7 February, 2020

NZ Automobile Association submission on:

Land Transport (Rail) Legislation Bill

SUBMISSION TO:	Transport and Infrastructure Committee
REGARDING:	**Land Transport (Rail) Legislation Bill**
DATE:	7 February 2020

ATTENTION:	Committee Secretariat
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NOTE TO REQUESTOR:

The NZAA requests an opportunity to present this submission orally.

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Executive summary

The New Zealand Automobile Association (NZAA) welcomes the opportunity to provide comment on the Land Transport (Rail) Legislation Bill.

The Land Transport Management Act 2003 (LTMA) framework is designed to ensure that increases in road use generates revenue, which is spent as it is raised, on infrastructure and services that benefit motorists. This established a social contract between motorists and the Crown, making the LTMA an effective and credible framework.

The NZAA supports the concept of better co-ordination between road and rail planning. Both make significant contributions to transport and the economy. However, as the Land Transport (Rail) Legislation Bill (the Bill) is drafted it is unclear how it would improve co-ordination of planning. It does not allow for consideration of trade-offs between the modes, as the New Zealand Transport Agency's (NZTA) board while retaining decision making authority over which road projects proceed, has no influence over the rail projects.

The Bill potentially exposes motorists as an easy source of revenue for rail projects that would be more fairly funded from other sources (e.g. the Crown or value capture mechanisms), and compromises the focus we need on road safety. The LTMA is designed to generate revenue proportionate to demand for roads, so that investment can keep pace. This is an important feature because it should mean that with vehicle kilometres travelled forecast to increase, as our population and economy grows, that revenue goes into building and maintaining increasingly safer roads (the goal of the Government's 10 year National Road Safety Strategy is to reduce deaths and serious injuries by 40%).

The Bill also potentially reduces the functionality of the National Land Transport Programme (NLTP) and value for money for transport investments. The LTMA framework is not established, or well suited, to funding rail capital and sustainable rail. Road and rail offer different transport services, they have different levels of ability to raise revenue, they have different drivers of investment and require different planning and delivery approaches. They are only to a limited degree fungible.

GPS 2018-21 expanded the use of the National Land Transport Fund (NLTF) to fund 'light rail' and 'rapid transit' but implementing this change has proven more challenging than was envisaged. In 2018/19 actual NLTP spending was substantially under budget. Most of the under-spending was in activity classes relating to rapid transit, rail and public transport infrastructure. The uncertainty about when these projects would get started was unable to be accounted for in the NLTP.

This experience alludes to the complexities of combining the planning, management and delivery of two different types of investments, as well as the difficulties effectively moving funding between these investments. Moving resources between different types of land transport investment is not as simple as policy makers may wish.

The NZAA strongly opposes all clauses in the Bill expanding the uses of road user revenue (Fuel Excise Duty and Road User Charges). Motorists currently pay 67c per litre of fuel (plus GST) to fund land transport.

If the Bill was to proceed, we propose the addition of a clause embedding the principles the Ministry of Transport set out in their Future of Revenue Project, which would ensure that road user revenue is prioritised for road building and maintenance, road safety education and enforcement, walking and cycling, and subsidies for public transport.

1. Our position

The NZAA does not support bringing planning and funding of the rail network under the land transport planning and funding regime established by the LTMA. Road and rail offer different transport services, they have different levels of ability to raise revenue, they have different drivers of investment and require different planning and delivery approaches. They are only to a limited degree fungible.

The LTMA framework is designed to ensure that increases in road use generates revenue, which is spent as it is raised, on infrastructure and services that benefit motorists. Through the LTMA road users pay the costs of building and maintaining road infrastructure. They also contribute significant funds to public transport services (including bus and rail operations) because these services offer benefits to road users. Rail plainly cannot raise sufficient revenue to funds its services and it has required ongoing capital and operating subsidies.

