FUTURE OF THE LAND TRANSPORT REVENUE SYSTEM PROJECT – DRAFT SCOPE DOCUMENT

<table>
<thead>
<tr>
<th>Reason for this briefing</th>
<th>To seek your feedback on a draft scope document for the Future of the Land Transport Revenue System project.</th>
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<tbody>
<tr>
<td>Action required</td>
<td>Provide feedback on the draft scope document and recommendations in this briefing.</td>
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<tr>
<td>Deadline</td>
<td>20 August 2018 to discuss at your weekly meeting with officials (or 3 September which is the following meeting scheduled with officials).</td>
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<tr>
<td>Reason for deadline</td>
<td>To incorporate your feedback into planning for the project.</td>
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Contact for telephone discussion (if required)

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<tr>
<th>Name</th>
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<th>Telephone</th>
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<tr>
<td>Bryn Gandy</td>
<td>Deputy Chief Executive, Strategy and Investment</td>
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<td>Marian Willberg</td>
<td>Manager, Demand Management and Revenue</td>
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MINISTER’S COMMENTS: Withheld under section 9(2)(a) of the Official Information Act 1982

Date: 16 August 2018

Attention: Hon Phil Twyford (Minister of Transport)

cc Hon James Shaw (Associate Minister of Transport)

Security level: In-confidence

Minister of Transport’s office actions

☐ Noted
☐ Needs change
☐ Withdrawn
☐ Seen
☐ Referred to
☐ Not seen by Minister
☑ Approved
☐ Overtaken by events
Purpose

1. This paper seeks your feedback on a draft scope document for the Future of the Land Transport Revenue System project.

Background

2. The land transport revenue system is crucial to operate, maintain and invest in New Zealand’s land transport network.

3. The current land transport revenue system is largely based on fuel consumption and private vehicle use. We are expecting the transport revenue system to face a number of significant challenges over the coming years, including:
   
   - worsening equity outcomes between motorists due to improving fuel efficiency of petrol vehicles
   - projected uptake of electric vehicles increasing the role of road user charges (RUC) in the National Land Transport Fund (NLTF)
   - changes in travel behaviour and patterns that may impact on current revenue tools e.g. who travels, how, why, where, when and how often
   - changes in the way that people pay for transport e.g. Mobility as a Service (MaaS) platforms
   - changes in household transport preferences such as fewer people choosing to own a private vehicle; and
   - differing regional situations (e.g. some areas are experiencing high growth while others are declining).

4. The exact timing and scale of these challenges is not yet known, but we do know they will need to be carefully considered in the design of any future revenue system.

5. The last time that fundamental changes were made to the way that we collect transport revenue was through the Road User Charges Act 1977. That legislation introduced charges for non-petrol vehicles based on their weight and distance travelled rather than the amount of fuel consumed, and at the time was innovative and world leading. Our improved understanding of the transport system and its associated impacts means that there is another opportunity to consider core aspects of our transport revenue system, particularly given continuing developments in technology.

6. A revenue system can do more than simply raise revenue for the purposes set out in paragraph 2 above. A future revenue system has the potential to influence travel behaviour and decisions by:
   
   a) generating revenue using prices that reflect the full costs of travel, and
   b) generating revenue using prices to influence behaviour and support or achieve transport and broader government outcomes.

7. With respect to paragraph 6(a) above, many negative externalities created by transport are not currently priced, but potentially could be calculated and collected through a future
transport revenue system e.g. congestion, harmful emissions. In some instances there are existing government charges that attempt to price some negative externalities associated with transport and there is the potential for a future revenue system to better target or price these impacts. For example, there is an Emissions Trading Scheme levy on fuel for greenhouse gas emissions and an Accident Compensation Corporation levy on motor vehicle for transport related deaths and injuries.

8. In contrast to pricing for the full costs of travel, paragraph 6(b) above indicates the use of pricing to support or achieve government outcomes (i.e. pricing is not necessarily based on the costs of travel). For example, if mode shift is a potential outcome to pursue then pricing relating to non-road modes could be considered and calibrated against pricing of road transport alternatives to support or achieve desired mode share outcomes.

9. To better understand and provide advice on both the future challenges and opportunities, the Ministry of Transport (the Ministry) is proposing a project to consider the future of the land transport revenue system (the project). The project is part of the Transport Pricing pillar of the Urban Growth Agenda (UGA)\(^1\) and it will consider/link into work being undertaken in the other UGA pillars.

