FUNDING THE “LOCAL SHARE” OF ROAD MAINTENANCE

New guidelines have been produced for Councils on equitable funding of pavement maintenance for low volume roads.

The guidelines provide a method for Councils to make rating allocation formulae. The formulae are to allocate to rating units the cost of pavement maintenance (including renewals) for low volume roads necessitated by the heavy vehicle traffic generated by industrial activity, including from primary industries. The equitableness of applying the allocation method is assessed as a “user pays” approach. Although the principle of equitable funding will apply equally to higher volume roads, the ability to implement allocation methods in the vastly more complex situation of a high-density environment would be limited by that complexity.

A large proportion of pavement consumption on local roads occurs on low volume roads, caused almost entirely from commodity cartage. The Special Interest Group on Low Volume Roads of the Road Controlling Authorities Forum (RCA Forum) has produced guidelines to provide a process for:

- Calculating pavement consumption on low volume roads caused by industrial land-use.
- Allocating the cost to industrial ratepayers, in an equitable way, using rules prescribed by local government legislation.

The long-term pavement consumption by heavy commercial vehicles (HCVs) can be estimated in terms of Equivalent Standard Axles (ESA) per hectare of industrial land-use for the inputs and outputs of specific industries. Local authorities can calculate rating charges for ratepayers corresponding to their proportionate share of pavement maintenance costs using the total ESA by industry in their district allocated pro-rata to the land area in production for each ratepayer.

This allocation is reasonable for primary industries where production and hence pavement consumption is proportional to land area. In general this occurs for forestry, dairy farming and sheep and beef farming. For impacts not associated with land area, the method allows this area-based allocation to be further adjusted to account for:

- Distance travelled on roads by HCVs from land in different locations;
- Intensity of production arising from farming types that differ significantly from a national average (such as for the five classes of dairy farming and eight classes of sheep and beef farming).
- Intensity of production, where this is influenced by factors other than land-area (such as for quarrying, processing of dairy, meat and wood, and port activities).

Alternatively, the method allows for allocations not associated with land area to be based on land value or capital value.

A stepped methodology has been developed that provides an equitable allocation of total roading costs, which is the sum of:

i) pavement consumption maintenance costs, able to be allocated as a targeted rate;

ii) fixed road maintenance costs, able to be allocated as a uniform general charge to each ratepayer; and

iii) other pavement maintenance costs, to be decided by Councils and allocated as a uniform general charge to each ratepayer.

The method is not a prescription and there is no one “best” allocation formula for all. The guidelines provide a consultative process to calculate industry impacts on local roads. Early engagement and

collaboration between Councils and industries within their districts, with proactive information sharing, is always likely to lead to better outcomes for all parties and is recommended by the guidelines.

The traffic loading from production from each industry in a District can be calculated using engineering methods. Engineering formulae allocate costs to ratepayers of different industries pro-rata to their level of traffic loading annually. For each ratepayer within an industry, the allocation is further influenced by the distance of the rating unit from a state highway and by the production intensity of land use.

The allocation formulae derived using the method are transparent because:

- Ratepayer types are defined according to Schedule 2 of the Local Government (Rating) Act 2002.
- Ratepayer charges are calculated according to Schedule 3 of the Local Government (Rating) Act 2002.
- Influences on charges that the Council decides, such as distance and production intensity are clearly specified using "policy weights".

The guidelines also provide:

- A method to reduce the rating charge by an amount to account for the benefits that the industry provides to the community.
- A method to levy charges on non-industrial ratepayers who enjoy these benefits.

A hypothetical worked example and a stepped methodology are provided to demonstrate how the allocation formulae work.

Background

Calls for guidance on issues relating to forestry, agricultural vehicles and heavy vehicles on rural or low volume roads have been repeated for several years. Individual Councils have initiated investigations into policy development independently and there has been a recognised need for a consistent best practice response to accelerated pavement consumption from increasingly intensive land use by primary industries.

The RCA Forum recognised that there was a need to have robust and transparent processes to:

- quantify the cost of these effects
- agree equitable mechanisms to respond to this cost
- develop guidelines that would allow for a nationally consistent application of funding mechanisms, to provide greater certainty in investment decisions, for both road controlling authorities and forestry investors.

A Special Interest Group on Low Volume Roads (SIG-LVR) of the RCA Forum was established in 2015 to respond to this issue and develop guidelines. The SIG-LVR comprised road controlling authorities with an interest in the impact of heavy vehicle activities on low volume roads. The group recognised that early engagement with key sector representative groups with an interest in the impact of intensive heavy vehicle activities on low volume roads was critical to a successful outcome. The NZ Forest Owners Association, Aggregate and Quarry Association and Dairy Companies Association NZ participated in the development of the guidelines.

The Local Government Act 2002 (LGA) sets out the duties of local Councils when setting charges on ratepayers. The overarching principles of financial management set out in the LGA oblige Councils to

act prudently, and to "promote the current and future interests of the community". The LGA also prescribes the specific financial instruments that empower Councils to charge ratepayers to meet their costs, together with other associated duties and powers. The Local Government Act (Rating) 2002, a companion enactment, provides further detail on how land is to be categorised for setting rates, together with the factors that Councils may use to calculate rates.

In developing their 30 year infrastructure plans, Councils are bound to ensure that road pavements are fit for purpose. In the main, Councils may levy rates and borrow to fund the cost of roads that are not met from other sources. There are other methods for raising funds, such as through contributions for new developments, financial contributions for environmental impacts, and public-private partnerships.

While these instruments generally address the capital costs of roads, for pavement maintenance the only sources of funding are National Land Transport Fund co-investment financial assistance and local rates. The guidelines are concerned only with the equitable allocation of the local share of maintenance costs that are not covered by co-investment financial assistance rates (FAR).

There is no definition of equitableness in either enactment as far as setting rates is concerned[1]. There are, however, duties set out under s101(3) of the LGA. The funding needs of the local authority must be met from those sources that the local authority determines to be appropriate, following consideration of,—

(a) in relation to each activity to be funded,—

(i) the community outcomes to which the activity primarily contributes; and

(ii) the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and

(iii) the period in or over which those benefits are expected to occur; and

(iv) the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and

(v) the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and

(b) the overall impact of any allocation of liability for revenue needs on the community.

These duties oblige Councils to consider a number of outcomes associated with the setting of rates that can be interpreted as determining the equitable allocation of responsibility for funding.

The selection of a method for the equitable allocation of the local share of maintenance costs is for Councils to decide based on the current and future interests of their community. Councils are empowered to levy rates from those sources that they determine to be appropriate, having had regard to the considerations listed.

The guidelines have been developed to provide Councils with another tool to achieve this and deliver a best practice response to the future impacts of heavy vehicle activities on low volume roads that allows appropriate planning of investment by both road controlling authorities and primary sector investors, providing all parties with greater certainty.

[1] The term 'equitable' occurs in s100(2), which requires a local authority, when setting a budget in cases where operating expenses differ from operating revenue (eg as in the case of borrowing), to have regard to the equitable allocation of responsibility (eg repayment of loan by future ratepayers), over the useful life of assets.