

Received

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Office of Hon Phil Twyford

BRIEFING

**POLICY DESIGN: REGIONAL FUEL TAX FOR AUCKLAND**

<b>Reason for this briefing</b>	You asked officials to prepare legislation to introduce a regional fuel tax in Auckland.
<b>Action required</b>	Consider recommendations and give feedback on the design of a regional fuel tax at your meeting with transport officials meeting to allow a Cabinet Paper and Regulatory Impact Statement to be prepared and legislation to be drafted.  Forward a copy of this paper to the Minister of Finance and Minister of Local Government.
<b>Deadline</b>	4 December 2017.
<b>Reason for deadline</b>	You are meeting with Transport officials on 4 December 2017.

**Contact for telephone discussion (if required)**

Name	Position	Telephone	First contact
Marian Willberg	Manager, Demand Management	[REDACTED]	X
Andrew de Montalk	Adviser, Demand Management	[REDACTED]	
Bryn Gandy	Deputy Chief Executive, Strategy and Investment	[REDACTED]	

**MINISTER'S COMMENTS:**

s 9(2)(a) of the OIA.

<b>Date:</b>	30 November 2017	<b>Briefing number:</b>	OC05444
<b>Attention:</b>	Hon Phil Twyford (Minister of Transport)	<b>Security level:</b>	In-confidence

**Minister of Transport's office actions**

- |                                       |   |  |
|---------------------------------------|---|--|
| <input type="checkbox"/> Noted        | <input type="checkbox"/> Seen                 | <input type="checkbox"/> Approved            |
| <input type="checkbox"/> Needs change | <input type="checkbox"/> Referred to          |  |
| <input type="checkbox"/> Withdrawn    | <input type="checkbox"/> Not seen by Minister | <input type="checkbox"/> Overtaken by events |

## Purpose

1. This paper updates you, and seeks further feedback on, the introduction of a regional fuel tax (RFT) in Auckland.

## Executive summary

2. There are nine key design choices you can make in introducing a RFT. We would like to discuss these choices with you on 4 December 2017.
3. We have discussed the proposed RFT scheme with Auckland Council. Auckland Council would like to be able to use RFT funds for a wide range of transport activities (both operating and capital expenditure), subject to agreement with Ministers. Our advice is that RFT funds ought to be applied to specific capital projects agreed with Ministers.
4. Following an indication of your preferences on the design of a RFT, we will prepare a Cabinet paper for you. The Cabinet paper will provide the fundamental design aspects of the policy. A RFT will require an amendment to the Land Transport Management Act 2003.
5. We suggest you take the Cabinet paper directly to Cabinet on Monday 18 December 2017.
6. We have talked to all of the first and most of the second tier fuel companies that distribute fuel to retail destinations in Auckland. They have confirmed that they are able to implement collection of a RFT by 1 July 2018 at little additional cost, provided it uses the same concepts as the existing Local Authorities Fuel Tax (LAFT) in the Local Government Act 1974.<sup>1</sup> Broadly, the LAFT applies when fuel is distributed to a retailer, and is very similar to the approach in the 2008 RFT legislation.
7. The New Zealand Automobile Association (AA) is open to the idea of a RFT; the Road Transport Forum are opposed. Further details of stakeholder views are set out in the Appendix.
8. This paper sets out options for the shortened legislative process to enable the new scheme to be in place by 1 July 2018, as well as a more conventional timeframe.

## Structure of this paper

9. This paper has the following parts:
  - 9.1. part one: revenue forecast
  - 9.2. part two: design of a RFT for Auckland
  - 9.3. part three: limits of a RFT
  - 9.4. part four: parliamentary process, consultation and communications
  - 9.5. part five: recommendations.

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<sup>1</sup> Local Authorities Fuel Tax is 0.66 cents per litre for petrol; 0.33 cents per litre for diesel.

