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SUBMISSIONS

On proposed changes to the Road User Charges system

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1. INTRODUCTION

1.1 Civil Contractors New Zealand (CCNZ) welcomes this opportunity to make a submission on Ministry of Transport Road User Charges (RUC) consultation.

1.2 This is CCNZ's submission on the discussion document titled *Driving Change: Reviewing the Road User Charges System*.

1.3 Civil contractors pay significant road user charges but are also the primary constructors involved in building the physical works for NZ's roads, railways, cycleways and other transport networks. While road user charges are a significant cost for these businesses, many also are funded from road user charges for transport construction.

ABOUT CCNZ AND ITS MEMBERS

1.4 Civil Contractors New Zealand (CCNZ) is the national representative body for civil construction contractors.

1.5 CCNZ members carry out the majority of the country's civil infrastructure construction and maintenance work. We estimate the civil construction sector carries out more than $12 billion of work annually and employs more than 40,000 workers. Typical employees range from labourers to tradespeople to engineers.

1.6 CCNZ represents more than 460 civil construction contracting businesses, ranging from large civil construction and infrastructure companies employing thousands of staff to very small contractors and family businesses. It also represents more than 250 businesses that supply equipment and services to contractors. The principal clients our members work for are central and local government agencies.

SUBMISSIONS

2 General overview

2.1 CCNZ supports the need to review the Road User Charges system. The system must be fit to fund our transport networks for the decades to come. A review to make sure we can fund the improvements and maintenance the country needs over the long term makes sense.

2.2 The benefits of well-constructed and maintained transport networks are improved safety outcomes, a transport network that meets the country's capacity needs, and construction careers that provide meaningful employment for workers.

2.3 RUCs were originally designed to offset the wear and tear caused by vehicles, cover road repair and maintenance costs along with offsetting new highway builds throughout NZ.

2.4 CCNZ supports the points made in the submission of BusinessNZ, particularly that the nature of RUCs as a user-pays cost recovery system be maintained, rather than changing the system to become a government mechanism for transport behaviour control.

2.5 CCNZ considers RUCs are a good example of a user-pays funding system. But the system is currently overstretched after investment in maintenance has not kept up with where it should be.

2.6 All road user vehicles should contribute to RUC or Fuel Excise Duty that is proportionately charged based on the weight of the vehicle and the potential damage/wear and tear capabilities of that vehicle.

2.7 Of particular concern are recent funding shortfalls. The inadequacy of the current system to meet funding needs is illustrated by the fact successive Governments have needed to create the Roads of National Significance programme and NZ Upgrade Programme as side-pots of funding in order to meet the country's needs, as the current road construction and maintenance funding system is not providing enough to develop and maintain NZ's roading networks to an adequate standard.

2.8 In addition to this and short-term pressures from the pandemic and cost escalation, the current funding system is under increasing strain. Cost escalation, sustainability initiatives and the inclusion of rail and coastal shipping in the National Land Transport Programme require contractors to do more with the same pool of funding.

2.9 Rather than asking what other activities should be funded through RUCs, we should start by asking how we can create a lasting funding model that meets the needs of our transport networks.

2.10 Increasing frequency of severe weather events also greatly increases damage to the roading networks, and the need for measures to prevent damage (for instance seawalls and stop banks), as well as funding for road repair following flood or storm damage.

3 Increasing strain on limited transport funding

3.1 CCNZ is aware the government is looking at alternate models, such as tolling specific roads, not to cover construction costs, but rather for ongoing maintenance of it. Penlink, for example, appears as though it could become a pay as you use road for some time to come, which is a very different model to what we have seen used in NZ previously.

3.2 While different models are worth exploring, caution will be needed to ensure the right balance of funding to achieve and maintain the outcomes our transport networks are set up to deliver. Discounts and exemptions undermine this structure and will render the system less capable of funding good transport and safety outcomes.

