Transport Funding

Purpose

1. This report covers the options for additional funding for the investment in transport infrastructure.

Summary

2. A key issue facing Auckland in the next 10 years is funding appropriate levels of transport infrastructure to address both a historic under investment and the ongoing and significant population growth that Auckland is experiencing.
3. The level of investment that the council wishes to support is partially dependant on the choices of funding mechanisms that can be publicly supported and practically implemented.
4. Three key options are currently under consideration for funding transport infrastructure:
   - Rates – including an extension of the current Interim Transport Levy, a targeted rate for transport infrastructure
   - Regional Fuel Tax – currently being mooted at a level of approximately 10 cents per litre
   - Road pricing – work done by the Independent Advisory Board in 2015 recommended a motorway charge to be set at either a flat rate of $2 or variable rates depending on time of travel. More recently, the council and central government have commenced a joint project to progress a range of transport pricing options.
5. These options are not mutually exclusive. For example, an extension of the Interim Transport Levy could be used until a Regional Fuel Tax is able to be implemented, and the introduction of such a tax would not preclude work on a future road pricing option that may ultimately deliver highly efficient travel demand management for Auckland.

Background

6. Auckland's population has grown by over 45,000 per year for the past two years, and is some four to five years ahead of official population growth projections. This high growth is projected to continue with another 330,000 people expected in the next 10 years.
7. This level of growth is placing a large demand on the existing infrastructure, particularly transport infrastructure. Substantial investment is required to slow down the pace at which our roads are getting congested. The Auckland Transport Alignment Plan (ATAP) represents a high level agreement between the government and Auckland Council on the strategic objectives for future transport programmes. As part of the ATAP process a funding gap of $4 billion was identified, which has subsequently risen to $5.9 billion.
8. Additional funding of this significance cannot be supported within the proposed 2.5 per cent and 3.5 per cent general rates increase cap. Therefore, new funding tools and/or additional revenue will be required.
9. The issue of transport funding has been subject to a significant amount of study and consultation over recent years. In particular:

   a) A Consensus Building Group (CBG) was appointed to investigate different options to fund the gap between the council's "basic" transport plan and the Auckland Plan transport plan. The CBG completed its initial investigation into alternative transport funding pathways in July 2013. The CBG recommended the council further investigate two options to fund the gap between the "basic" transport programme and the higher level of investment envisaged in the Auckland Plan. One funding option would rely on higher rates, fuel taxes and fare revenue from public transport users. The other option would rely on some form of road pricing and additional government contributions.

b) Auckland Council then appointed an Independent Advisory Board (IAB) to further investigate the CBG recommended alternative funding options. This analysis was published in the supporting information for the council's consultation document on the Long-term Plan 2015-2025 (LTP).

10. Public consultation, carried out as part of the LTP 2015-2025, clearly signalled a willingness to pay for increased transport investment. The Council introduced the Interim Transport Levy (ITL) from 1 July 2015, for three years, with the expectation that other funding tools, such as road pricing, would become available in that period.

11. The ITL has enabled an increased level of investment in transport over the three year period, but this still falls well short of the programme envisaged through the ATAP work. The termination of the ITL on 30 June 2018 further exacerbates the funding shortfall.

Options

12. The options for consideration to fund additional transport investment are:

a) Rates - including continuing with a targeted transport rate such as the ITL

b) Introducing a Regional Fuel Tax

c) Other road pricing options – such as motorway user charging.

13. A full analysis of these funding options as required by section 101(3) of the Local Government Act 2002 is attached at Attachment A. The key issues for each are set out below.

Targeted transport rate

14. The ITL was set for three years to raise $181 million (approximately $60 million per annum). Along with additional borrowing of $122 million and $215 million from NZTA and central government, the ITL helped fund an accelerated transport program. The levy was $113.85 (including GST) for residential and farm/lifestyle ratepayers and $182.85 (including GST) for business ratepayers.

15. The levy was set as an interim measure to allow time for the council to work with government to establish alternative sources of funding for transport such as a motorway toll or a regional fuel tax. Both the motorway toll and fuel taxes make a stronger connection between those who will benefit from transport investment and those who will fund it than a targeted rate.

