



Submission of the Campaign for Better Transport on the engagement document

18/05/2011

1. Introduction:

The Campaign for Better Transport (CBT) is a non-politically aligned organisation that advocates for sustainable transport policies and projects throughout Auckland and New Zealand.

This submission is on the Government Policy Statement on Land Transport Funding 2012/2013-2012/2022 engagement document. This submission is broken into the following sub-sections:

- Background – current transport situation and trends
- Future transport challenges
- Comment on the Roads of National Significance
- Comment on local roads funding
- Comment on public transport funding
- Comment on the funding bands generally
- Future expenditure targets
- Suggestions about structure and additional information
- Conclusion and recommendations

Generally, the CBT considers that the GPS needs to be significantly amended in order to achieve its stated goals of boosting economic growth and productivity. At the very least, the GPS needs to articulate more clearly how its investment will achieve the stated goals, while consideration of future risks facing the transport sector (particularly from rising fuel prices) should be outlined.

2. Background – current transport trends

Historically over the past 60 years traffic flows on roads in New Zealand have generally increased, while until recently public transport patronage on a per capita basis generally declined. However, over the past few years there appears to have been a significant change in this trend – most likely due to higher petrol prices and significant investment in public transport in some of the country's largest cities. This section of the submission looks at transport trends over the past few years and how they may impact upon transport policy.

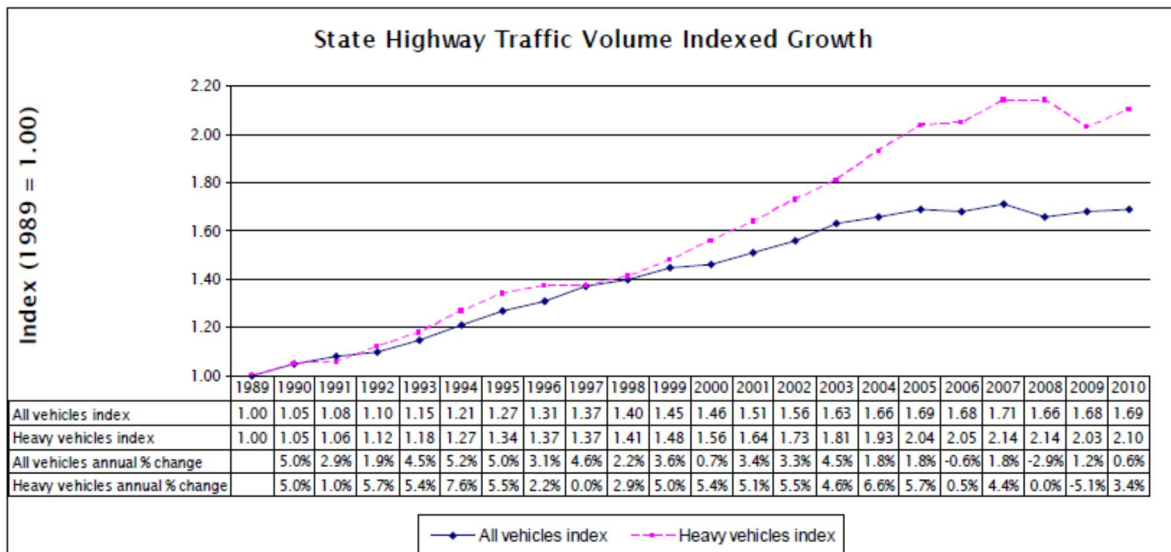
Traffic data from the NZ Transport Agency¹ shows traffic flows on the state highway network on a monthly basis, as well as providing longer term trends. The table below comes from the March 2011

¹ New Zealand Transport Agency: 'Counting the Traffic' <http://www.nzta.govt.nz/network/operating/counting-traffic/index.html>



