

# Coversheet: Auckland RFT OIC

Advising agencies	<i>Ministry of Transport</i>
Decision sought	<i>Approval for an Order in Council to establish a regional fuel tax in Auckland</i>
Proposing Ministers	<i>Hon Phil Twyford, Minister of Transport</i>

This Regulatory Impact Assessment is part of a package of related changes to enable regional fuel taxes. This Regulatory Impact Assessment should be read alongside the Regional Fuel Tax Regulatory Impact Statement (RFT RIS) to introduce legislation to enable a regional fuel tax.

The RFT RIS can be found on the Ministry of Transport website at <http://www.transport.govt.nz/about/publications/ris-bccs>

## Summary: Problem and Proposed Approach

<p><b>Problem Definition</b></p> <p><b>What problem or opportunity does this proposal seek to address? Why is Government intervention required?</b></p>
<p>Since 2010, Auckland’s population has increased by over 250,000. In recent years, annual growth has risen to more than 40,000 people per year, one of the fastest growth rates in the developed world. While this very high rate of growth may tail off over time, Statistics New Zealand projections suggest that over the next 30 years, up to one million more people may call Auckland home.</p> <p>A combination of the sheer scale and pace of growth, a history of under-investment and insufficient housing construction means that, despite this progress, Auckland faces significant transport and housing challenges.</p> <p>Over the past three years Auckland Council and the Government have developed an aligned strategic approach on transport in Auckland through the Auckland Transport Alignment Project (ATAP). The ATAP package takes a significant step towards achieving a safe, reliable and accessible transport system that supports and shapes Auckland’s development.</p> <p>Through the Auckland Transport Alignment Project (ATAP), agreement has been reached between Auckland Council and government on the key outcomes, focus areas and a package of projects and programmes to achieve those outcomes.</p> <p>The currently funded programme in the RLTP delivers only committed projects (such as City Rail Link) and renewals of existing assets. The full programme of projects identified by ATAP includes a number of high priority transport projects that would qualify for NZTA subsidies and development contribution funding but would not be able to be delivered under current conditions as the council cannot support the remaining funding required. To deliver these projects Auckland Council needs access to additional funding sources.</p>

### **Proposed Approach**

#### **How will Government intervention work to bring about the desired change? How is this the best option?**

Auckland Council have proposed that the regional fuel tax be set at 10 cents per litre (plus GST) and will be in place for 10 years from 1 July 2018.

The regional fuel tax will collect revenue from fuel distributors who deliver petrol and/or diesel into the Auckland region (excluding Great Barrier Island). The key principle for the application of the regional fuel tax is that it is paid by those who drive on the Auckland region's roads. It is intended that fuel distributors will pass the cost of the tax to road users (as is done with fuel excise duty currently) who buy fuel in the region. It is a relatively efficient, low cost approach, which collects revenue from those who will benefit from transport investment.

The regional fuel tax alone will not fully bridge the funding gap, but will enable funding to be delivered to begin developing those transport projects determined to be the highest priority. Regional fuel tax will enable Auckland Council to increase its borrowing to fund transport infrastructure projects and access additional funding from National Land Transport Fund (NLTF) through increasing the funding available for its local share.

The regional fuel tax for Auckland will be the first occasion where a regional fuel tax will be introduced into any region following the anticipated passing of the Land Transport (Regional Fuel Tax) Amendment Bill.

## **Section B: Summary Impacts: Benefits and costs**

### **Who are the main expected beneficiaries and what is the nature of the expected benefit?**

The direct beneficiary will be Auckland Council who will receive the revenue from the tax. The indirect beneficiaries will be the users of the Auckland transport network who will benefit from the transport projects brought forward.

The benefits to Auckland will include: improved road safety; increased accessibility; improved economic, environmental and social outcomes from reduced pollution and congestion; health benefits from increased access to walking and cycling; and enabling growth in housing development areas to address the shortfall in housing stock.

### **Where do the costs fall?**

The direct costs will fall on fuel distributors who deliver fuel into Auckland. It is intended that the costs will be passed on to those who purchase fuel for use in the Auckland region. Indirect administrative and compliance costs will fall on the fuel companies that collect the tax, New Zealand Transport Agency (NZ Transport Agency) who will collect and administer the tax, and will be responsible for enforcement, and Auckland Council who will have an administrative function.

**What are the likely risks and unintended impacts, how significant are they and how will they be minimised or mitigated?**

The increase in fuel prices creates a risk of a negative impact on businesses that are heavily reliant on fuel, and on the welfare of low income households. The projects that are brought forward by the regional fuel tax will improve the Auckland transport network by reducing congestion, improving productivity and supporting growth across Auckland.

There is also a risk of price spreading where fuel companies spread the cost of the tax across other regions not subject to the tax. To reduce the risk of price spreading, the NZ Transport Agency will be required to report on fuel prices and volumes (including changes) within Auckland and for the rest of New Zealand. These reports will be made public by the NZ Transport Agency.

There is a risk of people traveling outside of the defined region to purchase fuel and transporting it back into the region. To reduce the likelihood of tax evasion the Land Transport (Regional Fuel Tax) Amendment Bill gives the NZ Transport Agency enforcement powers and contains penalty provisions.

Concerns have been raised over the risk that fuel stations close to the border within the regional boundary will suffer from reduced sales volumes due people travelling slightly further to purchase fuel in a location that is not subject to the tax. This will impact these businesses.

**Identify any significant incompatibility with the Government’s ‘Expectations for the design of regulatory systems’.**

The regional fuel tax is consistent with the Government’s ‘Expectations for the design of regulatory systems’.

## Section C: Evidence certainty and quality assurance

**Agency rating of evidence certainty?**

The evidence relies on previous work of the Ministry of Transport and Auckland Council, the Auckland Transport Alignment Project (ATAP), discussions with stakeholders, and publicly available reports prepared by external parties for organisations other than the Ministry of Transport.

The benefits and costs of the projects to be brought forward by the regional fuel tax were provided by Auckland Council following consideration by the ATAP. The Ministry of Transport have assumed these projects have been through the ATAP evaluation process and have been determined to be priority projects for Auckland.

The benefit cost ratios (BCRs) have been provided by Auckland Council. These were generated as part of the development of ATAP. These have been calculated as very indicative BCRs used for the sole purpose of ATAP prioritisation. These figures have not been independently verified by the Ministry of Transport.

ATAP included representatives from the Ministry of Transport, Auckland Council, Auckland Transport, NZ Transport Agency, KiwiRail, The Treasury and the State Services Commission.

*To be completed by quality assurers:*

**Quality Assurance Reviewing Agency:**

Ministry of Transport

**Quality Assurance Assessment:**

The Transport Regulatory Quality Team has reviewed the Regulatory Impact Statement prepared by the Ministry of Transport and associated supporting material. The assessors consider the information and analysis summarised in the Regulatory Impact Statement meets the Quality Assurance criteria.

**Reviewer Comments and Recommendations:**

The negative impact mitigation on pg.7 still seems a bit light, adding a couple of specific examples of the mitigations covered in the related RIS would be good, but not essential.

# Impact Statement: Auckland RFT OIC

## Section 1: General information

Purpose
The Ministry of Transport is solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing final decisions to proceed with a policy change to be taken by the Minister of Transport and the Minister of Finance.

## Key Limitations or Constraints on Analysis

### Costs and benefits of the projects to be delivered

The costs and benefits of the projects to be funded by the revenue generated by a regional fuel tax for the Auckland region have been provided by Auckland Council. The Ministry of Transport has not carried out an assessment of the analysis provided by Auckland Council. The Ministry of Transport has not reviewed the underlying calculations provided by Auckland Council in its regional fuel tax proposal.

The ATAP package has been developed by assessing project-specific information, transport modelling, and considering possible land use responses to investment in rapid transit corridors. We have assumed that the projects included in ATAP and the Auckland Council Proposal have been evaluated and prioritised to provide the best outcomes to benefit and improve Auckland's transport network.

### NLTF Contribution

The projects in the Auckland Council Regional Fuel Tax Proposal are at different stages of development in a number of cases. While the Auckland Council proposal is based on the best information currently available, it is likely as time progresses and projects are developed that both the costs and timing could change.

In its proposal, Auckland Council has committed to usual business case practices, where a value for money review will apply as part of project approval. For the purposes of this RIS we have assumed that the projects will have a business case that will be able to be accepted and approved by NZ Transport Agency, enabling Auckland Council will be able to access funds from the NTLF at the necessary level required to enable the projects to be fully funded.

### ATAP Revenue Assumptions

The ATAP package contains around \$28 billion worth of investment in Auckland's transport network over the next decade. This is based on planned and assumed funding including an expected increase of \$4.6 billion on previous funding plans. The sources of this additional revenue are:

- a further \$2.8 billion contribution from the National Land Transport Fund, reflecting an assumed share of the funding signalled in the GPS that may be allocated to Auckland
- \$1.5 billion from the proposed regional fuel tax
- \$364 million from Crown Infrastructure Partners.

The assumed NLTF revenue is a reasonable assumption based on the draft Government Policy Statement on land Transport Funding (GPS). It is, however, subject to the "on merit" allocation process of the National Land Transport Programme (NLTP).

Further assumptions have also been made that NLTF revenue can be allocated to the best performing projects, including rail network upgrades. This would require changes to current funding arrangements, including a more flexible approach to GPS activity class limits, and

funding assistance rates (FARs).

The only Crown rail funding we have assumed is the Government's 50 percent contribution to the City Rail Link (CRL). The Government has signalled an interest in developing a sustainable funding pathway for other rail network upgrades, which will affect how these investments are funded into the future. A Ministry of Transport-led review of rail and an update to the GPS over the next year will provide more clarity on rail funding.

ATAP 2018 has assumed rail network upgrades (aside from CRL) will be fully funded from the NLTF.

### **Consultation**

Consultation on the Auckland Council proposal was carried out by Auckland Council. The Ministry of Transport has reviewed the consultation report provided by Auckland Council and are satisfied with the consultation process. Verification of the contents of the stakeholder report has not been carried out by the Ministry of Transport.

