

THE CO-ORDINATION AND FUNDING OF URBAN PASSENGER SERVICES
IN NEW ZEALAND

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ABSTRACT: *On 1 April 1981 the Urban Transport Act 1980 took effect. The stated objective of this legislation is "to promote the establishment and maintenance within New Zealand of appropriate and efficient transport systems".*

This paper outlines developments in implementing this objective up to the present day and, in particular, the subsidy policies introduced by the Urban Transport Council (the national body responsible for administering the legislation). The effect on urban transport of other related legislative changes (i.e., creation of a Railways Corporation and deregulation) are also considered. Finally, some of the more immediate policy issues facing the Urban Transport Council are identified, namely: subsidy apportionment amongst ratepayers; co-ordination between roading and other forms of urban transport expenditure; competition between public and private transport operators; and the enlarged basis for subsidising urban transport expenditure provided by the legislation.

* The content and opinions expressed in this paper remain entirely the responsibility of the Author and should not be construed to represent, in any way, current or future policy intentions of the Urban Transport Council or the Ministry of Transport.

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INTRODUCTION

On 1 April 1981 the Urban Transport Act 1980 became law. Three months later, on 16 July 1981, the Urban Transport Council (UTC), a national body established to administer the legislation, held its first meeting. In the two and a half years which have elapsed since this legislation was introduced, the market and institutional environment for passenger transport in the main metropolitan urban areas in New Zealand has changed considerably. Central to this change has been the financial restructuring of urban transport introduced by the UTC. As the objectives of the legislation (i.e., to promote appropriate and efficient urban transport systems) are progressively implemented, further upheavals in the structure and funding of urban services can be expected.

This paper reports on progress to date with the implementation of the objectives of the legislation, with particular reference to the financial restructuring of urban services that has taken place over the period. Section one of the paper describes the history of the legislation, in particular, those components of the "urban transport problem" which the Urban Transport Act was intended to address. Section two describes the general structure of the Act. Section three outlines the funding policy principles adopted by the UTC in order to implement the objectives of the Act. Section four comments on the current and future market and institutional environment in which the Act operates. Finally, section five outlines some of the more salient issues affecting successful implementation of the Act, and identifies matters of particular policy significance to the UTC over the next few years.

BACKGROUND TO THE URBAN TRANSPORT LEGISLATION

The Urban Transport Act developed as a statutory "solution" to a growing urban transport problem perceived by legislators in New Zealand. The primary characteristics of this problem were first formally recognised in the 1970 report of the Carter Committee⁽¹⁾, namely:

- declining patronage of public transport;
- rising costs of operation;
- increased car ownership;
- increased traffic congestion in the central areas of major cities;

1. Committee of Inquiry into Urban Transport generally referred to as the Carter Committee after the chairman of the Committee D.J. Carter M.P. (Now Sir Douglas Carter, Chairman of the Urban Transport Council).

- increased difficulties in coping with travel demand at peak periods;
- reduced effectiveness with regard to the speed and convenience of bus services.

The cause and effect relationships linking these factors in a vicious circle in New Zealand urban areas were seen at the time as fast approaching the critical proportions faced in urban areas elsewhere in the world. Symptomatic of these problems were increasing deficits on public transport operations, increased public ownership of urban passenger services and a situation where subsidised public transport had become the rule rather than the exception.

In view of these trends the Carter Committee concluded:

"...that it should be a matter of deliberate policy, at the regional and national levels, to encourage patronage of public passenger services, and to prevent any further tendency towards the indiscriminate use of the private car for urban transport on every possible occasion. Apart from peak hour travel for commuters, public passenger transport should continue to be provided for the young, for the old, for the handicapped, and for a reasonable amount of off-peak travel. Unless this is done, urban public passenger transport will cease to be the important community service which it should be." (Carter, 1970, p.12)

A number of impediments to the promotion of public passenger transport, were identified, however.

First, there was a general lack of co-ordination between land-use and transportation planning, in which car orientated land-use planning tended to predominate. Secondly, transportation planning authorities had limited control over the provision of public transport services. Thirdly, there was an administrative bias towards investment in roading because of a national fund, based on fuel and vehicle taxation, available to provide contributory finance towards the cost of urban roads. In addition, the perception of roading investment as a non-commercial proposition compared with public transport services placed subsidies towards roading in a more favourable political light than subsidies towards public transport services. Furthermore, control of road investment was better integrated at national and local levels than control of investment in public transport which was split between local authorities, private companies and public corporations, all of whom operated and made their investment decisions independently.