16. While the recently formed government is indicating a willingness to enable the implementation of a Regional Fuel Tax, and work continues on other road pricing options, it may still be necessary to continue with a form of targeted transport rate in the short term.

17. The key issues that were considered in setting the current ITL, and that will be considerations for any extension of the ITL are:

a) Whether the additional transport investment should be funded from general rates or a targeted rate applied across the region:

A targeted rate provides more transparency and accountability as it can only be used to fund the projects it was raised for. An increase in general rates would have greater impacts on some ratepayers than others i.e. businesses (particularly large businesses) and high value properties in the residential and rural/lifestyle sectors.

b) How any targeted rate should be shared between business and non-business (residential and farm/lifestyle) ratepayers:

The business sector contributes 14.6 per cent of the current ITL revenue. The case for the business sector to pay more would be supported by the considerations that – many businesses will get more benefit from improved transport system and/or impose more costs on the system; businesses can claim the GST on rates and claim rates as a business expense for tax purposes. On the other hand businesses are already paying a higher share of the general rate than the target share set in the long term differential strategy.

c) How the rates requirement should be shared within the business and non-business ratepayer groups:

The key consideration in this area is the impact of a fixed rate vs one set on capital value within each sector. The impacts are the same within each sector i.e. a fixed rate will impact more on lower value properties while a rate based on capital value will have a greater impact on higher value properties. Further detail is provided in Attachment A.

Regional Fuel Tax

17. The report of the IAB looked at a funding pathway that included both additional rates and additional fuel tax. The increases signalled at that time to meet the calculated funding gap were 0.9 per cent additional rates increase and 1.2 cents per litre (including GST) of additional fuel tax each year for 9 years.

18. The current proposal is to raise funds towards the shortfall in transport funding through a Regional Fuel Tax which is proposed to be set at 10 cents per litre (plus GST) immediately, but with no additional rates increases. At this level of tax it is estimated that the net revenue (after non-road user rebates and transaction costs) would be in the range of $130 - $150 million per annum.

19. A Regional Fuel Tax spreads the cost of funding transport infrastructure across a wide base of users of the transport system and therefore has a better connection to those who benefit from the investment than rates. There is also likely to be an impact in terms of demand management, with a shift to the use of public transport as the costs of private travel rise.

20. The level of certainty of a regional fuel tax as a funding stream is less than that of rates. Changes in travel behaviour and moves to new technology (such as electric vehicles and hybrids) could have an impact over time.

21. Changes are required to current legislation to enable the implementation of a regional fuel tax. The new government has indicated its support for such a mechanism and the legislative changes required are thought to be able to be introduced relatively quickly.

Road Pricing

18. The IAB report recommended motorway charging as the preferred option for a long term, sustainable funding stream for transport. The options evaluated as part of the report were charges to be applied to Auckland's motorway network as either:

   a) A flat rate on all users during the daytime, with night time travel free – this was estimated to be set at a level of $2

   b) A variable rate depending on the time of travel, with night time travel free – the range of charges was estimated to be between $1.30 off peak and $2.80 at peak travel times.

19. These levels of charging anticipated raising $300 million of additional revenue per annum.
20. As with a regional fuel tax the benefits of improvements to the transport system would be more closely aligned with those using the motorway system.
21. It is likely that the introduction of a motorway charge will result in changes in travel behaviour and that does lead to some uncertainty with the level of revenue initially. However, once stabilised there should be a high level of certainty.
22. Other issues with utilising this method of funding include:
   a) Implementation and transaction costs – there is a significant initial cost of implementing the required technology and ongoing costs of managing the charging regime. The IAB report estimated set-up costs to be approximately $110 million and transaction costs to be approximately 10-12 per cent of revenue.
   b) The costs are not as evenly spread as a regional fuel tax, some transport users are able to avoid motorway networks much more easily than others.

c) Setting up the motorway charging system is more complex in terms of the legislative process and it would take some time to implement as a solution.