### **Options Appraisal Criteria**

To ensure consistency with the Regional Fuel Tax Regulatory Impact Statement (RFT RIS) to introduce legislation to enable a regional fuel tax, the criteria used in the options appraisal for this RIS is consistent with the criteria used in the RFT RIS.

### **Mitigating negative impacts**

It has been suggested that the fuel price increase could be offset by reducing public transport charges or by introducing other mechanisms to assist those who will be hardest hit by regional fuel taxes such as a rebate for low income earners and the elderly, with a targeted HOP card given as an example.

The focus of this regulatory impact statement is to consider the best way for Auckland Council to generate the revenue necessary to deliver transport projects that will enable funding to be delivered to begin developing those transport projects determined by ATAP to be the highest priority.

This regulatory impact statement does not consider possible solutions that could offset the increased costs of transport for those impacted by the proposed regional fuel tax for the Auckland region such as targeted welfare benefits or other interventions to reduce the cost of travel.

Consideration of the fairness of a regional fuel tax and the likely risks and unintended impacts, the significance of these and how will they be minimised or mitigated was done as part of the RFT RIS.

The RFT RIS can be found on the Ministry of Transport website at <http://www.transport.govt.nz/about/publications/ris-bccs>

## Evidence of the problem

Evidence of the problem has been provided by Auckland Council and reports prepared by external parties. The methodology behind the Auckland Council information and the reports prepared by external parties have been reviewed but the data used in preparation of the reports has not been reviewed or verified by the Ministry of Transport.

## Data constraints

Fuel companies have not accurately quantified the costs of collection of the regional fuel tax. Cost values provided are a best estimate based on the information available at the time of consultation.

The analysis does not take into account changes to behaviour where households purchase fuel outside the Auckland region therefore avoiding the tax. Due to time constraints the Ministry of Transport were unable to consult with individual fuel consumers to accurately estimate how they will change their behaviour as the result of an intervention. The Ministry of Transport have estimated that large road freight companies could reduce the regional fuel tax revenue generated from fuel purchased in Auckland by up to \$20 million per annum if they were purchase fuel outside the Auckland Region.

The estimate of revenue generated by a regional fuel tax is subject to the following assumptions:

- The Ministry of Transport has used an odometer reading based approach for estimating vehicle kilometres travelled (VKT) by vehicles of different fuels.
- The Ministry of Transport has assumed that the average fuel economy (litres per 100 kilometres travelled) in Auckland is the same as that for vehicles in the rest of New Zealand.
- The analysis makes use of the Ministry of Business, Innovation and Employment (MBIE) fuel data which is for road transport only - fuel used off-road has been adjusted by MBIE and is not considered in this analysis. Off-road use of fuel would not be liable to regional fuel tax.
- For fuel use in Auckland, there is a good agreement for petrol between the two data sources (Ministry of Transport estimates and Auckland Council's wholesale data), but for diesel the Auckland Council data is 6 percent - 18 percent higher.
- MBIE's fuel data has shown that non-transport use of petrol has been generally below 2 percent since 2009. Therefore, Auckland Council's petrol wholesale data will provide a tight upper bound for petrol use in road vehicles. The Ministry of Transport's estimates for petrol used on road are very close to, or up to 2 percent lower than the Auckland Council data. This demonstrates that the Ministry of Transport's methodology is accurate.
- The Ministry of Transport has applied the following methodology to consider the impacts of a fuel price increase by a fuel tax. *Application of fuel price elasticity*

(Cazalet E G et al (1997), The methodology of the SRI-GULF energy model).

**(44) Price Sensitive Demand**

$$q(t) = q^o(t) \cdot \left( \frac{p(t)}{p^o(t)} \right)^{\nu_s} \cdot \left( \frac{q(t-1)}{q^o(t-1)} \right)^{\lambda}$$

where  $\nu_s = \nu_l(1-\lambda)$

and  $\nu_s =$  short-run (one year) elasticity

$\nu_l =$  long-run elasticity

$\lambda =$  lag parameter

- Fuel price elasticities are taken from (<https://www.nzta.govt.nz/assets/resources/research/reports/331/docs/331.pdf>, page 9).
- There are a lot of uncertainties in the projections of future road transport demand. The magnitude of the uncertainty is hard to quantify. We have taken a scenario approach to deal with the uncertainty and produced a range of projections. However, the projections in each scenario are still associated with uncertainty. A few percentage changes to the upper and lower bounds may be considered.
- The revenue forecast estimate does not take into account illegal avoidance or any unforeseen future growth or decline in fuel use.

### **Assumptions used in cost analysis**

#### ***Deadweight loss of taxation***

Following Treasury's guidance in the June 2015 Guide to Social Cost Benefit Analysis the costs analysis includes a deadweight cost of taxation, equal to 20 percent.

#### ***Discount rate***

The cost analysis has applied a 6% discount rate when assessing the costs of the transport projects included in the Auckland Council proposal for a regional fuel tax.

#### ***Off road use of fuel for rebates***

We have assumed that for Auckland 1 percent to 3 percent of petrol is used off road and 5 percent to 20 percent of diesel is used off road. We have also assumed that rebates will be paid quarterly or monthly and that the annual interest rate will be 6 percent. This is consistent with the discount factor used.

#### ***Costs of set up and administration***

The costs of set up and administration for the regional fuel tax have been provided by Auckland Council, NZTA and the fuel companies.

For individuals we have estimated that the average time to complete an online return will be 15 minutes. These returns will be made either monthly or quarterly depending on the size of the rebate being sought.

**Responsible Manager (signature and date):**

Marian Willberg

Demand Management and Revenue

Ministry of Transport

Handwritten signature of Marian Willberg and initials PP.

14/06/2018

## Section 2: Problem definition and objectives

### 2.1 What is the context within which action is proposed?

Since 2010, Auckland's population has increased by over 250,000. In recent years, annual growth has risen to more than 40,000 people per year, one of the fastest growth rates in the developed world. While this very high rate of growth may tail off over time, Statistics New Zealand projections suggest that over the next 30 years, up to one million more people may call Auckland home.

Ongoing growth brings great opportunities and much progress has been made over the past 10-15 years to support Auckland's evolution into a modern, world-class city. This includes a sustained increase in investment for transport and a willingness of Aucklanders to change the way they live and travel. Use of public transport has tripled since the mid-1990s, the city centre is New Zealand's fastest growing residential neighbourhood and, most recently, Aucklanders are rapidly taking up cycling where quality infrastructure is provided.

However, a combination of the sheer scale and pace of growth, a history of under-investment and insufficient housing construction means that, despite this progress, Auckland faces significant transport and housing challenges. The transport challenge is not just one of congestion, but also:

- poor travel choice beyond private vehicles, especially in lower income areas
- a near doubling of deaths and serious injuries on roads since 2012
- growing recognition of the need to reduce the transport system's environmental impact
- enabling and supporting a rapid acceleration in the rate of housing construction
- the need for streets to play a growing role in creating vibrant and inclusive places.

#### **ATAP**

Over the past three years Auckland Council and the Government have developed an aligned strategic approach on transport in Auckland through ATAP.

The ATAP package takes a significant step towards achieving a safe, reliable and accessible transport system that supports and shapes Auckland's development. However, how we optimise existing infrastructure and make the most of new technologies, as well as policies such as road pricing are also critical.

The ATAP package has been developed by assessing project-specific information, transport modelling and considering possible land use responses to investment in rapid transit corridors.

The ATAP package contains around \$28 billion worth of investment in Auckland's transport network over the next decade. This is based on planned and assumed funding including an expected increase of \$4.6 billion on previous funding plans from the following sources:

- An additional \$2.8 billion from the NLTF
- \$1.5 billion from the proposed regional fuel tax

- \$360 million from Crown Infrastructure Partners.

This level of funding enables substantial progress towards improving Auckland's transport system. Key investment priorities have been identified and available funding has been broadly allocated (assuming a flexible approach to funding arrangements) across major investment areas.

On April 26 2018, Minister of Transport, Hon Phil Twyford and, the Mayor of Auckland, Hon Phil Goff announced that the Government and Auckland Council will embark on New Zealand's largest ever civil construction programme to create a 21st century transport network in Auckland. Together government and Auckland Council plan to invest \$28 billion over the next decade to unlock Auckland's potential.

Regional fuel tax forms part of the funding for this commitment. Without the funding provided by the regional fuel tax Auckland will not be able to fully fund all the projects identified in ATAP.

### **Regional Fuel Tax Proposal**

Auckland Council's proposed transport programme has been developed following the April 2018 reviews of the ATAP and the GPS. These strategic documents have guided the development of a programme that will create a step-change improvement to transport in Auckland.

Through prioritisation of the projects in the Regional Land Transport Plan and identification of those that could not be implemented without the additional funding enabled by a Regional Fuel Tax, a programme of projects has been developed. The key objectives of this programme are to:

- Support substantial growth in key rapid transit corridors, especially where these are now being accelerated. This investment greatly enhances the potential for further housing growth around rapid transit corridors, and realising this growth potential will be critical to ensure the whole transport network can function effectively as Auckland grows to around two million people by 2028.
- Provide for, and encourage a step-change in public transport and cycling mode-share in Auckland. This mode shift will deliver significant safety, environmental, health and congestion benefits.
- Continue to enable growth in greenfield areas, where around 30 percent of new homes are forecast to be located over the next decade.
- Improve access as a result of the provision of more congestion-free alternatives for travel and changes in land use enabled by rapid transit investment.
- Improve safety outcomes with an expected significant reduction in deaths and serious injuries each year.
- Reduce the transport system's environmental impacts by improving the attractiveness, reliability and safety of more sustainable travel options such as walking, cycling, public transport and carpooling.

The key elements of the proposed programme are to:

- increase capacity and use of the existing public transport network, with particular focus on the high growth areas of the south and east

- continue to encourage active transport options through the extension of the walking and cycling network
- increase the capacity of the existing road network to improve overall performance
- increase investment in road safety initiatives
- support key growth areas with appropriate transport infrastructure.

Beyond 2028, Auckland's population is projected to reach 2.4 million<sup>i</sup> by 2046 – an increase of 800,000 on current figures. The number of employees is expected to grow by 40 percent over the same period.

