

Submission

by

**THE
NEW ZEALAND
INITIATIVE**

To the Ministry of Transport

on

the Draft Government Policy Statement on Land Transport

2 April 2024

Prepared by:
Matthew Birchall, Senior Fellow
The New Zealand Initiative
PO Box 10147
Wellington 6143
matthew.birchall@nzinitiative.org.nz

1 INTRODUCTION AND SUMMARY

- 1.1 This submission in response to the Draft Government Policy Statement on Land Transport is made by The New Zealand Initiative (the **Initiative**), a Wellington-based think tank supported primarily by major New Zealand businesses. In combination, our members employ more than 150,000 people.
- 1.2 The Initiative undertakes research that contributes to the development of sound public policies in New Zealand and the creation of a competitive, open and dynamic economy and a free, prosperous, fair and cohesive society.
- 1.3 The Initiative's members span the breadth of the New Zealand economy; a well-functioning transport system is important to them. The views expressed in this submission are the views of the author, not those of our members.
- 1.4 In summary, we submit:
 - (a) The Draft GPS significantly boosts funding for maintenance, which is widely recognised as the foremost priority for a well-functioning land transport system;
 - (b) It also signals the Government's commitment to transitioning to a universal road user charge system. Road pricing will play a pivotal role in reforming the transport revenue system;
 - (c) However, the transport funding system remains dysfunctional;
 - (d) The current system increases the cost of delivering transport infrastructure as priorities and funding are determined by the preferences of Ministers, which may shift with changes in government;
 - (e) Ministerial direction is an inevitable consequence of a shift away from a system based on road user charges. Crown funding comes with Crown direction;
 - (f) The new Government should use GPS 2024 as an interim transport budget while fundamental reform is undertaken;
 - (g) The 1998 Better Transport Better Roads model should be the starting point for a redesign of the transport system.

2 PROBLEM DEFINITION

- 2.1 The National Land Transport Fund (NLTF) has lost sight of its core purpose: delivering net benefits to road users. Instead, it has evolved into a broad repository for various transport projects, leading to a disconnect between the charges paid by road users and the funding allocated to the roading network. Motoring taxes are pooled into a single fund, supplemented by additional Crown contributions for capital investments and other projects. As a result, it has become challenging for road users to discern

whether they are, on balance, being subsidised or taxed relative to the value of services provided.

- 2.2 In the past, maintenance had top priority for funds allocated by road users, with any remaining funds used for capital investment. However, Ministerial control of the NLTF via Government Policy Statements has led to years of deferred maintenance. A well-functioning funding system would mitigate the need for a new government to allocate \$500 million to repair potholes.
- 2.3 The attempt to fund large capital works solely from the annual NLTF revenue has led to a situation where beneficial projects cannot proceed without additional funding from the Crown. PPP arrangements have been employed partially to circumvent these funding constraints. While the PAYGO model is appropriate for routine maintenance and upgrades, debt financing may be better suited for capital projects.
- 2.4 The increased backing from the Crown for the NLTF underscores the challenge of relying on the Minister's preferences for funding allocation. Successive GPS's have shifted back and forth between prioritising public transport projects and new roads, neglecting the preferences of road users whose payments through road user charges and fuel excise duties provide funding. It has also resulted in roading projects with low benefits relative to costs being advanced ahead of those with high benefits relative to costs.
- 2.5 This inflates transport project costs, as sudden shifts in funding priorities can disrupt long-term planning and lead to inefficiencies in resource allocation. The result is a politicised land transport system that delivers poor value for money.
- 2.6 GPS 2024 sets four different strategic priorities for the NLTF.
 - 2.6.1 We welcome the reduction in the number of objectives. For example, the previous Labour Government's Draft GPS 2024 contained six strategic priorities, including sustainable urban and regional development, a reduction in emissions, and an integrated freight system. The consolidation of activity classes and the reduction in strategic objectives marks a return to a more focused and efficient approach to funding land transport.
 - 2.6.2 The GPS removes emissions reduction as a strategic priority. As every emission associated with sectors covered by the GPS is covered by the Emissions Trading Scheme, it makes little sense for the GPS to target emissions directly.¹ Transport planning should aim to provide the infrastructure people will want when carbon prices rise substantially. Failing to do so would force people into higher-cost ways of avoiding emissions, because appropriate infrastructure would not be available. But transport policy and the GPS should respond to rising carbon prices rather than try to drive down emissions directly. Strengthening the ETS remains desirable and is a better way of achieving reductions in net emissions. It is therefore sensible to

