will develop a process for dealing with changes to payment rates during 2000/01 – that is, discuss with regional councils how to move from the old rates to new rates. The current proposal is to build last year's payment rates into a new funding baseline for the following year.

Reducing payments

- 14 A region will not receive less than its current annual funding baseline during the transition period, even if patronage reduces below the patronage baseline. After 1 July 2003, if patronage decreases, prior to adjusting funding Transfund would:
- take account of committed contracts when reducing funding
 - lag reductions a year to allow regional councils to budget appropriately
 - take account of underlying causes when considering reduced patronage.
- 15 If patronage reduces below current levels the patronage payments would be reduced at the payment rates for *additional* passengers not the *base* rates.
- 16 If patronage reduces in one quarter, the regional council can claim the baseline funding levels for that quarter, but Transfund will net out the reduced patronage in one quarter from any increases during subsequent quarters in that financial year. It will not carry the reduction forward into patronage in the following financial year.

Transfund's risk management

- 17 Transfund reserves the right to reduce its funding input if a regional council reduces its financial contribution below the regional council base contribution (based on the average of the regional council's share of the last three years' total expenditure).
- 18 Transfund may review a region's base funding up or down if patronage increases or decreases for reasons outside of a regional council's control.

Source of regional council contribution

- 19 Regional councils can use any source of funds to cover patronage and kick-start costs not covered by Transfund.

Patronage funding monitoring and review

- 20 Transfund will require regional councils to analyse and report on the effectiveness of different strategies in building patronage.
- 21 Transfund would like regions to report on the effectiveness or otherwise of the payment rates in terms of inducing increased services. Transfund would also like regions to report on any negative effects of the scheme as early as possible. Transfund will review the scheme annually in July until 2003.

Patronage funding claims

- 22 Regional councils may claim for base funding as currently (a flat monthly rate of a twelfth of annual funding).

- 23 Subject to conforming with Transfund's procedures and guidelines for patronage data, regional councils will be able to claim for patronage growth monthly. If the regional council is unable to provide actual data on a monthly basis, Transfund will make monthly payments based on an estimated quarterly profile agreed between Transfund and the regional council. There will be a reconciliation process at the end of each quarter to match actual patronage growth with estimated patronage growth.

Establishing patronage baselines

24 Transfund will:

- agree the services to be included
- agree the treatment of social services funding
- take into consideration unusual events that may have influenced patronage
- consider the reliability of last year's data.

25 The patronage levels will:

- include passengers on nominated free services and commercial services (to the extent that the region considers them material)
- include passengers on contracted taxi schemes (but these will not qualify for the proportion of the payment rate for congestion relief)
- exclude passengers on inter-regional services.

26 To qualify for the passenger kilometres measure, regions will have to provide suitable data for last year, and evidence that they can update it quarterly. This may include undertaking the work to tie surveyed trip length data to ticket types, and being able to record passengers by these ticket types.

27 Transfund will discuss the issue of how to accommodate integrated ticketing with each region as it arises. In regions with ferries on passenger kilometre funding, Transfund will discuss a payment measure based on car kilometres **avoided** by the ferry trips.

Kick-start Funding

28 To kick-start patronage growth Transfund proposes that, in addition to the patronage funding payments as set out in Section 1, it would pay to any regional council for qualifying expenditure at the following assistance rates within any one year:

- 80% to 30 June 2001
- 60% from 1 July 2001 to 30 June 2002
- 40% from 1 July 2002 to 30 June 2003.