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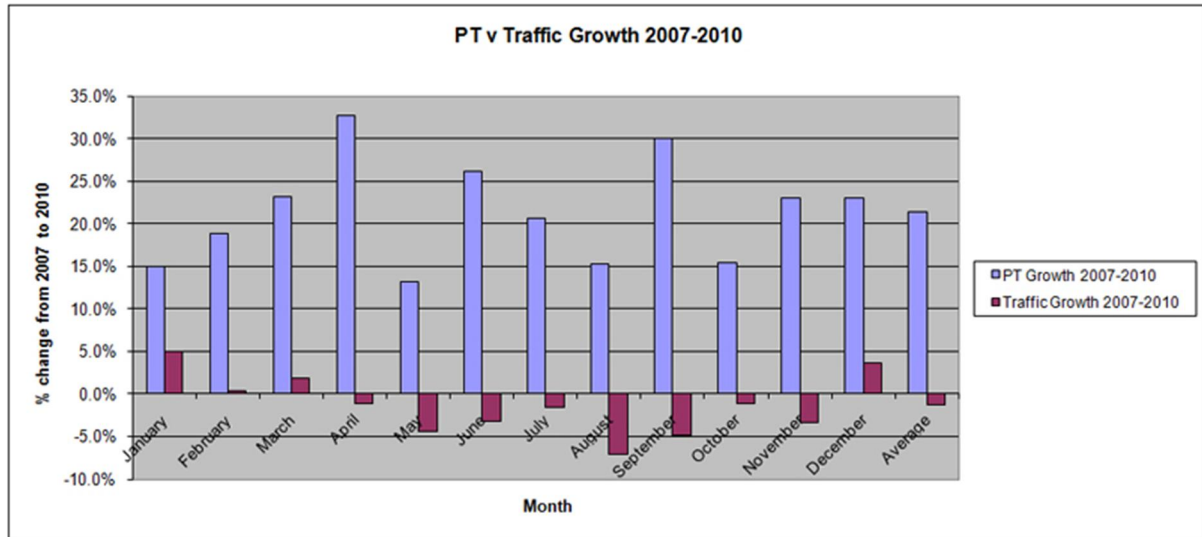
Traffic Volumes Monthly Report and outlines traffic flow trends on the state highway network between 1989 and 2010 – for both heavy vehicles and general traffic.



The graph above shows that up until around 2004/2005 there had been around 15 years of steady traffic growth on state highways throughout New Zealand. The rate of growth from around 1998 onwards had been particularly high for heavy vehicles. However, since 2004/2005 the growth rates for vehicles (both heavy and general traffic) have fallen away, with – for example – the all vehicles index in 2005 being the same as that in 2010 (both 1.69 times as much traffic as in 1989).

Petrol prices have risen significantly since 2004/2005 and would appear to be a significant factor influencing traffic volumes. It is noted that in 2008, when petrol prices first increased past \$2 a litre, there was a 2.9% decrease in state highway traffic volumes.

While traffic volumes on state highways in particular have ‘flattened’ over the past few years, there has at the same time been a significant increase in the number of public transport trips – particularly in Auckland. The graph below compares the level of increase for state highway traffic in Auckland and Northland with the level of public transport patronage growth in Auckland, for each month in 2007 against the same month in 2010.



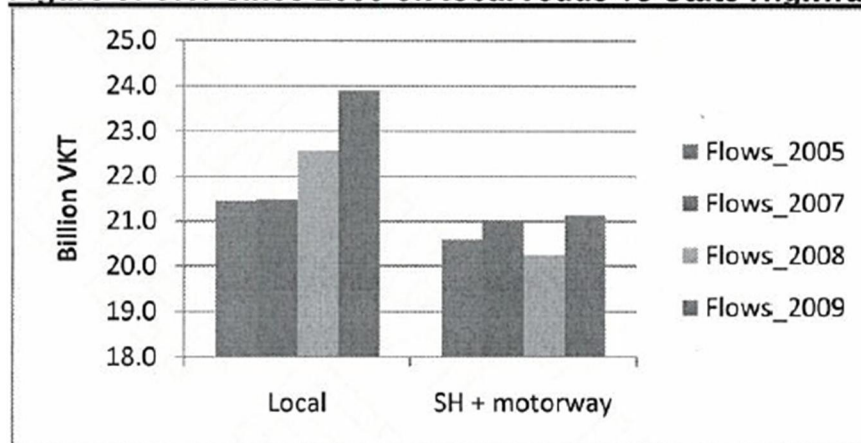
On average, a month in 2010 had around 22% more public transport patronage in 2010 than 2007; while on average a month in 2010 had around 1% lower state highway traffic volumes.

Even within the roading network, analysis by the Ministry of Transport² shows that most traffic growth has been on the local road network rather than on the state highway network:

Traffic volumes⁴

Since 2005, VKT on local roads increased by 11.7% whereas on State highways it only increased by 2.4% (Figure 6).

Figure 6: VKT since 2005 on local roads vs State Highways plus motorways



The CBT submits that the GPS should provide further analysis of recent transportation trends – in particular the lower level of traffic growth on state highways in recent years than had been the case historically, as well as the significant increase in public transport patronage in Auckland most particularly.