Auckland's growing population and labour market provide many opportunities and benefits, such as the potential to increase innovation, productivity and prosperity. Its increasing diversity makes Auckland a more exciting and attractive place to live. However, the travel demands of a growing population will continue to place pressure on Auckland's transport network, increasing travel times, and reducing reliability and access.

## 2.2 What regulatory system, or systems, are already in place?

A full description of the regulatory system, or systems, are already in place surrounding the introduction of a Regional Fuel Tax is included in the RFT RIS. The same implementation risks apply to the Auckland proposal for a regional fuel tax.

This Regional Fuel Tax RIS includes descriptions of the roles of

- The GPS,
- NLTF,
- NLTP,
- Local Government Act 1974; and
- Regional Councils

The RFT RIS can be found on the Ministry of Transport website at <http://www.transport.govt.nz/about/publications/ris-bccs>

The Bill currently before the House stipulates that the NZ Transport Agency will be responsible for administration and enforcement of regional fuel tax. Enforcement provisions will enable the NZ Transport Agency to manage compliance with the tax. As part of its role the NZ Transport Agency can monitor and manage fuel being transported into the Auckland region from a location not subject to the tax and then on-sold without the tax applied.

The tax will be collected at the wholesale level by the fuel companies at the time the fuel is transferred from the wholesaler to the final retail destination (as defined in the legislation) whether this is the storage tank of a large vehicle fleet operator, a mobile storage tank located in the region or the storage tank or a fuel company's own retail site.

The revenue collected from the tax by fuel companies will be passed on to the New Zealand Transport Agency at regular intervals stipulated in the Bill consistent with current Local Authority Fuel Tax reporting and payment requirements to regional authorities. This will enable the NZ Transport Agency to monitor the effectiveness of the tax to generate revenue.

The NZ Transport Agency will be responsible for the collection of the data associated with the regional fuel tax. The data collected will be the number of litres delivered to a final retail location into a region. Through the fuel companies returns the NZ Transport Agency could use the data to calculate the fuel companies market shares in the region with a regional fuel tax. Currently the Ministry of Business Innovation and Employment collects data on fuel consumption at a national level while local authorities collect fuel data for their region through LAFT reporting.

The NZ Transport Agency will be responsible for the administration and oversight of the refund process and compliance costs for commercial non-road fuel users.

### **Auckland land transport funding**

Keeping land transport networks available for people and freight to get where they want to go easily, reliably and safely is a primary objective of transport investment, within and beyond Auckland. Auckland's transport network is complex; handling the demands of freight, general road traffic, public transport, cycling and walking.

Auckland Council and NZ Transport Agency are the primary sources of funding for Auckland Transport, with additional funding received from other sources including user charges and fees, subsidies and vested assets.

To support the demands of Auckland's transport network, investment is needed to maintain the existing network, to operate the network more efficiently and for building new infrastructure. Overall, investment from the 2015–18 NLTP will be around \$4.223 billion.

Auckland Transport funding currently comes from:

- 48 percent Auckland Council and NZ Transport Agency funding for capital projects
- 17 percent operational funding from Auckland Council
- 16 percent operational co-investment from NZ Transport Agency
- 11 percent public transport income
- 5 percent parking and enforcement
- 3 percent other revenue.

NZ Transport Agency funding comes from the NLTF, which is made up of existing fuel taxes and road user charges and the motor vehicle register. The NZ Transport Agency funds both operating programmes and capital projects, subject to them meeting eligibility thresholds. Auckland Council's operating funding mostly comes from property rates and some user charges. Auckland Council borrows to fund capital projects, and this is paid back through rates.

Close to \$1 billion from Auckland Transport and the NZ Transport Agency will be spent on public transport services in the Auckland region in the 2015–18 NLTP period, as well as around \$176 million on public transport improvements. This is expected to support 88 million passenger trips per year over the next three years, representing a 21 percent increase in patronage over the prior three year NLTP period.

The Government has also provided Crown loans to the NZ Transport Agency to assist its NLTF cash-flow management in delivering acceleration of the Auckland Transport Package,

which otherwise would have been programmed over a longer period of time within the constraints of NLTF revenue. Delivery of the programme commenced in 2014/15 and the \$375 million loan will be drawn down over five years and repaid, without interest, from the NLTF over 10 years

## **ATAP**

As covered in section 2.1 above, government and Auckland Council will embark on New Zealand's largest ever civil construction programme to create a 21st century transport network. Together, government and Auckland Council plan to invest \$28 billion over the next decade to unlock Auckland's potential.

It was announced that much-needed investments are made possible by a \$4.4 billion funding boost resulting from the Auckland regional fuel tax, increased revenue the NLTF, and Crown Infrastructure Partners contributions.

Regional fuel tax forms part of the funding for this commitment. Without the funding provided by the regional fuel tax, Auckland will not be able to fully fund the projects identified in ATAP.

### **2.3 What is the policy problem or opportunity?**

As noted in section 2.1, Auckland is facing a growing population. This has placed pressure on the Auckland transport network. Auckland's commuters are spending an extra 45 minutes a day - or four working weeks a year - stuck in traffic. Time spent on Auckland's roads has doubled in the space of three years. Auckland is ranked as the 47th most congested city in the world, worse than Hong Kong, which has a population of 7.2 million.<sup>ii</sup>

The *Benefits From Auckland Road Decongestion* report, prepared by the New Zealand Institute of Economic Research (NZIER) for the Employers and Manufacturers Association, Infrastructure New Zealand, Auckland International Airport Ltd, Ports of Auckland Ltd and the National Road Carriers Association calculated that lost productivity and opportunities due to traffic delays cost \$1.9 billion per year.

The report noted that congestion was spreading, forcing firms to hire more staff to do the same amount of work, or make fewer runs and deliver less stock. In the December 2016 quarter, 24 percent of the arterial network was congested during the morning peak. That is an 18 percent spike over the same period in 2014.<sup>iii</sup>

NZIER also found that infrastructure improvements could claw back \$1.3 billion of that lost productivity and opportunity. Average speed in morning peak traffic is 41km/h. If that was lifted to 56km/h, the Auckland economy would benefit by an extra \$3.5 million a day.<sup>iv</sup>

The findings of the report have sparked calls for urgent investment in new infrastructure projects, public transport and congestion charges to curb worsening delays.

Intervention is necessary to provide Auckland Council with the funds to deliver significant investment in transport infrastructure to provide Auckland with an improved multi-modal transport network. Without additional funding sources the Auckland Council will be delivering a 10 year transport programme of approximately \$9 billion that will include only renewals of

existing assets and currently committed projects.

### **Auckland Council position on borrowing**

It was suggested that Auckland Council could borrow more to fund necessary infrastructure. There are risks from increasing council debt substantially. Auckland Council forecasts that by 2019, debt will near 270 percent of annual revenues, a ratio beyond which the credit rating agencies would likely downgrade council's credit rating.

Breaching this cap would result in higher borrowing rates, and could erode confidence among lenders, making them less willing to lend in future. If Auckland Council's credit rating were to be downgraded, it could trigger a credit downgrade for the Local Government Funding Agency (LGFA) and increase its borrowing costs, because Auckland plays a significant role in total LGFA borrowing.<sup>v</sup>

Other options often suggested as solutions have the same implications. Examples include public-private partnerships (PPPs), the Housing Infrastructure Fund (in its current form) and targeted infrastructure rates. All three of these options result in a rise in council debt, as they result in an increase in future outgoings (annual management fees, principal repayments or upfront costs) that council would need to fund.

Auckland Council believes that these are not options given the present scale of borrowing that would be necessary. Any solution that requires Auckland Council to take on additional debt, like those identified above, will require an increase in existing revenue streams or the creation of new revenue streams to ensure that debt will remain below 270 percent of annual revenues.

## **2.4 Are there any constraints on the scope for decision making?**

The Labour party election manifesto sets out the Government's objectives for transport. The manifesto states that Labour will:

- *rebalance Government transport expenditure away from low-value projects towards the investments that will best improve growth, reduce congestion, and move our transport system to a more sustainable footing*
- *redirect funding to upgrades for rail, coastal shipping, public transport, regional roads, safety, and cycling*
- *review the 2018 GPS with a view to better achieving growth, value for money, and sustainability*
- *ensure good urban design and integration of transport infrastructure with residential and urban development through a National Policy Statement and other planning mechanisms.*

The Labour election manifesto stated that Labour would re-negotiate the 30 year Auckland Transport Alignment Plan (ATAP) with Auckland to develop a modern transport network based on the Congestion Free Network 2.0 ([www.greaterauckland.org.nz](http://www.greaterauckland.org.nz)). The election manifesto stated that key components will be:

- Building a Light Rail connection down Dominion Rd from the City Centre to Mt Roskill

within four years

- Extending Light Rail to the airport as soon as possible, within ten years
- Within one year developing a regular bus service from Puhinui and Manukau to the airport, to be progressively upgraded to bus rapid transit and extended to Botany and Howick within ten years.
- Building a North-western Light Rail from the City Centre to Waimauku within ten years
- Extending light rail to the North Shore after completing the first two lines
- Continue to fund the City Rail Link on a 50:50 basis with Auckland Council
- Invest in more electric trains, electrification to Pukekohe, and building a third main trunk line urgently between Westfield and Papakura
- Build a range of significant cross-town bus priority routes including New Lynn-Flat Bush, Point Chevalier-Botany, Silverdale- Whangaparoa, and Howick-Glenfield
- Allowing Auckland Council to collect a regional fuel tax to fund the acceleration of these investments, along with infrastructure bonds and targeted rates to capture value uplift.

### **Draft GPS**

The GPS helps guide investment in transport by providing a longer term strategic view of how government prioritise investment in the transport network, and why. This includes an overall focus of improving our land transport network by prioritising safety, access, environment and value for money.

GPS 2018 is aligned to the ATAP strategic approach and the broader transport objectives that the current ATAP process is working to. The ATAP work sets a strong direction for Auckland and the GPS supports its direction.

There is a special focus on Auckland given its scale and growth. The GPS states that *“Auckland’s success is important not just for Aucklanders but for New Zealand’s long-term growth and productivity.”* Auckland is therefore a priority for the GPS.

