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Taxation, Funding, Costs/ Benefits and Priorities

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Introduction

Coming as the last paper of this two-day conference, I have the chance to look back over the contributions.

My session is not billed as a “wrap-up”, but as an independent commentator aiming to look at issues in the broadest sense, I am ideally placed to do so.

I should explain that although currently employed by Hamilton City Council, this paper is completely outside my Hamilton Council role. I have no sectional “axe” to “grind”, no stakeholder group to represent, no vested interest to uphold.

And the issues I have chosen to cover – taxation and funding, costs and benefits, priorities – are among the broadest and most vigorously fought-over you will find in transport policy today.

Transport is by its nature political. It is an area with much technical science brought into it, but before we can talk about technical issues, we need to define which issues we should be talking about. The first questions we must ask are about policy, not technicalities.

We have probably all by now heard of two national campaigns on transport – “Get Real on Rooding” and the “Green Light” campaign. We will have heard arguments reflecting both these at this conference. I hope we will not dismiss either out of hand without listening seriously to what each has to say. Because only by sorting out what our basic objectives are, the type of future we want to see for transport, can we seriously get to grips with how we create the world we have decided we want.

Taxation and Funding

There is a lot of the anger over transport taxation and funding, on both sides of the political divide. And anger it is – a sense of having been outraged, cheated, passed over. I would summarise the feelings as follows.

“Motorists are being robbed at the petrol pump because only some (about a half, by Government figures) is returned to the roads in the form of investment”. We have all heard the phrase “siphoned off into the consolidated fund”. More recently, since the Government set up a number of separate transport funds, some mode-specific, we have heard a variant – “siphoned off to pay for cycleways”, the implication being that cyclists get motorists' money without paying a bean in taxation, because quite obviously they don't buy petrol, vehicle registration, etc.

“It's about time we invested in forms of transport that bring real benefit to all of us, not just those who drive, but the country as a whole. Public transport, cycling and walking have far bigger benefits in terms of the environment and in other ways, for far less costs, so it's about time we stopped pouring the bulk of the money into highly inefficient forms of transport which damage the

environment and threaten the safety of those who choose to walk or cycle”.

I hope I've represented these two polarised positions reasonably fairly. If I have, those statements betray an unresolved confusion which until resolved will continue to provide fuel for the anger. And that is this: for whose benefit is the taxation raised? Or put another way, to whom does the taxation “belong”.

Ask many in the motoring lobby groups, and a clear answer comes back: it belongs to “road users”, by which is meant “those who pay”. This excludes pedestrians and cyclists, because (so it is argued) they “do not pay”.

Yet Transfund is charged with basing its decisions on costs and benefits “to the nation”. This is fine if “the nation” and “road users (“who pay”)” are one and the same. But they are not. The first includes everyone, and the second only those who use motor vehicles. This is where the angry arguments come from.

To resolve this question, we need to go back to the justification behind transport taxation. Why do we tax transport, and why in the form we have set it, i.e. linked to petrol and other charges based on motor vehicle use?

Transport taxation only arose when certain types of transport caused enough damage to require repairs and maintenance which would not have otherwise been required. In this context, it was quite reasonable to require the costs for this to come from the users of these particular types of transport. Thus, for example, “Turnpike Trusts” were formed: “carriages” caused the damage, so it was on “carriages” that a toll was slapped to pay for the maintenance. People on foot, and mounted on horseback, paid nothing, because they did not cause the damage.

Exactly the same logic lay behind the first motor vehicle taxation. “Road taxes” taxed motor vehicle use, because motor cars, much heavier than carriages or anything else seen up until then, required much tougher road surfaces. It was entirely reasonable that the taxation was slapped on motor cars, and, again, entirely reasonable that pedestrians and those mounted – by now, more likely to be on bicycles – paid nothing.

It was also entirely reasonable that some extra form of taxation should be devised for those forms of motor traffic which did many times more damage than others – i.e. trucks compared to cars. And so road user charges were, again, an attempt to relate taxes proportionately to the damage caused.

This logic seems to have been lost in the reforms of the late 1980s, through introduction of a new phrase which broke the original logic - “user pays”. The idea – I would suggest a false one – was that roading infrastructure was nothing more than an economic commodity to be bought and received in exchange for a purchase price. This was a radical change – from a taxation on damage to a taxation on use.

It seems to have been little noticed at the time. Perhaps part of the problem was that the interests of motorised traffic and the interests of the country as a whole were seen as basically the same. However, the real reason was the “market” philosophy, by which what was best, and therefore chosen, by the aggregation of all individual decisions, would add up to what was best for all of us together.