² Ministry of Transport, *GPS Local Roads Background Paper*, November 2010



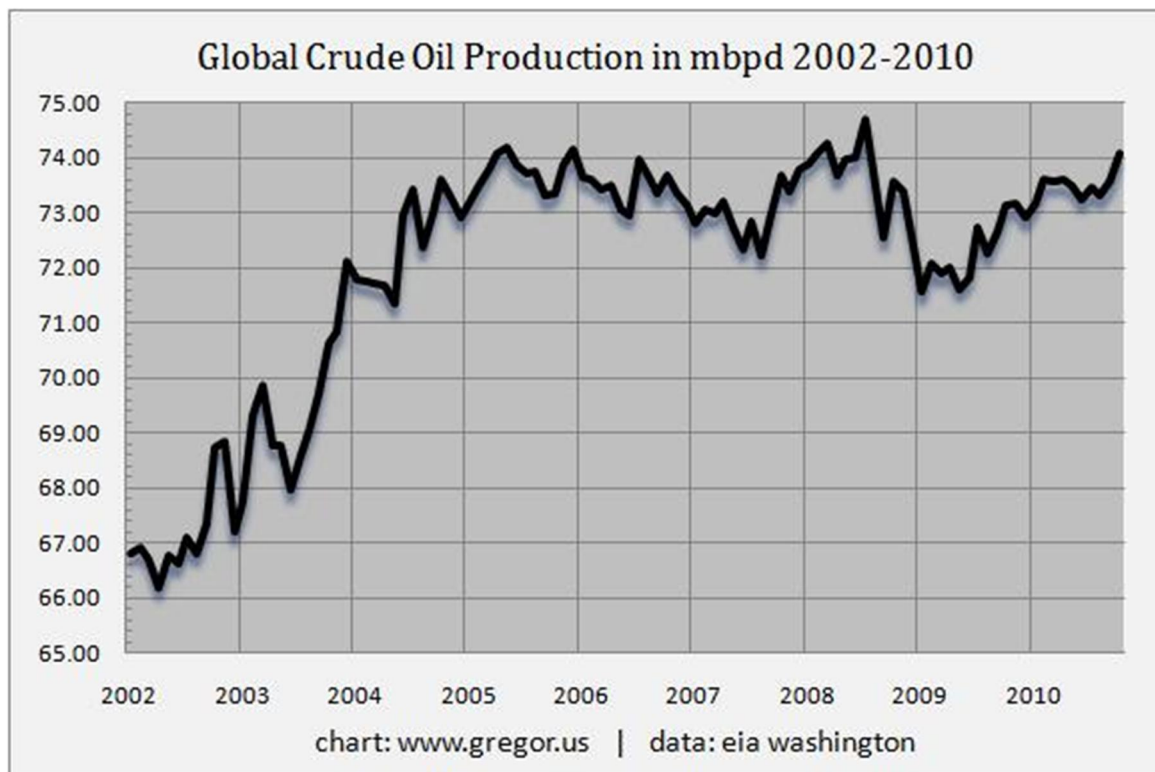
3. Future Transport Challenges

The Government Policy Statement provides strong direction for where transport funding is to be spent for the next 10 years. Therefore, logically the GPS should relate to future transport trends so that investment can be best targeted in ways to meet future demand and to enable economic growth and enhanced productivity.

As noted in the previous section, there has been a significant change to transport trends over the past few years – with the significant decline in the rate of growth of traffic volumes on state highways being the most obvious. If this trend is to continue, then there may not be the need to invest as much into enhancing state highways as previously thought – the important element being *if the trend continues*. It is very surprising that the GPS engagement document has not yet considered this issue, particularly as it proposes to spend an increasing proportion of the National Land Transport Fund on new state highways.

It would appear that one of the main reasons traffic volumes on state highways have “flattened” over the past few years is the rising cost of petrol. As noted above, in 2008 when petrol prices were higher than \$2 a litre for the first time, there was a 2.9% decrease in traffic volumes compared to the year before. Therefore, it seems likely that if petrol prices were to continue to rise in the future, traffic volumes on state highways are unlikely to significantly increase. Analysing public transport patronage – which rose considerably in 2008 and then again in 2010 compared to the previous year – suggests that higher petrol prices may lead to further significant increases in patronage.

Over the past few years, from 2004/2005 onwards, the production of oil has not increased beyond around 75 million barrels a day. This is shown in the graph below:





Analysts such as Chief Economist of the International Energy Agency Fatih Birol³ suggest that crude oil production may have already peaked, meaning that oil supplies appear unlikely to be able to meet growing demand in the future. An inevitable outcome of this is not oil shortages, but the potential for significantly higher oil prices.

If higher future fuel prices means that state highway traffic volumes continue their 'stagnation', then it seems likely that investing significantly in boosting state highway capacity will be poorly targeted and not extract maximum economic growth and improved productivity – as is hoped for by the overarching goals of the Government Policy Statement.

4. Roads of National Significance

Page 5 of the GPS engagement document notes the identification of four additional "Roads of National Significance" (RoNS). These new RoNS are:

- Hamilton to Tauranga
- Cambridge to Taupō
- Hawke's Bay Expressway further development
- State Highway 1 north and south of the current Christchurch motorway projects.

