

NZ Council for Infrastructure Development

Submission on the

Land Transport amendment Bill 2007

20 December, 2007

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## 1. Introduction

- 1.1. The New Zealand Council for Infrastructure Development was formed in 2004 to promote world class infrastructure development for the benefit of all New Zealanders, a goal we are committed to achieving by:
  - Raising awareness of the fact that infrastructure underpins our community's quality of life and that inadequate infrastructure holds back New Zealand's economic, social and environmental development
  - Generating valuable debate on the quality and level of infrastructure provision to meet New Zealanders' needs
  - Encouraging the implementation of best practice infrastructure provision and management
- 1.2. Members comprise a diverse range of leading private and public organisations including infrastructure equity owners, financiers, constructors, service providers, public sector agencies, and major infrastructure users. <sup>1</sup>
- 1.3. The purpose of this submission is to highlight areas where NZCID considers the Land Transport Management Amendment Bill can be strengthened to ensure timely investment in the transport infrastructure that is necessary to meet New Zealand's social, environmental and economic goals.
- 1.4. This submission represents the views of NZCID as a collective whole, and may not necessarily represent the views of individual member organisations, some of whom will be making their own individual submissions.

## 2. NZCID supports key aspects of this Bill

- 2.2. The Council supports key aspects of this Bill namely:
  - The move to a longer term transport planning and funding system
  - Reserving all fuel excise duty for land transport purposes
  - The establishment of a regional fuel tax to enable regions to fund more projects
  - The shift from one year to three yearly planning cycles and the consequential reduction in planning churn
  - The introduction of integrated regional land transport programmes that take account available funding within the context of an overall 30 year regional strategy
  - The increased focus on affordability and value for money contained in the objectives of the NZ Transport Strategy

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<sup>1</sup> A detailed list of NZCID members is available at [www.nzcid.org.nz](http://www.nzcid.org.nz)

### 3. Areas of concern to NZCID

3.1. There are a number of critical areas where NZCID considers national land transport management needs to be substantially strengthened but which have not been addressed in the Bill. These include:

- The need for rationalisation and integration of the various planning documents that will now apply including the New Zealand Transport Strategy (NZTS) itself; the Updated NZTS; the Government Policy Statement; the Implementation Plan for the NZTS; the National State Highway Plan; the National Land Transport Programme; Regional Land Transport Strategies; and the Regional Land Transport Programmes.
- The Bill does not adequately address the current problems of inter-regional mode split decisions and strategic choices between roads and other modes, and it does not appear to have adequate conflict resolution processes or provide regional land transport committees with the necessary tools to evaluate and determine tradeoffs between these potential conflicts
- The non integration of Ontrack and the lack of specific reference to rail infrastructure development in national and regional planning
- The lack of representation for air and sea port owners and transport users in the transport planning and decision making processes
- The need for longer term funding and planning certainty beyond ten years for major capital projects of national significance to establish a pipeline of work for industry
- The need for a policy shift from “pay as you go” funding of transport infrastructure projects to appropriate use of debt finance for infrastructure development
- The need to give effect to the earlier provisions of the current LTMA to introduce concession agreements for the development of land transport infrastructure to allow the injection of private sector funding
- The need to improve transparency and redress the extreme complexity of funding allocations between Crown (“C”) funding, National (“N”) funding, Regional (“R”) funding and the Regional Fuel tax funding,
- Concern that the complexity of funding processes will now be further complicated by statutory limits on spending allocations of the RFT between roading and public transport
- The need to provide for a statutory requirement on regions to ensure that national state highway and national railway standards are maintained on a consistent basis across the country
- The need to ensure that there are sufficient financial and human resources within regional councils and ARTA to enable them to undertake substantive regional land transport planning and programming functions that will now be required of them

### 3.2. Matters of concern within the Bill itself include:

- The strategic planning gap between 3 yearly NLTP cycles and the 30 year NZ land Transport Strategy
- The lack of any requirement on the Minister to consult stakeholders and transport users over the content of the Government Policy Statement
- The statutory allocation of RFT between roading and public transport projects is inappropriate. Clauses 65G(4) and 65N (3) should be deleted from the Bill
- The risk that the merger of Land Transport New Zealand and Transit New Zealand may result in a loss of focus on existing core business for both organisations while the changes are bedded down.
- Membership composition of the RLTC and the lack of transport industry and user representation
- The requirement that consultation for introduction of an RFT must go through lengthy special consultative procedures of the Local Government Act; and that consultation could not commence until after the passing of the Act towards the middle of 2008
- The level of specificity in programming of projects between the Auckland RLTC and ARTA

