SUBMISSION

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Draft Government Policy Statement on Land Transport 2015/16 - 2024/25

Local Government New Zealand's submission to the Ministry of Transport

August 2014

Contents

We are. LGNZ.

LGNZ is the national organisation of local authorities in New Zealand and all 78 councils are members. We represent the national interests of councils and lead best practice in the local government sector. LGNZ provides advocacy and policy services, business support, advice and training to our members to assist them to build successful communities throughout New Zealand. Our purpose is to deliver our sector's Vision: "Local democracy powering community and national success."

This final submission was endorsed under delegated authority by Lawrence Yule, President, Local Government New Zealand.

LGNZ would welcome the opportunity to discuss with the Ministry of Transport any matters raised within this submission.

Introduction

Thank you for this opportunity to submit on the draft Government Policy Statement on Land Transport 2015/16 – 2024/25. We congratulate the Ministry of Transport on the level of engagement leading up the release of this document. This submission has been prepared on behalf of New Zealand's local authorities; where possible, their various comments and views have been synthesised into this submission.

Local Government faces a number of challenges with many of the core services it provides being dependent on infrastructure which was initially constructed in the years of expansion and development following World War II.

In some cases public expectations and health requirements are significantly different to when this infrastructure was built and there is considerable financial pressure on the sector to address this while meeting changing statutory obligations.

Roads and associated transport assets are one component in the suite of ageing assets that fall into this category. They generally have the highest value due to their scale. To enable the local government sector to meet its wider financial challenges, it is critically important that these transport assets are managed in a way that retains their integrity while delivering the right level of service at the lowest whole of life cost. In some cases this will mean spending a little more now to save spending a lot in the future.

Executive Summary

In setting the available maintenance and renewal funds for transport assets the GPS plays a critical role in the overall ability of local authorities to meet their long-term financial challenges. Allocations within the GPS need to be sufficient to retain the integrity of the existing infrastructure for as long as it is economically viable to do so.

LGNZ welcomes the inclusion of national land transport objectives in the draft GPS 2015 and believes they should be supported by a long term vision and clear strategic direction. LGNZ largely endorses the priorities set out in the draft GPS 2015, though would note that resilience could, and probably should, be added as a fourth priority, thus reading:

To drive improved performance from the land transport system by focusing on:

- economic growth and productivity;
- road safety;
- value for money; and
- resilience.

The key issues for the sector, in relation to the GPS and transport funding are:

- A focus on improvements to the state highway network at the expense of local roads will not maximise economic growth and productivity. This will create a funding gap whereby the land transport system will not help to realise economic growth and productivity nor will it be resilient. Sufficient funding from road user charges and levies must be returned to local government to complement the significant rate payer resources that are invested in land transport. This will enable local government to ensure a "fit for purpose" network of local and regional roads as part of the wider Land Transport System which supports a productive economy
- A number of local authorities are struggling to meet their stewardship obligations to their communities to maintain their existing infrastructure. The transfer of funds from the local authority network to the state highway network at the current level for an extended duration is unlikely to be sustainable.
- Funding allocations need to be sufficient to meet their statutory obligations, including new obligations under the recently assented Local Government Act.

Finally, it is recommended that there would be benefit in restructuring the document by setting out how the objectives contribute to the priorities.

GPS 2015 (Draft) Framework

Purpose of the GPS and what it does

The definition of public interest in paragraph 5 aligns with the four well-beings of the **previous** Local Government Act, that is; economic, social, cultural and environmental well-being.

The detail of how funding is allocated to regions and specific activities is the responsibility of the NZ Transport Agency (NZTA). In some cases NZTA declined to allocate funds requested by Territorial Local Authorities (TLAs) on the basis that there was not sufficient allocation in the corresponding activity class in the GPS. This has lead to frustration when the NZTA annual report for the year ended June 2013 shows that there was underspending against the plan of more than $40 million in the Local Authority Activity Classes. There is also some frustration that funds cannot be secured and some TLAs would consider that they have justified additional expenditure through good asset management planning and are looking to maintain the integrity of their networks and optimise whole of life costs.

Framework for GPS 2015

Paragraph 10 outlines a statutory framework for the GPS - what needs to be emphasised and duly recognised is that local government is a co-investor in the land transport system. This is not stated strongly and clearly enough.

Local authorities are a funding partner in the provision of transportation services and are required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002.

That purpose is 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. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.

