TE MANATŪ WAKA
MINISTRY OF TRANSPORT

OC240839

23 August 2024

[redacted]

Tēnā koe [redacted]

I refer to your email on 19 July 2024 to the NZ Transport Agency (NZTA), requesting under the Official Information Act 1982 (the Act). Your request for the following information was transferred to the Ministry of Transport for response:

> *"Under the OIA, I would like to request a copies of: OC230975 Land Transport Revenue System and OC230930 Time of using charging and tolling design choices."*

Please find copies of the documents you seek attached. The annex details the documents and rea. Certain information has been withheld under the following sections of the Act:

9(2)(a)	to protect the privacy of natural persons
9(2)(f)(iv)	to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials

With regard to the information that has been withheld under section 9 of the Act, the reasons for withholding the information at this time are not outweighed by public interest considerations that would make it desirable to make the information available.

You have the right to seek an investigation and review of this response by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found on the Ombudsman's website www.ombudsman.parliament.nz.

The Ministry publishes our Official Information Act responses and the information contained in our reply to you may be published on the Ministry website. Before publishing we will remove any personal or identifiable information.

Nāku noa, nā,

Matt Skinner
Manager, Revenue

Annex: Details of the papers requested

Document number	Description	Details of redactions
1	20 December 2023 - OC230975 Land Transport Revenue System	Information withheld to protect privacy (section 9(2)(a) of the OIA) and to protect confidentiality of advice (section 9(2)(f)(iv) of the OIA).
2	18 January 2024 - OC230930 Time of using charging and tolling design choices	Information withheld to protect privacy (section 9(2)(a) of the OIA) and to protect confidentiality of advice (section 9(2)(f)(iv) of the OIA).

Please note that the Minister did not explicitly request the papers listed and are therefore marked as "not government policy." The information in these papers is not specific advice to the Minister on approaches to fund future land transport or transport projects.

TE MANATŪ WAKA
MINISTRY OF TRANSPORT

20 December 2023 OC230975

Hon Simeon Brown **Action required by:**

Minister of Transport Tuesday, 23 January 2024

LAND TRANSPORT REVENUE SYSTEM

Purpose

This briefing provides you with information on the land transport revenue system to support your land transport revenue planning, and to highlight longer-term opportunities.

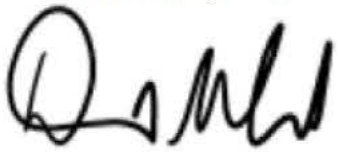
Key Points

- All land transport revenue goes into the National Land Transport Fund (NLTF), the primary funding source for investment in the land transport system. Since 2021, NLTF revenue has been lower than required to deliver the government's land transport investment priorities. Key drivers have included high investment ambitions, coupled with decisions to not increase transport taxes and charges.
- There has been greater use of Crown funding and loans to ensure investment priorities are met. However, this creates future funding pressures on the system.
- NLTF revenue is forecast to continue to grow modestly over the next ten years. However, it will only keep pace with inflation and the increasing size of the overall land transport programme through a combination of productivity initiatives, reduced regulatory burdens, higher taxes and charges, and utilisation of alternative financing sources.
- Achieving your investment objectives, along with your broader ministerial priorities, will necessitate careful consideration of land transport revenue settings. We are interested in discussing your revenue system and road pricing priorities, including, but not limited to:
    - potential opportunities to deliver streamlined, enabling road pricing legislation. For example, exploring the need for new time-of-use/congestion charging legislation and/or relaxing the constraints on tolling legislation to include, for example, the tolling of existing roads.
    - implementing your commitment to work to replace fuel excise duty with electronic road user charging for all vehicles. This transition, alongside road pricing legislation, could serve as a bridge toward a more sophisticated, nationwide rollout of time and location-based charging.

Recommendations

We recommend you:

1 **agree** to meet with officials to discuss your priorities for the land transport revenue system. Yes / No



David Wood
Deputy Chief Executive, Investment and Monitoring

Hon Simeon Brown
Minister of Transport
..... / ..... / .....

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
David Wood, Deputy Chief Executive, Investment and Monitoring	s 9(2)(a)	
Matt Skinner, Manager Revenue		✓
Carolina Durrant, Principal Advisor Revenue		

LAND TRANSPORT REVENUE SYSTEM

Land transport is funded by users, ratepayers and taxpayers

1 Road and rail users are the primary revenue source for the land transport system. The following table sets out the key land transport revenue sources for central government. **Appendix One** contains more information on the costs and benefits of these tools.

Table 1: Key land transport revenue sources

	Description	**Scale of revenue collected**
Fuel Excise Duty (FED)	Cents per litre on petrol (70c/l), compressed natural gas (CNG) (10.5c/l) and liquefied petroleum gas (LPG) (10.4c/l)	$2.1 billion per year 3.5 million vehicles
Road User Charges (RUC)	Distance-based charge for all vehicles over 3.5 tonnes and all vehicles that do not pay FED (mostly diesel, but also electric) ($76/1000km inc GST for light vehicles, $672/1000km inc GST for a 3-axle heavy vehicle with a 4-axle trailer)	$1.9 billion per year 900,000 light diesel vehicles and 180,000 heavy vehicles
Motor Vehicle Licencing Fees ("rego")	Charged annually as an access fee for someone to use their vehicle on the network. Includes a fixed NLTF component of $43.50 per vehicle (plus a separate ACC component that varies depending on vehicle type)	$230 million per year (plus ACC revenue)
Track User Charges	Payable by users of the rail network to partially cover the cost of maintaining tracks and other rail infrastructure.	$21 million per year

2 Revenue from these sources is dedicated (hypothecated) for land transport purposes into the National Land Transport Fund (NLTF) and allocated nationally by NZ Transport Agency Waka Kotahi (NZTA).

3 NLTF revenue is spent as it is collected, known as PAYGO ("pay as you go"). Money raised in a single year is spent in that year on investments determined by NZTA, based on the Government's direction provided through the Government Policy Statement on land transport (GPS). This limits spending to the level of incoming revenue and requires investments to be prioritised to those with the highest benefit.

4 New Zealand's system is known as modified PAYGO because it has become an increasingly stretched concept with the NLTF now reliant on borrowing to pay for a significant proportion of activity. Dependent on Government decisions NZTA could hold up to $7–8 billion of debt in future years. Over the term of the next GPS 2024–27, debt repayments are expected to absorb over $2.7 billion of NLTF revenue.

The Crown has also provided direct funding, and financing arrangements have been used

5 In recent years, governments have agreed to provide additional sources of funding and financing to support the delivery of their priorities. This includes, for example, public private partnership (PPP) arrangements for Transmission Gully and Pūhoi to Warkworth, and Crown contributions through the Provincial Growth Fund or loans to bridge immediate gaps between planned expenditure and expected revenue.

Local government is also a key contributor to land transport

6 Around 70 percent of local government's spend on transport ($1.3 billion per year) attracts subsidies from the NLTF[1], at an average matching rate of 53 percent, known as the funding assistance rate (FAR). Land transport spending by local authorities ($1.8 billion a year) comes from a range of sources, primarily through property owner contributions through rates ($1.5 billion a year) with smaller inputs from development contributions ($100 million a year) and funds raised from transport users through public transport fares ($130 million a year).

7 **Appendix 1** provides a description of current land transport revenue tools.

8 **Appendix 2** provides a description of funding and financing tools.

9 **Appendix 3** provides international examples of land transport revenue systems.

The land transport revenue system is facing pressure

10 The current land transport revenue system has provided a stable and increasing stream of revenue as the population has grown and as vehicle kilometres travelled (VKT) has increased. Road users pay for the direct costs of the roading network but have not faced the costs of externalities such as noise, pollution, or congestion.

The Ministry is a forecasting department, producing forecasts for land transport revenue that feed into the Treasury's Economic and Fiscal Updates and Baseline Updates.

11 The land transport revenue forecast is grounded in macroeconomic indicators and has demonstrated a consistent track record of reliability. We will keep you informed of revenue forecasts as they are updated.

12 Overall land transport revenue will continue to grow over the next ten years, but without large increases in FED and RUC rates, it is unlikely to keep pace with the increasing size of the overall land transport programme.

13 Towards the end of the 2020s, we expect revenue from FED will begin to decline. This is due to improved fuel efficiency, continuing increases in public transport patronage, and a projected increase in electric vehicles within the New Zealand fleet. The time and scale of the decline in revenue from FED will be influenced by the Government's approach to the implementation of advanced time and place road pricing, the transition of all vehicles to RUC, and emissions reduction initiatives. Under current settings, much of the decline in FED revenue will be offset by an increase in RUC (due to uptake of electric vehicles, for example).