The balance of this submission addresses each of these issues in detail

## 4. Need for a new approach to transport planning and implementation in New Zealand

### 4.1. The Next Steps Review identified a series of systemic shortcomings in land transport planning and implementation in New Zealand. These included:

- a 'strategic gap' between the vision and the broad objectives in the NZTS and their implementation through the NLTP.
- lack of clarity regarding the inter-relationship between the NZTS objectives and whether and how they may need to be weighted or traded-off against each other
- fragmented decision-making at the regional level and tensions between local and regional interests that are not always managed well through current processes resulting in a lack of effective prioritisation across regions.
- lack of balance between national and regional priorities exacerbated by a lack of top-down strategic direction resulting in planning decisions frequently being driven from the bottom-up.

- the need to both rationalise and streamline the planning process and redress the annual planning “churn”
- lack of robust evaluation including focus on value for money
- less integrated decision-making across modes and activity classes and blurred accountabilities for Land Transport NZ having resulted from recent Crown funding injections
- capability gaps, specifically in the Ministry of Transport
- serious lack of sector collaboration and integration underpinning many of the issues present in the sector.
- lack of role clarity, sector leadership, and common expectations about how the sector should engage that was seen to be perpetuating a fragmented sector culture.
- mistrust and 'competition' amongst the agencies.
- agencies that are individualistic and act independently.

4.2. The Bill addresses only some of these critical issues

4.3. Following introduction of the Bill there will continue to be a range of planning documents that apply to land transport management in New Zealand. These will include the NZTS itself; the Updated NZTS (UNZTS) now under development; the Implementation Plan for the NZTS (INZTS) also under development; the Government Policy Statement (GPS) yet to be developed; the recently published National State Highway Plan; the National Rail Strategy; the Coastal Shipping Strategy; the National Walking and Cycling Strategy; and the respective National Land Transport Programme, Regional Land Transport Strategies, and the Regional Land Transport Programmes.

4.4. In addition there are a number of national documents that have direct relevance for land transport planning such as the national Energy Strategy and the National Energy and Efficiency and Conservation strategy, together with the whole range of central and local government statutory requirements

4.5. As the Next Steps review highlighted, the NZTS itself is a rather vague strategic document which is supported by the series on non integrated strategic plans listed above and a series of regional land transport strategies developed largely in isolation from one another and which tend to be aspirational rather than deliverable

4.6. Both the UNZTS and the INZTS are currently being developed to redress current gaps in the NZTS

4.7. While the move to three year planning cycles proposed in the Bill reduces the level of churn associated with yearly planning cycles, the enactment of the Bill in its current format adds further to the range and extent of planning documents directly affecting land transport planning but **fails to integrate these various planning documents into one coherent national land transport plan and programme.**

- 4.8. Three year and six year planning cycles are an improvement on ten year plans that are revised annually, however there remains a significant gap between the short term 3 yearly NLTP and GPS processes described in the Bill and the 30 year NZTS “vision” document
- 4.9. **NZCID therefore considers further substantial reform of planning processes is required** and recommends the following national land transport planning structure:
- 4.9..1. As envisaged in the Bill, The NZ Transport Strategy would have a thirty year planning horizon.
- 4.9..2. Unlike the current NZTS, the revised strategy would contain an integrated implementation plan and programme as to how the goals and objectives of the strategy are to be delivered to meet national economic, sustainability, and safety goals.
- 4.9..3. The strategy would set out the national transport quality and capacity standards that the Crown considers will be necessary to meet the nation’s mobility requirements (including estimates of the impact of enhanced travel demand management and transfer to mixed mode transport).
- 4.9..4. The Strategy would be an integrated multimodal transport strategy.
- 4.9..5. It would be operationalised by incorporation of the following component strategies, as subsections of the overall Strategy, each with a consistent thirty year time horizon:
- The national freight strategy – land, sea and air
  - The national state highway strategy
  - The national rail network strategy
  - The national coastal freight strategy
  - The national public transport strategy
  - The national walking and cycling strategy
  - The national safety strategy
- 4.9..1. The development of national strategies would be coordinated by the Ministry of Transport and the detailed work undertaken by the NZ Transport Agency and Ontrack (so long as it remains a separate entity), and with input from regional councils, industry and community stakeholders through normal consultation processes
- 4.9..2. The strategy sub sections of the NZTS would set the national direction for each major transport mode and their interrelationships and include national transport mode share goals and targets and standards of compliance
- 4.9..3. The strategies would include prioritisation of nationally significant transport connections – sea and air ports, state highways, regional arterial roads, rail corridors – and provide a listing of major capital works programmes in detail for the first 12

years of the plan, in less detail for the second 12 year period, and in broad outline for the remaining six years of the plan.<sup>2</sup>

