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Michael Gross
Chairperson
Transfund New Zealand Board
P O Box 2331
WELLINGTON

Dear Michael

Patronage Funding Proposal

I attach a submission on the Transfund Board's Patronage Funding Proposal. My Council welcomes the government's initiative to increase its funding of passenger transport services through your organisation. We think it is important that we all respond to this in a positive way and get some urgently required extra funding into our network of services. Kick start funding, with some refinements we suggest, will get us on the right track.

The medium and long term funding proposal is however, more problematic. Like Auckland Regional Council we are very concerned about two basic elements of the Board's proposal – the patronage rates for new peak and off peak passengers and the baseline funding. The Auckland analysis and the little we have been able to do suggests that the plausible range of patronage rates is so large as to place in doubt the validity of any value.

Likewise the under valuation of the benefits of existing patronage would lead over a short period of time to the Wellington Region's ratepayers having to find a greater and greater proportion of the total passenger transport costs. This is not an outcome that I understood the government was targeting.

My Council cannot therefore, support the Board's proposal for the medium to long term. We believe there needs to be a re-think with a clear statement of the long term outcome we are all trying to achieve.

For the short term we acknowledge the need for action and would therefore participate in the Kick Start programme if the reasonable amendments that Auckland and ourselves have proposed are included.

Yours sincerely

MARGARET SHIELDS
Acting Chairperson

Funding Passenger Transport
The Patronage Funding Proposal
Wellington Regional Council's Position

Main Concerns

Most Regions' passenger transport networks have suffered a number of years of under funding. There are significant investment deficits to be addressed in the short term to allow public transport services to become an attractive alternative. For the first time in a decade the objectives of central government and those of the regions appear to be in harmony.

We are concerned at what appears to be an overly complex approach from central government agencies in achieving some immediate progress towards improving services. This appears to be based on a misunderstanding of how public transport networks develop and operate.

The Proposal on the Table has Deficiencies

The proposal ignores the value of the existing public transport network and concentrates on chasing short-term patronage growth through providing strong incentives to attract **new** passengers to **new** services. This is naive because patronage growth is a long-term outcome from planned development and investment in the existing network through service enhancements and new services linked to the existing system.

Patronage funding long term needs to encourage regions to maintain and enhance their existing networks whilst further developing their coverage and effectiveness. This requires that **all** patronage is valued not just the new patronage at the margins. An alternative might be for specific funding to be earmarked for infrastructure investment. Being more efficient with the resources we have can be more cost effective. Some regions will have to invest in new networks to stimulate patronage growth.

Short-term funding proposals ignore the fact that regions have no immediate source of matching money. They also leave the long-term risk with the regions. Patronage growth can take two years to materialise.

Experience suggests that new service initiatives result from knowledge of the service conditions and no amount of analysis will predict actual outcomes. It is difficult to envisage what additional expertise Transfund can bring to the new service evaluation. Once patronage funding is fully bedded in the need to evaluate services will disappear.

Proposed patronage rates at the margin appear to lack credibility. It is difficult to know how they will influence downstream investment until the system is in operation. There is all together too much risk for all parties from the rates being wrong. That they are wrong is a given the issue is how wrong and can we live with that level of inaccuracy. When this is coupled with the clear problems of baseline patronage definitions a compounding level of inaccuracy is the likely outcome.

We have made a rough calculation of how the patronage funding proposal will work in our region into the future. This calculation is based on an estimate of current patronage in the region of 27m riders a year, a growth of 2% per year over the next ten years and expenditure as set out in our ten year financial plan.

Our total expenditure in 1999/2000 was $36.4 m of which Transfund provided $16.2m or 44%. Kick start funding and patronage growth would see us by 2002/03 spending $44.4 m with Transfund support of $20.1 m or 45%, by the year 2005/06 our expenditure will be $57.7 m with Transfund support of $23 m or only 40%.

We appreciate the increased funding that will result in the Kick Start years but are very concerned about the medium to longer term.

Where to from Here?

We must move on. The long-term problems need to be further debated and resolved and time must be allowed for that to occur. As long as the current proposal delivers some additional funding support and the incidence of it is not clearly absurd then the regions should buy into the proposal for the short term. We could run with it but only if Transfund will commit to a genuine review of the patronage rates, the surrounding issues to do with valuing existing patronage more appropriately and the need for infrastructure investment. This would require some analysis of future expenditure requirements by all regions.

Short Term (until 1July 2002)

The short term could be resolved through a compromise that recognises those issues raised above. The following should be considered.

- Increase the administration FAR to 50% from 1 July 2000 (not the 33% proposed.) This will provide some rates relief to regions, which they could then invest in new services, albeit limited.

- Fund new qualifying expenditure at 75% from 1 November to 30 June 2001. (That is expenditure above the approved budget.) This could be seen as an increase in the FAR for new expenditure. There would be no need to evaluate that expenditure unless it was a new service. It would be a simple arithmetic calculation.

- Fund new qualifying expenditure in the 2001/2002 year at 50%. The same process as above would apply to calculate the amount.

- Extend the kick start programme into the 2002/2003 year at the same rates.

- Fund new patronage in 2000/2001 and 2001/2002 at the proposed marginal rates. If use of these rates results in strange outcomes then we must be prepared to review or suspend their use.

- Raise the funding cap to 75% of a region's total transport expenditure.

- Collect baseline patronage data for 1999/2000 using two-hour peaks defined by agreement by area. The evening peak may be 4.30 pm to 6.30 pm for example. Or one part of the region might have a 6.00 am to 8.00 am morning peak and elsewhere it's 7.00 am to 9.00 am.

- All bus operator patronage data could be collected by region, including commercial and contracted, by the Bus and Coach Association and provided to Transfund for funding purposes only. Regions would continue to collect their data direct from operators for contracted services on whatever basis they agree with operators.

Long Term (after 1 July 2002)

For the long term it is assumed that the patronage rates are reviewed and that they better reflect the true situation.

- Transfund's role should be purely to make payments to the Regions. The Regions should be able to spend the money on what they like and how they like as the risk rests entirely with them. The only issue for Transfund should be - are the Regions spending at least 25% of the total costs of transport in their area.

- Review and change the patronage rates for existing patronage so as to reflect the long or short run capital cost of services. Regions with rail services would have their rates increased.

- The patronage rates would need to be inflated by an annual factor. This factor would be the amalgam of all the factors used to calculate the base rates.

- The patronage rates could incorporate the administration costs. There would then be no need for Transfund to make a contribution to administration costs.

- Because of the high level of risk it is important that the level of Transfund support not be allowed to decrease below that which would have been provided under the current system. So as well as a cap on funding there should be a base below which funding will not decline. A figure of 50% should be considered.

Summary

Patronage funding may prove to be a viable system in the long run. There are serious risks of failure and those risks rest with the Regions. Not enough attention has yet been given to the practicalities of the proposal and not enough "what if" analysis has been done. New problems arise as each element of the proposal is considered in more depth. This should suggest that the proposal is not completely thought through yet. Transfund must commit to a rigorous review at every step that involves genuine participation by stakeholders. Then and only then may we be able to embrace the concept for the long term. We could then run with the existing proposal, with the amendments proposed above, on a trial basis. Information from the trial and the further in depth analysis from the review process should enable us to agree on a long term solution at some future point.