Future Funding: Summary of stakeholder engagement and findings

The Future Funding project is one of three Strategic Projects that the Ministry of Transport undertook in 2014. The other two projects are Future Demand, and Economic Development and Transport. These projects consider the changing world and how our transport systems, including funding, can be ‘future proofed’ while adapting to known and uncertain economic, environmental and social changes.

Future Funding addresses land transport funding. The project aims to promote informed and critical thinking among Ministry staff and external stakeholders regarding how much we should invest in the land transport system and how we should raise that money.

The key questions considered in this project are set out in the quadrants of the circle in the diagram below with the key reports produced for each question outlined in the adjacent boxes. This report outlines the stakeholder engagement undertaken in relation to question four.

This paper is presented not as policy, but with a view to inform and stimulate wider debate.
Summary of stakeholder engagement and findings on revenue tools

Introduction
Over the course of the Future Funding project, the project team held a number of workshops with both internal and external reference groups on the pros and cons of different revenue tools. Details of each workshop are listed in Table 1.

Table 1: Details of stakeholder workshops

<table>
<thead>
<tr>
<th>Date</th>
<th>Reference group</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 June 2014</td>
<td>Internal</td>
<td>MOT Wellington</td>
</tr>
<tr>
<td>29 July 2014</td>
<td>External</td>
<td>MOT Wellington</td>
</tr>
<tr>
<td>27 August 2014</td>
<td>External</td>
<td>Auckland Policy Office</td>
</tr>
</tbody>
</table>

The external reference groups consisted of members from the following agencies:

- the Treasury
- Ministry of Business, Innovation and Employment
- New Zealand Transport Agency
- Auckland Council
- Auckland Transport
- New Zealand Council for Infrastructure Development
- Auckland Alternative Transport Funding
- Road Transport Forum
- Automobile Association
- Local Government New Zealand
- Chair Cycle Aware Wellington
- University of Auckland.
At the workshops, we:

- sought participants' views on the criteria we should use to assess the revenue tools. The six criteria we developed were:
  - revenue sustainability
  - collection costs
  - economic efficiency
  - distributional equity
  - accountability
  - environmental sustainability.

- asked the participants to assess 11 revenue tools against the 6 criteria. The 11 revenue tools were:
  - motor vehicle registration (MVR)
  - fuel excise duty (FED)
  - road user charges (RUC)
  - general rates
  - targeted rates
  - regional transport rate
  - car parking charges
  - universal network charging
  - urban charging
  - general taxation
  - public transport fares.

The purpose of the workshops was to test with the participants the overall objectives for Future Funding, the long list of revenue tools (confirming no tools were missing) and the criteria for assessing those tools. The workshops were also used to work through the assessment process for a short list of 11 tools to gather information on how stakeholders viewed the tools, and to build stakeholder understanding of individual revenue tools and the complexity of an assessment process.

The workshops generated some interesting discussion; some of the main themes that were captured during the workshops are highlighted in the paper below.

**Assessment Criteria**

The criteria on which the different revenue tools would be assessed generated the most discussion, particularly the ‘economic efficiency’ criterion. Questions were raised whether some of the other criteria were needed because ‘economic efficiency’ captures most issues that are raised by the other criteria. For example, ‘collection costs’ and ‘environmental sustainability’ can both come under the criterion of ‘economic efficiency’. Economists commented that it is not practical to look at these issues separately; rather, it should be looked at as a basic ‘allocation of scarce resources’ problem. Furthermore, there is a risk of double counting by separating issues into many different criteria.
The reason the project team decided to unpack the issues is to better analyse and map them to the Ministry’s outcomes framework.

Some workshop attendees thought the criteria were too similar to each other, and instead should be grouped under three separate headings: effectiveness, efficiency and equity. Some disagreed with this argument and felt that environmental sustainability should also be included as one of the criteria, covering ecological, social, and economic factors.

Some participants recognised that equity was an important criterion but questioned whether it was an issue that should be managed by the transport funding system or should be an issue for the broader social system.

Other issues brought up were:

- ‘revenue sustainability’ could be renamed as revenue potential; it is hard to gauge sustainability if no timeframe is provided
- there is no mechanism to differentiate initial set-up costs and ongoing costs for the ‘collection cost’ criterion
- the need to look at economic development and how transport revenue contributes to urban form.