### **Part one: revenue forecast**

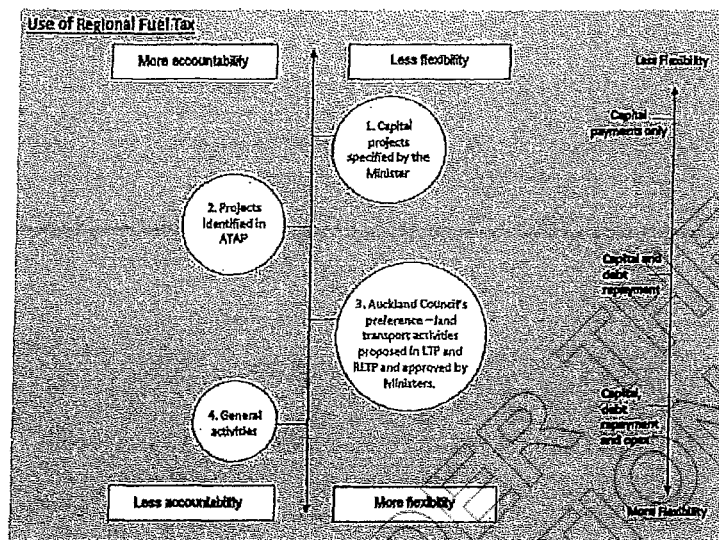
10. We have estimated that a 10 cent per litre RFT in Auckland will generate between \$170 million and \$190 million in revenue per annum through until the end of 2028, with revenue then falling.
11. The primary reason for falling revenue, from the end of 2028, relates not to decreasing road use or number of vehicles, but the increasing share of road use attributable to electric vehicles. The impact of electric vehicles is negligible in 2017 and is expected to increase between five and 15 percent by the end of 2028.
12. This estimate does not take into account:
  - 12.1. legitimate avoidance by consumers or large trucks that travel between regions. It is possible that some consumers or large trucks that travel between regions will be able to avoid a RFT by purchasing fuel in a region that does not have a RFT
  - 12.2. illegal avoidance by fuel being distributed without a RFT being paid
  - 12.3. any unforeseen future growth or decline in fuel use.

### **Part two: design of a RFT for Auckland**

13. Cabinet agreed an oral item that, subject to final Cabinet decisions, the Government will look to develop legislation that will allow Auckland Council to introduce a RFT in 2018 of up to 10 cents per litre on petrol and diesel purchased for use on-road, using the 2008 RFT legislation as a basis (CAB-17-MIN-0510 refers).
14. To enable the final decisions to be taken by Cabinet, and the preparation of a Cabinet paper, we would like to get your feedback on nine design issues relating to the most fundamental aspects of the policy. This section sets out the design issues and associated strengths and weaknesses.

*How should the revenue be spent? Spent on specific projects? Or part of general transport revenue?*

15. We note in Part one that a RFT will raise a significant amount of revenue – potentially between \$170 and \$190 million per year.
16. The image on the next page provides a framework and a range of options as to how this money should be spent. There are four key options, and any number of other options which could also be devised, which will all fit somewhere on the spectrum.



17. The four key options are described below:

**Option 1- Capital projects Identified by Ministers**

17.1. This option would restrict RFT funding to projects specified by Ministers. You would choose this option if, for example, you wanted the RFT to fund the seven public transport infrastructure projects identified in the election manifesto.

**Option 2 – Projects identified in the Auckland Transport Alignment Project (ATAP)**

17.2. This option would require the RFT to be used to fund projects (or a subset of them) identified in ATAP (or any similar Auckland Council – central government structure which might replace it).

**Option 3 – Transport projects identified in Auckland Council's Long Term Plan or Regional Land Transport Plan**

17.3. This option takes a much broader view of the purposes of RFT, and delivers it as an additional funding mechanism for Auckland Council's transport activities. It takes the view that the local government democratic and consultative processes will identify priority transport activities. Activities that also require National Land Transport Fund funding will be subject to the NZ Transport Agency's investment decision making framework.

**Option 4 – General activities**

17.4. This option is the broadest of all, and treats the RFT in the same way as the existing LAFT – a funding mechanism which the Council can use across its entire range of activities.

**Auckland Council's view**

18. We have engaged with Auckland Council on this question. Auckland Council has provided its perspective as follows:

18.1. Auckland Council wishes to use the funds from a RFT for "transport activities" specified in its Regional Land Transport Plan (RLTP) / Long Term Plan (LTP) /

Annual Plans. These are proven statutory instruments which support a comprehensive approach to planning transport investment, with clear linkages to services levels, asset management plans and growth/land-use planning.