- 4.9..4. The NZTS would provide projections of anticipated levels of funding into the National Land Transport Fund, including appropriate use of debt finance to bridge funding gaps for major capital works and would include indicative allocation forecasts to activity classes for maintenance, public transport services, transport safety and support for alternative transport modes
- 4.9..5. This information would be broken down by region into capital works, maintenance and renewals and public transport service payments
- 4.9..6. The first 12 year planning cycle would be supported by four National Transport Programmes undertaken every three years.<sup>3</sup>
- 4.9..7. Within the national context, each Regional Land Transport Committee (or ARTA in Auckland's case) would be required to develop a Regional Land Transport Plan to give effect to national strategies at regional level and to ensure appropriate integration of land use and transport planning across the region
- 4.9..8. There would be a requirement on regions to ensure that the RLTSs deliver compliance with all national standards in the provision of a national rail and state highway network
- 4.9..9. As with the NZTS, Regional Transport Plans would include prioritisation of major transport connections and associated capital works – sea and air ports, state highways, regional arterial roads, rail corridors – in detail for the first 12 years of the plan, in less detail for the second 12 year period, and in broad outline for the last six years of the plan.
- 4.9..10. The regional transport plans would be required to be supported by a viable funding plan that balances transport infrastructure development and service provision with available funding
- 4.9..11. They would also be required to demonstrate consistency with the NZTS and would be audited for compliance
- 4.9..12. Appropriate use of debt funding of major capital works would be encouraged subject to normal fiscal due diligence
- 4.9..13. It would be the responsibility of the Ministry of Transport to oversee the integration of the regional plans with the NZTS with the NZ Transport Agency providing the appropriate technical support to ensure this can be achieved.
- 4.9..14. The responsibility of the NZ Transport Agency will be to oversee the implementation of the plan, allocate funds, let and manage contracts for state highway contracts, and monitor and report on achievement of both regional and national strategies

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<sup>2</sup> 12 year planning cycles have been adopted to enable compatibility with the three year election cycle and land transport programming cycles proposed in the Bill, however 5 and 10 year cycles could be valid as an alternative

<sup>3</sup> In reality, development of the NZTS and its component parts would involve setting a thirty year vision for the transport network envisaged (to meet national economic, environmental social and cultural goals) and working back to the detail from there.

- 4.9..15. Ontrack would ultimately be merged into the NZTA but would undertake these functions for rail infrastructure management until this could be achieved
- 4.9..16. The NZTS and RLTPs would be revised on a six yearly cycle, with provision for updates at three yearly intervals as currently envisaged in the Bill.

4.10. It is recommended that, if adopted, this planning cycle could commence from July 2010

4.11. Given that processes are already in train to develop an UNZTS and an INZTS and most of the other planning documents already exist, it should be possible to coordinate these plans into one national document by this date

4.12. In the meantime, the existing NLTP programme would be maintained thereby maintaining certainty of the existing programme to 2010

4.13. NZCID contends that adoption of such planning structures would have the following key benefits:

- A sufficiently long planning horizon of up to 30 years as is appropriate for long term investment decision making but linked to a forward looking 12+12+6 year development programme supported at the detailed level by rolling three year national and regional land transport programmes
- Integration of the component parts of the national transport system into one coherent national plan, supported by detailed implementation programmes at both the national and regional level
- Alignment between national and regional planning and implementation processes for all modes of transport including integration of ports and freight logistic industries as part of the overall transport mix
- Appropriate top down bottom up feedback loops
- Direct linkage between long term aspirations, plans and available funding
- Clear responsibility and accountability for oversight and implementation.
- Providing certainty to the private sector of a national pipeline of work that is both planned and funded thereby encouraging necessary investment in productive capacity

## 5. Modal choices

5.1. In its current form the Bill does not sufficiently address the problems of inter-regional mode split decisions and strategic choices between roads and other modes, and it does not appear to have adequate conflict resolution procedures to overcome these potential problems.

5.2. Currently, strategic decisions about allocation of funding to alternative modes are made on an ad hoc basis

5.3. For example, investment in port infrastructure is made in the absence of a national freight strategy; rail mode share splits for freight and public transport are made independently of

one another; as are national state highway and rail network planning and local regional planning for local roads and public transport initiatives.

