



National Infrastructure Plan

The road ahead

The New Zealand Automobile Association Incorporated

342-352 Lambton Quay

PO Box 1

Wellington

New Zealand

4 March 2011

SUBMISSION TO: Ministry of Transport

REGARDING: **National Infrastructure Plan**

DATE: 4 March 2011

ATTENTION: Melanie Hutton

ADDRESS: Ministry of Transport
PO Box 3175
WELLINGTON 6140

SUBMISSION AUTHORISED BY Mike Noon
General Manager, Motoring Affairs
New Zealand Automobile Association Incorporated
P.O Box 1
Wellington

SUBMISSION AUTHOR Peter King

AUTHOR E-MAIL Peter.King@aa.co.nz

AUTHOR PHONE (04) 931 9982

Contents

Background on the New Zealand Automobile Association	4
Content of this Submission	4
Executive Summary.....	5
1. Previous AA Submissions Summarised.....	6
1.0 Yet Another Infrastructure Submission?	6
1.1 Allen Report.....	6
1.2 Sustainable Transport Submission.....	6
1.3 Transporting Ourselves.....	7
1.4 National Infrastructure Plan Submission.....	7
1.5 KiwiRAP.....	8
2. Key Themes and Messages	9
2.0 Competitiveness	9
2.1 Cutting Red-Tape.....	9
2.2 Alignment of Government Incentives.....	10
2.3 Road safety.....	10
2.4 Economic Significance of the Light Fleet.....	10
2.5 Role of Local Government	11
2.6 Christchurch Earthquakes.....	11
2.7 The Futility of Road Pricing Debates	11
2.8 Climate Change and Democracy.....	12
3. MOT Questions.....	13
3.1 Are there some aspects in the vision you consider deserve more attention than others in order to improve investment certainty [for your sector]?	13
3.3 What are the most significant transport infrastructure challenges in the next 20 years [for your sector]?	13
3.4 What do you consider should be the government's top transport infrastructure priorities in the short term (3 – 10 years) and long term (20 years) that would provide greater business certainty [for you]?.....	13
3.5 What can the sector you represent do to contribute towards meeting the current transport infrastructure challenges and future issues?.....	14
3.6 Are there any specific investment activities you are planning in the next 3-10 years that would contribute towards the transport vision?	14
3.7 What are your expectations for this National Infrastructure Plan?.....	14

3.8	Do you have any data that would assist us in tracking progress against these desired trends?	14
4.0	Actions	15
4.1	Develop Infrastructure competitiveness metrics	15
4.2	Develop planning and development metrics vis-à-vis infrastructure.....	15
4.3	Review All Government Transport Incentives	15
4.4	Examination of economic value of the transport task of the light vehicle fleet	15
4.5	Redevelop the transport infrastructure investment mechanism.....	15

Background on the New Zealand Automobile Association

The NZAA is an incorporated society with 1.3 million Members. Originally founded in 1903 as an automobile users advocacy group today it represents the interests of road users who collectively pay over \$2 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

Is the property of the New Zealand Automobile Association. This submission may be freely copied, cited and distributed but not altered. The NZAA asserts its claim to authorship of this submission.

Executive Summary

The February 22nd 2011 earthquake in Canterbury will obviously divert attention from matters of infrastructure policy to matters of practice for some considerable time. However the AA suggests that the reconstruction of local roads in Christchurch will be such a daunting task that there is an opportunity to re-examine many of the policies currently in place.

The earthquake reinforces the following problems:

- No formal evaluation of the fiscal benefits of infrastructure investment
- The strategic competitiveness of New Zealand's infrastructure is unknown providing no clues to sensible bounds for investment.
- There are no measures of costs or delays caused by consents and compliances
- There is no national strategic overview of infrastructure or its competitiveness and the plan to link regions
- Local government is crucial to planning and development compliancing but suffers from a perennial lack of resources. Allowing local government to rent its corridor to other network infrastructure operators would redress this imbalance.
- The preference for maintenance spending over construction is NZTA board policies. In fact they are two to six times more expensive to build than in other nations and still have a high maintenance demand.
- The discount rate adopted by Treasury, results in an asphalt-based roading materials industry rather than a concrete oriented one. It is notable that most other ring-of-fire nations build in high durability materials (concrete) with low maintenance requirements.

In other words the business-as-usual model of land transport was not working particularly effectively before the earthquake and the rush to restore business-as-usual misses an important opportunity to improve things markedly.

This submission, written within the ten working days allowed, recognises that it will be compressed into a three or four page chapter for a larger document. While this may be the functional purpose of this submission to the Ministry we believe these are substantive issues which remain unaddressed and should rightly hold a central place in any National Infrastructure Plan.