- 29 This extra funding would be available until June 2003, at which time the average monthly expenditure over that period (1 November 2000 to 30 June 2003) would become embedded in the region's new baseline of funding (except for one-off initiatives such as marketing). Transfund does not plan to cap the kick-start funding at this stage, but will review this depending on uptake.
- 30 For clarity, a service contract would be funded monthly at an 80% assistance rate for costs incurred during 2000/01, then at a 60% assistance rate for costs incurred during 2001/02 and 40% for costs incurred during 2002/03. That is, even if a regional council had approval for funding a service during 2000/01 at the 80% assistance rate, if it was late starting the service it could only claim at the 60% assistance rate for expenditure incurred during 200 1/02.
- 31 Transfund intends to take account of the average monthly payments between 1 November 2000 and 30 June 2003 in re-setting the base funding levels from 1 July 2003.
- 32 To ensure that kick-start funding generates enduring new services and facilities, rather than being used on 'one-off initiatives such as advertising programmes, Transfund would require that expenditure related to increased passenger services be at least 50% of a region's annual kick-start funding expenditure.
- 33 Transfund will also increase financial assistance for Passenger Services Administration costs from 25% to 33%. It would be introduced retrospectively from the commencement of this financial year.
- 34 From July 2003, kick-start funding would cease and regional councils would be funded purely through patronage funding (from the new funding baselines).

Qualifying Expenditure

- 35 Qualifying expenditure for kick-start funding includes the following (and regional councils will be able to offer other initiatives as qualifying, provided they can be defined as outputs and relate to the objective of increasing patronage):

<i>Qualifying Expenditure</i>	<i>Examples</i>	<i>Limits</i>
Improved services	New services or increased service levels	Minimum of 50% of total regional kick-start funding allocation
Facilitating access and transfers	Electronic ticketing, off-bus ticketing, integrated ticketing	
Simpler, cheaper fares	Free transfer, time- limited, reduced fares, free bus services, fare cap	Maximum of 50% of total regional kick-start funding allocation
Greater awareness	Promotion, marketing, timetable information, real-time information for passenger services	
Improved comfort, access and security	Passenger transport shelters, security systems	

Minor Infrastructure

- 36 Transfund proposes to increase the maximum amount eligible for Transfund financial assistance to \$10,000 per bus shelter (or other minor capital item) funded through regional councils.

Applying for kick-start funding

- 37 To be eligible for the up-front and administration funding, a regional council must:
- agree to move to patronage funding
 - maintain at least current regional council funding levels
 - provide the required data and undertake required monitoring.
- 38 A regional council would continue to have discretion to vary services within its current funding allocation as it does currently, and would not make separate claims. For example, if a council makes savings by terminating an unsuccessful trial service, the council would then apply those funds to a different service under the base funding).
- 39 To apply for kick-start funding, a regional council will be applying for an increase over its current funding allocation for a specified package of proposed expenditure. The higher kick-start funding assistance rate would apply to the increased expenditure over the current allocations. The council would then claim once the expenditure was made, as currently.
- 40 A regional council would have discretion to vary services within the kick-start funding allocation, as long as it was within the variable range of the specified package.
- 41 To apply for kick-start funding, Transfund will ask regional councils to submit applications to Transfund covering:
- brief scheme description
 - estimates of net costs, gross costs, passenger boardings and/or passenger kilometres, and fare revenue, including supporting rationale
 - basis for procurement
 - legal requirements (consistency with Regional Land Transport Strategy)
 - ongoing council commitment.
- 42 Normal CPP requirements would apply to any activities not funded through administration funding.
- 43 We will use the information contained in these kick-start funding applications to undertake a basic evaluation, to check that the expenditure qualifies, and to forecast funding allocations. We will turn around kick-start funding applications within one to

two working weeks, depending on the complexity of the application and whether all the necessary information has been supplied.

Kick-start monitoring and review

- 44 Transfund will require councils to analyse and report on the success of their kick-start strategies in terms of effectiveness in generating patronage. This information will become part of a valuable database shared with other regional councils.
- 45 Transfund will require regional councils to report on the rate of diversion of new passengers from private cars.