Finally, the Committee concluded that the average motorist was more influenced by what he felt to be the comparatively low cost of operating a motorcar (essentially the cost of fuel) in deciding whether to use public or private modes of transport. This motivation was seen as suggesting a means of regulating the balance between public and private transport at the same time providing a source of finance to promote the use of public passenger services. For this purpose it was recommended that one percent

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of petrol tax being paid to the Government's general revenue account be used to finance urban passenger transport, and that an additional local petrol tax be levied to improve the position of urban passenger services.

The principal recommendations of the Carter Committee were as follows:

- (a) that a national agency be established under the auspices of the Ministry of Transport to administer national aspects of urban passenger transport;
- (b) that regional urban passenger transport authorities be established with the primary function of controlling and co-ordinating all scheduled urban passenger services within their areas;
- (c) that financial responsibility for urban rail and bus services provided by the New Zealand Railways (NZR) Department be assumed by the regional urban passenger transport authorities over a transitional period of eight years;
- (d) that the primary responsibility for the provision and financing of urban public passenger services should rest with the areas, and particularly the urban regions, receiving the benefit of these services;
- (e) that a national system of operating subsidies and capital grants be established for urban public passenger transport, and that where frequent and extensive rail services exist, or are constructed for urban passenger transport, assistance should be given to these services from the national roading fund;
- (f) that power to raise a regional petrol tax, in addition to levies on constituent local authorities, should be given to urban transport authorities;
- (g) that the functions of town planning, the planning of the roading network, and the operation of urban passenger transport be brought under the control of one authority wherever possible.

As a result of the Carter Committee report the Urban Public Passenger Transport Council (UPPTC) was established. Its activities were largely confined to disbursing central government finance in the form of loans and grants, mainly for the purchase of buses, and supporting a modest programme of research. The UPPTC's impact on the urban transport problem, however, was negligible; passenger numbers on public transport continued to decline, losses mounted, private car usage increased together with traffic congestion in urban areas, problems were encountered in maintaining existing public transport services and in providing additional services to new residential areas, and investment in new buses and rail carriages was delayed with the result that a large percentage of the urban passenger fleet was aged and costly to maintain, bringing to a head a considerable equipment replacement rises.

The persistence of these problems was due largely to the fact that many of the more substantive recommendations of the Carter Committee, such as the establishment of integrated regional organisations with the combined functions of transportation planning, financing and control, were not implemented. In this respect therefore the UPPTC served as a head without a body. While useful in providing a national focus for the discussion of urban transport issues and developing the notion of local responsibility for urban transport services, it was unable to make any significant impact on urban public passenger transport with the limited funds made available to it (in the order of \$1.2 million per annum). Furthermore, its terms of reference, confined to public passenger transport, fell well short of the comprehensive co-ordination recommended for urban transport.

Responding to these continuing problems, the Government in 1977 issued a White Paper entitled "Urban Transport in New Zealand" (McLachlan, 1977) and announced a number of budget measures concerning the future finance and organisation of urban transport. The White Paper re-emphasised the need to promote greater use of public transport by referring to studies in Auckland (ARA, 1976) and Wellington (WRPA, 1975) which showed that continuing to rely on the private car to satisfy urban transport needs was not feasible because the costs of providing the necessary roading system greatly exceeded the resources likely to be available. In this context the White Paper gave explicit recognition to the inadequacy of the market process to optimise the allocation of economic resources to urban transport because of the existence of market externalities and perceived price distortions in choices between different modes and services. Moreover, the inter-relationships between urban transport and land-use, between public and private transport, between particular modes of transport, and between economic, financial and social costs and benefits were regarded as so extensive and complex that the first requirement was to ensure that urban transport was viewed as a total system, central to the whole urban pattern.

Two areas in particular were identified as requiring further attention. First, all aspects of urban transport (i.e., roads, rail, bus, traffic management, etc) were considered to be more appropriately co-ordinated through one planning and operational body. This responsibility was seen to remain basically with the region, therefore the organisation co-ordinating urban transport with other relevant aspects of local government should be regional. Notwithstanding this regional orientation, it was recognised that there is also a considerable degree of national interest in the effective and equitable provision of urban transport. At a minimum these interests were considered best protected through integrated statutory transport and land-use planning procedures. However, it was also considered desirable to establish national standards for forward planning and investment analysis administered by a national body communicating and applying consistently national policy objectives.

