

District Council Roothing Issues

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Recent claims of highway robbery underlines the problem facing district council roading, a lack of finance.

So

- how big is this problem?
- what are the contributing factors?
- and what effect is it having on the forest industry?

1. The Size of the Problem

District Councils claim of inadequate funding can only be attributed to one of three factors,

- inadequate Transit NZ subsidy, or
- inadequate rates funding, or
- the total cost of roading has increased, or
- a combination

(I) Transit NZ Subidy

a. Transit NZ Expenditure

Matching Transit NZ expenditure to the allocated Land Transport Fund revenues highlights funds lost to the roading industry of which districts council's could expect a share.

Land Transport Funds (\$ million)

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
LTF revenue	556.0	738.0	775.5	779.5	685.4	782.8
Transit NZ expenditure	<u>528.9</u>	<u>649.7</u>	<u>647.2</u>	<u>601.2</u>	<u>610.4</u>	<u>596.7</u>
Surplus	27.1	88.3	128.3	178.3	75.0	186.1

Source: Report from Forestry Road Funding Taskforce.

Some of the surplus would go to funding the Ministry of Transport and Land Transport Safety Authority but obviously there is a large amount of money not reaching the roading industry by way of subsidy.

b. Fuel Taxes

In addition to the revenues reaching the Land Transport Fund a considerable amount of tax is collected from the 'transport industry' such as petrol tax and excise duty on vehicles.

Petrol tax accounts for \$655 million siphoned off to the consolidated fund and this factor alone could double the expenditure on roading.

c. Road User Charge's

Contribution to Land Transport Fund Revenue -

The heavy haul industry, including forestry, contributed 38-40% in the mid 1980's and now pays 48% of the Land Transport Fund. This increased funding in effect subsidises other road users.

Road User Charges as a Percentage of Land Transport Fund

1987	1988	1989	1990	1991	1992	1993
38.4%	38.2%	38.9%	42.0%	34.5%	35.4%	47.6%

See Appendix 1

The Land Transport Fund includes road user charges, motor vehicle registration, and the motor spirit component of highway taxation.

The 1993 figure represents an extra \$69 million of road user charges each year compared to the contribution in the mid 1980's.

d. District Council Roothing Subsidy

Over time the subsidy for local roads from the Land Transport Fund administered by Transit NZ will fluctuate depending on the extent of roading expenditure, however, it would appear to be declining slightly. This puts greater pressure on Council funding.

District Road Subsidy Funding (\$ million)

	<u>Subsidy</u>	<u>Total Roothing</u>
1979/80	65.4	159.4 (41.0%)
1985/86	176.3	405.1 (43.5%)
1991/92	204.1	538.5 (37.9%)

Source: Local Authority Statistics, Report from Forestry Road Funding Task Force 1993.

The 1991/92 subsidy figure differs from that of Transit NZ by approximately 3%.

The proportion of Transit NZ roading expenditure going to district roading since 1987 has declined at a great rate.

	State Highways	District Roads	%
1987	211	208	50
1993	310	232	43

(II.) Road Funding from Rates

At the national level rates contribution to total roading expenditure has declined significantly in recent years

Rates Contribution to Roothing Expenditure (\$ million)

	1979/80	1985/86	1991/92
Rates to Roothing	88.1	217.8	238.3
Total Roothing Expenditure	157.8	405.1	538.9
	55.8%	53.8%	44.2%

Source: Local Authority Statistics, Report from Forestry Road Funding Task Force 1993.

At the 1979/80 level of rates contribution this amounts to \$62 million per year less rates being put into roading.

2. What are the Contributing Factors?

a. Land Transport Fund Surpluses

As shown above, surpluses to the roading account have been generated. However, it is the loss of those surpluses from the Land Transport Fund that creates the problems as occurred in 1990/91. The surplus of \$96 million was eliminated from the fund by changing the petrol tax from 10.9 c/litre to 7.1 c/litre in the budget of that year.

In the current year economic growth has escalated revenue over budget by an expected \$57 million (Local Government Association 1994) and what happens to these funds will be closely followed.

b. Benefit/Cost Ratio

The current level of the ratio to attract Transit NZ subsidy for district roading is 5.5, ie a benefit 5.5 times the costs. Last year the Transit NZ Act was changed to guarantee at least 97% of the previous years funding. In this worst case scenario the effect on the benefit - cost ratio would be to push it up to 11 (Local Government Association 1994). Clearly a small change in Transit NZ funding has a major affect on the ratio which two years ago was about 2.

c. Increased Traffic

Any increase in traffic will place an increased pressure on available funding. Since 1989 Transit NZ have estimated an increase greater than 15% in traffic from the National Land Transport Programme data (Report from Forestry Road Funding Task Force 1993).

Increased Traffic Volume Since 1989

1990	1991	1992	1993
4.6%	8.5%	11.4%	15.4

d. Other Factors

It is possible that the true cost to maintain the roading system is currently being underestimated. The removal of the three class roading standard in the 1980's may not have resulted in immediate road damage in many cases, but could easily have reduced the design life of the road. The jury is out on this issue.