Comparison of Recommended Scheme to that Proposed in the Discussion Paper

This attachment provides a brief rationale for changes between what was proposed in the discussion paper and what is now recommended. The changes are discussed under the headings of:

- patronage funding
- kick-start funding

Changes in Patronage Funding Scheme

Original proposals	Revised recommendations	Reason
Transitional period to 30 June 2002 Baseline patronage and funding fixed into the future based on 1999/00 patronage and funding levels	Increase transitional period one year – June 2003 Base funding made the average of Transfund funding over last three years (99/00, 98/99, 97/98) if available, remove anomalies for individual cases. Patronage based on 1999/00 year.	Require longer adjustment period for tendering To even out discrepancies.
Baseline funding based entirely on 1999/00 funding levels	<ul style="list-style-type: none"> • In regions where current funding will not sustain current patronage, build depreciation (eg on rolling stock) into the baseline funding. • Periodically undertake individual analysis of patronage decreases in each region and take account of where these are outside of a council's control. 	In some regions, current funding may not sustain current levels of service, depending on whether current contracts are representative of the longer term.
Baseline patronage fixed into future based on 1999/00 patronage levels	Periodically review baseline funding and patronage to ensure regional councils can	Some regions, such as Otago, have very efficient use of current funding and high levels of commercial service outside its control.
Patronage funding will apply to <u>changes</u> in patronage from a baseline agreed at the date of	Periodically review baseline funding and patronage to ensure regional councils can	To ensure continued validity of base funding, and to ensure it does not embed current

Original proposals	Revised recommendations	Reason
joining.	maintain current levels of basic mobility (eg base cost increases).	inequities
Payments per passenger-boarding	If they can provide the data, regions may opt for an equivalent payment measure that combines passenger boardings <i>and</i> passenger kilometres (see Table 1 in Attachment C)	Clearer incentives, better relationship to benefits
Two-tier patronage payment: <i>Peak</i> : higher rate, specific to each region, at peak times <i>Off-peak</i> : lower rate for patronage at other times	Small regions may opt for an equivalent averaged flat rate.	Reduce compliance costs where congestion levels are low
Congestion values based on 2 <i>hour</i> peak traffic flows in the three urban regions	Congestion values now based on 4 <i>hour</i> peak traffic flows in Wellington, Auckland, Christchurch	Expert peer review
Rates to apply for 3-5 year period	Rates to apply for financial year: when rates are changed, the old rates are set into a new funding baseline to give more certainty	If a council contracts for a service on the basis of higher rates, it would face added costs if Transfund subsequently reduced the rates
Peak period (7-9am and 4-6pm)	To allow each region to choose its peak passenger transport use period provided all use a consistent number of hours per week. <i>Pending advice from technical reviewers for equivalent payment rates</i>	Gives each region flexibility to allow for different available peak data and different actual peak use
Patronage during peak period	AM All passengers on services that arrive at their destination within the am peak hours PM All passengers on services that depart from their origin within the pm peak hours	<ul style="list-style-type: none"> Need a unique definition for passengers that travel partly during the peak period
Transfund's contribution to not exceed 60% of total regional expenditure	Transfund's contribution to not exceed 80% of total regional expenditure (reviewable). Councils required to at least maintain current levels of expenditure (unless they reduce services, where Transfund's funding will also reduce). Transfund reserves the right to reduce payment rates if	<ul style="list-style-type: none"> After a period of time, requires 40% rates contribution for all new services

Original proposals	Revised recommendations	Reason
<p>patronage increases for reasons outside a council's control.</p> <p>No reduction in funding during transitional period</p>	<p>Same, but after 2003 propose to decrease funding if patronage decreases</p> <ul style="list-style-type: none"> - take account of committed contracts when reducing funding - lag reductions a year to allow increased rates budgeting - take account of underlying causes when considering reduced patronage 	<p>Regional councils need certainty regarding funding risk.</p> <ul style="list-style-type: none"> • Regions face changes in patronage outside of their control (eg petrol price changes). •
<p>Formal review 2003</p>	<p>Commit to respond to needs as they arise plus annual review.</p>	<p>To quickly catch any perverse effects.</p>

