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Online submission

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# Draft National Infrastructure Plan

## Summary

1. The AA congratulates the Infrastructure Commission (the Commission) on putting together this draft plan. We share the Commission's hope that the final plan will lead to both greater consensus and ultimately better outcomes in how we plan, prioritise, fund, deliver and maintain infrastructure.
2. We agree that transport system reform is needed if public infrastructure funding is to be affordable and sustainable.
3. We accept that in practice this means road user charges and rates will need to provide a greater proportion of land transport funding than is presently the case. However, we question whether full user-pays funding is realistic. This reflects the much higher levels of public and political interest in priorities and price-setting than is the case with other network infrastructure, the inherent challenges in funding large scale transport projects, and the expectation that road user revenue should be used to fund or subsidise other land transport activities for which there may be few or no benefits for road users.
4. We agree that changes would need to be made to land transport sector governance and oversight arrangements, including decisions on investment priorities and pricing, before major changes could be made to the current funding arrangements. If this work proceeds, it should focus on identifying what arrangements would be needed to set prices at levels which will appropriately influence demand while remaining affordable to users.
5. Consistent with user-pays principles, work would also need to be done to determine what activities should be funded from road user revenue and to identify appropriate funding sources for other activities, before implementing any significant changes. The draft plan's projection that an increasing proportion of land transport revenue will need to be allocated to non-road user activities in the future reinforces the need to do this work. We recommend the final plan identifies primary funding sources for major public transport infrastructure projects which are better aligned with the main benefits and beneficiaries.
6. We support amendments to local government and transport legislation to require that land use planning both informs and is informed by infrastructure investment and asset management planning.
7. We also support amendments to resource management legislation to better enable infrastructure with national and regional benefits, while managing interactions with surrounding land uses and negative impacts on the natural environment.

8. We agree with the draft plan's recommendations for long-term asset management and investment plans for maintenance and renewals, and performance reporting and independent assurance against those plans, and we support legislative amendments to implement them for State highway assets.
9. We strongly support the need for improved transparency on decision-making on new projects. We agree that all business cases should be published and that standardised post-project information should be provided for all projects above an appropriate scale.
10. We support applying the assessment and assurance processes the draft plan proposes for new infrastructure proposals to any land transport projects that are seeking or receiving part or full Crown funding.

## Introduction

11. The NZ Automobile Association (AA) is pleased to submit on the draft National Infrastructure Plan (the draft Plan). Our submission has been informed by feedback from our volunteer District Councils around the country.
12. The AA has advocated for the transport interests of our Members throughout our more than 120-year history. Today we represent more than 1.1 million personal Members and provide support to a further one million vehicles owned by businesses.
13. The AA congratulates the Infrastructure Commission on developing this draft plan. We agree there is widespread agreement on the need to keep maintaining, renewing and building greater resilience into our existing infrastructure. We share the Commission's hope that the final plan will also lead to greater consensus, and ultimately better outcomes, in how we plan, prioritise, fund, deliver and maintain infrastructure. Along with other stakeholders, ideally, we'd like to see this agreement extend to some of the country's major new infrastructure investment decisions in the coming years and decades.
14. In line with our organisation's focus, this submission responds to the parts of the draft plan which relate to the land transport sector. Our feedback is provided under the four core headings that sit above the draft plan's recommendations.

## Establish affordable and sustainable funding

15. One of the main ways the draft plan proposes to achieve affordable and sustainable funding for infrastructure is by reforming the land transport sector so that user charges and rates fully-fund<sup>1</sup> all investment<sup>2</sup>.
16. Two reasons are advanced for this:
  - I. Transport is fundamentally network infrastructure, and as the benefits of network infrastructure primarily accrue to those who use it, it should therefore be funded by users<sup>3</sup>.
  - II. Increased use of taxpayer funding and financing for transport infrastructure is constraining the scope for government investment to address infrastructure needs in sectors where there is little or no opportunity for user pays funding.