**Revenue tools**

One of the revenue tools causing some confusion for workshop attendees was fuel-consumption based Motor Vehicle Registration (MVR). There were concerns fuel-consumption based MVR would marginalise the lower income group as they would be less likely to afford fuel efficient vehicles and it could also undermine low-cost peripheral housing. A car-value based MVR may have fewer social equity issues, but it would not help achieve environmental goals.

Feelings were mixed about MVR’s revenue sustainability. Some participants did not like the idea of an access charge and felt it would not support economic efficiency.

Workshop attendees stated that Fuel Excise Duty (FED) is ‘firmly in the game’, and should remain as a revenue tool for the foreseeable future. Government can increase rates to counter improvements in fuel efficiency as New Zealand has lower than average excise duty among OECD countries.

However, some believed FED was sustainable for the foreseeable future, but revenue deterioration over time and the variable price of oil meant FED was not the ideal tool in terms of revenue sustainability. The poor distributional equity of FED was discussed. For example, someone who owns a 1980s petrol guzzling car (someone who cannot afford a newer, more fuel efficient car) has to pay far more tax than someone who owns a brand new fuel efficient car (someone with far more wealth). FED was not great on accountability; those paying the tax had little voice on what their money was being spent on.
The external reference group was quite vocal on the use of value capture revenue tools. Value capture tools secure the positive externalities of infrastructure investments by taxing the direct beneficiaries of the investments.

They questioned why the project team is not looking at value capture in more detail. It was felt that opportunities to take advantage of value capture mechanisms have been passed over too often in the past. This has been associated with a failure to realise value on investments. However, there was recognition these tools can be difficult to apply at a national level (as opposed to a local level). It can also be difficult to work out the right policy to raise fair levels of tax on profits from new developments without discouraging investments in those developments.

There was some confusion about ‘regional transport rate’. Regional transport rate is set by the central government but is collected by the regional councils in addition to other rates such as general rates. The rate collected is spent on transport initiatives in the region in which the rate is collected. Some attendees confused this with targeted rates which are project specific.

Other issues

Other general comments were raised during the workshops.

► Some suggested that the project team should look at how to price the system, instead of looking at how to fund the system
► Some questioned the merits of using multi-criteria analysis instead of benefit-cost analysis. Attendees felt the ranking exercise was akin to using ‘gut feeling’ to rank the tools, and it would be more appropriate to use some form of economic analysis (for example, looking at dead weight loss, externalities, and transaction cost as a percentage of revenue).
► Some wondered whether there could be a supplementary FED system if universal network charging is implemented
► Some held the belief that issues of funding and demand management are not separable. Users need to contribute with regards to the benefits they receive (not solely a problem of looking at revenue collection).
► Some highlighted the fact that certain revenue tools might score well against the criteria but in reality would be politically difficult to implement (for example, increased rates)
► Most attendees agreed revenue tools that are able to capture electric vehicles need to be considered in the future.
**Assessment scores**

During the workshops, the attendees were separated into groups and were each given a worksheet to rate the different revenue tools against the six criteria. The results from the workshops were collated with the results from worksheets completed by individual members of the project team.

Using the data collected, graphs for each of the 11 shortlisted revenue tools were created to show how each revenue tool scored against the criteria. A further six graphs were created to show how the revenue tools scored individually against each criterion.

It should be noted that worksheets were only provided when attendees arrived, and the scores are likely to be a reflection of attendees' personal views. Furthermore, participants had varying degrees of understanding of the technical differences between the revenue tools. The results only provide a qualitative indication of how the revenue tools are likely to perform against the different criteria and should not be treated as definitive.

**Conclusion**

The approach provided a useful framework around which to generate a rich conversation on the pros and cons of each of the revenue collection tools.

It highlighted that different tools might suit different purposes. For example, FED is extremely efficient and cheap to collect. However, Universal Network Charging may be more appropriate for a network optimisation goal.