The stated justification for these RoNS is that they are of strategic national significance due to their high traffic volumes, their importance as freight routes and the need for safety improvements along the routes.

The CBT does not know whether business case analyses have yet been undertaken for these particular routes, but particularly for the Cambridge to Taupo route, it would appear as though the claim that it has high traffic volumes is somewhat incorrect. NZTA traffic data indicated that in 2009 around 6800 vehicles a day travelled along the portion of this route between Putaruru and Tokoroa, by way of comparison the single-lane Kopu Bridge carried 9800 vehicles a day that same year. Many arterial roads in Auckland carry up to 40,000 vehicles a day.

The CBT submits that full business case analyses, including rigorous peer review (for example, like is being done for the Auckland CBD Rail Link project), be undertaken of any additional RoNS projects before they are prioritised for funding. This is to ensure that they offer excellent 'value for money' – and contribute to boosting economic growth and productivity. A significant portion of the country's population growth is occurring in the Auckland region and it may be more appropriate to direct funding towards projects in the country's largest city.

We note section 57 of the amended GPS states that "The NZTA's evaluation processes will be adjusted to give projects with high benefit cost ratios (BCR) higher funding and programming priority and to give projects with low BCRs more scrutiny (high BCR is greater than four; low BCR is less than two)." We support this approach.

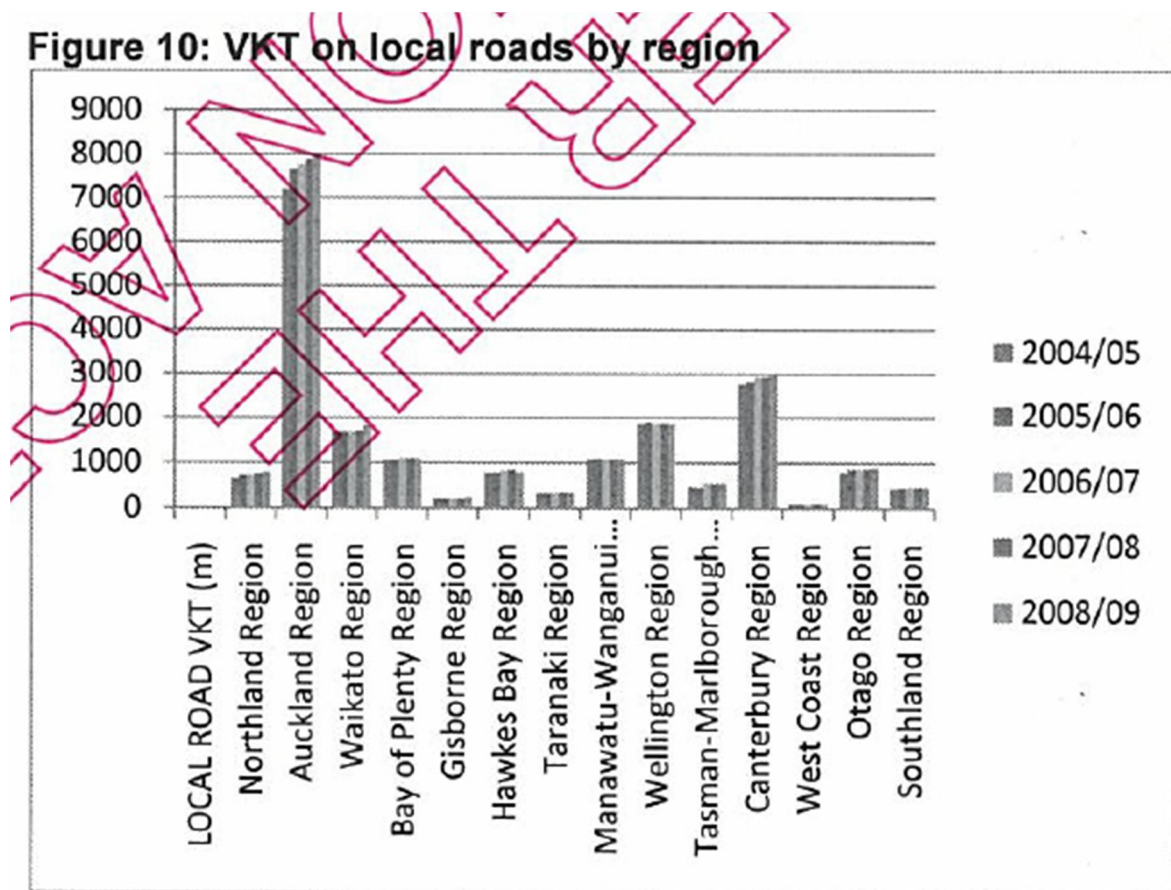
³ NZ Herald: http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10723973



5. Local Roads Funding

The upper bands for local road funding are generally being kept at around their current level. As noted above, the Ministry of Transport's analysis suggests that most traffic growth is currently on the local road network, rather than the state highway network. In particular it would seem as though traffic flows on local roads in Auckland have been growing much faster than elsewhere in the country – and also at a much faster rate than traffic flows on the state highway network.