[1] The rate of subsidy, known as the funding assistance rate (FAR), varies by region to reflect the ability of councils to raise local share (e.g., 51 percent in Wellington and Auckland, 75 percent in Wairoa).

There is an emerging gap between the level of revenue collected and the level of investment required to maintain the existing land transport system and deliver improvements.

14 In recent times the NLTF funding has been less than what is needed to fund investment ambitions, which has resulted in more use of Crown funding and loans. There is a widening gap between revenue collected and investment. Figure 1 below shows total Crown revenue (including budget appropriations and indicated expenditure). With Budget 2024 allowances likely to be constrained, the Ministry is investigating opportunities to reprioritise existing funding towards higher priority initiatives, and to find savings.

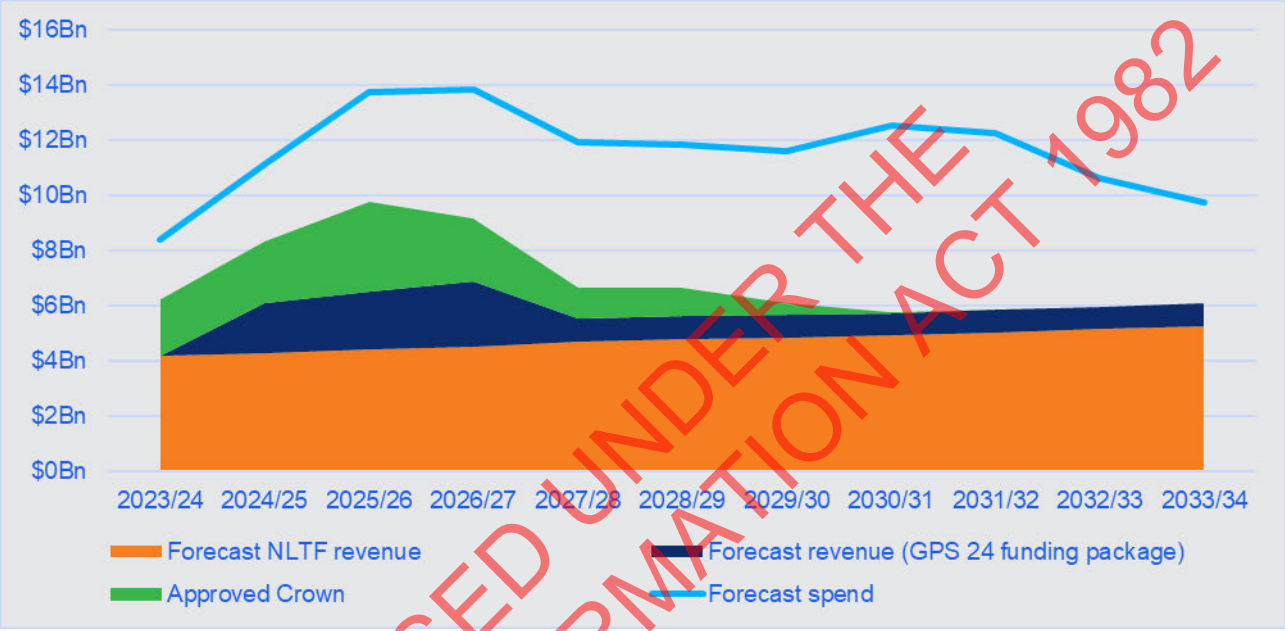


Figure 1: Forecast total expenditure and revenue for land transport (Crown and NLTF)

Source: Ministry of Transport

You have a pivotal role in shaping the funding and expenditure for land transport

15 As the Minister, you set the Crown's overarching strategy for land transport investment by issuing a GPS. Confirming your priorities in the GPS 2024 will require careful consideration of land transport revenue settings.

The are short-term decisions to make to support the development of the GPS to provide a clear revenue pathway for 2024–27 and allow you to meet your manifesto commitments.

16 Key revenue tools that can impact revenue in the short term, mostly relate to FED and RUC, given they are already in place, and are large sources of revenue where small changes can result in material impacts. Other tools are unlikely to provide a material amount of funding in the short term because they have limitations within the existing system (such as tolling, which under the current legislative framework is only possible to support funding for new roads), or because they still need to be developed (such as time-of-use charging).

17 Given the link between the revenue and investment systems, there are many investment levers (such as improving value for money and productivity) that will impact the level of revenue needed, in both the short and long term. In addition, demand management tools such as congestion charging can influence demand and change the need for new infrastructure (but won't raise much additional revenue). These issues will be covered across our upcoming investment and revenue advice.

18 **Appendix 4** provides you with a more detailed overview of tolling, RUC and congestion charging.

Longer term options to ensure a sustainable land transport system

19 The immediate gap between projected revenue and expenditure will continue to worsen if not addressed in a way that ensures the land transport revenue system is sustainable into the future. This will need to be informed by a clear picture of ambition for the system, how much of this will be achieved through investment or other levers such as demand management, and choices about the levels of expenditure that are reasonable.

20 The land transport system already has a purpose defined in the Land Transport Management Act 2003: "an effective, efficient, and safe land transport system in the public interest". The purpose of the revenue system is to fund the land transport system. As we progress development of future advice, it would be useful to have a more specific purpose for what the revenue system is seeking to achieve. We propose:

20.1 The **primary purpose** is to raise revenues efficiently and effectively in an acceptable, financially sustainable, and equitable way.

20.2 A **secondary purpose** is to incentivise efficient and safe use of the land transport system, including through making the best use of existing assets and networks.

21 We will soon be providing you with further advice on the following revenue issues.

The role of road pricing alternatives including tolling and time-of-use pricing

22 Road pricing encompasses a broad range of tools that can vary depending on the primary objectives (e.g. revenue gathering versus congestion relief).

23 We are interested in discussing your road pricing priorities, because what you want to achieve could strongly change our recommended approach. For example, if you are seeking to target congestion alone, the draft Congestion Charging Bill might be fit for purpose as a first step, but if revenue generation is also a priority, extending the current tolling framework could provide opportunities to both increase revenue and reduce congestion.

24 It will be important that any initial steps take us towards, or are consistent with, the desired future land transport revenue system (e.g. eventually congestion charging or tolling could be replaced by implementing RUC across the fleet). Our advice will seek to ensure that adopting variety of revenue tools and electronic systems in the short term doesn't crowd out broader, longer-term reforms.

The transition of all vehicles to road user charges (OC230850 refers)

25 As part of the decisions on shifting electric vehicles to RUC, Cabinet invited you to report back on options to progress the fleet-wide transition to RUC. You have committed to start work on the shift from FED towards electronic RUC.

26 s9(2)(f)(iv)

