Taituarā
Local Government Professionals Aotearoa

Submission of Taituarā to the Ministry of Transport regarding the discussion document *Driving Change: Reviewing the Road User Charges System*

What is Taituarā?

Taituarā – Local Government Professionals Aotearoa thanks the Ministry of Transport (the Ministry) for the opportunity to submit on the discussion document *Driving Change: Reviewing the Road User Charges System* (*Driving Change*).

Taituarā is an incorporated society of 943 members[1] drawn from local government Chief Executives, senior managers, and council staff with significant policy or operational responsibilities. We are an apolitical organisation. Our contribution lies in our wealth of knowledge of the local government sector and of the technical, practical, and managerial implications of legislation.

Our vision is:

> *Professional local government management, leading staff and enabling communities to shape their future.*

Our primary role is to help local authorities perform their roles and responsibilities as effectively and efficiently as possible. We have an interest in all aspects of the management of local authorities from the provision of advice to elected members, to the planning and delivery of services, to the less glamorous but equally important supporting activities such as election management and the collection of rates.

Taituarā supports the proposals as an intermediate step to road pricing

The local government sector has a many and varied ser of interests in land transport. The sector owns over 85 percent of the road network by length including the key

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[1] As of 31 December 2021

arterials that connect the State Highway network to roads that serve primarily as property network The sector is a funding partner in roads and urban passenger transport. A functional land transport network is critical to sustainable urban form and (as *Driving Change* notes) environmental sustainability. Whether and how the true costs of road use are recovered is a key driver of a functioning land transport system.

We therefore support the proposed changes to the RUC system that are set out in Part One of Driving Change in principle and as a transitional step. These proposals are well founded in conventional microeconomics – that when users are face with the true costs of their demand, they demand only what they value.

We say 'in principle' because although the basic principles are well trod ground (starting with the original land transport pricing study in 1996!) we agree there are operational policy and operational matters that need resolution. We offer our assistance in resolving these matters.

However, the proposals are best regarded as a step along the way to road pricing. The existing RUC regime and fuel taxes will not differentiate a charge by time of day or road travelled. There would be only weak incentives than to avoid travel in congested places and/or at peak times i.e. initiatives such as Auckland's Congestion Question would still be required. And as best we understand even the e-RUC mechanism would not capture the congestion element.

The local government sector has long supported the introduction of efficient pricing principles into the land transport system. As long ago as 1993 the then Local Government Association joined with the Road Transport Association and the Automobile Association to call for the setting of charges based on the true and full costs of road use.

The 1995/6 Land Transport Pricing Study acknowledged that RUC was capturing the costs of damage to the road network itself. But the study noted that there are other effect of road use – these externalities include the environmental effects and safety consequences of road use that were completely uncaptured by the RUC system and may not be captured by fuel excise. As far as we are aware, no real reconsideration of RUC has ever been undertaken in the light of the study's findings.

In redesigning RUC to align with climate change objectives, *Driving Change* is recognising that emissions of greenhouse gases are a significant part of the economic cost of road use. Driving Change itself notes land transport is the fastest growing domestic source of emissions, and that the heavy transport sector makes a contribution to this which is well in excess of the level of travel the sector undertakes.

These proposals therefore give partial effect to recommendations from the Ministry's own draft Emissions Reduction Plan, the original pricing study, and any number of studies and engagements on land transport funding. They also support recommendations from agencies such as the Infrastructure Commission, the Climate Change Commission, and (of course) the local government sector.

These proposals, while welcome, do represent only a first step. *Driving Change* predominantly covers one type of externality (greenhouse gas emissions) from one group of users, albeit one that is expected to increase over the next few years. To get the kind of modal shift necessary to achieve climate change and other goals (such as set out in the Road to Zero), the other externalities need to be built in.

The Ministry expresses some concern about the potential for differential rates of RUC. We agree that this cannot be avoided if the user faces anything like the true costs of their road use, and the more complex its made (for example, recognising differences in fuel type) the more and greater differentials are likely to be. We accept that some degree of 'averaging' is inevitable, but observe that as long as the underpinning rationale is transparent, greater complexity is, in itself not a reason to shy away from this.

The Ministry explored the analytical techniques to estimate safety and environmental externalities in 1996. To the best of our recollection, congestion wasn't dealt with at that time, but has been since. We've submitted in other places that its time to stop kicking the can down the road and commit to road pricing.

RUC policy must integrate with other transport funding and regulatory policy

In several places *Driving Change* expresses concerns that tools such as RUC exemptions and discounts may lead to insufficient revenue being generated for the NLTF. This is a concern that is common to systems that attempt to approximate marginal cost pricing, and is a challenge endemic to infrastructure pricing.

But RUC is a part of a wider funding system. Other infrastructure providers overcome similar challenges with the use of two-tier charging systems: a volume-based charge (i.e. the equivalent of RUC) and a fixed charge (often in the form of a connection charge either as a 'one-ff' or as a fee per month).

There is an equivalent in the land transport system. The motor vehicle registration fee is an annual charge which is, broadly speaking, a charge that entitles the vehicle to access the road network. The registration fee should be recalibrated as part of the reset of the RUC regime.

In a similar vein, *Driving Change* proposes the redesign of RUC to better capture environmental and safety externalities. This principle applies elsewhere in transport policy. For example, the enforcement system has, to date, been seen as separate from funding (other than the road safety programme). Fines for activity such as speeding, driving under the influence of drugs/alcohol could be designed for greater deterrence and with some element of revenue generation in mind.

One peripheral aside. RUC was introduced in part because of concerns that taxation of diesel lead to those using diesel for off-road purposes (e.g. running a farm tractor) were paying for a benefit they did not receive. While arguably true, the principle of charging full economic cost applies here also. Diesel users emit greenhouse gases whether on or off road – future diesel of tax on diesel must take account of these costs as well.

The transitional path will be critical

We agree that the direction proposed in Driving Change is such that a fundamental review of the RUC legislation is required. Arguably the incorporation of externalities and the multiplicity of differentials makes this a true charge rather than a form of taxation.

That will require careful legislative design both from a high policy level and the operational level. To take a couple of examples – legislation should probably set out a set of principles or objectives for the RUC system, and a mechanism for regular review of the charges and for setting the charges is some manner that doesn't require legislation.

Taituarā is aware that there are a wide number of competing objectives at play here. In the short-term higher than normal rates of inflation and the pressures on fuel prices may make policy-makers wary of making short-term changes. In the medium design must be cognisant of the changes made to support the take-up of electric vehicles. Transition must be staged – we offer our support for design of the new charging regime.