One of the challenges is there will often be more than one goal. This approach allows a useful comparison of the trade-offs. However, those involved in the workshops thought that the approach would need to be supported by economic analysis to get the greatest value, rather than just personal judgement.
### Assessment criteria

#### Criteria A: Revenue Sustainability (Effective)
Generates sufficient resources to meet national investment needs on a sustainable basis, and:
- enough revenue to make a material contribution to running the system
- is hard to avoid and easy to enforce
- copes with changing patterns of system use.

#### Criteria B: Collection costs (Efficient)
Has minimal set up and collection costs, including:
- low transaction cost to the public (for example, low compliance and operating costs)
- low transaction cost to the Crown (for example, low collection cost).

#### Criteria C: Economic efficiency (Efficient)
Encourages efficient investment in, and use of, the land transport system, including:
- positive impacts on user behaviour (for example, time and frequency of travel)
- positive impacts on provider behaviour (for example, form, location and timing of investment)
- addressing the internal costs of travel (for example, congestion).

#### Criteria D: Distributional Equity (Responsible)
Incorporates equity considerations, including:
- intergenerational equity
- equity across income groups
- geographical equity
- minimising costs on the non-transport sector (for example, manufacturing, farming)
- minimising privacy issues (for example, anonymous payments options for road pricing).
Criteria E: Accountability (Efficient/Resilient)

Has strong links between those who set the tax, those who spend the tax and those who pay, including:

► strong feedback loops between users and providers (for example, to encourage well informed decisions by both)
► encouraging sound investment decisions by providers (for example, good project selection and execution)
► linking taxation and representation (for example, an issue where beneficiaries do not pay)
► transparent cross subsidisation where necessary to advance equity or network goals.

Criteria F: Environmental Sustainability (Safe/Responsible)

Encourages recognition of the external cost of travel such as emissions and noise

► Positive impacts on user behaviour (for example, time and frequency of travel)
► Positive impacts on provider behaviour (for example, form, location and timing of investment)
Impact assessment

/5 = significant positive impact  /4 = some positive impact  /3 = negligible impact or unclear

/2 = some negative impact  /1 = significant negative impact

Motor Vehicle Registration (including fuel consumption MVR)

MVR scored the highest in revenue sustainability, and the lowest in economic efficiency.
FED scored the highest in collection costs, and lowest in distributional equity.

RUC scored the highest in revenue sustainability, and the lowest in collection costs.
General rates scored the highest in collection costs, and the lowest in environmental sustainability.

Targeted rates scored high on both collection costs and accountability. The environmental sustainability criterion scored the lowest. It should be noted that scores for revenue sustainability covered a wide range which indicates mixed interpretation of either the revenue tool or the criterion.
Regional Transport Rate scored the highest for both revenue sustainability and collection costs. It scored the lowest for environmental sustainability.

Car parking charges scored highest on economic efficiency while having an average score of 3 across the other criteria.
Universal network charging scored high for revenue sustainability and economic efficiency, but scored lowest for collection costs. It should be noted that it also scored relatively high for both accountability and environmental sustainability.

Urban charging scored high for revenue sustainability, economic efficiency, and environmental sustainability. It scored the lowest for collection costs and distributional equity.
General taxation scored highly for revenue sustainability and collection costs, but scored low on environmental sustainability.

Public transport fares scored consistently between 2 and 3 across the criteria.
Overall, universal network charging scored the highest by some margin among the 11 revenue tools while public transport fares rated the poorest against the criteria. Other tools that scored well overall were FED, RUC, urban charging, general rates and targeted rates.

**Revenue Sustainability**

Universal network charging scored the highest for economic sustainability while public transport fares scored the lowest.
FED scored the highest for collection costs, while RUC, universal network charging, car parking charges, and urban charging scored at the lower end.

Universal network charging scored the highest for economic efficiency, while MVR and general rates scored low for this criterion.
Overall, the scores for distributional equity were relatively close. The majority of them were between 3 and 4. General taxation scored the highest while MVR and public transport fares were at the lower end.

Universal network charging scored the highest for accountability while general rates, regional transport rate, and public transport fares are at the lower end.
Universal network charging scored the highest followed closely by urban charging for environmental sustainability, while general rates and regional transport rate were the two that scored the lowest. Targeted rates and general taxation also scored poorly for this criterion.