

Appendix 'L'

Funding Policy Plus Fees and Charges

Appendix 'L' includes:

Attachment 'A'

Roading Funding Policy

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1. Funding Policy

The land transport activity is funded (almost entirely) by way of subsidies from NZTA, and a combination of a uniform annual charge (for access to the network) and a targeted roading rate that is levied on the capital value basis differentially, against all properties in the District.

Councils approach to targeted rating is spelled out in Attachment A. These differentials are reviewed annually based on the total number of heavy vehicle kilometres travelled by vehicles servicing each industry type.

The Council Funding Policy is being reviewed and the new Policy to be adopted in December 08 will be inserted into the plan to replace/update attachment A.

The extent to which Land Transport NZ currently subsidises the District's land transport expenditure is shown in Table L.1. The future expected levels of subsidy are assumed to be the same.

**Table L.1 Land Transport NZ – Financial Assistance
– Subsidy Rates**

Maintenance	Current
Routine Maintenance	54%
Bridge Maintenance	54%
Other Maintenance	
- Street Cleaning	16%
- Traffic Services	54%
- Level Crossings	100%
- Special Purpose Roads	100%
Street Lighting	54%
Environmental Maintenance	54%
Miscellaneous	0%
Indirect Costs and Allocations	
Professional Services	54%
Administration	2.25%
Allocated Costs	0%
Strategy Studies	64%
New Capital	
Minor Improvements	64%
Renewals Capital	
Pavement Rehabilitation	54%
Reseals	54%
Major Drainage	54%
Bridge Renewals/Upgrades	64%
Public and Active Transport	
Public Transport	50%
Active Transport	64%

The expected future levels of NZTA and rating (and other) funding are shown in Table M1.

2. Fees and Charges

The Council has a series of fees and charges related to the roading activity which are reviewed annually and consulted on and noted in each annual plan.

3. Issues

- Nil

4. Future Action and Improvements

- Nil

Attachment 'A'

Roading Funding Policy

1. Roothing

1.1 Activity Description

Council administers and maintains the District's roading and bridging network (some 5,000 km of network), excluding State Highways (maintained by the New Zealand Transport Agency). Council also provides footpaths, streetlights, carparks, and noxious plant control. In addition Council contributes to the Total Mobility Scheme.

1.2 Community Outcomes

This activity contributes to economic outcomes by providing an effective network for moving goods and services and a corridor for utility companies to establish their networks. It also contributes to safe places, by maintaining the roads so that they are safe. The activity, through the total mobility scheme and disabled parking, contributes to healthy people by assisting with transport for those who are less mobile. Active aspects of the network (walkways, footpaths, cycleways) also assist people to be active and healthy. The activity also contributes to making Southland a great place to live by providing people with access to their land, homes, schools, social centres and recreational centres.

1.3 Who Benefits / Whose Acts Create A Need

These benefits are distributed between the community as a whole, utility companies, commercial enterprises and individuals.

Freight of goods is a significant generator for the need for the level of this activity, particularly in maintenance and upgrade of the roads, as trucks do the most structural and pavement damage.

There is also a legal requirement for this activity (Local Government Act 2002, Land Transport Management Act 2003, Transit New Zealand Act 1989)

Period of benefit

The design life of the roads is 25 years, though the life of some sections can be up to 50 years. Structures (such as bridges) are designed to last at least 25 years.

1.4 Funding Sources

Roothing is funded from a mix of rates and central government subsidy. Roothing costs are funded from:

- Central government subsidy;
- Uniform annual charge set at 10% of roading costs funded by rates; and
- Targeted roading rate for each of the following sectors: commercial, dairy, farming, forestry, industrial, lifestyle, mining, residential, and 'other'.

The targeted rate is calculated as follows:

- General roading costs are allocated between sectors by capital value.
- Structural/pavement costs, which are generated by heavy traffic, are allocated by tonnage in the case of rural sectors, and apportioned between the commercial and industrial sectors by the number of properties.
- A percentage share of costs is then established for each sector.
- A targeted rate is set for each sector based on their share of costs and levied on the capital value of each rateable unit.