Leaving aside the seismic and long-running arguments of political philosophy as to whether aggregated individual decisions add up to a “common good”, this did not face up to the fundamental justification on which transport taxes had been based – the damage caused by transport. Taxation

was linked, in philosophical terms, to “benefits received” when it should really have been based on “damage done”.

I would suggest that we need to place transport taxation more clearly back on this basis. We should recognise that the taxation does not “belong” to those user groups “who pay”, but to those of us who are affected by the damage caused by those form of transport. That means all of us.

As for motorists' taxes being “siphoned off to pay for cycleways”, let's get this in perspective. The Land Transport Fund has allocated about \$1 billion for roading and \$4 million for walking and cycling – that is, less that one-two-hundred-and-fiftieth for both non-motorised modes together. When cycling and walking make up nearly a quarter of all trips. I would suggest the imbalance is still very much weighted in favour of motorised transport.

As for the charge that cyclists do not pay road taxation, every bicycle on the roads is a saved car trip – sometimes more than one, e.g. in the cases of children's escort journeys. With cycling doing next to no damage, cycling is saving road investment, not adding to it, not to mention other forms of saving such as pollution and injury danger to others. There is more of a logic for paying cyclists rather than taxing them. The same goes for walking.

Going back to the “damage compensation” logic for transport taxation (and away from the flawed “user pays”), originally the damage envisaged was to road surfaces. We now know there is a lot more damage than that from motorised transport. This leads onto my next topic.

Costs and Benefits

The confusion as to who transport funding “belongs to” – those causing the damage caused by motorised transport, or those affected by the damage – has led to a very strong bias in how costs and benefits are recognised, quantified, and compared. For about 15 years, Transfund and its predecessors has been in effect seen as answerable to those user groups who pay transport related taxation. And whilst that has seemed entirely appropriate under “user pays” thinking, it has produced a major bias when measured against the interests of those affected by the damage, that is, all of us.

Transfund's official mandate has never, on paper, lost sight of the true logical justification basis for transport taxation. Transfund has always been charged with considering costs and benefits “to the nation” – but which costs and benefits?

Strong in the Project Evaluation Manual (PEM) methodology have been journey time savings and crash cost savings. Vehicle operating costs are also prominent. But what about the rest of the range of social, economic and environmental benefits?

These are very often referred to as “intangibles”, meaning that they can't be measured. The implication isn't necessarily that they are unimportant – they are indeed recognised and included in the evaluation of individual projects – but the fact that they have not been measured speaks volumes about the realistic priority attached to them.

The implication of the word “intangibles” – that these effects cannot be measured – is erroneous. Whilst it is difficult to place a dollar value on, say, pollution of a watercourse from road runoff, or a heavily-trafficked road preventing a child from walking safely to school, it is just as difficult to place a dollar value on a minute saved from a work commute, or a saved life or broken limb. The placing of dollar values is subjective and speculative in all these cases. Yet it has been done in the case of travel time and crash savings, and not in the case of environmental effects. I would suggest

that the real reason is the “user pays” confusion, leading to the misguided idea that Transfund is answerable to specifically to the interests of motorised users, rather than to all of us in every aspect of our lives.

Sometimes what are counted as benefits may actually impose costs. Journey time savings may be compensated for by people lengthening their journey times, such as a commuter living further away from their workplace, facilitated by the building of a new road. Certainly there is a tendency, observed over many urban forms over a long historical scale, for average commuting times to remain surprisingly static. This means longer journeys to meet the same journey purpose, in turn using up more land and energy, which seems to run counter to the Government's National Energy Efficiency and Conservation Strategy (NEECS).

On health effects of transport, preventive health benefits from cycling have been worked into the PEM, but this is a tiny tip of a very large iceberg. We hear a lot about “couch potato” lifestyles, and part of this is car dependency. Cycle to work and you get the classic US Surgeon-General's prescription of “half an hour of gentle exercise on most days of the week”. Drive to work and you miss out. Children grow up reliant on “Mum's taxi”; how are the effects of the lack of exercise on their physical growth measured in transport project evaluation? Or the impact on their social development of the lack of independent ability to choose their own local friendships? Or, come to that, on “Mum's” lost time spent “taxi-ing”?

And still on health benefits, there are further impacts on the economy. There will be clear benefits to employers from the reduced absenteeism of a workforce with more health-enhancing transport patterns. The economic benefits from this will have further multiplier effects on the wider economy. None of this is measured in transport project evaluation, not even among the “intangibles”.

