14 February 2019

New Zealand Productivity Commission

Local Government Funding & Financing Issues Paper

INTRODUCTION

1. EROAD is a technology company specialising in regulatory vehicle telematics, providing services in New Zealand and exporting services to Australia and the United States. Our submission comprises 2 parts:

   Part 1: About EROAD, to help you understand our perspective

   Part 2: Our submission.

2. We appreciate the opportunity to provide this submission.

PART 1: ABOUT EROAD

3. EROAD is a global leader in GNSS-based regulatory telematics, delivering a range of products and services leveraging a single in-cab device and web-accessed portal. A high growth publicly-listed New Zealand company (NZX: ERD), EROAD has been ranked in the fastest growing 300 technology companies in Asia-Pacific for five years.

4. EROAD is committed to maintaining its leading role. For example, in FY2017 our annual investment in research and development totalled $13.4 million, which represents 41 percent of total revenue.

5. We released our original technologies in 2009 for New Zealand, to become the first in the world to deliver a network-wide GNSS based road user charging (RUC) system. There are currently over 60,000 vehicles being driven on New Zealand roads with our technology installed. These vehicles cover 38 million km per week. Of these, 40,000 are heavy commercial vehicles – nearly one third of the total heavy commercial fleet – while the other 20,000 are light commercial vehicles. In total we serve nearly two percent of New Zealand's entire vehicle fleet, and the data provides an insight into the operation of every public road in the country.

6. Minimising the safety risk to road users is a major concern to EROAD and its customers in all the markets we serve. There is significant overlap between achieving efficient driving and vehicle management and ensuring the safety of a vehicle and how it is driven. EROAD has developed a range of services to help our customers achieve an understanding of and manage their responsibility for the safety risk posed by their commercial operations.

7. The size and reach of our New Zealand dataset is such that we have a unique view into how New Zealand's roads are actually used. We are keen to work with government, as well as a range of academic and commercial entities to fully understand the problems that the transport industry is facing, and how to best assist with solutions, while maintaining the privacy of the customers that contribute to the data set. We are also continuing to work with our customers to use that data to make their operations safer and more efficient.

8. To know more about EROAD, you can visit the http://www.eroad.co.nz/.

PART 2: COMMENT ON THE MATTERS COVERED

General comments on the approach

9. We acknowledge the effort and scholarship that has gone into developing the issues paper. We recognise the constraints on the scope of the review, including that boundary and representation issues are out of scope.

10. We appreciate the extensive use of questions to draw attention to various matters throughout the report. We note, however, that the questions vary greatly in the degree to which they represent genuine inquiry or merely offer the opportunity to add to matters well-covered in the preceding text. We also note that the format and ordering does not encourage top-down reflection on the issue as a whole: rather, reflection is directed to isolated fragments. We consider the most significant questions to be, in narrative order:

    a. Questions 6, 11, 12 & 49: scope, role and responsibilities of local government, including oversight of this

    b. Questions 3, 4, 8, 13 & 14: population and demographic changes, climate change and uncertainty

    c. Questions 15-17: planning and the flow through to budget setting

    d. Questions 18-21: drivers of efficiency and productivity

    e. Question 37: who pays.

11. **It would be helpful** for the report to establish a clearer narrative flow through these considerations to a summary view.

12. Arguably, the various funding and financing tools themselves are already well-described and well-tested. The issue is not whether they work, so much as how appropriate they are for the circumstances, and whether local government has access to them when and where appropriate. Assessing that appropriateness is dependent on a structured interrogation of the five themes set out in paragraph 10 of these comments.

13. **It would be helpful** for the report to better describe the tools against the various circumstances under which each best satisfies the criteria for good practice public finance principles (efficiency, buoyancy, ease of administration, and equity), and/or the other principles highlighted, for example, in the 2007 Shand Report (empowerment, sustainability with restraint, partnership, and environmental sustainability).

A focus on governance, leadership and accountability

14. We consider that the planning driven approach to budget setting, with revenue requirements deriving from this, is largely appropriate. Revenue looking for something to do leads to bad policy. Volatile revenue sources lead to unintended cross-subsidies. A planning-led approach puts the onus on political leadership to select a vision and own the consequences of pursuing it, including the consequential allocation of costs across classes of payer.

15. The issues paper seems to flow determinedly towards a main finding in favour of local property taxes and tax increment financing, presenting positive control of revenue levers as a problem. **It would be helpful** to have the full basis for this view clearly articulated, since the

rationale pushes against some of the core stated purposes for local government – subsidiarity, empowerment, and representation.

