

February 2022 DRAFT
IN CONFIDENCE

Future of the Revenue System

Terms of Reference

DRAFT
PROACTIVELY RELEASED BY
TE MANATŪ WAKA MINISTRY OF TRANSPORT

1. Background

- 1.1. Our transport revenue system has functioned well over the last four decades, but was created to support an investment system that now has different ambitions. The revenue system needs to be reconsidered in response to longer-term changes in the way New Zealanders will travel and in response to shifting expectations about the purpose and function of the transport system.
- 1.2. This Terms of Reference relates to phase one of the Future of the Revenue System project. Te Manatū Waka Ministry of Transport will lead this initial work as part of its system stewardship role.
- 1.3. There are several drivers of change that shape the need and context for this work. In particular:
 - 1.3.1. **Climate change and decarbonising the transport system:** The Zero Carbon Act and the Emissions Reduction Plan set out clear expectations for a substantial reduction in transport emissions to 2050¹, and a Just Transition will be important for how we get there.
 - 1.3.2. **Integrated planning approaches, over a 30 year timeframe:** Wider changes to our planning system that better integrate transport with urban development to shape well functioning towns and cities, through the implementation of spatial planning that is envisaged under the proposed Strategic Planning Act and the wider rollout of the Urban Growth Agenda.
 - 1.3.3. **Reducing levels of revenue under current settings:** While we expect revenue to remain stable until the end of the decade, the reduction in vehicle kilometres travelled (VKT) that decarbonisation requires along with mode shift, will see declining levels of revenue from our current main revenue sources (fuel excise and road user charges).
 - 1.3.4. **Equity concerns:** there is a risk that, as VKT reduces, that people who have fewer transport options will be paying a disproportionate share of revenue. This is potentially a key risk for people on lower incomes who have poorer access to quality public transport and people based in the regions and rural areas.
 - 1.3.5. **An evolving approach to funding transport investments:** Recent years have seen Crown funding used alongside transport revenue on an ad hoc basis. These contributions have enabled projects with broader-focused outcomes. However, the current mix of funding, financing and revenue was not specifically intended or designed to meet the costs of large new infrastructure projects with wider intergenerational benefits. Current funding arrangements also raise questions about the balance between independent and centralised decision making, and who should pay for what.

1.3.6. **The transport system has a broader and increasing role in enabling wellbeing**

across outcomes: There are stronger expectations on the transport system to support a range of multi-faceted outcomes, including safety and resilience, community connectivity and access. While these have always been a role for the transport system, they may not have been prioritised in the past, and they require us to think in a more granular way about who should pay for what, and the role that pricing and other tools can play to discourage or encourage different travel behaviours.

- 1.4. The level of change required in the transport system to meet emissions objectives and the broader outcomes outlined above will require significant investment in new types of infrastructure and services, as well as considering how we can obtain best value from the network and assets that we have today. We don't currently have an agreed mechanism for funding these, or an agreed approach to raising revenue for these.
- 1.5. The significant scale of the required transport system changes mean that a comprehensive, first principles approach to the revenue system is required. This provides an opportunity to consider the role that revenue, funding and pricing can play in meeting the needs of a changed transport system.
- 1.6. Other countries are grappling with a similar set of challenges, but there are as yet no obvious models that could be deployed in New Zealand.
- 1.7. The most recent briefing paper to Minister Wood offered a programme of work for discussion. There is support for the work programme and establishing a set of principles and rationale for what different sources of revenue (or funding) should appropriately pay for. [Refer OC210326 Land Transport Revenue, Funding Sources and Pricing Tools – work programme for discussion 21 July 2021]. The Minister has signalled that he sees public engagement commencing in 2024.
- 1.8. A separate, but connected, Revenue Review is currently underway. This review is aimed at ensuring that the land transport revenue system is sustainable across the medium term. We expect that this review will provide useful insights and information that will inform the Future of the Revenue System project.

2. **Purpose and approach to the Future of Revenue System project**

- 2.1. The overall purpose of this work is to enable New Zealand to move with confidence and certainty towards a new, or renewed, transport revenue system that will be fit for purpose for next 30 to 50 years. This recognises that any change to the system is a major undertaking that will affect all New Zealanders.
- 2.2. The long-term work programme will cover:
 - 2.2.1. **Phase one – principles and options:** Developing the purpose and intent of the revenue system, the principles that can shape the options, and developing options and outlining initial implementation pathways for Ministerial feedback.

2.2.2. **Phase two – Engagement:** Public engagement on options and more detailed development of implementation pathways.

2.2.3. **Phase three – implementation:** Detailed implementation planning through to implementation.

2.3. Appropriate timeframes and effective engagement will be necessary given the potential impact change to the transport revenue system will have on New Zealanders.

2.4. The table below outlines the phases and milestones of the Future of the Revenue System project. It is likely we will also offer further updates or seek feedback from Ministers as required.

