





Land Transport Policy Development: Clustering of Road Controlling Authorities

This paper is provided for discussion purposes only. It does not represent Government policy.

Introduction

New Zealand has 75 road providers. The State highway system is managed by one entity, Transit New Zealand, while 74 local authorities provide local roads. All these providers contribute to New Zealand land transport network. There is a question, however, about whether some aggregation of the current providers might lead to better outcomes for land transport users and the community, and the Labour Party called for an examination of this question in its manifesto.

The Government has made it clear that clustering would not involve commercial companies, and that it would be voluntary. As well, it wants to ensure that local communities continue to have strong influence over the way land transport infrastructure is managed. However, within those limits, there are a number of different approaches to clustering, ranging from increased co-operation of the current providers to new, separate agencies. Each has pluses and minuses.

This paper provides an overview of the possible advantages that could be derived from clustering, the possible disadvantages, and outlines some of the issues involved. Accompanying this overview is a series of papers, which explore the issues in greater detail.

Advantages and disadvantages of clustering

Under the present approach, where projects are funded individually and in urban areas where there is a multitude of players with potentially conflicting priorities, decision making can be protracted and complex. The needs of all road corridor users, for example cyclists and pedestrians, may not always be systematically taken into account. Across the national roading network, it is difficult to take a strategic view of investment, and any investments that are made may not fully take into account their impacts on adjoining networks. Decision-making (for example across local authority boundaries for forestry) may not be integrated. The larger the number of roading providers, the greater is the risk of this occurring. Clustering could facilitate integrated solutions to particular transport problems, and streamline decision-making processes.

Cost savings could also be made through the concentration of management functions and the aggregation of contracts for maintenance and capital expenditure. This could free up additional funds for roading or public transport. Transit's recent experience with State Highway 3 indicates significant savings can be made. Some local authorities are exploring similar contracts. The recent agreement between Transit and the Marlborough District Council is another example.

Clustering would also make it possible to implement more innovative ways of funding land transport infrastructure. For example, output funding could be used. The benefit of output funding is that roading providers would receive a stream of revenue along with certain criteria. They would have discretion about how to spend that funding to meet those criteria. Output funding would also allow better-integrated management of maintenance and capital expenditures, and would facilitate borrowing. This suggests that the networks involved in clusters would need to be contiguous.

The use of new tools may also be made possible through clustering. It is **difficult** to see how tools such as mobility charging could be successfully used in large cities unless there was close co-ordination between adjacent networks.

Clustering, however, raises significant accountability and governance issues, particularly if it is accompanied by a move to output funding. Clusters could have a great deal of flexibility, be responsible for considerable resources, and have access to a number of powerful tools. This increases the relative risks stemming from poor performance. On the other hand, it may be easier for such entities to take responsibility for environment and safety outcomes because they would have greater ability to influence them.

However, it could be argued that large clusters could be less in touch with local communities, and those communities could find it more difficult to influence their decisions. Likewise, road users may find it more difficult to influence larger players. Conversely, clustering may result in parochial decisions about parts of the network that have national implications. These issues would need to be carefully worked through.

Finally, there is the question of the future of the State Highways. Involving the State Highways in new clusters could internalise the impacts of investment and management decisions in a region or area. There is also an argument that State Highways and local roads are quite different products, catering for different types of use. Alternatively, it could be argued that the State Highway system provides a national, consistent network for inter-city travel. As well, Transit has developed considerable expertise in managing its specialised network, including the management of large projects. Clustering could dilute this.

Papers

The following papers outline a series of issues in relation to:

- governance and accountability

- funding and charging
- the future of state highways



Land Transport Policy Development: Governance and Accountabilities of Clusters

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Introduction

If some clustering of current roading activities takes place, then a number of questions arise about how these clusters should be governed, and what accountability arrangements should be put in place.

Issues

- Are joint committees of local authorities and the Crown formed under the Local Government Act 1974 a sensible structure for clusters? Would there be advantages in having a special legal or statutory form for clusters? Would other existing legal forms be satisfactory?
- What should be the objectives and operating principles of clusters? Should these differ depending on whether the cluster is a joint committee or not?
- To what information and consultation obligations should the plans and objectives of clusters be subjected? Should these differ depending on whether the cluster is a joint committee or not?
- Should clusters produce long-term asset management plans?
- What information about performance and activities should clusters produce, and to whom? Should these differ depending on whether the cluster is a joint committee or not?
- What financial accountability requirements should any regional cluster have?
- Who should appoint the governance body of a separate cluster, and against what criteria?
- Should there be additional requirements on clusters (and other road controlling authorities) in respect to consultation with Maori and involvement of them in decision making?