Changes in Kick-start Funding Scheme

Original proposals	Revised recommendations	Reason
<p>Kick-start funding is 50% to June 2002 and continues on an annual basis at that level (i.e. is embedded in a new baseline)</p>	<p>Kick-start funding is:</p> <ul style="list-style-type: none"> * 80% to 30 June 2001 • 60% 1 July 2001 to 30 June 2002 • 40% 1 July 2002 to 30 June 2003 and is embedded into the baseline on an annual basis at the <i>average</i> of the payments from 1 November 2000 to 30 June 2003 	<p>Regions have little spare rates funding this financial year and so cannot access 50% kick-start funding in 2001; Transfund has a current surplus and a lower hurdle rate; there is a need to extend this transition period to fully utilise this opportunity.</p>
<p>What qualifies for kick-start funding – new services, variations to existing services, marketing, ticketing, shelters</p>	<ul style="list-style-type: none"> • Revised list of qualifying expenditure provided. Councils can also approach Transfund on a case-by-case basis for expenditure not covered in the list. Councils seek kick-start funding for packages of initiatives. Options presented on funding capital items. 	<p>Provides flexibility for councils to determine the best way to achieve patronage growth and determine the cost of services and other initiatives</p>
<p>List of qualifying expenditure for kick-start funding includes public transport services, professional services and minor works that regional councils can currently fund (such as shelters).</p>	<p>Include kick-start funding for infrastructure funded by an RC as an output (as currently): increase the limit for RC funding for shelters from \$6000 to \$10,000 per shelter.</p>	<p>Reduces a bias against smaller infrastructure – services attract kick-start plus patronage funding; Under the previous proposals, TLA-funded infrastructure attracts patronage funding, and only to the RC not the TLA. The new proposal goes some way towards resolving this.</p>

Attachment E to Submission TF 00/10/795

Patronage Funding Implementation Plan

Developing patronage baselines

Process	Timing
Obtain total patronage numbers, kilometres travelled (if hybrid option) and transport expenditure data from regional councils	October/November 2000
Calculate peak and non-peak time patronage baselines once the regional council and Transfund have defined the respective 20 hour per week "peak"	Regional councils nominate "peak" times when joining patronage funding scheme
Agree patronage baseline with respective regional councils	As soon as possible

Agreeing data collection processes

Process	Timing
Confirm the data regional councils are to provide to substantiate a claim under the patronage funding scheme	Following Board agreement of patronage funding scheme
Consult with the Bus and Coach Assn on their draft agreement to protect commercial information	18 October
Develop – in consultation with Audit NZ -- procedures and guidelines (including quality control mechanisms) that will deliver patronage data of a suitable quality on which payment can be made	20 October
Consult with stakeholders on the proposed procedures and guidelines for patronage data	27 October
Finalise procedures and guidelines for the provision of patronage data and communicate to regional councils	30 October

Developing funding process

Process	Timing
Confirm patronage funding and kick-start funding eligibility criteria and evaluation processes	Following Board agreement of patronage funding scheme
Finalise interim Patronage Funding Manual setting out processes for making applications, information requirements, negotiation, approval, CPP & claims and promulgate to stakeholders	27 October
Promulgate marginal patronage rates as a variation to the manual	Following Board agreement on rates
Set up TAPS to capture requests and manage approval and claims process	31 October
Receive, review and approve conforming requests for patronage funding	mid October onwards
Train Transfund staff on patronage funding policy and	mid October onwards

procedures	
Assist and advise regional councils on patronage funding policy and procedures	mid October onwards
Receive and evaluate kick-start funding proposals	November onwards

Public transport infrastructure

Process	Timing
Finalise ATR risk analysis guidelines for ATR manual	20 October
Promulgate ATR risk analysis guidelines	31 October
Review FAR policy to ensure consistency between patronage funding and infrastructure	aim for December
Develop guidelines for splitting infrastructure funding between patronage funding and ATR capital	aim for December
Develop simplified procedures for ATR projects with a total capital cost less than \$400,000	aim for December, although not as urgent if kick-start funding can apply to minor projects
Promulgate guidelines and simplified procedures	aim for end of 2000