This funding covers both capital and operating expenditure.

Local amenities are funded through local rates (streetworks and noxious plant control), with some capital projects and emergency repairs (such as slips) funded through loans (recovered from rates subsequently).

The Council may require subdividers and developers to pay a financial contribution under the Resource Management Act 1991 towards the capital cost of upgrade works required to cater for the increased demand generated by the development, the lending costs associated with capital works may also be recovered through financial contributions. The amount of the contribution is assessed on a case-by-case basis, (District Plan, Financial and Development Contributions Policy refer).

There are also some services provided on a user-pays basis. These are detailed in Council's Fees and Charges Schedule refers.

1.5 Rationale

Council considers user pays is an appropriate method of funding the roading and transport network. Council wants Central Government to become a more active partner in the funding and management of public roads, in particular to return all levies/taxes generated from Southland District (fuel excise, road user charges, and registration fees) to Southland District, either through State Highway investment or as subsidy to Southland District roading activity. Council considers that up to 90% of district roading should be funded this way.

However, at the current time, Central Government provides just over 50% of costs of maintaining our roads, therefore, Council's second best option is as follows:

- General costs of having the roading network (basic maintenance, drainage etc) have benefit to all users, though some benefit from the network more than others ie they use it more. Council, therefore considers that general roading costs should be allocated based on capital value (the size of a property and the level of improvement being indicators of road use and ability to pay).
- Pavement or structural costs are repairs to the road required because of heavy traffic. Costs are therefore allocated to each sector based on: tonnage for the rural sector; and the number of properties for the urban sector. And then within each sector, a rate on capital value is applied to reflect relative levels of activity of large firms versus smaller ones. This is the most cost-effective and readily available approximation to a user-pays method that a rating tool can achieve.
- Local services, ie streetworks and plant control, benefit the local community/land owners, and should therefore be funded from local rates, or grants.

The majority of the Roothing and Transport activity is rated for distinctly, as this activity is a financially significant part of Council activity, and a distinct rate best supports a user pays approach. The degree to which user pays is applied is limited by the availability of information and costs of applying a targeted rating system. A sectoral approach is used, as the best compromise between administrative cost and user pays.

Local services are rated for through township rates, as they are local services, but not material enough to rate for distinctly beyond location, loans may also be used. Local roading and transport services also have similar outcomes to other local amenities funded through township rates.

The following pages outline in detail the Council's sectoral tonnage and capital value targeted roading rate.

2. Detail of Roothing Rate Model

Background to the Model

Maintaining and enhancing the roading network is a major activity of the Southland District Council which has the largest road network, totalling nearly 5000 km, of any territorial authority in New Zealand. Projected operating costs budgeted for the 2009/2010 year total just under \$26 million, including depreciation, with an additional \$19.8 million identified for capital works. Operating expenditure for roading accounts for 45% of the total cost of all the services provided by the Council. Roothing expenditure is currently funded by a mix of rates collected at a District level, NZTA subsidy, petroleum tax, general recoveries and interest.

When considering the question of who benefits from roads and therefore who (and how) they should pay, the Council believes that while a portion of roading costs should be paid by all ratepayers to reflect users' access to the roading network (assessed at 10% of costs), the remainder should be paid by the users. While the Council believes that the funds collected by the Government (largely petrol tax and road user charges) would be the best form of user pays for roading (as it is directly proportional to usage), it is clear that the Government would be unlikely to provide assistance at the required 90% of roading costs (currently the Funding Assistance Rate sits at 54%).

MODEL'S APPROACH TO ESTABLISHING SHARE OF COSTS

The model has two main parts:

1. Allocation of Expenditure

This part of the model takes the costs associated with the road network by work categories (e.g. road pavement maintenance, bridge maintenance) and then allocates these into two types of expenditure. The approach used is based around the Ministry of Transport's Road Cost Allocation Model (2001). The two expenditure types are:

- **General Expenditure:** This makes up around 65% of total roading costs and is allocated to all road users including general residual traffic and light vehicles. This expenditure includes traffic costs such as road signage, road markings, general operations, drainage control, lighting and minor maintenance.
- **Pavement/Structural Expenditure:** This makes up around 35% of total roading costs and is allocated to land use sectors associated with heavy vehicles. This expenditure includes costs to upgrade and maintain roads largely related to heavy vehicle usage. Pavement/structural expenditure is then broken into rural and urban using information about the length of each and in some instances historical spending in each of these areas.