- 18.2. Legislative provision for "transport activities" will include both major and minor projects; and capital and operating expenditure. From Auckland Council's perspective the benefit of such an approach is that it avoids unbalanced investment in large infrastructure assets without providing for the maintenance of these assets the services provided through them, or important smaller scale capital investments. By way of illustration, this would allow RFT revenues to be assigned to Auckland Transport's network optimisation activities. These comprise a mix of minor capital works and operational expenditure, and will deliver the greatest return on investment of all the ATAP projects as well as providing the most immediate relief of congestion in Auckland.
- 18.3. The Auckland Council proposes that Ministers would approve a RFT to fund transport activities that have been identified as a priority for the region, and which cannot otherwise be funded within the intended timeframe. The Auckland Council would welcome a legislative requirement for the transport programme partially funded by RFT revenues to be jointly agreed with the Crown.
- 18.4. If, however, the government decides the legislation is to provide for transport "projects" as opposed to the Auckland Council's preferred "transport activities" it is important that Auckland Council decides or agrees with the government what those projects are. This could be either through identification in the LTP / RLTP / Annual Plan and subject to final approval by the Minister or through the ATAP refresh. The Auckland Council would prefer the former, as ATAP does not have statutory status. Identifying projects through the LTP / RLTP / Annual Plan has the benefit of ensuring that consultation on the fuel tax is achieved, without requiring a separate consultation process to be undertaken (as previously required by the 2008 RFT legislation).
- 18.5. The Auckland Council is opposed to hypothecating the tax to specific capital projects, as the 2008 RFT legislation did, because a highly specific arrangement describing specific projects, anticipated benefits, timing and costs, additional funding sources and precise percentage allocations between projects, is unnecessarily complex and inflexible. The Auckland Council is also concerned this could increase the risk of judicial review (given projects inevitably change over time due to the consenting process or changing community needs).

18.6. 

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Ministry of Transport's advice

19. We agree with Auckland Council that the approach taken in the 2008 RFT legislation was probably too prescriptive.
20. Of the four options above, our preferences lean towards option 2. This option supports the approach that RFT is an additional imposition of taxation on Auckland drivers, and that there should be some clearly identifiable additional benefits delivered by it. Given the relatively small number of projects to be funded, it should be possible for Ministers to assess the value

of those projects, and whether additional funding is truly required for them. The projects that you might identify under option 1 are also likely to meet this criteria.

21. We can see merit in option 3. A RLTP guided by the Government Policy Statement on land transport could produce a set of transport initiatives that align with Ministers' priorities. Further, these initiatives remain subject to the scrutiny of the NZ Transport Agency if they are to be funded in part from the National Land Transport Fund. While Auckland Council has proposed that initiatives under this option be subject to agreement with Ministers, we think that the likely volume of these kinds of initiatives means that it will be very difficult for Ministers to form a view on them. This creates a risk that, rather than being used to fund additional transport activities, RFT would be substituting for existing funding sources.
22. We do not support option 4 – we think that funds raised from transport sources should be spent on transport activities and infrastructure.
23. In relation to the first two options at least, a decision is required on whether RFT revenue should be able to be used for capital expenditure only, capital expenditure plus repayment of debt incurred to fund the relevant project, or also include operational expenditure.
24. [REDACTED]