The following notes are provided to stimulate discussion on the issues raised above.

Objectives of Clusters

A prerequisite to effective accountability is to clearly specify the obligations and objectives placed on the organisation or persons concerned. What might these be for clusters?

A review of the legislation relating to other entities suggests the following as a basis for discussion about what might be appropriate.

- That a cluster be an organisation that exhibits a sense of social responsibility by having regard to the interests of the communities in which it operates, and by endeavouring to accommodate and encourage those interests.
- That a cluster, in fulfilling its purpose, operate in a financially responsible manner so that it maintains its financial viability and prices its services and invests in and manages the assets under its control so as to promote economic efficiency.
- That all the activities undertaken by a cluster align with the New Zealand Transport Strategy.
- That clusters take into account the interests of Maori.
- That in carrying out its activities a cluster complies with all applicable environmental standards and requirements.
- That in carrying out its activities a cluster complies with all applicable safety standards and requirements.
- That a cluster is a good employer.

Possible forms

There are a number of approaches to clustering ranging from increased cooperation to separate legal entities.

There is provision under the Local Government Act 1974 for a local authority to unite with one or more other local authorities, or other public bodies, to appoint a joint committee. This raises the possibility that clusters could be joint committees.

The joint committee arrangement is designed to facilitate setting up advisory bodies covering several councils. A joint committee does not have a clear legal status separate from the local authorities and public bodies that created it, so, arguably, is not able to

contract or hold funds, borrow and invest in its own right. The rules for joint committees dealing with matters like how appointments are made, and the decisions that can be taken, are not fully set out in the legislation. These would need to be established by the parties setting up each cluster, and this would involve further negotiation.

Other options would be to set up a special legal or statutory form of organisation for clusters, or to use existing legal forms. For example, a cluster could be a separate, specialist land transport agency that could have its own statutory and legal form, and own accountability arrangements. It would be able to borrow and invest, and develop its own contractual relationships.

Influences

There are currently a variety of mechanisms through which local communities and individuals can influence what happens in the land transport corridor. These include the processes surrounding the Resource Management Act, the local authority annual plan, and the Regional Land Transport Strategy. In addition, councillors can be lobbied, and elections provide another opportunity.

The establishment of clusters would be unlikely to affect some of these mechanisms. Clusters would have to continue to comply with the Resource Management Act, and regional land transport strategies would continue to influence decisions.

In other areas, the form of input and influence seems likely to depend on the form and degree of independence of the cluster. For example, if the cluster is a local authority joint committee, the input is likely to come mainly through each entity that formed the committee and the councillors and other appointees that are on the committee.

If, however, the cluster has a separate legal or statutory form, the direct influence by local authorities and individuals would change. In this case, it would depend very much on the rights local authorities and citizens have in regard to appointments to the cluster's "board", and the annual planning and reporting requirements placed on the cluster.

Relationship with Maori

Maori have a real and historical reason for an interest in the operation of the roading network. Many of New Zealand's roads are sited on what was formerly Maori owned land, and Maori have a number of areas of spiritual significance that are affected by past and present roading developments. In addition, Maori economic development is influenced by roading decisions and, in urban areas, passenger transport operations play an important part in the social mobility of many Maori.

The Transit New Zealand Act currently provides for a consultation mechanism with Maori over projects and roading outputs that affect Maori land and Maori spiritual, historical and cultural interests. The question arises as to how broadly this should apply

including: direct election by residents of a region; appointment by local authorities in the region; appointment by an electoral college of representatives; appointment by the Crown alone; and partly appointment by local authorities and partly by the Crown. There are also issues as to whether Maori should appoint some members of the governance body, and if so, how this should be implemented in practice.

In general, the greater local input, the more likely the cluster will focus on local issues and priorities, and the greater central Government input, the greater will be the influence of national priorities. The more those on the governance body see themselves as representatives of and accountable to particular interest groups or areas, the more they are likely to act in the interests of these groups and areas. On the other hand, if there is a requirement for all on the governance body to promote the objectives laid down for clusters, then this will lessen the impact of interest groups.

(for example, to all roading projects, to all changes to road management practices etc) and whether this provides sufficient input by Maori.