If the funding allocations are not sufficient, local authorities will be unable to meet their statutory obligations. This is because the priority of local authorities is to maintain what they already have as they typically cannot afford to replace current infrastructure if it is lost through neglect.

Scope of GPS 2015

Paragraphs 21 to 23 focus on future developments. Paragraph 23 in particular talks about more sophisticated road pricing than is delivered by the current road user charges system and its possible inclusion in a future GPS.

LGNZ and TLAs should be made aware of any debate that arises around this issue as it will have implications in particular for low volume roads.

There will always be transfers of funds across networks to optimise performance and maintain access – these aspects are likely to be of more importance to the sector than the introduction of pure user-pays technology. Accordingly, LGNZ would like to be party to any discussions relating to the possible introduction of any new road pricing technology.

Recommendations:

- Be explicit in the GPS that local authorities are co-investors in the land transport system.
- Include the sector in any discussions about any proposed changes to the current system of road pricing.

Context for GPS 2015 (Draft)

Government infrastructure policy

The principles espoused in the policies in paragraph 25 are generally supported by LGNZ and its members.

Specific comments in relation to some of the national documents relevant to New Zealand:

1. **The Business Growth Agenda (BGA)**
   A goal stated in the BGA is to grow exports from 30% to 40% of GDP over the next 10 years. This will have a significant impact on the rural roads of New Zealand. Given that GDP overall is likely to increase, the above goal translates to a 40% plus growth in exports. This is not inconsistent with existing growth patterns across New Zealand. The LGNZ commissioned BERL report "Transport Futures – Economic Evidence" of October 2012 notes:

   "The value of dairy, meat, logs, kiwifruit, wine and apples exported in the year to July 2011 totalled nearly $27 billion rising $12 billion since 2000.

   This rapid expansion in export revenue, an increase of 80%, has been the main driver of growth in New Zealand's total export revenue over this period. Further, the value of exports from the dairy, meat and forestry industries have generated over 60% of this increased value of exports between 2006/07 and 2010/11.

   At present, these main land-based exports account for over 60% of the value of New Zealand's exports."

   A significant portion of these will be starting their journeys on local roads, many of which will be in relatively remote rural areas.

2. **The National Infrastructure Plan**
   Looking after existing roads has been a general priority for most units of local government for decades. Predecessors of NZTA have had an emphasis on maintaining existing networks over investing in new networks. This philosophy has generally been adopted by the local government sector and there is some concern with the current emphasis on prioritising new capital works at the expense of maintaining existing assets.

3. **Connecting New Zealand**
   We have identified a number of inaccuracies with the information in this document as it relates to exports and imports due to the way these are recorded. Significant quantities of both imports and exports are attributed to the initial entry and final exit ports and not to the provincial areas where they

are actually discharged or loaded. It is likely this will continue to be reflected in future figures as export markets grow and may understate the subsequent impact on rural and provincial road networks.

4. **Safer Journeys**
Local government supports the emphasis on safe systems. It takes a proactive approach and provides some opportunity to address issues prior to accidents occurring.

Demand

The RoNS programme is widely regarded by the sector as being long overdue and a welcome progression towards addressing some long-standing problems. However, allocation of funds to the RoNS should not be at the expense of maintaining the existing network and alternative modes of transport need adequate consideration.

These concerns could be readily addressed by an appropriate phasing of the RoNS programme and releasing some of the funds to address issues on existing road infrastructure.

Existing Demand

The GPS states that it has been prepared following a period of modest increases in freight demand. This period of modest increase is relatively short when compared to the duration of the periods where there has been strong growth. If the historic pattern is re-established then considerable growth is likely to be encountered. This would also align with the Government's expectations of the Business Growth Agenda.

The constraints on local authority funding over the last three years mean that many units of local government are struggling to respond to demands on their networks due to increases in freight.

Travel forecasts

It is anticipated that transport recovery will be led by freight traffic. As most exports start their journey on local networks this anticipated increase in freight will have an impact on the local road networks.

Freight transport forecasts

Paragraph 40 is specific in identifying the majority of growth in tonnage by 2041 with building materials expecting to grow 102% and waste 70%. These will be predominantly in Auckland and Canterbury. In the same period transportation of general agricultural products is expected to grow 62% and dairy products 60%.

It can be difficult to reconcile the figures identified in the freight transport forecasts with the stated goals in the Business Growth Agenda. Nevertheless, a significant portion of the growth identified will be required to travel on and have an impact on ageing infrastructure.