This is shown in the graph below, which compares local road traffic flows in Auckland with other regions.



The CBT submits that freezing the funding of local roads is likely to result in poor economic outcomes, as this is where much of the traffic growth is located. The CBT also submits that funding for maintenance and renewals of local roads appears to be more tightly constrained than funding for new local roads. This is a dangerous path to proceed down, as a lack of funding for maintenance and renewals is likely to lead to the need for much higher spending later. The USA is currently facing this situation, as noted in a recent *Economist* article⁴:

⁴ The Economist, *Life in the slow lane*, <http://www.economist.com/node/18620944>



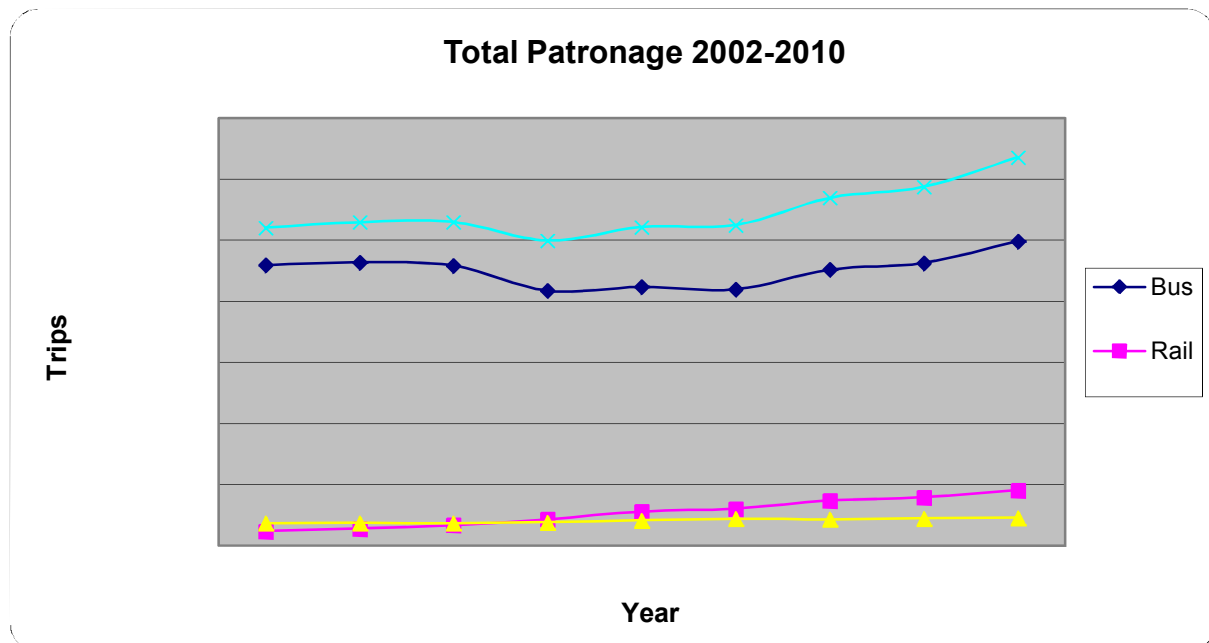
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The Congressional Budget Office estimates that America needs to spend \$20 billion more a year just to maintain its infrastructure at the present, inadequate, levels. Up to \$80 billion a year in additional spending could be spent on projects which would show positive economic returns. Other reports go further. In 2005 Congress established the National Surface Transportation Policy and Revenue Study Commission. In 2008 the commission reckoned that America needed at least \$255 billion per year in transport spending over the next half-century to keep the system in good repair and make the needed upgrades. Current spending falls 60% short of that amount.

