



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Tolling – initial analysis of legislative reform options

Comparing reform options against the objectives and principles of land transport revenue reform

August 2024

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Background

- We are reforming tolling legislative settings to support investment in the Government's strategic priorities, such as the RoNS.
- The revenue action plan indicated that tolling reform should focus on fully utilising existing legislative provisions and reforms to enhance effectiveness, as well as reframing tolling as a way to pay for a higher level of service.
- **We have identified several reform options to enhance the effectiveness of tolling schemes.**

s 9(2)(i)

- Separate workstreams are underway at NZTA and Infracomm to seek higher cost efficiency in tolling infrastructure and to refresh the PPP model respectively, we will keep you informed on this process as it develops.



The Problem is...

- The **current requirements for which roads can be tolled**, including the new road and feasible, untolled alternative route requirements are inflexible. They may reduce the economic viability of future toll roads, constrain options for tolling models, or prevent tolling altogether.
- Similarly, **current practices for setting toll prices** lead to infrequent price increases and have contributed to New Zealand having low toll prices, alongside the value that motorists place on toll roads.
- Given the profile of the RoNS, with even the most enabling of tolling legislation, **traffic volumes will not be high enough to generate significant revenue** in most cases. Road user demand of tolling projects driven by time travel savings will have a much greater impact on financial viability than legislation. Notwithstanding this issue, **there is value in creating more flexible tolling provisions** to ensure legislation is an enabler to viable tolling schemes, rather than a barrier.



The objectives and principles behind tolling revenue reform

- Cabinet has agreed to the objectives and principles that will inform the redesign of the land transport revenue system. Given the purpose of tolling reform to enable motorists to pay for a higher level of service, the most relevant objectives and principles are:

Users and beneficiaries should cover the costs...

...because toll roads provide a direct link between the use of a road and contributing to its costs.

Revenue sufficiency...

...because toll roads provide a supplementary source of revenue to contribute to specific projects and protect NI TF revenue to be spent on other projects or maintenance.

User choice and competition...

...because motorists can choose to pay for a higher level of service on a toll road that provides reduced travel times.

The key opportunities for legislative reform that helps to reframe tolling as paying for a higher level of service are...

- Remove or alter the new road requirement
- Remove or alter the feasible, untolled, alternative route requirement
- Optimise existing price settings



Remove or alter the new road and feasible, untolled, alternative route requirement

- The Land Transport Management Act 2003 (LTMA) restricts tolling proposals to new roads and those that have a feasible, untolled alternative route.

| Purpose of requirement | Options |
|---|---|
| <p>The new road requirement ensures users “do not perceive tolling as paying for roads a second time.”</p> <p>The feasible, untolled alternative route requirement exists because of equity and fairness considerations around providing an untolled route, so road users are not forced to pay a toll to get where they need to go.</p> <p>Both are hard legislative requirements that cannot be considered against other objectives, such as economic growth or efficiency.</p> | <ul style="list-style-type: none"> • Option 1: Remove both entirely. This would allow for Ministerial discretion as to what roads are tolled, including taking a corridor tolling approach. It would also enable the tolling of existing roads and those without an alternative route. • Option 2: Remove just the new road requirement: This would allow for corridor tolling, while still maintaining assurance that an untolled alternative route is available. • Option 3: Set more permissive legislative criteria, such as only allowing existing roads to be tolled if they make up part of a wider corridor or receive substantial benefit from a new road. • Option 4: Turn requirements into considerations, where the Minister would weigh up whether the costs of tolling an existing road (economic or otherwise) and/or a road without an alternative route outweigh the benefits of a scheme. • Option 5: No Change. |

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Optimise existing price settings

- Toll prices and the mechanisms by which they are increased have been set in all Orders in Council (OiCs) that enable current tolling schemes.

| Context | Options |
|---|--|
| <p>Increases to toll prices are limited to CPI under two of New Zealand's toll roads, which allows for no flexibility to adjust the toll for reasons such as responding to traffic volumes. The increases also happen rarely, which does not maintain the real value of tolls consistently. Increases above the CPI are permitted for the Tauranga Eastern Link with the written approval of the Minister.</p> <p>More fundamentally, tolls are currently set in a way that under-recovers costs. This is partially due to the low traffic volume roads that have been selected for tolling in the past. Tolls should ideally be set in ways that reflect the level of service and value a motorist receives on a road.</p> <p>Toll price settings have also traditionally been set in OiC rather than legislation, so there may be a role for pursuing multiple price setting options depending on a project's attributes.</p> | <ul style="list-style-type: none"> Option 1: Lock in automatic CPI adjustments at regular intervals such as biennially, annually or quarterly. Option 2: Set requirements in legislation for factors that must be considered when the Minister confirms toll rates, such as ensuring the rate reflects the level of service and value a motorist receives from a toll road. <small>s 9(2)(f)(iv)</small> Option 4: No change. |

Some limitations on the following options analysis

- The following slides provide an initial analysis of the options against the objectives and principles identified on slide 4. It does not constitute a full analysis of the costs and benefits of each option.