¹ The New Zealand Initiative, Submission: The Emission Reduction Plan, 27 June, 2022.

remove emissions reduction as a strategic priority. Additionally, a system that caters to user demand will necessarily respond to rising carbon prices.

- 2.6.3 The Initiative would like to see the NLTF guided by two core objectives: 1) a commitment to maintaining and upgrading the network; and 2) the efficient allocation of capital spending.
- 2.6.4 Economic Growth and Productivity is a new priority, echoing the approach taken by the previous National Government. The Initiative shares the coalition Government's desire for a wealthier and more prosperous New Zealand. However, we remain unconvinced that it should be a strategic priority. A system that prioritised maintenance and efficient capital spending would better enable the Government to build a transport network that facilitated economic growth and productivity.
- 2.6.5 The Draft GPS notes that the Roads of National Significance programme will form the central pillar of the Government's economic growth and productivity strategy. We are concerned that the Government has committed to these projects before completing business cases and providing further details on funding and financing arrangements. This points to a wider problem in New Zealand's transport system: Ministers can effectively decide to push ahead with projects that contribute to the Government's strategic objectives, without due attention to relative net benefits.
- 2.6.6 We welcome the encouragement of road pricing strategies, such as tolling and time-of-use charging. In particular, we support the Minister's intention to shift all road vehicles from Fuel Excise Duty to Road User Charges. Road pricing will play a pivotal role in reforming the transport revenue system, and it is encouraging to see the Minister soliciting advice from the Ministry of Transport and NZTA on the NLTF's revenue system.
- 2.6.7 We support calls for more public transport fare-box recovery and third-party revenue. It is important that the private share of public transport increases. Recall that the case for public transport subsidies from charges paid by other road users hinges on the absence of congestion charging. When congestion is not charged, road users can benefit from subsidies that encourage greater use of public transport as a second-best way of reducing congestion. But when congestion charging is in place, the case for cross-subsidising public transport weakens considerably. Road users should not cross-subsidise public transport beyond the benefits they gain from reduced congestion.
- 2.6.8 Focusing rail investment on the busiest and most productive parts of the existing network is sensible, as is prioritising investment in Auckland and Wellington's metropolitan rail network. It is encouraging to note that the Government will cease subsidising rail infrastructure from road users. However, we would prefer that rail infrastructure was not funded through the NLTF. Track User Charges should be kept separate from Road User Charges.
- 2.6.9 Maintaining and operating the system is a priority and should be core business.