3.3 CCNZ understands the argument that alternate transport activities such as rail and public transport can reduce congestion and wear and tear on the roads, however these activities currently do not contribute income to the National Land Transport Fund.

3.4 CCNZ provides the view that if rail and coastal shipping are to be included under the National Land Transport Fund (NLTF), they should have self-sustaining funding models that also contribute to the NLTF through rail and coastal shipping user charges, rather than funded from RUCs.

4 Use of RUCs to incentivise externalities

4.1 CCNZ opposes using the RUC system to incentivise or disincentivise types of vehicle use or transport activity.

4.2 The discussion document suggests that Road User Charges may be used to incentivise negative or positive emissions outputs.

4.3 CCNZ is concerned about the use of RUCs as a mechanism for achieving Government objectives regarding intangible behavioural controls not directly related to road construction and maintenance. If measurable damage is caused by some factors (i.e. runoff or pollutants from vehicles cause damage to the environment), this may be able to be factored in. Intangible externalities and behavioural controls should be handled separately from the RUC system.

4.4 Unless road user charges are significantly raised, the impact of broadening the use of RUCs for externalities in any way is likely to be less money available for spending on good transport networks and the outcomes they enable.

4.5 Many externalities that are considered in the discussion paper are associated with on-road transport - greenhouse gas emissions and accidents for example - are respectively already covered by the Emissions Trading Scheme (ETS) and by accident compensation (funded by the Motor Vehicle Account via petrol levies, Motor Vehicle Registration levies and vehicle insurance levies).

4.6 CCNZ recognises there is increasing public focus on greenhouse gas emissions, the Government’s efforts to mitigate climate change and recent global agreements such as the Paris Agreement on Climate Change and Agenda 2030.

4.7 These factors have led to governmental action plans and reduction targets. But NZ should be looking to build a self-sustaining transport system, or the safety and transport needs of our communities will not be met.

4.8 CCNZ is concerned with the broad and non-specific nature of including externalities. If measurable damage and maintenance costs can be attributed to vehicle damage, these can be factored into the current system. If this is about manging emissions, this is already factored into the emissions trading scheme, as well as the construction and maintenance tender process.

5 Electric vehicles

5.1 In electric vehicles, a range of new road users are emerging that are not paying road user charges. This is currently a form of government subsidy, which is understandable. However we now need to consider how these new vehicle types can be factored into a new and lasting Road User Charges funding model.

5.2 CCNZ's position is that all vehicles using roads should contribute funding towards maintenance and upgrades of the roading network, rather than a means of funding subjective behaviours through externalities.

5.3 RUCs should be introduced on all powered non-petrol and unpowered vehicles, based primarily on vehicle weight class.

5.4 If the government chooses to subsidise EVs, it could do this through direct contribution to RUCs from government to ensure the transport network is adequately funded, rather than exclusion of EVs from the RUC system, which removes funding that is necessary for constructing and maintaining transport from the system.

5.5 Light EVs are currently exempt from paying RUC until 31 March 2024 and heavy EVs are exempt until the end of 2025.

5.6 Despite light EVs providing an answer to fuel price volatility, steadily increasing uptake of EVs and more competitive pricing, EV and hydrogen technology for heavy construction vehicles is not well enough developed or serviced to provide for the needs of the civil construction industry. This is reflected in the tiny number of heavy EVs in the current EV fleet.

5.7 Service for EVs is another consideration. Diesel mechanics cannot be expected to become EV mechanics overnight, so any change in this direction will also incur significant training and personnel costs to make sure NZ's EV fleet can be maintained.

6 Fuel, congestion and biofuels

6.1 RUCs are currently geared to gather revenue that is needed to resource construction and maintenance. This is ideal because it can be tied to tangible outcomes.

6.2 CCNZ does not recommend including regional cost recovery such as congestion charges or regional fuel taxes into the RUC system. These are separate considerations, and while they may be relevant and provide additional resourcing for the National Land Transport Fund, CCNZ opposes their inclusion in the RUC system. This is because it is important to specify what a cost or charge is being used to pay for.