2. Allocation of Costs to Sectors

Once the costs have been allocated, the model then uses different approaches to allocate the types of expenditure amongst land use sectors:

- **General Expenditure (65% of total costs)** – allocates costs across all land-use sectors based on capital value.
- **Pavement/Structural Expenditure (35% of total costs)** – allocates costs to rural and urban as well as re-distributing aggregate costs. The rural sector share is based on tonnage and the urban sector share is based on the number of properties and both use capital value to allocate

the costs within the individual land use sectors. The cost of aggregates is shared out to all properties based on land value.

The rural sector includes dairy, non-dairy farming, forestry and mining properties. Their portion of pavement/structural costs are allocated on tonnage (weight). The model assumes that the weight generated by any sector damages the pavement the same as an identical weight in any other sector and that all vehicles are loaded to their weight limit at some part of each trip. It also assumes that the major generators of weight are reasonably uniformly distributed across the Southland District road network. The Southland tonnage information has been sourced from a variety of publicly available and published statistics. The total weight estimated to be transported on Southland roads is 3,170,795 tonnes per annum and this is allocated to the rural land use sectors as shown in the table below.

The urban sector to which pavement/structural costs are allocated for heavy vehicles includes industrial and commercial properties. Their portion of pavement/structural costs are allocated on the number of properties in each sector as shown in the methodology below.

As the majority of aggregates are taken out of river reserves (and therefore are unable to be rated for), this tonnage has been allocated to all sectors and shared out according to land value.

Methodology

Step 1:
Allocation of Costs

ROADING EXPENDITURE	
Operating Costs	\$25,856,710
Renewal and Capital Costs	\$18,648,920
Non Cash Expenditure / Loans Repaid	(\$15,912,729)
Total	\$28,592,900

ROADING INCOME	
New Zealand Transport Agency	\$15,113,203
Other Revenue	\$854,634
Reserves	\$3,185,220
Total	\$19,153,057

REMAINDER FUNDED BY RATES	
Total Expenditure	\$28,592,900
Less Total Income	\$19,153,057
Remainder	\$9,439,843

ALLOCATED TO:	
General Costs	\$6,141,584
Pavement/Structural Costs	\$3,298,259

Step 2:
Sharing out Costs

GENERAL COSTS				
General Residual Vehicles				\$3,918,506
Light Vehicles				\$2,223,078
Total				\$6,141,584
ALLOCATED TO:		SHARED OUT BY:		AMOUNT \$:
All Land Use Sectors	No Prop.	Capital Value		\$6,141,584
Mining	29	0.11%	\$12,993,400	\$6,708
Farming - Non Dairy	3410	53.46%	\$6,358,816,050	\$3,283,058
Farming - Dairy	669	18.28%	\$2,174,854,000	\$1,122,878
Forestry	170	0.90%	\$106,822,650	\$55,153
Industrial	320	1.80%	\$214,153,500	\$110,568
Commercial	463	2.12%	\$251,954,600	\$130,084
Lifestyle	2202	6.41%	\$763,082,794	\$393,980
Residential	7677	11.29%	\$1,343,552,500	\$693,676
Other	299	5.63%	\$669,143,613	\$345,479