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<sup>1</sup> The draft Plan also notes that transport charges and rates would be supplemented by development levies and value capture charges, where appropriate.

<sup>2</sup> This submission leaves comments on the viability of user charges to fund the national rail network to others, but we note that this has been tried in the past and the consensus is that fundamental network consolidation would be needed for this to be viable.

<sup>3</sup> (As well as local government rates and supplemented by other charges for direct beneficiaries such as development levies and potentially value capture charges).

17. The AA agrees with both points but also notes that there are two fundamental differences between land transport and other network infrastructure – how prices are set, and how investment priorities are set.
18. The draft plan recognises these differences because it states that decision-making about both factors needs to be addressed before full user-pays can be implemented. We think this requires careful consideration of five fundamental questions, which are set out in the paragraphs below.

### **Who should set prices?**

19. Most land transport prices and priorities are set on a uniform national<sup>4</sup> basis by the government. In an ideal user pays world, prices would be set independently based on demand and investment priorities. However, prices also need to be affordable for users. A land transport agency would be unlikely to have sufficient incentives to give appropriate weight to affordability. It is also unclear how well placed an independent regulator would be to set prices that strike the right balance between providing sufficient revenue for investment priorities and affordability for network users.
20. Conversely, recent experience demonstrates that price-setting by politicians can, perhaps understandably, be overly focused on addressing perceived affordability concerns at the expense of investment needs.

### **What role should time-of-use pricing play?**

21. The draft plan states that the Infrastructure Commission (the Commission) expects user-pays to include time-of-use charging to discourage excessive use on congested corridors. The AA is open to time-of-use charging because we recognise that there are no practical alternatives to managing congestion in our fastest-growing cities. However, we are mindful that it has only been used in dense inner-cities with comprehensive public transport networks.
22. There is a strong case for discouraging discretionary trips on congested corridors at peak times. However, a very significant proportion of peak period trips on these roads are to and from employment locations that are poorly served by public transport. Successfully implementing time-of-use charging on these corridors without creating an unacceptable barrier to access for many people, particularly low-income workers, will be challenging. We caution against assuming time-of-use charging should be the default answer to congestion on our major urban roads.

### **Who should set transport investment priorities?**

23. The draft plan notes that under a user-pays model pricing would guide investment and use. In practice, this would mean that after funding core network maintenance, renewals and resilience requirements, investment would largely be based on demand and robust cost-benefit analysis. This would be similar to the roles Transfund, and later Land Transport NZ, played in the land transport sector from 1996 until sector reform in 2008, albeit price setting remained with the government and time-of-use charging wasn't on the immediate horizon.
24. The AA agrees that the evidence suggests investment decisions during that period delivered much better value for money than is the case today. However, there were also two key drawbacks. First, most big projects tended to miss the cut due to the very limited capacity of the pay-go system to fund them and the long list of incremental improvements with higher benefit-cost ratios. And second, the government became frustrated with its inability to set investment priorities and get big projects over the line.

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<sup>4</sup> There are minor variations in current toll road prices.

25. This resulted in further sector reform, including enabling the government to set investment priorities and funding ranges for different activities through the Government Policy Statement on Land Transport (GPS). The GPS, combined with increasing levels of taxpayer funding that has often been tagged to specific projects, has progressively weakened the link between the revenue collected from road users and how it is spent.
26. The AA agrees there are fundamental problems with the current arrangements and we support the draft plan's intention to achieve better alignment between land transport funding priorities and pricing. In our view, this means allocating revenue efficiently and effectively to cover costs caused by and deliver benefits to users and setting prices at a level which optimises use.
27. However, we question whether a full user-pays regime, which should involve independent priority and price-setting is politically feasible, particularly given previous sector reform. There is much more public interest in transport investment and much greater sensitivity about transport costs and charges than is the case with other, less visible, network infrastructure. Changes in decision-making arrangements are unlikely to shift the public's views about where ultimate accountability for these issues lies.
28. Moreover, the draft Plan signals road user revenue is expected to increasingly be allocated to non-road user activities (see below). This reinforces the case for the government to continue to be involved in setting priorities, at least at a system level.
29. If full user pays funding is to be explored, we recommend work be undertaken to focus on identifying what arrangements would be needed to set priorities aligned with user needs and demands and prices at levels which would be affordable to users.