Secondly, financial imbalances in the funding of infrastructure and operating costs were recognised as distorting the pattern of investment in urban transport. By far the major part of urban roading costs was met from the national roading fund (sourced from fuel tax and road user charges and administered by the National Roads Board (NRB)). Losses on local authority bus services were principally funded by ratepayers; government railway and rail bus services were funded entirely through taxpayer subsidies; and private bus services received minimum subsidy support from any source.

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Three policy principles were proposed to overcome the expenditure biases arising from these different bases of funding:

- (a) That biases in expenditure choices within urban transport that arise from varying conditions under which finance is available should be minimised.
- (b) That the financial burden of the urban transport system should be shared more equitably, both within the region where a service is received, and between regional residents and taxpayers nationally. Moreover, the balance of financial responsibility should, over time, be shifted towards the region and away from the taxpayer nationally.
- (c) That bias in the allocation of funds between urban transport and other sectors of local government activities should also be minimised and centred on local government, with priorities determined according to relative worth rather than by the source and/or terms of finance available.

To implement these policy principles the White Paper proposed the establishment of an Urban Transport Council as a national co-ordinating, funding and advisory agency to replace the UPPTC, and the creation of regional urban transport authorities to plan, co-ordinate and fund urban transport services at the local level. A committee of departmental officials was appointed to draft legislation along these lines, while in the meantime a budget of \$50 million over five years to enable capital replacement of the main metropolitan local authority bus fleets was announced, with \$6.8 million committed for this purpose in the first year 1977-78. Complementing this subsidy in the four main metropolitan centres, Government introduced an output and capacity related subsidy⁽²⁾ for municipal and private bus operators in urban areas.

THE URBAN TRANSPORT ACT 1980

The key components of the Urban Transport Act are identified in its long title.

An Act to promote the establishment and maintenance within New Zealand of appropriate and efficient urban transport systems; and for that purpose to require the preparation and implementation of urban transport schemes by certain regional councils and united councils, and to establish an Urban Transport Council to co-ordinate, advise on, and give financial assistance for, the preparation and implementation of such schemes. (U.T. Act, 1980)

Essentially these objectives are dealt with under three broad headings: organisation; planning; and implementation.

2. These subsidies still exist for private operators and are issued as quarterly grants with differential rates based on the following measures:

- total passenger-kilometres for a quarter
- night and weekend bus-kilometres for a quarter
- number of peak buses for urban services

Rates applicable for private and municipal bus operators were adjusted for taxation.

Organisation

The principle responsibility for planning and control of urban transport services⁽³⁾ at the regional level rests with designated regional authorities in each of the four main metropolitan centres: Auckland, Wellington, Canterbury (Christchurch), and Dunedin. (Further regional authorities may be designated at the request of the regions concerned). In order to undertake these functions the Urban Transport Act empowers regional authorities to raise funds locally for the provision of urban transport services and to finance and enter into agreements with any body or person for the provision of urban transport services.

An urban transport committee of the regional authority is established to co-ordinate these activities with the planning functions of the regional authority. This committee must include representation from the UTC, NRB, NZR and private transport operators, and can be expanded to include representation from other interest groups.

At the national level the UTC acts to co-ordinate and advise on regional transport plans and to provide financial assistance for regional and local authority urban transport purposes. The UTC has an appointed Chairman and contains representatives from local government, interested groups and central government departments. Reporting to the UTC through the Chairman is an operationally independent secretariat accommodated within the Ministry of Transport (MOT). The UTC's budget forms part of MOT's annual appropriation from Parliament.

Planning

The legislation establishes three key planning phases. First, regional authorities are required to determine an urban transport area for planning and administration purposes. The area determined need not coincide with the territorial geographical boundaries of the regional authority adopted for functions other than transport planning and may include regional out-districts considered intrinsic to the total urban transport system administered by the regional authority. Territorial local authorities may appeal against inclusion in a specified urban transport area. While such appeals are being determined provision exists for an interim urban transport area to be used as a basis for planning and administration. The UTC plays an advisory role in this process.

Secondly, once an urban transport area or interim urban transport area has been determined, regional authorities are required to prepare an urban transport scheme for the area. This scheme consists of a strategic transport plan with objectives subordinate to the wider land use plan for the region, and a more detailed operational or tactical plan specifying and justifying administrative and operational matters relating to the urban

3. The definition of "urban transport service" within the legislation is extremely wide and refers to any service, equipment or facility engaged or used in the movement of people, or of people and goods including a road service, a rail service, a taxicab service, a harbour ferry service, a motor vehicle, a parking place, a road, a tramway, a transport station, and any scheme or arrangement for moving people or people and goods. Note freight transport per se is not encompassed by the legislation, although for practical purposes it is inescapably linked to the provision of passenger transport at least at the level of urban transport infrastructure.