- 2.6.10 The Draft GPS notes that while maintenance funding has increased, the amount of rehabilitation and resealing has not. To address this, the Government has established two new activity classes: 1) State Highway Pothole Prevention; and 2) Local Road Pothole Prevention. They have also directed the Road Efficiency Group to streamline road maintenance practices. Ensuring that New Zealand's deteriorating road network is restored is an important short-term objective. However, the Initiative would like to see structural changes to land transport funding that render new activity classes such as the pothole prevention funds redundant. A system prioritising regular maintenance and upgrades would ensure that the condition of New Zealand's roads remains stable, avoiding the fluctuations seen in recent years. It would also better enable NZTA to deal with extreme weather events.
- 2.6.11 Resilience is no longer a separate objective; instead, it is combined with maintenance. We support this change because a resilient land transport network can only be achieved when maintenance and upgrades are managed effectively. However, it is important to acknowledge that an efficient system should allow for capital expenditure when it makes economic sense. For example, in situations where resilience upgrades for a flood-prone road are prohibitively expensive, opting for an alternative route might prove to be more cost-effective. Combining resilience with maintenance should not preclude weighing resilience expenditures against alternative investment projects.
- 2.6.12 Safety remains an independent objective. We would prefer to see safety addressed primarily through state highway and local road improvement funding. Currently, the funding system is likely to lead to low-value safety projects being prioritised when safety funding is high relative to maintenance, or high-value safety projects being overlooked when safety funding is too low. Robust cost-benefit analyses on road improvements would ensure that road crash costs and other safety concerns were fully considered.
- 2.6.13 We are concerned that BCR's for safety initiatives are artificially high. This concern stems from the practice of offsetting time costs on drivers from benefits in the numerator of the BCR, while the implementation costs to the NZTA in the denominator remain low. We would like to see the Ministry of Transport reconsider its approach to calculating BCR's, as the current model can skew project selection. This is all the more important given the Government's commitment to delivering value for money.
- 2.6.14 Value for money is a new objective. While we agree that there has been a poor return on transport investment in recent years, we would rather see structural reform so that investment was aligned with the preferences of road users. Value for money should be an overarching principle of all government spending, not a strategic priority for transport funding. However, we do support several measures outlined in the Draft GPS, including: increasing public transport fare box recovery and third-party revenue; prioritising road maintenance; optimising existing assets through time-of-

use charging and dynamic lanes in major cities; emphasising whole-of-life costs; and reducing expenditure on temporary traffic management.

2.6.15 New Zealand's land transport system is dysfunctional. Goals are often set to meet the objectives of Ministers instead of prioritising the needs of road users, whose charges ideally should fund transport services. This stems directly from the significant Crown funding allocated to services that should be funded by users themselves.

2.6.16 The issues identified are not specific to this GPS but rather stem from a system that allows substantial Ministerial discretion in allocating transport funding. Addressing this problem requires comprehensive structural reform.

3 A BLUEPRINT FOR REFORM

3.1 In 1998, the then National Government proposed fundamental reform of New Zealand's land transport system. It was based on a sound understanding of road pricing and the economics of transport.

3.2 Under the Better Transport Better Roads proposal, levies paid by road users would fully fund the road network, with potential variations by region to address specific needs. Regional road companies, owned by the underlying councils, would manage local roads funded by user payments rather than rates. Meanwhile, a Crown-owned company would operate the state highway network. Additionally, a separate crown-owned company would be responsible for recommending the rates to be charged and could borrow against those charges to fund capital expenditure. Capital expenditure on new roads would depend on road users' willingness to pay for them, over time, rather than being subject to the changing priorities of Ministers.

3.3 Regional road companies would be incentivised to explore improved asset management practices. For example, if one company found that heavy trucks disproportionately strain certain roads, it could negotiate reduced road user charges with trucking firms that agree to avoid those routes. This could then serve as a model for others to follow and learn from.

3.4 The system was well-designed and could form the starting point for structural reform of New Zealand's land transport system.

4 CONCLUSION

4.1 The new Government's Draft GPS refocuses attention on core activity classes that contribute to economic growth and productivity. It also significantly boots funding for maintenance, which is widely recognised as the foremost priority for a well-functioning land transport system.

- 4.2 Equally important, the Minister has signalled the Government's commitment to transitioning to a universal road user charge system. Although the phase-out of the fuel tax would likely not occur until the end of the decade, this shift in approach marks a significant step forward.
- 4.3 However, the land transport system remains dysfunctional.
- 4.4 We encourage the Government to use GPS 2024 as an interim transport budget while fundamental reform is undertaken. The Better Roads Better Transport proposal provides a well-designed starting point for such reform.