Planning and Reporting

What information should a cluster provide, and to whom, and when? If the cluster was a joint committee, then the bodies forming the cluster would probably decide. However, if a separate legal form was used, then the information should probably include how the cluster interprets its objectives and obligations into actual financial and other plans and policies. The cluster might also provide a reasonable opportunity to stakeholders, such as the local authorities and citizens in the region and the Crown, to comment upon these plans, and to influence them.

The usual means for separate entities to report on plans and policies is for them to produce a draft Statement of Intent for key stakeholders, and to receive, and consider their comments prior to **finalisation** and distribution. The importance that assets play in the activities of clusters and their impact on their communities suggests there might also be benefit in clusters producing and publishing every year an asset management plan covering, say, a ten year period.

To further facilitate accountability, a cluster with a separate legal form might provide timely and authenticated information on how well it has discharged its obligations, and achieved its objectives. The usual means of doing this is for the entity to produce and publish an annual report setting out audited financial results and performance relative to the objectives in the Statement of Intent.

Financial accountability

Local authorities must currently prepare and consult on a range of financial documents including their long term financial plans. What financial accountability regime might apply to any regional clusters? What assets would they own? What plan(s) should they prepare and under what conditions? Should they a depreciation regime? Should they show a return on their assets even if that return had to be re-invested in their operations? What implications would this have for their funding requirements?

Appointments

The criteria used to appoint and remove members of the governance body are critically important to determining what an entity does. Irrespective of the stated objective of an organisation, if those governing it are appointed and removed with different objectives in mind, then, eventually, these alternative objectives will shape the organisation.

The issue is, therefore, what appointment and replacement mechanism will best ensure a cluster pursues the intended objectives, and fulfills its obligations. If the cluster is a joint committee, then the entities that formed the cluster will appoint the members of the committee. However, if the separate legal form is used, there are numerous possibilities,



Land Transport Policy Development: Funding and Charging Powers For Regional Clusters

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Introduction

If local authorities were given the option of setting up a new entity to take over their existing roading and passenger transport responsibilities across regions, then the question would be raised as to how they should be funded and what ability they should have to raise charges directly off users.

Future of rates

One of the biggest constraints to any regional clustering would appear to be the existing reliance on rates funding. This reliance seems to be a significant barrier to necessary investment in local roads in some parts of the country. Consequently, some of the key benefits of regional clustering could be frustrated by regional clusters continuing to have to rely on local authority rating contributions for “core services” such as maintenance of existing roads.

But if part of the existing rates contribution is to be reduced, then other sources of revenue would have to be found ie petrol tax, Road User Charges (RUC) or motor vehicle registration (MVR) licensing fees. These latter mechanisms are set and collected nationally. This raises a number of questions, primarily whether clusters could have different rates of assistance from non-clustered local authorities.

Rates seem to be an appropriate mechanism for paying for a range of non “core roading” services in the road corridor, including tree planting and footpath upgrades. How would these services be paid for under regional clusters?

RUC, Petrol Tax, MVR: Transfund funding

This, in turn, raises the question as to how any regional cluster should receive the revenues collected by the petrol tax, RUC and MVR systems. Given that these mechanisms are taxes raised nationally, that the national network needs to be retained, and that it would appear important for funding to be delivered to areas of most need, a central distribution agency e.g Transfund still seems necessary. So how should a Transfund fund/pay any regional clusters?

The current maintenance and capital B/C financial assistance policies of Transfund have secured significant savings, but they can discourage appropriate maintenance vs capital tradeoffs, innovation and potentially, other service improvements.

Transit's recent experience with the awarding of specified performance maintenance contracts in Taranaki and Northland has demonstrated the potential for realising further savings in maintenance costs through the combining of existing contracts into larger and longer term contracts. Some local authorities are looking to use or have implemented similar albeit shorter term contracts. Is there the potential to make further savings on local road maintenance with larger **and/or** longer term contracts? If so, how could these savings be realised? Could the clustering of existing local authority responsibilities help realise these savings?

Funding any regional clusters on the basis of the overall outputs/outcomes they produce (eg lane availability, congestion relief, safety targets) as opposed to the input decisions they make, could also provide **better** incentives – and greater flexibility - to provide roads that deliver these outcomes. Clusters could receive an overall payment from Transfund on a regular basis reflecting their combined performance against a set of criteria. It would then be up to them to decide as to how they used the money on a day-to-day basis. Such a system could encourage “thinking outside the square” and on more innovative ways of delivering better services and focus less on traditional inputs (such as maintenance).

