

MINISTERIAL BRIEFING NOTE

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| Subject | NZTA position on tolling and current use |
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| Contact(s) for telephone discussion (if required) | | | | |
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| Chris Bunny | Group General Manager – System Leadership | s 9(2)(a) | s 9(2)(a) | ✓ |

Action taken by Office of the Minister

- Noted
- Seen by Minister
- Agreed
- Feedback provided
- Forwarded to
- Needs change [please specify]
- Withdrawn
- Overtaken by events

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2 February 2024

Hon Simeon Brown – Minister of Transport

NZTA POSITION ON TOLLING AND CURRENT USE

Purpose

1. This briefing sets out New Zealand Transport Agency Waka Kotahi (NZTA's) position on tolling, and addresses the following points:
 - Why does NZTA support tolling if associated infrastructure and operational costs are high?
 - Are there benefits of having more toll roads to decrease infrastructure and/or operational costs?
 - What work is underway to make the tolling system better?

Background

2. The Land Transport Management Act 2003 (LTMA) permits the establishment of road tolling schemes. Road controlling authorities, including NZTA, may submit tolling proposals to you as Minister of Transport for consideration. Under the LTMA, tolling funds received can be used to recover the cost of the planning, design, supervision, construction, maintenance, or operation (or any combination of these activities) of a new road.
3. NZTA assesses the potential suitability for tolling of all new roads it is responsible for. As part of our assessment, we consider whether core legislative requirements can be met (e.g. whether it is a new road and there are feasible un-tolled alternative routes available) and the extent to which the proposed scheme is efficient, effective and represents value for money.
4. NZTA operates the three toll schemes currently in place in New Zealand as shown in Table 1:

Table 1: Current toll roads in New Zealand

| Toll road | Location | Date tolling scheme established | Date final cost ¹ expected to be repaid/recouped |
|---|----------|---------------------------------|---|
| Northern Gateway | Auckland | 2009 | By 2039 |
| Tauranga Eastern Link | Tauranga | 2015 | By 2040 |
| Takitimu Drive Note: State highway since 2015 | Tauranga | 2003 | By 2031 |

5. For each of these roads, tolling has been utilised to accelerate construction compared to what would have been possible under regular transport funding and planning processes.
6. By contrast, more recent NZTA tolling proposals – Puhoi to Warkworth (2020) and Penlink (2022) – are aimed at paying for the operation and maintenance of roads, which are permitted uses of tolling funds under the LTMA. NZTA considers that tolling should focus on both funding for operations and maintenance of the state highway network and new infrastructure costs.

Why does NZTA support tolling if associated infrastructure and operational costs are high?

Tolling generates revenue that can ease pressure on the National Land Transport Fund

7. The National Land Transport Fund (NLTF) is facing increasing pressures through a combination of delivering current and future land transport investment programme, together with revenue impacts resulting from the COVID-19 pandemic.
8. Tolling funds can pay for planning, design, supervision, construction, maintenance and operation (or a combination of these activities) of a new road. Funding maintenance and operations of new roads through tolls relieves the burden on the NLTF – as is currently proposed for Penlink. Tolling revenue can also be used to service debt that enables earlier construction of a new road than would be possible through the NLTF alone.
9. In 2022/23, net revenue (gross revenue less operating costs) from toll roads contributed over \$23 million to debt repayment (principal and interest) that would otherwise have been a cost to the NLTF.
10. On average, around 30 percent of tolling revenue is spent on operating costs of the tolling system. This means that tolling is less efficient than other revenue tools such as Fuel Excise Duty (FED) and Road User Charges (RUC). Nevertheless, tolling does generate net revenue and in NZTA's view has other benefits which justify its value as a revenue tool.

Tolling can accelerate transport projects, and in the future could facilitate pricing to manage demand

11. Tolling has been used to accelerate the construction of new roads by debt-funding a portion of total construction costs, alongside NLTF investment. The three tolling schemes currently operating in New Zealand are designed to generate revenue to repay loans that enabled their construction to be brought forward. Tolling enabled the Tauranga Eastern Link to be brought forward by around seven years and Northern Gateway to be brought forward by around ten years.
12. While currently limited to the primary purpose of funding new roads, in the future tolling could be used as a demand management tool as well. The time-of-day tolls proposed in the Penlink tolling scheme is an example of using tolling to help achieve efficient transport network outcomes by managing demand on the network.