Exporting

The document *Connecting New Zealand, a summary of the government's policy direction for transport*, has been identified as a key document reflecting government national policies.

This document contains data about the New Zealand transport networks. Of specific interest to local government is that the cargo figures by Port (figures 22 and 23) are not a true reflection of the situation. The figures are inaccurate as significant quantities of both imports and exports are attributed to the initial entry and final export ports. This means Auckland in particular has been attributed with cargo that is actually discharged or loaded in provincial areas. This is because it is often the first port of call on inbound ships and the last departure point for outbound ships.

The same issue applies to the data in the more recent *"Freight Information Gathering System & Container Handling Statistics, April 2013 - March 2014"* produced in June 2014. This also includes transhipments and double handling which ultimately contributes significant quanta of import and export to the wrong ports.

These differences can be significant in terms of understanding the role that New Zealand's road transport infrastructure plays and the contribution it makes to servicing regional ports. Ports do not appear to collect information for the express purpose of recording exports and imports. Their focus is recording the amount of cargo they are handling and the impact this has on containers and their availability.

Many in rural New Zealand would question the claim in paragraph 42 that the RoNS targets key freight links in growing regions. There is a need to make a distinction between population growth and freight growth.

While every indicator suggests population growth is occurring in the major metropolitan centres, the source of New Zealand's export economy tends to be focused in the provinces and rural communities. Given that the Business Growth Agenda targets export growth, it is important that sufficient funds are available to maintain the feeder networks but not at the cost of addressing metropolitan congestion.

Congestion

At the same time that growth in Auckland will be putting pressure on infrastructure, static or reducing population in many other areas is likely to result in surplus capacity of key infrastructure which still needs to be maintained, in many cases without the necessary ongoing funding sources. However, some parts of the road network will be carrying higher volumes of freight even though they will be serving smaller or static populations. Again this is problematic for the funding of asset maintenance.

LGNZ argues that a strategic matter that needs to be addressed is whether the ongoing migration from provincial to metropolitan centres is desirable in the long-term for New Zealand. This is critical to the future of New Zealand's regional economies.

Funding

The graphs provided as part of the Ministry of Transport GPS consultation workshops in June and July 2014 clearly show that virtually all of the increase in transport expenditure as a proportion of GDP has occurred on the state highway network. Local authority expenditure as a percentage of GDP appears to have remained static over the same period.

Many local authorities are likely to have invested more had corresponding funds been available from NZTA.

Paragraph 50 is a succinct statement stating central government's position. While it can be supported by local government, there will be a divergence of opinion on how it can be delivered.

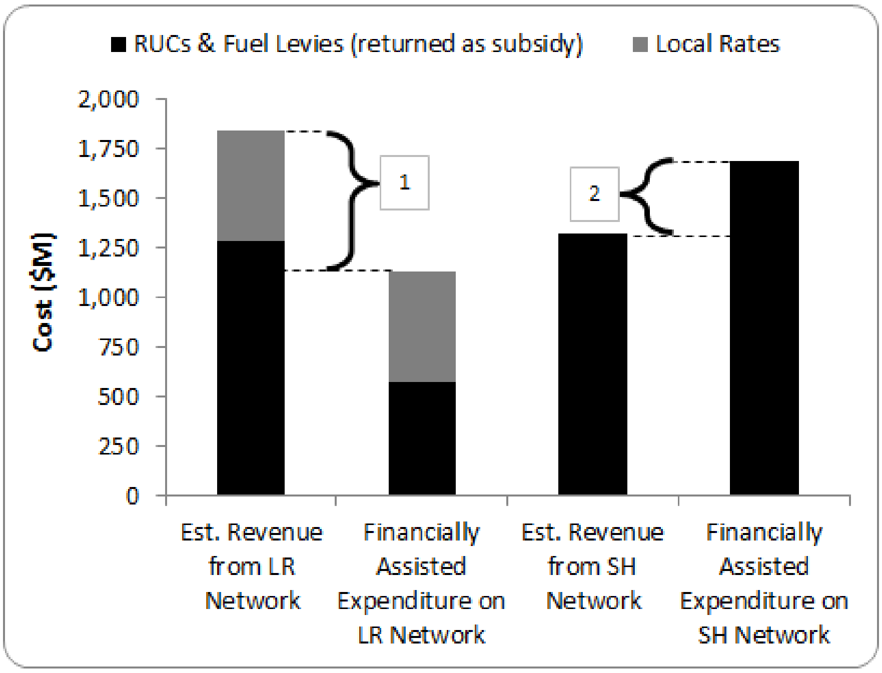
Critical to enabling local government to play its role in constructing and maintaining regional and local roads, as part of the wider Land Transport System, is:

- a regime where sufficient funding from road user charges and levies is returned to local government to complement the significant rate payer resources that are invested in land transport; and
- information that allows funders to develop a genuine understanding of what the funding needs are in order to apply appropriate measures.