### **What should road users fund?**

30. The draft plan states that network infrastructure should be self-funding by charging people who use or directly benefit from it; that the network should cover its costs; and that it is appropriate to subsidise some parts of a network where there are broader benefits or equity considerations exist.
31. The AA agrees with these principles but notes that a network user charge should ideally reflect the costs and benefits of use and the costs of maintaining and improving a clearly defined network.
32. A significant proportion of road user funds are allocated to non-road user related activities and the draft plan is projecting a substantial increase in that proportion in the future. While road users receive benefits from some of this funding, much of it is focused on achieving objectives and outcomes in other sectors such as rail, housing or social welfare.
33. Public transport is the leading example of transport infrastructure that delivers a wide range of economic and social benefits but for the most part only limited benefits to road users<sup>5</sup>. For example, the draft plan highlights the benefits of upzoning around public transport infrastructure to allow more housing and commercial development.
34. As written, the draft plan implies road user charges will be the primary funding source<sup>6</sup> for public transport infrastructure. It also notes that meeting legislated net-zero carbon emissions pathways will mean a shift in travel demand from private vehicle travel to public transport and active modes and therefore a reduced demand for road capacity investment.

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<sup>5</sup> Primarily decongestion benefits at peak times.

<sup>6</sup> Noting that development and value capture levies are also expected to be funding sources for some projects.

35. We question whether it is consistent with user-pays principles for road user charges to fund the very significant levels of public transport infrastructure that will be needed to achieve the required shift. Moreover, if the projected reduction in private vehicle travel occurs, there is a risk that insufficient road user revenue will be available to fund public transport infrastructure, alongside essential road network maintenance, renewals and resilience work.
36. In our view, there also remains a strong case for considering government land transport investment, alongside other priorities for infrastructure investment. This is because:
- we're not convinced that a user-pays approach will be sufficient to address the scale of road reconstruction required in response to major natural events, particularly as we face more frequent and more extreme weather events
  - we question whether a user-pays approach is capable of funding large-scale transport infrastructure projects, which have high costs but undoubtedly deliver inter-generational benefits
  - we note the extensive literature on the wider economic benefits of transport investment, suggesting there is a role for funding from sources other than road users where these benefits are particularly material.
37. The AA recommends that, consistent with the core principles of user pays funding:
- I. proposed work to address decision-making about land transport pricing and investment priorities include identifying the activities that should be funded by road user revenue
  - II. the final plan identifies primary funding sources for major public transport infrastructure projects which are better aligned with the main benefits and beneficiaries.

### **Does the land transport sector need an external regulator?**

38. The draft plan emphasises that governance and oversight of the land transport sector needs to be addressed due to growing investment, the significant gap between investment intentions and likely available funding, and reduced reliance on cost benefit analysis. It notes that unlike two other network infrastructure sectors – electricity and fixed line telecommunications, land transport is not subject to external oversight or economic regulation.
39. The AA agrees that governance and oversight of land transport needs to be looked at. We recommend this be included within the scope of the work to address decision-making about investment priorities and pricing for the sector.

## **Clear the way for infrastructure**

### **Transparency and accountability**

40. The AA agrees with the draft plan's recommendation that all infrastructure providers should have clear and well understood transparency and accountability mechanisms that ensure consumer interests are protected. We assume for the land transport sector, this work would fall within the scope of the work the Commission is proposing to address the relationship between investment priorities and pricing, including sector governance and oversight, as well as the proposed asset planning, reporting and assurance requirements (see below).

## **A stable and sustainable infrastructure workforce**

41. The AA agrees with the draft plan's description of the current challenges with recruiting and retaining New Zealand's skilled infrastructure workforce. We support the recommendation that workforce development planning and policy should be informed by planned investment, asset management plans and the Commission's assessment of long-term needs.