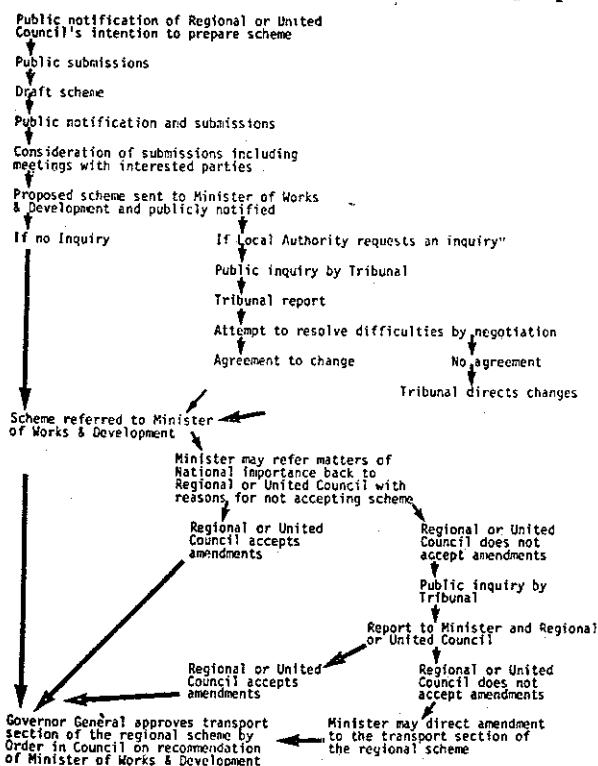
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transport system in the area. The strategic plan (referred to as the transport section of the regional planning scheme) forms part of the regional planning scheme operative for a period of up to ten years, while the operational plan is reviewed at more frequent intervals (up to five years). Strategic and tactical plan components together form the urban transport scheme for the area.

Regional authorities may choose to include both components of the urban transport scheme in an augmented transport section of the regional planning scheme, thereby utilising planning procedures under the Town and Country Planning Act 1977 (illustrated in a simplified form in Figure 1). In this respect the UTC is classified as a local authority and may request a planning tribunal hearing if it objects to provisions of the scheme. Alternatively, the tactical or operational plan may be prepared utilising the simplified procedures provided in the Urban Transport Act (refer figure 2). In this respect the UTC acts as an appeal authority for objections to the operational plan.

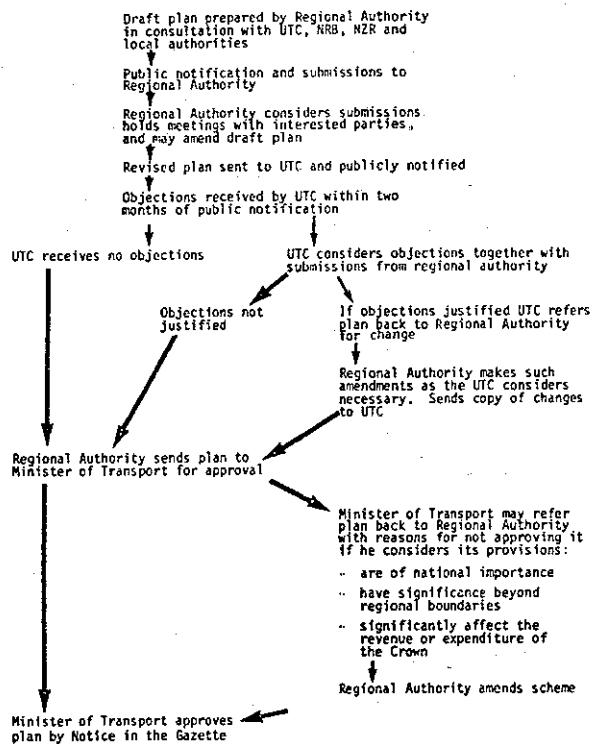
FIGURE 1

THE TRANSPORT SECTION OF THE REGIONAL PLANNING SCHEME (Simplified) ⁽⁴⁾



* When transport matters are being dealt with the Urban Transport Council is classed as a local authority s19(3) i.e. the Urban Transport Council may request a Planning Tribunal hearing.