*Should the legislation be specific to Auckland?*

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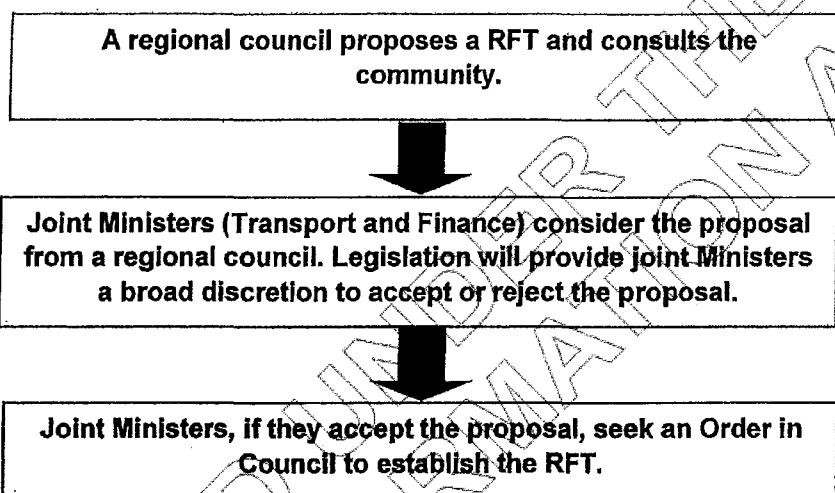
25. There are two ways to implement a RFT:
  - 25.1. put in place legislation enabling a RFT to be put in place for any region (coverage option 1)
  - 25.2. put in place legislation that only provides for a RFT for Auckland (coverage option 2).
26. Coverage option 1 reflects the design of the 2008 RFT legislation.
27. You have indicated to date that Auckland is the focus. However, a significant funding need could arise in another region in the future – perhaps as a result of significant population growth, or the need to rebuild infrastructure following a natural disaster. Coverage option 1 provides flexibility to deal with such a need on a case-by-case basis for a RFT in another region, with control always remaining with Ministers.
28. If you wish to exclude the possibility of other regions making a proposal for a RFT, legislation would be drafted restricting a RFT to Auckland (coverage option 2). This would provide vehicle owners outside Auckland with greater certainty around their future fuel costs.
29. Coverage option 1 is our preference.

*How should a RFT be established? Should legislation require a proposal from the region and then an Order in Council?*

30. There are two process options for establishing a RFT.

Process option 1: enabling the Auckland Council to make a proposal for a RFT

31. The process is summarised below:



32. Consistent with the 2008 RFT legislation, the objective in requiring a proposal is to put the responsibility for initiating a RFT firmly on the regional council. For the avoidance of doubt, a regional council includes a unitary authority.
33. Auckland Council would put together a proposal for a RFT specifying, among other matters, the tax rate, how it wishes to use the money and the duration of the tax. Your decisions on how the money is spent would restrict what the Auckland Council could propose. We propose that legislation gives joint Ministers (Ministers of Transport and Finance) broad discretion to accept or reject a proposal, as did the 2008 RFT legislation.
34. We have discussed this with the Auckland Council, as this process option is our preference. Auckland Council has indicated it would like to consult on a RFT as part of its LTP between 28 February 2018 and 28 March 2018. Auckland Council could develop its proposal and consult on it in parallel with the passage of the primary legislation through Parliament.

Process option 2: legislation prescribes a RFT for Auckland

35. Process option 2 is for the legislation to be simplified, and rather than Auckland Council applying for a RFT as under option 1, the legislation could directly prescribe the RFT for Auckland (with or without the ability for other regional authorities to apply for their own RFT).
36. This approach could be seen to align better with a situation where central government has already identified the projects which it wishes to see funded. It is unclear if, or whether, it would make sense for Auckland Council to consult with ratepayers if this approach was taken.

*Should a RFT apply to petrol and diesel but exclude compressed natural gas (CNG) or liquefied petroleum gas (LPG)?*

37. Cabinet has already stated that RFT will apply to petrol and diesel. Not applying the tax to diesel would result in a distortion in favour of diesel vehicles.
38. We do not propose that the tax is applied to compressed natural gas (CNG) or liquefied petroleum gas (LPG). We understand that the majority of these fuels are used off-road and a considerable amount of the excise duty paid on CNG and LPG is ultimately refunded.

*Should the legislation specify a maximum tax rate – a legislative cap? Or should the legislation provide an adjustment tax rate over time?*

39. Primary legislation could specify:
  - 39.1. no maximum rate
  - 39.2. a maximum rate (for example, 10 cents per litre).
40. If a RFT is in place for a number of years, not specifying a maximum rate in primary legislation would allow the tax to be more readily be adjusted, for example, taking into account inflation. Not specifying a maximum rate would allow joint Ministers to more readily increase the rate of without changing primary legislation. This would be our preference.
41. One reason why you might wish to specify in a maximum rate in legislation is to provide a level of certainty to businesses and households about the maximum rate of tax.