But such a performance-based system could ideally only be introduced over relatively large areas (given that lack of co-operation between some smaller road controlling authorities could make it difficult to hold them individually accountable). Could the establishment of regional clusters coincide with the introduction of an output/performance payment system to the new regional organisations? Could such a system be operated alongside the current maintenance/B-C system? How could such a system guarantee protection of the network? (Could initial funding levels be based on current levels?)

Ability to toll and charge to improve congestion

A further key issue is the ability any regional cluster should have to raise their own revenues directly off their users. Should regional clusters be able to charge tolls to fund new roads, for example? If so, under what conditions?

Regional clusters would provide a platform for any region-wide charging system. Should regional clusters be able to introduce charges on a region-wide basis on existing roads in order to deal with congestion? If so, under what conditions? What should happen with the revenues? How would technological consistency across the remaining network be assured?

Monopoly concerns

Any regional cluster with such powers would have “significant natural monopoly” characteristics. Users might be concerned about the potential for any regional cluster to overcharge them or use the resulting revenues in an inappropriate or less than

transparent manner. But countering these concerns are the significant constraints that would almost certainly apply to regional clusters. The public right of access to the roading network would be retained and Transfund and local authorities would control most of any cluster's revenues. This raises the question: what other accountability arrangements or controls should apply to regional clusters, if any?

Issues

Issues to consider include:

- Could regional clusters be viable with the current reliance on rates funding of local roads?
- If not, how should rates be reduced? Where should the increased revenue from RVC/petrol tax/MVR be directed? Just regional clusters or existing local authorities as well?
- How should Transfund fund/pay any regional cluster? Should any cluster be paid on an output/performance basis?
- Are there further maintenance savings that could be realised with the awarding of larger and longer contracts? If so, how could these gains be realised?
- What power should any regional cluster have to charge road users directly? Should they be able to toll new roads? Should they be able to charge for the use of congested road? If so, under what conditions?
- What further controls, if any, should be placed on regional clusters to protect users from potential monopolistic behaviour?



Land Transport Policy Development: Clusters and the State Highway System

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Introduction

If some form of “clustering” is accepted for parts of the road network, the immediate question that will need to be addressed is whether such clusters are to include the relevant parts of the State Highway network. The Labour Party committed itself to an examination of this issue in its election manifesto.

This paper does not make any judgement on the possibility of merging the State Highways with local road networks, but sets out a number of issues that would have to be considered in this eventuality.

Background

There are currently 94,000km of roads in New Zealand, of which approximately 10,000km is the State Highway network. The State Highways however carry about 50% of the total traffic on the whole road system. A Crown Entity, Transit New Zealand, manages them on behalf of the Crown but does not own or lease the land under the roads it controls. Transit New Zealand is fully funded from the National Roads Fund for construction and maintenance. The State Highways are recorded in the Crown Accounts as a Government asset, with a nominal value of \$8bn.

Disposal of State Highways to another entity seems an unlikely option. The land ownership situation is complex, for example, much of the land does not have titles and is subject to the Public Works Act 1981.

Significant areas of the network are subject to claims under the Treaty of Waitangi so any disposal by the Crown would be subject to the Crown’s obligations, if any, under the Treaty. As well, certain disposals would be subject to the Waikato Raupatu Claims Settlement Act 1995 and the Ngai Tahu Claims Settlement Act 1998. In some circumstances, these Acts trigger a right of first refusal.

Other management arrangements

One option could involve new management arrangements for the State Highways network.

There are currently two examples of transfer of management on the State Highway network. Rotorua District Council manages the maintenance of State Highways in its area under delegation from Transit New Zealand. Marlborough District Council and Transit New Zealand have recently established a contractual arrangement for the joint management of the local roads and State Highways in Marlborough.

If the State Highways were to be managed in another way, Maori interests in such an arrangement would need to be considered.

Issues

If clusters are to include both local roads and the State Highways to form so-called "geographical networks", then there are a number of key issues to discuss. The following groups of questions attempt to raise these issues, but do not take a position on any possible outcome.

