

**Submission**

**By**



**to the Ministry of Transport**

**on**

**the Draft Government Policy Statement on Land Transport**

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## **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 We do not aim to comment on all aspects of the Draft GPS. An incoming Government will likely have very different priorities from the current Government, regardless of whether Labour or National leads that Government. In-depth examination of any of the issues here seems futile when there is little chance that the current Draft will hold for the next three-year period.
- 1.5 That the Draft GPS is likely to shift considerably unless the election results in a second Labour majority is itself a substantial problem for the transport system. It points to a larger, high-level problem that needs to be addressed.
- 1.6 In summary, we submit:
- (a) Transport funding has become dysfunctional;
  - (b) Coherent transport planning is difficult when a GPS has six separate objectives;
  - (c) The current system inflates the cost of delivering transport infrastructure because priorities and funding are set by Ministers' preferences, which change with changes in government;
  - (d) Ministerial direction is an inevitable consequence of a shift away from a system based on payments by road users. Crown funding comes with Crown direction;
  - (e) Any incoming government should continue current funding arrangements over a short transitional period while fundamental reform of the land transport system is undertaken;
  - (f) 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 has become a catch-all for transport-related activities. Links between the charges paid by road users and funding of the roading network have largely been severed. Motoring taxes go into a giant bucket, along with assorted Crown top-ups of the fund for capital investments and for other projects. It is difficult for road users to tell whether they are, on net, subsidised or taxed relative to the value of provided road services.
- 2.2 Where maintenance had once had first call on funds provided by road users, with other projects having to be undertaken from any residual funds left in the system, Ministerial direction of the Fund through General Policy Statements has deprioritised maintenance as compared to other Ministerial objectives. A functional funding system would not result in

an Opposition transport spokesperson having to promise half a billion dollars toward pothole repair, should they form the Government.

- 2.3 Attempting to fund large capital works out of annual NLTF revenue meant that obviously beneficial projects could not be undertaken without Crown top-up, and PPP arrangements have been used in part as a workaround for financing constraints. A PPP can turn a large capital expenditure into an annual payment from NLTF from RUC and FED (and Crown top-ups), but a direct debt instrument, backed by future RUC and FED revenue, may be more suitable.
- 2.4 Greater Crown support for NLTF brings the Minister's preferences over the use of that funding to the fore. Successive statements can whipsaw between prioritising public transport projects and roading projects depending on the configuration of different governments. Preferences of road users over the uses of the levies they provide fall by the wayside.
- 2.5 All of it results in higher transport project cost. Risk of project abandonment with changing Ministerial priorities means more risk for those bidding into those projects, and higher resulting cost. The infrastructure sector raises constant concerns about the expected pipeline of work; changing priorities make it difficult to plan. And if a government fears that an incoming government might scuttle a planned project, that government may be willing to pay a premium to rush a project ahead to reduce the risk that it is abandoned.
- 2.6 If road users expect that RUC and FED will be diverted into projects that they see as adding little value, they will oppose increases to RUC and FED. Turning NLTF into a giant bucket for all kinds of projects makes it very difficult to tell whether increases in RUC and FED would result in better roads, or whether it would be diverted for support for light rail and public transport projects. In the absence of congestion charges, there can be strong reason for RUC and FED to support public transport to the extent that it cost-effectively alleviates congestion. But if those paying RUC and FED think such support is based on the ideological preferences of the Minister, rather than a well-supported case for cost-effectively improving the road user's experience, they will be more likely to oppose such diversions.
- 2.7 GPS 2024 sets six different strategic priorities for the NLTF.
  - 2.7..1 Maintaining and operating the system is a priority and should be core.
  - 2.7..2 Increasing resilience is a separate objective, but would not need to be an objective if maintenance and upgrades were handled diligently.
  - 2.7..3 Reduced emissions are set as a goal. It would make perfect sense for land transport planning to respond to changing demand by road users as carbon prices increase, and to do things like set RFPs for providing charging stations along highways if some nodes would otherwise be underprovided. But the land transport system cannot itself reduce emissions. The only thing that can reduce net emissions in the ETS-covered sector is reductions in the number of unbacked carbon credits issued by the government. Reducing Vehicle Kilometres Travelled as a sub-objective seems particularly perverse if a land transport system is meant to use funds provided by road users to provide services to road users.
  - 2.7..4 Safety is an independent goal. Previously, safety had its own funding line, which seemed likely to result in low-value safety projects being undertaken if safety funding were high relative to maintenance, or high-value safety projects being missed if safety funding were too low. Shifting safety funding back into state highway and local road improvement funding may help in ensuring that safety-specific improvements are undertaken where cost-effective. If cost-benefit analysis on road improvements are

handled properly, safety would not need to be its own independent goal. Road crash costs would already have been fully considered.

