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Report to the Passenger Transport Committee
By Dr D J Watson, Divisional Manager Transport

Insight into Next Year's Business Plan

1. Purpose

To provide the Committee with an early understanding of how the 2001-2010 Transport Division Business Plan is looking in light of the Transfund New Zealand's Patronage Funding Scheme.

2. Background

Elsewhere on the order paper is a report on Kick Start Funding. That report sets out the projects and services being applied for as Kick Start projects for the remainder of this year and gives an indication of projects that will be considered for 2001/02 and 2002/03. Some of these projects involve bringing forward expenditure in the current business plan and some are additional expenditure. This will mean changes to the business plan, especially in terms of timing.

Transfund funding support changes dramatically from subsidising operating costs to funding outputs. This significantly affects the current business plan. Capital Projects will still attract Transfund support through the alternatives to roading (ATR) procedures.

3. Comment

3.1 Assumptions

To fully understand the impact on the business plan of Patronage Funding a number of assumptions have had to be made about funding and funding sources. These assumptions need to be realistic but also conservative. The following are the assumptions:

Transfund Funding

Baseline Funding - will be that funding currently being received by the Council for this financial year. After 30 June 2003, the baseline will include the average monthly kick start funding payments made since 1 November 2000 and any patronage funding paid in that period.

Patronage Funding - will be funding for additional patronage at the rates set by Transfund on the basis of patronage increasing at about 2% per annum .

Kick Start Funding - All new projects and services applied for will receive kick start funding at the rate of 80% in 2000/01, 60% in 2001/02 and 40% in 2002/03.

ATR Funding - All capital projects will receive at least 40% Transfund funding.

Other Funding - An acceptable form of mobility charging will be legislated for by 2005/06 and this will provide an additional funding source for passenger transport of at least \$6 million a year.

... **Attachment 1** is the outcome from this set of assumptions applied to the proposed expenditure programme.

3.2 **The Issues**

The indicative business plan highlights a number of issues.

Kick Start Funding ensures that, for the 2001/2002 year, the transport rate required is little different from the previously adopted business plan. After that the projected transport rate increase is greater than that contained in the business plan, in the range of 3.5 + 6.8%.

Clearly the assumption on patronage growth is criteria. Higher patronage growth will reduce the rate, lower growth increases it. Similarly the assumption on Transfund baseline funding has a direct relationship to the likely rate. The first actual patronage growth figure will be calculated at the end of the March 2001 quarter (covering a 5 month period – November 2000 to March 2001). This will give the Committee an understanding of the validity of the 2% per year patronage growth consumption. Finalisation of the baseline funding amount may be more problematic as it could be affected by Trans Rail negotiations.

3.3 **Concerns**

There are a number of fundamental concerns emerging from the "Patronage Funding" approach. Concerns that have been raised before, either at the "Patronage Funding" workshop run by Transfund or in subsequent meetings on the subject.

There are concerns about the overall philosophical framework, concerns about the calculation of patronage values and concerns about the risk.

The overall framework appears to be skewed. Transfund have moved to fund the benefits to road user of people travelling by public transport. They however value every new passenger more highly than any existing passenger. They argue that existing passengers are being carried now and they have no reason to pay more to carry them. This is not sensible from an equity point of view nor does it provide the right economic signals. This concern may be overcome during the negotiation of the baseline funding.

The Transfund objectives don't align with the Governments' overall community objectives. Government has a broader interest which is not restricted to road user benefits. This can only be overcome by Government taking back political control over the future direction of Transfund. Transfund's objectives should rank community aspirations and environmental outcomes above road user benefits.

The calculation of benefit rates is kidology. It is impossible to accurately identify the road user benefits that will result from one extra passenger using public transport at peak or off peak times. The machinations that took place throughout the calculation process, for example the last minute increase in the peak rate for Auckland and a late attempt to reduce the off peak rate reflect this. It is a fact that a series of assumptions have had to be made to gain a number. No respectable mathematician would suggest that the number promulgated can be relied on.

The patronage risks are highly problematic. Patronage will fluctuate. Reasons for change will generally be outside the control of the Council or the operator. Having a source of income linked to a fluctuating factor over what you have minimal control is risky.

3.4 The Outcome

The Transport rate scenarios resulting from these assumptions has changed from that shown last year. The table below shows the current scenario and compares it with last year.

RATE SCENARIO			
Year	Last Year	Now	% Difference
2001/02	\$23.8m	\$24.1m	1.6%
02/03	\$25.2m	\$26.9m	6.8%
03/04	\$25.7m	\$27.2m	5.8%
04/05	\$26.9m	\$27.9m	3.5%
05/06	\$26.8m	\$27.9m	4.0%
06/07	\$26.6m	\$27.9m	4.6%
07/08	\$26.8m	\$27.9m	4.0%
08/09	\$26.9m	\$27.9m	3.6%
09/10	\$26.9m	\$27.9m	3.6%

4. **Communication**

There is no need to undertake any communication of the contents of this report. The figures are preliminary providing insight into the direction the new Transfund funding procedures may lead Council.

5. **Recommendation**

That this report be received

Report prepared by:

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