(Issues related to the funding of State Highways and local roads are dealt with in a separate paper)

Geographical networks

- What are the advantages and/or disadvantages of combining the State Highways and local roads into geographic networks that combine all the roads in one region into a single network?
- Does the answer to the previous question differ between various parts of New Zealand? Is there, for example, a different answer for the major urban areas and another for rural and provincial New Zealand?
- What are the possible direct financial costs of putting State Highways and local roads together in any area?
- What are the possible direct financial benefits of putting State Highways and local roads together in any area?

Size of geographical networks

- Assuming that there is a case for creating geographical networks, should these have some minimum size (in terms of kilometres), or at least a minimum geographical area of coverage (such as a Region)?

Governance of geographical networks

- Assuming that there is a case for creating geographical networks, how should the partnership between local authorities and the Crown be expressed in the governance structure?
- Under what terms should clusters take over the management of geographical networks – should this be for an indefinite period or for fixed terms set out in a contract or in legislation?
- What should the performance incentives and sanctions be for the cluster, both to the Crown and to local authorities?

Maintaining the national network

- Should the State Highway network be retained intact under its present management as the key strategic road network?
- Is there a case for having a smaller strategic network managed by Transit New Zealand, and transferring some State Highways (such as regional links and the urban motorways) to management control of regional clusters?
- If all State Highways were transferred to management by clusters, is there a case for some agency to be responsible for setting minimum standards for such roads? How would this happen? Which agency should have this oversight role?

Maintaining nationwide services to road agencies

- If all State Highways were transferred to management by clusters, what should happen to the technical and advisory services and other specialised skills currently provided by Transit New Zealand?

Maori interests

- How should Maori interests be considered in any new arrangement?

10 November 2000

TR25/00

- M E M O R A N D U M -

TO: All Mayors and Chairs
 All Chief Executives
 All Chairs of Roothing and Transport Committees
 All Managers/Directors – Transport/Roothing

FROM: John Hutchings

SUBJECT: **New Land Transport Policy: Third set of papers on Structures, Governance and Accountability**

Purpose

- to provide you with a copy of the third set of Ministry of Transport papers on Structures, Governance and Accountability
- to offer some first thoughts in response to those papers
- to seek your response to the content of those papers by **15 December 2000**
- to provide you with a copy of our final response to the second set of papers on charging and funding.

Background

We have now received a copy of the third set of Ministry of Transport papers which have been prepared as a background to the development of new transport policy. These papers address structures, governance and accountability. There are four papers:

- clustering of road controlling authorities – an overview paper
- governance and accountability of clusters -- exploring the objectives, form, influences, relationship with Maori, planning and reporting, financial accountability and appointment procedures
- funding and charging powers for regional clusters -- examining rates, Transfund funding, ability to toll and improve congestion and monopoly concerns



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Local leadership, national voice...

- clusters and the state highway system – exploring the relationship between potential clusters and Transit New Zealand.

These papers are *enclosed* as attachment one.

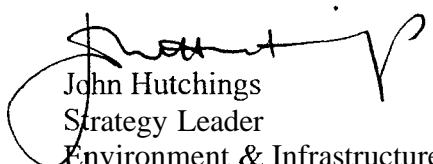
The National Council Transport Working Party and Technical Advisory Group have given some preliminary thought to the Ministry of Transport proposals. This proved somewhat difficult as the papers contain more questions than answers. The model prepared by the working party is designed to focus your thinking and solicit a response.

The National Council Transport Working Party and Technical Advisory Group's initial response is *enclosed* as attachment two.

The comments of member authorities in response to the initial thoughts of the working party on the second set of transport policy papers – on charging and funding, was extremely good and grateful thanks are extended. The working party met with Hon Judith Tizard and Ministry of Transport officials on 1 November to convey the sector views on charging and funding. We *enclose* our final response as attachment three for your interest.

Action

Please consider the Ministry of Transport policy papers on structures, accountability and governance, as well as our initial response to this paper and forward your comments no later than Friday, **15 December 2000**. We look forward to your response.


John Hutchings
Strategy Leader
Environment & Infrastructure
Local Government New Zealand

7 November 2000

TRIO-01

Attachment Two

SUBJECT: Third Set of Transport Policy Papers: Structures, Governance and Accountability

Initial Response of Transport Working Party

The papers from the Ministry of Transport on structures, governance and accountability tend to provide more questions than answers. The National Council Transport Working Party and Technical Advisory Group has prepared some initial thoughts to give focus to your response.

