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## Transport funding principles

For decision:  For noting:

### Te tūtohunga / Recommendation

That the Auckland Transport Board (board):

- a) Agree that the system for funding transport in Auckland is no longer fit for purpose and requires fundamental reform.
- b) Note that a submission on the Review of Road User Charges will be prepared on the basis of policy direction (a) above and discussed with interested board members prior to lodgement of Auckland Transport (AT) feedback.

### Te whakarāpopototanga matua / Executive summary

1. The Ministry of Transport is reviewing the Road User Charge (RUC) system, with consultation open until April 2022.
2. The consultation document raises fundamental questions regarding the purpose of RUC, which raise broader questions of how and why transport is funded, including whether externalities like congestion and carbon emissions should be incorporated into RUC or addressed elsewhere.
3. The document also asks whether changes should be applied to Fuel Excise Duty (FED). Together, RUC and FED comprise almost 95 per cent of the National Land Transport Fund (NLTF), meaning this review is substantially a review of transport funding in general.
4. The review presents an opportunity for Auckland Transport (AT) to highlight current issues with transport funding, and to proactively engage the Ministry to promote a system which better promotes transport outcomes in Auckland.
5. Noting the challenges AT faces in resourcing priority outcomes across emissions reduction, growth management and safety, among others, it is proposed that the board endorse a policy position that the current transport funding system is unsustainable and needs fundamental reform.
6. On the basis that AT considers that the current system is no longer fit for purpose, the submission and wider AT advocacy moving forward will focus on delivering a funding system that is capable of achieving priority outcomes.
7. It is proposed that AT develop a series of transport funding principles to help inform this work and guide staff. This report and the attached documents discuss principles that can assist directors in their thinking. Staff are continuing background work to further identify and define an appropriate set of principles.

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8. It is proposed that directors engage with staff following the 31 March 2022 board meeting to further develop transport funding principles to guide AT feedback on the RUC submission and ongoing advocacy to address transport funding challenges in Auckland.

## Ngā tuhinga ō mua / Previous deliberations

9. There have been no previous deliberations on this topic.

## Te horopaki me te tīaroaro rautaki / Context and strategic alignment

10. The Ministry of Transport is reviewing the RUC system. RUC is one of two main funding tools used to resource the NLTF. It provided around \$2 billion of revenue into the National Land Transport Plan (NLTP) in 2020/21, slightly less than the other main component, FED, which contributed around \$2.1 billion and significantly more than the other longstanding mechanism, vehicle registration fees (\$230 million).
11. While FED is applied to the price of petrol and predominantly targeted at private motor vehicles, RUC is applied to diesel and is predominantly targeted at heavy vehicles. Its main purpose is to impose charges on RUC vehicles “that are in proportion to the costs that the vehicles generate.” It employs a set of technical rules to estimate and charge trucks based on weight, distance and axle configuration.
12. Recent growth in the number of smaller vehicles using diesel has meant that RUC is now used for a broader purpose than its original intention. This factor combined with the question of when and how best to charge for electric, hybrid, hydrogen and other more efficient fuels, currently exempt from RUC, has precipitated the review.
13. The Government is using the opportunity of the review to also raise the question of whether RUC should remain focused on recovering the physical cost of non-petrol vehicles or whether it should be expanded to include cost recovery of externalities. The two principal externalities identified in the discussion document are congestion and carbon emissions.
14. The review is comprehensive and encompasses all aspects of RUC, most of which are of minor or peripheral interest to AT. However, two groups of issues are of direct and high significance. One group concerns any decisions which may be made to the charging of heavy vehicles that may impact wear and tear on Auckland roads or environmental performance. AT’s asset maintenance team are engaged in the review and will focus on this component.
15. The other group of issues are strategic and surround the purpose of RUC, including whether it should remain a physical cost recovery tool or be expanded to recover wider environmental and economic (i.e. congestion) costs, including when and what to charge electric and other exempt vehicles.
16. This latter group of strategic issues is fundamental to not only the funding of transport services but the promotion of strategic transport priorities, nationally and regionally. AT priorities around sustainability, access and connectivity and asset maintenance are most obviously

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impacted by this review, but in raising philosophical questions about the purpose of RUC, the Government is also raising questions around who, when and how growth, safety and transport options are provided for.

17. Auckland Council (AC) has determined that this review is principally of a technical nature and will not be developing a group submission. Management will be developing an AT response and seek direction from the board on a series of principles and other feedback which can be used to guide AT's submission.