The GPS states that “through ATAP, an indicative investment package is developed to illustrate the strategic approach. An update to the indicative package is currently underway taking into account Auckland’s challenges and the shared Government and Auckland Council objectives. The ATAP work sets a strong direction for Auckland and GPS 2018 supports its direction.”

The GPS is supportive of increasing economic access in high growth areas by encouraging integration between land use and transport planning and the delivery of transport investments, supporting new mixed use housing developments and the implementation of ATAP.

The activity class funding ranges are set to realise the strategic direction in the GPS. This includes sufficient funding to cover the government share (based on indicative timing and current financial assistance rates) for ATAP.

### **ATAP**

To deliver ATAP it is intended that the regional fuel tax will contribute \$1.5 billion in funding to deliver the projects identified in ATAP and will enable Auckland Council to leverage additional borrowing. The additional revenue and borrowing is intended to form the local share Auckland Council is required to contribute to Auckland's transport projects that will be matched by NZ Transport Agency funding from the NLTF.

Without this funding Auckland Council's ability to meet its ATAP funding objectives would be limited. As a result, a number of the projects identified by ATAP would not be able to be delivered in the identified time period. An inability to bring forward all of the projects identified in ATAP will reduce the overall effectiveness of the proposed projects that are funded and the future Auckland transport network as a whole.

### **Auckland Council funding sources**

Without additional funding sources the Council would be delivering a 10 year transport programme that would include only renewals of existing assets and currently committed projects.

The expected revenue from a regional fuel tax (\$1.5 billion over 10 years) can be used by Auckland Council to enable an additional \$4.3 billion of transport capital investment. This programme includes a number of high priority transport projects that would qualify for NZ Transport Agency subsidies and development contribution funding but would not otherwise be able to be delivered as Auckland Council cannot support the remaining funding required.

The Council has considered other options for funding transport such as:

- Continuing with the Interim Transport Levy (ITL), which is due to expire on 30 June 2018. However, there are two issues with this approach – firstly the funding raised is far short of what is needed, and secondly the ITL costs fall equally on all ratepayers regardless of how much they use the transport system. This raises equity/fairness concerns.
- Increasing general rates. This option would require an increase in rates of 10 percent to 11 percent (on top of any other general rates increases) to fund a similar level of investment as a Regional Fuel Tax. Based on previous public consultations this would be unacceptable to Auckland ratepayers. The amount paid by each ratepayer would be in proportion to their property value and would bear no relationship to their use of the transport system. Again, this raises equity/fairness concerns.

Of the current options available, the Council believes that the regional fuel tax is the fairest option as transport users would pay for the additional transport investment according to the amount they travel rather than every ratepayer – some of whom may be very low users of the transport system.

## **2.5 What do stakeholders think?**

As stated in the RFT RIS both current Auckland Mayor Hon Phil Goff and his predecessor Len Brown advocated a regional fuel tax to bring forward infrastructure projects.

Auckland Council have been vocal in its desire to bring forward transport infrastructure projects. To do this it has indicated that it needs additional funding. Mayor Phil Goff says the city "has to pay its share" in developing "desperately needed" projects, including a light rail

link between the CBD and the airport.<sup>vi</sup>

The unprecedented growth of Auckland and a history of underinvestment in transport infrastructure, particularly public transport, are key contributors to existing issues with the Auckland transport system.

Addressing the transport issue has been a major focus of Auckland Council since its formation in 2010. Progress has been made in some areas and one of the key success factors is the shift to public transport of many commuter journeys. However, congestion of all major arterials continues to grow with the consequent cost to the economy and, without major new investment, the existing public transport network will struggle to provide increased capacity.

Through ATAP, agreement has been reached between Auckland Council and government on the key outcomes, focus areas and projects. Existing funding tools constrain the additional investment identified by ATAP and in order to progress some of the highest priority projects it is proposed to introduce a regional fuel tax for Auckland.

Half of Aucklanders now support introducing a regional fuel tax to help fund billions of dollars worth of transport infrastructure. As part of Auckland Council's consultation on the Long Term Plan, the council asked Aucklanders what they think of a regional fuel tax to help pay for improvements to the transport system. That consultation process has only recently closed, so the detailed feedback is not available. While the feedback is still being processed, the most reliable analysis of a cross section of Aucklanders is available from a survey sample of nearly 4000 people, conducted by Colmar Brunton. That result shows that 52 percent of Aucklanders supported the RFT while 43 percent were opposed.

"Aucklanders understand that with big population growth and hundreds of extra cars on the road every week, the response of doing nothing simply leads to more congestion and gridlock and billions of dollars in lost productivity," Auckland Mayor Goff said.

Several people were also concerned about the flow-on effect the tax might have on the cost of public transport and even goods such as food.

"Everybody is ignoring the fact that it is not just motorists who will be affected by the proposed fuel tax. It is going to increase the cost of bus operators; carrying operators etc so will mean that there will be increases in the cost of goods at site of purchase eg supermarkets," they wrote.

A lot of people have also expressed concerns about how the tax might affect Aucklanders who are already struggling financially.<sup>vii</sup>

### **Auckland Council Long Term Plan Consultation**

Between 28 February and 28 March 2018, Auckland Council undertook public consultation to inform its next 10- year budget (the Long-term Plan 2018-2028). The consultation approach reflects the current legislation which provides greater flexibility to enable the process to work better for the community and decision-makers.

The 10-year Budget consultation document proposed the introduction of a regional fuel tax of

10 cents per litre (plus GST) to raise more funding for transport projects and services.

The council received 21,887 responses to this question. From these responses, 13,870 written feedback points were provided. A further 492 feedback points were provided through Have Your Say, Māori and community events and four feedback points were provided via social media.

Key findings across all feedback received were:

- there was strong support for improvements to public transport and infrastructure including, increased park and ride facilities and improved public transport options
- suggestions that a reduction in the cost of public transport would encourage use of public transport
- those who did not support the tax were concerned about the impact on rural communities and those on lower incomes

### **Auckland RFT Consultation**

Auckland Council ran a two week consultation on their regional fuel tax proposal. Consultation took place alongside the consultation on the Auckland Regional Land Transport Plan (RLTP). 17,223 written responses were received to the combined consultation. Of these 15,549 were replies to the question on the use of a regional fuel tax to fund transport infrastructure.

Key findings across the feedback received were:

- There was strong support for improvements to public transport and infrastructure including increased reliability, frequency and improvements for those travelling across the city.
- There was a preference for the council to consider alternative funding mechanisms such as reducing the council's expenditure or implementation of congestion charges or toll roads
- There was concern about the impact of the fuel tax on the cost of goods and services.
- There was concern about the impact of a fuel tax on low income families.

Across all feedback channels 51 percent of the submissions received during the consultation period were against a regional fuel tax being introduced in Auckland while 42% were in favour. Seven percent of submissions were classified by Auckland Council as other.

Analysis of feedback shows support for the introduction of regional fuel tax was the preferred option in nine of 21 local board areas. Support for a regional fuel tax was higher in the central sub-region (54 per cent) than in the north (39 per cent) and south (37 per cent) sub-regions.

Submissions on the introduction of a regional fuel tax were received from 21 stakeholders. The stakeholders represented organisations across all areas, such as business associations across the city, Bike Auckland, Auckland Greypower and New Zealand Automobile Association. Seven stakeholders were in support of the introduction of a regional fuel tax, two were not and 12 selected "Other". Stakeholders commented that:

- A fuel tax will adversely affect those on low incomes, particularly those living some distance from metropolitan centres.
- A fuel tax would also increase the cost of goods and services.

- Business associations were concerned about the impact that construction work would have on their members and asked that strategies be put in place to mitigate or minimise any disruptions.
- There was a preference for the introduction of congestion charging as a way of managing demand as well as a funding source.
- It was suggested that the use of public private partnerships supported by sustainable revenue streams should be the next step.
- Fuel tax exemptions for commercial transport operators and non- road users should be in place.
- The expected growth in more fuel efficient and electric vehicles will require some form of distance based charging for all motor vehicles.
- A requirement to estimate the costs of administering the tax including processing any rebates to enable the value and cost-effectiveness of the RFT scheme to be considered.

When looking at the projects that are proposed to be funded by the regional fuel tax revenue Auckland Council found that:

- There was strong support for improvements to public transport.
- There was acknowledgement that congestion is an issue in Auckland and submitters wanted solutions to the problems in their areas.
- Many feedback points were in support of the provision of active transport.
- Comments regarding safety referred to improved roading as well as safety for walkers and cyclists.

### **Public Transport operator cost increases**

A regional fuel tax will increase the costs faced by public transport operators who operate in the Auckland region. During the design of the Bill the Bus and Coach Association had concerns that the indexation of the public transport subsidy will not adequately compensate public transport operators in the regions that impose a regional fuel tax for the additional costs of a regional fuel tax.

Currently indexation is done at a national level and is used to ensure that long term contracts to supply goods and services and not impacted by changes in costs (for example fuel price increases or other operating costs). The introduction of a regional fuel tax will increase the costs faced by operators in Auckland, but not in other areas. This will benefit those who operate outside Auckland who will receive the benefit of an increase in the national index as a result of increased costs in Auckland without the increased costs while having a negative impact on Auckland operators who will face an increase in costs greater than the national index.

The Ministry of Transport is currently working with Statistics New Zealand and the New Zealand Transport Agency to develop a regional indexing system to account for the impact that the regional fuel tax will have on the costs faced by public transport operators in the Auckland region.

Indexation will also apply for contracts that the New Zealand Transport Agency has for projects that it delivers in the Auckland region for projects such as road construction.

# Section 3: Options identification

## 3.1 What options are available to address the problem?

The options available to address the problem were considered in RFT RIS. The original options considered were:

- Tolling existing roads
- Increase RUC and FED rates across the country
- Funding from general taxation
- Interim transport Levy
- Increase Local Authority Rates

The RFT RIS can be found on the Ministry of Transport website at <http://www.transport.govt.nz/about/publications/ris-bccs>

As stated in section 2.2, increasing general rates or continuing with the existing Interim Transport Levy were considered by Auckland Council. Auckland Council found that neither of these is considered as suitable in the medium to long term.

## 3.2 What criteria, in addition to monetary costs and benefits, have been used to assess the likely impacts of the options under consideration?