22. While the implementation of road pricing is more complex and more costly, it is seen as a sustainable long term approach to managing congestion and raising revenue. A core part of the ATAP strategic approach is progressively moving to smarter transport pricing, where the cost of travel varies according to location and time to help reduce congestion and improve transport network performance. In June 2017 the Government and Auckland Council commenced joint work on the “Auckland Smarter Transport Pricing Project”, which is investigating whether to introduce pricing in Auckland by developing, testing and analysing a range of different pricing options. A progress report was completed in late 2017, outlining lessons learned from international examples and previous Auckland studies, as well as providing an updated picture of Auckland’s transport future without pricing, and a plan for engaging with the public as the project develops.

<u>Possible approach</u>

23. The options outlined above are not mutually exclusive and some combination either simultaneously or sequentially is possible. For example, in the short term a targeted transport rate may be necessary while other options are being explored or set-up for implementation. A regional fuel tax could be implemented relatively quickly, depending on the government’s ability to enact the required changes to the legislation but may be only for a period of a few years while a more permanent road pricing solution is being explored and possibly implemented.

Attachments

No.	Title
A	Statutory decision-making criteria

Signatories

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Attachment A: Statutory-decision making criteria

In determining its funding sources for an activity the council must consider the criteria in the Local Government Act 2002 below.

1. When deciding from what sources to meet its funding needs, council must consider the matters set out in section 101(3) of the Local Government Act 2002.
2. For the proposed options to fund additional transport investments, council must consider, in relation to this activity:
   - the community outcomes to which the activity primarily contributes
   - the distribution of benefits between the community as a whole; any identifiable part of the community; and individuals
   - the period over which the benefits are expected to occur
   - the extent to which individuals or a group contribute to the need to undertake the activity
   - the costs and benefits (including consequences for transparency and accountability) of funding the activity distinctly from other activities.
3. Having considered these matters, the council must stand back and consider the overall impact of any allocation of liability for revenue needs on the community. This involves elected members exercising their political judgement and considering the proposal in the context of council's funding decisions as a whole.

Assessment of options

The following discussion of the statutory criteria considers the funding options above against the statutory criteria.

The community outcomes to which the activity primarily contributes

The community outcomes to which the activity (transport) primarily contributes are set out in the LTP 2015-2015 as:

1. A fair, safe and healthy Auckland – By promoting walking to increase levels of physical fitness
2. An Auckland of prosperity and opportunity – Through moving people and resources efficiently which has a positive impact on productivity
3. A green Auckland – By reducing our reliance on petrol, air pollution and green-house gas emissions
4. A well connected and accessible Auckland – Providing Auckland with an efficient land transport system that encourages increased patronage of bus, rail and ferry services
5. A beautiful Auckland loved by its people – Fundamentally changing parts of our urban built environment

Additional transport investment is vital to achieving the community outcomes above and represents the expenditure most likely to deliver on those goals.

All of these outcomes support Auckland's goal to be a world class city, and suggest a funding mechanism to which everyone contributes. All of the options for additional funding provide for this.

The period in or over which the benefits are expected to occur

The assets to be built with additional funding will deliver benefits over their lifetime. It is therefore desirable to meet the capital costs from borrowing. The ongoing interest, operating and replacement costs can be funded from any annually collected revenue stream. This spreads the costs over the life of the assets. The council's ability to support additional borrowing is constrained without an increase in revenue. All the proposed options for additional revenue support further borrowing and the ability to meet the additional annual costs including the additional operating costs of public transport.

Some of the additional funding may also go towards funding other transport operating expenditure.

The distribution of benefits between the community as a whole; any identifiable part of the community; and individuals

An improved transport system will deliver benefits to:

- all users through the improved performance of an interconnected system
- peak time users of currently congested routes, commuters and businesses, through reduced congestion
- all property owners directly benefit through increased property values, although this benefit is not immediately realisable.

Each of the funding options is assessed for its connection with the beneficiaries of additional transport investment.