## **Optimising land use planning and the resource management system for infrastructure**

42. We agree that the resource management reform work needs to ensure spatial planning both informs and is informed by infrastructure investment and asset management planning. We note that this is both about maximising the use of infrastructure and protecting infrastructure from incompatible land use. We support implementing this change in the transport sector by clarifying the relationship between spatial plans and infrastructure funding decisions made under the Local Government Act and Land Transport Management Act.
43. We also support the draft plan's recommendation that the resource management reforms need to better enable infrastructure with national and regional benefits, while managing interactions with surrounding land uses and negative impacts on the natural environment.

## **Start with maintenance**

44. The AA agrees with the draft plan's positions that maintenance and renewals are New Zealand's greatest infrastructure investment challenge, will account for most forecast funding, and will need to be prioritised over investment in new infrastructure.
45. We also agree that New Zealand's vulnerability to earthquakes, flooding and other extreme weather, means maintenance and renewals budgets will need to include significant ongoing funding to both build back and improve the resilience of our infrastructure, and that most of these problems will be made worse by climate change.
46. We agree with the draft plan's recommendations for long-term asset management and investment plans, and performance reporting and independent assurance against those plans. We support amendments to the Land Transport Management Act needed to give effect to these recommendations for State highways. We expect that implementing these recommendations should go some way towards addressing the difference between New Zealand and the comparator countries in the draft plan in terms of the amount we spend on our road network and its quality.

## **Right-size new investment**

47. The AA agrees with the draft Plan's recommendations for new infrastructure investment. We think two of the four recommendations under this heading should apply directly to the land transport sector and the remaining two should apply to any land transport investment proposals that cannot or should not be fully-funded from transport user charges.

## **Project transparency**

48. We strongly support the need for improved transparency on decision-making on new projects. The draft plan states that project information is not consistently released. This is certainly consistent with the AA's experience and we agree that all business cases should be published.

## Learning from projects

49. We also support requiring that standardised post-project information on actual costs, delivery dates and benefits should be provided to enable comparisons with what was expected when project are funded. We agree this would better enable planned projects to learn from previous projects, and this should ultimately increase productivity across the infrastructure sector. We recommend this requirement apply to all infrastructure projects above an appropriate scale, regardless of sector and statutory arrangements.

## Investment readiness assessment

50. We support the proposed requirements for all Crown-funded infrastructure proposals to pass through a transparent, independent readiness assessment before funding, and for improved end-to-end project assurance.
51. Our understanding is that, under the current statutory arrangements, these requirements could only apply to land transport infrastructure projects that are partly or fully-funded by the Crown outside the National Land Transport Fund (NLTF) and that the New Zealand Transport Agency is delivering as the government's agent. They cannot apply to any that are fully or part-funded or financed by Crown money which has been allocated to the NLTF.
52. We note that, whether provided directly or via the NLTF, government funding and financing of land transport infrastructure is inconsistent with the draft plan's key recommendation to return the sector to full user-pays funding. However, we have also highlighted that we think ongoing Crown funding will be needed for public transport infrastructure projects and will likely be justified for other projects. Regardless, we think it is inevitable that governments will continue to have transport investment priorities that either cannot or should not be funded from road user revenue.

## Risk management

53. We support applying the draft Plan's proposed assessment and assurance processes to any land transport infrastructure proposals seeking part or full Crown funding.

## Closing comment

54. The AA thanks the Infrastructure Commission for the opportunity to submit on New Zealand's draft first National Infrastructure Plan.
55. We would be pleased to meet with Commission staff to discuss any of the matters in this submission or any other aspects of the draft plan that the Commission may wish to discuss (please see Martin Glynn's contact details below).
56. We wish the Commission well in the coming months as it finalises the plan and supports political discussions to identify areas of enduring consensus for how New Zealand plans, prioritises, funds, delivers and maintains infrastructure.

Yours sincerely



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