

# LOCAL GOVERNMENT FORUM

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7 November 2008

Mr James Hill  
Chair, Road User Charges Review  
c/- Ministry of Transport  
PO Box 3175  
**WELLINGTON 6140**

Dear Mr Hill

I am writing to you on behalf of the Local Government Forum to make a submission on the Road User Charges (RUC) Review.

The Local Government Forum comprises organisations that have a vital interest in the activities of local government. Its members include Business New Zealand, the Electricity Networks Association, Federated Farmers of New Zealand, New Zealand Business Roundtable, New Zealand Chambers of Commerce, and New Zealand Retailers' Association. The Forum was established in 1994 to promote greater efficiency in local government and to contribute to debate on policy issues affecting it.

Members of the Local Government Forum are each significant representatives of ratepayers in their own right but the Forum's perspective is to advance community welfare through the advocacy of sound public policy. Its members believe that local government can best serve the interests of the community and ratepayers by focusing on the efficient provision of public goods at a local level.

This submission has been developed in consultation with members of the Local Government Forum. Some individual members of the Forum have also chosen to make their own submissions.

Roading is a very important function of both central and local government. The Local Government Forum is keen to ensure that roads are funded in an efficient and equitable manner and with this in mind it, along with the Road Transport Forum New Zealand, commissioned McKenzie Podmore Ltd to produce a report on road funding issues. This report, *Efficiency and Equity Issues in the Funding of Roothing Expenditure*, identified what in our view are some significant shortcomings with road funding and charging, many of which were also highlighted in a report to the Ministry of Transport by TERNZ/Covec, *Heavy Vehicle Road User Charges Investigation*. I have attached for the Review's consideration a copy of *Efficiency and Equity Issues in the Funding of Roothing Expenditure*.

Paragraph 6 of the Review's Terms of Reference states that it will consider the following issues:

- Ministry of Transport's Cost Allocation Model (CAM);
- Alternative charging regimes;
- Associated costs; and
- Process for changing levels of charges.

These issues are discussed briefly in the remainder of this submission.

### **Ministry of Transport's Cost Allocation Model (CAM)**

*Efficiency and Equity Issues in the Funding of Roading Expenditure* raises a number of shortcomings with the CAM resulting in considerable cross-subsidisation between state highways and local roads and between heavy and light vehicles. For example:

- The 'Fourth Power Rule' for Pavement Wear is far too high for New Zealand conditions (more likely to be between 1.5 and 2.25).
- The CAM uses average vehicle operating weights, making no provision for actual operating practices and is therefore a source of cross-subsidies and inefficiencies.
- Heavier vehicles do only 5% of vehicle kilometres but are allocated 16% of space-related expenditure. This might be fair on average but in some parts of the country (e.g., Auckland where most congestion-related expenditure is spent) the proportion of vehicle kilometres done by heavy vehicles at congested periods is much lower.
- Rates are treated in the CAM as recovering 'residual costs' (i.e., activities unrelated to road use), but in practice around a third of rates revenue is required to fund use-related costs. This means that many road users are paying twice for their use of local roads – through RUC/petrol tax and through rates. In effect ratepayers are subsidising the state highway network.

The Local Government Forum submits that these shortcomings should be addressed if confidence in road charging is to be maintained.

### **Alternative Charging Regimes**

The Local Government Forum submits that the pricing of roads should be reformed. Ideally, road pricing should reflect time-of-day, route-specific expenditures, weather conditions, and accurate vehicle operating characteristics for each journey. Such pricing would deliver significant efficiency gains and would also be more equitable. There is considerable literature on this issue and attached for the Review's consideration is a paper recently presented to the US Transportation Research Board *Paying for Roads in the 21<sup>st</sup> Century with TPD Pricing*.

The Forum supports the investigation of electronic road pricing as medium to longer-term alternative to existing road charging mechanisms (road user charges, petrol tax, motor vehicle licence fees, and local authority rates).

In the short term, the most likely alternative to RUC would be a diesel tax. A general diesel tax is being advanced by the road transport industry which is concerned about the compliance, administration, enforcement, and evasion costs associated with RUC.

A diesel tax would add around 40 cents per litre to the price of diesel and would be combined with a scale of vehicle license fees that would escalate with the weight of the vehicle. In the opinion of the industry such a change would save around \$100 million in costs associated with the RUC system.

On the other hand RUC may be a more accurate way of pricing road use. A diesel tax can act as a proxy for road use but only to a limited extent as it would not take account of a vehicle's fuel efficiency, while an escalating scale of licence fees would take account of vehicle weight but not take account of road use. Diesel is also used

heavily off-road and in 1989 the Government abolished diesel tax as it had become inefficient and costly to run a refund system for off-road diesel use.