The criteria for assessment of the Auckland Council regional fuel tax proposal are consistent with the criteria used to assess the likely impacts of the options under consideration in the RFT RIS. The criteria to assess the likely impacts of the options under consideration are:

- Revenue generation and integrity
- Equity and fairness
- Environmental sustainability
- Compliance and administration cost
- Coherence
- Speed of implementation

A full description of these criteria and the rationale for using these criteria to assess the options under consideration is included in the RFT RIS. This can be found on the Ministry of Transport website at <http://www.transport.govt.nz/about/publications/ris-bccs>

## 3.3 What other options have been ruled out of scope, or not considered, and why?

Options that require central government intervention that were considered in the RFT RIS to support the introduction of the Land Transport Management (Regional Fuel Tax) Amendment Bill were not considered again when assessing the Auckland Council regional fuel tax application. These were:

- Tolling existing roads
- Increase RUC and FED rates across the country
- Funding from general taxation

We also did not re-consider the options have been ruled out of scope, or not considered in the RFT RIS for the same reasons as identified at the time of the RFT RIS. These were:

- Congestion Charging
- Electronic Road User Charges for all vehicles
- Increased Public Transport fares

### **Non-regulatory options**

It has been suggested that the city could also sell non-strategic assets, particularly those that occupy substantial land that may be underutilised. Selling this land for housing could achieve the double goal of increasing housing supply and providing funds for other infrastructure.

However, opinions on this are mixed. Opposition to the sale of more strategic assets, like the council's share of Auckland International Airport, is strong, so while it is technically possible, this is very unlikely.

There were no other non-regulatory options considered. In order to levy a new tax an order in council is necessary.

A full description of the options considered in the RFT RIS and an explanation as to why can be found on the Ministry of Transport website at <http://www.transport.govt.nz/about/publications/ris-bccs>

## Section 4: Impact Analysis

**Marginal impact:** How does each of the options identified at section 3.1 compare with the counterfactual, under each of the criteria set out in section 3.2?

	No action	Regional Fuel Tax	Interim transport Levy	Increase Local Authority Rates
Revenue generation and integrity	0	++	+	+
Environmental Sustainability	0	+	0	0
Equity and fairness	0	+	--	--
Compliance and administration cost	0	-	-	-
Coherence	0	-	-	-
Speed of implementation	0	-	-	-
Overall assessment	0	++	-	-

**Key:**

- ++ much better than doing nothing/the status quo
- + better than doing nothing/the status quo
- 0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- much worse than doing nothing/the status quo

	Revenue generation and integrity	Environmental Sustainability	Equity and fairness	Compliance and administration	Coherence	Speed of implementation
No Action	The current system does not generate the revenue required to deliver transport needs.	The current system does not encourage reduced vehicle use and therefore has no additional negative or positive impact on environmental sustainability.	There will be no additional impact on equity and fairness.	There are no additional compliance and administration costs.	The existing system has been in place for a number of years and is well understood by those in the transport sector but individuals outside the sector are less aware.	There will be no implementation required as the status quo will remain in place.
Regional Fuel Tax	<p>Fuel use is relatively inelastic. Through financial modelling the regional fuel tax can match infrastructure funding needs with revenue.</p> <p>In the longer term a regional fuel tax will become less sustainable and more inequitable as vehicles become more fuel-efficient and move away from being powered by fossil fuels.</p>	<p>A regional fuel tax will be incorporated into the price when fuel is purchased. Therefore, once paid, road use is viewed as free. A high regional fuel tax rate would be required to change the road and fuel use decisions of road users. A tax focussed on specific regions could be higher than a national rate which could have a positive impact on local environmental sustainability in the defined region.</p> <p>A regional fuel tax could be used to target regions that suffer from increased adverse environmental impacts as a result of</p>	<p>A regional fuel tax acts as a proxy for road use. Fuel consumers in the region the tax is imposed contribute based on litres of fuel purchased. Those who drive more may use more fuel.</p> <p>A regional fuel tax could raise equity issues. Lower income people spend a greater proportion of their income for fuel, so will pay a greater proportion of their income on RFT.</p> <p>Additionally, With poorer residents living in lower cost accommodation further out from the city centre having to use more fuel to travel into the city and as a result</p>	<p>Additional compliance and administration costs will be incurred to manage and operate collection and enforcement of the tax and to administer any refund scheme.</p> <p>There will be additional compliance and administration costs for fuel companies.</p> <p>NZ Transport Agency are developing an administrative framework that will reduce the costs to collect the tax and administer regional fuel tax exemptions and rebates.</p>	<p>A regional fuel tax would be a new tax introduced in the Auckland region. This would be a new method for raising revenue.</p> <p>This would be a departure from the established practices of funding regional transport projects.</p>	<p>A regional fuel tax could be implemented by 1 July 2018.</p>

		<p>road use.</p> <p>A tax on fuel use can promote the uptake of electric and more fuel efficient vehicles that can reduce emissions.</p> <p>Higher fuel prices can encourage more efficient transportation and fuel conservation.</p>	<p>may pay a greater amount of regional fuel tax.</p> <p>Poorer residents may be unable to access electric and newer, fuel efficient vehicles resulting in higher fuel use.</p>			
Increase local authority rates	<p>An increase to rates could be matched so the additional revenue generated matches the funding required to deliver transport improvements.</p> <p>Increasing local authority rates does not have political support from Auckland Council. The Mayor has committed to keeping overall rates increases lower after several years of sharp increases in Auckland.</p> <p>Central Government cannot force Auckland Council to increase rates.</p>	<p>Increasing rates would be unlikely to influence the road and fuel use decisions of road users. Once rates are paid road use is viewed as free.</p>	<p>Increasing local authority rates is considered unfair and inequitable as the tax is applied to households regardless of the transport use of that household.</p> <p>Rates are not paid in proportion to the amount people use the transport system. For example, some owners/occupants do not make full use of the accessibility of their properties. In particular, households with elderly occupants tend to make less direct use of the transport system. This group can also be asset rich but income poor, and be highly sensitive to changes in rates.</p>	<p>Minimal compliance and administration costs as the increase would be made to existing rates bills.</p>	<p>Aligns with existing framework of funding <b>the council's</b> contribution to funding transport infrastructure out of property rates.</p>	<p>Increasing rates could be applied to the next rates bill for the region. Would have to wait for the next rates setting period to make the change.</p>

<p>Interim transport levy</p>	<p>An interim transport levy can be charged at a flat rate and could be matched so revenue generated from the levy matches the funding required to deliver transport improvements.</p> <p>Reintroducing the interim transport levy does not have political support from Auckland Council.</p> <p>Central Government cannot force Auckland Council to reintroduce the interim transport levy.</p>	<p>An interim transport levy would be unlikely to influence road and fuel use decisions. Once the levy is paid road use is viewed as free.</p>	<p>Renewing the interim transport levy is considered unfair and inequitable as the tax is applied to households regardless of the transport use of that household</p> <p>Rates are not proportionate to the amount people use the transport system. For example, some owners/occupants do not make full use of the accessibility of their properties.</p>	<p>Minimal compliance and administration costs as the levy would be an additional line on existing rates bills.</p>	<p>Aligns with existing framework of funding the <b>council's</b> contribution to funding transport infrastructure out of property rates.</p>	<p>The interim transport levy could be applied to the next rates bill for the region.</p> <p>Renewing interim transport levy has been ruled out by Auckland Mayor Phil Goff.</p>
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## Section 5: Conclusions

### 5.1 What option, or combination of options, is likely best to address the problem, meet the policy objectives and deliver the highest net benefits?

A full analysis of the implementation risks of the introduction of a regional fuel tax is included in the RFT RIS. The same implementation risks apply to the Auckland proposal for a regional fuel tax.

The RFT RIS can be found on the Ministry of Transport website at <http://www.transport.govt.nz/about/publications/ris-bccs>

The RFT RIS identified that a regional fuel tax is the best approach to address the problem. This is consistent for addressing Auckland's transport needs.

After considering the options against the criteria in section 3.2 and taking into account the advantages and disadvantages of each option, a regional fuel tax was the preferred option in the RFT RIS.

Regional fuel taxes serves two purposes for Auckland Council. First of all it will generate additional revenue that can be used to fund much needed transport projects identified in the Auckland Council proposal. The regional fuel tax alone does not solve the funding gap in the Auckland transport system. However, it will generate revenue to make a significant contribution to regional transport projects while minimising negative externalities and impacts.

The regional fuel tax will enable Auckland Council to raise additional revenue and leverage additional borrowing to increase the local share available to bring forward necessary transport infrastructure projects. By increasing the amount of local share available, it will enable Auckland to access a greater contribution from NZ Transport Agency through the NLTF to bring much needed projects forward.

Statements by the Minister of Transport and the Mayor of Auckland and the GPS show a commitment by Auckland Council and central government to bringing forward the projects in the Auckland Council proposal.

#### **Conclusion**

A regional fuel tax for Auckland provides a quick to implement, relatively fair and equitable solution that is consistent with existing transport funding conventions. Although regional fuel tax is a regressive tax we believe that the regional fuel tax is more equitable than the other options available. The regional fuel tax can be set up to minimise administration and compliance costs as much as possible. A regional fuel tax has the potential to contribute to improved environmental sustainability.

#### **Consultation feedback**

During the consultation carried out by Auckland Council there was a preference for Auckland Council to consider alternative funding mechanisms such as

- reducing the council's expenditure

- implementation of congestion charges or toll roads

Submissions on the introduction of a regional fuel tax were received from stakeholders. The stakeholders represented organisations across all areas, such as business associations across the city, Bike Auckland, Auckland Greypower and New Zealand Automobile Association. Stakeholder comments included:

- There should be a timeline in place for all critical projects required by 2028.
- A train service to Huapai would be a quick win.
- Parnell Business Association noted that funding will be required for the projects identified in the Parnell local area plan.
- Resolving issues which affect rural residents and heavy transport operators should be a priority due to inadequate alternative options.
- There should be transparent performance management of fuel tax expenditure.
- Generation Zero supports a complete pedestrian overhaul of the city centre, allowing for key public transport routes.
- Public transport infrastructure must be made more practical for the older age group
- Efficient movement within the North Shore and to greater Auckland is a requirement for business growth and investment in the area.