1. Previous AA Submissions Summarised

1.0 Yet Another Infrastructure Submission?

The New Zealand Automobile Association has made numerous submissions and published numerous documents on national infrastructure. The Association questions what another short-notice (10-working day) call for submissions is intended to achieve. Effectively we are summarising views already presented to the Ministry.

1.1 Allen Report

The Allen Report found that roading construction could be fiscally positive. The New Zealand Automobile Association was instrumental in contracting the Allen Consulting Group to undertake an analysis of the fiscal benefits of investing in four packages of roading improvements in 2004. The evaluation made use of the Infometrics ESSAM general equilibrium model and found that taking into account the costs of borrowing (at 6%, slightly more than the historical average for ten year bonds), and including carbon costs (at \$25 per tonne) and (arguably unnecessarily) making provision for discount rates, that investment in roading infrastructure generated immediate fiscal benefits to the Government of between 119 and 141 percent. In other words if Government were in business to raise its own revenue by increasing economic activity it would certainly borrow to carry out these investments.

1.1.1 To date the Government still has no method for evaluating the fiscal benefits of investing in infrastructure and relies instead on the Economic Evaluation Manual which operates entirely as an allocative mechanism within a pay-as-you-go framework.

1.2 Sustainable Transport Submission

In its response to the Updated New Zealand Transport Strategy (March 2008) the New Zealand Automobile Association carried out an evaluation of five transport strategies (Victoria, Australia; Ireland; United Kingdom; Norway; and Japan) against NZTS objectives.

1.2.1 At no point have New Zealand officials undertaken a competitive review of foreign infrastructure plans and planning processes against New Zealand plans and processes.

This review found that all the foreign strategies emphasised competitiveness as the primary goal of the infrastructure strategy. The review also found that almost all these nations had some form of spatial strategy based on notions of equity of opportunity, and a social contract that lead to a political consensus on infrastructure development. This was even true in Ireland which has a similar population and mix of population in its main city (Dublin) compared to other centres.

1.2.2 The review also found that all strategies emphasised reducing or eliminating self-imposed legislative handicaps to competitiveness ("Red tape" as it was termed in Victoria). Eliminating red tape was considered a crucial role of senior agencies. There are no objective measures for determining the effect of the planning or compliance regime in New Zealand.

All of the nations examined had made use of Public-Private Partnerships, even Norway whose public sector is largely funded by oil revenue. The scope for PPPs in New Zealand is largely diminished by red-tape concerns.

1.3 Transporting Ourselves

The AA published a strategic transport plan called "Transporting Ourselves" (March 2009). Transporting Ourselves puts New Zealand domestic transport in the context of multi-modal international transport. It points out that the Asia-Pacific region is growing rapidly and that the trend towards regionalisation in airports and centralisation in shipping is an inevitable consequence of technical changes in those industries.

Transporting Ourselves examines some of the planning assumptions for tourism, freight, demographics and energy and suggests that demand could readily outstrip supply over ten years largely due to high costs and slow planning cycles. It further points out that many road safety enhancements can be achieved over the network at relatively low cost.

1.3.1 *Transporting Ourselves suggests that New Zealand suffers from regional transport growth barriers and that a few crucial interventions such as:*

- a) *Planning for further Auckland motorway expansion now;*
- b) *A package of tunnels, e.g through the Kaimais and Rimutakas;*
- c) *Relocating the inter-island ferry terminal to Clifford Bay.*
- d) *Increasing international Asian tourism for tourists with limited annual so they can make quick trips to New Zealand's iconic attractions without being caught up in long-haul land transport (coaches) by improving air-links. This means flights direct to Rotorua and building a larger international airport closer to the Fiordland-Lakes tourist centres.*

1.3.2 *Essentially Transporting Ourselves points out that a planning system intended for small incremental improvements cannot be expected to achieve a strategic overview of transport needs. This very lack of strategic overview creates costs and delays.*

1.4 National Infrastructure Plan Submission

The NZAA submitted in response to the Treasury's initial infrastructure plan in 2009. The main points of this submission were that:

1.4.1 *The New Zealand government treats tax revenue as a given rather than an opportunity and as a result has no processes to optimise return on revenue through fiscal investment (eg as found in the Allen Report), or evaluate the opportunity costs of delay.*

1.4.2 *That access to national infrastructure comes via local infrastructure and that as these are networks (electricity, water, roads and telecoms), bottlenecks in local infrastructure may be as important as national infrastructure.*

It appears patently inequitable that road controlling authorities is not accorded property rights to the road corridor. The result is that network operators (electricity and telecommunications) generate huge profits and impose travel time costs on the public without making any contribution to the most expensive and essential part of the infrastructure network – the roadway.