The model outlined in the following bullet points leaves those things that are working well alone and concentrates on those things that are problematic – particularly capital / investment in arterial roads. The model provides for changes to be made within those ‘regions’ where this issue deserves priority attention and allows other regions to continue with current arrangements. The model should be read with our previous response to the charging and funding papers firmly in mind.

- formation of “clusters” should be voluntary and incremental
- the initial focus of the ‘cluster’ should be toward the capital / investment proposals needed to implement agreed land transport strategies and plans
- clusters of road controlling authorities should be granted more autonomy and flexibility from Transfund than they currently enjoy. This may be achieved by allowing them to focus on the achievement of outcomes rather than inputs – in a manner that is consistent with the New Zealand Transport Strategy and Regional Land Transport Strategy and in a manner that reflects the changes flagged in the ‘Major Projects Review’
- Regional Land Transport Strategies should remain the high level policy instruments through which the wider interests of the community will be taken into account
- the governance body established to oversee the capital / investment decisions of the cluster will need to include representatives of local authorities, Transit NZ and road users
- those road controlling authorities who are not wishing to become part of a capital / investment cluster would remain accountable to Transfund as per current arrangements.
- the option of extending the considerations of the cluster to management of the maintenance and other operational aspects should be that of individual groupings of road controlling authorities

- passenger transport matters should also be outside the scope of the initial decision making of the 'cluster' but will need to be taken into account in some form. Passenger transport investment decisions may be included in the decision making of the cluster in the longer term
- the new capital / investment projects agreed to by the cluster will be largely funded from road user charges and petrol excise rather than from rates. The cluster will also be able to borrow and apply tolls /congestion charges and other local or regional user charges.

7 November 2000

TR10-01
Attachment Three

Second Set of Land Transport Policy Papers

1. Charging and Funding - Overview

Our Response

- the charging and funding **outcomes** that we seek from an ideal transport system include:
 - sufficient revenue to maintain, retain and/or enhance our transport system and reflect agreed user, community, asset management and safety standards and needs
 - the ability to more clearly allocate transport costs onto transport users, including the costs that they impose on the environment
- the **ideal** charging and funding system would be sustainable, equitable, transparent, reflect economic, environmental and social needs and would:
 - promote and be consistent with the New Zealand Transport Strategy and regional land transport strategies
 - provide for the amelioration of the impact on those communities who cannot afford to meet the additional costs that any new system may impose on them. (We are funding transport networks serving the needs of diverse areas/regional communities. Redistribution and equity issues arise that inevitably and appropriately compromise a pure approach to pricing/charging)
 - deliver what users and communities want and are willing to pay for
 - recognise the diverse needs of different communities and avoid a “one size fits all” approach
 - be creative and flexible, particularly, in the mechanisms adopted to raise revenue
- the funding and charging **issues** that should be resolved include:
 - current funding arrangements generate insufficient revenue and tend to be short-term and non-strategic in nature
 - some users do not pay their fair share of costs
 - emerging maintenance needs and the ongoing demands of forestry, tourism and the agricultural sector will compound current funding difficulties – those demands need to be addressed
 - at their current level of input, rate funding is too high

- central government continues to inappropriately divert funds from petrol taxes to the consolidated fund and unfairly targets only one of the transport fuels (Government should eventually cease diverting fuel excise to the consolidated fund and, in the interim, apply this tax equitably across all land transport fuels and work toward incrementally funding additional transport projects from that excise tax)
 - while there are positive aspects of the benefit cost approach, this system must be continually refined to enable investment priorities to be determined that are responsive to the strategic needs of transport users and communities, reflect new funding mechanisms, and be a tool that is responsive to agreed strategies
 - the match between funding source (taxes or rates), the “financial assistance rate” and road projects is somewhat arbitrary and historic
 - a lack of accountability is evident in some aspects of safety and regulatory services
 - some modes of transport (e.g. passenger transport) do not receive appropriate funding
- an assurance should be provided that all interim/ad hoc funding and charging solutions will incrementally contribute toward agreed long term funding / charging outcomes
 - we have found it difficult to address charging and funding issues and solutions in isolation from a consideration of investment and governance / accountability considerations.