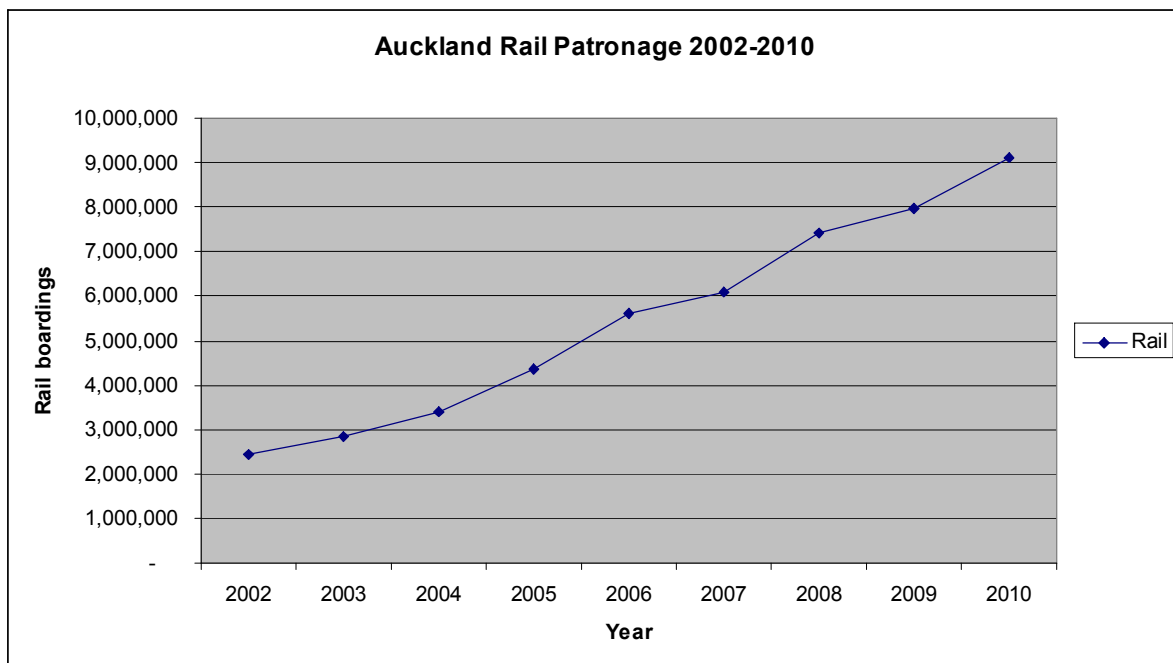
The CBT considers that the reduced percentage of the transport budget allocated to maintenance and renewals is a very risky long term policy.

6. Public Transport Funding

As noted earlier in the CBT's submission, over the past few years public transport patronage levels – particularly in Auckland – have increased dramatically. This appears to have corresponded with reduced traffic volumes on state highways and higher petrol prices over the past few years. The graph below shows public transport patronage in Auckland over the past nine years – clearly showing a significant rise since around 2007:



The graph below shows more clearly the increase in rail patronage since 2002:



The GPS splits spending on public transport into two areas: services and infrastructure. The funding for public transport services is proposed to increase fairly significantly over the next 10 years, from an upper limit of \$235 million in 2011/12 to an upper limit of \$440 million in 2021/22. However, the funding for public transport infrastructure is proposed to be significantly reduced, from an upper limit of \$100 million in 2011/12 to an upper limit of only \$30 million in 2021/22 (just 0.7% of the total budget).

The increase in funding for public transport services is supported, as this recognises the likelihood of significantly greater public transport patronage – particularly in Auckland – over the next decade. Auckland Council has set a target of doubling patronage within this timeframe and additional funding will be necessary to achieve goals such as this.

However, the significant reduction in funding available for public transport infrastructure is considered to at least require further explanation – and in the CBT's opinion should be reconsidered. In general, expenditure on public transport infrastructure is for things like bus priority improvements, ferry terminal upgrades, ticketing improvements and so forth. All of these infrastructure improvements are aimed at increasing the efficiency and effectiveness of the public transport network, enhancing its attractiveness to riders and improving operations so they can be undertaken in a more cost-effective manner. It seems highly likely that reducing spending on public transport infrastructure is only going to result in the need for higher subsidies – as the network will remain inefficient and potentially unattractive. As a result, lower spending on public transport infrastructure may well be a false economy, with a result being the necessity to spend far more on public transport services than would have otherwise been the case.

As a final point on public transport funding, the CBT considers that the GPS should allow rail infrastructure to be funded out of the NLTF. As is shown in the table below, rail passenger trips generate significant benefits for road users – up to \$17 per trip in the Auckland area at peak times.



Economic Evaluation Manual Table of PT benefits

Benefits \$/additional passenger boarding – 2008 (*Economic Evaluation Manual – Volume 2*)

Urban area	Mode	Average trip length (km)	Road traffic reduction benefits		PT user benefits	
			Peak	Off peak	Peak	Off peak
Auckland	All	7.70	12.61	0.86	8.59	5.73
	Rail	16.50	17.27	1.65	13.18	8.78
	Bus/ferry	6.60	11.73	0.76	8.02	5.35
Wellington	All	12.14	13.25	1.25	10.90	7.27
	Rail	22.76	17.70	1.99	16.44	10.96
	Bus/ferry	6.97	11.97	0.89	8.21	5.48
Christchurch	All	8.05	2.71	1.24	8.78	5.85
Other	All	7.86	2.06	1.00	8.68	5.78

This is logical, as a rail capital project which removes many cars off a road frees up the roadspace for other vehicles – typically vehicles such as freight movements that have no real alternatives. If road users benefit from rail freeing up roadspace and reducing congestion, then it is nonsensical for the NLTF to not be able to fund rail capital projects.