Members of the Local Government Forum sympathise with the concerns put forward by the road transport industry and strongly support moves to improve the efficiency and equity of road charging. Although individual some Forum members will be commenting on the proposal for diesel tax, the Forum itself does not have a fixed view either for or against. However, we do expect the Review to carefully consider the proposal's costs and benefits compared to the current system. A relevant issue would be whether it would be sensible to fundamentally change the existing system, as opposed to recalibrating it, if the Review considers that a more efficient electronic pricing regime may be feasible in the relatively near future.

### **Associated Costs**

The Local Government Forum does not have any specific information of its own on the costs associated with the current systems for setting and administering RUC. We are aware however of figures produced by the road transport industry on the costs of compliance, administration, enforcement and evasion. We consider it very important for the Review to carefully consider these costs (including undertaking its own research and analysis) and to compare them with those of alternative charging regimes, including a diesel tax/licence fees and electronic road pricing.

### **Process for Changing Levels of Charges**

The current process for changing levels of RUC allows changes to be made without notice and without consultation. This is most unsatisfactory and Forum members sympathised with the road transport industry's protest action in response to the July increase in RUC rates.

The Local Government Forum submits that there should be a requirement to consult with road users and to provide a period of notice before new rates come into force. While doing so might run the risk of substantial pre-purchase of RUC (and therefore revenue loss for the government) this could be ameliorated by imposing a limit on the amount of RUC that may be pre-purchased in the period prior to a notified change in RUC levels.

### **Other Matters**

The Forum notes that the terms of reference for the RUC Review does not include consideration of wider road funding issues and we understand that wider issues are to be the subject of a further review. However, Forum members consider that wider issues around efficiency and equity should inform the considerations of this review and we draw the Review's attention to discussion in *Efficiency and Equity Issues in the Funding of Roading Expenditure* on local authority funding, decision-making to determine the roading programme, inter-modal competition (i.e., the subsidisation of public passenger transport, and initiatives to encourage cycling and walking, rail, and coastal shipping), and the regulation of heavy vehicle use. The Forum submits that the Review should at the very least be aware of how decisions affecting efficiency and equity in the funding of roading expenditure influence the CAM and in turn impact upon confidence in the RUC system.

In relation to rail, *Efficiency and Equity Issues in the Funding of Roading Expenditure* suggested that heavy vehicles are already meeting a higher share of the costs they impose on society than rail, even taking environmental costs into account. This distortion will be worsened if rail is loss-making and receives taxpayer subsidies. The Forum supports a level playing field between all transport modes, with each bearing relevant economic and environmental costs. The way to achieve this should

not be to move away from economic pricing for roads but to insist that steps should be taken to ensure that rail is run on a strictly commercial basis and is not allowed to compete on unfair terms with road transport.

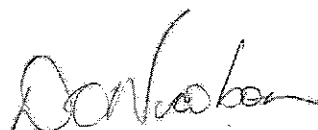
### **Summary of Recommendations**

The Local Government Forum recommends that:

- (a) The CAM's exponent for pavement wear (the 'fourth power rule') should be reduced to better reflect New Zealand conditions.
- (b) The CAM's assumptions on average vehicle weights should be amended to better reflect actual operating practices.
- (c) The CAM's assumptions on space-related expenditure should be amended to better reflect actual operating practices.
- (d) The CAM's assumptions on the funding of local roads should be amended to ensure that a higher proportion of their costs are funded by road users rather than ratepayers.
- (e) There should be investigation of electronic road pricing as a medium-long term alternative to RUC.
- (f) The Review should carefully consider the costs and benefits of the RUC system compared to alternative charging systems.
- (g) There should be a requirement to consult with road users on proposed changes to levels of RUC.
- (h) There should be a period of notice before the imposition of changes to levels of RUC.
- (i) The Review should consider how decisions affecting efficiency and equity in funding roading expenditure influence the CAM and confidence in the RUC system.
- (j) The Review should support the principle of level playing field competition in the transport sector and draw attention to the need for efficient charging for road use being matched by non-distorting competition from rail and other modes.

Thank you for the opportunity to submit to the RUC Review. Forum members would appreciate the opportunity to meet with the Review to discuss the points raised in this submission. Please contact Nick Clark, C/- Federated Farmers of New Zealand, PO Box 1992 Christchurch, ph 03 357 9459, email [nclark@fedfarm.org.nz](mailto:nclark@fedfarm.org.nz).

Yours sincerely



Don Nicolson  
Chair, Local Government Forum