2.5. **Table One:** Milestone indicative dates

| Indicative Dates | Milestone |
|------------------|--|
| Mar 2022 | Terms of Reference agreed, Minister advised |
| | Phase I – context, purpose and principles (this TOR) |
| By June 2022 | Context, issues and challenges paper (as background) |
| Aug/Sept 2022 | Advice to Minister on purposes and principles for future system |
| Jun 2023 | Advice to Minister on future options and pathways to implementation |
| 2024 to 2026 | Phase II – public and political engagement on options |
| Early 2024 | Cabinet paper on purposes, principles and options for future of the Revenue System, and on the public engagement approach to be taken. |
| | Public consultation |
| | Detailed development of options and design work |
| 2027 tbc | Phase III – implementation |
| | Preferred option(s) selected by Government |
| | Implementation likely to include ongoing design work |

2.6. These timeframes may be able to be brought forward if required. This will depend on Ministerial preferences and the scale of change desired. For example, some options may have significant IT set up requirements.

3. Scope

3.1. This work will primarily consider the land transport revenue system, and analyse the roles of revenue, funding and pricing within this. There are different approaches to revenue that need to be outlined and worked through, as it is likely the future state includes a mix of approaches:

3.1.1. Revenue (collections from public and entities for costs) like FED and RUC, other distance-based charging, licencing, and registration, tolling and parking fees. Could involve ‘full costing’ of travel, including social and environmental costs of vehicle travel. The role of Emissions Trading Scheme transport pricing and revenue will also need to be considered.

3.1.2. Funding sources including lending, crown and local government, value capture and project specific funding.

- 3.1.3. Pricing tools (aiming to change behaviour). These options will require us to consider the shaping of demand towards broader goals like reducing emissions and economic prosperity. For example, congestion pricing and mode shift incentives.
- 3.2. We do not intend to review the settings of the aviation and maritime sectors, as they have specific revenue and funding arrangements, including the use of levies and charges as major sources of revenue under normal circumstances. However, the Future of the Revenue System project will:
- 3.2.1. Consider the broad principles and approaches that underpin the revenue systems relevant to these sectors to identify opportunities for alignment and cohesion.
- 3.2.2. Take account of the role that FED and RUC currently plays for aspects of the maritime and related sectors including search and rescue.
- 3.2.3. Consider the pros and cons of a centralised transport fund or a dedicated land transport fund.

4. Project deliverables (Phase One)

- 4.1. This Terms of Reference relates to phase one of the work covering context, purposes and principles, and the development of future options. We've broken this down further to three key parts: context, options, and engagement.

Part One: the context - principles and purposes of the system

- 4.2. The scope of this work includes:
- 4.2.1. A synthesis of current issues and challenges facing the transport revenue system. This will include revenue projections and key investment pressures and trends under current settings. The Revenue Review will inform this work.
- 4.2.2. Analysis of key contextual and system matters including carbon emissions reductions, planning system changes, urban development objectives, system resilience, infrastructure strategy, investment projections and the Generational Investment Approach.
- 4.2.3. First principles analysis of the foundations of the current revenue system, including its PAYGO and hypothecated nature. This will explore the rationale for the current system and the strengths and weaknesses of these features in today's settings. Relevant to this will be the extent to which the Transport Outcome Framework should be reflected through the revenue system. This framework is briefly outlined in Appendix One.
- 4.2.4. Analysis of other key issues, including consideration of the range of funding models in place across the transport system (eg maritime, aviation).

Part 2: Explore options for the future revenue system

- 4.3. The scope of this work includes development of future options for initial Ministerial consultation and feedback. The options will be developed in the context of the principles and purpose of the revenue system. The options will likely include a range of tools that work together across revenue, funding and pricing.
- 4.4. Options development should include a review of international trends and practices, including developing technologies, an assessment of social and economic impacts, and interactions with the broader tax and welfare systems.

Part 3: Engagement planning

- 4.5. The scope of this work includes:
 - 4.5.1. Developing a targeted stakeholder engagement plan for this first phase of work. This will also enable targeted engagement with key agencies and stakeholders throughout parts one and two.
 - 4.5.2. Piloting a deliberative consultation research process.
 - 4.5.3. Developing a comprehensive public and stakeholder engagement plan for phase two.

Approaches to the analysis and options development

- 4.6. The project's analysis will aim to reflect impact on Māori and a Te Ao Māori view on how the system has operated and could operate in the future.
- 4.7. Matters of equity for different population groups will be considered as part of understanding what is required for a Just Transition to a new, or renewed, revenue system. Different demographic groups will experience economic and social impacts or opportunities from any proposed changes differently, and the distributional impacts should be reflected in any options development.

Out of scope

- 4.8. The work of phases two and three is out of scope for this Terms of Reference. However, we anticipate the following will occur:
 - 4.8.1. Undertaking the wide scale public consultation and political engagement on the future of the revenue system from early 2024.
 - 4.8.2. Future options to be refined through a design process, based on consultation.
 - 4.8.3. Implementation approach to be determined.
 - 4.8.4. Implementation of new, or renewed revenue system to be complete by 2030.

- 4.9. The project must consider the wider transport system and how this works to achieve the expected outcomes. However, the project is not reviewing the effectiveness of the transport system in meeting wider societal outcomes. We will be relying on other work underway to understand future investment decisions and future outcome expectations.