- 1.4.3 *The justifications used in setting the discount rate for transport projects are questionable because transport taxes are set politically without regard to the affect of investment in the private sector and all income collected by transport taxes will be spent on transport one way or another, not in a free market. The justifications for a high discount rate are therefore theoretical rather than any reflection of the political reality..*

All the current discount rate means is a determination that it is better for existing taxpayers to benefit themselves rather than future generations. In practice the effect of the discount rate has had has been to recycle spending through the economy by preferring investment in maintenance. In effect the transport tax system is a money recycling system for contractors (both maintenance and public transport) rather than a system for investing in the long term benefit of New Zealand. It is notable that most ring-of-fire nations build roads in concrete with much longer lifetimes and lower maintenance costs. New Zealand is the exception.

- 1.4.4 *The averaging of travel time values in the Economic Evaluation Manual also creates distortions in prioritisation. While regional economic values of travel time values are available, showing higher values in more productive regions NZTA policy dictates have averaged these so that actual opportunity costs fall hardest with the difference with the average is greatest. This especially impacts on Auckland.*
- 1.4.5 *The Statistical Value of Life is out of proportion to the economic value of life resulting in a disparity between ACC costs and government incentives. In particular permanent total disabling injury is under-valued while death may in fact be over-valued.*
- 1.4.6 *The expectations for substitutions (e.g commuting vs telecommuting) posited in some infrastructure projections are simplistic and often based on capacity rather than organisation. For example Trademe has made a huge difference to SMEs in New Zealand but did not require broadband to begin. The power of organisation (eg Facebook) has been under-estimated compared to capacity. Organisational issues such as school opening hours, employment contracts which require presence at work, are more significant to transport substitutions than matters under the direct control of transport officials.*

1.5 KiwiRAP

The KiwiRAP (Kiwi Road Assessment Programme) is a joint venture between the NZTA, MoT, Police, ACC and the AA to assess the protective ability of road corridors to reduce the risk of road trauma. Poor KiwiRAP risk protection scores correlate extremely well with observed road trauma. In many cases road corridors have not been optimised to reduce the risk of road trauma but can be retrofitted relatively easily through minor safety works.

2. Key Themes and Messages

2.0 Competitiveness

The point of investing in infrastructure is to improve the competitiveness of this country vis-à-vis other countries. There is no other sustainable economic reason for Government to require the private sector to contribute its income to communal investments. Failure to invest in infrastructure that improves competitiveness at a similar rate to competitor nations will result in declining terms of trade.

2.0.1 *The lack of competitiveness thinking in central Government agencies has been disturbing. While the UK Eddington report clearly specified the strategic developments needed for British economic competitiveness to date the only clear competitive target in a New Zealand transport strategy has been to reduce carbon emissions faster than the rest of the developed world. The lack of concern for economic competitiveness in strategic transport planning was unique in our review of international transport plans.*

2.0.2 *The NZTA is the public's property developer. By providing better roads it improves both incomes and property values. The more it pretends not to be a property developer the less efficient and effective it becomes. NZTA should relax those rules against it making money on property development. There is no reason why NZTA should not follow the French practice of "buying consents", or the Japanese national railroad practice of developing corridors rather than routes. The more money it makes commercially the more value it adds and the less it needs from taxpayers.*

2.0.3 *Competitiveness applies equally to the processes used to obtain competitive infrastructure. Transporting Ourselves compared major projects in competitor nations and found that the cost per kilometre ranged from double to six times those of other nations. These costs should be indexed and published.*

2.1 Cutting Red-Tape

There are good reasons for imposing costs through qualitative regulation. The questions however are 1) whether the cost of compliance is as low as practical; 2) whether the process for determining compliance is fast, transparent and predictable; and 3) whether the qualities regulated for are reasonable and proportionate (e.g it should not be cheaper to accommodate nesting Dotterils in the Hilton, than accommodate their needs by stopping or moving large construction projects). If competitiveness matters all of these questions should be quantified rather than left as a vague political football for argument based on anecdote.

2.1.1 *Currently New Zealand governments treat this as a political or judicial issue without much attempt at measuring the outputs. This lack of objective measurement makes efforts to reduce compliance costs difficult. In many other jurisdictions however officials actively work to reduce compliance costs. Without a good data on the compliancing process costs and delays, however this remains anecdote.*

2.1.2 *Anecdotally practitioners report Local Government compliance processes founder on poor local government staff development and retention due largely to impoverished local government. Ironically the best way for local government to raise funds is to add costs to projects because these feed back to consent fees. If local government had an adequate*

alternate source of funding this incentive would be reduced. Restoring property rights to road controlling authorities would make a significant difference.