We are aware of significant differences between one local authority's expenditure and another, and it is acknowledged there are multiple reasons why this could be so.

In terms of the issue relating to sufficient funding being available, indications are that this is generally true for the state highway network but not necessarily so for the local authority networks.

An example of this is analysis carried out by one council shows that across the country between $350 million and $400 million of funds generated on local authority roads are currently being invested on the state highway network. This is depicted in the following diagram:



Notes:
1: Total amount of revenue from LR network reallocated elsewhere (SH, Police, PT etc) by NZTA
2: Total amount of revenue from LR network reallocated to SH Network

This graph shows that approximately $370 million per year is being transferred from the local government sector to supplement other activities including works on the state highway network. Included in these other activities is passenger transport with a midpoint in the first year of GPS 2015 of $333 million. This receives a FAR rate of 50% which means $ 333 million out of the $ 370 million is returned to local government.

However, given passenger transport is subsidised because it alleviates traffic congestion on other roads (saving expense to road users), it can be argued that state highways which carry over 45% of the total traffic directly benefit from this activity. If an adjustment for this 45% share is made to the FAR contribution on passenger transport then a net amount of $187 million (ie $370 million less local authority's share of 55% of $333 million) is being transferred from the local authority sector to the state highway sector on an annual basis. If this remains for the full 10 year period then the total amount transferred off local authority roads will be approaching $2 billion.

The general principles of road funding would anticipate the high volume state highway network as being able to generate sufficient road user funds to more than meet its investment requirements.

If this $187 million dollar amount is applied to current expenditure levels on the local road network the overall Financial Assistance Rate would increase from 53% to 62%.

If local road network overall expenditure increased by $70 million then the overall Financial Assistance Rate would sit at 60% and the local authority sector would still have $ 117 million of existing rates revenue freed up to invest in other community works.

Local government faces a number of challenges with many of the core services it provides being dependent on infrastructure which was initially constructed in the years of expansion and development following World War II. In some cases public expectations and health requirements are significantly different to when this infrastructure was built and there is considerable financial pressure on the sector to address this and meet changing statutory obligations. Roads and their associated transport assets are only one component in the suite of ageing assets that fall into this category but generally have the highest value due to scale. To enable it to meet its wider financial challenges, it is critically important to the local authority sector that these transport assets are managed in a way that ensures their integrity is not compromised and they are delivered to the right level of service at the lowest whole of life cost.

In some cases this will mean spending a little more now to save spending a lot in the future. The GPS plays a critical role in the overall ability of local authorities to meet the long-term financial challenges through setting the available maintenance and renewal funds for transport assets. It is therefore essential that the allocations within the GPS are sufficient to retain the integrity of the existing infrastructure for as long as it is economically viable to do so.

LGNZ is concerned that the integrity of the local authority networks is being compromised, partly because of this transfer of funds away from the local road network. This will ultimately lead to further costs falling on the local ratepayer as a consequence of the inability to invest in preventative maintenance intervention works.

Recommendations:

- acknowledge the role the local and regional road network plays in the productive economy;
- reconsider the current transfer of funds from the local and regional road network to the State Highway Network; and
- develop a funding mechanism that enables local authorities to construct new transport infrastructure and maintain existing transport assets while ensuring resilience.

Strategic direction

Paragraph 52 is consistent with TLAs being required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is 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. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances. Adequate funding is necessary for local authorities to achieve this.

Paragraph 53 confirms GPS 2015 (draft) maintains the direction set in 2009 of putting the wealth generating capacity of our economy at the top of the agenda. Local government seeks a balance between investment that materially reduces the costs of doing business in both the export and consumption economies. At the moment there is concern that investment on the feeder routes that underpin the export economy may not be sufficient to maintain their integrity.

