

25 November 2020

OC200816

Hon Michael Wood  
Minister of Transport

## FUTURE OF THE REVENUE SYSTEM - PROGRAMME OF WORK

### Purpose

Inform you of the Future of the Revenue System, the Ministry's programme of work reviewing the current revenue system.

### Key points

- New Zealand's land transport revenue system is progressive compared to other countries, but it is increasingly under pressure to meet the growing demands of the transport investment system.
- To ensure the revenue system is fit for purpose and can meet future requirements, we have started a programme of work to review the system, known as Future of the Revenue System. This is a medium-to-long term project that considers a range of fundamental questions, such as what the purpose and principles of the revenue system should be.
- While land transport revenue has been impacted by COVID-19, it remains relatively stable and is expected to continue to increase through this decade. However, the current system does have some issues. For example, it:
  - relies heavily on road users as its source of revenue
  - was not designed to fund large-scale investments that seek to achieve broader outcomes.
- Although there is no immediate pressure to change the system, policy work needs to continue now as any new system may require a decade to develop and implement.  
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- [REDACTED] We need to progress work on the fundamental questions such as the system's purpose and principles, as a replacement system that continues to rely on road users may not be a good replacement for what we have now. A revenue system that is right for our future investment needs may look different.
- We welcome any feedback you have on the work outlined in this briefing, particularly any aspects you are interested in or would like us to pursue further. If you wish to discuss this further, we can work with your office to organise a meeting with you in the New Year.

**Recommendations**

This briefing has no recommendations and is just for noting.

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Marian Willberg  
**Manager, Demand Management and Revenue**

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Hon Michael Wood  
**Minister of Transport**

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**Minister's office to complete:**

- Approved
- Declined
- Seen by Minister
- Not seen by Minister
- Overtaken by events

**Comments**

**Contacts**

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Name	Telephone	First contact
Bryn Gandy, Deputy Chief Executive, System Strategy and Investment	██████████	
Marian Willberg, Manager, Demand Management and Revenue	██████████	✓
Olivia Kitson, Senior Adviser, Demand Management and Revenue	██████████	

## FUTURE OF THE REVENUE SYSTEM - PROGRAMME OF WORK

### **Our revenue system has strengths, but was created to support an investment system that now has different ambitions**

- 1 New Zealand faces some unique challenges compared to other countries. We are a long, narrow country with a relatively small population base, which means we rely on a cost-effective revenue system to help connect a dispersed population across challenging geography.
- 2 Our revenue system is focused on land transport. The main sources of revenue come from fuel excise duty (FED) on petrol vehicles and road user charges (RUC) on diesel and heavy vehicles. Recently, track user charges were introduced to contribute to the cost of maintaining a reliable and resilient rail network. These three sources, along with motor vehicle licensing and registration fees, go into the National Land Transport Fund (NLTF), which funds improvements to and maintenance of the land transport network.
- 3 There are some good things about our current revenue system. Our RUC system is world-leading in the way it recovers the costs of road damage caused by heavy vehicles and - along with FED - it has provided a stable source of revenue with low collection costs. Revenue from these two sources in particular is not declining, and will not decline in the foreseeable future, even with greater uptake of electric vehicles (EVs).<sup>1</sup>
- 4 However, demands on the revenue system have changed since its beginnings in the 1920s.<sup>2</sup> There are much greater demands on revenue from larger scale investment priorities that seek to achieve broader outcomes such as net zero carbon emissions. Consequently, the investment system has become misaligned with the core principles of the revenue system.
- 5 There is increasing pressure on the revenue system (as well as on our planning and funding frameworks) to fund large, complex projects over multiple years. Multi-year and significant investments such as Auckland Light Rail and Let's Get Wellington Moving are putting pressure on the 'pay as you go' (PAYGO) principle of the revenue system. The current system has some flexibility, but it was not designed with large-scale investments like these in mind, and there are public policy questions to answer on how inter-generational equity is best addressed.
- 6 Our hypothecated user-pays approach to revenue means that, while revenue collected from land transport goes back into the land transport system, it is only being collected from a specific set of users. Around 95 percent of revenue is collected from people who drive vehicles. If we are successful in moving people from driving to using more active and public transport modes, that will impact the amount of revenue collected. A replacement system may look different from the road vehicle based approach we have today.

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<sup>1</sup> EVs and other vehicles powered by low carbon fuels are not subject to FED, but are subject to RUC. EVs are currently exempt from RUC (OC200794 refers).

<sup>2</sup> The earliest indication of hypothecated funding for transport we are aware of is in the Motor Spirits Taxation Act 1927. The Land Transport Management Act 2003 brought in the more recent evolution of the revenue system, including full hypothecation and established the National Land Transport Fund to replace the National Roads Fund.