- 5.4. While processes for collaboration do exist, various state agencies and regional and local authorities make separate applications for funding via the NLTF according to different financial assistance ratios, and via alternative N, C, or R funds. In the case of both OnTrack, and more latterly Transit NZ, applications are made separately for Crown funding support and guarantees
- 5.5. Land Transport New Zealand applies a complex matrix of priorities for funding based on the broad objectives of the NZTS
- 5.6. The objectives of the Act are sufficiently broad that almost any project can be justified and the evaluation and project prioritisation process has many subjective component parts
- 5.7. Such ad hoc funding processes make optimisation of the allocation of limited funding extremely difficult and there is insufficient provision for difficult tradeoffs to be made between alternative mode share investment decisions
- 5.8. The Bill goes some way to addressing this by requiring RLTCs to develop integrated regional strategies including state highway prioritisation within the context of an overall 30 year soon to be updated NZTS and Government Policy Statement
- 5.9. However, it is not clear how potential differences between the short term planning timelines of the GPS and the three year NLTPs and RLTPs and the long term NZTS timelines are to be reconciled
- 5.10. A key issue will be how to integrate State Highways, local roads and public transport into a single programme, and how to prioritise the programme.
- 5.11. It is unclear from the Bill how differences between regional and national priorities will be reconciled, especially for State Highway expenditure.
- 5.12. Moreover, while the inclusion of the State Highway programme is a positive step, the full integration of transport programmes will not be achieved unless Ontrack's programme and national freight and logistics planning are also included
- 5.13. Similarly, the Bill makes specific mention of coastal shipping but there no contemplation of the future development and / or possible rationalisation of Ports and how this might impact overall freight demand across the country
- 5.14. These are among the reasons why NZCID considers more substantive reform of and transport management planning is required
- 5.15. Substantive reform and rationalisation of transport planning structures as set out in the preceding section would go a long way to redress the short comings in the Bill and produce a coherent national land transport strategy and plan that is integrated at both the national and regional levels

## 6. Integration of rail and freight logistics industries

- 6.1. The Bill purports to provide for the integration of land transport planning and management in New Zealand
- 6.2. Given the strong focus on integration that is a feature of the Bill, the continued separation of rail and organisational separation of OnTrack from the NZ Transport Agency structure is unusual.
- 6.3. The rail sector sits largely outside the LTMA framework with only urban rail passenger transport and some infrastructure expenditure for passenger transport being planned and funded under the LTMA framework. The majority of rail infrastructure is funded directly by the Crown.
- 6.4. While acknowledging rail has its own set of statutes, it is but one of a number of transport modes within the mix of alternative options for moving people and goods
- 6.5. NZCID is concerned that continued organisational separation of rail will continue institutional barriers to a holistic approach to land transport planning
- 6.6. The Next Steps review noted that ultimately rail policy and funding needed to be more integrated with the rest of the land transport system than it is currently.
- 6.7. The Ministry of Transport has historically been responsible for rail policy and funding, but the waters have been muddied recently with the Treasury's involvement on funding. This has caused confusion over relative roles and responsibilities.
- 6.8. While the Bill provides for the merger of Land Transport New Zealand and Transit New Zealand, it makes no such provision for OnTrack to be merged in a similar fashion
- 6.9. As noted above, the full integration of transport programmes will not be achieved unless Ontrack's programme is also included
- 6.10. Moreover the Bill is silent on the integration of the movement of freight, the critical role of the air and sea ports, and the strategic importance of connections to and from the ports to the overall transport mix
- 6.11. Representation on the Regional land Transport Committees has modest provision for representation of transport users who are themselves significant "fundlers" through fuel tax excise and road user charges and there is no representation by OnTrack, freight representatives or the air and sea ports provided in the Bill
- 6.12. These seem to be glaring omissions from a Bill which purports to achieving integrated transport planning and management regime

## 7. Optimisation of transport funding allocations

- 7.1. NZCID holds the view that **allocation of national transport funding should be in accordance with good transport planning principles and aimed at achieving optimum value for money in the delivery of the national transport strategy,**
- 7.2. NZCID is concerned at the complex nature of current funding allocation processes between Crown ("C") funding, National ("N") funding, Regional ("R") funding as it has evolved
- 7.3. Not only have these new funding categories added to the complexity of the process they have reduced transparency of allocation from a user perspective
- 7.4. Such complexities have resulted from ad hoc funding arrangements put in place by the Crown on a piecemeal basis in recent times to meet funding shortages across the regions and to help fund nationally significant projects
- 7.5. While these funding injections have been welcomed by industry bodies including NZCID, the additional funding has not been made in the context of a well thought out long term planning framework and have resulted in considerable increase in administrative complexity
- 7.6. The Bill proposes to add further to this high level of complexity by placing different statutory limits on the application and use of the proposed RFT between roading and public transport
- 7.7. **NZCID strongly opposes allocation of funds being dictated by statute**
- 7.8. Rather, the determination of the application of RFT should be made in accordance with the transport needs of the nation and the relevant region
- 7.9. **NZCID therefore submits that clauses 65G(4) and 65N (3) in relation to statutory limits on the allocation of the RFT be deleted from the Bill**

