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Automobile
Association



Local Government funding and financing

NZAA submission

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Background on the New Zealand Automobile Association

The NZAA is an incorporated society with over 1.7 million Members. Originally founded in 1903 as an automobile users advocacy group today it represents the interests of road users who collectively pay over \$3 billion in taxes each year through fuel excise, road user charges, registration fees, ACC levies, and GST. The NZAA's advocacy and policy work mainly focuses on protecting the freedom of choice and rights of motorists, keeping the cost of motoring fair and reasonable, and enhancing the safety of all road users.

Content of this Submission

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Executive Summary

This Inquiry into local government funding and financing has a broad scope, and is tackling complex issues, many of which have been canvassed many times over the years. While the aim of the Inquiry is to take a holistic view of the challenges, we encourage the Commission to look at some of the root causes of these challenges. This should include aspects such as the quality and accessibility of planning documentation, quality of asset management and the provision of appropriate infrastructure and service levels now and in the future.

The NZAA's main concerns and areas of interest are:

- Potential underinvestment in transport infrastructure
- A lack of knowledge about the condition and performance of critical assets, resulting in poor asset management
- A lack of consistent nationally mandated standards and service levels for roads
- Ensuring there are clear benefits for forecast rates increases
- Making best use of funding tools which apply the beneficiary pays principle

The NZAA is happy to meet to discuss our submission further, including undertaking further survey work to support the Inquiry.

1. Overview

1.0 Purpose of Inquiry

We support the purpose of the Inquiry, particularly shedding more light on the adequacy and efficiency of the current local government funding and financing framework. We will be particularly interested in the Inquiry's findings on how the current suite of funding and financing tools is affecting the delivery of transport infrastructure and services.

1.1 Approach to submission

Rather than commenting on every aspect of the Issues Paper and its questions, we have structured our submission to respond to the sections and questions that are of most interest to us and our Members.

2. Levels of expenditure and asset management

2.0 Transport is core infrastructure

Transport is critical for New Zealand's communities and the New Zealand economy. It provides people with access to employment, education and various other activities and opportunities, and enables good to get to market.

Providing transport infrastructure and services is core business for local government. Consequently, local government expenditure on transport is large – as the Issues paper states, roading and transport expenditure combined is local government's single-biggest area of both operational and capital spending.

2.1 Potential underinvestment in capital assets

We note that both the Issues paper as well as the Office of the Auditor General (OAG) state that the amount spent on renewing capital assets is less than the forecast depreciation. This may be due to either council not investing enough in their assets (which the OAG suggest is a possibility¹) or that the way councils are being required to forecast depreciation may be overstating the actual need to invest.

It is concerning to see that investment in asset renewals is potentially still not enough to meet service needs, even with a big forecast increase in capital expenditure set out in 2018-28 Long Term Plans. We do note this is a complex area, and there isn't a clear reason for the discrepancy between depreciation and renewals funding. We suggest the Productivity Commission investigate the reasons behind this.

¹ OAG report "Matters Arising from our audits of the 2018-28 Long Term Plans", February 2019

The National Land Transport Fund quarterly and annual reports show a consistent pattern of underinvestment in local roads (meaning roads that are jointly funded by local government via rates and central government via the National Land Transport Fund). NZTA reports from 2013/14 onwards show that expenditure on local road improvements and local road renewals and maintenance has been under budget on a regular basis, in some periods up to 30% below forecasts.² While there is no doubt a range of reasons for this, NZTA at least partly attribute this to constraints on local funds and concerns about local authority delivery ability. The OAG also notes concerns about the ability of local government to deliver on its forecast capital expenditure programme.³

Local roads form an integral part of NZ's transport network, as NZTA notes:⁴

“Sound management of the operation of the local network has a broad impact, including better use of transport capacity, ensuring network resilience and security, and freight supply chain efficiency. Effective maintenance and operational management can also reduce urban congestion and the risk of road crashes, by ensuring surface condition standards are maintained and traffic flow and incidents are effectively managed.”

The inverse of this is that poor management and insufficient investment has the opposite effect, which would have an adverse impact on the economic, environment and social wellbeing of communities.