27

DRAFT – NOT GOVERNMENT POLICY

TE MANATŪ WAKA
MINISTRY OF TRANSPORT

Revenue Tools - current and potential

For a future land transport revenue system

28 November 2023

	Fuel Excise Duty	Road User Charges (&eRUC)	Dynamic road pricing	Council contributions	Value Capture (land value uplift)	Public Transport Fares	Regional Fuel Taxes	Annual Vehicle Licensing	Tolling	IFF levies	Congestion charging
Why use this tool?	Low rate, broad base tax on fuel where small increases can generate significant additional revenue. Forms a proxy for road use. This is diminishing as vehicles become more fuel efficient and with the uptake of hybrid and electric vehicles.	Recovers costs from road users, roughly in proportion to the wear & tear they cause on roads. Charges are well understood and acceptable given the clear link between costs and benefits.	Not currently in use (would need legislation) but could recover costs and charge for externalities like congestion and pollution. Would supersede congestion charging and tolling. Often envisioned to apply to all roads.	Broad-base, property based rates as well as developer contributions and targeted rates. Links funding & investments made. NLTF funds 51-75% for local council projects, with local contributions making up the remainder.	Not currently in use (would need new legislation). Reclaims some of the private property value increases generated by public investments. Could apply to commercial and/or residential property.	Covers some of the operational costs of public transport. Aligns to our beneficiary contributes principle.	Provides regional councils a tool to raise revenue from road users for transport projects that would not otherwise be funded. Also more consistent with beneficiary pays principles because it is paid by transport users rather than homeowners.	Is a form of access charge, with cost recovery elements. Includes ACC Levies and $43.50 fee into the NLTF (plus GST and admin fees).	Charges for the use of a tolled **new** road. Revenue gathered is used for capex and opex. Unlocks funding outside of standard processes and enables project specific financing.	Lets councils borrow off balance sheet, enabling them to fund infrastructure beyond what they otherwise could. Strong beneficiary pays connection.	Not currently in use (though legislation is drafted). Encourages people to rethink the time or mode of travel by charging them to use certain parts of the network at congested times.
Who administers the revenue?	Collected at the border by Customs from fuel companies. Revenue is hypothecated into the NLTF, and spent by Waka Kotahi in line with the GPS, often in partnership with local governments. **National**	Waka Kotahi manages RUC licences and receives revenue. eRUC is received by third party providers then passed on to Waka Kotahi. Revenue is hypothecated into the NLTF, and is spent by Waka Kotahi in line with the GPS (not specifically ringfenced to road costs) **National**	The design would need to be determined, but could be third party tech providers, or a crown entity directly. Revenue would be managed and spent as per the settings of the day. Note the much higher costs of operating this system, due to complex charging mechanisms and technology. **National**	The council receives rates revenue, then provides it to transport projects as part of their funding contribution (alongside WK). There are legislative requirements on how rates are set, but are set by WK taking into account the region's ability to pay. **Local**	The administrator of the revenue would be determined as part of the enabling legislation for this tool. Currently councils administer other forms of value capture (targeted rates, developer contributions, and IFF levies). **National/Local**	Regional councils set fares and administer the revenue. Public transport operators collect farebox revenue. **Local**	The only operating regional fuel tax scheme is in Auckland. Funds are collected by Waka Kotahi but provided to Auckland Council and tagged for specific projects. The tax is paid by fuel companies when petrol arrives at a retail site. **Local**	Licence fee revenue is hypothecated into the NLTF and spent by Waka Kotahi in line with the GPS. **National**	Toll revenue is not classed as land transport revenue so it is "received" by the toll road. This means Waka Kotahi has set up a separate account and ring-fenced money for each specific road – usually to pay down associated debt. **National**	A special purpose vehicle is set up for each IFF levy, councils collect revenue, passing it on to the special purpose vehicle. Crown Infrastructure Partners currently owns/administers both IFF special purpose vehicles but this doesn't have to be the case. **National**	The draft Bill proposes that the relevant territorial authority will receive the revenue. Who administers the collection of revenue is not determined but the preference is Waka Kotahi to build economies of scale. **Local**
What are our future opportunities?	Will likely decrease over time (given fuel efficiency and fleet changes), but rates are easily increased, and this remains a good short-to-mid-term revenue option.	We could apply RUC universally across all vehicles, accounting for diminishing FED revenue from fleet changes. We could cover a greater range of costs/externalities. We could implement time & location-based charging on top of distance.	This is a future option to replace/expand RUC. Tracking vehicles (and subsequent data) provides a range of opportuni ies for network & demand management.	Insights from the Future of Local Government review may identify future opportunities for local funding tools.	Many options are available to us when designing a new value capture tool. It could be project based, national, apply to commercial, residential, or all properties. Another example of value capture is the sale of air development rights above stations.	Could be increased to cover a greater portion of opex costs but this could impact patronage and wouldn't reflect the broad benefits generated by public transport (congestion and emission reduction).	The legislation is open to allow any regional council to propose a scheme. More councils adopting this tool could aid local funding contributions but compounds any national FED increases.	The NLTF component has been at the same rate since 1992, increases could be made to reflect inflation. AVL (or similar) is used internationally as a progressive transport tax (based on vehicle market value) or to impose a weight based charge (in lieu of weight-based RUC).	The statutory criteria for assessing tolling proposals is permissive but the broader settings could be relaxed further to encourage greater use of tolling. Currently tolls can only be applied to new roads where there is a free alternative. Legislation could be changed to allow tolls on exis ing roads.	Work is beginning on streamlining legislation so it is easier to engage with capital markets while a levy is being approved. The Minister of Housing will lead this work.	Congestion charging is not currently legal, so amending legislation has to be the first step. Auckland, Wellington, Christchurch, and Tauranga have all expressed interest in congestion charging schemes.
Who pays? What's the revenue potential?	**Motorists who use a petrol powered car under 3.5 tons** Under current settings circa $1.9 billion per year is raised. This will reduce over time, as the fleet changes due to electrification and improving fuel efficiency. Includes circa $48 million of LPG excise revenue.	**Non-petrol vehicles** with rates based on weight and axle numbers. EVs are exempt currently, light EVs are due for inclusion on 1 April 2024, heavy EVs on 31 December 2025 Under current settings circa $1.9 billion a year is raised.	**All vehicles** This would likely raise similar rates of revenue to the current approach (FED + RUC), as the limiting factors are the same and administration costs are higher.	**Property owners**, both residential and commercial. Local governments contribute circa $1.3 billion a year as part of shared funding with the NLTF, they also make unsubsidised transport investments.	**Property owners,** possibly along particular transport corridors or applied nationally. Depending on design it may apply to residential and/or commercial property. Revenue potential is highly dependent on design decisions.	**Public transport users** Farebox revenue funds 20-30% of op-ex costs. In 2021/22 $131 million was raised (noting that fares were half-price during this time). This is down from a pre-covid peak of circa $343 million in 2018/19.	**Motorists** who purchase fuel in the region Legislation states that the maximum charge is 10 cents per litre of petrol. In Auckland the regional fuel tax scheme raises $150 million annually.	**Motorists** Under current settings circa $230 million a year.	**Motorists** Actual 2021/22 revenue for NZ's three toll roads was $31.8 million. Approximately $10 million covers toll administration costs.	**Property owners,** Revenue potential could increase significantly if more schemes are established. The levy for Tauranga City Council's Transport Systems Plan provided $175 million for construction costs. Levy payers will pay interest and administration costs over 30 years.	**Road users** who choose to drive in a congestion charging zone at the charging time. Congestion charging is a behaviour change tool and has the lowest revenue potential compared to the other tools.

$$$ HIGHEST REVENUE POTENTIAL ⟷ LOWEST REVENUE POTENTIAL $

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MINISTRY OF TRANSPORT

Revenue Tools - current and potential

For a future land transport revenue system

28 November 2023

	Fuel Excise Duty	Road User Charges (&eRUC)	Dynamic road pricing	Council contributions	Value Capture (land value uplift)	Public Transport Fares	Regional Fuel Taxes	Annual Vehicle Licensing	Tolling	IFF levies	Congestion charging
Pros	Small increases generate significant additional revenue. Broad based and simple to administer, change rates. Also easy to understand. Very low collection costs (<$1m per year) and impossible to avoid. Good proxy for distance/use of the system. This discourages inefficient overuse of the system	Good proxy for the impact on network caused by users. Incentivises vehicle use that is less damaging to roads. Can absorb EVs well. This is a world leading feature of our system. Strong social licence as there are clear exacerbator pays connections.	Can encourage behaviour change/pricing (supersedes tolling and congestion charging). But the more behaviour change is a focus the less revenue is likely to be collected.	One of the few progressive tools in the system (property value based rate setting). Broad based, applies to owners and is passed on to tenants. Enables local contributions and participation in investment decision making, critical for social licence.	Capturing a portion of infrastructure generated windfalls unlocks a new funding source. Easier to pay than a levy or rate if collected at time of sale Less impact on property owners with fixed incomes than rates or levies. Strong beneficiary pays connection.	Enables behaviour change policies through discounted fares. Provides some rationing incentive to users without overburdening them with costs.	Local tax with local accountability and direct link to local projects. Similar benefits as fuel excise duty in general.	Plenty of future potential (based of international practice). Could be a simple way to charge for negative externalities. Changes could be made relatively quickly, compared to a tool like dynamic road pricing.	Very transparent. Can accelerate investment and bring projects forward Legislative change could address issues like high collection costs and limited scope for application. Legislative change would likely take less time than development of fully new tools.	Enables off balance sheet borrowing for councils, bringing forward investments that would o herwise be delayed.	Strong behaviour change policy lever. Reduces the need for new infrastructure, saving of significant capital costs. Can use same technology as tolling, boosting collection efficiency of both tools. Local tool for local projects. Legislation is drafted and could be introduced quickly.
Cons	Revenue collected will reduce in the long term as fuel efficiency improves and as petrol vehicles switch to electric (and move onto RUC). A regressive tool as it is based on consumption like GST. Revenue sustainability is based on vehicle kilometres travelled growing perpetually, this undermines emission reduction objectives.	Higher cost to collect compared to FED (current admin costs of ~$15m per year). Easier to avoid (by not purchasing, or odometer tampering). Admin heavy for users, and complex with a large number of rates. eRUC benefits (e.g. fleet tracking, reducing costs) are of less value to he non-commercial fleet.	The system doesn't exist to implement this tool, nor has it been successfully implemented in other countries. High cost to implement with a similar revenue potential to current tools (FED & RUC). Serious privacy issues that could undermine social licence (GPS tracking in every vehicle). Would take a long time to implement.	Significant affordability constraints. Nature of the payment process undermines willingness from the public for any increases. Given the increasing costs of weather related events and the need to adapt in response to climate change, local affordability is likely to become critical in the mid to long term.	Complicated to calculate and attribute value uplift to specific properties. Revenue potential is limited if there are significant carve outs, like not applying to residential properties. Could overlap other revenue tools resulting in double charging. Uncertain timing of revenue collection if done at time of property sale.	Significant affordability constraints and low revenue potential. Increasing fares could undermine other goals such as emissions reduction and equity mitigation.	Takes headroom from other vehicle based taxes, especially national fuel tax.	Currently very low revenue potential. Currently regressive as a flat rate is charged. This could be changed by tying rates to vehicle market values.	High admin fees, collection cost is circa 30% of revenue. Currently low revenue potential. Currently restricted use (new roads only) this is because of current legislation. New Zealanders have a low willingness to pay for tolls, and are likely to divert to an alternative route, resulting in negative benefits (e.g. less safe, slower travel times).	Higher cost of capital than consolidated council or Crown borrowing. Similar affordability constraints as general council rates. Hard to implement given legislative settings with a low uptake so far. This may improve as more schemes get up and running and changes are made to the legislation.	This as a demand management tool rather than a revenue tool. However, avoiding the need for more infrastructure could generate significant savings, essentially the equivalent of revenue.

