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Land Transport Management (Regional Fuel Tax) Amendment Bill

NZAA submission

The New Zealand Automobile Association Incorporated

342-352 Lambton Quay
PO Box 1
Wellington 6140
NEW ZEALAND

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SUBMISSION TO: Finance and Expenditure Committee

REGARDING: **Land Transport Management (Regional Fuel Tax) Amendment Bill**

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ADDRESS: Finance and Expenditure
Select Committee Services
Parliament Buildings
Wellington 6160

SUBMISSION AUTHORISED BY Mike Noon
General Manager, Motoring Affairs
New Zealand Automobile Association Incorporated
P.O Box 1
Wellington

SUBMISSION AUTHOR Mark Stockdale

AUTHOR E-MAIL mstockdale@aa.co.nz

AUTHOR PHONE (04) 931 9986

NOTE TO REQUESTOR

The NZ Automobile Association would like the opportunity to present this submission orally.

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Background on the New Zealand Automobile Association

The NZ Automobile Association (NZAA) is an incorporated society with over 1.6 million Members. Originally founded in 1903 as an automobile users advocacy group today it represents the interests of road users who collectively pay over \$3 billion in taxes each year through fuel excise, road user charges, registration fees, ACC levies, and GST. The NZAA's advocacy and policy work mainly focuses on protecting the freedom of choice and rights of motorists, keeping the cost of motoring fair and reasonable, and enhancing the safety of all road users.

Executive Summary

The NZAA is open to the concept of a Regional Fuel Tax (RFT) in Auckland, but our view is it that has to be introduced with care and the scheme must have credibility with funders and motorists generally.

We recognise that there is a funding gap to provide for the much needed infrastructure in Auckland, and we have long been of the opinion that a RFT is a possible means of filling some of that gap that needs to be considered.

Our survey work over recent years shows that NZAA Auckland Members are willing to pay more (within reason) to improve the transport network, and a RFT has consistently been one of the more popular funding options. However, support is far from overwhelming: a recent survey of just over 2,300 NZAA Auckland Members shows that while 35 percent are in favour of a RFT, 38 percent are opposed, and 20 percent are neutral (with the rest unsure. The survey had a margin of error of +/-2%). The survey highlights deep-seated concerns about the social impacts of the RFT, and a lack of confidence in transport decision-makers to use the revenue generated to deliver projects that will have a meaningful impact on congestion, which is the number-one transport concern of NZAA Auckland Members.

We note that the discussion and consultation on a RFT in Auckland has fallen well short of the standards of engagement set out in the Bill and risks undermining public support and confidence.

We accept that, given the population size of the Auckland region, estimates are that a 10 cent per litre (cpl) RFT will raise a meaningful amount of revenue, although the ongoing success of the scheme needs to be continually monitored, particularly in respect of:

- administration costs, including rebates and non-compliance;
- leakage from consumers sourcing fuel from outside the regional boundary; and
- potential price spreading by fuel suppliers outside of the regional boundary.

While there may be merit in Auckland, the NZAA does not support introducing RFT in other parts of New Zealand.

The NZAA also supports the maximum 10-year life of any RFT specified in the Bill, which reflects our view that fuel excise will become less viable and equitable in the medium-term and will eventually need to be replaced by some form of distance-based charging for all motor vehicles.

NZAA submission

We comment on specific clauses in the Bill below:

A. Clause 65C: Requirements relating to RFT scheme

1. The NZAA supports the provisions in this clause to limit the duration of a RFT scheme to 10 years, and a maximum rate of 10cpl (excluding GST). We consider a 10-year duration is appropriate as it is our view that in the medium-term fuel-based taxes will become less viable and equitable due to technological changes in the vehicle fleet, as also noted in the Regulatory Impact Statement on the RFT. The expected growth in more fuel-efficient cars and electric vehicles (which are currently exempt from Road User Charges) will erode revenues from fuel excise, which means this provision ties in with a likely future scenario where fuel excise will need to be replaced by some form of distance-based charging for all motor vehicles.

B. Clause 65D Preparation of proposal to establish or replace RFT scheme

2. We propose the clause should be amended to include an additional requirement that any eligible capital projects must also be included in the relevant Regional Land Transport Plan, so that the projects have been previously been analysed and endorsed by the public.

Recommendation:

Include additional subclause–

(c) have been included in the relevant Regional Land Transport Plan.

C. Clause 65E: Proposal for RFT scheme: content requirements

3. In addition to setting out the forecast revenue from a RFT (under sub-clause (f)), and the underlying assumptions, the NZAA suggests that this clause should also require an estimate of the costs of administering the scheme, including processing rebates. Comparing the cost of administering a RFT scheme against forecast revenue would enable the value and cost-effectiveness of the RFT scheme to be carefully considered.

4. Additionally, we propose that subclause (c) should also require the benefits and costs of the programme to include decongestion benefits. As stated in the executive summary, congestion is the number-one transport priority for NZAA Auckland Members, and there is a strong expectation that any extra transport taxes or levies that users are required to pay will translate into improved congestion outcomes.

Recommendations:

Amend subclause (c)–

ii. describe its expected costs and benefits, including congestion reduction benefits; and

Include additional subclause–

(h) set out the forecast costs of administering the regional fuel tax scheme and the assumptions or data on which the forecast is based.