*Should the legislation specify a maximum duration (a specific period of time) for the tax? Or should the tax apply indefinitely?*

42. You have talked about a RFT being a short- to medium-term funding tool for Auckland.
43. Given good regulatory practice, expected change away from liquid fuels and likely future revenue mechanisms, we recommend a RFT be limited to ten years. A review prior to the expiry of the RFT should be triggered to ensure that considered decisions can be made about its continuation or cessation.

*How should the RFT be collected?*

44. A RFT could potentially be collected at the:
  - 44.1. wholesale level (when the fuel is produced or imported)
  - 44.2. distribution level (when the fuel is distributed to a retail destination)
  - 44.3. retail level (when the fuel is sold to consumers).
45. To minimise compliance costs, we propose that the tax is collected at the distribution level – when fuel is delivered to retailers or any other location where fuel is supplied, such as fuel tanks on farms, for example. Collecting the tax at this distribution level would mean the legal liability would be on persons distributing or providing fuel to retail destinations. This is the approach taken in the 2008 RFT legislation.
46. From talking to the fuel companies, we expect collecting the revenue at the distribution level will be relatively straightforward.



47. Collecting the tax at this level is supported by the fuel companies, as it would align with their existing LAFT obligations in the Local Government Act 1974.
48. Collecting the tax at the retail level is not preferred, as it would result in greater administration and processing costs. Collection of the tax at the distribution level reduces the number of parties involved.
49. Collecting a RFT at the wholesale level is more complicated as not all fuel wholesaled (produced or imported) in a region is ultimately used in that region (for example, it may be transported to other regions).

*How should the legislation deal with off-road fuel use?*

50. Cabinet has already decided that the RFT will only apply to fuel purchased for use on-road. Therefore we suggest there be a way to exclude or refund the tax for fuel used off-road.
51. There are two ways of dealing with off-road fuel use:
  - 51.1. exclusions – where the ultimate use of the fuel is known, the fuel company is not required to pay RFT on the fuel supplied to the retail destination
  - 51.2. refunds – where the end use of the fuel can only be determined by the purchaser, allowing that purchaser to apply for a refund.

#### Exclusion

52. As noted above, we propose to align key RFT concepts with those already in place under the LAFT concepts. This means RFT would not apply to fuel:
  - 52.1. used in the generation of electricity
  - 52.2. supplied for use as fuel for any commercial ship
  - 52.3. used in the manufacture of refined petroleum products at any refinery.
53. KiwiRail buys significant quantities of diesel for its locomotives. Because this fuel is not used on-road, it should not be subject to RFT. We are discussing with KiwiRail and its fuel suppliers whether exclusion is possible or whether a refund will be required.

#### Refund - petrol

54. Fuel Excise Duty (FED) is levied on petrol at 59.24 cents per litre. A refund of FED can be claimed where petrol is used in vehicles which are not required to be road registered (such as quad bikes on farms).
55. No refund of FED is available for other vehicles or uses, such as power boats or petrol-powered gardening equipment. This prevents fraudulent claims.
56. The NZ Transport Agency currently has a system in place for the refund of excise duty. This system could be used to refund any RFT on petrol.
57. We recommend that the refund rules enable those who purchase petrol which is also subject to RFT to claim a refund at the same time as claiming a refund for FED.

### Refund - diesel

58. We think it is important that the RFT treatment of off-road use of petrol and diesel is the same, and accordingly we recommend mirroring of the rules under which operators of petrol vehicles can claim FED refunds to enable RFT refunds to be claimed by operators of diesel vehicles. This will ensure that RFT is not applied to operators of vehicles like tractors and construction machinery.
59. Operators of road-going diesel vehicles pay for their use of the roads by way of Road User Charges (RUC), which are based on distance travelled. They are able to claim refunds of RUC for distance travelled off-road (such as on farms) – which is different from operators of petrol road-going vehicles, who cannot claim any refund of FED for off-road use.
60. Our preference would be not to allow a claim for RFT refund when RUC vehicles are driven off-road, because we think that it is both challenging and unfair on the operators of petrol vehicles. This is because RFT works on a fuel purchased basis, whereas RUC works on a distance travelled basis. This means that operators of diesel vehicles which are subject to RUC will still pay RFT for their off-road use – just as operators of petrol vehicles will.
61. However, if your preference was to allow a refund for off-road use for these vehicles, we could investigate making a refund available for RUC vehicles used off-road in Auckland (and potentially outside Auckland), but not for on-road use outside Auckland.
62. We will need to work closely with the NZ Transport Agency to minimise transaction costs (measures could include setting minimum levels for refund claims and aligning the RFT refund claims with the existing refund claim forms).