10. Cabinet recently agreed to increases to Fuel Excise Duty (FED) and Road User Charges (RUC) rates to deliver on the transport priorities laid out in the Government Policy Statement on land transport 2018 [CAB-18-MIN-0380 refers]. We do not anticipate any problems in generating the revenue required to deliver on these priorities over the next 10 years. We therefore have the space and time to apply a strategic and long-term perspective to this project to design an ideal future state.

Draft scope document for your consideration

11. A proposed scope document for the project has been prepared (Appendix One) and we would welcome any feedback you have on it.

12. We have attempted to keep the scope of this project as focused as possible given other relevant work streams that are being planned or already underway. The project will leverage from and provide input into a range of other work streams where appropriate. For example, the focus of the project will be on revenue. Matters relating to financing options for central or local government will not be considered (these issues will be considered in the Infrastructure Funding and Financing Pillar of the UGA).

13. The project will also only consider some aspects of the revenue system to the extent necessary with further work potentially undertaken separately. For example, while the project will consider the full range of costs relating to land transport modes, we do not propose that it calculates ‘prices’ for negative externalities (pricing work can be undertaken separately as with the Congestion Question project).

14. A number of central government agencies are likely to have an interest in the work and we have consulted with the following agencies on the draft scope document: Ministry of Health, Ministry for the Environment, the Treasury, Department of Internal Affairs, Ministry of Business, Innovation and Employment, New Zealand Transport Agency and Accident Compensation Corporation.

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\(^1\) The other project within the Transport Pricing Pillar is the Congestion Question.
Local and regional councils - revenue and financing challenges

15. Local government is also likely to have an interest in the project. In contrast to the transport revenue situation at the national level explained above, there are revenue and financing issues at the local and regional levels for infrastructure investment, including transport infrastructure. Local and regional councils (particularly high growth councils such as Auckland and Tauranga) are facing challenges in generating sufficient revenue to invest in transport infrastructure.

16. With respect to addressing revenue and financing challenges at the local and regional level, we note that there is a range of work planned or underway. This includes work being undertaken as part of the UGA (particularly the Infrastructure Funding and Financing Pillar) and also the inquiry into local government funding and financing (Productivity Commission). This project will look to leverage from or provide input into these work streams where appropriate.

17. We note that the introduction of regional fuel tax legislation may help to provide short to medium-term solutions for revenue shortfalls relating to transport investment in regions, but this measure is not a preferred long-term solution (due to cross-border and rebate compliance issues). A future system which provides the ability to price differentially at a local or regional level would be a more effective way of generating regional revenue than regional fuel tax.

Next steps

18. Officials will be available to discuss this with you at your weekly meeting with officials.

19. We are also interested in any preferences you have regarding any further engagement on the scope of the project, including:
   - UGA Ministers - given that the project is part of the Urban Growth Agenda programme of work, you could engage with other UGA Ministers on the scope of the project. Options for this engagement include providing the draft scope document to UGA Ministers for comment or discussing/informing UGA Ministers at a future meeting when the Transport Pricing Pillar is discussed.
   - Local government and private sector - we think that there will be interest in the project from local government and some private sector stakeholders. There may be some value in targeted engagement on the scope with selected stakeholders, although we consider the scope is broad enough to cover their areas of interest and it could be adapted where appropriate during the project.

20. Advice on further engagement with other stakeholders on the scope of the project can be provided should you wish it to be undertaken.

21. We are currently developing a project plan with identifiable work streams, including phasing, timing and resourcing.
Recommendations

22. We recommend that you:

(a) note that Ministry of Transport officials seek your feedback on a draft scope document for the Future of the Land Transport Revenue system project (Annex One) Noted

(b) note that a number of interested government agencies have been consulted on the draft scope document and their feedback has been considered Noted

(c) discuss with officials any feedback you have on the draft scope document, and Yes / No

(d) indicate any preferences you have as to further engagement on the scope of the project, including with UGA Ministers, local government and private sector stakeholders. Yes / No

Marian Willberg
Manager, Demand Management and Revenue

MINISTER’S SIGNATURE: [Signature]

DATE: 22/5/18
Appendix One: Future of the land transport revenue system project - Draft scope document

Purpose of the project

1. The land transport revenue system is crucial to operate, maintain and invest in New Zealand's land transport network. Over the coming years our land transport revenue system is expected to face a number of significant challenges. Our improved understanding of the transport system and its associated impacts, alongside continuing developments in technology, provides us with an opportunity to reconsider core aspects of our transport revenue system.