D. Clause 65N: Functions of Agency under this subpart

5. The NZAA proposes that this clause should include an additional subsection requiring regular performance monitoring of the RFT by the NZ Transport Agency, which would also be part of the reporting requirements under clause 65T. This monitoring could include:
- actual revenues against forecast (under clause 65E);
 - changes in the volume of fuel supplied in the region;
 - tax evasion and tax avoidance;
 - administration costs of the scheme; and
 - retail price monitoring to verify that all of the 10cpl is recovered in the region and has not been price-spread across New Zealand or in other parts of New Zealand, and that no more than 10cpl has been collected within the region.
6. The NZAA is extremely concerned about the possibility of price spreading, and the lack of controls to prevent this. With the expected introduction of a RFT in the Auckland Council region, New Zealand motorists nationwide must have confidence that the RFT has only been levied in Auckland and that no portion of it has been apportioned by fuel suppliers in the price of fuel supplied elsewhere in New Zealand. Otherwise the credibility of and the user-pays principle underpinning the RFT will be fatally undermined.
7. We note concerns about price spreading have been raised in the Regulatory Impact Statement on the RFT, and given as the reason for the repeal of a RFT framework introduced in the early 1990s, and the repeal of a subsequent RFT scheme legislated in

2008. The NZAA does not believe the provisions in this Bill address these concerns, more so due to the time constraints under which this Bill was drafted.

8. As it is, the retail fuel market in Auckland is very competitive, with prices varying significantly within the region and between retail brands, and typically prices in Auckland are lower than many other parts of New Zealand including Wellington and Christchurch. Prior to the establishment of aggressive price competition in recent years, the major fuel retailers would charge the same 'national' or 'main port' price in Auckland and in most of the rest of New Zealand, which would have made it very easy for motorists to identify the addition of a 10cpl RFT in Auckland.
9. The NZAA is concerned that there doesn't seem to be a mechanism for monitoring that price spreading is not occurring. Therefore, monitoring by the NZ Transport Agency must be able to demonstrate that Auckland retail fuel prices include the 10cpl RFT, in contrast with retail prices in other parts of New Zealand.

Recommendation:

Include additional subclause–

(f) regular performance monitoring of the RFT including, but not limited to:

- i. actual revenues against forecast;*
- ii. changes in the volume of fuel supplied in the region;*
- iii. non-compliance or avoidance of the RFT;*
- iv. administration costs of the scheme; and*
- v. retail price monitoring.*

E. Clause 65T: Accounting for regional fuel tax

10. As noted in our comments on clause 65N above, clause 65T on accounting should also include a requirement for the NZ Transport Agency to report on performance monitoring of the scheme.

Recommendation:

Include additional subclause–

(1) (e) performance monitoring.

F. Clause 65ZE Regulations

11. Under subsection (b) which prescribes uses of fuel that are exempt from the RFT, the NZAA suggests that the Select Committee direct regulators to consider the inclusion of "off-road use" in such regulations.

12. The NZAA's view is that a RFT is explicitly intended to fund land transport projects that benefit a region, and by implication, transport users in that region. The Regulatory Impact Statement on the RFT states that "regional transport users" will be the beneficiaries of the new transport projects bought forward by the RFT, and that "the Government has indicated that those who benefit from the transport projects bought forward should carry the burden for paying for the transport projects".
13. Therefore, if fuel purchased in the region is used off-road, then the consumer is not using the public land transport system and therefore not benefitting from the 10cpl RFT contribution.

G. Schedule 1AA

Clause 2 Certain provisions apply only in relation to Auckland until 1 January 2021

14. The NZAA supports the focus on Auckland reflected in this clause, though our preference would be that the timeframe be extended beyond three years, or that any scope to extend the RFT beyond Auckland be removed altogether.
15. While there may be merit in Auckland, the NZAA is not convinced that a RFT is practical or worthwhile in other regions of New Zealand. Other parts of the country don't face infrastructure pressures as critical as those of Auckland, and won't create the same burden for taxpayers on a national scale. Requiring motorists in other regions to pay more – especially when they generally face higher fuel prices than in Auckland as a result of smaller, less competitive markets – would be unfair and unreasonable.
16. Additionally, as the population bases and administrative areas are generally much smaller outside Auckland, the administration costs may be disproportionate to the amount of revenue generated, and the region prone to greater leakage from consumers travelling outside the region to purchase fuel in order to avoid the tax.
17. Therefore the NZAA does not support introducing RFT in other parts of New Zealand. We acknowledge the Government's desire to future-proof the policy for unexpected changes in circumstances in other centres (such as a major natural disaster creating urgent and extensive infrastructure needs), but our preference would be to 'cross this bridge when we come to it' rather than signalling to other parts of New Zealand that an Auckland-style RFT could be an option in the medium term, and thus opening the door to unrealistic expectations and demands.

Conclusion

While the NZAA is open to the concept of a RFT in Auckland, we are extremely concerned that its introduction may lead to price spreading by fuel suppliers outside the Auckland boundary. This was the reason for the repeal of two previous RFT schemes, and the possibility of price spreading risks undermining the credibility of the Auckland RFT scheme.

The NZAA does not believe this concern has been adequately addressed by the provisions in the Bill, and consequently we recommend the Bill be amended to include a requirement for the NZ Transport Agency to undertake performance monitoring, which would include monitoring retail prices and possible price spreading.

NZAA Auckland Member support for a RFT in Auckland is far from overwhelming, and there are concerns the revenue will not be spent on projects that deliver decongestion benefits. Consequently, the Bill should require congestion reduction benefits to be explicitly included in a RFT scheme proposal, while eligible projects should also be those included in the Regional Land Transport Plan.

The NZAA also does not support the Bill enabling a RFT to be introduced in other parts of New Zealand, especially given our concerns above about possible price spreading, and the likely revenue generated in a smaller geographic area versus the administration cost. We recommend that the Bill also require forecast administration costs to be set out in any proposed RFT scheme.