Analysing legislative and price setting reform options against the overarching objectives and principles of the land transport revenue reform

Key: ++ completely or largely aligns with the objective or principle it is being compared to + partially aligns with the objective or principle it is being compared to
- mostly does not align with the objective or principle it is being compared to -- does not align with the objective or principle it is being compared to



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Comparing legislative reform options for the new road and untolled, alternative route requirements

| | Users and beneficiaries should cover the costs | Revenue sufficiency | User Choice and competition |
|--|---|--|--|
| Option 1: Remove new road and feasible, untolled, alternative route requirements entirely | ++ provides maximum flexibility for tolling schemes to charge users for direct use of road infrastructure, however there would be limited circumstances where removing the untolled, alternative route requirement would make a scheme more viable. | + provides more opportunities for sufficient revenue than status quo but limited by modesty of toll revenue. | +/- provides maximum flexibility for tolling schemes to offer roads with enhanced service levels when compared to existing routes. However, free alternatives may no longer be offered in competition to the tolled route in limited circumstances. |
| Option 2: Remove just the new road requirement | + allows for corridor tolling which recognises users should pay for the enhanced efficiency of a corridor with a new road. However, user costs could not be recovered through tolls where there is not an untolled alternative route. | + provides more opportunities for sufficient revenue than status quo but limited by modesty of toll revenue. | + provides flexibility for corridor tolls, encouraging new toll roads that offer enhanced service levels. However, toll roads that provide a greater level of service and competition may not be allowed if they have no untolled alternative. |
| Option 3: Setting more permissive legislative criteria | + would depend on the criteria, but legislative criteria developed could place a greater weighting to user-pays than the status quo. | + would depend on the criteria, but if the legislative criteria enabled corridor tolling and enabled more viable toll roads than present, then it would align. | + would depend on the criteria, but if the legislative criteria made more toll roads possible, then competition and user choice would increase, assuming they still had an alternative, untolled route. |
| Option 4: Turning the requirements into considerations | ++ provides flexibility for tolling schemes to charge users for direct use of road infrastructure, subject to consideration of costs and benefits. | + provides more opportunities for sufficient revenue than status quo but limited by modesty of toll revenue. | + provides flexibility for the creation of corridor tolls and many other toll road configurations to provide enhanced service levels. However, free alternatives may no longer be offered in competition, but the Minister would have to consider this factor. |
| Option 5: Status quo | -- low number of viable future toll roads, users are unable to pay directly for the new infrastructure they use. | -- schemes tend to provide low levels of revenue contribution to project costs. | -- low number of toll roads, users cannot choose to pay for a higher level of service in most circumstances. |

Comparing reform options for optimising pricing settings

| | Users and beneficiaries should cover the costs | Revenue sufficiency | User Choice and competition |
|--|--|--|--|
| Option 1: Locking in automatic CPI adjustments | + increasing toll rates by CPI more regularly would keep the real value of the toll as originally set, thus more accurately accruing costs to users. | - provides more opportunities for sufficient revenue than status quo but limited by modesty of toll revenue. This issue could be mitigated by pursuing complementary options. | - some toll roads may become more viable, but largely user choice will not increase beyond the status quo. |
| Option 2: Set requirements in legislation for factors that must be considered when the Minister confirms toll rates | + the alignment with this principle would depend on the factors chosen, however it would likely see a more user-pays approach than the status quo, where toll rates under-recover their costs. | +/- would likely provide more opportunity for revenue than the status quo, where toll rates under-recover their costs, but is still reliant on the factors chosen and adequate demand. | +/- alignment with this principle would largely depend on the factors chosen to be included in legislation and the weighting of each. If a factor were included that requires price setting to consider user choice, then there would be better alignment with this principle. |
| s 9(2)(f)(iv) | | | |
| Option 4: Status quo | -- under current price settings, users do not pay more than a small part of overall project costs, and this is not regularly adjusted for inflation. | -- under current price settings, tolls do not provide enough revenue to provide more than a small part of overall project costs s 9(2)(i) | - few toll roads provide viable revenue streams and therefore do not promote competition between the tolled and untolled levels of service. |

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Next steps

1. We will look to **analyse these legislative options** in more detail and provide a briefing to you for policy agreement in early September.
2. Tolling roadside infrastructure is currently limited to gantries. NZTA have recently concluded a market request for proposal process to assess market options for more **cost-effective tolling infrastructure**. A briefing outlining the outcome of the RFP will be provided to you by the end of August 2024.

s 9(2)(i)

4. NZTA are undertaking work to examine where **requirements in Orders in Council or in primary legislation are driving cost inefficiency** and to identify opportunities, for example:
 - Making registered person for vehicle liable for paying tolls for compliance efficiency, rather than the driver, unless it can be established the car was stolen or someone else was driving



Timeframes and where to next?

| Date | Milestones |
|-------------------|--|
| 26 June 2024 | Revenue action plan signed off by Cabinet |
| June-July | Work with NZTA to identify options for reform and begin initial analysis on compatibility with revenue action plan |
| 19 July 2024 | NZTA request for providers (RFP) on cost-effective tolling infrastructure options closes |
| 14 August 2024 | Workshop with Minister to discuss opportunities and choices for tolling reform Provide joint advice with NZTA to Minister on upcoming tolling proposals |
| | |
| Late August | NZTA will send you a briefing outlining the outcome of the RFP |
| 4 September 2024 | Advice regarding tolling legislative reform package |
| 18 September 2024 | Provide draft Cabinet paper to Minister seeking agreement on proposals for tolling reform |
| 29 October 2024 | Cabinet decisions to support drafting instructions |

s 9(2)(i)



We are here

Ngā mihi Thank you

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