FIGURE 2

THE OPERATIONAL PLAN (Simplified) ⁽⁵⁾Implementation

The third key planning phase involves financial implementation of the approved urban transport scheme on a year to year basis. For this purpose a three year rolling budget for implementing the approved urban transport scheme commencing the next 1 April, is prepared and presented to the UTC for approval in October each year. This budget establishes a programme of expenditure for which UTC subsidies are proposed; with the balance of expenditure met from local subsidies and fares (where appropriate). Together with other regional implementation programmes, and applications for financial assistance from territorial local authorities outside regional urban transport areas, the UTC prepares a three year national implementation programme of subsidy expenditure for submission to the Minister of Transport by 31 October.

5. Extract from MOT (1981), p.15

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The national implementation programme submitted to the Minister of Transport includes recommendations on roading expenditure in regional urban transport areas and expenditure on NZR rail and bus operations in urban areas.

UTC FUNDING POLICY

The Urban Transport Bill when first introduced to the House in December 1979 highlighted a number of important principles as a basis for funding urban passenger transport services. These principles, stemming from the earlier reports on urban transport, fall under three broad headings:

- regional autonomy
- cost sharing
- equity between services and regions

Regional Autonomy

In order to promote "appropriate" urban transport systems for the local urban communities the UTC has placed considerable emphasis on the role of regional and local authorities in deciding what services are required and can be afforded given competing demands for local authority finance. This co-ordination of planning and funding at the local level is seen as particularly important where a wider public interest is considered to be served, and is used as a justification for operating public services at a loss. Definition of this "public interest" is seen to be essentially a political decision by representatives of the community receiving such services. This is a departure from past practices where, depending on the service, the definition of "public interest" rested with the operator and licensing authority (in the case of licensed public transport operations) or, in the case of suburban rail operations, with a central government department.

To reinforce this principle of regional autonomy the UTC has introduced payment procedures which channel UTC subsidies initially to regional and territorial local authorities for subsequent disbursement to operators in their areas.

Cost Sharing

In addition to the principle of regional autonomy in the determination of appropriate urban transport systems there is the requirement that these systems be efficient. Efficiency in this sense means providing the lowest cost transport system available to meet the service requirements of the local community. To the extent that public expenditure is required to support the transport services involved, the UTC encourages regional and territorial local authorities to first justify the need for such expenditure and secondly to share in the cost of such expenditure with central government, through the UTC.

To justify the need for public expenditure the legislation promotes the use of cost effectiveness evaluations in cases of significant public investment, and service contracts between operators and local funding authorities. It is proposed that, where possible, service contracts be

tendered to the lowest bidder. For the most part the UTC remains a passive participant in this process of justifying the most cost effective urban transport system for a local community. The need remains, however, to ensure that the basis for evaluation of costs is consistent between regions and in this respect the UTC has moved to promote a standard basis of cost evaluation for the preparation of cost effectiveness studies and in the accounting of urban bus services⁽⁶⁾.

Local accountability for public expenditure decisions is promoted by the use of a common funding ratio for allocating UTC subsidies to urban transport. Currently this ratio is 50:50 (UTC : local subsidy) and has gained a certain degree of acceptance as a general basis for allocating taxpayer subsidies in the absence of an evaluation of the relative national (taxpayer) and local (ratepayer) benefits arising from urban public transport expenditure.

Equity Between Services and Regions

As noted in the earlier discussion on the background to the Urban Transport Act, in the past both urban transport services and geographical regions have received disproportionate levels of central government funding. Of prime importance is the funding bias between services, the most obvious example being taxpayer funding of losses on NZR rail and bus services. Funding biases of this type introduce a distortion in the perceived cost effectiveness of one mode compared with another and seriously jeopardise the UTC's objective of promoting resource efficient urban transport systems. The UTC is currently removing such distortions at the national level to overcome this problem, so that all forms of urban transport service will receive the same proportion of UTC subsidy based on the common funding ratio referred to above.

An important exception to this policy, however, occurs in the case of suburban passenger rail services. Because of the typical magnitude of rail expenditure compared to other more divisible urban transport services, the UTC has classified urban passenger rail expenditure under two broad headings: "indirect" rail expenditure and "direct" rail expenditure. Indirect rail expenditure includes items of general overhead and administration expenditure attributed to urban services identified by the UTC as being only indirectly influenced by the planning decisions of individual regional and local authorities. Such expenditure would remain unchanged irrespective of marginal adjustments to the level of urban rail services provided, and is therefore expenditure towards which the UTC does not expect regional or local authorities to contribute. "Direct" rail expenditure, on the other hand, is identified as passenger rail expenditure which can be directly influenced by the planning decisions of regional and local authorities. The UTC proposes to share with regional and local authorities at the common funding ratio expenditure falling under this heading.