2.2 Alignment of Government Incentives

As noted in our previous submissions (above) Government incentives are frequently perverse. There has been a tendency to argue the rationale of the incentives rather than the outcomes they generate. The result is more heat than light and a great deal of academic debate for little practical purpose. A more pragmatic outlook toward Government incentives would make considerable difference.

2.2.2 There are a great many incentives and disincentives surrounding transport infrastructure planning in New Zealand. Some are set by the NZTA board. Some are set by Treasury. To date Government has not presented a coherent report on what these policy settings are and how they effect one another.

2.3 Road safety

Improving road safety by retrofitting existing infrastructure can be achieved relatively cheaply within existing budgets.

2.3.1 The AA has called for \$1.5 billion over ten years (\$150 million per year) to be invested in the minor safety works category on the basis of KiwiRap prioritisation to help reduce road safety risk.

2.3.2 The AA also believes that the entire road safety allocation of the annual roading programme should be allocated on the basis of proven efficiency and effectiveness at reducing road trauma.

2.4 Economic Significance of the Light Fleet

There is a tendency in Ministry of Transport and NZTA studies to equate economic value with payload in tonnes. This was particularly true in the National Freight Demands Strategy. Given that roughly two thirds of New Zealand's GDP is not freight-based the notion that the light fleet is unimportant economically appears to be based on a bias toward the agricultural, manufacturing and mining sectors.

2.4.1 The Ministry of Transport's "Understanding Surface Costs and Charges" work has been singularly poor in identifying the economic value of the light fleet. It should be inherently obvious that the value of the fleet's operation is at least as much as its operating costs. However the cost of depriving access has not been estimated even while some policies have been implemented largely with this purpose. A more balanced understanding of the value of light fleet access is needed.

2.5 Role of Local Government

The reconstruction of local roads in Christchurch following the 22nd February 2011 Earthquake will require considerably more resources than the economy of Christchurch will be able to sustain for some time. The need for central Government to operate closely with local government in Auckland has been apparent for some years.

2.5.1 *The separation of national infrastructure and local infrastructure has traditionally been based on geographic jurisdiction. However it seems that if infrastructure is to be developed competitively it should be developed on the basis of strategic importance. The funding system needs to be aligned to strategic priority regardless of ownership.*

Because national infrastructure development largely takes place in a local Government control of RMA processes the efficiency and effectiveness of local Government is a significant. To date the Government has simply removed its own RMA impediments through the Ministerial "Call in" clauses to improve its efficiency. While this emulates the efficient French approach to national infrastructure development it is not usual for Westminster based systems to exclude themselves from processes which apply to the private sector which is the bulk of the productive economy.

The free rental of roads to electricity and telecommunications providers allows them to generate large profits without contributing to the asset they rely on. They impose costs on road users by denying them access when they work on their networks and incur none for doing so. Lack of funding is a key constraint on local Government to carry out its roading and RMA functions. The AA is concerned by the steady reduction in local government roading investment. There is no real reason for other infrastructure providers to free-load on the roadway other than political influence.

2.5.2 *There is no reason for central government to deny road controlling authorities property rights for rental of its largest asset to other network operators. The notion that property rights should be dispensed by fiat simply to reduce costs is not acceptable with any other form of property right.*

2.6 Christchurch Earthquakes

As of 1 March 2011 Christchurch has suffered two major earthquakes and may well suffer more. The treasury has estimated it will cost \$15 billion to restore the City. A large part of the cost will involve the restoration of road corridors and their attendant services. The processes for achieving this have not been published as yet. The points made above apply regardless of earthquake damage or potential damage.

2.7 The Futility of Road Pricing Debates

The road-pricing debate led by the Ministry of Transport in New Zealand has been long, arcane and pointless. Fundamentally until the transaction costs of electronic road user charges are reduced to a reasonable level any such debate is entirely academic.

- 2.7.1 *The Ministry should simply identify the price thresholds for the transaction costs of electronic road user charges and wait until these are reached before pressing the case for road pricing.*

2.8 Climate Change and Democracy

New Zealand is a democratic nation. While climate change is an important economic and moral dilemma all democracies work on the basis that such trade-offs must have a public mandate. In recent years there has been a tendency for politicians and officials to advance policy ahead of such a mandate. Not surprisingly this has led to policy U-turns under both main political parties which have created unnecessary uncertainty. The AA commends the NZTA for adopting a nominal value of carbon in the Economic Evaluation Manual early and incorporating this into benefit cost calculations.