This opens up a vast range of costs and benefits to be monetarised, in fact a range that seems endless. If we are honest, we have probably only scratched the surface in what we have monetarised in the PEM. And the PEM is already a weighty tome! This raises further questions: is the monetarisation task unmanageable, and indeed is it appropriate? And if so, how else can we bring the logical consistency into transport funding decisions that monetarisation was always meant to provide? This leads onto my last topic.

Priorities

I covered the above ground a few years ago in my New Zealand Cycling Strategy Foundation Project. In my final report, *Into The Mainstream* (2000) I made two recommendations covering it. Firstly, research to extend monetarisation of costs and benefits, citing a wider range but referring to cycling's preventive health benefits as one area in which some quantification had already taken place. Secondly, that the PEM evaluation methodology should be placed in the context of clear policy objectives, set out by Government in the (then) forthcoming New Zealand Transport Strategy (NZTS).

Preventive health benefits from cycling were incorporated in the PEM in early 2002. Transfund's Funding Allocation Framework, mid 2002, adopted my other recommendation in the form of a six-stage process whereby a project only needed a benefit-cost score of 1 to be evaluated further against the NZTS's objectives (then already published in the February 2002 “Moving Forward” Package). This, however, has raised its own questions of accountability, transparency and qualitative judgment.

To put it bluntly, this recommendation of mine has opened up its own can of worms. There has

been a not-too-pretty tug of rhetoric between the Auckland interests, who see their transport and congestion problems as more pressing than the rest of the country, and the rest of the country who see their resources sucked northwards to pay to solve them. Throughout the country we see coalitions of civic leaders and transport interests – Mayoral Forums, Regional Land Transport Committees and the like – each arguing that this or that particular road is vital for their own particular local economy. This is where the call for alternative transport funding sources, like Private Public Partnerships (PPPs) comes from – not from any idea that transport is more appropriately paid for by private finance.

And in recent months the lobbying has hardened into the “Get Real on Roothing” campaign, with the “Green Light” campaign fighting back.

I haven't said much on PPPs and other alternative funding sources, because I don't believe the issue is really about the amount of money going into the transport system, but about priorities; not about the size of the cake, but on how the cake is shared out; and to continue the analogy, how we chew and digest our cake.

I would suggest that the Moving Forward Package, the NZ Transport Strategy, Transfund's Funding Allocation Framework, and the elements of these as incorporated in the Land Transport Management Bill, are a step forward – but I agree with those who criticise the lack of accountability which it opens up.

You can just imagine it: “You supported that crucial vote in the House last month, so your Mayor gets his motorway in next year's programme”. A worst case scenario to be sure, but not unimaginable!

I would suggest the answer is more explicit policy analysis, not a retreating into the old numerate analysis which was never truly objective or publicly accountable in the first place. The NZ Transport Strategy has some fine phrases - “Assisting economic development”; “assisting safety and personal security”; improving access and mobility”; “protecting and promoting public health”; “ensuring environmental sustainability”. What do they mean in real terms, in terms of public investment and programmes?

We need to tie down what we mean by those phrases, and then flesh out what measures will, or will not, work towards them. At present they are really too nebulous to mean much practically. This means that just about any proposal of any kind can be argued to be meeting them, or not, resulting to the lack of accountability I have caricatured above.

We need to think more broadly than we are used to thinking. For example, it is taken for granted in many circles that “reducing severe congestion”, one of the funding priorities highlighted in the NZ Transport Strategy and the Funding Allocation Framework, has to mean building more and bigger roads to free up the traffic flow. Does it really? Could not alternative modes or demand management more efficiently reduce congestion? After all, doesn't reduced congestion at its most basic suggest less traffic, and not necessarily more roads?

To illustrate this – one of a whole host of areas where we need to broaden our thinking – Jeanette Fitzsimons at this conference has spoken on her Road Traffic Reduction Bill, which has thought something which has up until now been unthinkable to many people: that we might better serve national wellbeing by having less transport rather than more.

I don't want to get into party politics, but this thought needs more serious consideration than it is often given.