2.2 Enhanced funding assistance rates

We are aware that NZTA introduced a policy of targeted enhanced funding assistance rates in July 2018 to support local government to fund transport infrastructure and initiatives that align with the Government Policy Statement on land transport 2018-21 (GPS 2018). Projects must fall within five national priority programmes to be eligible for the enhanced rates:⁵

- Safety on local roads
- Improving effectiveness of public transport
- Walking and cycling improvements
- Improving network resilience
- Regional improvements

Projects can be service or infrastructure improvements but must be able to be substantially completed by 30 June 2021 to qualify for enhanced funding. These enhanced rates reduce the

² Quarterly and annual reports are available here: <https://www.nzta.govt.nz/resources/quarterly-report/>

³ This is based on funding assistance rates up until June 2018 (prior to new rates introduced in July 2018)

⁴ NZTA/NLTF annual report 2015/16

⁵ <https://www.nzta.govt.nz/planning-and-investment/national-land-transport-programme/funding-assistance-rate/>

local share requirements on local authorities; however access to these rates is conditional on councils redirecting their cost savings to bring forward additional transport activities during the period of the GPS 2018, and committing to delivering the agreed projects.⁶ This means that there should be no reduction in transport spending, but local government will be able to achieve more for the amount they forecast to spend.

We are supportive of this policy if this results in improved services and infrastructure for our Members and all road users. We encourage the Productivity Commission to investigate whether the enhanced funding policy is achieving its aims, resulting in commitment to, and delivery of, a greater number of transport projects by local government.

2.3 Quality of asset management

Commenting on its audits of the 2018-28 LTPs, the OAG notes that while there has been improvement to infrastructure strategies in 2018, this wasn't as much as it expected to see.⁷ The OAG notes that to be more effective, infrastructure strategies could usefully improve in the following ways:

- being clear about the condition of the council's critical assets and what this means for the management of infrastructure assets;
- being better integrated and/or consistent with financial strategies;
- clearly outlining the link between assets and the services they support by better describing the levels of service; and
- covering the main matters all infrastructure assets face.

The OAG also raises concerns about the quality and reliability of the information available on condition and performance of critical assets. It notes that a third of infrastructure strategies contained little or no information about councils' knowledge of the condition of their assets.⁸

These comments from the OAG are of concern to us as well. Effective asset management and infrastructure strategies should result in better value for money, as it will be clearer on where investment should be made, to what level and to what timeline.

To this end, we support initiatives such as the One Network Road Classification (ONRC), which aims to provide users of the road network (whether motorists, users of public transport, cyclists or pedestrians) with consistent levels of service across the country, including a consistent

⁶ <https://www.nzta.govt.nz/planning-and-investment/news/nltp-update-enhanced-funding-assistance-rates-for-local-government/>

⁷ <https://www.oag.govt.nz/2019/ltps/part5.htm>

⁸ <https://www.oag.govt.nz/2019/ltps/part5.htm>

approach to asset management. This was developed by the Road Efficiency Group, a collaboration between NZTA, Local Government NZ and the Road Controlling Authorities of New Zealand focused on supporting the NZ transport sector to improve the delivery of an integrated transport system which aligns with the objectives of local, regional and central government.⁹

The ONRC provides six road classes (access, secondary collector, primary collector, arterial, regional, national) all of which have specified requirements under the following headings:

- Mobility (travel time reliability, resilience of the route);
- Safety;
- Amenity (travel quality and aesthetics);
- Accessibility (land access and road network connectivity).

The ONRC is designed to enable the comparison of the state of roads across the country so local authorities and NZTA can direct investment where it is needed most. The overall outcome should be that New Zealanders will get the right level of road infrastructure where it is needed, as determined by a robust, impartial, nationally consistent tool.

We note that embedding the ONRC in investment decision-making was a minimum requirement for road controlling authorities for the 2018-2021 NLTP¹⁰.

We support these aims, but can find little publicly available information on how the ONRC is being implemented, whether its implementation is improving asset management or if it is meeting its aims. We are also concerned about the lack of a legal mandate for the ONRC, which we discuss in section 2.4 below.

We suggest that the Commission discuss this further with the Road Efficiency Group so there is more transparency around the quality of NZ roads, the expected levels of service, and the levels of investment needed to bring them up to standard.

2.4 Levels of service and quality of infrastructure

It is important to note that the ONRC does not legally mandate service standards, unlike the provision of water services which are subject to drinking water standards, National Environmental Standards and the like. This means that local authorities have a lot of discretion when it comes to the service standard of their roads.