- 2.7.1 *The AA would prefer that all climate-change oriented transport policy used a consistent (and justifiable) economic CO₂e removal value. This should discount any interventions which have disproportionate costs.*

3. MOT Questions

The presumption of the questions posed by the Ministry of Transport is that the respondent is a private business representing itself. The AA represents 1.3 million motorists and as such is not a “sector”. There is a vast range of market segments within the light fleet user base.

3.0.1 *The AA is concerned that the Ministry of Transport consistently under-values the light transport fleet both in terms of its contribution to the commercial transport task and in its role in consumption on which all other economic activity is predicated.*

3.1 **Are there some aspects in the vision you consider deserve more attention than others in order to improve investment certainty [for your sector]?**

The AA wants more certainty, stability and an evidenced-based rational process for allocating funding.

3.2 **To what extent is current transport infrastructure a constraint upon [your] business activities?**

The Ministry of Transport has not evaluated this with regard to the largely unrepresented light commercial fleet, domestic tourism or service sectors. The fact these groups are not well represented by NGOs does not mean they do not matter.

The value of the light fleet to commerce as a means to end user consumption has also not been fully investigated. This is particularly significant for domestic tourism which in turn provides a commercial base for international tourism.

3.3 **What are the most significant transport infrastructure challenges in the next 20 years [for your sector]?**

This should be answered in terms of processes rather than in terms of outputs.

In terms of process the most important challenges are:

3.3.1 *Strategic spending based on fiscal return and competitiveness*

3.3.2 *Reorientation of costs from maintenance to construction*

3.3.3 *Reduction of compliance costs*

3.3.4 *Long term spatial planning and development including corridor protection*

In terms of outputs

3.3.7 *Optimising strategic links (air, sea, road and rail) in terms of competitiveness*

3.3.6 *Port and airport expansion/rationalisation in terms of competitiveness*

3.3.8 *Urban road priorities and hierarchies*

3.3.9 *Improved road protection for road safety*

3.4 **What do you consider should be the government’s top transport infrastructure priorities in the short term (3 – 10 years) and long term (20 years) that would provide greater business certainty [for you]?**

The Roads of national significance, relief of Auckland road congestion, reconstruction of Christchurch and road safety improvements.

- 3.5 What can the sector you represent do to contribute towards meeting the current transport infrastructure challenges and future issues?**
The AA Research Foundation can contribute towards research.
- 3.6 Are there any specific investment activities you are planning in the next 3-10 years that would contribute towards the transport vision?**
The AA Research Foundation is investing in transport research for eco-driving and road safety.
- 3.7 What are your expectations for this National Infrastructure Plan?**
- 1) Rational and evidence-based policy for infrastructure investment*
 - 2) A top-down strategic competitiveness-driven strategic transport plan*
 - 3) Greater guidance on national priorities for planning processes*
 - 4) Integration with local government*
 - 5) Identifying key cost and delay causes.*
- 3.8 Do you have any data that would assist us in tracking progress against these desired trends?**
AA Geosmart maintains a congestion tracking and advisory service which may yield local data.

4.0 Actions

Actions the AA would like to see the MoT carry out regarding a National Infrastructure Plan.

4.1 Develop Infrastructure competitiveness metrics

Maintain metrics on competitive performance on matters related to competitiveness vis-à-vis Australian states or small nations internationally. These measurements would be from a commercial perspective not an agency perspective, thus the time-based costs of landing a container, clearing it, and freighting it to a local destination, not just transport cost of freight.

4.2 Develop planning and development metrics vis-à-vis infrastructure.

Currently there is no on-going measurement of the performance of the planning system regarding compliance. The time taken to determine levels of compliance, the costs of compliance, the qualities involved. All of these details are crucial to improving the rate of infrastructure development but are not collected.

4.3 Review All Government Transport Incentives

There are a number of decisions taken by the Treasury, the NZTA board and other parties which have significant effects on transport policy and the ability of the government to achieve infrastructure development goals. These should be examined and their implications made explicit.

4.4 Examination of economic value of the transport task of the light vehicle fleet

There has been an assumption that the light vehicle fleet is not as economically significant as the heavy freight fleet. This is not based on any published analysis and should be examined.

4.5 Redevelop the transport infrastructure investment mechanism

Transport spending has been based on a small contract management process but transport investment is a form of property development and should be treated as such. The Government should seek a fiscal return on investment from major projects. It should also operate more entrepreneurially when it comes to property acquisition and corridor development. Greater use of permanent materials and reduced emphasis on maintenance would also create better value over time.