Paragraph 55 identifies that specific regional funding has been introduced to target improvements to regional networks. This is welcomed across the sector and we would anticipate that a significant amount of this investment will be on the regional state highways.

It also highlights another concern for local authorities in that NZTA proposes to cap the Financial Assistance Rate across the local authority sector at 53% and to fund improvement works at the same rate as maintenance and operations. This means that 47% of whatever is spent on local authority roads will need to come from ratepayers.

Paragraphs 54, 57 and 58 all place an emphasis on value for money and recognise that the needs of the existing infrastructure must be catered for. Many Road Controlling Authorities have had real difficulty in meeting the ongoing needs of their existing infrastructure since 2008.

Deficiencies identified by the Road Maintenance Task Force have been addressed and implemented through the Road Efficiency Group; these will undoubtedly go some way to addressing funding shortfalls in some areas. The reality is that some Road Controlling Authorities which had already come close to optimising their network needs and expenditure may now find that they do not have the same room to move, that is, they face more constrictive circumstances.

Difficulties in explaining the differences in expenditure from one Road Controlling Authority to another will mean that many practitioners in the sector will be concerned whether government funding allocations will be made appropriately and we acknowledge that greater transparency may be needed.

GPS objectives and results

LGNZ supports the high level objectives and associated long-term results summarised in Table 1.

Objective: A Land Transport System that addresses current and future demand

Provincial TLAs in particular will welcome the long-term result of *"Support economic growth of regional New Zealand through provision of better access to markets."* However, there will be some concern that sufficient funds to maintain existing local infrastructure may not be available within the activity class allocations.

The current assessment process automatically gives a high strategic fit rating to improvements to the State Highways if they are Roads of National Significance. This creates a situation which is not a level playing field for those local and regional roads which also deliver high value within the transport network.

The integration and coordination of transport investment also needs to be addressed. The $212 million from the Future Investment Fund for 14 regional roads is not part of the GPS 2015 as it does not fall within its scope. This fund, along with the "other Crown contributions outside the GPS" mentioned on page 32 need to be identified and considered as part of the total investment available. Without this information there is uncertainty about what will and won't be funded from these contributions.

With regard to the second bullet in paragraph 68 a, as discussed earlier, most vehicles associated with export commence and often end their trips on the local authority network.

The BERL report commissioned by LGNZ identified that for every tonne of freight per kilometre on the state highway network associated with exports there is between 1.3 and 1.8 t of freight occurring per kilometre on the associated local road network. Therefore, it is important that a corresponding investment in local authority routes occurs simultaneously with the state highway investment where required.

Paragraph 68 b discusses accelerated investment in Auckland noting that liveable well-connected cities are critical to our economic and social prosperity. The construction of the RoNS is obviously improving current traffic access to those centres they are serving.

Investment on local networks is most likely to be required to facilitate the movement of the vehicles through the local networks once they have left the RoNS. These issues will be specific to the centres involved.

It is also noted that Auckland is expected to account for 60% of New Zealand's population growth in the next 20 years.

While most units of local government will be very pleased to see that the role of local roads is recognised within the document some attention needs to be paid to removing the ambiguity in these paragraphs.

There is an underlying emphasis on capital improvements and very little mention on maintaining the existing infrastructure in which local government has invested. There is concern within the sector that the funding allocations already place an undue emphasis on new works at the expense of maintaining the existing infrastructure as mentioned earlier.

These concerns are supported by an analysis of long-term pavement performance conducted by Auckland University which has highlighted that factors contributing to pavement failure are readily visible only about 30% of the time with the other 70% of pavements failing from causes that have to be identified using other than visual means. In other words there may be false confidence in New Zealand's existing infrastructure through a lack of understanding of what is happening based on visual appearance.

As a consequence there is uncertainty as to whether the funding allocations are sufficient to make the appropriate interventions that will economically prolong the life of much of New Zealand's road infrastructure.

Analysis of the differences in roading expenditure across the country is needed as confidence that the funding allocations for maintenance and renewals reflect the genuine needs of the network needs to be established and upheld.

Without reliable information regarding the condition of New Zealand roads it is not possible to conclude that the funding proposed is adequate; however we note the increase in maintenance funding is only 2.2% per annum for local roads and 2.3% for state highways.

The first bullet in paragraph 68 d uses the term "local road improvements that deliver high measurable returns on the investment." This statement is unclear and local government seeks that the emphasis is placed on return "for" investment rather than "on" investment. This is because emphasis in recent decades on discount factors and return on money has led to priority being given to investments with short rates of return and in most cases shorter lives.

