Attachment 2 | Transport Funding Principles: Board Discussion Document

The following transport funding and financing principles have been identified for Board discussion:

a. Beneficiaries pay for improvements

   i. A mix of approaches is used for infrastructure funding and financing in New Zealand and overseas, including that users (a specific group of beneficiaries) pay, and that the public resources services via general forms of taxation.

   ii. One option is that AT supports a hybrid approach where beneficiaries pay for improvements and users pay for the costs of their activities, including externalities.

   iii. A taxation-based approach would support prioritisation of national or regional outcomes but would result in competition for funding with other activities, reduced investment certainty and heavy politicisation of evidence-based decision making.

   iv. A user-pays approach poorly reflects the economic, social and land use benefits of new transport investment, contributing to demand for investment in excess of the supply of funding. User charges also require strong financing arrangements that enable future use to unlock present day investment, something which is subject to significant forecasting assumptions and which has proven challenging under the current system.

   v. A beneficiary pays approach to improvements will enable regional transport investment programmes like Auckland Transport Alignment Project to allocate the costs of programmes to the beneficiaries, including users, property owners receiving value uplift and the Government, who will benefit from a more productive economy with lower social costs.

   vi. A beneficiary-pays approach also implies hypothecation of funding. Separation of transport resourcing from other activities will help to reduce competition for funding and enhance investment certainty.

b. Users pay the full costs of transport activities

   i. A beneficiary pay approach will broaden transport's funding base, but it will not accurately capture externalities created by the transport system. Externalities transfer costs from the transport system onto other users or sectors. It will be neither efficient nor fair to charge these other users and sectors to reduce externalities on the basis that they benefit.

   ii. A separate funding principle may therefore be recommended to capture externalities, as well as the maintenance, operation and renewal of transport networks.

   iii. A user pays component for day-to-day activities, distinct from beneficiaries charging for major capital works, will enable more targeted charging approaches which improve the connection between users and the costs they create.

   iv. This approach will be consistent with, and support, roll out of Auckland's Congestion Question initiative, on the basis that road users pass on a cost to other road users when demand for road space exceeds supply.

   v. This approach is also consistent with a targeted approach to carbon emissions. A direct excise or other charge on fuel to reflect carbon externalities will enhance price signals to road users and facilitate the transition to lower emission options.

   vi. This approach may also be adapted to help Auckland and New Zealand promote Vision Zero objectives, by allocating costs to vehicles which create the greatest risk to human life on and around roads.

   vii. However, a hybrid approach incorporating both beneficiary and user pays principles does suggest increasing complexity and a potential reduction in transparency, which are both common funding principles elsewhere.

c. Accountability
    i. Any transport funding model based on principles of beneficiaries or user pays requires charging methodologies to be transparent and system administrators to be accountable.
    ii. Accountability and transparency are common principles elsewhere.
d. Sustainability
    i. Any transport funding model needs to be financially sustainable and should prevent costs from either accumulating or being transferred to future generations.
    ii. The model should also be sustainable from a transport performance perspective. Inadequate resourcing which results in safety, efficiency, environmental and other negative impacts is not sustainable.
    iii. Whole-of-life costing and intergenerational principles are common elsewhere.
e. Equity
    i. A beneficiary and users pays oriented funding system is designed to maximise efficiency by strongly linking those who benefit and create costs with the financial impacts of decisions.
    ii. However, some transport customers will not be in a position to meet the level of transport charges necessary to deliver a sustainable, accountable system.
    iii. Provision under any model will also need to be made for active modes, which are not proposed to be priced, and for potential increases in public transport subsidies which reduce the ability of farebox to recover operating costs.
    iv. An equity principle will help balance risks that beneficiary and user charges leave some groups without the means to travel.

Other common principles the Board may wish to consider, and which are not captured above, include issues of:

a. Financing – the above principles are narrowly focused on funding resources, rather than financing (debt). AT may consider a principle that all capital projects are debt financed to support intergenerational equity.
b. Simplicity – a common principle elsewhere is that funding systems are administratively simple. Transport’s multi-modal characteristics and complex societal impacts suggest a more complex approach to funding is required. However, AT may wish to balance the increased complexity of the hybrid model with a simplicity principle.
c. Investment prioritisation – the scope of principles above has been tightly contained to the funding and revenue system, but implied in a beneficiary and user charge-based system is that beneficiaries and users have a direct relationship with service provision. Noting some risk that AT’s submission could conflict with Auckland Council views, AT may consider a principle connecting revenue with investment prioritisation.
d. Certainty – predictability of the revenue stream and assurance that assets can be maintained at appropriate levels is critical for asset management. Capital projects that are part of a wider plan or programme require certainty to avoid cascading effects on other parties. AT may wish to identify certainty as a transport funding principle.