The NZAA does not object to the Crown funding rail investment; there are benefits that both heavy and light rail offer. However, by including rail in the LTMA as drafted, the Bill will undermine the purpose of the established regime and the social contract between motorists and the Crown, compromises the focus we need on road safety, and reduces the functionality of the NLTP and value for money for transport investments.

2. Background

The NZAA welcomed the decision to hypothecate Fuel Excise Duty and Road User Charges (road user revenue) to the NLTP from July 2008.

2.1 The LTMA established a social contract between Kiwi motorists and the Crown

The Ministry of Transport's Future of Revenue Project concluded that hypothecating (i.e. 'ring fencing') money collected from motorists to the road system established an implicit social contract between motorists and the Crown. It ensures that investment in the system is not subject to uncertainty, and allows funding to be put to work as it is raised.

The general principles inferred from this 'social contract' for use of revenue from road users are:

- Most of the revenue should be spent on roads: operating and maintaining them, and capital investment (upgrading existing roads and building new ones).
- The revenue should cover related services whose costs are caused by road use, such as the road enforcement aspect of police costs, and safety programs.
- The revenue should contribute to services that result in lower road congestion.
- The revenue should not be used for activities unrelated to road use.

The NZAA agrees with the findings of the Future of Revenue Project in this regard. In our view, the Bill undermines this very important social contract by potentially de-linking the revenue raised from the benefits delivered.

2.2 In recent years the costs to motorists have increased

Kiwi motorists currently pay in total about $1.10 of tax per litre of petrol, including 7 cents for an Emissions Trading Scheme levy. Since 2018 the Fuel Excise Duty contribution to the NLTF has increased 7 cents per litre, with Road User Charges increasing an equivalent amount. The additional revenue has largely been allocated to non-road activities (public transport, walking and cycling, and light rail).

The result of these changes is that the proportion of NLTF revenue allocated to public transport services and infrastructure has increased from 10% to 20%. In our view this is at the very high end of a contribution that maintains the social contract. To be clear, NZAA Members consistently support using road user revenue to make an appropriate contribution to public transport subsidies and walking and cycling infrastructure. In return, they expect to see clear benefits in the form of improved safety and reduced congestion. As written, this Bill undermines this link.

3. By allowing cross subsidisation the Bill undermines the social contract

The premise of the NLTP is that what is paid in by users and operators is paid out in infrastructure and services which benefit them. For this reason a large amount of public resource goes into forecasting Fuel Excise Duty and Road User Charges revenue, and into planning the pipeline of projects to be delivered. This makes the LTMA an effective and credible framework for land transport funding and delivery. Adding a mode with totally different characteristics to these into the system compromises the underlying principles of that and everything it was set up to achieve.

Central to our concern is the fact that that there has been no information provided throughout this process about the level of track user charges that will be paid into the NLTF (along with Crown funding) and whether those revenues will match rail expenditure drawn from the fund. Alternately, there has been a lack of meaningful discussion about the possibility of drawing funding for rail projects from elsewhere. Rail has clearly demonstrated that it cannot raise sufficient revenue to cover its costs. This Bill opens the door for further and quite considerable cross subsidy, and further reductions to funding allocated to roading.

3.1 Potential dilution of the focus on road safety

Bringing rail under the NLTF umbrella, may reduce funding available for road transport, if road user revenue is used to make up shortfalls in rail funding. If road construction or maintenance is decreased or delayed this impacts road safety because:

- New roads reduce crashes because they are built to higher safety standards.
- Road construction work includes activities like median barriers, rumble strips, road shoulder widening, and a range of other safety upgrades and technologies.
- Road maintenance improves stability and skid resistance of road surfaces which reduces crashes due to loss of control.

The NZAA Hawkes Bay District Council put it this way:

"The goal of the revised 10 year National Road Safety Strategy is to reduce fatal and serious crashes by 40% over the next 10 years. If the highway pavement surface and conditions continue to deteriorate at the present rate, our AA Council is very concerned that the proposed reduction will never be realised."