Key messages

- A critical benefit of broad based tools like FED and RUC is that small increases can generate significant additional revenue – a 1 cent per litre increase in FED and equivalent increase in RUC raises around $60 million additional revenue per year.
- The simplicity of a tool is strongly connected to efficiency and low collection costs. Simplicity also enables better communication and improved transparency.
- Behaviour change and demand management are powerful levers to reduce emissions and avoid the need for new infrastructure.
- However, tools that focus on demand management are often not well suited to gathering significant revenue.
- Tools that apply to particular projects or corridors (IFF levies and value capture) can be complex to design and implement.

Other tools we could investigate

Vacant land tax	Airport levies	Capital gains tax	Wealth tax	National infrastructure levy	Stamp duty	Active mode charge	Vehicle emission tax	Workplace parking levy	Windfall gains tax	Betterment levies
Low emission zones	Data monetisation	Increased use of land acquisition, up-zoning and resale	Hypothecation of tax revenue (like GST)	Annual motor vehicle tax	Sale of development / air rights	Tourism levy	Premium farebox	Business rate supplements	National value capture mechanism	EV charging excise duty

TE MANATŪ WAKA
MINISTRY OF TRANSPORT

When to use different funding and financing tools

For a future land transport revenue system

November 2023

Tool	When to use this tool	When not to use this tool	Comments
Public private partnership (Financing)	• Large scale and long duration where the nature of the asset is specific (can only be used for a particular client). • Services are durable (i.e., service requirements unlikely to change over time in unpredictable ways). • Possible to define clear performance requirements over time. • The project is of a sufficient size and scale that innovative design and service approaches would add value. • Sufficient market appetite and depth to ensure a competitive procurement process. • When the PPP delivery model achieves a better benefit-cost ratio than a public delivery approach.	• When the costs outweigh the benefits (due diligence/risk transfer/project evaluation etc.) when compared to Crown borrowing. • When project scope/design details are uncertain. • When roles and responsibilities for the private and public sector cannot be clearly defined and written into a contract. • When private sector involvement would undermine desired project outcomes. • When risks cannot be adequately defined or appropriately transferred to the private sector partner at reasonable cost • When client capability is not sufficient to establish the PPP and manage it over its lifetime.	• There are increased overheads when using a PPP. • If you are getting revenue from users e.g. through a charge such as a toll, it makes it easier to recoup the debt. • Risk transfer: a private partner can take on aspects of risk, but sound analysis of which risks are best placed with which party is required. • A clear understanding of roles and responsibilities is needed. • A strong client function is needed at both the instigation of the PPP and over its lifetime to ensure delivery and costs are managed • There are longer term debt implications and limits of scope change that need to be considered • It takes time and is expensive to set up.
Equity led concession (Financing & cost recovery)	• A large-scale asset that has limited interfaces with existing assets (e.g., new highway, rather than widening of a highway). • The project generates commercially viable revenue streams through fares or tolls over its lifetime (certainty of cash flow). • Where a greater level of risk and control can be transferred to the private sector. • When a private sector concession will bring forward investment in the project. • When private sector can bring innovative approaches to delivery/operation of an asset/service.	• For an equity concession to be attractive to the private sector they are likely to want control over design and/or operation of the underlying asset, including any revenue settings. The Crown should not enter into this arrangement if they are not prepared to give up control. • When there is significant demand uncertainty, and the private entity cannot influence or boost demand sufficiently through pricing/design. • If the project isn't commercially viable a standard PPP or public service delivery model would be more suitable. • The above reasons to not do a PPP also apply here.	• Equity led concessions can be a valuable tool for bringing in private capital to our transport system. However, the projects involved need to be commercially viable, something that is rare in our land transport system. • Opportunities are likely to be in high volume urban areas or for port and airport projects. You could consider subsidies alongside an equity concession to boost viability, but they would need to be designed with good economic incentivise to ensure efficient and effective outcomes.
IFF Levy (Financing & cost recovery)	• Mid to large scale projects (typically used where infrastructure funding required will be over $50m with a minimum of 1,500 beneficiaries). • A project with local beneficiaries and the ability to identify the beneficiaries. • Where the project cannot be fully funded from normal sources (e.g., local government and NLTF). • Projects that have local government support. • Current legislation requires the project to support urban development.	• Where a targeted rate can raise equivalent revenue (this will likely lower the cost of capital compared to an IFF levy). • Where a new IFF levy will overlap with an existing one (double dipping) • Where a levy would need to be so high as to disincentivise urban development to occur or would be generally impractical to implement due to affordability constraints.	• IFF levies are predominately a tool to allow off balance sheet borrowing for councils. This can be beneficial in unlocking funding for growth. However, circumventing a justified limit on borrowing is, by definition, not appropriate. If standard funding/financing options are available, they will likely be cheaper (borrowing through the NZ Local Government Funding Agency). • Consideration of IFF levies on PT-specific, mega-projects is limited to Auckland Light Rail but has shown a strict beneficiaries-pays approach may be unaffordable for levy payers.
Value capture (cost recovery)	• Mid to large scale projects. • Where a new amenity or significant financial value is created that was not previously available (new or significantly enhanced service levels). • Best implemented on projects yet to be announced to ensure value uplift can be attributed to the project.	• When the complexity and cost of attributing benefits to specific properties outweighs the level of revenue raised. • Where the project does not achieve sufficient property value uplift to raise meaningful revenue. • When value uplift has already occurred due to project announcements.	• Designing and implementing value capture involves complex econometric evaluation to determine and attribute property value uplift in response to a specific project. • If the value uplift isn't significant this process would likely not be worthwhile. Value capture schemes can also lose public support overtime as the new amenity becomes part of the status quo.
NLTF Borrowing (Financing)	• To smooth seasonal and other short-term cashflow variations. Borrowing to smooth seasonal cashflow variations is a useful financial tool and part of standard practice for Waka Kotahi.	• When additional borrowing is not combined with future revenue increases.	• The NLTF has little head room for more debt unless there are future revenue increases, the Waka Kotahi board may not accept more Crown loans without FED and RUC increases.

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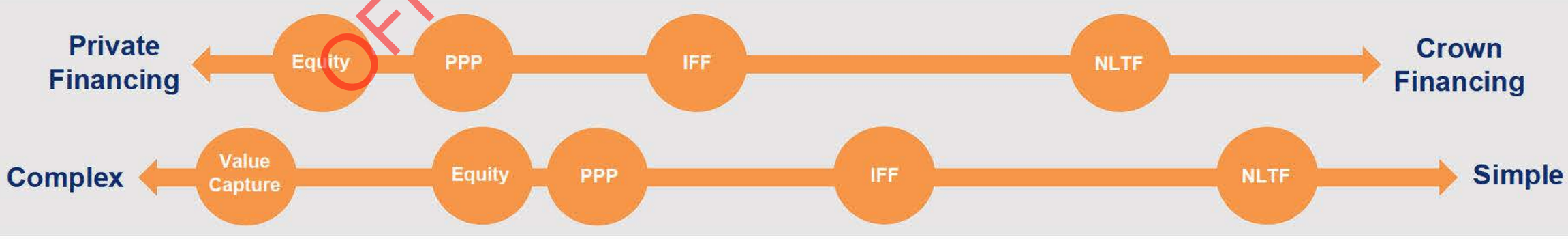
Domestic and international examples