## There are other issues with the current revenue system that also need to be investigated

- 7 There are inequities between the rates of FED and RUC between different fuels and vehicle types. While most vehicles in New Zealand use petrol or diesel, and therefore pay FED or RUC, there are a range of other fuels. Some of these fuels pay excise, some have no excise but the vehicle is liable to pay RUC, and some are exempted completely from FED and RUC. There is no clear rationale for the rates that different fuels and vehicle types attract, particularly given the increasing importance of addressing the environmental impact of transport.
- 8 The revenue system is centred on land transport<sup>3</sup>, particularly road transport, although non-road use is sometimes captured by FED. For some but not all non-road uses of petrol, a FED refund is available, creating an administrative burden for Waka Kotahi. For those unable to claim a refund, the situation is a source of frustration as they are charged for non-existent road use.

## Therefore, we need to review the revenue system

- 9 We have an opportunity now to future-proof the revenue system, to ensure better alignment with our objectives for investment (such as the type of transport system we would like to have in the future). While COVID-19 and the response to it have had an impact on revenue that may continue for several years, we expect revenue to continue to increase through the current decade. This provides us with some time to review our current revenue system and improve it for our future requirements.
- 10 We have scoped a significant programme of work that will take a first principles review of the existing revenue system to inform recommendations for what a future revenue system should look like. This will involve investigating questions such as:
  - 10.1 **What is the purpose and principles of the revenue system?** Currently, the purpose is to collect revenue to fund improvements to, and maintenance of, the land transport network. Should a future revenue system be aiming to help achieve broader transport outcomes like reducing emissions or congestion? What is the potential shape of the future transport system it will help to pay for?
  - 10.2 **Who should pay, and why?** A central premise of our current system is the concept of user pays, particularly road users (and more recently, rail users). But, if we are successful in achieving mode shift away from road vehicles, this could lead to a significant reduction in revenue collected from FED and RUC. COVID-19 has demonstrated the challenges of the revenue system's reliance on road users, with travel restrictions reducing revenue from road users while also increasing the investment needed for public transport.
  - 10.3 **How can local government pay its share?** The existing revenue system relies on local government meeting its share of the cost of transport projects. However, in many regions local government revenue is under increasing pressure and councils are struggling to meet their share. There are particular concerns with debt constraints, other infrastructure commitments, and co-

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<sup>3</sup> While the GPS has signalled some revenue will fund coastal shipping, the vast majority of funding will be focused on land transport.

funding air and maritime transport infrastructure. We need to explore what alternative funding options are available to help these sectors meet various funding demands.

10.4 **What is the role of financing tools in the revenue system?** While there is some ability to leverage debt against the NLTF, this has implications for the NLTF's ability to fund projects in the future. Tolling is another option for repaying debt, but is ineffective due to the substantial cost of operating a toll scheme and New Zealand's low population base. We need to explore the role of financing tools in the revenue system, both for central and local government.

10.5 **What is the role of new and emerging technologies?** With the growing availability of Global Navigation Satellite System (GNSS)<sup>4</sup> technology, there is an opportunity to improve the administrative efficiency of the revenue system and make it more user friendly. However, there are policy and implementation challenges, particularly the need to ensure privacy protections are in place.

11 These are significant and complex questions that will take time to answer and will require considerable engagement with our government partners and stakeholders. Implementation of a new revenue collection scheme will need to be managed carefully to ensure we do not put any significant investment priorities at risk. We must use the time we have now to do it once and get it right.

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14 [Redacted]

[Redacted]

[Redacted]

<sup>4</sup> Although, the American Global Positioning System (GPS) is the most common, there are now many satellite navigation systems including Chinese, Russian and European systems.

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**There are other pieces of work underway that will inform this project**

- 17 Some of the bigger questions we have around the future of the revenue system are being explored in other pieces of work. There are a range of different funding tools being considered for specific projects, such as value capture<sup>5</sup>. This is being explored for Auckland Light Rail; you recently received a briefing about this (OC200890 refers). We have also been working on a funding toolkit as a source of information for central and local government on potential funding options, as signalled in the Government Policy Statement on Land Transport 2021.
- 18 However, the use of different funding tools such as value capture raises questions about how that revenue should be used in the transport system. This is an issue we will be considering as part of our work on the purpose and principles of the revenue system, particularly who should pay, and why.
- 19 We will also need to consider how tolling fits in the revenue system. As we get your agreement on the purpose and principles of a future revenue system, we may need to revisit whether tolling is an appropriate revenue source.

**We welcome your feedback on our programme of work**

- 20 While our work on future revenue systems is a key piece of work for the Ministry in our capacity as the steward of the revenue system, you can steer and influence this work. We welcome your feedback on any aspects of this programme that you are particularly interested in or would like us to pursue further. If you would like to discuss this further, we can work with your office to set up a discussion with you in the New Year.

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<sup>5</sup> Value capture is a funding tool used by government to capture some of the increase in land values that usually follow the deployment of transport infrastructure. There are no existing tools under legislation for central government to charge a tax or fee for value capture.