Feedback

Process	Timing
Two-monthly reporting to Board on uptake and issues arising from implementation of patronage and kick-start funding	every 2 months
Co-ordinate national workshops for stakeholders to share experiences	January 2001
Six-monthly review of patronage funding initiative	May 2001

Attachment F to Submission TF 00/10/795

Risks and Gaps of the Recommended Patronage Funding Scheme

Risk items associated with patronage and kick-start funding are identified below (based on a previous paper prepared by David Ashley of Sinclair Knight Merz). Comments on these risks and an assessment of their reduction or management is provided in italics.

Short term risks

- 1 Financial risk:
 - payments in excess of Government specified target increase; variable funding requirements: *Not an issue if Transfund is getting value for money*
 - inequitable allocation of funds among regions: *partially offset by considering individual regions' circumstances when setting 2003 baseline funding*

- 2 Non-financial: these would comprise administrative and implementation problems:
 - delays associated with obtaining and agreeing the baseline data (ETMs, services scope, difficulties in disentangling social costs) and the compliance costs associated with this: *delay risk is significant – Transfund has set up a project team to assist the regions through the transitional processes and will need to move fast; key barrier is obtaining confidential data from commercial operators, which may require setting up an independent data unit; increased costs are assisted by Transfund administration FAR increase, but compliance cost not known at this stage*
 - delays are also a key risk for the kick-start funding; councils need to resource the service planning activity and need time for tendering new contracts: *Transfund will have a fast turnaround on approvals for kick-start,. Transfund will support regional councils share experience/planning*
 - implementation may throw up unanticipated issues (this risk is associated with the need to implement this new system speedily): *the project team would deal with matters of interpretation and clarification, changes to the scheme would be referred back to the Board;*
 - patronage funding and to an extent the kick-start funding involves some acceptance of risk by the councils: *detailed negotiations on risk management will be needed; Transfund will need to commit to medium term patronage rates.*

Medium term risks

- 3 Transfund will incur the following specific risks.

Financial:

- no longer a budget limit on services payments; any factors that lead to increases in public transport patronage will lead to a claim on Transfund funds; *Transfund*

must accept that expenditure on public transport services will change from year to year under the patronage funding system;

- if the patronage rates are much less than the cost of providing new public transport services then there may be little service development; if they are too high, high cost subsidised public transport services may proliferate – this is clearly a risk with kick-start; *the rates have been set conservatively and can be increased subsequently zperformance consequences are not as expected.*

4 Other Transfund risks:

- evaluation or funding inconsistencies between ATR and patronage funding will need to be resolved *To be considered by the end of this December.*
- manipulation of the process by regions or other stakeholders: the extent of this risk is unclear, it will be important to define the scope of services encompassed by patronage funding to avoid services being transferred between different funding headings to maximise Transfund funding; *Needs monitoring and review of average trip lengths, costs, patronage increases, and auditing of services included*
- poor data precision, annual fluctuations in patronage, changes in Transfund's payment rates, or new government policies could cause major year-to-year fluctuations in funding which regions would find difficult to handle and could ultimately discredit the process; *this seems likely to be a matter for the consultation,.*

5 Regional councils also incur the following risks:

- if regions are overly optimistic about the **net** increase in patronage due to service improvements (ie where there is diversion from other services), they will be exposed to significant losses; this may have a destabilising effect on public transport provision; *the up front requirement that councils share the risks may ensure considered judgement; this appears to be a major risk for the kick-start funding where little time is available for determining the best possible new services and councils may have only an inaccurate perception of the downstream patronage funding risks associated with kick-start;*
- compliance costs may be more significant than anticipated, or onerous for small operations; *Need to monitor – in such a situation, a less demanding formula will need to be sought.*