While this is the correct approach in some circumstances it generally works against investment optimisation on a network over the longer term. The high costs being experienced on parts of the state highway network today are a direct consequence of discount driven investment decisions in recent decades driving short-term solutions in pavement renewals and construction.

Paragraph 73 notes that there are some regional routes with an especially significant role in the movement of freight and tourists that warrant a particular investment focus.

Paragraph 74 notes the creation of a regional improvements activity class with a focus on investment in regional group improvements that provide links to key freight or tourist routes.

This targeted result is welcomed by local authorities provided it does not mean neglect of existing pavements leading to their premature failure. As noted when commenting on paragraph 68 as above (and also in comments on paragraph 50), the issue of an overall FAR being capped at 53% is likely to be of concern when local authority roads are involved. Further clarification as to the details around this new regional improvements activity class is needed.

A commitment to regional roading infrastructure is made through introducing a new activity class. As noted previously there are issues for local government through NZTA's proposal as part of its FAR review to cap funding assistance rates overall at 53%. If this eventuates the most likely outcome is that local authorities will not be helped to take advantage of the road user funds that are generated off their networks.

This proposal for a new regional roading improvements activity class needs to be clear in its purpose and criteria. The sector will welcome this proposal and seeks transparency.

It is therefore essential that the allocations in the activity classes are sufficient to meet the aspirations sought. The amounts allocated for maintenance and renewals of local roads are modest increases (3%) on the GPS 2012 allocations. Therefore, funds to meet the growing demands of increasing freight and ageing infrastructure will have to largely be met through efficiency gains. As yet there is insufficient information to determine whether this is achievable

Recommendations:

- create a level playing field for funding improvements to the State Highway Network and local/regional roading network;
- integrate and coordinate all transport investment by the Crown;
- address the focus on capital investment at the expense or maintenance of local and regional roads;
- work with the local government sector to get a complete picture of the state of local and regional roads; and
- provide a clear purpose and criteria for the new regional roading improvements activity class.

Objective: A Land Transport System that provides appropriate transport choices

Public transport investment plays a major role in accessing employment and this should be explicitly recognised, particularly in the discussion about the long term result "support economic growth."

It should be taken into consideration that all modes and not just public transport and road maintenance be assessed for returns on investment as part of seeking ongoing improvements. A focus on peak public transport travel periods without fully considering off-peak issues could potentially have negative implications for the sustainability of the overall public transport network.

Investment in public transport is not only focussed on increasing capacity, but in many cases on increasing patronage. This can be achieved through improving travel times and reliability, which may or may not require an increase in capacity. This range of outcomes is important to recognise.

It is noted that inequities exist across the country in relation to the sharing of public transport costs between public transport users, ratepayers and road users through the National Land Transport Programme (that is, the public transport fare box recovery policy), and that achieving NZTA's national target of 50% will be challenging.

Paragraph 78 notes that "*dedicated investment in cycling under GPS 2012 has delivered encouraging outcomes from the Model Communities initiatives and improved cycle links.*"

One council selected in the Model Communities initiative was able to make significant improvements and achieve considerable modal shift to cycling. Improvements included specific lane marking on existing routes, which is a considerable portion of the expenditure and has a limited life requiring regular re-marking. Funding allocation should account for maintenance including re-marking.

A focus on genuine stewardship of infrastructure assets associated with cycleways is needed – support for the ongoing maintenance of assets.

Paragraph 79 notes the ongoing safety concerns associated with cycling. It correctly identifies that this is a barrier to cycling taking a greater role in providing transport system capacity in our main centres.

Paragraph 80 promotes increased investment in cycle networks provided it can be achieved at reasonable cost. The allocation of maintenance funds to ensure their integrity is maintained is needed.

The increase in funding level by only 4% per annum (average of lower and upper range) is slightly above the rate of inflation. This does not reflect an "increased investment in cycle networks." We also note the difficulties experienced in accessing the current Crown funding that is already available for cycleways and the local government sector is looking to address that issue.

Recommendations:

- acknowledge the role of public transport in supporting economic growth; and
- acknowledge the importance of stewardship of assets.