A regional fuel tax is broadly acceptable to Auckland New Zealand Automobile Association (AA) Members, and is preferred over other potential funding options (such as rates increases). In a survey of AA members, 51 percent were comfortable with a regional fuel tax or felt a regional fuel tax could at least be considered.

Auckland Council procured Colmar Brunton to survey a cross section of Aucklanders (nearly 4000 people). That result shows that 52 percent of Aucklanders support the RFT while 43 percent are opposed.

### **Previous Ministry of Transport advice**

Previously the Ministry of Transport has advised in favour of other options over a regional fuel tax. A change in government has resulted in a change in transport priorities that makes a regional fuel tax more appropriate at this time. The Government's focus has moved away from large national projects such as the Roads of National Significance that were considered to deliver wide national benefits, to more targeted transport investment.

## **5.2 Summary table of costs and benefits of the preferred approach**

It is not possible to complete a detailed cost benefit analysis at this time, because the individual projects in the Auckland Council proposal have not yet had a formal business case developed. This will happen as part of the development of the NLTP, at which point the NZTA and Auckland Council will carry out detailed cost-benefit analysis on the individual projects.

The table below shows the cost of the projects that Auckland Council propose to deliver and the regional fuel tax contribution to these projects. The table also includes an indicative cost benefit ratio provided by Auckland Council derived during the ATAP process. Benefits of the

projects have been calculated using the benefit cost ratios provided by Auckland Council.

Auckland Council regional fuel tax proposed project benefit cost ratios				
Project	Auckland Council Benefit Cost Ratio	Project Cost (\$ m)	RFT Contribution (\$ million)	Benefits
<b>Project 1: Bus Priority Improvements</b>	Not Available	266,000	135,000	Not Available
Whole of route bus priority improvements	3.37			
Double Decker mitigation works	1			
Sylvia Park bus improvements	1.9			
<b>Project 2: City Centre Bus Infrastructure</b>	2	163,000	62,000	326,000
Downtown bus infrastructure	2			
Wellesley Street bus corridor	2			
<b>Project 3: Improving Airport access</b>	1.15	68,000	26,000	78,200
Airport access public transport improvements	1.15			
Puhinui bus interchange	1.15			
<b>Project 4: AMETI Eastern Busway</b>	2.1	743,000	201,000	1,560,300
Panmure to Pakuranga busway	2.1			
Papakura bus station and Reeves Road flyover	2.1			
Ti Rakau busway	2.1			
Botany bus station and park'n'ride	2.1			
<b>Project 5: Park and Rides</b>	Not Available	63,000	24,000	Not Available
Park and Ride Programme	Not Available			
Maitiatia	2.6			
<b>Project 6: Electric trains and stabling</b>	3	396,000	213,000	1,188,000
<b>Project 7: Downtown ferry redevelopment</b>	4	73,000	28,000	292,000
DTFT Piers 3 and 4	4			
Downtown Ferry Basin Redevelopment	4			
<b>Project 8: Road safety</b>	Not Available	552,000	225,000	Not Available
Safety cameras	Not Available			
Rural road safety programme	4			
Safer communities and speed management	3			
Minor safety improvements	Not Available			
Urban road safety programme	Not Available			
<b>Project 9: Active transport</b>	Not Available	342,000	112,000	Not Available
Walking and cycling programme	4			
Orakei shared path	Not Available			
<b>Project 10: Penlink</b>	4.2	200,000	66,000	840,000
<b>Project 11: Mill Road corridor</b>	3.7	508,000	102,000	1,879,600
<b>Project 12: Road corridor improvements</b>	Not Available	302,000	87,000	Not Available
Lincoln Road	7.5			
Matakana link road	6.8			
Glenvar/East Coast road	Not Available			
Smales/Allens intersection	11.3			
Lake Road improvements	Not Available			
Seal extensions	Not Available			
<b>Project 13: Network capacity and performance improvements</b>	Not Available	296,000	99,000	Not Available
PT access	Not Available			
Network reliability	Not Available			
Repurposing existing road space	Not Available			
<b>Project 14: Growth related transport infrastructure</b>	Not Available	300,000	126,000	Not Available
<b>Total</b>		<b>4,272,000</b>	<b>1,506,000</b>	<b>6,164,100</b>

<b>Affected parties</b> (identify)	<b>Comment:</b> <i>nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks</i>	<b>Impact</b> \$m present value for the 10 years of the regional fuel tax	<b>Evidence certainty</b> (High, medium or low)
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<b>Additional costs of proposed approach, compared to taking no action</b>			
Fuel Consumers Ratepayers Taxpayers (NLTF) Developers	Regional fuel tax project costs	2,300 – 4,400	Medium
Fuel Consumers	NZTA Set up costs	1	Medium
To be determined	NZTA additional set up costs	2	High
Fuel Consumers	NZTA administration costs	3 – 9	High
Ratepayers	Auckland Council administration costs	0.5 - 1.5	Low
Fuel Consumers	Deadweight loss of taxation - Regional fuel tax projects	450 – 900	Medium
Fuel Consumers	Deadweight loss of taxation - NZTA set up costs	0.2	High
Fuel Consumers	Deadweight loss of taxation - NZTA additional set up costs	0.3	High
Fuel Consumers	Deadweight loss of taxation - NZTA Administration	0.5 - 1.7	Medium
Ratepayers	Deadweight loss of taxation - Auckland Council Administration	0.1 - 0.3	Low
Fuel Consumers	Individual Administration cost	0.7 – 7.1	Low
Fuel Consumers	Cost of money for lost due to time for rebates	0.1 – 1.8	Low
Fuel Companies Fuel Consumers	Fuel Company set up costs	2.5 – 7	Low
Fuel Companies Fuel Consumers	Fuel company administration costs	7.8 – 14.8	Low
<b>Total Monetised Cost</b>		2,768 – 5,347	Medium

## Expected benefits of proposed approach, compared to taking no action

The proposal by Auckland Council includes the qualitative benefits of the projects proposed to be funded by a regional fuel tax. The benefits of the projects as stated by Auckland Council are set out below.

### Project 1: Bus Priority Improvements

- Bus travel time savings of up to 30% on completed routes
- Increased patronage
- Improved service reliability
- Reduced operating costs through more efficient use of the bus fleet
- Double decker buses to provide increased passenger capacity without increasing vehicle numbers and the frequency of services
- Improved transfer and waiting environment at Sylvia Park

### Project 2: City Centre Bus Infrastructure

- Enables increasing numbers of buses from across Auckland to effectively access, circulate and terminate in the city
- Faster and more reliable travel times through provision of city centre bus priority initiatives
- Improved customer transfer and waiting environments
- Reduced congestion as more people have

### Project 3: Improving Airport access

- Improved public transport access and services to the airport from the Isthmus, West, and East Auckland by 2020/21
- New high quality bus/rail interchange at Puhinui Station to substantially improve airport access from the rail network by reducing transfer times

### Project 4: Eastern Busway

- Increase public transport usage from 5.8% to 13% of journeys
- Reduce bus journey time (Panmure to Botany) by approximately 15 minutes at peak times

### Project 5: Park and Rides

- Enables 31,000 additional public transport passenger kilometres per day
- Improved public transport accessibility in areas difficult to service using feeder buses or walking and cycling infrastructure

### Project 6: Electric trains and stabling

- Approximately 30% increase in total fleet capacity
- Supports development and population growth in the Southern Growth Area.
- Enables more and longer train services

- Generates additional rail patronage growth, reducing congestion and emissions
- Provides necessary facilities to house and maintain the trains.

#### **Project 7: Downtown ferry redevelopment**

- Reduction in end-to-end journey times
- Provision of additional capacity to allow for increases in service provision and increased patronage
- Provision of infrastructure redundancy to allow for service disruption
- A purpose built facility which delivers an improved customer experience for users

#### **Project 8: Road safety**

- Road deaths and serious injuries reduced by 488 over ten years or 60% from the 2017 baseline
- Congestion reduction from reduced crash-delays
- Health and environmental benefits from increased active transport and reduced emissions
- 10 to 12 High-risk intersections treated per annum
- 200km high-risk routes treated per annum
- 10% of the high-risk speed network addressed per annum

#### **Project 9: Active transport**

- Ongoing delivery of the next generation of walking and cycling improvements
- Increase cycling as a share of peak time travel from 1.2% to 4-5%
- Improved health and environmental outcomes through increased active trips and fewer private vehicle trips
- Improved safety outcomes

#### **Project 10: Penlink**

- Travel time savings of 12-18 minutes for Penlink toll road users, and 5 minutes for commuters who continue to use the free alternative
- Travel time savings of 20+ minutes for bus passengers commuting from the Whangaparāoa Peninsula
- Provision of pedestrian and cyclist facilities between Whangaparāoa and Stillwater
- Reduced congestion at the Silverdale interchange and along the Hibiscus Coast Highway and Whangaparāoa Road
- Supports economic activity and planned growth in the Hibiscus Coast

#### **Project 11: Mill Road corridor**

- More efficient inter-regional freight movements
- Supports future residential and business growth in the south
- Allows improved public transport provision on Great South Road
- Provides resilience for the Southern Motorway

- Safety improvements along one of Auckland's current high-risk routes

#### **Project 12: Road corridor improvements**

- Reduced congestion and improved reliability
- Improved safety and network resilience
- Supporting current development at Long Bay
- Improved walking and cycling infrastructure
- Significant increase in funding for the seal extension programme

#### **Project 13: Network capacity and performance improvements**

- Travel time savings of up to 500,000 hrs/year, including improved bus travel times
- Reliable journey times including retaining good and reliable travel times for freight routes year to year
- Increased people and goods movement productivity
- Enforcement of dedicated bus and transit lanes to increase people movement throughput at peak times
- Improved customer information being available allowing the ability to make informed travel choices
- Improved mode share and increase network capacity

#### **Project 14: Growth related transport infrastructure**

- Enabling PT services to growth areas
- Improve arterial road connections to future urban areas
- Ensure transport networks are in place to enable urban development
- Ability to partner with developers and leverage off their investment

### 5.3 What other impacts is this approach likely to have?

The primary focus of the regional fuel tax legislation is to enable a regional fuel tax to raise revenue to help contribute to the fund Auckland's regional transport projects.