No less a body (and not a particularly “green” one) than the UK Royal Commission on Environmental Pollution, in their report on transport (1993) compared the idea that increases in travel were a necessary accompaniment to rising economic prosperity, to arguments used by 19th century industrialists against pollution controls in the interests of public health. Of course, argued the 19th century industrialists, the country needs smoky factories, because it is on those that its prosperity is built. In retrospect we now know otherwise, but stop to consider how plausible that argument would have seemed at the time! This august body, who to my knowledge are not card-carrying Green Party members, concluded it was just as mistaken to suggest that rising traffic levels are an indicator of rising national prosperity, or that to reduce the former is to strangle the latter.

In this context, Jeanette Fitzsimons' Bill does not seem so unthinkable.

In setting priorities, perhaps we could admit that it is at least possible, in some circumstances, for national well-being to be served by less traffic rather than more. A blanket reduction in traffic as an end in itself does indeed seem hard to justify, but might there be some cases where the benefits of this could be shown to outweigh the costs?

In thinking beyond simply private motorised transport, and adding public transport, cycling and walking as options, we have taken a step that is not as radical as we often think. Jeanette Fitzsimons is not just raising the question of which mode we use; but how much we travel.

Whilst I do not imagine Jeanette Fitzsimons is aiming to reduce walking, cycling and public transport – I imagine she is mainly thinking of motorised transport – there would be benefits in less travel overall for much of the travel we make. I am not thinking here of primary produce to ports, which has always been crucial to our economy (although there is the question of whether more of that should go by rail), but on urban trips. It is interesting that a Bill similar to Jeanette Fitzsimons' “unthinkable” Bill did indeed reach the statute book in Britain in 1996 – which had neither MMP nor a Green Party presence in Parliament – in that Britain's economy has been far more based on cities, than has New Zealand with its strong agricultural and rural natural resource production.

Within cities, the car is a highly inefficient way of getting about. I would suggest for cities instead of “Get Real on Roading”, “Get Real on Transport”. Although State highways are intended to be for “national” transport and non-local journeys, a high proportion of all trips here, and presumably more so on local roads, are for very short trips. Not only do these clog up what should be national arteries, but they are often the type of trip that would deliver big benefit if made by walking, cycling, public transport, or other options such as ride-sharing.

This is not as pie-in-the-sky idealistic as it may seem. EECA (the Energy Efficiency and Conservation Authority) have developed “travel demand management” (TDM) in this country, defined basically as adapting the way we travel in contrast to the more traditional approach of adapting our transport system. Reductions in car use of 10% or 20% are cited as having been achieved through some travel demand management programmes – which, incidentally, compares with less than 2% resulting from the current Government's extra funding support for public transport. And if we still think this is pie-in-the-sky, let's consider how we use our cars, and we will probably find a lot of waste we could cut out, given a bit of forward thought; individualised marketing to identify this waste is exactly how many TDM programmes work.

And longer distance trips may be more beneficially made by public transport. This is not “forcing people out of their cars”. How many of us really have the freedom to choose the form of transport we use? Public transport often is not available, we often feel too scared of the traffic to cycle, and our cities have developed such that a fair proportion of trips are too far to walk, and of those which

are not – still a high proportion – we again do not feel safe because of the increased traffic numbers and speeds. It would be more true to say that people are “forced into cars” rather than “out of” them – and that we by driving are part of the forcing!

Consider the “school gate” vicious circle. Parents are loathe to allow their children to walk or cycle to school because of the traffic danger, so they drive them. Thus contributing to the congestion at the school gate which causes the danger they are aiming to avoid!

We need a more explicit discussion about what sort of cities, towns and rural areas we want: recognising that even with trips having gradually lengthened through greater car dependency and more spread-out urban form, still one-third of vehicle trips are less than 2 km and two-thirds less than 6 km, that a full 20% of trips are by foot, and nearly as many by bicycle as by public transport. And that as high a proportion of car trips are for leisure as are cycling trips. The shorter and non-motorised trips are already a bigger part of the lifeblood of our cities than we often realise.

This is a time for sophisticated thought, not simplistic “blueprint” solutions. A big push to once and for all “complete” this or that motorway network will not solve anything, it will simply generate more traffic, as has been abundantly shown in transport planning practice since the late 1980s, while gobbling up massive funds which could be more effectively and beneficially spent elsewhere. And just as unrealistic is a blanket brake on travel as an end in itself, although I must say that I doubt Jeanette Fitzsimons is thinking of that in her Bill which recognises the need for further work before setting traffic reduction targets.

I hope I have given you enough food for thought to take with you as you leave this conference and travel home. May your travel be as pleasing an experience as our current transport system can make it – and may it provoke your thoughts on how it could be improved!

The views expressed in this paper are my own and not necessarily those of any other person or body.

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