## Ngā matapakinga me ngā tātaritanga / Discussion and analysis

18. AT should use the opportunity created by the submission to comment more broadly on the transport funding system as a whole, rather than remain focused on RUC exclusively, for two reasons:
  - a. AT is already under significant financial pressure to maintain transport services, invest in renewals and deliver critical projects for Auckland. Expectations that AT can resource increasingly expensive and complex long term challenges, including carbon reduction, growth and safety are no longer aligned to AT resourcing capabilities.
  - b. The review explicitly asks whether changes should also be made to FED (s. 1.3.1). Given that any substantive changes to the RUC will also impact the use of FED, and noting that FED is challenged by increasing fuel efficiency, and further noting that RUC and FED together represent close to 95 per cent of the NLTF, it is considered impractical to isolate RUC comments from the wider funding system.
19. The board may wish to consider how AT responds to the opportunity arising from what is in all but name a review of New Zealand's transport funding system. Early engagement with directors has indicated that a series of transport funding principles would help inform and guide both our submission and Ministry of Transport policy development. Such an approach would enable staff to highlight issues with the existing funding model and propose a way forward without infringing upon policy.
20. Staff have investigated principles applied to transport and infrastructure funding elsewhere. These are included as Attachment 1 to this report. As outlined in the attachment and of note is that the Infrastructure Commission identifies five infrastructure funding and financing principles: beneficiaries pay, intergenerational equity, transparency, whole-of-life costing, and administratively simple.
21. The Ministry of Transport has not yet confirmed principles, but the 2021 Government Policy Statement (GPS) includes a set of tentative transport funding and financing principles in anticipation of a final or confirmed list or toolkit. Themes highlighted in the GPS include, containing transport's funding share of integrated projects to transport benefits, capturing value, targeting funding, optimising whole-of-life costs and alternative financing.
22. Staff are continuing to assess related principles across other sectors and jurisdictions. Based on work completed to date, and noting AT issues with current settings, five transport funding principles have been identified for board discussion. Analysis of these principles is included in Attachment 2.

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23. The five principles staff have identified to initiate discussion are:

- I. Beneficiaries pay for improvements
- II. Users pay the full costs of transport activities
- III. Accountability
- IV. Sustainability
- V. Equity.

24. It is not anticipated that the board will be able to reach agreement on a set of funding principles at the 31 March 2022 board meeting. It is instead proposed that board members with an interest in participating in this work engage in a subsequent session in April 2022 (to be organised). Staff will approach the Ministry to ensure that AT's submission will be received if this workstream cannot be completed by the April 2022 submission deadline.

## Ngā tūraru matua / Key risks and mitigations

Key risk	Mitigation
That transport funding decisions resulting from this consultation process adversely impact transport outcomes for Auckland.	AT will provide a substantive submission highlighting the opportunity to enhance transport resourcing and better align costs and benefits to achieve outcomes and meet customer expectations.
That changes to RUC increase unplanned wear and tear on Auckland roads.	AT submits evidence that highlights the costs of maintaining the road network and its associated environmental performance.
That AC considers its policy role has been undermined.	AT has engaged with AC Policy team on this RUC review and a potential AC submission. AT's submission focuses on transport principles and technical advice.

## Ngā ritenga-ā-pūtea me ngā rauemi / Financial and resource impacts

25. There are no financial or resource impacts related to the lodging of this submission.

26. Central government decisions resulting from this consultation process will have financial and resource impacts for AT. These are likely to be significant. An overriding objective of AT in participating in this submission process is to enhance the organisation's ability to resource and achieve transport outcomes.

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## Ngā whaiwhakaaro ō te taiao me te panonitanga o te āhuarangi / Environment and climate change considerations

27. One key objective of AT's submission on this review is to enhance the relationship between users of conventional transport fuels and environmental costs. A more direct relationship will encourage users to shift to more sustainable transport fuels or alternative modes sooner. AT's proposal can be expected to lower Auckland's transport emissions faster than through existing funding mechanisms.

## Ngā whakaaweawe me ngā whakaaro / Impacts and perspectives

### Mana whenua

28. The RUC submission will be an AT perspective. Mana whenua have not been consulted.
29. It is considered unlikely that changes to RUC will have a significant impact on Māori. Any future decisions regarding wider transport funding and investment prioritisation will require engagement with mana whenua.

### Ngā mema pōti / Elected members

30. There has not been engagement with elected members on this submission.

### Ngā rōpū kei raro i te Kaunihera / Council Controlled Organisations

31. There has not been consultation with other Council Controlled Organisations on this submission.

### Ngā kiritaki / Customers

32. Changes to RUC could have significant impacts on AT customers, particularly heavy vehicle users.
33. It is anticipated that the road freight industry and other sectors with an interest in this consultation process will submit.

## Ngā whaiwhakaaro haumaruru me ngā whaiwhakaaro hauora / Health, safety and wellbeing considerations

34. There are no health, safety and wellbeing considerations at this stage of the RUC review process.
35. Post-consultation changes to RUC may have an impact on road safety, principally by influencing the type or use of heavy vehicles on Auckland roads.

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## Ā muri ake nei / Next steps

36. If the board agrees with management's view that New Zealand's transport funding system is unsustainable and requires fundamental reform, AT will submit that a review of the transport funding system is required and provide recommendations for a more effective system.
37. A follow-up session with those interested directors will be arranged for April 2022 to agree a set of transport funding principles to guide AT's submission and ongoing advocacy for a fit for purpose transport funding system.
38. A final draft of the submission will be approved by the AT Chief Executive and submitted before the submission deadline of April 2022, or a later date agreed with the Ministry of Transport.
39. The discussion document does not signal any further public consultation on the RUC review, but the Ministry does note that it will continue discussions on the topic. AT will signal interest in its submission in ongoing dialogue with the Ministry.
40. The Head of Transport Policy will engage the Ministry following submission to identify further opportunities for engagement.

## Ngā whakapiringa / Attachments

Attachment number	Description
1	Transport Funding Principles: Examples from NZ and Overseas
2	Transport Funding Principles: Board discussion document

## Te pou whenua tuinga / Document ownership

<b>Submitted by</b>	Hamish Glenn <b>Head of Transport Policy</b>	
<b>Recommended by</b>	Jenny Chetwynd <b>Executive General Manager, Planning and Investment</b>	
<b>Approved for submission</b>	Shane Ellison <b>Chief Executive</b>	