### *Who should administer, monitor and enforce a RFT?*

63. Whilst this is a regional tax we propose that the tax is administered centrally. We propose that the NZ Transport Agency collects and distributes the revenue to Auckland Council. LAFT is paid directly by the fuel companies to regional councils, without any oversight, and is not a model that we would propose to replicate for the much greater amounts paid under RFT.
64. We propose that fuel distributors file a monthly return with the NZ Transport Agency detailing fuel delivered to retail outlets in the regional boundaries. The revenue from a RFT would move from the NZ Transport Agency bank account to the regional council as soon as possible.
65. We propose that the NZ Transport Agency would recover its costs from administering the scheme and paying refunding claims from funds paid to the NZ Transport Agency from the tax.
66. Fuel companies have expressed their concern about the risk of some independent tanker operators purchasing fuel outside Auckland and transporting it into Auckland for sale. We propose this be addressed by:

- 66.1. penalties, such as those included in the 2008 RFT legislation, for someone who did not pay RFT
- 66.2. Auckland Council (or Auckland Transport), in conjunction with the NZ Transport Agency, monitoring and enforcing the legislation. We have raised this with Auckland Council, which is still considering its position.

### **Part three: limits of a RFT**

#### *Risk of fuel companies spreading the cost of RFT beyond Auckland*

67. In our previous briefing to you, we advised that there was a risk that fuel companies would spread the cost of the RFT beyond Auckland.
68. We have since spoken with the Ministry of Business, Employment and Innovation (MBIE). MBIE's advice is as follows.
- 68.1. Fuel prices in New Zealand have been fully deregulated since 1988 and there is nothing preventing retail outlets from selling fuel in different regions at different prices. This is already occurring, with price differences between Wellington and the South Island, on the one hand, and the rest of the North Island, on the other hand, becoming more pronounced since 2015.
- 68.2. One manner in which motorists outside of Auckland might be impacted by a RFT on Auckland is if fuel suppliers were to choose to accept a lower margin in Auckland (e.g. by keeping prices constant in Auckland notwithstanding the introduction of a RFT in Auckland) and then seek to recover these margins in other parts of the country.
- 68.3. There is also the potential for "demand leakage", whereby motorists in the Auckland region may seek to purchase fuel in neighbouring regions with lower prices (assuming that fuel suppliers were to seek a similar margin in Auckland and neighbouring regions).
69. In our discussion with MBIE, they did not consider these risks to be fatal to the overall policy objective.

#### *Potential social and economic impacts of a RFT*

70. In our earlier briefing, we noted the potential for a disproportionate impact on low income households. We will undertake further work to determine how best to assess the social and equity impacts of a RFT. We may be able to use insights from a framework being developed to assess social and distribution impacts of congestion pricing for the purposes of the Auckland Smarter Transport Project. A draft of this framework will be available in early 2018.
71. One of the reasons the Road Transport Forum opposes a RFT is the potential adverse economic impact resulting from an increase in freight costs. Westpac's November 2017 Economic Outlook estimated that the combination of the direct effect of a RFT, the increase in freight costs and the removal of the interim transport levy currently paid by Auckland ratepayers would add 0.05 percent to inflation.

### **Part four: parliamentary process, communications, consultation and next steps**

#### *Options for parliamentary process*

72. A very rapid passage of the Bill will be possible if passed under urgency, using extended hours or having a shorter than normal period of select committee consideration. There are two options to achieve an implementation date of 1 July 2018:
- 72.1. parliamentary process option 1 – passing all stages of the Bill under urgency or extended hours. This would mean there would be no select committee process. This

would require approval either by Parliament (for urgency) or the House Business Committee (extended hours).