2. Funding Systems

Our Response

- the New Zealand Transport Strategy should play a stronger role in guiding decisions about the allocation of funding to different land transport programme outputs. Regional Land Transport Strategies and local / community transport plans should also be making an important contribution to this task. Such strategies, plans and decisions will need to be developed through a robust process and “be taken account of” by all transport agencies
- the New Zealand Land Transport Strategy should also clearly define the link that is desired between those who pay and those who benefit from transport investment decisions
- research will need to be undertaken so that greater clarity is available about the benefits accruing from road maintenance and capital expenditure projects in comparison to safety programme expenditure, passenger transport expenditure and other expenditure. Only when this research is complete

should attention be diverted to systems that allow integration of the expenditure decisions between those outputs

- in addition, once the debate about the appropriate mix of pricing / charging and associated funding has been resolved, the New Zealand Land Transport Strategy should include:
 - a definition of the role and contribution of taxes (be they general, transfer payments or subsidies) charges, and other funding sources
 - the scale of inter-regional and intra-regional transfers
 - the outcomes to be achieved from the allocation of land transport funds including the optimal benefits to be achieved for New Zealand from respective allocations to safety, roading maintenance, capital expenditure and passenger transport
 - the different results, thresholds and efficiency tests for these different kinds of expenditure
- the ideal funding system should provide for a much higher level of local determination about the priorities for investment. Associated accountability arrangements will also need to be developed. This will allow for local socio-economic factors to be better reflected in decision-making and the particular challenges posed by the geography of a location to be better taken into account
- as noted in our previous comments on the role of the New Zealand and Regional Land Transport Strategies, walking and cycling must be more clearly recognised and provided for in the making of funding decisions
- systems should be further developed that focus more on the achievement of agreed outputs, outcomes and performance than inputs
- current distortions will need to be removed from our transport funding system including the requirement that:
 - local roads arbitrarily receive an average of only 50% of the funds required for maintenance and construction from the National Roothing Fund
 - other roads (state highways) receive 100% of their funding from the National Roothing Fund
- we question the level of additional revenue that will be generated in the short term from the achievement of efficiency opportunities through clustering and administrative gains. Additional funds need to be found and allocated, now, to New Zealand's land transport system
- we note that Transfund, in its "major projects review", has made progress toward the delivery of road services that are more long term and more in keeping with user and community aspirations.

3. Improvements to the Road User Charging and Fuel Excise Duty Systems

Our Response

- electronic RUC charging systems should be introduced to the heavy vehicle diesel fleet as soon as practicable. Pricing of these vehicles on a weight, distance and time basis, particularly in congested areas, should be applied when it becomes technically, politically and economically feasible to do so
- electronic RUC should be incrementally introduced to light diesel vehicles. Such a system could be equally applied to hybrid cars and LPG / CNG vehicles
- legislative amendment should be introduced to enable RUC payment / enforcement procedures to be tightened up as soon as practicable and make other changes to overcome current bureaucratic / procedural problems
- we note that questions remain about whether heavy diesel vehicles are paying their fair share. We request urgent release of studies that assess the impact and fairness of the proportion of costs carried by different road users
- we suggest that petrol excise tax remains the most efficient method for recovering the cost of road use in the short term. We suggest that in the long term, all vehicles should adopt technology that allows road users to be appropriately charged in a manner that reflects time (in congested areas), weight, distance and equity considerations
- ongoing work may need to be undertaken to assess the impacts and fairness of the proportion of costs carried by different users.

4. Future of Rates

Our Response

- the role of rates should be reduced and refocused towards:
 - “public good” elements of roads, including amenities on the road verge
 - upgrade of a road to a standard beyond that defined as being the minimum necessary for it to perform its function safely and efficiently
 - charge for the tasks performed by local authorities, particularly their oversight of the roading corridor
 - recognition of the local “club” benefit aspects of local roads (i.e. recognition of the benefits of a property being connected to the road network and the local community sharing the costs not covered by user charges? that is, a connection fee)