3.2 Increasing demands on roads due to growth

Over the past decade the length of our road network has increased, general traffic grew by 22%, and the costs of labour and materials have increased 12%.

As the economy and population grows, vehicle kilometres travelled is expected to increase further. However, NZTA's budgeted level of expenditure on construction and maintenance is lower in terms of dollars per kilometre travelled than it was in 2016/17.

In the case of maintenance, during most of the last decade funding for state highways and local road maintenance flat lined, decreasing in real terms. For the last two years the top concern for our members has been road surface quality (out of 46 concerns polled). Still maintenance has only had a small increase relative to other activity classes in the NLTP, and after inflation, there is likely a reduction in maintenance spending relative to use[1].

All of this points to a picture that more, not less, funding is required to maintain our growing road network. Increasing the demands on the funding by introducing an unknown amount of rail work to the programme, adds to this pressure and detracts for the focus we need on reducing deaths and serious injuries on the road network.

3.3 Benefits and funding sources mismatched

The NZAA does support the overarching objectives of this Bill – national and regional economic growth, reduced emissions, and congestion, improved road safety, "wider social benefits", and improved resilience and connection.

However, many of these are indirect benefits for motorists and should be funded by more general sources of taxation. In some cases, spending road user revenue on rail may not be the most efficient and effective use of this revenue to achieve the given objective. For example, spending on road maintenance is likely to be more effective at improving road safety than the likely safety benefit from the same amount spent on rail.

Given the government is clear that the benefits of sustainable rail will accrue to the nation's health, economy, society and environment, the funding required to achieve this should come from come from the Crown, as well as from those using rail services.

Furthermore, it is clear that investment in high density corridors will create significant value uplift for those properties that are located close to these services. We therefore consider that mechanisms such as value capture must be introduced alongside Crown investment, and other local government funding and financing. We are yet to see any significant policy emerge on these other funding

1 The Safe Network Programme does not include surface or structural maintenance work.

sources. Rather, the Bill potentially exposes motorists as an easy source of revenue for rail projects that would be more fairly funded from other sources.

3.4 Reduced transparency but unclear benefits for co-ordination

The Bill shifts us further away from a user pays approach reducing transparency around how much is invested in roads, what share of that investment is paid by users, and how investment decisions are made.

The NZAA supports the concept of better co-ordination between road and rail planning. Both make significant contributions to transport and the economy. Both have areas of strength and specialisations. However, as it is drafted it is unclear how legislating to add the Minister's rail plan into NZTA's NLTP improves co-ordination of planning. As it currently stands the Minister is tasked to sign off the KiwiRail plan, and forward that to NZTA who are to include it, as signed off, in the NLTP. This approach does not allow for consideration of trade-offs between the modes, as NZTA's board while retaining decision making authority over which road projects proceed, has no influence over the rail projects.

This lack of transparency has been further accentuated by the recent announcement of the New Zealand Uplift Programme which, while welcomed by the NZAA, has added a third method of transport funding, further undermining the principles of the LTMA.

As overall transparency decreases it becomes harder for the public and businesses to engage in transport policy.

4. The experience of trying to add rail capital into the NLTP

GPS 2018-21 expanded the use of the NLTF to fund 'light rail' and 'rapid transit' but implementing this change has proven more challenging than was envisaged.

4.1 Unprecedented underspend of $276m

In 2018/19 actual NLTP spending was substantially under budget (6% lower than the NLTP and 7% lower than the NLTF budget). Most of the under-spending was in activity classes relating to rapid transit, rail and public transport infrastructure. The uncertainty about when these projects would get started was not well appreciated or accounted for in the GPS.

The 2019 NZTA annual report asserts that the under-spending in 2018/19 will be made up over the remaining two years of the NLTP. The current NLTP budget projects an 8% increase in spending in 2019/20. Actual spending in the September quarter of 2019 was 4% below budget.

