

## **Managing Roads 2: Who Should Pay for our Roads?**

Understandably, this tends to be a contentious issue! Everyone enjoys the benefits from access to decent roads, but no one wants to pay for them. But someone has to. The purpose of this article is to discuss who should pay for our roads, and how much should they pay?

This immediately raises a fundamental issue: should roads be paid for out of general taxation (through a budget allocation from the Ministry of Finance), or should they be paid for by those who use (and benefit from them)? Or should it perhaps, be a mixture of the two? Other important funding questions include:

- How should each road management activity be funded?
- Should the funding for the construction of roads be treated differently from their subsequent maintenance?
- Should National, strategically important roads be treated differently from local roads?
- And who should decide what should be the level of funding for roads, or the correct policies to implement?

These arrangements have an enormous impact on the ability of any road organisation to provide the services that road users want and need. As for any business, the technical or managing capacity of a road organisation is irrelevant if it does not receive adequate funding, or receives it too late to pay its contractors and suppliers.

Furthermore, the level of funding should be as predictable and as stable as possible for as long as possible, because the consequences of road works have an impact on the road network's needs for 10 – 30 years into the future (and much longer for bridges). Road managers therefore need to think that far into the future, if the resources provided today are to minimise the future road transport costs to the community. For example, it may well be better to spend twice as much on a more expensive treatment this year, if it results in much lower costs over the next 10 years. These are complex issues, but sophisticated computer programs are now available to help experienced road managers strike the best long term balance between these conflicting concerns, thereby minimising overall road transport costs to the whole community.

So if society is to obtain the biggest benefits from its expensive road infrastructure, then it must provide funding for their construction and maintenance that is as long-term, stable and as predictable as possible.

Traditionally, this funding has come from general taxation, allocated through the government's Finance ministry. There are however, significant problems with this approach, most of which are all too common (to some extent):

1. The level of funding is not predictable from one year to the next, often because of the conflicting interests and demands on government revenue during the political cycle. This makes effective long-term planning on the network meaningless, resulting in more short-term 'fire-fighting', lower efficiencies and higher waste.
2. The actual disbursement of funds to road organisations is late or reduced, resulting in severe operational problems, such as an inability to pay suppliers. A common consequence of this is that future suppliers inflate their prices to reflect these risks, resulting in higher prices, or impose expensive (but usually legitimate) claims.
3. The amount of money provided for road maintenance is determined based on a wide range of other (whole-of-government) factors, unrelated to the actual needs of the network. The result of this is generally chronic under-funding (after all, few politicians are elected for maintaining roads, compared to other more politically glamorous activities)!

There are other problems with this approach. In particular, everyone in the community who pays taxes are paying for roads, even if they never (or seldom) use them. Furthermore, the amount that they pay bears no relation to the amount that they use the roads. And finally, the only real way available to those taxpayers and road users to have their views and priorities reflected in the service that they receive, is through the very indirect mechanism of general elections, (when a myriad of other issues also effect the result). This is very indirect and imprecise with no effective accountability between and those providing the service and those paying for it.

The problems caused by this traditional approach has led to an alternative arrangement that has been developed and implemented in many countries. This is based on levying charges (not taxes) on road users, with the revenue raised used to fund road management. A small Road Fund institution, completely separated from other government funds and functions, is used to manage this process, overseen by representatives of those paying (a Roads Board). This Board is accountable to road users (the customers), and are to reflect their views in establishing appropriate policies on how their funds are to be used in providing the road infrastructure.

This approach is based on the following fundamental principles, beliefs and values:

1. Those who use the service (i.e. obtain the benefits from using the roads) should pay for the services that they enjoy. This can be achieved through the imposition of a small charge on the pump price of fuel.
2. The more someone benefits (i.e. uses) the roads, the more that they should pay. Again, a small surcharge on the fuel price achieves this, as well as encouraging fuel efficiency.
3. The more it costs to provide the road service, the more users should pay to cover these higher costs. This is particularly important for trucks, whose weight can cause expensive damage to the roads. Differential vehicle registration charges can be used to reflect this principle.
4. Those who pay for the roads should have a say in how their funds are used: i.e. what they want for their money and how much they are prepared to pay for what level of service. This is the role of the representative Roads Board.

Compared to the more traditional approach above, implementing such an approach has a number of significant advantages for the community as a whole:

1. The level of funding is far more predictable, de-political and stable than previously, and adjusts automatically: as road use increases, its maintenance needs increases, but so too does the revenue from users.
2. The entire road system can be self-financing and independent from other government issues. This frees up the Ministry of Finance to focus better on other areas of the economy.
3. Accountability by those providing road services to road users is much more direct.
4. The delivery of road services can be carried out outside of the public sector, allowing proper commercial, businesslike operations to be adopted, without the traditional public sector constraints. This should result in greatly improved utilisation of resources (e.g. money and people), higher morale and professionalism.

However, adopting such an approach can be politically challenging: it requires the funding for roads to shift from general taxpayers to road users, who understandably (but selfishly) object to paying for the road services they use. This is especially the case in developing countries, where vehicle ownership is more the exception than it is in developed countries, and so tend

to be relatively wealthy and politically well-connected. Roads are often considered to be a 'social service' "to be paid for by the government" (actually, the taxpayers). As explained in the first article on this series, if paying more results in better roads, then road users are in fact saving many times the amount that they are paying (typically, three times as much).

Providing adequate, predictable and stable funding is however, only half the battle towards providing better roads. It is also important to ensure that more funding does actually result in better roads, and not just greater costs, corruption and inefficiencies. The more direct accountability offered by the second funding approach above is part of the solution to this. The next article in this series will discuss what characteristics are necessary if we are to certify that the money spent on roads is used as efficiently as possible, on the most appropriate activities, to ensure that we get the "biggest bang for the road users' bucks"!

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