In Auckland, the transport projects brought forward and consumer behaviour change as a result of the tax could contribute to a reduction in congestion.

Although not directly linked to the regional fuel tax, NZIER estimate<sup>viii</sup> the total benefits (economic and social) of decongestion to the Auckland economy to be between:

- \$0.9 billion and \$1.3 billion (1 percent to 1.4 percent of Auckland's GDP) – these estimates represent the economic and social benefits to Auckland if the road transport network was operating at its capacity i.e. as it is designed to
- \$1.4 billion and \$1.9 billion (between 1.5 percent and 2 percent of Auckland's GDP) – these estimates represent the benefits if traffic flowed freely, i.e. the average speed across the Auckland network was close or equal to the speed limit, which is also known as free-flow.

NZIER estimate Auckland's real GDP would increase by between \$488 million (0.52 percent) and \$842 million (0.90 percent) if Auckland traffic reduced to the capacity of its network or network capacity was increased to meet demand.

There are several other potential benefits from decongestion that NZIER did not attempt to quantify given data, time and resource constraints. The following benefits were not quantified:

- tighter single labour market area, i.e. greater choice of work location (better skill matching around the Auckland region)
- Auckland's overall liveability
- greater freedom for businesses to locate around Auckland (trading off labour market access and rental costs)
- greater benefits from urban sprawl – improved accessibility from decongestion will allow households to locate further from their workplace. The transport costs to locate further from work or city centres will be lower thereby increasing the benefits residents enjoy by living at the city fringe
- increased tourism spending through attracting more visitors given improved ease of travel.

#### Proposal additional impacts

The Auckland Council proposal for a regional fuel tax has a number of key objectives that cannot be readily assigned to specific stakeholder groups. Auckland Council have identified that the projects that will be brought forward with funding generated or leveraged due to the regional fuel tax will deliver the following impacts:

- Improved road safety through supporting a substantial reduction in deaths and serious injuries
- Increased availability and use of public transport, which enables more efficient use of

existing infrastructure, provides travel options free from congestion and supports improved economic, environmental and social outcomes from less pollution, and from people and business traffic spending less time in congestion

- More active transport options (walking and cycling) with resultant health benefits and a positive impact on congestion
- Improving access to employment areas which will enable improved economic and social outcomes
- Enabling growth and housing development to address the current shortfall in housing stock.

The 60% reduction of deaths and serious injury (DSI) in ATAP over ten years from 813 in 2017 represents an estimated savings of 488 DSI in the final year, of which around 75% (or 366 DSI) is attributable to RFT enabled funding.

For the last five years, road deaths have amounted to 8% of annual DSI. Given those straight-line assumptions over ten years (not accounting for growth & other variations) it can be estimated that it represents an equivalent ten year savings of 2,440 DSI, including 195 deaths and 2,244 serious injuries. Of this, a reduction of around 146 deaths and 1683 serious injuries could be attributable to RFT enabled funding.

### **ATAP impacts**

The projects in the proposal are a subset of the projects proposed by ATAP. The ATAP package as a whole will deliver a substantial improvement to Auckland's transport system over the next decade. This includes:

- Enabling and supporting Auckland's growth
- Improving travel choice
- Congestion and access
- Safety, health and the environment
- Value for money

ATAP identified that Transport and growth and inextricably linked. Transport investment is essential to enabling urbanisation of greenfield areas and encouraging redevelopment of existing urban areas. Similarly, where and when growth occurs will impact on the location of future travel demand and the investment required to meet that demand.

Based on earlier business case work on walking and cycling Auckland Council believe the programme creates between \$200m and \$700m of congestion relief benefits (this is a wide range dependent on different assumptions) as well as \$300m-\$450m of health and environmental benefits.

### ***Supporting greenfield growth***

The ATAP Package helps to unlock funding that will enable around 30,000 more homes to be built over the next decade in major greenfield growth areas to the north, northwest and south of Auckland. ATAP investments will also seek to provide each area with travel choices, so they grow in ways that are not highly dependent on private vehicles.

### ***Congestion and access***

Access to employment is projected to improve, by both car and public transport. This means

that Auckland's growth is translating into better access to employment opportunities, which is a critical factor in improving economic productivity.

The proportion of travel in congested conditions during the morning peak by car is projected to remain around 2016 levels, despite population growth of around 300,000 people. The level of congestion faced by public transport users is expected to decline as an increased proportion of services operate either in their own right-of-way (for busways, rail and light rail) or with bus lanes that separate them from general traffic.

The proportion of interpeak travel in congestion is also projected to remain around 2016 levels despite Auckland's growth. Ensuring interpeak congestion does not worsen is critical to supporting the efficient movement of goods and services around Auckland, which makes an important contribution to Auckland and New Zealand's economic success.

Auckland Council have not managed to translate the increased number of people using public transport into quantified benefits, however overall Auckland Council are moving from approximately 90 million current public transport boardings per year to approximately 170 million by 2026.

### **Safety**

The increase in road deaths and serious injuries in recent years is projected to be reversed, with the ATAP Package (and associated regulatory, enforcement and promotional activities) expected to deliver a 60 percent reduction in deaths and serious injuries from 813 in 2017 to no more than 325 in 2027.

Improving real and perceived safety is also key to increasing the use of active transport modes, especially in encouraging more walking and cycling to school.

### **Health**

The transport system affects health outcomes in two main ways:

- harmful vehicle emissions contribute to respiratory diseases
- physical activity can help prevent a number of chronic diseases.

Strategic modelling tools can be used to estimate total discharge of various vehicle emissions. These projections are based on estimated levels of travel, how much of that travel is in congested conditions, and a series of assumptions about future engine efficiency levels. Modelling suggests that most harmful pollutants are expected to decline over the next decade, predominantly from improved vehicle standards, supported by modal shift to public transport, walking and cycling.

A substantial increase in active transport modes (walking and cycling) is anticipated to generate at least \$500 million of health and environmental benefits, which makes up around a third of total benefits from investment in cycling infrastructure.

### **Environment**

A combination of vehicle engine efficiency improvements and a greater mode shift to public transport, walking and cycling means that fuel consumption by private vehicles is projected to decrease slightly over the next decade, despite population growth. Some changes to vehicle technology, like the rate of electric vehicle uptake, is challenging to project and is not included in these projections. If the proportion of the vehicle fleet that is electric greatly

increases, fuel consumption, and therefore total emissions would decrease.

### **Auckland Plan**

The Auckland Council proposal also supports the Council's long-term outcomes (Auckland Plan review 2018) in the focus areas of:

- Make better use of existing transport networks
- Target new transport investment to the most significant challenges
- Maximise the benefits from transport technology
- Make walking, cycling and public transport preferred travel choices for many more Aucklanders
- Better integrate land-use and transport
- Move to a safe transport network, free from death and serious injury
- Develop a sustainable and resilient transport system.

### **Negative impacts**

The Auckland Council proposal notes that although the overall impact of the projects in the proposal will be positive, individual projects are likely to have short term negative impacts (primarily in the immediate area of individual projects) both during construction and on-going. Including:

- noise of construction and/or additional traffic
- impact on the amenity or character in the local area
- disruption of services or traffic flows during construction
- increase in property values in certain areas leading to affordability issues
- increased fuel prices leading to more costly travel for private and commercial vehicles.

### ***Negative Impacts addressed in RFT RIS***

The RFT RIS considered the negative impacts of regional fuel taxes including the impacts on the equity including the possible impacts of increases in the cost of travel, cost of living and the potential for price spreading across the rest of the country.

#### ***Increased Costs of Travel***

As identified in the RFT RIS, transport consumes a larger proportion of the incomes of lower income households. Lower income households earn less and often live further from their place of employment. As a result the disparity in transport spending between high and low income households is likely to be even greater for non-discretionary transport.

Lower income households tend to live further away from the central city and have to travel further to get into the CBD or to the opposite side of the region (for example from South Auckland to the northern beaches). This results in higher fuel consumption by these households than those living closer to the centre.

Additionally, lower income households are less likely to own newer more fuel efficient vehicles or electric vehicles. As noted by Sam Warburton in his submission to the Finance and Expenditure Select Committee when considering the Land Transport (Regional Fuel

Tax) Amendment Bill stated that “drivers of vehicles that are among the 10% least fuel efficient pay more than double the tax per kilometre of drivers of vehicles that are among the 10% most fuel efficient.”

#### *Increased costs of goods and services*

The RFT RIS states that the increase in fuel prices brought about by the regional fuel tax creates a risk of a negative impact on businesses which are heavily reliant on fuel, and on the welfare of low income households.

The RFT RIS states that “the potential impact on the prices of other goods and services will be partially offset by the reduction in transport costs due to reduced congestion as a result of increased use of public transport and changes in driver behaviour by reducing vehicle use. Westpac’s November 2017 Economic Overview estimated that a 10 cent per litre petrol tax for the Auckland region would add 0.06 percent to inflation next year.”

There will also be a second-round effect as businesses pass on the increased cost of transport. Westpac have assumed that this would lift the impact to 0.1 percent. However, the removal of the Interim Transport Levy, which the Auckland Council added to property rates in 2015 and was due to expire next June. Removing this levy will reduce the CPI by around 0.05 percent, halving the net impact on inflation.

#### *Price spreading*

The RFT RIS also identified that there is also a risk of price spreading where fuel companies spread the cost of the tax across other regions not subject to the tax.

The RFT RIS also noted that “a regional fuel tax scheme was legislated in 2008 but was never fully put into effect and was then repealed in 2013 due to concerns about price spreading and refund costs imposed on non-transport users of transport fuels (farming, construction and manufacturing)”

To reduce the likelihood of price spreading and to identify if it occurs the Bill creates a requirement to report on fuel prices in the region with a regional fuel tax and areas outside the region with a regional fuel tax.

The RFT RIS can be found on the Ministry of Transport website at <http://www.transport.govt.nz/about/publications/ris-bccs>

#### **5.4 Is the preferred option compatible with the Government’s ‘Expectations for the design of regulatory systems’?**

The proposed Order in Council is consistent with the Government’s ‘Expectations for the design of regulatory systems’.