For a future land transport revenue system

Public private partnership	**Canada Line:** is a 19.5-kilometre rapid transit line connecting Vancouver, Richmond, and the Vancouver International Airport. The line was financed and procured through a PPP structure. It opened in August 2009 and cost approximately USD$2.05 billion. It is part of Vancouver's integrated SkyTrain network. The private sector held construction, operating, and ground risk, while insurance and revenue risk was largely held by the Vancouver transport authority. The PPPs concession payments are based 70% on service availability, 20% on service quality, and 10% on ridership volume.
Equity led concession	**Waiheke Ferry:** the Waiheke Island ferry service is owned and operated by a private company relatively separate from the Auckland public transport system. It is a commercial operation funded through fares and other sources. The private operator controls prices and schedules, with more flexibility over operations than a publicly contracted model. **REM, Quebec, Canada:** the REM is a light rail transit system recently opened in Montreal, Canada. The Quebec state pension fund (CDPQ) is the majority shareholder (70%) in the REM, investing CAD$3 billion of equity in the project, and the Government of Quebec (30%) provided the remaining equity (CAD$1.28 billion). The remaining financing was raised through debt from the Canada Infrastructure Bank (a federal government-owned corporation) and public sector contributions. The CDPQ receives preferred dividends until they achieve an annual return of 8-10%. Only after that is achieved will the Government's 30% shareholding receive profit. The REM financing structure includes a revenue-sharing agreement between the REM and the Government of Quebec. Under this agreement, the REM collects the revenue from user charges, which is used to repay the debt financing and provide a return on equity. The Government pays subsidies to the REM (CAD$0.72 per person per kilometre, adjusted annually for inflation), which ratchets down as ridership increases.
IFF Levy	**Tauranga Transport Systems Plan:** enabled a Special Purpose Vehicle to raise finance and provide $175 million of funding towards construction costs of projects. This finance was raised on the back of a 30-year citywide levy. In the first year, the median residential levy was $68 a year and the median commercial levy was $521 a year. Although slightly more expensive, using a targeted rate instead of the IFF levy would have resulted in TCC's long-term debt-to-revenue ratio coming close to the Local Government Funding Agency borrowing limit of 280% (peaking at approximately 270% in 2026). **Wellington City Council sludge minimisation facility:** enabled a Special Purpose Vehicle to raise finance and provide $400 million of funding towards the construction costs of the facility. This finance was raised on the back of a 33-year citywide levy. Over the 33-year levy period it will cost levy payers over $1.2 billion due to interest payments and other costs associated with running the Special Purpose Vehicle.
Value capture	**Auckland Light Rail:** value capture modelling as part of the indicative business case projected that value capture tools could fund 20% of the project capital costs (excluding bulk enabling infrastructure related to urban development). This is substantial but demonstrates that value capture cannot be the primary funding method for a project of this nature. **Airport MAX Red Line (City of Portland, USA):** a light rail network extension from downtown to the Portland International Airport consisting of 9 kilometres of track with a cost of approximately US$125 million. The City of Portland, in partnership with Trimet (the regional transport authority) issued a US $23.8 million TIF bond for its portion of the project costs, paid back by incremental revenues from the local TIF district. The sale of development rights and land leases to private sector partners was also used as a value capture mechanism, who were required to contribute 22.5% of the project construction costs in return for joint development rights at the new light rail stations.
Borrowing against the NLTF	**Borrowing against the NLTF** - In 2021 Waka Kotahi was provided a $2 billion loan to account for an investment gap between planned investments in the NLTP 2021 and the level of investment required to advance Government priorities and commitments. As part of finalising GPS 2021, the Ministry of Transport advised that meeting all of GPS 2021 priorities within post-COVID revenue settings was likely to be challenging.



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Revenue System – International Scan

Comparisons for a future land transport revenue system

v0.2 28 September 2023

Norway

Population: 5.4 million
Land area (km2): 385,207
Road Network (km): 94,902
Rail Network (km2): 3885
Cars per capita: 0.651
GDP per capita (PPP NZ$): 98,494*

Taxes on extracted fossil fuels are a large source of central government funding, with central funding a key part of the system. Historically toll revenue was a significant portion of funding. This has reduced recently in the face of public backlash.

Ireland

Population: 5.15 million
Land area (km2): 70,273
Road Network (km2): 99852
Rail Network (km2): 2733
Cars per capita: 0.444
GDP per capita (PPP NZ$): 166,000*

Transport is predominately funded by the exchequer (Crown equivalent). They have significant use of EU funding sources. Investment is also enabled by corporate tax revenue from large international firms. Ireland uses similar transport-based revenue as NZ, but far more land-based tax revenue like capital gains and property stamp duty. Transport investments are a significant portion of central government support for local governments.

Japan

Population: 123.9 million
Land area (km2): 364,546
Road Network (km2): 12,2000
Rail Network (km2): 27,311
Cars per capita: 0.66
GDP per capita (PPP NZ$): 60,796*

Significant central government investment is made in transport. The privatisation of rail companies has been largely successful. Non-transport revenue is key to their success (commercial station development and property development). Japan's large debt levels (circa 226% of GDP) have led to using Private Public Partnerships primarily to access capital. They use a similar suite of transport taxes (fuel excise, vehicle registration, tolls etc).

Australia

Population: 26 million
Land area (km2): 7.69m
Road Network (km): 873,573
Rail Network (km2): 33,168
Cars per capita: 0.748
GDP per capita (PPP* NZ$): 101,866*

Most transport taxes or charges are indexed to inflation, but revenue is declining due to improving fuel efficiency and EVs. Motor vehicle registration and stamp duties are significant (appear to be on par with revenue from fuel taxes). Toll roads are a common feature, generally built as Private Public Partnerships. Plans to implement congestion charging in states that already have tolling schemes have resulted in some public backlash.

Singapore

Population: 5.64 million
Land area (km2): 734.3
Road Network (km): 3,500
Rail Network (km2): 259
Cars per capita: 0.11
GDP per capita (PPP NZ$): 157,732*

Singapore is currently working to implement satellite units for Electronic Road Pricing. This means road pricing can be expanded more flexibly. No plans for distance-based pricing yet, but this move would make it possible.

They currently use congestion pricing, with rates tied to travel speed. There have been long-term and consistent approaches to investment. Singapore has made strong policy choices to limit car use such as car registration fees in excess of the value of the car. Government investment is made possible through their broader economic success as a global hub.

United Kingdom

Population: 67.3 million
Land area (km2): 242,495
Road Network (km): 424,129
Rail Network (km2): 15,935
Cars per capita: 0.594
GDP per capita (PPP NZ$): 90,946*

Hypothecation is limited but has been introduced for their equivalent of motor vehicle registration fees. There are some concerns various local priorities are not being met, despite high fuel tax and public transport fares.

The UK has five-year funding programmes for the National Highway network – generating greater planning and contracting certainty.

USA

Population: 331.9 m
Land area (km^2): 9.83m
Road Network (km): 6.8m
Rail Network (km^2): 220,480
Cars per capita: 0.868
GDP per capita (PPP NZ$): 125,031*

The IRS collects hypothecated fuel tax, and vehicle sales/usage taxes for heavy vehicles. State authorities collect state fuel taxes, and each State Department of Transport collects user charges or mileage taxes, sometimes through private providers. The most significant reforms being considered are about replacing fuel taxes with a form of RUC.

Austria

Population: 8.9m
Land area (km2): 83,879
Road Network (km): 126,400
Rail Network (km2):5,527
Cars per capita: 0.632
GDP per capita (PPP NZ$): 82,168*

RUC is charged on Federal Highways and hypothecated to their maintenance. The Road Manager can borrow for large capital projects and raise rates itself in line with inflation. A small portion of fuel duty is hypothecated to local public transport. Most of the spending on local roads, public transport, and rail is from general tax revenue.

New Zealand

Population: 5.18 million
Land area (km^2): 268,021
Road Network (km^2): 96,817
Rail Network (km2): 4,128
Cars per capita: 0.897
GDP per capita (PPP NZ$): 82,904 *

New Zealand uses fuel excise duty, and network-wide distance and weight-based road user charges for non-petrol vehicles. These charges are being adapted to incorporate EVs. Vehicle registrations and tolling also generate some revenue. The revenues are hypothecated in the National Land Transport Fund. This has served us well, but the approach is being stretched.

*GDP per capita stats are TBC

TE MANATŪ WAKA
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Tolling – current status, opportunities and choices

October 2023

What it is

Tolling is a road pricing system by which a toll is charged to motorists for using a specific new road **to generate revenue**. Tolling has mainly been used to accelerate ('bring forward') the construction of new roads in New Zealand, with the toll revenue used to repay the road's construction costs. Tolled roads are generally safer and faster.

Tolling is a basic form of road pricing. Road pricing is any system that directly charges motorists for using a road or network of roads. Work is underway on more sophisticated forms of road pricing (congestion charging or the variable road pricing scheme being explored in Tauranga).