PAVEMENT/STRUCTURAL COSTS		
Heavy Vehicles		\$3,298,259
Total		\$3,298,259
ALLOCATED TO:	SHARED OUT BY:	AMOUNT \$:
Urban Land Use Sectors	Number of Properties	\$247,777
Industrial	40.83% (320)	\$101,169
Commercial	59.17% (463)	\$146,608
Structural Land Use Sectors	Proportion of Tonnage	\$2,606,521
Mining	7.94% (251,686 tonnes)	\$242,136
Farming - Non Dairy	13.40% (425,045 tonnes)	\$408,917
Farming - Dairy	47.01% (1,490,448 tonnes)	\$1,433,894
Forestry	15.42% (488,902 tonnes)	\$470,351
Industrial	1.68% (53,244 tonnes)	\$51,224
Aggregates (see below for cost)	14.55% (461,471 tonnes)	See Below
Aggregates (All Sectors)	Land Value	\$443,961
Mining	0.09% (\$6,503,200)	\$380
Farming - Non Dairy	69.09% (\$5,247,790,400)	\$306,754
Farming - Dairy	15.01% (\$1,139,699,300)	\$66,620
Forestry	1.27% (\$96,436,750)	\$5,637
Industrial	0.42% (\$31,588,550)	\$1,846
Commercial	1.11% (\$84,589,400)	\$4,945
Lifestyle	5.25% (\$398,535,500)	\$23,296
Residential	7.38% (\$560,321,550)	\$32,753
Other	0.39% (\$29,578,663)	\$1,729

The methodology was been developed using 2007/2008 roading financial information and has been updated to take account of the most recent tonnage data in 2008/2009 as well as the financial budgets included in this Land Transport Activity Management Plan.

The Council believes that the Morrison Low approach is based on a logical methodology and with the separation of general and pavement/structural costs, allows Council to charge land-use sectors with heavy vehicles for the costs that they create. The table below shows the model's overall allocation calculations used to derive each sector's share of costs.

Land Sector	Use	Number of Properties	General Roothing Costs (on Capital Value)	Pavement/ Structural Costs – Rural (allocated on Tonnages)	Pavement / Structural Costs – Aggregates (allocated on Land Value)	Pavement / Structural Costs – Urban (Allocated on number of properties)	Total Costs Allocated	Morrison Low Model Percentage Share of Costs	Modified Percentage Share of Costs
Mining		29	\$6,708	\$242,136	\$380		\$249,225	2.64%	1.00%
Faming - Non Dairy		3410	\$3,283,058	\$408,917	\$306,754		\$3,998,729	42.36%	42.50%
Faming - Dairy		669	\$1,122,878	\$1,433,894	\$66,620		\$2,623,391	27.79%	27.50%
Forestry		170	\$55,153	\$470,351	\$5,637		\$531,141	5.63%	5.50%
Industrial		320	\$110,568	\$51,224	\$1,846	\$101,169	\$264,807	2.81%	3.50%
Commercial		463	\$130,084		\$4,945	\$146,608	\$281,637	2.98%	3.50%
Lifestyle		2202	\$393,980		\$23,296		\$417,276	4.42%	5.50%
Residential		7677	\$693,676		\$32,753		\$726,429	7.70%	10.00%
Other		299	\$345,479		\$1,729		\$347,208	3.68%	1.00%
TOTAL		15,239	\$6,141,584	\$2,606,521	\$443,961	\$247,777	\$9,439,843	100.00%	100.00%

Note the table above may include rounding errors.

The Council has introduced a slightly modified version of the Morrison Low approach (shaded in the table above) to fund the roading rate based on a set of principles for setting cost shares, which broadly reflect the rationale Council used for its modifications established in 2008/2009. The principles are:

- The other sector continue to pay a 1% cost share, in view of the not for profit status of most of the organisations in it.
- The residential sector continue to pay a 10% cost share, allowing for unquantified heavy vehicle movement.
- The mining sector continue to pay approximately half of the cost share derived from the model in view of the small number of properties in this sector.
- The non-dairy, dairy, and forestry sectors to pay cost shares as derived from the model.
- The commercial, industrial, and lifestyle sectors to pay cost shares reflecting the model, plus any shortfalls resulting from the above adjustments, reflecting unquantified freight movements.
- Cost shares should be rounded to half percents (the 2008/09 rates were rounded to whole percents, however as some cost shares are quite small, this can result in significant changes in individual rates from one year to the next).