The regional fuel tax for Auckland has clear objectives to deliver transport projects or programmes that would not have otherwise been funded.

The Ministry of Transport believe that the regional fuel tax for the Auckland region seeks to achieve the above objective in a least cost way, and with the least adverse impact on market competition, property rights, and individual autonomy and responsibility

The ten year fixed time frame and the 10 cent fixed rate of regional fuel tax for Auckland has processes that produce predictable and consistent outcomes for regulated parties across time and place. The Bill to introduce the regional fuel tax legislation establishes a clear procedure for changing the time period for the regional fuel tax, for changing the rate or changing the projects that will be funded with the revenue generated by the regional fuel tax.

As Identified above lower income households will be harder hit than more well off households. Despite the Ministry of Transport believes that the proposed regional fuel tax for Auckland is proportionate, fair and equitable in the way it treats regulated parties when compared to the other options available.

The regional fuel tax Bill that creates the ability for Auckland to establish a regional fuel tax sets out legal obligations and regulator expectations and practices in ways that are easy to find, easy to navigate, and clear and easy to understand.

## Section 6: Implementation and operation

### 6.1 How will the new arrangements work in practice?

The regional fuel tax for Auckland will be implemented by an Order in Council for the Auckland region.

It is intended that the Order in Council to enable an Auckland regional fuel tax will come into force on 1 July 2018 and will apply to all fuel that is supplied to a fuel outlet in the Auckland region by a fuel distributor from this date. Auckland Council intendeds that the regional fuel tax will be in place for a 10 year period.

Fuel that is already stored in a location where the fuel is intended for final consumption will not be subject to the regional fuel tax. For example, existing fuel in a fuel stations tanks on 1 July 2018 will not be subject to the tax, but future fuel deliveries to the site will be subject to the tax. Fuel already in a vehicle for final consumption such as a car fuel tank on 1 July 2018 will not be subject to the tax.

#### Transitional provisions

Transitional provisions have been included in the Bill to introduce a regional fuel tax to enable Auckland Council and joint Ministers to carry out the following prior to Royal Assent:

- preparation of a regional fuel tax proposal
- consultation on a regional fuel tax proposal
- submission of a regional fuel tax proposal to the Minister of Finance and the responsible Minister
- consideration of a regional fuel tax proposal by the Minister of Finance and the responsible Minister
- any recommendation or referral back by the Minister of Finance and the responsible Minister

#### NZ Transport Agency

The legislation to enable a regional fuel tax has been designed with input from the NZ Transport Agency. Legislation contains the functions of the NZ Transport Agency for administering the regional fuel tax. The NZ Transport Agency functions include:

- providing the Minister of Finance and the responsible Minister with any advice, as requested by the Ministers, relating to this subpart or to a proposed or existing regional fuel tax scheme;
- collecting regional fuel tax and any related penalties and, in connection with the collection of regional fuel tax, maintaining a registry of regional fuel tax taxpayers, and a registry of users of fuel for an exempt use and the locations where any fuel supplied to them will be used exclusively for an exempt use,
- administering the provision of regional fuel tax rebates; and
- transferring the net revenue from an regional fuel tax scheme to the appropriate

- regional council; and
- prosecuting offences.

The NZ Transport Agency must assess the regional fuel tax payable by a regional fuel tax taxpayer (RF taxpayer) under a regional fuel tax scheme for any month. In doing so, the NZ Transport Agency may rely on the information set out in the RF taxpayer's monthly return or may make its own determination of the correct amount payable.

### **Auckland Council**

Under the legislation to enable a regional fuel tax Auckland Council must:

- operate a regional fuel tax account;
- deposit into or credit to that account all funds received by the council;
- ensure that all payments from that account are made in support of the programme of capital projects of the RFT scheme in force for the region; and are
- accounted for in any manner required by the Agency.

Auckland Council may carry forward to any later financial year any amount of the credit balance in its regional fuel tax account at the close of any financial year; and use that money at any time for payments in accordance with this section.

### **Regulated parties**

Fuel distributors were engaged with during the design of the legislation to enable a regional fuel tax in Auckland. These parties have indicated that the way the legislation has been drafted will enable the fuel companies to begin collecting the regional fuel tax from 1 July 2018.

### **Expectations for regulatory stewardship**

Responsible parties have not identified any concerns with their ability to implement the regional fuel tax in a manner consistent with the Government's 'Expectations for regulatory stewardship by government agencies'

## **6.2 What are the implementation risks?**

A full description of the implementation risks of the introduction of a regional fuel tax is included in the RFT RIS. The same implementation risks apply to the Auckland proposal for a regional fuel tax.

The RFT RIS can be found on the Ministry of Transport website at <http://www.transport.govt.nz/about/publications/ris-bccs>

### **Tax (Price) Spreading mitigation**

Since the preparation of the RFT RIS the AA raised the risk of price spreading. The Land Transport Management (Regional Fuel Tax) Amendment Bill was subsequently amended to require the NZ Transport Agency to report fuel prices in Auckland compared to the rest of New Zealand. This will enable those interested in fuel markets to identify price

disparities between Auckland and the rest of the country and should illustrate whether price spreading is occurring.

**NZ Transport Agency funding and development contributions may not be as much as anticipated or costs may increase**

As identified by Auckland Council in its proposal, the additional funding for ATAP and the projects in the proposal comprises development contributions collected by Auckland Council for growth related infrastructure and subsidies received from NZ Transport Agency. While this is based on the best information currently available, it is likely as time progresses and projects are developed that both the costs and timing could change.

To mitigate this risk Auckland Council have applied a 10 percent variance for changes in the costs of the projects included in their proposal.

**Projects do not meet requirements for NZ Transport Agency funding**

The projects in the regional fuel tax proposal are at different stages of development. There is a risk that the projects may not meet the requirements to receive NZ Transport Agency NLTF funding. If this was to occur, then the tax could not be put towards the projects the tax was intended to fund.

To mitigate this risk the projects included in the proposal have been through the ATAP process that involved NZ Transport Agency. Additionally Auckland Council have committed that the usual business case practices, including value for money review will apply as part of final project approval.

# Section 7: Monitoring, evaluation and review

## 7.1 How will the impact of the new arrangements be monitored?

The NZ Transport Agency will be responsible for the collecting the data associated with the regional fuel tax. The data collected will be the number of litres delivered to a final retail location into a region.

The NZ Transport Agency will be responsible for the administration and oversight of the refund process and compliance costs for commercial non-road fuel users.

The Agency's functions include:

- providing the Minister of Finance and the responsible Minister with any advice, as requested by the Ministers, relating to the regional fuel tax or to a proposed or existing regional fuel tax scheme
- collecting regional fuel tax and any related penalties and, in connection with the collection of regional fuel tax
- maintaining a registry of regional fuel tax taxpayers
- maintaining a registry of users of fuel for an exempt use and the locations where any fuel supplied to them will be used exclusively for an exempt use
- administering the provision of regional fuel tax rebates.

### Statistics New Zealand fuel price monitoring

The Ministry of Transport, the NZ Transport Agency and Statistics New Zealand are working together to develop a reporting mechanism that will enable a comparison to be made between fuel prices in Auckland and the rest of the country.

Having this monitoring will enable Government and interested parties to form a view on whether price spreading is occurring and whether those outside Auckland are paying for the Auckland regional fuel tax through higher fuel prices in locations outside Auckland.

## 7.2 When and how will the new arrangements be reviewed?

### Ministerial Oversight

The regional fuel tax legislation allows for early termination of a regional fuel tax scheme if the Minister of Finance and the Minister of Transport (joint Ministers) have reasonable concerns that Auckland Council is not duly carrying out the proposal on which the RFT scheme for the Auckland region is based.

The joint ministers must notify Auckland Council of their concerns and advise Auckland Council that it must, within three months, respond to each of the concerns, stating what action the council has taken, or intends to take, in respect of those concerns.

### Requirement for Review

The proposed legislation enabling the collection of a regional fuel tax requires that Auckland Council review the RFT scheme before proposing to extend or replace the scheme.

The proposed legislation requires that Auckland Council must review the regional fuel tax scheme for its region before preparing a proposal to replace the scheme, to vary the scheme, or to change its end date to a date later than 10 years after its original start date.

The review must be completed no later than one year before the end date of the regional fuel tax scheme.

The proposed legislation requires that the proposal to vary, renew or extend the regional fuel tax scheme requires that Auckland Council follows the same processes for renewal or changing the regional fuel tax as it did for the establishment of the regional fuel tax. This includes the requirements around the content of the proposal and consultation on the proposal. While not required in the proposed legislation, we anticipate that any proposal to extend or vary the regional fuel tax scheme will address any issues identified in the review.

As with the original proposal process, Auckland Council will be required to seek approval from the Minister of Finance and the Minister of Transport who have complete discretion to make a decision to approve the new proposal, refer the proposal back to Auckland Council, or decline to recommend the variation, replacement or extension of the regional fuel tax scheme.

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<sup>i</sup> Statistics NZ Subnational Population Projections, February 2017

<sup>ii</sup> BERL Economics, Ascari (2012). *Investigation of Concerns regarding a regional fuel tax*.

<sup>iii</sup> New Zealand Herald (2017). *Auckland traffic 'pouring \$1.9 billion down the drain'* Retrieved from [http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11898205](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11898205) on Thursday 7 December 2017

<sup>iv</sup> New Zealand Herald (2017). *Auckland traffic 'pouring \$1.9 billion down the drain'* Retrieved from [http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11898205](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11898205) on Thursday 7 December 2017

<sup>v</sup> <https://ourauckland.aucklandcouncil.govt.nz/media/12630/aeq-infrastructure-funding-may-2017.pdf>

<sup>vi</sup> Fairfax (2017). *Auckland regional fuel tax confirmed to fund \$27 billion in transport infrastructure* Retrieved from <https://www.stuff.co.nz/auckland/98164345/auckland-regional-fuel-tax-confirmed> on Thursday 7 December 2017

<sup>vii</sup> [http://www.nzherald.co.nz/nz/news/article.cfm?c\\_id=1&objectid=11950182](http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11950182)

<sup>viii</sup> NZIER (2017). *Benefits from Auckland Road Decongestion*.