Objective: A Land Transport System that is reliable and resilient

Recent storm events in Northland illustrate how natural hazard events can severely disrupt land transport. There is a good understanding in some areas of the likely impact of natural hazards on the roading network but it can be argued that there is no overall mitigation strategy to protect our infrastructure assets against the impacts of a natural disaster.

The new section 101B(3)(e) of the recently assented Local Government Act requires local authorities to outline how they will provide for the resilience of infrastructure assets by identifying and managing risks relating to natural hazards and by making appropriate financial provision for those risks. Clearly local roads will form a significant chunk of these infrastructure assets.

The GPS 2015 proposes an ongoing investment in improving network resilience as part of road improvements. Sufficient funds will need to be made available to achieve this objective. Funding for resilience improvements should be specifically provided for within activity classes.

Recommendations:

- include a definition of "resilience" that includes both high probability, low impact events and low probability, high impact events;
- ensure that the benefit-cost assessment framework does not disadvantage those low-probability, high consequence events; and
- include a means to prioritise investment in resilience.

Objective: A Land Transport System that is a safe system, increasingly free of death and serious injury

The GPS proposes clear reporting on the investment in road safety infrastructure. Associated with this is the need to understand the effectiveness of that investment. We support the proposal within the GPS.

Objective: A Land Transport System that appropriately mitigates the effects of land transport on the environment

Paragraphs 91 to 94 outline issues identified relating to understanding the costs associated with environmental mitigation. While there are various opinions on the impacts of roads on the environment there is likely to be widespread support through the local government sector on getting a better understanding of these and how to best to address them.

Investment in land transport

Total funding for GPS 2015 (draft)

Covered by paragraphs 95 to 100 this section highlights that the fund will grow from $3.4 billion per annum to $4.4 billion per annum over the 10 year period. It also notes that the revenue is supplemented by contributions from local government.

Activity class framework

Covered by paragraphs 101 to 109, this section notes in paragraph 104 that maintenance and renewals have been consolidated into single activity classes for the state highway and local roading networks.

The above consolidation is practical and sensible and affords Road Controlling Authorities better ability to optimise whole of life expenditure in two interrelated expenditure categories. This modification is supported. However, it should be noted that renewals should continue to be identified and separately accounted for in expenditure records.

There are also other consolidations and adjustments to activity classes to facilitate better management and reporting on the funds. The performance measures do not include targets and there is no indication of how they will be used to determine if the objectives and results are being delivered.

Table 4: GPS 2015 (draft) activity class funding ranges

The local government sector understands the principles of hypothecated funds and the inherent challenges this approach brings. The sector was a strong advocate for the concept of funds gathered from road users being returned to maintain the upkeep and to provide services on the land transport network.

The local government sector is used to facing the challenges of distributing public funds. It is experienced, for example, in distributing funds to maintain appropriate levels of service within open access public spaces. Local authorities are used to taking into account the various requirements to achieve appropriate levels of service across communities while at the same time recognising different communities have different abilities to meet the associated costs.

In this sense the GPS is an exercise that reflects similar challenges to those local authorities face in establishing their funding allocations and rate demands on an annual basis.

While the concept of hypothecation suggests that there will be internal adjustments to achieve a balance of service and affordability there is an inherent expectation that large broad-based components of the service would themselves reflect the principles of hypothecation. That is; there is a general expectation that the monies gathered off each of the state highway and local authority networks would approximately balance the expenditure allocated to these networks.

Examination of the figures does not support this notion and we question whether the allocations are in the order they should be.

Approximately 70% of the infrastructural asset focused expenditure is allocated to the state highway network which in terms of length makes up only 11% of the network but does carry close to 50% of vehicles. The remaining 30% of infrastructural asset focused expenditure is assigned to local authority roads which make up 89% of the length of the network.

A local authority calculation indicates that the current assignment of activity class allocations is achieved through a transfer in the order of $187 million per annum of funds generated off the local authority roading networks to the state highway network. This shortfall in turn is made up on the local authority network by local authority rates. (See diagram and comments relating to paragraph 50 above).

While a degree of imbalance would always be anticipated and based on the general principles of road funding (further explained below) most practitioners would have expected the transfer to be in the opposite direction The fact that such a large transfer is occurring on an annual basis is concerning to local authorities, particularly given the difficulties many are having in maintaining the integrity of their road networks.

A transfer of between $3.5 billion to $4 billion per decade of funds backfilled by local authority rates to support state highway improvements is not sustainable.