6. In order to promote a standard basis for urban transport cost effectiveness evaluations the UTC has sponsored two studies, based in the Auckland and Wellington regions, examining the economics of competing private and public urban transport services. Special attention has been given to presenting these studies in a descriptive case-study format to encourage a standard basis for examination in other urban areas. In the case of bus operations the UTC has published a standard accounting and management information manual which has been received favourably by the industry.

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Removing central government funding biases between regions hinges more on a question of social equity than the allocative efficiency effect of subsidy distortions in the funding of particular modes. Relevant to this question are issues such as the comparative advantage of some regions over others in the provision of cost efficient urban transport systems, and the ability of regional ratepayers to fund the urban transport services involved. Nevertheless, the UTC has chosen to apply the same common funding ratio to all regions regardless. In some respects this policy can be seen as an attempt to place all regions on an "equity plateau" as a starting point for examining exceptions to the general principle of regional equity. The onus of proof for a special regional common funding ratio, however, lies squarely with the regional or territorial local authorities concerned. Any "special treatment" is likely to be at the expense of other regions and therefore is largely a matter of inter-regional politics to be tackled by the UTC.

In applying both of the above equity principles, particular emphasis is placed on providing an adequate phasing-in period for those regional and local communities most severely affected by the changes in funding policy; especially those areas currently receiving NZR services which in the past have been subsidised entirely by the taxpayer. This phase-in period will take five years, commencing 1 April 1984, during which time the UTC subsidy base currently not matched by local subsidies will be reduced by one fifth per annum until in 1988/89 no non-matched UTC subsidies will be provided.

Tables 1 and 2 illustrate the effect of these policies over the period 1982/83 to 1988/89 (based on expenditure levels in 1983/84). Table 1 shows the introduction of a common funding ratio for urban transport services. Table 2 shows the effect of this policy in terms of the percentage UTC subsidy to total public subsidy. (Note: At a standard common funding ratio between regions, the effect of UTC funding policy for urban passenger rail services is to give those regions receiving these services a higher ongoing subsidy proportion relative to other regions).

TABLE 1

PERCENTAGE UTC SUBSIDY CONTRIBUTION BY MODE

1982/83 TO 1988/89*

	<u>NZR Rail</u>	<u>NZR Bus</u>	<u>Municipal Bus</u>	<u>Private Bus</u>
		(%)		
1982/83	100	100	24	60
1983/84	88	88	50	59
1984/85	82	74	50	65
1988/89*	63	50	50	50

Projection based on current UTC policies).

TABLE 2

PERCENTAGE UTC SUBSIDY CONTRIBUTION BY REGION

	1982/83 TO 1988/89*					
	<u>Auckland</u>	<u>Wellington</u>	<u>Canterbury</u>	<u>Dunedin</u>	<u>Remainder of N.Z.</u>	<u>Total</u>
		(%)				
1982/83	44	83	39	50	76	61
1983/84	52	78	50	58	80	64
1984/85	52	73	50	50	70	61
1988/89*	52	58	50	50	55	54

(*Projection based on current UTC policies).

RELATED LEGISLATION

Two related developments affecting urban transport are likely to have a significant impact on successful implementation of the Urban Transport Act particularly in the planning and financial areas. Both developments stem from legislative changes recently introduced in New Zealand.

New Zealand Railways Corporation

Rail and bus services operated by NZR form a significant component of the UTC's national implementation programme (33.3 million, or 36 percent of programme expenditure in 1984/85). The bulk of these services originated at a time when the commercial viability of a particular operation was a secondary consideration to the objective of providing a public service for urban communities. Control of these services rested with the New Zealand Railways Department whose losses were absorbed into a combined NZR budget recovered from general taxes.

The financial burden created by these services was first clearly identified and brought to the attention of the public in a discussion booklet entitled "Time for Change" issued by NZR in February 1979. (Hayward, 1979). In this booklet NZR sought to defend criticisms surrounding continuing budget deficits incurred by the department by placing in perspective the conflicting responsibilities of NZR namely, to provide, on the one hand, commercially viable transport services while, on the other hand, faced with an ongoing public commitment to maintain commercially non-viable social services.

In 1982 the Government removed this conflict of interest by remodelling the institutional structure of NZR from a state department to a public corporation. The newly created NZR Corporation, with an appointed

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Chairman and Board of Directors, was charged with the prime responsibility for promoting commercially viable operations, subject to broad operational and investment guidelines issued by the Government through the Minister of Transport. Of particular significance from the point of view of urban transport operations was the removal of an obligation for NZR to persist with commercially non-viable social services unless at the express direction of the Minister of Transport, with explicit subsidies provided by the Government for this purpose.