⁹ <https://www.nzta.govt.nz/roads-and-rail/road-efficiency-group/projects/onrc/>

¹⁰ <https://www.nzta.govt.nz/assets/Road-Efficiency-Group/docs/ONRCPMsgeneralguide.pdf>

There are mixed signals provided to local government about the standards and service levels for roads. We support a nationally consistent, legally required service standard, so it is clearer what the right level of road infrastructure should be. This would in turn support better asset management and investment practices.

The Local Government Act 1974, section 319, states (our emphasis):

S319 General powers of councils in respect of roads

(1) The council shall have power in respect of roads to do the following things:

(a) to construct, upgrade, and repair all roads with such materials and in such manner as the council thinks fit:

This, however, must be seen in terms of the context of the Local Government Act 2002 Section 10 which stipulates (our emphasis):

Purpose of local government

(1) The purpose of local government is—

(b) to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

(2) In this Act, good-quality, in relation to local infrastructure, local public services, and performance of regulatory functions, means infrastructure, services, and performance that are—

(a) efficient; and

(b) effective; and

(c) appropriate to present and anticipated future circumstances.

The Act also goes on to define that contracted out provision of services should meet stipulated service levels, and requires the development of an infrastructure plan with a thirty year time horizon.

To date many service levels and standards have been recommended by the New Zealand Transport Agency which uses its control over access to the National Land Transport Fund as the main means to achieve compliance with its non-statutory guidelines. The ONRC is the most significant of these; another is the Speed Management Guide by which safe and appropriate speeds are also set.¹¹

¹¹ <https://www.pikb.co.nz/assets/Uploads/Documents/Speed-management-guide-first-edition-Nov2016.pdf> and associated toolbox: <https://www.nzta.govt.nz/assets/Safety/docs/speed-management-resources/speed-management-toolbox-and-appendices-201611.pdf>

To this end, it is worth examining NZTA Research Report 636 “Speed limit reductions to support lower SCRIM investigatory levels” which details some of the process by which State Highway 58 speed limits were reduced to 80km/h.¹²

The report candidly acknowledges that the high cost of sourcing aggregate for road resealing led the NZTA to ask what the cost benefits of reducing both the skid resistance and the operating speed on this state highway would be.

Local government Road Controlling Authorities have full authority to set speed limits under the Land Transport Act 1988 where section 22 1D states (our emphasis):

for the safety of the public or for the better preservation of any road,—

- (i) fixing the maximum speed of vehicles or of specified classes of vehicles on any road:*
- (ii) designating any area, where that designation will have the effect of determining the speed limit in that area:*

Thus, in theory, following the logic of Research Report 636, this could also mean considerable savings by local government nationally on roading as they down engineer road quality to reflect slower operating speeds.

All of this potentially conflicts with the requirement to provide “good quality infrastructure” in a way that is “cost effective for households and businesses”. There could be an underlying issue of underinvestment in roading as a result of speed limit reductions. As mentioned above, local roads are important to the local community and economy; on certain routes that play a key role in regional economies, it is important that sufficient investment in made to ensure safety.

The quality of infrastructure was a common theme in our survey of 2000 Members on district concerns from April 2018. Wastage of money due to constant rework was the top concern, on average, across the country. Potholes and poor road surfaces were another top complaint; in the South Island particularly it was sheeted home to heavy trucks.

¹² <https://www.nzta.govt.nz/assets/resources/636/636-speed-limit-reductions-to-support-lower-SCRIM-investigatory-levels-feb18.pdf>

3. Funding

3.0 Making best use of funding

We note that rates are forecast to increase, on average, by more than 50% over the next 10 years, to fund proposed services. While councils often state that they want to provide affordable services, councils forecast that, overall, annual rates increases are below 4% in only one year – 2027/28 (other years range from 4% to 9%).¹³

Some of the forecast annual rates increases will be because of forecast growth, meaning more people will need to be provided for. While this means that there will be a larger base of ratepayers in the future, most of these forecast rates increases will be charged to existing ratepayers.¹⁴

This is of interest and potential concern to us. It is important that councils are transparent about why rates are increasing, and what benefits will be received by ratepayers and the wider community in return for these increases. We wish to see that local government funding is well spent, especially if further funding is being requested from central government (whether this is from general taxation or from road users via the National Land Transport Fund) and in the context of concern about the quality of asset management and infrastructure strategies.