Unusually, there was also a significant underspend on state highways (even though total funding for state highways has decreased). Until now, there has not been underspending on state highways because they are 100% funded from the NLTP, so not dependent on any local share funding or local authority capability / capacity. Historically, funding has routinely been reallocated in the short-term to state highways when work in other activity classes is delayed so that underspends do not sit unproductively in NZTA accounts.

This experience alludes to the complexities of combining the planning, management and delivery of two different types of investments, as well as the difficulties effectively moving funding between these investments.

Moving resources between different types of land transport investment is not as simple as policy makers may wish. This is a central flaw in the Bill and omission from the policy work behind it.

5. Summary

Coordinated planning between modes makes sense. However, the approach proposed here will not achieve coordinated planning, as NZTA does not have the ability to trade-off or prioritise between rail and road projects.

The NZAA strongly opposes all clauses expanding the uses of road user revenue. Motorists currently pay 67c per litre of fuel (plus GST) to fund land transport, and in excess of 20% of this is allocated to non-road expenditure.

If the Bill was to proceed, we propose the addition of a clause embedding the principles that the Ministry of Transport set out in their Future of Revenue Review Project, which would ensure that road user revenue is prioritised for road building and maintenance, road safety education and enforcement, walking and cycling, and subsidies for public transport services. The LTMA framework is not established, or well suited, to funding rail capital and sustainable rail.

We are surprised that non-legislative options to co-ordinate planning are not presented in more detail in the publicly available policy documents

About the New Zealand Automobile Association

The New Zealand Automobile Association (NZAA) is an incorporated society with over 1.7 million members, representing a large proportion of New Zealand road users. The NZAA was founded in 1903 as an automobile users' advocacy group, but today our work reflects the wide range of interests of our large membership, many of whom are cyclists and public transport users as well as private motorists.

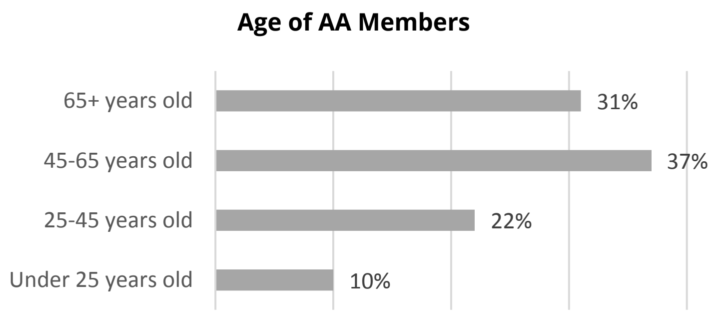
Across New Zealand, the motoring public regularly come into contact with the NZAA through our breakdown officers, 37 NZAA Centres and other NZAA businesses. Seventeen volunteer NZAA District Councils around New Zealand meet each month to discuss local transport issues. Based in Wellington and Auckland our professional policy and research team regularly surveys our Members on transport issues and Members frequently contact us unsolicited to share their views. Via the NZAA Research Foundation, we commission original research into current issues in transport and mobility. Collectively, these networks, combined with our professional resource, help to guide our advocacy work and enable the NZAA to develop a comprehensive view on mobility issues.

Motorists pay over $4 billion in taxes each year through fuel excise, road user charges, registration fees, ACC levies, and GST. Much of this money is reinvested by the Government in our transport system, funding road building and maintenance, public transport services, road safety work including advertising, and Police enforcement activity. On behalf of NZAA Members, we advocate for sound and transparent use of this money in ways that improve transport networks, enhance safety and keep costs fair and reasonable.

Our advocacy takes the form of meetings with local and central government politicians and officials, publication of research and policy papers, contributing to media on topical issues, and submissions to select committees and local government hearings.

Total Membership	1.7+ million members Just over 1 million are personal members 0.7 million are business-based memberships
% of licenced drivers	Half of licenced drivers are NZAA Members
Gender split	54% Female 46% Male

Age range & Membership retention



Half of NZAA Members have been with us for 10 years or more.