Revenue Statement

Tolling is a project funding tool that contributes to the costs of a new road. In 2021/22, tolling generated **$22 million** for project costs and **$10 million** for administration costs.

Over the years, revenue from tolling has broadly increased, and both the Northern Gateway and Tauranga Eastern Link are covering the financing/interest expenses costs.

The revenue generated from tolls can only be allocated to expenses related to the road itself (for example, construction or maintenance).

Tolling is a project-specific funding tool. Increasing toll rates is very unlikely to be a substitute for increasing fuel excise duty and road user charges.

Status of this tool

We will advise you on how those proposals perform against criteria in the LTMA (for example, whether the tolling scheme is efficient and effective). RCAs are required to consult on the proposed toll and then you get to decide whether you are satisfied with the level of public support.

Waka Kotahi evaluates each new State highway as a potential toll road. You get to decide whether to progress an Order in Council for a new tolling scheme based on detailed proposals from Road Controlling Authorities (RCAs). Toll rates are linked to the Consumer Price Index, but increases happen irregularly.

Immediate issues and decisions you may need to make

Tolling Penlink

- The previous Government announced in May 2023 that Penlink would be tolled, but the necessary Order in Council has not been passed yet. The toll is expected to generate $12 million in annual revenue, whilst annual costs of the road are estimated at $3 million. The remaining revenue would repay the costs of the tolling infrastructure.
- Tolls are expected to help manage congestion when Penlink opens, which is slightly different than previous toll roads – the road is already fully funded (through the NZ Upgrade programme) and there is no link to faster construction. The revenue is for maintenance (in perpetuity). Public support for the proposed toll was approximately 20 percent.
- If the decision to toll the road is reversed, then maintenance revenue will need to come from the NLTF.

You will likely receive other tolling proposals

- You will also likely receive other tolling proposals – for example, Ōtaki to North of Levin and Takitimu North Stage One in Tauranga. We will advise you on these proposals to aid your decision-making.

Medium term opportunities and choices

There are some challenges in the tolling system

- We are keen to discuss your objectives and thinking about the role of tolling. In terms of priorities for reform, there are some things you may wish to consider:
  - ***Existing policy settings are strained***: Currently, tolling policy focuses on providing a supplementary source of revenue to accelerate the construction of new roads that would otherwise be delayed. Tolling, coupled with financing, has previously played an integral role in the business case for a road. However, there is interest in using tolls as an additional revenue source, even when the construction costs of the road are fully funded.
  - ***Administrative costs are an ongoing issue***: The necessary systems to support tolling consume a relatively high portion of overall revenue. Exploring opportunities for efficiencies may be beneficial.
  - ***Selecting the right roads for tolling is critical***: Focusing on roads with high traffic volumes that offer substantial travel time savings is often key to the success of a toll road project. Tolling roads with relatively low traffic volumes and offering only marginal time savings generally do not provide good value for money and can undermine project benefits.
  - ***Scope for legislative alignment exists:*** There are three sets of tolling provisions in New Zealand legislation, but only the LTMA provisions are used. We may be able to simplify the system and make tolling more attractive by designing one comprehensive set of provisions.
  - ***Local authorities do not use the current system:*** The legislation allows tolling on local roads and State Highways, but some regional/local attempts have not been successful. Takitimu Drive in Tauranga is an example (more information on the next page).
- Road pricing encompasses a broad range of tools that can vary depending on the objectives. We are interested in discussing your road pricing priorities and highlighting potential enabling and streamlining legislative opportunities (e.g., the need for new congestion charging legislation, and/or the possibility of extending current tolling framework).

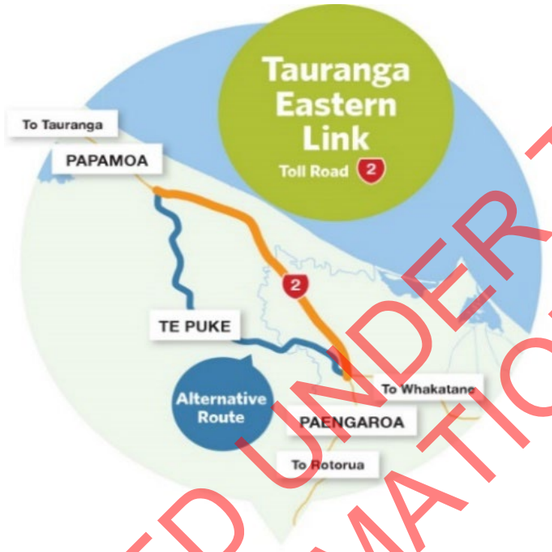
Tolling – current status, opportunities and choices

Northern Gateway: In 2005, the Crown loaned $158 million to supplement funds available for the project in the National Land Transport Fund ($180 million), enabling the project's construction to be accelerated by ten years. Tolling was introduced to repay the Crown loan.

In 2021/22, the total loan balance (including interest) amounted to $204 million, with the total toll revenue collected since 2009 being $115 million. During 2021/22, toll revenue reached $9.9 million (excluding GST), while approximately $4.2 million was collected to pay for administration. Interest costs on the loan amounted to $5.9 million, with an interest rate of 2.85 percent.

The tolling equipment and setup costs accounted for $28 million.

The road spans a length of 7.5 kilometres, with tolls set at $2.60 for a light vehicle and $5.20 for a heavy vehicle for a one-way journey. The road, when untolled, had a benefit-cost ratio (BCR) of 2.05. Implementing tolls on the road resulted in a BCR ranging from 1.4 to 1.7, with the reduction primarily attributed to increased costs associated with the tolling infrastructure and a decrease in benefits due to traffic diversion.



Tauranga Eastern Link: In 2010, Waka Kotahi borrowed $107 million from the Crown to expedite the construction by approximately seven years, and tolling was implemented as a means to repay the loan.

During 2021/22, toll revenue amounted to around $5.5 million, with an additional $2.6 million collected to cover administration costs. The interest costs on the loan reached $4.8 million, and the loan balance remains at $107 million.

The expenses associated with tolling equipment and setup totalled $19 million.

The road stretches over 23 kilometres, with tolls set at $2.30 for a light vehicle and $5.60 for a heavy vehicle for a one-way trip.

When untolled, the road had a BCR ranging from 1.7 to 2.2. The introduction of tolls on the road resulted in a BCR of 1.4.

Takitimu Drive in Tauranga (also known as Route K): In 2003, the Tauranga City Council borrowed funds to construct the road as a toll road, incurring a cost of $44 million. Initially, a manual collection system was in place, but the revenue collected did not cover the collection and financing costs of the road.

In 2015, approximately $65 million from the National Land Transport Fund was used to acquire the road, including the interest on the loan, from the Tauranga City Council. The revenue generated from tolls is being used to reimburse the National Land Transport Fund for the road's purchase.

During 2021/22, toll revenue amounted to approximately $6.4 million per year, with $3.2 million allocated for administrative expenses. Waka Kotahi's setup costs, which included electronic tolling equipment, amounted to $6 million.

The road spans a length of 6.8 kilometres, with toll rates set at $2.10 for a light vehicle and $5.40 for a heavy vehicle for a one-way journey. Public reports suggest that when the road was initially constructed it had a BCR below 1.

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Road User Charges - current status, opportunities and choices

October 2023

What it is

Road User Charges are distance, weight and axle-based charges paid by all vehicles not subject to fuel excise duty (currently, heavy and non-petrol-powered vehicles).

Financial cost recovery is the focus of the road user charges system.

Revenue Statement

RUC is a reliable and sustainable source of revenue.

As RUC is based on distance travelled it is a more sustainable revenue source compared to taxes based on fuel use (like excise)

In the 2021/22 financial year RUC contributed $1.9 billion in revenue to the NLTF out of a total of $4.2 billion in revenue. Of this, 800,000 light RUC vehicles contributed $700 million, while 190,000 heavy vehicles (including trailers towed by heavy vehicles) contributed $1.2 billion. Administration and collection fees are approximately 1.3 percent of revenue.

Status of this tool

The proportion of the fleet subject to road user charges is growing, and with the uptake of battery electric vehicles it is anticipated much of the fleet will be paying RUC in the future.

Immediate issues and decisions required

Light EVs are set to become subject to RUC in 2024, and heavy EVs in 2026

- Light EVs will become **subject to RUC on 1 April 2024**, which we note is Easter weekend. We expect bringing light EVs into RUC will generate approximately $55-86 million in the first 12 months after the end of the exemption.
- The current exemption for Heavy EVs expires on 31 December 2025. You can decide whether this RUC exemption extension should go ahead.