Option	All users	Peak users of congested routes	Property owners
General rates	No connection with use of transport system or congested routes		All property owners although those whose property can directly access less congested routes or are located near transport infrastructure investments will benefit more
Targeted rate	No connection with use of transport system or congested routes		All property owners although those whose property can directly access less congested routes or are located near transport infrastructure investments will benefit more
Targeted rate (increased business differential)	In general higher payments by business provide a connection to the greater potential for businesses to benefit from improved transport through lower costs		All property owners although those whose property can directly access less congested routes or are located near transport infrastructure investments will benefit more
Regional fuel tax	Road users will make a greater contribution through higher fuel purchases. Their contribution will scale with use. Users of other transport modes (passenger transport, walking and cycling) will also benefit however they will not face additional costs	No connection although they will receive additional benefits through reduced congestion due to additional investment in transport infrastructure and services	No connection although they may receive additional benefits as outlined above
Road pricing	All users will benefit from an improved transport system but only those using routes subject to road pricing will pay	Strong connection between use of congested routes and payment	No connection although they may receive additional benefits as outlined above

The extent to which the actions or inactions of particular individuals or as a group contribute to the need to undertake the activity

The costs associated with transport investment are driven by users. Users can be differentiated by:

- impact on road design and maintenance – roads designed for heavy vehicles require greater capital investment and heavy vehicle movements raise maintenance costs

- congestion – higher use of congested routes requires greater investment in road and public transport capacity
- volume of travel – those using the system more place extra demand on investment and maintenance than lower users.

Each of the options is discussed in the table below in terms of how well it connects with drivers of transport system costs.

Option	Impact on road design and maintenance	Congestion costs	Volume of travel
General rates	No connection to demand placed on the transport system by ratepayers within general rates differential groups. High and low users within each differential aren't differentiated by the capital value that determines their share of general rates Higher general rates differential for business reflects in part the increased infrastructure costs required to support heavy vehicle movements. However, the differential doesn't reflect actual use of transport system by owners of individual properties		
Targeted rate	Connection between those paying the targeted rate and those placing costs on the transport system is weaker than general rates option		
Targeted rate (increased business differential)	Similar to general rates Higher rates paid by business provide an indirect connection to the greater costs businesses place on the transport system through use of heavy vehicles		
Regional fuel tax	Heavy vehicles generally use more fuel and will pay more than lighter vehicles	No connection between payment and use of congested areas	Higher volume road users will consume more fuel and pay more fuel tax
Road pricing	No connection unless pricing set differentially for heavy vehicles	Strong connection between use of congested routes and payment Payment provides an incentive to use alternative transport modes	Strong connection between payment and volume of use of congested routes No connection with costs imposed on parts of the network not subject to road pricing

The costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities

Each of the options is discussed against this criterion in the table below.

Option	Transparency	Administration costs	Accountability
General rates	No change from status quo. Less transparent than alternative funding options	No additional costs	No change from status quo
Targeted rate (differentiated or not)	Improves transparency of decision making for additional funding. Ratepayers will be able to clearly see exactly how any additional funding provided will be used. This will make it easier for them to express a preference on increasing	No change from status quo	Revenue raised from a targeted rate can only be used for the purpose it was raised.

Option	Transparency	Administration costs	Accountability
	funding		
Regional fuel tax	Improves transparency of decision making on additional funding. Fuel buyers will be able to clearly see that additional funding will be used for transport projects. This will make it easier for them to express a preference on increasing funding	The RFT estimated set up and running costs are: $500,000 one off cost for a rebate system $500,000 pa staff costs for processing the RFT $3 million pa transaction cost based on the estimated amount of rebates. These costs are expected to be funded from the RFT revenue Any increased admin costs will be funded from the fuel tax revenue	If funding from a regional fuel tax is tied to supporting additional transport investment accountability will be improved
Road pricing	Improves transparency of decision making on additional funding. Road users will be able to clearly see that additional funding will be used for transport projects. This will make it easier for them to express a preference on increasing funding	There are significant initial costs to implement the required technology and ongoing costs of managing a road charging regime. The IAB report estimated set-up costs to be approximately $110 million and transaction costs to be approximately 10-12% of revenue. Setting up the motorway charging system is more complex in terms of the legislative process and it would take some time to implement as a solution.	If funding from road pricing is tied to supporting additional transport investment accountability will be improved

Consideration of overall impact

Having considered the above criteria, the council needs to consider the proposal in terms of the overall impact on the community. This involves elected members exercising their judgement and considering the proposal in the context of council's funding decisions as a whole, not just in relation to this activity.