## 8. Need for longer term planning and funding certainty

- 8.1. Private sector infrastructure providers seek certainty of direction and commitment to long term funding to support national and regional transport plans
- 8.2. This is central to providing an environment of confidence for the private sector to invest in capacity to ensure the transport infrastructure development programme can be delivered
- 8.3. While the Bill reaffirms the overall commitment to funding on a three plus three = six yearly basis, the process is substantially different from the funding guarantees that had been recently established for Transit NZ and OnTrack
- 8.4. Notwithstanding the provision for indicative funding allocations between years six and ten which the Bill provides for, as noted previously there is a gap between the comparatively

short term planning horizons of the GPS and NLTP process and the long term 30 year strategy aspirations

8.5. Moreover, it is clear that the funding allocations could potentially be altered substantially every three years – not too dissimilar to the frequent changes that occurred on a yearly basis in the former Transit NZ / Transfund planning processes

8.6. Section of the 88(1) Bill states:

**Content of GPS**

The GPS must include the following:

- (a) the **short- to medium-term** impacts and objectives that the Crown wishes to achieve through the allocation of funding from the national land transport fund;
- (b) **the activity classes to be funded from the national land transport fund:**  
(emphasis added)

8.7. Section 90(1) permits the Minister to **“amend the GPS at any time”** without any requirement to consult

8.8. Under the GPS process of allocation of funding, there is substantial risk of shifting sands in funding allocations between asset classes meaning funding certainty for key strategic projects can be undermined at political whim - a pro-roading Minister might increase the allocation to the roading asset class to give favour to a pet project on the priority list, for example. Similarly public transport allocations might be increased in an equivalent fashion

8.9. NZCID is concerned at the possibility that substantial changes in transport policy could be effected in either three yearly or six yearly cycles depending on political circumstances, rather than optimum long term planning processes, thereby undermining the very thing that the Bill seeks to address - long term integrated planning and funding for the land transport in NZ

8.10. For this reason NZCID commends a substantive change to the planning processes as set out in the Bill in favour of the process described in detail in section 4 of this submission which are specifically aimed at providing long term certainty of direction for land transport planning in New Zealand and commitment to a consistent implementation programme over time

## 9. Long term secure funding processes

9.1. NZCID fully endorses the full hypothecation of fuel excise duty to the transport sector which the Bill provides

9.2. The Council also supports the introduction of a Regional Fuel Tax to assist in funding regional projects

9.3. However it is clear that traditional “pay as you go” financing of infrastructure will not be sufficient by itself to fund the substantial transport infrastructure deficit the country faces

- 9.4. By way of example, the funding gap for rail infrastructure, passenger transport, local roading and state highways in the Auckland region alone approximates \$3.5 billion over the next decade
- 9.5. This is roughly three times greater than the revenue that will be raised directly from a ten cent per litre increase in fuel tax.
- 9.6. Such needs include potential electrification of the rail network, known rolling stock upgrades, expansion of bus, walking and cycling facilities, completion of the strategic state highway connections and important regional arterial connections
- 9.7. Using a combination of regional fuel tax and tolls to service long term debt, most, if not all, of these projects could be funded, thereby redressing the chronic congestion on the network and providing a much needed productivity boost for the nation.

## 10. Commitment to debt funding

- 10.1. NZCID considers the additional revenue obtained from hypothecation and regional fuel taxes should be used to service long term debt financing of capital works to redress the transport infrastructure backlog that exists in New Zealand
- 10.2. In the not too distant future toll revenues and / or the introduction of direct road user charging will be required to replace diminishing revenues from fuel excise resulting from fuel economy measures and moves to alternative energy sources
- 10.3. The prospect of reducing fuel tax revenues highlights the need for long term planning horizons for funding of land transport across the country and adoption of new land transport funding measures and methods
- 10.4. NZCID is concerned that current arrangements for toll funding of roads in New Zealand has had limited application to date and the capacity for private sector toll concessions as provided for in the LTMA has yet to be promoted by Government
- 10.5. The Council considers that increased commitment to debt financing, tolls on new and/or existing roads and forms of private sector involvement can and should be used to help fund land transport investment and avoid continual deferral of projects as has become the norm in New Zealand over the last three decades
- 10.6. The social environmental and economic opportunity costs of continued deferral of strategic investment are not sustainable and vastly exceed any interest costs involved with debt financing
- 10.7. Greater use of toll funding for strategic corridors either through direct or shadow tolling mechanisms<sup>4</sup> should be used to help bridge the funding gap and achieve the quality standards required to meet social and environmental objectives.