72.2. parliamentary process option 2 – introducing the Bill followed by a vote to determine how long the select committee has to consider the Bill. Standing Orders provide that if this is for a period of less than 4 months, there is an unlimited (in time) debate in Parliament on the matter. The following is an approximate outline of the whole parliamentary process in terms of time taken:

- o first reading and debate (1-2 sitting weeks)
- o select committee (3-4 months)
- o remaining house stages (1-2 sitting weeks)

73. Normal parliamentary process (parliamentary process option 3) would involve introducing the Bill in the usual way with referral to select committee for approximately 6 months. The following is an approximate outline of the time needed for the normal parliamentary process:

- o first reading and debate (1-2 sitting weeks)
- o select committee (6 months)
- o remaining house stages (1-2 sitting weeks)

74. A normal Parliamentary timeframe is unlikely to achieve an implementation date of 1 July 2018. If normal Parliamentary process is adopted an implementation date of 1 October 2018 would be more realistic.

75. Stakeholders will be keen to know whether there will be a select committee process. Due to the accelerated policy development and the technical nature of the legislation the select committee process will provide an opportunity for details to be worked through. Though we have tried to ensure its workability by engaging with stakeholders, there are some technical risks with not referring the Bill to select committee.

#### *Communications – link to congestion pricing*

76. You will receive a briefing updating you on the Auckland Smarter Transport Pricing Project, which is investigating congestion pricing options for Auckland.

77. That briefing will include advice on how communications and engagement on a RFT in Auckland might impact on the communications activities planned for congestion pricing and the importance of aligning messaging.

#### *Consultation*

78. We have been engaging with key stakeholders to work out how best to implement a RFT. The Appendix provides an overview of our engagement with key stakeholders.

79. We have also consulted with MBIE, the NZ Transport Agency and the Treasury.

80. In order to maintain engagement with stakeholders (particularly the fuel companies) we would like your agreement to communicate your decisions on this paper to them in confidence.

*Next steps*

81. We would like to discuss this briefing with you on 4 December 2017. You may wish to also discuss this paper with your colleagues and forward this paper to the Minister of Finance and Minister of Local Government.
82. Following an indication of your preferences on the design of a RFT, we will prepare a Cabinet paper for you. The Cabinet paper will provide the most fundamental design aspects of the policy. A regulatory impact statement will also be prepared.
83. We suggest you take the Cabinet paper directly to Cabinet on 18 December 2017.

**Part five: recommendations**

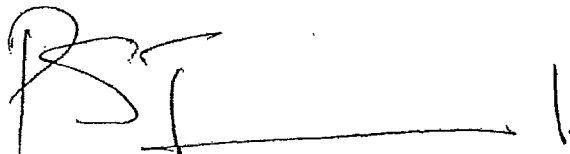
84. We recommend that you:

- (a) **discuss** with officials your views on how the revenue from a regional fuel tax should be spent  Yes/No
- (b) **indicate** whether legislation should:
- enable a regional fuel tax to be put in place for any region (coverage option 1)  Yes/No
- or
- provide only for a regional fuel tax for Auckland (coverage option 2)  Yes/No
- (c) **indicate** whether legislation should:
- enable Auckland Council to make a proposal for a regional fuel tax (process option 1)  Yes/No
- or
- prescribe a regional fuel tax for Auckland (process option 2)  Yes/No
- (d) **agree** to a regional fuel tax applying to petrol and diesel and excluding CNG and LPG  Yes/No
- (e) **agree** to the legislation specifying:
- a maximum rate for a regional fuel tax of 10 cents per litre  Yes/No
- or
- no maximum rate  Yes/No
- (f) **agree** that legislation specifies a ten year period for a regional fuel tax with an automatic review provision  Yes/No