Scale economies

16. The issues paper does not explicitly touch on the range of capability and capacity issues confronting many local governments. There are very real questions about the ability of some councils to attract and sustain sufficient numbers of suitably skilled people to ensure the effective and efficient use of resources.

17. Road asset management is one area where, allegedly, local authorities vary greatly in their ability to give proper attention to the matter. At one point in the issues paper, the reduction in central government subsidies for local road maintenance is alluded to: that reduction in allocated subsidies was motivated in part by the flatter line of actual uptake, as well as a concern over escalating costs. The Road Efficiency Group is the inheritor of the work to better understand and manage these cost drivers (https://www.nzta.govt.nz/roads-and-rail/road-efficiency-group/). It could warrant further exploration as an example of a collective approach to the challenges.

18. The quantity and quality of data that is easily accessible to road managers is expanding at an accelerating rate. The work force with the skills required to take advantage of that data, however, is not growing at a matching rate, while the ability of local governments to attract them is potentially growing at a slower rate still. Southland District has previously done extensive work, as a region, integrating modern data in a way that better supports road planning (https://www.nzta.govt.nz/assets/Road-Efficiency-Group-2/docs/southlandnetworkplan.pdf). It is unclear how repeatable that kind of work is given current resources and skills across the country; it is clear that high quality insight is necessary for value for money network planning and management.

19. By not addressing this concern, the opportunity to consider collaborative working, shared services and back-office integration options for lifting performance is missed. Note, these ideas are not precluded by boundary and representation issues being out of scope. They are presaged to some degree by alternative organisational models presented in the recent consultation on proposed State sector reforms (https://www.havemysay.govt.nz/option-2/organisational-arrangements/), which may offer useful models for reconciling integration with the maintenance of localised governance and control.

20. **It would be helpful**, and provide a more complete picture, if local government capability issues and the possible responses were factored in to the final report.

Opportunities presented by electronic Road User Charges

21. The Local Authority Fuel Tax (LAFT) and the Auckland Regional Fuel Tax (ARFT) are different examples of local government revenue raising being leveraged from central government capabilities. It is not novel, therefore, for central government agencies to perform tasks for local government. Electronic road user charges (eRUC) is a mature revenue technology that could be used in a similar way to LAFT and ARFT, collecting and apportioning a local government levy in addition to national taxes. We note that:

    a. **There is ample scope for policy choice.** While eRUC would have to be universal to offer full benefits to local government, it could be required across only selected high cost/risk RUC classes, or all heavy vehicles, or all motor vehicles. Integration with

some form of electronic permit management system would also be sensible, offering benefits to transport operators as well as road controlling authorities.

b. **There is already significant fleet penetration.** In December 2018, 56% of all heavy RUC revenue collected was via eRUC, an average of 54% per month over the year to that date (representing 47% of all heavy RUC distances purchased, and 64% of all heavy RUC licenses sold).

c. **Better data, more accurate cost allocation, fairer user charges.** eRUC systems are demonstrably able to accurately record distances travelled by vehicle type, route and jurisdiction, and alocate and recover cost shares appropriately.

d. **Scalable and flexible.** Geofences are already used with eRUC to demarcate different tariff zones (e.g. un-taxed off-road areas). If applied to tolling, they have negligible marginal set-up and operational costs (e.g. if used for locational tolling) and are easy to shift or expand with changes in traffic behaviour.

22. We recognise that a shift to eRUC is not a silver bullet. However, given the significant share of local government expenditure that goes into roading, and meeting the maintenance cost of heavy vehicles especially, getting a better tool to directly allocate and recover the local share of those costs seems likely to be of significant benefit to incorporating greater user pays, reducing cross-subsidies, and achieving a more balanced funding system.

23. We consider that, while any move to wider uptake eRUC is a decision for central government, **it would be helpful** for the report to highlight the particular interests and downstream benefits to local government of making the move.

24. We consider that there is also now considerable evidence to show the safety benefits of regulatory telematics of the kind needed for eRUC (under current settings). The disbenefits of under-performance on road safety translate into costs on local governments and communities, too. The current work on a new Road Safety Strategy and action plan is plausible and realistic medium for central government to look at the wider issue of regulatory telematics, including for eRUC, in the near term. **It would be pragmatic** for the report to highlight the connection and draw attention to the opportunity.

EROAD CONTACT

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