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<sup>4</sup> Shadow tolling involves the use of fuel excise or other crown funding as the source of payment to the road provider in lieu of a direct toll on the road user.

- 10.8. Alpur B2 provides an example of how toll funding has enabled a project with high standards of environmental mitigation that would not otherwise have been able to be funded.
- 10.9. Potential candidates for such tolling initiatives in addition to the existing Alpur B2 project include:
- Penlink – Whangaparaoa Peninsula (direct toll)
  - SH20 Waterview extension(direct toll)
  - Eastern Corridor – Auckland (direct toll)
  - Northern and eastern components of the of the Tauranga Strategic Roding Network (direct or shadow toll, where appropriate)
  - Hamilton by-pass and other urban by-pass projects (direct toll)
  - Transmission Gully (direct toll)
  - Manawatu / Hawkes Bay toll link (probably via shadow tolling)
  - Christchurch North and South Motorway Extensions (direct or shadow tolling)
  - Four laning state highway corridors with more than 15,000 vehicles per day (using a combination of direct and shadow tolling).

## 11. Opportunity for procurement savings through application of Public Private Partnerships

- 11.1. In addition to public debt financing of projects, overseas experience has shown the benefit of private sector involvement not only in terms of providing the opportunity for additional private funding, but also in terms of delivering cost effective procurement and operation of large scale public assets.
- 11.2. In addition to the transfer of risk from the public sector to the private sector, the key benefit of the PPP approach is the productivity incentives that private equity investment provides.
- 11.3. This encourages innovation, strong customer service orientation, maximization of third party revenues, high quality standards and commitment to the whole of life of a project.
- 11.4. International experience has demonstrated that PPP projects have consistently provided value for money against public sector comparative models, despite higher private sector borrowing costs. Projects are typically built in a much shorter time frame and are regularly completed ahead of time.
- 11.5. Under the public model, underestimation of project costs and/or the overestimation of traffic volumes and toll revenues can cause significant loss of public funds.<sup>5</sup>

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<sup>5</sup> The risk associated with viability of traffic volumes has been clearly demonstrated in New Zealand with the Tauranga Route K project which has failed to attract anywhere near the number of vehicles projected when the council sought special tolling

On the other hand, private sector involvement can reduce the risk associated with road projects by subjecting toll road proposals to true market assessment. In the event the private sector overestimates traffic demand, the private sector must accept the cost of assuming that risk.

- 11.6. Australian states have used the PPP model to significantly advance major highway projects as listed in the following table.

Major Urban Tolls Roads in Australia Built in Much Shorter Time Frames

Project	Length km	A\$m Value	Start	Finish
Sydney M4	12.5	246	1988	1992
Sydney M5	21.0	380	1988	1992
Sydney Harbour Tunnel	3.0	685	1988	1992
Sydney M2	20.0	644	1994	1997
Sydney Eastern Distributor	6.0	700	1997	1999
Sydney Cross City Tunnel	2.1	680	2000	2005
Sydney Westlink M7	40.0	1,500	2002	2006
Sydney Lane Cove Tunnel	3.6	1,100	2002	2007
Melbourne City Link	22.0	1,780	1996	2000
Melbourne Connect East	40.0	2,500	2005	2008
Total	170.2	\$A10,215		

legislation to build it. The road lost nearly \$5.2 million in its first year of operation to June 2004 – a cost now being borne by Tauranga City rate payers.

It is difficult to see how the Tauranga Route would have proceeded as a private toll project had the proposition been tested in the market, or, if it had, the risk would have been much more clearly exposed at the time.

Similarly, the Cross City Tunnel project in Sydney has been subject to substantial controversy and has led to some adverse concern about the introduction of PPPs in the NZ context.

Despite traffic volumes being substantially lower than projected, and which have caused the company to go into receivership, the project was opened eight months early, and, unlike the Route K situation in Tauranga, the cost of the reduced revenues has fallen on the private sector equity owners, a cost that might well have otherwise fallen fully on the State Government.