- 2.7.4.1 But a concern can remain that BCRs for safety initiatives can appear artificially high because time costs on drivers are netted from benefits in the numerator of a BCR, and implementation costs to NZTA in the denominator are very low. This cannot result in negative cost-benefit projects being undertaken, as a negative-value project will have a BCR less than one, but it can skew project prioritisation. This remains an issue in use of BCRs generally in transport costing rather than net present value. At some point, Ministry officials really need to talk with academics in finance about this problem. The Ministry of Transport seems to believe that a different version of mathematics should apply to transport projects.
- 2.7.5 An integrated low-carbon freight system is an independent goal.
- 2.7.6 Sustainable urban and regional development is an independent goal and is described as complementing the other goals. And perhaps there is no conflict, given the preferences of a Minister. But there could otherwise be conflicts depending on views of what sustainability requires.
- 2.7.6.1 We note that NZTA lodged objections to a new housing and business development beside Pisa Moorings near Cromwell because it did not view the development as meeting its views of sustainability. It said the subdivision would rely heavily on the use of private vehicles – road users whose preferences, so long as they bear the cost, should be accommodated rather than thwarted by a land transport system. This kind of NIMBY activity by NZTA, in the middle of a housing crisis, will only be encouraged by setting this goal in the GPS.
- 2.8 All of the above points to a dysfunctional system. Goals are set to meet the priorities of Ministers, rather than the users whose charges should form the basis of funding transport services. But this is a direct consequence of substantial Crown funding for services that should be funded by the users of those services.
- 2.9 The problem is not this particular GPS. The problem rather is the system that results in substantial Ministerial discretion in the direction of transport funding. Ground-up structural reform is needed.

### **3 A BASELINE FOR A BETTER SYSTEM.**

- 3.1 A better system would more transparently and directly rely on user charges for covering the costs of the roading system. Rather than rely on Crown top-ups for major capital works, the roading system would be able to issue debt backed by future revenues from the roading system: charges on road users, and potentially betterment levies on properties improved by new infrastructure.
- 3.2 Twenty-five years ago, the Government proposed fundamental reform of the transport system.
- 3.3 Under the Better Transport Better Roads proposal, levies paid by road users would fully fund the roads. Levies could vary by region if different places had different needs. Regional roading companies, owned by the underlying councils, would own and operate local roads – funded by user payments rather than rates. State highways would fall under their own Crown-owned company. And a separate Crown-owned company would recommend the rates to be charged and could borrow against those charges to fund capital expenditure. Capital expenditure on new roads would depend on road user willingness to pay for them, over time, rather than Ministers' shifting priorities.

- 3.4 Council-owned roading companies would be encouraged to discover better ways of running roads. For example, if one found that heavy trucks imposed a particular burden on some roads, it could negotiate lower road-use charges for trucking companies agreeing to avoid using them. And others could learn from the example.
- 3.5 The system was well thought through and could form the starting point for fundamental reform.

#### **4 Conclusion**

- 4.1 An incoming government faces a choice. Maintaining the current system provides tempting opportunities for a new Minister and coalition to direct billions of dollars of funding towards projects that the new Minister and Cabinet believe to be worthy, with little constraint. All projects will be more expensive than they ought to be, and the Minister may need to hurry some along if there is risk of change in government after three years. The current Draft GPS could be tweaked to accommodate those preferences.
- 4.2 If the incoming government takes this choice, we urge that the draft GPS be amended:
  - 4.2..1 to focus on the core goal for a land transport system;
  - 4.2..2 to ensure greater transparency between charges paid by road users and benefits received by road users so that support for levies on road users necessary to cover maintenance and upgrades can be maintained;
  - 4.2..3 and, to ensure that road maintenance to a good standard has first call on levies paid by road users. Other initiatives can be pursued using remaining funds if the projects have net benefits over costs. If extra funding is required for projects delivering strong net benefits, levies on road users would need to increase. Prioritising projects by net benefits would help.
- 4.3 We would also urge that the land transport system be able to issue debt for large capital projects backed by levies and tolls paid by the funded mode's users. It would force a greater focus on cost-effectiveness in project selection and delivery. It would reduce reliance on Crown top-ups. And it would mean that PPPs are pursued when they make sense for reasons other than spreading high capital costs over time.
- 4.4 Alternatively, and preferably, an incoming government could use the draft GPS as basis for interim continuation funding. It would dust off the Better Transport Better Roads proposals, and test whether they would today be fit for purpose. Road user charging technology has progressed considerably. EV and hybrid uptake will make it harder and increasingly inequitable to rely on FED for land-transport funding regardless, and congestion charging is in progress. It provides an opportune moment for setting the transport system on sounder and more sustainable footing.