Given that activity class allocations are largely based on traditional allocations and the fact that there has been limited explanation of the difference in expenditure levels across local authority roads, the local government sector is concerned that the funding allocations identified in GPS 2015 are not equitable distributions of the hypothecated fund.

General comments on principles of road funding

It generally costs more per kilometre to provide a high volume (high traffic) road. However, costs per road user are much less on high volume roads when compared to low volume roads.

As New Zealand collects its road funding from road users the general expectation is that high volume roads, and high population densities where there are more people per road length, will generate surplus funds to distribute to those areas where the situation is the reverse.

With this in mind it would be anticipated that the relatively short length of state highway with a significant portion of the traffic would generate a surplus.

When state highway maintenance and renewals figures only are taken into account this is indeed the case. However, the significant investment in capital improvements consumes the entire surplus generated. A component of the resulting deficit is funded by Crown contributions with the other major contributor being the transfer from the local authority network.

The State Highway Asset Management Plan, http://www.nzta.govt.nz/resources/state-highway-asset-management-plan/docs/state-highway-asset-mgmt-plan-2012-2015.pdf, on page 39 makes an erroneous comparison where it compares cost per user for the total state highway network with the total local authority network. This comparison is irrelevant.

A true comparison would be the cost per user (or for that matter the cost per kilometre) of a local road carrying a similar traffic mix to the state highway in the same general geographical area. Generally, where they can be made, such comparisons reveal that the local roads are being provided more cost effectively.

Asset management
Paragraph 116 notes there is considerable variability in the measurable returns being delivered around the country and highlights increased productivity in service levels, particularly in road maintenance is a theme of GPS 2015. This is consistent with local government's approach to supporting improved asset management and in particular its drive to raise performance and standards across the sector.

Reporting
This highlights the need for improved reporting with an increased focus on investments efficiency. The local government sector would hope that this will address the inability to explain some of the variability in the provision of road services.

Expectations
In many respects paragraphs 120 to 123 reflect issues identified by the Road Maintenance Task Force and proposals being implemented through the REG.

These clauses provide healthy guidance to the NZ Transport Agency to work collaboratively with the sector to achieve a number of improvements that will optimise investment in existing and new infrastructure and services. These expectations would be widely supported by the local government sector.

Greater recognition of local authority initiatives in asset management planning is needed. With a broader base of the infrastructural assets to manage, the local government sector has some strength in this area. For this reason local government would expect to take a lead role with the NZTA in securing prudent asset and service management and operations. In addition, the local government sector will work to address the lack of understanding of the variable costs and service provision across the sector.

Recommendations:

- include performance measures in the targets;
- ensure an equitable distribution of the hypothecated funding allocations in the GPS 2015 between the state highway network and the local/regional road network; and
- integrate and coordinate all transport investment.

Funding sources and management of expenditure

Primary approach to funding land transport

These paragraphs explain the principles and the use of hypothecated funds and some of the inherent challenges this approach brings. Local government has been a strong advocate for hypothecation and the concept of funds gathered from road users being returned to maintain the upkeep and provide services on the land transport network.

Local authorities understand the challenges of distributing public funds. It is experienced in handling the challenges associated with maintaining appropriate levels of service within public space with open access.

Local government is used to taking into account the various requirements to achieve appropriate levels of service across communities while at the same time recognising different communities have different abilities to meet the associated costs.

In this sense the GPS is an exercise that reflects similar challenges to what local authorities face in establishing their funding allocations and rate demands on an annual basis.

While the concept of hypothecation suggests that there will be internal adjustments to achieve a balance of service and affordability there is an inherent expectation that large broad-based components of the service would themselves reflect the principles of hypothecation. That is; there is a general expectation that the monies gathered off each of the state highway and local authority networks would approximately balance to the expenditure allocated to these networks.

Examination of the figures does not support this notion and raises serious questions as to whether the allocations are indeed in the order they should be. This has been discussed in more detail and issues raised above relating to Table 4 and the GPS document.

The last bullet points under paragraph 126 do not necessarily align to a local authority's obligations under the purposes of the local government act, that is; "*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."*

Given local government's obligations as identified in paragraph 128 there is an expectation that NZTA will partner with local authorities in meeting their obligations to their communities.

Principles guiding the use of alternative funding sources

As stated previously LGNZ and TLAs want to be involved in any discussions about exploring alternative pricing mechanisms.

Principles guiding the management of expenditure to revenue

These are generally considered as being sensible.