This clearly shows the value of risk transfer. While the State government may have been able to borrow at a lower rate than the private sector to fund the project, it would have taken a heavy financial burden by assuming the project risk.

2002 research by the UK Treasury showed that 76 percent of PPP projects were delivered on time or rarely with no cost overruns borne by the public sector.

- 11.7. It is interesting to note that the total length of these corridor developments constructed in the 20 year span between 1988 and 2008 is roughly equivalent to the entire length of the NZ State Highway network.
- 11.8. Also of particular note are the very short construction time frames that are being achieved. These construction timelines are dramatically shorter than equivalent sized projects in New Zealand
- 11.9. NZCID considers **public policy has to date inhibited use of private sector funding opportunities provided for in the LTMA since its enactment in 2003** and would encourage the newly formed NZ Transport Agency to proactively explore opportunities to bring PPP projects to the market at the earliest opportunity
- 11.10. NZCID fully endorses proposals to apply a proportion of the Auckland regional fuel tax to optimise the use of limited public sector funding and provide seed funding to advance PPP proposals for the Penlink and Waterview projects

## 12. Funding support for Penlink and Waterview Projects

- 12.1. The finance industry in New Zealand and Australia, including a number of NZCID member organisations, are particularly interested in the progress of the Penlink and Waterview projects.
- 12.2. Each of these projects provide a timely opportunity to both develop and demonstrate the potential of the PPP model in the New Zealand market and send a positive signal of the government's commitment to engage with the private sector.
- 12.3. There can be several finance structures envisaged that would enable either project to proceed. While toll revenue will not be sufficient in itself to fully fund each of these projects, a combination of fuel tax revenue and direct tolling is a viable option, as would seed funding by way of a lump capital grant supplemented by toll funding of the remaining private sector debt / equity component. (The latter format is the model successfully applied in Ireland in a number of projects with comparable traffic volumes).
- 12.4. As an alternative to lump sum seed funding, the projects could be fully funded as PPPs with the loan repaid through a combination of tolls and service and availability payments funded through fuel tax revenue.
- 12.5. NZCID believes that continued delay will simply further add to the costs which may undermine the future viability of these projects.
- 12.6. Failure to advance either of these projects as a PPP would certainly send the wrong signals to the market about the Government's commitment to looking at innovative funding solutions for infrastructure projects.

- 12.7. Having already had a false start with the discontinuation of the Penlink Empowering Bill and delays associated with the Major Projects review in 2003 and subsequent review under the LTMA processes our view is that the time for the Penlink project to proceed has come.
- 12.8. Penlink has an unprecedented 80 - 90% public support. Such level of support should not be undervalued. The project complies with all LTMA requirements and is ready to start with consents in place.
- 12.9. Our view is that it is a prime example of how the Crown can leverage private sector interest in a project to make the public sector dollar go further.
- 12.10. For these reasons, NZCID members request favourable consideration is given to granting the Order in Council and providing the additional funding injection necessary to enable this project to proceed.
- 12.11. Similarly, time is steadily running out to deliver completion of the Western Ring Route in Auckland by 2015 which is the governments clearly stated objective
- 12.12. Opening up the Waterview project to private sector financing will help bridge the funding deficit inhibiting completion of this key strategic link.

### 13. Organisational Resourcing

- 13.1. NZCID endorses the proposed merger of Land Transport New Zealand and Transit New Zealand
- 13.2. We note that there is a risk that the merger may result in a loss of focus on existing core business for both organisations while the changes are bedded down.
- 13.3. We stress the importance of ensuring sufficient resources and organisational support to the respective agencies is provided during the merger process to ensure that business can be conducted as normal
- 13.4. Similarly it is critical that there are sufficient financial and human resources within regional councils and ARTA to enable them to undertake substantive regional land transport planning and programming functions that will now be required of them

### 14. Regional Land Transport Committee Representation

- 14.1. As noted in previous sections, the composition of the Regional Land Transport Committees as proposed under the Bill lacks the necessary involvement of major transport user and representative organisations including the logistics and freight industry, public and private transport users