7. Funding Band Comments

Many of the CBT's comments have been outlined already in relation to the proposed funding bands. In terms of the overall size of the NLTF, the CBT considers that the estimates may be somewhat optimistic – based on trends of increasing traffic volumes that appear to have failed to eventuate in the past few years. Furthermore, as fuel prices increase and more electric (or more fuel efficient) vehicles come online, the ability of the NLTF to raise the necessary funds to implement the GPS appears questionable.

It appears that generally the GPS proposes to spend an increasing proportion of the NLTF on constructing new state highways. This would appear to contradict recent transport trends, including much lower traffic growth rates on state highways, increasing public transport patronage and the focus of increased traffic flows being in Auckland. If the primary focus of the GPS is to use transport expenditure to maximise economic growth and productivity, then one would consider it logical to ensure spending is well targeted to areas where demand is growing – or is likely to grow over the course of the next 10 years. Unfortunately, the current document does not appear to do this, with less money available to build new public transport infrastructure and a cap on the amount of money available to look after (maintenance and renewals) both local roads and state highways.

Some of the smaller activity bands, such as road safety, walking and cycling, sector training and research and transport planning have also had their funding either capped or cut. Many of these



funding changes appear likely to reduce the country's ability to plan for and focus investment in the most economically productive areas. Investment in walking and cycling can generate significant wider benefits, such as health benefits from projects that encourage physical activity – that can lessen the burden on other budgets in the longer term (such as the health budget). Therefore, funding cuts or caps in this area may prove to be very short-sighted.

8. Future Expenditure Targets

The GPS Engagement document states that by 2021/22, the expenditure target will be in \$4.2bn, yet the document does not explain where this additional funding will come from.

Section 74 of the Amended GPS states that “Funding for land transport within this GPS is anticipated to come principally from the hypothecated (dedicated) transport related charges – Fuel excise duty (FED), road user charges (RUC) and motor vehicle registration fees (MVR).”

Given that petrol prices are on an upward trend and vehicle kilometres travelled are decreasing, a more realistic scenario would appear to be a decline in available funding. This decline will be exacerbated as motorists shift to more fuel efficient vehicles.

To achieve the suggested 46% increase in target expenditure, it would seem that excise tax and RUC charges would have to increase considerably, yet this is not clearly stated in the document.

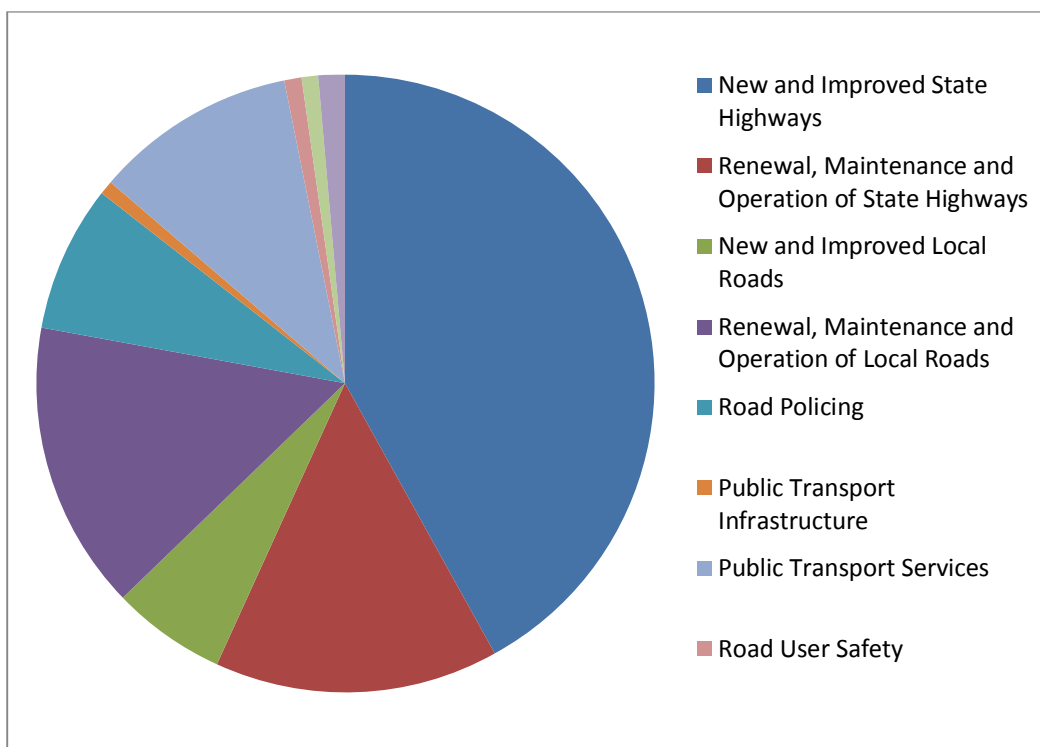
We therefore submit that revenue assumptions be analysed and explained in more detail.