This power of direction is currently exercised by the Minister for all long distance passenger rail services in addition to a number of branch line freight operations. Deficits arising from these operations are funded directly through the Ministry of Transport. In the case of urban passenger rail and bus services, however, ministerial direction is replaced by the provisions of the Urban Transport Act and the funding policies of the UTC. The primary initiative now lies with regional and local authorities to determine and fund (with matching UTC subsidy) urban passenger services in their areas.

Transport Licensing

More recently, the New Zealand Government enacted legislation to amend the basis for controlling transport services operating throughout the country. The main thrust of the new legislation, which will take full effect from 1 June 1984, is to remove quantity restrictions on the number of passenger and freight transport services operating throughout the country in order to introduce a greater degree of market competition in the transport industry. In place of quantity restrictions imposed and adjudicated over by district licensing authorities, operators will in future only be required to establish good repute, financial standing and professional competence in order to gain an operating licence.

Special attention is given to urban and other scheduled route services. Because of the traditionally limited market in which most urban services operate, licensing authorities may take account of the economic viability of existing operators before granting a scheduled route service licence to an applicant. The onus of proof concerning the impact of the proposed service on existing operations, however, lies with existing operators rather than the applicant, which is currently the case.

An important requirement retained in the new legislation is that licensed passenger and taxi services within a regional authority urban transport area must comply with an operative urban transport scheme for the area. This provision safeguards the role of a regional authority to determine public interest as part of its planning function, and to actively influence how this "public interest" is best served through the provision of public passenger services. Reinforcing this principle is the funding role of the regional authority where, in practice, the provision of public subsidy support for a particular urban service will act as a major consideration in attracting outside competition for the service.

A less direct, yet potentially more significant, impact of the new legislation arises in the area of cross subsidisation of urban services.

The current legislation gives bus operators holding scheduled route service licences (either urban or long-distance) automatic charter rights which are jealously guarded because they are much more lucrative. Specific licences are required for tour work. The new legislation removes these restrictions and opens up the tour and charter market to any operator qualified to hold a passenger service licence. The impact of this change is likely to be substantive. Private bus operators have been subject to the same problems encountered by NZR and municipal bus operators generally, but for the most part have continued with very little public subsidy. This situation has generally been interpreted as reinforcing the often misleading perception of public transport as a commercially viable operation. While, in reality, it simply reflects the high premium placed by operators on the value of access to the charter market.

The impact of the new legislation therefore is likely to be twofold. First, it will remove the existing obligation on private operators to continue with commercially unattractive urban transport services in the absence of a compensating public subsidy. Secondly, for those operators who choose to continue with urban services (perhaps from habit or because of a feeling of community obligation), the opportunity to cross subsidise these services from a more competitive tour and charter market will be considerably reduced because of increased competition for that work. The consequences therefore are likely to be service reductions, fare increases, and in many urban areas an increase in the level of public subsidy paid to private operators.

In anticipation of these difficulties, the UTC has endeavoured to bring the likely consequences of the new legislation to the attention of regional and local authorities. In this context a standard basis of cost accounting for urban bus services has been derived and its adoption is currently being encouraged by the UTC. The standard basis of accounting will assist operators to identify the hidden subsidy component associated with urban passenger services and will serve to rationalise further operational and investment decisions in this area.

POLICY ISSUES

In concluding this brief review of the Urban Transport Act and its early years of implementation it is relevant to focus attention on some of the more significant policy issues which have arisen, or are likely to arise over the next few years. In many respects these issues reflect the wide ranging impact of the legislation and the paucity of precedents on which to establish and develop new policy. Indeed, there may be many routes to the top of the mountain and the UTC, together with regional and territorial local authorities, is likely to spend a considerable amount of time in the next few years exploring these routes. The issues identified below by no means exhaust the list of issues on which policies have been, or will need to be, developed, however they indicate the variety of areas in which further research and investigation is likely to be necessary.

Areas of Benefit

An immediate problem facing policy makers at the regional level arises from the funding responsibilities of regional authorities. In particular, the necessity to raise regional levies towards the public subsidy on urban transport services. The legislation requires that these levies

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"...fairly reflect the benefits" to respective localities within an urban transport area and considerable debate has been focussed on how regional authorities should go about assessing these benefits.

Two diametrical approaches have been identified. The first, the benefit or global approach, is based on the premise that the benefits for each locality derive from the total urban transport system within a region. Therefore contributions towards the cost of this system must be assessed on the quality of services provided to each locality without regard to the cost of providing individual service components. For example, the benefit derived from a municipal bus service may be equivalent to the benefit derived from a similar private bus service, although the level of public subsidy is likely to be significantly different, therefore localities receiving each type of service should contribute equivalent amounts to the total ("global") public subsidy required to support the urban transport system.