3. The Forestry Effect on District Roads

a. Extra Traffic

As identified in the Report from Forestry Road Funding Task Force (1993) there will be a proportional bigger effect on district roads than that on State Highways during this decade.

Traffic	(million tonne kilometres)		
	1990	2000	Increase
State Highway	513	684	33%
District Roads	60	136	127%

The traffic was based on a survey using 1990 actual data and that estimated for 2000. As the survey used 1990 as the base year it has underestimated the increase in traffic noted by District Councils.

NZ Total Log Production (m³)

1988	9,118,000	
1990	11,511,000	
1993	15,000,000	
2000	18,500,000	(estimated)

Source: Ministry of Forestry

Between 1988 and 1993 log production increased 5,812,000 cubic metres or 64% with a further 3,500,000 expected by 2000.

b. Woodlot Effects

When log prices are high historically we can expect a non sustained increase in log production from woodlots. As woodlots are very scattered in comparison to the major commercial forests it can be expected there will be a greater use of district council roads to transport logs. Major growers use about 10 kilometres of district council roads on average per trip.

c. Roads Used

Increased log traffic, new forests coming on stream, and more woodlots has a further effect in increasing the length of roads used and needing maintenance.

Length of Roads Used (kilometres)

	1990	2000	Increase
State Highway	3,717	3,732	0.4%
District Roads	1,679	2,239	33.4%

Source: Forestry Logging Traffic on New Zealand Roads 1992

It is doubtful if this data captures the full impact as the roads used in 2000 do not necessarily cover those used in 1990.

Now that we have scoped the problem, what direction are District Councils taking and how valid are they.

4. How have District Councils Reacted

a. Differential Rating

A number of Councils have tried to introduce differential rating. Justification has been precarious and to date deficiencies has seen all notices withdrawn eg Rodney District, Western BOP District.

b. Financial Contributions

- i. Under the Resource Management Act councils are able to require a financial contribution or bond where a resource consents must be obtained. An exercise looking at the effect of a 10% financial contribution by way of a bond identified of the forest asset devaluation of approximately 3%. However, this does not include any other restriction introduced as the result of a resource consent classification.
- ii. A condition of a harvesting application for the proposed Waikato District Plan is a contribution of \$900 per hectare. The figure has been calculated on the basis of production per hectare, irrespective of road usage, comparing rating differentials of forestry with dairying.

c. Lobbying Government

Councils through the Local Government Association (1994) have highlighted the disparity between indirect taxation revenue from the transport industry and finance available for roading.

5. Discussion

It has been difficult to get these figures together for comparative purposes and they may contain some inaccuracies. The cause of this problem is the changes to administrative structures (such as the National Roads Board), components of highway taxation and the end to the collection of some data (such as the Local Authority Statistics). Despite these problems the overall outcome would I believe not be different although the magnitude could.

District Councils have a legitimate concern over the availability of subsidy money for roading from the Land Transport Fund. As a consequence it can fairly be said that some district roading projects have probably not proceeded. Added to this the documented expectation of a significant increase in forest traffic in this decade heightens the concern for Councils. Particularly where different roads will be used to those currently in use.

It should be pointed out that the expected traffic is the potential increase and that Councils need to do their own analysis with local and more detailed information.

In some regions historically low rates, low roading standards and poor sub base, due to underlying geology, are clearly a problem, such as on the East Coast and in Northland. However, it is not the responsibility of forest harvesting as a new industry to supply the majority of road funding for a region.

Councils' response to gain funding from the forest industry is a concern as in many situations the new user pays approach overlooks the poor state of many of the roads involved. Also Councils have had over twenty years to plan for road upgrades with rates paid by the industry.

From the forest industry point of view there is a concern that highway taxation is not going to roading thereby forcing district councils to confront the industry to fund the required roading.

As road user charges become a larger component of the Land Transport Fund the heavy haul industry is being penalised over and above the problems encountered by the district councils.

Then forestry has more specific concerns in respect of the amount of rating monies going into roading particularly on routes that will be used by forestry traffic. There is also the question of has the road design life declined during this debate.

Cumulatively roading expenditure would appear to be down by hundreds of million of dollars per year. Forestry has been prepared to pay for road usage but this discussion highlights the question are the current concerns over forestry effects on roading fair.

References

1. Report from Forestry Road Funding Task Force 1993 - Ministry of Forestry
2. Local Government Association 1994 - Press release
3. Budgets 1986 - 1993 - Government Printer
4. Local Authority Statistics - Statistics Department
5. Roading Statistics 1980 - 1989 - National Roads Board
6. Forestry Logging Traffic on New Zealand Roads 1992 - Prepared for NZ Forest Owners Association By P F Olsen & Company

Appendix 1

Road User Charges as a Percentage of Land Transport Fund

	1987	1988	1989	1990	1991	1992	1993
RUC's	210.6	240.8	264.5	282.0	285.0	289.0	345.0
LTF*	548.0	629.6	679.2	672.0	826.0	816.0	725.0
	38.4%	38.2%	38.9%	42.0%	34.5%	35.4%	47.6%

* LTF - includes road user charges, motor vehicle registration, motor spirit component of highway taxation.

Source: Government Budgets, Report from Forestry Road Funding Task Force.