6.3 CCNZ accepts congestion charging may have merit. But opposes its inclusion in the RUC system. Despite the economic merits of congestion charging as a concept, it is unlikely it could be satisfactorily included in an RUC system since congestion is location, region and time-specific.

6.4 Further to this, the current RUC system does not always go towards meeting the needs of regional users who are paying. For instance much of the contribution of Southland road users does not go back into their regional roads, and is instead used for projects in other regions. This may be appropriate in some cases, but the balance merits consideration.

6.5 We recognise some further work may be required on the use of vehicles powered by biofuel.

6.6 Some CCNZ members (for instance Fulton Hogan) own and operate their own businesses to produce and use biofuels to power their heavy vehicle fleets, while many others are looking to incorporate biofuel blends into their fleets.

6.7 The use of biofuels represents a significant investment by industry to reach for better outcomes. Whether biofuels should be included in RUCs or Fuel Excise Duties is a much broader discussion that should be addressed with specific consultation with the businesses involved.

7 Project costs

7.1 RUCs are currently used to fund projects that are themselves subject to extensive environmental regulation and incentives. Use of low emissions technologies are being included in tenders, procurement and project costs.

7.2 Projects are also subject to rigorous environmental controls through the Resource Management Act.

7.3 CCNZ is concerned that the discussion document focuses on specific forms of technology, primarily on forms of low emissions technologies that do not currently meet the needs of civil construction companies. These decisions are already being approached and handled in much greater detail through project procurement and tendering.

7.4 Inclusion of externalities in the RUCs scheme will double up on action already taken through project procurement. It would escalate costs and timeframes for projects, practices and business activities already subject to the Emissions trading Scheme and incentivised achieve better environmental outcomes.

7.5 If the decision is made to incentivise or disincentivise types of vehicle use or transport activity through the RUC system, adequate time should be allowed for businesses, long-term projects and road maintenance projects to adjust to the new normal, as this will affect the fleet management of NZ businesses and therefore add to the already significant problem of business cost escalation.

8 eRUCs

8.1 CCNZ does not oppose a move to eRUCs, but it is important that any change in this space is well managed. Decisions in implementing eRUCs should be made with a full understanding of costs involved, and the transition should be gradual to give road users time to adjust.

8.2 If the system is entirely shifted to eRUCs, it is important businesses are supported to make this transition as it may add cost by impacting their internal procedures.

9 Dealing with increased road wear and tear

9.1 Spending of RUC should be focussed on whole of life cost rather than short-term fixes. Road freight and truck axle weights currently exceed the design specifications of many NZ roads, but investment to improve road design specification to meet the needs of heavier freight vehicles has not been made.

9.2 Truck horsepower and torque have increased dramatically since 2014, with payloads trailer length and axles all increasing and contributing to pavement degradation. The design standards exist, however there isn't enough money in the public purse to fund them. This is an instance where the network has not kept pace with advances in road use.

9.3 Trucks and high road maintenance go hand in hand. Even if funds are available for upgrading roads to meet increased freight trucking weights and repairs to the damage these vehicles create, contractors are short of workers to carry out regular maintenance.

9.4 The rail system is currently in the process of being upgraded to take on a bigger share and responsibility in moving goods around this country, which is beneficial and needed to reduce wear and tear on roads.

9.5 Despite this inter-relationship, the road and rail networks are separate things, and rail should have its own sustainable funding model rather than being factored into the RUC system and paid for by road construction and maintenance funding.

10 Conclusion

Thank you for the opportunity to make this submission, and for your time in reading it and noting the above points.

CCNZ is happy to provide further information or meet regarding this submission and can arrange further technical or specific feedback from members if required.

Please do not hesitate to contact me directly if you wish to arrange this.

Yours sincerely,

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