The overall affordability of any increase in funding demands on the community needs to be assessed against the pressing need for more transport investment to accommodate the demands of growth. Investment in more efficient transport:

- provides benefits to the environment
- improves the everyday lives of residents
- supports growth in business profitability
- facilitates the opening up of more land for development thus easing the pressure on housing.

The table below assesses the affordability for business and non-business ratepayers for each of the funding options. The impact is presented in terms of ratepayer groups for ease of reference. The commentary identifies key issues within those groups.

Option	Affordability	
	Non-business (Residential and farm/lifestyle)	**Businesses**
General rates	Minor overall reduction in rates as non-business share of general rates is lower than current share of ITL. Lower value properties will have reduced costs and higher value properties increased costs as general rates are shared within differential on capital value	Overall Increase in rates as business share of general rates is higher than current share of ITL. Lower value properties will have reduced costs and higher value properties increased costs. Cost would rise substantially for higher capital value businesses
Targeted rate (current ITL)	No change as this is a continuation of the current ITL.	
Targeted rate (increased business differential)	Overall a minor reduction in the level of the rate if the targeted rate is applied as a fixed amount, as the business sector will pay a greater share. Allocation by capital value would lead to a reduction for lower value properties and major increase for higher value properties.	Increased costs for sector as a whole but relatively minor if the targeted rate is applied as a fixed amount. Allocation by capital value would lead to a reduction for lower property value businesses and major increase for higher value properties.
Regional fuel tax	Motorists travelling an average of 15,000 km a year in an average fuel economy vehicle would face additional costs of around $120-$140 annually. The effects will be felt more by lower income households who would be required to spend a greater portion of household income in transport costs. The IAB estimated that Auckland's most vulnerable households would pay 15% of the additional charges.	Affordability for businesses will vary widely depending on the nature of activity Businesses can expense fuel and claim back GST reducing the impact of the fuel tax Businesses are better placed to directly financially benefit from improved transport system performance to compensate for any additional costs. The business sector will face a $51 million (1.1%) increase in overall transport costs. However, offsetting higher fuel prices it is estimated that savings (primarily travel times) are expected to be $311 million. However, these savings will not be distributed evenly across all businesses. In particular the commercial transport sector would save around $10 million
Road pricing (the affordability impact of road pricing is based on the IABs analysis of a motorway user charge)	Frequent motorway users account for around 6-8 per cent of Auckland's households. They would contribute around 26-30 per cent of the required additional revenue from a motorway user charge. Most households would alter their travel behaviour to minimise the charges they incur. After doing this, the average household would pay motorway charges of approximately $345-371 per year depending on the type of motorway scheme. Households that change their travel behaviour may makes savings on fuel use, parking fees, or vehicle maintenance requirements which will partially offset the cost of motorway charges. Some households will pay significantly more than the average, while others will pay significantly less. Around 2.2-2.5 per cent of households would experience a	Impact would depend on which transport routes businesses used Businesses using priced routes would directly benefit from demand management reducing congestion reducing delivery times and fuel costs. The business sector would pay 41-46 per cent of additional charges, leading to extra transport costs of between $125 and $145 million, 2.5-3.0 per cent of overall transport costs. These costs will be offset by travel time savings from transport improvements and reduced congestion. The savings are estimated to be $303 – $314 million. However, these savings are not distributed evenly across all business sectors. In particular the commercial transport sector would save approximately $11 million

Option	Affordability	
	Non-business (Residential and farm/lifestyle)	**Businesses**
	disproportionate financial impact, but the majority would experience a low financial impact. Auckland's most vulnerable households would pay 11 per cent of the additional charges. Around 3.4-3.9 per cent of low-income households would experience a high financial impact under this option, possibly because they do not have a choice about when they travel, how they travel or the route they take. The average low-income household would pay $140-160 per year under this option.	