3.1 User charges and beneficiaries pay principle

One of the NZTA's nine planning and investment principles states that "NZTA intends that the land transport system users that provide the revenue into the National Land Transport Fund will benefit from its investments and that other beneficiaries, as a general principle, should pay for the benefits they receive."¹⁵ More specifically NZTA sets out:¹⁶

- NZTA's primary investment focus is on activities that benefit the land transport system users who provide the revenue into the NLTF (i.e. road users)
- NZTA may invest in transport related activities that are not related to the roading network, where these benefit road users, e.g. reducing peak traffic congestion by investing in public transport. Any such funding contribution will be in proportion to the benefits that accrue to road users
- NZTA expects that Approved Organisations and third parties will fund transport activities in proportion to the benefits they receive.

¹³ <https://www.oag.govt.nz/2019/ltps/part3.htm>

¹⁴ <https://www.oag.govt.nz/2019/ltps/part3.htm>

¹⁵ <https://www.nzta.govt.nz/planning-and-investment/planning-and-investment-knowledge-base/planning-and-investment-principles-and-policies/planning-and-investment-principles/>

¹⁶ <https://www.nzta.govt.nz/planning-and-investment/planning-and-investment-knowledge-base/planning-and-investment-principles-and-policies/planning-and-investment-principles/>

- In developing their activities, Approved Organisations and the NZTA must consider whether a third party will, or has the potential to, benefit from the activities. If so, then they should assess the potential for supplementary funding and actively seek such funding where applicable.
- NZTA expects territorial authorities to apply Section 326 of the Local Government Act 1974. This requires territorial authorities, under certain circumstances, to collect betterment from landowners receiving value from improvement works.

We strongly support these principles, and also believe local government should be making best use of funding tools which apply the beneficiary pays principle. We will be keeping a close eye on this issue, especially with high profile public transport projects in the pipeline (with large capital and ongoing operating costs) where non-transport benefits are being promoted. We will be calling for greater transparency of the connection between those who pay and those who benefit, and the level of contribution from beneficiaries.

Our surveys also show that our Members have some appetite to increased fuel excise duty, or other user charges, if this results in improved transport services or infrastructure. Findings from a survey of just over 2000 AA Members in April 2018 found that respondents would be prepared to pay, on average, an extra 4.2 cents per litre to improve transport in their area.

We have also surveyed our Auckland Members on congestion charging in recent years, in response to policy discussion documents from central government. A survey of 1,300 Auckland AA Members in May 2016 found that roughly two-thirds of respondents felt that the Government should consider charging tolls on roads that are congested either immediately or in the future, to help to manage Auckland's congestion. This shows *some* willingness to pay additional charges as a contribution towards transport costs, for clear benefits in return.

4. Consultation approach and content

4.0 Participation and transparency of information

We agree with the concerns raised in the Issues paper on pages 40-41 about consultation processes undertaken by local authorities as part of the development of Long Term Plans. Participation in local government is clearly an issue; voter turnout in local elections has generally been declining over the last 28 years, with turnout at 43% for the 2016 elections (compared to 57% in 1989).¹⁷ This means that local politicians need only respond to the expectations and desires of a smaller and smaller share of the population. This doesn't bode

¹⁷ https://www.dia.govt.nz/diawebsite.nsf/wpg_URL/Services-Local-Elections-Local-Authority-Election-Statistics-2016?OpenDocument

well for the democratic mandate of local authorities. We suggest this is an area that deserves more investigation and action, with involvement from central government and a wide canvassing of views from stakeholders and the general public.

The OAG also comments on the accessibility of financial strategies. It notes that for a financial strategy to be effective, it needs to clearly explain the end goal – and the decisions and trade-offs the council has to consider in reaching that goal – in a way that is relevant to readers. Councils should be clear about the implications arising from their financial strategy and the OAG found that this was still not strongly presented in many cases.¹⁸

We agree with these comments, based on our own analysis of Long Term Plans and other council documentation. Innovative communication strategies will be important to improving the quality and accessibility of information and participation rates in local government.

Conclusions

We believe that there is room to improve the efficient use of resources and funding by local government. This is especially so in the context of further forecast rates increases over coming years, to ensure it is clear what benefit will be received in return for these increases. We also consider that local government should first ensure they are making best use of all funding and financing tools available to them before seeking additional tools.

Transport is critical infrastructure for New Zealand and is a large percentage of local government spending. We think it is only fair that ratepayers and communities are assured that the decision-making process for spending this money is robust, can be readily understood and is resulting in positive outcomes.

¹⁸ <https://www.oag.govt.nz/2019/ltps/part3.htm>