Risks

- We consider that most light EVs weighing less than one tonne should pay RUC. While this is the right choice, there is a risk that some of these vehicles (mopeds, motorcycles) will face much higher costs that their petrol counterparts. We consider any market distortion risk to be low, as there are very few of these vehicles in New Zealand and purchase costs aur currently a much higher barrier.
- There is also a risk that some of these vehicles weighing less than one tonne are not fitted with distance recorders (odometers) meaning that RUC cannot be assessed and collected accurately. We are investigating this issue with Waka Kotahi to determine the size of any problem.
- When the exemption ends, plug-in hybrid vehicles (PHEVs) will be liable for both RUC and excise duty on any petrol purchased. In the interim, owners will be able to claim refunds for excise duty, which is a manual and time-consuming process. We propose to amend the Road User Charges Act 2012 to enable a partial rate to be established and remove the ability to claim refunds. You have indicated a willingness to progress this change urgently to have the partial rate in place before 1 April 2024.

Potential broader changes

Moving all vehicles to RUC

s9(2)(f)(iv)

[redacted]

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Road User Charges - proposed changes to the RUC system

October 2023

Matters consulted on

In early 2022, we consulted on a range of possible changes to RUC System:

Including EVs in the RUC system
Different elements of this were consulted on, with general understanding that users of the roads should help pay.

Using RUC to recover external costs
This included potential changes to allow RUC rates to recover costs not directly related to the construction and maintenance of infrastructure. Examples of this include the cost of emissions.

Improving the RUC system
This was a range of proposed improvements to the functioning of the RUC system, focused on improving the collection and administration of RUC and the use of RUC to influence the national vehicle fleet.

Technical amendments to the Act
A range of technical or operationally focused changes to improve the administration of the RUC system.

More information on these is in the report-back of submissions.

Proposed changes

- Removing the current requirements to display or carry a RUC label – reducing overall costs to administer RUC.
- Giving NZTA the ability to use historical RUC rates for a RUC assessment, broader discretion in RUC assessments review, and better access to third party records – to improve enforcement actions.
- To transition compressed natural gas and liquefied petroleum gas powered vehicles into the RUC system – to remove the refund administration currently required.
- Exempting vehicles travelling for Certificate of Fitness purposes from paying RUC because these vehicles are mostly used off-road.
- Amending Road User Charges Regulations to:
  - Realign some RUC weight bands that became distorted when the Vehicle Dimensions and Mass Rule was changed in 2017 and remove some concession type licences.
  - Amend the RUC rates for the adjusted bands so they are proportional to other set rates.
  - simplify the definition of all-terrain cranes and remove their RUC exemption.

Potential Issues

Removing the requirement to display or carry RUC labels will modernise the system, but requires substantial IT updates

s9(2)(f)(iv)

Some of the proposals included in the Bill were met with negative responses from the sector.

The proposal to widen Waka Kotahi's access to third party records was opposed by some in the sector. s9(2)(f)(iv)

Next steps

Indicative timeframes for the legislation process

1. Drafting of the Bill.
2. NZTA to commence its communications.

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Congestion Charging - current status, opportunities and choices

October 2023

What it is

Congestion charging is a road pricing tool that introduces a charge to travel on certain parts of the road network, only at congested times.

This encourages people to change the time or mode of their travel.

It is used in a handful of cities around the world, including London, Stockholm, and Singapore.

Revenue Statement

Congestion charging is not a revenue tool, but it helps by deferring the need to build more infrastructure.

The primary benefit of this tool is reducing congestion and increasing travel time reliability.

This means that it is not that effective at raising large amounts of revenue, and it isn't a reliable lever for revenue gain.

As the draft Bill isproposed, revenue will be a local council funding source.

The Congestion Question project estimated that putting a cordon charge around Auckland city centre would raise approximately $20 million per year.

Status of this tool

There is a draft Congestion Charging Bill available.

The new legislation would set the parameters of a congestion charging scheme and enable further design work by councils (with input from the Ministry).

Note these indicative timeframes would be extended if the Bill requires change.

Short term issues & decisions required

Potential impacts on GPS24 to GPS27

As it stands now, congestion charging revenue will not contribute to the NLTF (and therefore GPS funding). It may contribute to local share/local projects. It can also help reduce the need for more infrastructure/spend.

Priority decisions on the draft legislation

If you wish to enable congestion charging in New Zealand, there is a draft Bill available. Changes could be made to the Bill, including:

- What the revenue can be used for – the draft Bill currently limits this to 'operational costs and activities that mitigate inequitable outcomes.' You may wish to broaden this to cover all transport activities.

Longer-term activities

An Auckland congestion charging scheme could be the first one considered

Auckland council are the furthest along in their thinking about "time-of-use" charging. Other councils (including Tauranga, Wellington and Queenstown) have also expressed interest in road pricing generally.

We are interested in discussing your road pricing priorities and highlighting potential enabling and streamlining legislative opportunities (e.g., the need for new congestion charging legislation, and/or the possibility of extending current tolling framework).

Indicative timeframes for the legislation process

December 23	December 23	Dec 23 - May 2024	June/July 2024	Late July 2024	August 2024 onwards	From 2025
Cabinet processes	LTMA 2003 Amendment Bill introduced to the House	Select Committee process (usually ~six months)	Second and Third Readings	Congestion Charging amendment Bill passed/Royal Assent	Proposals developed by councils, with Ministry input.	Implementation

TE MANATŪ WAKA
MINISTRY OF TRANSPORT

18 January 2024 OC230930

Hon Simeon Brown

Minister of Transport

TIME OF USE CHARGING AND TOLLING DESIGN CHOICES

Purpose

To support a discussion with officials about your plans to implement time of use charging and make greater use of tolling.

Key points

- We understand that you are seeking supplementary land transport revenue charging tools to optimise use of the network and generate additional revenue. Among others, the Government has made the following commitments on land transport revenue tools:
  - *"Work with Auckland Council to implement time of use road charging to reduce congestion and improve travel time reliability"*
  - *"Institute regional deals allowing tolling".*
- Road pricing, such as tolling and time of use charging, supports funding and optimising the land transport system as part of a wider package of revenue and investment tools. It could also support the delivery of the Roads of National Significance programme.
- **Time of use charging** is new for New Zealand and would need to be introduced through legislative change. A draft congestion charging Bill was prepared last year following several years of policy work and engagement. It allows territorial authorities to design and propose time of use charging schemes that reflect local conditions, within parameters set by Government. We understand Auckland Council will have a time of use charging proposal ready for your consideration once the legislation is in place.
- **Tolling** is currently limited to new roads, where there is a viable alternative route. s9(2)(f)(iv) [redacted]
- We have considered the limited information Mayor Brown has publicly stated about Auckland's plans (a charge applying over certain times of the day at specific points on currently congested motorways). This scheme would likely be within scope of the draft Bill. It may also be simple enough to be executed via amendments to tolling legislation.

- To meet your objectives regarding implementing time of use charging in Auckland and tolling, you could consider progressing the draft Bill and/or legislation for more flexible tolling, either separately, or together in a combined road pricing Bill.
- We would like to meet with you to discuss your preferences. Once you have indicated your preferred approach, we will provide more detailed advice on the policy design and a proposed work programme.

Recommendations

We recommend you:

1 **note** that a revenue work programme will likely require legislative changes and officials will provide detailed advice on this once we have discussed your aspirations for the transport revenue system

EITHER

2 **agree** to only progress the congestion charging Bill largely as drafted Yes / No

OR

3 **agree** to progress a congestion charging Bill but with amendments Yes / No

AND/ OR

4 **agree** to progress legislative change to allow for increased use of tolling Yes / No

David Wood
DCE, Investment & Monitoring
..... / ..... / .....

Hon Simeon Brown
Minister of Transport
..... / ..... / .....

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
David Wood, DCE, Investment & Monitoring	s9(2)(a)	
Matt Skinner, Manager, Revenue		✓
Greg Mossong, Principal Adviser, Revenue		

TIME OF USE CHARGING AND TOLLING DESIGN CHOICES

1 Raising new land transport revenues is critical for enabling the right level of infrastructure investment while meeting the principles in the National Fiscal Plan around returning to surplus and reducing debt.

2 The Government has made the following commitments in relation to land transport revenue tools:

2.1 "Work with Auckland Council to implement time of use road charging to reduce congestion and improve travel time reliability"

2.2 "Institute regional deals allowing tolling

2.3 "Work to replace fuel excise taxes with electronic road user charges (eRUC)".

3 This briefing sets out the initial policy choices in designing additional or expanded place-based road charges that apply to parts of the network, such as time of use charging and tolling. Opportunities for network-wide road charges have been covered in a separate briefing '*Accelerating the transition to Road User Charges*' (OC230850 refers) and engagement with you on the transition is ongoing.