5. Governance of the project and stakeholders

- 5.1. The Ministry will initially take responsibility for the oversight and governance of this work, given the policy principles nature of the first phase. This will take into account the Revenue Review work, development of the Government Policy Statement on land transport 2024 and other relevant projects.
- 5.2. We envisage that project governance will need to evolve as the project progresses. We will also review the project's governance as part of future advice to Ministers.
- 5.3. The Ministry will need to engage with stakeholders with an interest from the outset. The following agencies will be invited to contribute and to help inform options development in particular:
- 5.3.1. Te Manatū Waka The Ministry of Transport
 - 5.3.2. Waka Kotahi NZ Transport Agency
 - 5.3.3. The Treasury Te Tai Ōhanga
 - 5.3.4. KiwiRail
 - 5.3.5. Civil Aviation Authority
 - 5.3.6. Maritime NZ
 - 5.3.7. The Department of Internal Affairs Te Tari Taiwhenua
 - 5.3.8. New Zealand Infrastructure Commission Te Waihanga
 - 5.3.9. Ministry for the Environment
 - 5.3.10. Ministry of Housing and Urban Development Te Tūāpapa Kura Kāinga
 - 5.3.11. Local Government New Zealand
 - 5.3.12. Ministry of Social Development
- 5.4. We also plan to engage with other government agencies given the wide-ranging impacts of transport revenue collection. These agencies include Te Arawhiti, Te Puni Kōkiri, Ministry for Pacific Peoples, Ministry for Primary Industries, New Zealand Customs Service, Ministry of Business, Innovation and Employment and the Department of Prime Minister and Cabinet.

6. Communications and public engagement

- 6.1. Transparency and proactivity are important. The project will ensure that there are up to date FAQs available on the Ministry's website as we progress through the stages. This is important so that the public and stakeholders can see what is happening and why, and when they will have opportunities to participate.
- 6.2. The project will involve key stakeholders from an early stage, so that their valuable insights are obtained at an early stage. This is important also for building awareness and understanding amongst key stakeholders of the need to review the revenue system and the range of considerations at play. We propose specific stakeholders are consulted with across phase one to test our thinking and help shape consideration of options. We will prepare a stakeholder engagement strategy as part of the work programme, as informed by the Ministry's Hei Arakai framework. Best practice engagement will be applied at every stage, informed by the guidance from DPMC's policy project.
- 6.3. Comprehensive planning for public consultation is critical. This will ensure that the public consultation process is accessible, proactive, considers and supports engagement by the full range of affected users. This will be supported by the earlier engagement with key stakeholders and the piloting of a deliberative consultation approach.
- 6.4. The Minister has signalled we should be aiming for consultation on the Future of the Revenue system in early 2024. [Refer OC210326 Land Transport Revenue, Funding Sources and Pricing Tools – work programme for discussion 21 July 2021].

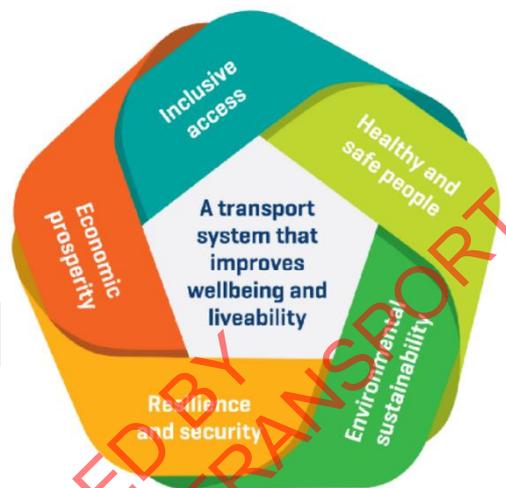
7. Budget

- 7.1. Ministry work on this project is currently covered by baseline costs. We expect that there will be a need for a dedicated budget as we progress. This includes budget for public engagement and communications, and to provide advice on the indicative implementation costs and feasibility of options. The future phases of design and implementation will require significant budget, but this will be planned for later.
- 7.2. s 9(2)(b)(ii)
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Appendix One – Transport System Outcomes

The Transport Outcome Framework sets out what we are aiming to achieve long-term. The system should be well functioning and improve wellbeing and liveability. These outcomes are:

1. **Inclusive access.** Enabling all people to participate in society through access to social and economic opportunities, such as work, education, and healthcare.
2. **Healthy and safe people.** Protecting people from transport-related injuries and harmful pollution, and making active travel an attractive option.
3. **Environmental sustainability.** Transitioning to net zero carbon emissions, and maintaining or improving biodiversity, water quality, and air quality.
4. **Resilience and security.** Minimising and managing the risks from natural and human-made hazards, anticipating and adapting to emerging threats, and recovering effectively from disruptions.
5. **Economic prosperity.** Supporting economic activity via local, regional, and international connections, with efficient movements of people and products.



1.5. _____

¹ The draft Emissions Reduction Plan aims to reduce transport emissions by 13 percent by 2030, and 41 percent by 2035. In order to do this, we need to reduce Vehicle Kilometres Travelled by cars and light vehicles by 20 percent by 2035 through improved urban form and providing better travel options, particularly in our largest cities.