- the benefit analysis now required of local authorities, in preparing their funding policies and long term financial strategies, can and is being used to determine the appropriate impact of rates on various rate paying groups
- the difference between many local arterial roads and state highways *is* artificial. A different and flexible “funding assistance rate” system is needed that better reflects road use and the impacts on local communities
- we strongly agree that investment in infrastructure, including roads, provides a foundation for regional economic development. Additional roading expenditure is required in disadvantaged areas
- the impact of forestry, tourism and dairying on roading is significant. Rating based funding systems do not provide an equitable mechanism to meet the costs of establishing appropriate roads - particularly those required for transporting logs. Forestry land can only be rated on a “land” as opposed to “capital” value basis. The current review of the Rating Powers Act may provide a solution to this problem
- transport is a sector of the economy where the interests and needs of the community are inextricably intertwined with the interests and needs of road users. Local authorities remain the best agency to reflect the transport needs of communities and to provide accountability over local transport decision making. They are also the best agency to co-ordinate the activities that occur on the ‘road reserve’ (e.g. utilities, road carriageway, footpath, vehicle entrances, provision for fire fighting, etc)
- we draw your attention to the funding requirements imposed upon local authorities by Local Government Amendment Act No 3 (1996) and in particular the requirement for:
 - assessment, justification and accountability mechanisms to be used to fund the different activities carried out by local authorities
 - annual planning, long term financial strategies and funding policy documents to be prepared with wide consultation with the community and affected stakeholders
 - these documents to clearly demonstrate that the rate savings accruing as a consequence of the replacement of rates by other sources of revenue will be dealt with appropriately
- additional revenue sources should be a combination of road user charges and fuel excise taxes, with some fixed costs possibly being gathered from motor vehicle registration revenues
- we recognise that a shift in revenue sources from rates may have a short term impact on low income earners, particularly those in rental accommodation but suggest that the market will eventually move to reflect these changes. (NB: in urban areas, less than 5% of what an individual spends to meet their transport needs is spent on the rates contribution to roading)

- we recognise that the move to lower rates and increase fuel excise tax will need to be phased. It is important that this process is begun and that the appropriate signals are given.

5. Motor Vehicle Registration and Licencing

Our Response

- responsibility for motor vehicle registration revenue management should be transferred to Transfund
- the purpose of these fees should be to contribute to the costs of safety administration, including appropriate driver behaviour and vehicle standard tasks. Additional revenue for this purpose should be acquired from the revenue collected from infringement fees
- constraints should be placed upon access to the Motor Vehicle Registry to protect personal privacy
- the Transport, Vehicle and Driver Registration and Licencing Act 1986 should be reviewed to improve administrative efficiency
- we support all moves that will prevent evasion of motor vehicle registration licencing and fee systems. This will allow the system to be used more fully to recover roading costs that do not vary with road use.

6. Charging and Financing New Roads

Our Response

- legislative amendments should be introduced that allow a higher level of private sector involvement in road construction schemes
- criteria will need to be established – perhaps within a regulation attached to a Transport Amendment Bill, to overcome the current need to seek stand-alone legislation for each and every toll road facility
- only a few large projects in New Zealand will warrant design, build, fund operate type approaches
- Transit/Transfund should be allowed to borrow funds to construct large roading projects

- we support the use of tolls to fund roading projects. We note that their extended use reinforces the move toward greater regional accountability for funding transport improvement and priority setting
- we strongly support the suggestion that tolls should only be imposed where:
 - alternative routes are available
 - funds raised are used in a transparent manner to the net benefit of those paying for the service
 - funds would not be diverted to any other non land transport purpose
 - impacts on other parts of the network and associated communities has been considered
- we note that long-term financial strategies and funding policy documents provide a mechanism to test support for proposals to introduce tolls and to allow private sector orientated build, fund, operate and transfer approaches to road projects
- one of the criteria to be used in judging the suitability of a design, build, fund operate application should be that of consistency with the sustainable development objectives that will be outlined in the New Zealand Transport Strategy and in Regional Land Transport Strategies
- if design, build, fund and operate approaches are to be adopted then mechanisms need to be adopted that ensure that the “risk” rests with the developer rather than the local community.

7. Paying to Improve Mobility (congestion charges)

Our Response

- we support the introduction of congestion charging, subject to the conditions identified by the Ministry of Transport, particularly:
 - alternatives to the imposition of congestion charging should be looked at, particularly those which achieve the same objectives. These alternatives may include the potential use of trials and different lane pricing
 - charging systems should be established in a manner that allows for the incremental adoption of new technologies and the protection of personal privacy
 - costs incurred by road users through congestion charges should be spent in the same location and to the overall benefit of those road users who pay the charge
- passenger transport services and other alternative modes of travel should be provided in conjunction with congestion charges. Such services are an appropriate recipient of the revenue generated from congestion charges

- Long term financial strategies, funding policy documents, annual plans and Regional Land Transport Strategies are important mechanisms through which affected road users may be consulted about a potential congestion charge and through which alternatives and regional consistency issues are explored and resolved
- we note that congestion charges have all sorts of additional benefits, including those relating to greenhouse and noxious gas emissions from congested vehicles.