There are different purposes for place-based road pricing

4 Time of use charging is a demand management tool focused on reducing congestion and improving travel times and network performance. As it is primarily focused on managing demand, the more successful the scheme the less utility it provides in raising revenue. Notwithstanding this, demand management tools have the benefit of deferring new capital works.

5 Tolling is typically a revenue tool. Borrowing against the future revenue expected from tolling has enabled roads to be constructed ahead of the otherwise-planned construction date. This is a key purpose of existing tolling policy in New Zealand. It has supported the case for road users to pay above what they already contribute through fuel excise duty (FED) and road user charges (RUC).

6 When setting time of use charges and tolls, trade-offs must be made between:

6.1 time of use charges that maximise road capacity with modest traffic diversion, and tolls that maximise income with higher levels of traffic diversion

6.2 the interests of users (consistency, fairness, access and accountability) and the interests of decision-makers (flexibility in setting and changing charges, certainty of revenue, and political acceptability).

Place-based road charges have been used internationally in a handful of cities for amenity purposes, infrastructure funding, and congestion relief

7 Tolls on new roads have been used internationally to fund new toll bridges, the retrofit of new regional motorway systems, and provision of new national motorway systems. Where tolls have been most successful, the roads have had high traffic volumes compared to New Zealand roads.

8 Time of use charging has successfully reduced travel times in cities like London and Stockholm, improved journey time reliability, and encouraged people to use different forms of transport such as public transport.

9 We have undertaken engagement and policy work on time of use charging

10 There is currently no legal ability to levy charges on vehicle owners for the purpose of managing congestion, meaning that legislative amendment is required.

11 Work undertaken in Auckland[1] and a subsequent through a Select Committee inquiry[2] showed that time of use charging could be beneficial in New Zealand's larger urban areas. Congestion in Auckland currently costs society $900 million to $1.3 billion per year, and successful time of use charging could reduce congestion by 8–12 percent on key routes at peak times.

The draft Congestion Charging Bill proposes a legal framework for territorial authorities (TAs) to propose a congestion charging scheme

12 The draft Land Transport Management (Congestion Charging) Amendment Bill (the Bill) enables any Territorial Authority (TA) to propose a scheme for Ministerial authorisation (via Order in Council). While the draft Bill allows any TA to propose a congestion charging scheme, implementation could be impractical outside large urban areas. The key features of the draft Bill include the following:

12.1 TAs would need approval from the New Zealand Transport Agency (NZTA) for congestion charges on any segments of the State highway network.

12.2 To provide TAs with sufficient flexibility to make changes to the scheme (such as to respond to observed behaviour after the scheme is established), including:

12.2.1 TAs may make changes to the congestion charging operating area and the set charge without going through a *proposal to vary* process

12.2.2 TAs would be responsible for defining (by notice) the congestion charging operating area and the set charge.

12.3 A number of safeguards to ensure that decisions made by TAs are consistent with the Government's direction, including:

12.3.1 limiting TAs to the congestion charging authorised area set in the Order in Council

12.3.2 ensuring changes to the scheme area address diversion of traffic into suburban areas to avoid paying a charge (i.e. "rat running")

12.3.3 The set charge must be within the range set out in the Order in Council and must not be set higher than is necessary to result in the change in congestion being sought

12.3.4 Central government retains an oversight and approval role.

[1] *The Congestion Question Main Finding*, Auckland City and the New Zealand Government, 2020
[2] *Inquiry into congestion pricing in Auckland,* Report of the Transport and Infrastructure Committee, 2021

We understand that you are broadly supportive of the draft congestion charging Bill, subject to some potential changes around the use of revenue

13 The draft Bill incorporates devolution of decisions to TAs, within clear parameters set by central government via Order in Council. Depending on your objectives, this could be adjusted to:

13.1 adopt a partnership approach where the Government takes a more active role in developing a scheme; or

13.2 devolve responsibility further by giving TAs greater autonomy (such as by requiring fewer details restricting the scope of a scheme to be set out in the Order in Council) noting that there may be legal limits to this given it is a tax.

14 There may also be grounds for revisiting the roles of TAs and RCAs in developing a scheme, though this is not an issue for unitary authorities such as Auckland Council.

15 The draft Bill proposes that revenue generated from a scheme be spent on scheme operating costs, and funding "mitigating activities to address the expected inequitable impacts of the scheme", such as improving public transport. The projects must be set out in the Order in Council. This could be broadened, by enabling TAs to use the revenue for a broader range of transport activities. Projects could be either be listed in the Order in Council as currently proposed, or at the discretion of the TA. This would give TAs more flexibility and limit the need for updates to legislation.

16 These changes have not yet been reflected in the draft Bill. If you would like to progress with any changes, we can provide you with further advice and a draft Cabinet paper for Cabinet's approval to amend the Bill.

Current road tolling approach and options for change

Use of tolling in New Zealand is limited, and the existing toll roads generate relatively low levels of revenue

17 Road tolls currently work by introducing an extra charge to travel on parts of the road network to help pay for new roads. The legislation allows for the charge to be higher at peak congested times.

18 Experience with tolling new roads in New Zealand suggests users are likely to respond by paying the charge or by diverting on to an alternative route (circa 30 percent on average).

19 Tolling provided under the current system is limited to:

19.1 Tolling of new roads — the Land Transport Management Act 2003 (the LTMA) enables charges on new roads where there is an alternate route available, which can vary by vehicle type and time of day. As Minister of Transport, you decide whether a road (local or State highway) is tolled. Road controlling authorities can submit a tolling proposal for your agreement, and you must be satisfied that the statutory criteria have been met before establishing a toll.

19.2 Tolls on traffic using a road bridge/tunnel/ferry can be imposed using the Local Government Act 1974 allows councils to toll via approval of the Minister of Local Government. This is not currently used.

19.3 The Land Transport Act 1998 allows road controlling authorities to toll heavy vehicles via bylaw. This is not currently used.

20 Key limitations of tolling in New Zealand include:

20.1 relatively low traffic volumes compared to successful international schemes

20.2 collection costs make up a large proportion of the toll revenue — our current toll roads collected $35.5 million revenue in 2022/23, with operating costs of $11.4 million (32 percent collection costs)

20.3 the requirement to have a feasible, un-tolled, alternative route means road users decide whether they want to use the toll road (and pay the toll) or use the free alternative, which often has a lower safety rating and reduces the benefits of the capital investment.

21 In the last 20 years tolling has been used to pay for up to half of the cost of three new roads – The Northern Gateway, Tauranga Eastern Link and Takatimu Drive. Historically tolls have fully funded the Auckland Harbour Bridge (from 1959 until 1984) and Tauranga Harbour Bridge (from 1988 until 2001).

Amending the legislation could open up greater tolling opportunities and revenue

s9(2)(f)(iv)

s9(2)(f)(iv)

[redacted]

Time of use charging and tolling could be further developed in a number of ways depending on your preferred approach

27 To proceed, you may wish to either:

27.1 progress one proposal through a single bill (i.e. either the draft congestion charging Bill or changes to the Land Transport Management Act 2003 to make tolling legislation more flexible)

27.2 progress both of the above proposals through separate bills — this will ensure the proposals do not slow each other down (for example, if changes to tolling end up being more complicated than expected), but will use more House time and resources

27.3 progress both proposals, and potentially other land transport revenue amendments, through a combined bill — this will minimise House time and use of resources, and it should take the same amount of time as progressing one proposal (unless one element becomes more complicated).

28 Parliamentary Counsel Office (PCO) has advised that any minor changes to the draft Bill are likely to be relatively straightforward to make and can potentially be turned around quickly subject to the legislative priority. Modifying the existing tolling legislation could be relatively simple legislatively. However, we have not yet investigated the full scope and scale of what it could entail, and we have not engaged with PCO on the complexity of the drafting and the likely timing.

29 The following timeframe is potentially feasible for either standalone bills for each proposal, or for a combined bill subject to the caveats above. The amount of time you want to commit to engagement with key stakeholders, such as Auckland Council, before you go to Cabinet with policy proposals and the scope of change to the draft Bill will influence the timeframes. Indicative timeframes are provided below (these may need to be extended depending on the level of variation/complexity relative to the draft Bill).

Feb – May 2024	May 2024	May – Nov 2024	Feb – Mar 2025	Apr 2025	Mid 2025 onwards	Mid – late 2025
Cabinet, engagement, drafting (time will depend on extent of change)	Legislation introduced to the House	Select Committee process (usually ~six months)	Second and Third Readings	Legislation passed/ Royal Assent	Proposals developed by TAs, with Ministry input as needed.	Implementation

s9(2)(f)(iv)