9. Document Structure and Additional Information

The GPS engagement document suggests that submitters identify areas where they consider changes could be made to the structure of the GPS and to also highlight what additional information should be included in the final document. The CBT has a number of suggestions:

- **Analysis of current transport trends:** as noted earlier in the submission, transport trends over the past three years appear to vary significantly from what has happened in the longer term. There has been a significant reduction in state highway traffic growth rates, and a significant increase in public transport patronage. This should be examined in the GPS, as if future investment is not targeted to areas where demand is growing it may end up being very poor quality investment.
- **Future uncertainties:** as was also noted earlier, there are significant uncertainties in the transport sector over the next decade – particularly in relation to the potential for fuel prices to increase significantly. This should be discussed in the GPS, along with consideration of risk factors if fuel prices were to increase quickly.
- **Justification for the new RoNS:** the four additional RoNS added in the GPS should have a sound economic justification, especially as none of them are located in the part of the country with greatest population and travel demand growth (Auckland).
- **Clearly showing the changes in funding:** the changes in funding for each activity class could more clearly be shown with the use of pie charts, such as the following chart which shows the anticipated breakdown of funding in 2021:





10. Conclusions and Recommendations

Overall, in the CBT's opinion the GPS engagement document is a disappointment and seems highly unlikely that transport investment will achieve its goals of enhancing economic growth and productivity if funding is allocated as proposed in this document. If the GPS engagement document had been proposed 5 or 10 years ago then it would have made a lot more sense, as at that time state highway traffic was increasing steadily while public transport patronage increases were relatively low. However, in the past few years there have been some significant changes to transport trends – with higher fuel prices contributing to far lower increases in traffic volumes, or even some years (like 2008) when state highway traffic volumes decreased by almost 3% compared to the year before.

If transport investment is to assist economic growth and productivity it needs to be well targeted, to areas where there are the greatest bottlenecks holding back the economy and also to areas where demand is increasing most rapidly. The GPS will guide the funding of transport projects in the next 10 years, not the last 10 years – so must look forwards and anticipate where additional capacity is required between now and 2022, or to set aside sufficient funds to keep existing infrastructure in a good state of repair so that it can be used to its maximum potential.

Some significant changes to the GPS are considered necessary in order for it to achieve its stated goals. These are:

- Ensuring that spending on state highways is relative to the increase or decrease in demand on those state highways. The proposal to significantly increase state highway spending even though volumes are static or falling is illogical and likely to lead to poor quality investment.
- Ensuring that sufficient money is available to keep all roads (state highways and local roads) in a good state of repair and to renew them as required. The proposal to effectively cap maintenance and renewal funding is likely to lead to a degradation of existing infrastructure and a false economy of having to spend much money in the longer term.
- Ensuring that any additional Roads of National Significance (RoNS) have a sound economic justification and are located in places where they are truly required. Some of the new RoNS proposed appear to be located in very low traffic volume areas and they are all away from the country's largest area of population and traffic growth (Auckland).
- Enabling rail capital projects to be funded by the NZ Transport Agency out of the NLTF – to reflect their contribution to reducing road congestion.
- Increasing the amount of funding available for public transport infrastructure projects to reflect growing patronage and also to ensure that funding is available for projects that will enhance the efficiency and effectiveness of the public transport system. The proposed decrease in funding for PT infrastructure appears likely to be a false economy, meaning that far more will have to be spent on subsidies over the next decade.
- Increasing the amount of funding available for walking and cycling to reflect their wider benefits, such as exercise easing the burden on the health system in the longer term.

Overall, there appears to be a significant gap between the worthy goals of the GPS (to enhance economic growth and productivity) and the funding preferences to achieve that goal – in particular the emphasis placed on constructing new state highways at a time when traffic on state highways is



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static or declining. To ensure it is a credible document, the GPS should explain this connection (exactly how the funding allocations will achieve the GPS's overarching goals) far more clearly and convincingly.

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