- (g) **agree** that the regional fuel tax should apply when fuel is distributed to retail destinations, consistent with the Local Authority Fuel Tax provisions in the Local Government Act 1974  Yes/No
- (h) **indicate** exclusions and refunds consistent with:  
 the Local Authorities Fuel Tax provisions in the Local Government Act 1974 and the fuel excise duty refund provisions  Yes/No  
 or  
 the Local Authorities Fuel Tax provisions in the Local Government Act 1974 and the fuel excise duty refund provisions and the ability to claim a refund for off-road use of a vehicle subject to Road User Charges  Yes/No
- (i) **agree** to NZ Transport Agency administering the scheme, and both NZ Transport Agency and Auckland Council having monitoring and enforcement functions  Yes/No
- (j) **direct** officials to draft a Cabinet paper  Yes/No
- (k) **agree** to officials confidentially communicating your decisions on the design of a RFT to key stakeholders (particularly the fuel companies)  Yes/No
- (l) **forward** this paper to the Minister of Finance  Yes/No
- (m) **forward** this paper to the Minister of Local Government.  Yes/No

PP   
 Bryn Gandy  
 Deputy Chief Executive, Strategy and Investment

**MINISTER'S SIGNATURE:**



**DATE:** 4.12.17

**Appendix: Stakeholder feedback and our advice on it**

We spoke with stakeholders who raised issues that can be grouped as follows.

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Sector	Feedback	Our advice
<p>Fuel companies:</p> <ul style="list-style-type: none"> <li>• First tier - [REDACTED]</li> <li>• Second tier – [REDACTED]</li> </ul>	<ul style="list-style-type: none"> <li>• All of the fuel companies advise that they can quickly and efficiently implement collection of a regional fuel tax (RFT) that aligns with existing LAFT collection mechanisms and definitions.</li> <li>• The fuel companies believe that if RFT makes fuel more expensive inside the Auckland region than outside it, behavioural change will result.                             <ul style="list-style-type: none"> <li>◦ Some fuel buyers will choose to buy fuel outside the Auckland region, adversely affecting the sales volumes of retailers just inside the boundary in particular.</li> <li>◦ An opportunity will be created for people to buy bulk fuel outside the Auckland region, ship it inside Auckland and sell it at a profit. [REDACTED] has experience of this when Queensland introduced a fuel subsidy. We were urged to put strong compliance tools and penalties in place to ensure this did not happen.</li> </ul> </li> <li>• Customers may fill containers outside the RFT area and transport and store them at home to avoid paying the RFT. This creates significant safety risks including fire and spillage.</li> </ul>	<ul style="list-style-type: none"> <li>• We recommend Auckland Council be given authority to enforce the RFT boundary. We have raised this with Auckland Council and they are considering it.</li> </ul>
<p>On-road fuel users – Road Transport Forum, Bus and Coash Association (BCA) and New Zealand Automobile Association (AA).</p>	<ul style="list-style-type: none"> <li>• The Road Transport Forum is strongly opposed to a RFT, noting its adverse economic impact. It recommended the RFT not apply to diesel at all, or if it did, that heavy vehicles be excluded.</li> </ul>	<ul style="list-style-type: none"> <li>• It is appropriate for heavy vehicles to pay RFT and we do not consider there is any practical way to exclude them (nor was Road Transport Forum able to suggest one).</li> </ul>

	<ul style="list-style-type: none"> <li>• The BCA has concerns that the indexation of the public transport subsidy will not adequately compensate Auckland public transport operators for the additional costs of a RFT.</li> <li>• The AA is supportive of a RFT provided that the amounts raised are spent on projects which deliver clear value.</li> <li>• The AA would not be supportive of a RFT being imposed anywhere outside Auckland.</li> <li>• The AA would like to see the RFT process be woven into Auckland Council's consultation around its LTP early next year.</li> </ul>	<ul style="list-style-type: none"> <li>• We are working with the NZ Transport Agency to address this concern.</li> </ul>
<p>Off-road fuel users – Federated Farmers, Horticulture New Zealand.</p>	<ul style="list-style-type: none"> <li>• Federated Farmers and Horticulture New Zealand support a RFT provided that some of the amount raised is spent on rural roads, and there is a refund mechanism available for RFT on fuel used on farms.</li> </ul>	<ul style="list-style-type: none"> <li>• We recommend that there be refunds for fuel used off-road.</li> </ul>

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