Tolling is currently the only revenue tool that directly targets the use of particular roads

13. In contrast to other revenue tools, tolling is currently the only mechanism available that targets specific roading infrastructure. Historically it has been used in cases where roads have provided additional value to users (e.g. Auckland Harbour Bridge and the Lyttleton tunnel). More recently, as noted above, it has enabled such benefits to be brought forward.
14. In each case, tolling targets users who get particular benefits from using specific roads. In combination with general user charges such as FED and RUC, it aligns charges to users with the benefits they receive.

Costs of operating the tolling business are relatively high but deliver effective services

15. Tolling has relatively high administrative costs (compared to FED and RUC). This, combined with low traffic volumes, can mean administrative costs are much higher relative to other revenue raising options. In 2022/23, gross tolling revenue was \$35.5 million, of which \$11.4 million (around 32 percent) was used for operating the tolling system. By comparison, RUC administration amounts to around 1.5 percent of RUC revenue, while FED administration requires only 0.04 percent of revenue. However, the FED and RUC systems do not require NZTA to maintain and operate physical infrastructure similar to tolling gantries.
16. NZTA has a single back-office system that manages all three existing toll roads. In 2022/23 our system processed 16,251,237 trips and has a 97 percent payment compliance rate. It also enables the majority of customers (80 percent) to automatically pay for tolls.
17. NZTA currently retains 80 cents from each trip to operate its toll business, including:
 - operating/maintaining/replacing/upgrading the physical assets and technology used to collect tolls from roadside gantries and cameras to back-office systems
 - payment systems
 - tolling related staff costs, and
 - tolling related continuous improvement activities.

Are there benefits of having more toll roads to decrease infrastructure and/or operational costs?

Limited ability to 'scale' through tolling alone, but shared systems offer opportunities

18. The basic challenge facing the operation of toll-roads in New Zealand is the relatively low volume of transactions by global standards.
19. New Zealand's busiest toll road (Northern Gateway) saw around 19,000 daily transactions in 2022/23 and our least busy road (Tauranga Eastern Link) saw around 11,000 daily transactions. Compare this to Sydney where, of the eight toll roads operated by Transurban, the least busy toll road in 2022/23 saw 38,000 daily transactions and its busiest saw an average 278,000 daily transactions. Of the 15 toll roads operated in Australia by Transurban, only one has less daily traffic than our busiest toll road.
20. The operating costs of tolling as a proportion of toll revenue are expected to reduce over time as more schemes are added. This is because an increased number of schemes would enable the large fixed cost of the back-office system to be spread across more schemes and a larger volume of vehicle trips. However, a very large increase in transaction volumes would be needed to achieve significant efficiencies. Given the relatively small New Zealand roading system and specific LTMA requirements for tolling, there are limited opportunities for this to occur.
21. However, as outlined later in this paper, longer-term efficiencies could also be gained through a single system for tolling and other pricing or charging regimes (e.g. congestion charging). Sharing back-office platforms provides opportunities to spread costs across more transactions than would be otherwise possible through tolling schemes alone.

Legislative changes can help reduce costs for the tolling system

22. We have identified potential changes to legislation that would help us to simplify our systems and in turn reduce costs of the tolling system.

23. **s 9(2)(f)(iv)** [Redacted]

Increased digitalisation makes the tolling system more efficient

24. Digital initiatives introduced into our tolling system in 2015 resulted in a doubling of tolling transactions processed and halved staffing costs. There are further opportunities to reduce operating costs by moving towards complete digitisation of the tolling system.

What work is underway to make the tolling system better?

We are developing a new Tolling Back Office System to improve efficiency and functionality

25. NZTA is working with a vendor to develop a new back-office processing system and user interface for our tolling back-office system (TBOS). **s 6(c)** [Redacted]

s 9(2)(j) [Redacted]

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We are making ongoing improvements in response to customer feedback

29. In 2023 our customer services team surveyed tolling customers to identify future improvements to our systems – 81 percent of respondents were either highly satisfied or somewhat satisfied, and 10 percent dissatisfied with the service offered. Many recommendations will be delivered through the new TBOS s 9(2)(j)

30. In the interim, we are making ongoing improvements to the current system by:
- commencing trip expiry date reminders
 - allowing online/easier refunds
 - reducing trip validity to reduce liability on unclaimed funds
 - reducing debt being referred to external debt collection agencies through more/earlier notifications.

We are progressing roadside upgrade projects

31. We have successfully replaced the Northern Gateway tolling devices with new robust and secure equipment. Equipment on the Tauranga toll roads (Tauranga Eastern Link and Takitimu Drive) will be replaced in 2024.

It is recommended that you:

1. **Note** the contents of this briefing.



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Chris Bunny
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Hon Simeon Brown, Minister of Transport

Date: 2024

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