



4 March 2022

OC210944

Hon Michael Wood
Minister of Transport

Action required by:
Friday, 1 April 2022

DRAFT TERMS OF REFERENCE FOR THE FUTURE OF THE REVENUE SYSTEM PROJECT

Purpose

Te Manatū Waka the Ministry of Transport has drafted a Terms of Reference and a slide pack of key messages for the initial stages of the Future of the Revenue System work. This is being provided to you for your information and comment.

Key points

- Our revenue system has functioned well over the last four decades, but the system we have today was not designed to accommodate the shifts in travel that we are expecting over the next 10 plus years. Work is required to plan for a new, or renewed, land transport revenue system.
- We have previously briefed you on a programme of work for land transport revenue, funding and pricing (OC200816 and OC210326 refers). Two key components of revenue related work currently progressing are:
 - a cross-agency Land Transport Revenue Review considering how to meet pressures in the short to medium term
 - a Te Manatū Waka-led longer term look at the Future of the Land Transport Revenue System.
- The longer term work initially requires us to consider the intent of the current system, the principles at play, and the purposes of the revenue system moving forward in light of current and future trends, issues and opportunities. Following this first principles analysis, we will develop some options for a new, or renewed revenue system, and a plan for wide-scale engagement on what the future system might look like.
- There are no obvious alternatives to the current revenue system, so we ought to consider a range of revenue and funding sources, along with the role of pricing.
- The draft Terms of Reference in Annex 1 outlines our proposed three phase approach, and the work to be done for the first phase between now and 2024. Phases two and three, which are expected to occur in 2024 and beyond, are not in scope at this point. These later phases involve conducting broad public engagement on options, and the

design processes required for implementation. The aim is to enable a new, or renewed revenue system to be in place by 2030 at the latest.

- This longer-term piece of work is of interest to a wide range of agencies and stakeholders, particularly as we all wrestle with large scale system shifts such as reducing carbon emissions and long-term planning across the transport and connected systems like housing. Te Manatū Waka is starting to engage with other agencies and stakeholders on the future revenue system work. Material developed for these conversations is attached in Annex 2.

Recommendations

We recommend you:

- | | | |
|---|--|----------|
| 1 | discuss the draft Terms of Reference for the Future of the Revenue System project with officials. | Yes / No |
| 2 | refer this briefing to Hon Grant Robertson, Minister of Finance for his information | Yes / No |



Marian Willberg
Manager - Demand Management & Revenue

04 / 03 / 2022

Hon Michael Wood
Minister of Transport
..... / /

Minister's office to complete:

- | | |
|--|---|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Seen by Minister | <input type="checkbox"/> Not seen by Minister |
| <input type="checkbox"/> Overtaken by events | |

Comments

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Contacts

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DRAFT TERMS OF REFERENCE FOR THE FUTURE OF THE REVENUE SYSTEM PROJECT

This draft Terms of Reference is the first concrete step in a large programme of work

- 1 Our revenue system has functioned well over the last four decades, but the system we have today was not designed to accommodate the shifts in travel that we are expecting over the next 10 plus years.
- 2 Te Manatū Waka has been aware that we need to reconsider the land transport revenue system for a few years now. Some background thinking was undertaken in 2019, and then picked up again earlier in 2021. The attached draft Terms of Reference in Annex 1 is the first step in our formal work programme for the Future of the Revenue System.
- 3 The briefing on land transport revenue, funding sources and pricing tools in July 2021 outlined a proposed work programme for discussion (OC210326 refers). Your feedback on the paper confirmed the importance and relevance of this work, and agreement that we should be aiming for public consultation on the Future of the Revenue system in early 2024.
- 4 The draft Terms of Reference covers phase one, which will generate advice to you on potential purposes and principles for the future revenue system by September 2022, and advice on future options for the revenue system by mid 2023.
- 5 We are interested in any feedback you may have. Please let us know if you would like to discuss the Terms of Reference or accompanying material further.

There are some large impacts and risks to consider

- 6 Our current transport revenue system, with its reliance on the revenue generated from fuel excise duty and road user charges, has largely functioned well over the last few decades. However, it is based on achieving a stable and increasing stream of revenue from population growth and people increasing their vehicle kilometres travelled (VKT).
- 7 Retaining the current system is not sustainable as transport policy looks to achieve a much lower emissions profile through reduced VKT and increased low-emissions transport options like high quality public transport and active travel. As these current revenue sources start to decline, there is a risk that the cost burden will shift to those groups who have fewer options to change. There are risks that people on lower incomes and in the regions will end up paying proportionately more.
- 8 This project presents a once in a generation opportunity for system level change. The new or renewed revenue system could look quite different to the one we have now, and could impact many parts of society, not just transport users. At present other jurisdictions are starting to look at similar questions, but to date there are few good examples from which to draw. There are also objectives Ministers may have for New Zealand's system, like increasing access to public transport, that this project is a rare opportunity to address.

- 9 Therefore it is important to take a thorough and considered approach, and develop robust options and consider how they could be implemented effectively. Because of the scale and complexity, this project aims to work through issues and risks in a deliberate and sequenced way. The principles and purpose of the future revenue system are a critical first step in determining how we will be raising revenue, and from whom - rather than starting with a focus on how much revenue we need to raise. Solutions need to be identified and designed once we have also had the opportunity to assess what the demands are going to be on the future transport system.
- 10 This approach allows us to consider the full range of revenue and funding sources, along with the role of pricing. Revenue, funding and pricing can be used in different ways, and various combinations will give different outcomes. For example, making greater use of pricing as a demand management tool in the future will potentially reduce the amount of revenue required to invest in new infrastructure. We could also consider place-based sources of funding, like targeted rates and value capture.
- 11 Understanding and assessing alternatives is important, as there are an increasingly wide range of beneficiaries from transport investments, particularly in the case of major city-shaping projects such as light rail. While specific solutions are often advocated for such as 'full network pricing' or 'GPS-based distance pricing', these can have the same fundamental problems as the current system.
- 12 Given the impact of the transport revenue system, Te Manatū Waka will need to engage with stakeholders across the system from the outset. In the draft TOR we propose developing a stakeholder engagement plan to oversee this first phase of work, and we think some targeted engagements outside of government will be useful as an early input to the work and will help build positive longer term buy-in to the work. This is similar to the approach used for the first phase of work on the National Freight and Supply Chain Strategy. In addition, a list of agencies we will engage with and seek input from is outlined in section 4.3 of the draft Terms of Reference. s 9(2)(f)(iv)

- 13 A slide pack has been prepared to help facilitate these conversations with stakeholders and agencies, which outlines the case for change. This has been included as Annex 2 for your information.

Work is also underway to ensure the transport system can be paid for in the interim

- 14 Te Manatū Waka is working with the Treasury and Waka Kotahi on a Land Transport Revenue Review to ensure revenue is sustainable and we can manage demands on the National Land Transport Fund (NLTF) in the short to medium term. This review is focusing on understanding revenue and expenditure profiles over the next 10 years, how NLTF funding should be used, and maximising existing or alternative revenue tools. The work will also provide some of the inputs for developing the Government Policy Statement on land transport 2024.

- 15 Current sources of revenue¹ are forecast to be stable enough to pay for transport system maintenance and operations for the remainder of the decade.
- 16 You should receive interim advice on the Land Transport Revenue Review in April 2022.

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¹ Fuel Excise Duty (FED), Road User Charges (RUC) and Annual Vehicle Licensing/Motor Vehicle Registration as the primary sources of revenue.