The second approach, the cost or sector approach, is based on the opposing premise that localities should be charged according to the benefit of the subsidy required to support components of the urban transport system servicing particular localities. For practical purposes service components of an urban transport system are indivisible at a locality by locality level and therefore sector groupings of localities receiving a common service are determined as a basis for assessing the public subsidy contributed by each locality.

The legislation as interpreted by the UTC (UTC, 1983) promotes the second approach. However, strong arguments in favour of each have been advanced, particularly in the Auckland region when a High Court declaratory judgement was necessary to clarify questions of law. This judgement confirmed interpretations of the Urban Transport Act favouring an apportionment of net urban transport expenditure based on costs.

Urban Roads

An important principle underlining the urban transport legislation is the need to co-ordinate urban roading with other forms of urban transport expenditure. This need for co-ordination has been identified both at the planning level in terms of complementary land use and public/private transportation planning, and at the funding level in terms of removing subsidy distortions so that expenditure choices are unbiased between modes. Indeed, the Carter Committee went further to suggest a direct linkage between road funding and other forms of public transport funding.

In consultations between the UTC and NRB three major areas have been identified for further attention:

- Statutory and/or administrative action to co-ordinate budget consultation procedures at both national and regional levels.
- Co-ordination of NRB and UTC economic evaluation techniques to assist comparisons between roading and non-roading expenditure proposals.
- Co-ordination of NRB and UTC funding policy.

The third area in particular is a matter of some concern given current NRB subsidy differentials for specific items of expenditure such as motorways and state highways, compared to the fixed subsidy ratio adopted by the UTC. Moreover, NRB allocations take account of equalised land values in areas undertaking approved subsidised works whereas no similar allowance for the ability of localities to contribute to urban transport expenditure is given in the case of UTC subsidies. Within regional urban transport areas therefore, and certainly in provincial urban areas where the Urban Transport Act makes no allowance for co-ordination with NRB expenditure, the principle of unbiased expenditure choice between modes is seriously threatened.

Public Versus Private Transport Services

Central to the objective of promoting efficient urban transport services is the future role of publicly owned versus privately owned urban transport services. Urban transport in New Zealand currently features an uneasy co-existence of public and private operators competing in the same markets. Traditionally, public operators, characterised by large public deficits, have catered for the full range of urban services, whereas private operators have tended to cater for peak services with only limited involvement in unprofitable social service operations. Comparatively easy access to subsidy finance in the case of public operators, reinforced by Government recapitalisation schemes such as the bus replacement programme, has provided these operators with a competitive edge. Private operators, on the other hand, have faced considerable difficulties in refinancing and maintaining an adequate investment in urban services.

The urban transport legislation, together with the licensing changes outlined above, however, effectively turns the urban transport industry on its head. Not only will the need for public subsidies to maintain urban transport services become more evident, but also the perception of private transport services as commercially viable operations will change significantly. Considerable attention will now be focussed on the relative efficiency and role of each type of operator in the urban transport market. In this critical atmosphere the UTC, together with regional and territorial local authorities, will be required to ensure that funding policies are applied consistently between each type of operator.

A New Perspective

Perhaps the most significant impact of the urban transport legislation, requiring considerable innovation in the planning, co-ordination and funding of urban passenger transport, arises from the new perspective for urban transport introduced by the Urban Transport Act.

The "total system" concept promoted by the legislation will considerably influence the range of urban transport expenditure qualifying for public subsidy. The guidelines provided in the Act are extremely broad (see footnote 6) and within these guidelines the UTC will be continually placed in the dilemma of choosing between more traditional forms of urban transport on the one hand, while, on the other hand, continuing to promote the search for more cost effective solutions to the urban transport problem.

URBAN TRANSPORT IN NEW ZEALAND

Innovated solutions to solving the problem have been suggested at various world forums (e.g., the OECD seminar on urban transport and the environment (OECD, 1979)) and have been influential in construction of the urban transport legislation. The ultimate success of these "solutions", however, remains to be seen. The approach sponsored by the Urban Transport Act focuses on planning and funding solutions to the problems of urban transport. While such an approach appears to offer very real prospects for success, the UTC will be concerned not to limit attention to matters to do with planning and funding but must be continually exploring new avenues, particularly through the funding mechanism, in which more efficient urban transport systems can be promoted.

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