2. To better understand both the future challenges and opportunities, the Ministry of Transport (the Ministry) is proposing a project to consider the future of the land transport revenue system (the project).

Statement of problem / opportunity

3. The current revenue system is expected to face a number of significant challenges in the coming years, including:
   
   - worsening equity outcomes between motorists due to improving fuel efficiency of petrol vehicles
   - projected uptake of electric vehicles increasing the role of road user charges (RUC) in the National Land Transport Fund (NLTF)
   - potential changes in travel behaviour that may impact on current revenue tools e.g. who travels, how, why, where, when and how often
   - changes in the way that people pay for transport e.g. Mobility as a Service (MaaS) platforms
   - changes in household transport preferences such as fewer people choosing to own a private vehicle, and
   - differing regional situations (e.g. some areas are experiencing high growth while others are declining).

4. Changing government priorities for land transport, including more investment in public transport and active modes of transport, point to new factors needing to be considered for our revenue system e.g. if the NLTF is to fund more types of rail infrastructure then it may be appropriate for a contribution to be made to the NLTF.

5. Moving to a new land transport revenue system will take time and a clear vision for a future state is needed if we are wanting to progress to that point. What a future land transport revenue system might look like is shaped by what we expect it to deliver.
6. There are three main approaches that could potentially underlie a future land transport revenue system:
   a. generating sufficient revenue to fund the Government's transport priorities²
   b. generating revenue using prices that reflect the full costs of travel (and so may or may not generate sufficient revenue as with (a) above)³
   c. generating revenue using prices to influence behaviour and support or achieve outcomes (and so prices may not necessarily be based on revenue required or actual costs of travel as with (a) and (b) above).⁴

7. These approaches are not mutually exclusive. It is possible for all three of these approaches to be utilised for a future revenue system, with weightings or emphasis of particular approaches calibrated with changing government priorities.

8. A number of other jurisdictions are trialling or actively considering a distance based charging system for all motor vehicles to form the basis of their future transport revenue systems. But it may not be as simple as extending our current distance based system, RUC, to petrol powered vehicles. RUC was implemented in the 1970s with heavy vehicles specifically in mind in its design. While the RUC system has evolved to some extent over time, such as the introduction of Electronic RUC (eRUC) in 2010, improvements would likely be needed to turn it into a distance based system responsible for collecting the majority of revenue for the transport system. For example, the RUC system has higher administration costs than fuel excise duty (FED) and also has a greater risk of evasion because to some extent it relies on the honesty of the vehicle owner.

9. We do not know what transport investments we will be funding in 20 to 30 years⁵ so a future revenue system needs to be flexible enough to adapt to government priorities (e.g. more focus and investment on particular transport modes) and changing transport technologies (e.g. flying taxis). Improving technology offers new opportunities and ways to generate revenue than possible within existing settings.

10. A distance based charging system uses distance as a proxy for transport impacts or use and it could be used in combination with other factors to enable more accurate pricing for some externalities e.g. time and location may be relevant to negative externalities such as congestion. But it is also possible for a transport revenue system to utilise even more focused pricing of impacts or use, with the potential to support the achievement of a wide range of government outcomes (e.g. health, urban development). Some negative transport externalities are currently priced by government (e.g. carbon emissions, accidents and deaths) but they may not cover the full costs or may not be priced in a way that can influence behaviour to achieve outcomes. Some negative transport externalities are not priced at all (e.g. harmful emissions, the impact of physical inactivity).

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² Basically this is the current system - Fuel Excise Duty and RUC rates are changed to generate the revenue needed. Fuel Excise Duty is not designed to send accurate pricing signals for road users, while RUC does a better job of attempting to allocate costs based on distance and weight of vehicle.

³ It is argued that prices (e.g. Fuel Excise Duty, RUC, public transport fares) do not reflect the full costs of travel and therefore do not provide accurate signals for transport users to inform behaviour.

⁴ In some cases, reflecting the full cost of providing transport services could be inconsistent with government objectives or outcomes (e.g. public transport fares are subsidised to encourage use).

⁵ We note work being undertaken on the Long-term Portfolio view for Transport that will consider matters such as asset mix and future pressures.
11. There are likely to be a number of different approaches that could be taken for a future transport revenue system, including pricing for negative externalities and recognition of positive externalities, to make the system more transparent, equitable and efficient for users.