- 14.2. Rather, the RLTC membership is dominated by regional and local authority council representatives and those representing non transport sectors including health, environment economic and cultural interests.
- 14.3. This would be appropriate if there were adequate representation for transport industry groups including the ports (sea and air), heavy transport users, the rail industry, private road users and public transport users.
- 14.4. But the reality is that transport user representation on RLTCs has diminished significantly in recent years.
- 14.5. The only opportunity for such representation to occur under current legislation is the result of liberal approach taken by some regional councils to appointing representatives of the five objectives under the Act
- 14.6. With the exception of Auckland, the Bill proposes to restrict this capability significantly
- 14.7. Transport users will only be able to be represented on an RLTC if they are able to be appointed to one of the five positions on the RLTC representing the objectives of the Act, and, even then, they will not have voting rights
- 14.8. The dilution of transport user representation and input to transport planning resulting from this change and the consequential lack of opportunity for input and decision making powers for the users of the transport network is of serious concern
- 14.9. Almost certainly, RLTCs will lack the knowledge, skills and experience necessary to undertake the significant land transport planning and implementation functions that will be required of them
- 14.10. NZCID submits that the composition of the RLTC should require the inclusion of high calibre transport user representative persons in order to bring commercial transport knowledge skills and experience to bear on the deliberations of the committee
- 14.11. These user representatives could include a representative of the freight industry, and one representative from public transport users and one representative from private transport users
- 14.12. As “funders” of the transport network, these representatives should have full voting rights

## 15. Auckland provisions

- 15.1. NZCID is aware of a number of concerns have been raised by the Auckland Regional Council and the Auckland RLTC in respect of the provisions under the Bill
- 15.2. NZCID agrees that given that agreements have already been reached between the ARC and Ministers over the application of the RFT in Auckland it would be inappropriate to now require consultation under the special consultative procedures of the Local Government Act; as the Bill currently requires

- 15.3. Such consultation could not commence until after the passing of the Act towards the middle of 2008 meaning that this would add significant delay to the electrification of the Auckland rail network.
- 15.4. Electrification has already had wide consultation within the region and has general support
- 15.5. NZCID agrees with the ARC that it would be inappropriate to have to re-litigate this issue once again in the Auckland context
- 15.6. On the other hand, NZCID does not support the submission of the Auckland Regional Land Transport Committee that the Auckland RLTC should be able to “undertake significant project prioritisation roles similar to other regional land transport committees in New Zealand, complementing the current project prioritisation of the Auckland Regional Transport Authority”<sup>6</sup>
- 15.7. This is clearly the role of ARTA in the Auckland context and it would be inappropriate to have clouded responsibilities in this regard
- 15.8. The Bill amends the previous restriction that prevented the Auckland RLTS to include reference to specific activities by allowing reference to activities where they have “high regional significance”

NZCID endorses this approach which provides appropriate demarcation between the responsibilities of the RLTC and ARTA

## 16. Conclusion

- 16.1. NZCID endorses those key aspects of the Bill that enhance long term integrated planning and funding of land transport in New Zealand including full hypothecation of fuel tax and introduction of a regional fuel tax to provide better long term security of funding for land transport infrastructure and services
- 16.2. The move to longer term integrated planning is also fully supported
- 16.3. However, NZCID does not consider the Bill sufficiently addresses the systemic shortcomings within transport planning and management that were highlighted by the Next Steps Review
- 16.4. While substantive improvements will result from the introduction of longer planning horizons, there is a strategic gap between the short to medium planning horizon of the NLTP and GPS processes and the 30 year horizon of the NLTS
- 16.5. The Bill fails to meet the need for better integration of rail, ports and freight transport logistics into transport planning in New Zealand
- 16.6. Accordingly this submission recommends an alternative approach that ensures full integration of all modes and all transport planning into a series of national modal strategies which are then broken down in turn into national and regional programmes for action

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<sup>6</sup> Extract from the Auckland RLTC Minutes 12 December, 2007

- 16.7. To give effect to this planning regime, the move to provide greater long term certainty of funding which is a fundamental precept of the Bill should be supported by prudent combination of public and private debt
- 16.8. Opportunities for improved value for money procurement and injection of private sector finance through the application of the PPP model should be actively pursued with the Penlink and Waterview projects offering the greatest immediate potential
- 16.9. Allocation of regional fuel taxes should be optimised according to transport needs and priorities of a region, not to a predetermined formula decided by statute
- 16.10. Action needs to be taken to ensure relevant agencies at national and regional levels have the necessary resources to undertake the functions that are required of them by the enactment of the Bill
- 16.11. Representation and voting rights on regional land transport committees for transport users needs to be provided
- 16.12. It would be inappropriate to re-litigate decisions that have already been taken in respect of allocation of the 5 cents per litre RFT for electrification of the rail network in Auckland by yet another round of consultation
- 16.13. NZCID confirms its desire to speak to the Select Committee in support of this written submission