
REGIONAL FUEL TAX FIRST QUARTER REPORT

1 July – 30 September 2019

WAKA KOTAHI NZ TRANSPORT AGENCY

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OVERVIEW

A regional fuel tax (RFT) scheme (the scheme) was implemented on 1 July 2018 for the Auckland region, excluding Great Barrier Island (the scheme area). The purpose of the RFT is to enable additional investment for transport projects in the Auckland region as set out in Auckland Council's RFT proposal that was approved by the Minister of Transport and the Minister of Finance.

RFT is charged at a rate of 10 cents per litre (plus GST) on petrol and diesel (including their bio-variants) when first delivered to locations such as service stations, commercial fuel storage tanks, machines, marinas and vehicles inside the Auckland region. The New Zealand Transport Agency administers the collection of RFT directly from fuel distributors (also known as 'taxpayers') and forwards the tax collected to Auckland Council, less any rebates paid and service cost.

This report covers the Transport Agency's quarterly reporting requirement under section 65Y(3) of the Land Transport Management Act 2003 (LTMA). The Transport Agency is required to report to the Minister on a quarterly basis and publish this information online.

RFT Quarterly reporting periods for 2019/20 financial year are:

- Q1 2019/20: 1 July – 30 September
- Q2 2019/20: 1 October – 31 December
- Q3 2019/20: 1 January – 31 March
- Q4 2019/20: 1 April – 30 June

EXECUTIVE SUMMARY

This section sets out a high-level summary of the findings in this report.

- The volume of petrol distributed within the scheme area has continued to decline since Q2 2018/19. The volume of diesel distributed within the scheme area has continued to decline since Q3 2018/19.
- The volume of petrol and diesel distributed outside the scheme area increased in Q4 2018/19 (latest quarter where data is available) compared to Q3 2018/19.
- Median prices inside the scheme area for 91 octane petrol have increased this quarter by 10 cents compared to Q4 2017/18.
- Median prices outside the scheme area for 91 octane petrol have decreased since Q4 2017/18 by one cent per litre.
- Fuel prices continue to differ across the country, however Auckland is cheaper than all other regions when the impact of the regional fuel tax is adjusted out.
- No exempt sites were referred for inspection during Q1 2019/20. Penalties were issued to two taxpayers for late payment of RFT.

VOLUME OF FUEL DELIVERED INSIDE AND OUTSIDE THE SCHEME AREA

Under section 65Y(3)(a) of the Land Transport Management Act (LTMA), the Transport Agency is required to report changes in the volume of fuel supplied inside and outside of the RFT region.

Fuel delivered inside the scheme

The quarterly data for the volume of fuel delivered inside the scheme is collected from regional fuel taxpayers' monthly returns, which are a requirement under section 65V of the LTMA. Due to legislative requirements and internal processing timeframes, this data is available the month following the end of the quarter. The quarterly totals for petrol and diesel in Table 1 include all fuel delivered within the Auckland scheme area, this includes all fuel delivered within the Auckland scheme area, whether or not it was liable for RFT (except for fuel exported to the Pacific Islands).

To accurately observe change requires comparable baseline data before the scheme took effect. Baseline data is collected from Auckland Council's Local Authority Fuel Tax (LAFT) returns and represents a wider geographical area than the scheme area – fuel sold within the Auckland region including Great Barrier Island. Since the baseline data is not sufficiently comparable, Figure 1 represents an approximate change in the volume of fuel delivered in the Auckland scheme area (against baseline).

Table 1 – Fuel volumes inside the scheme area

Quarter	Total volume inside the scheme area (million litres)	
	Petrol	Diesel
Baseline before RFT implemented (Auckland region) Q4 2017/18: 1 Apr–30 Jun 2018	269.15	175.80
Quarter 1 (RFT Auckland scheme area) Q1 2018/19: 1 Jul–30 Sep 2018	261.32	190.70
Quarter 2 (RFT Auckland scheme area) Q2 2018/19: 1 Oct–31 Dec 2018	280.11	223.14
Quarter 3 (RFT Auckland scheme area) Q3 2018/19: 1 Jan–31 Mar 2019	269.16	226.21
Quarter 4 (RFT Auckland scheme area) Q4 2018/19: 1 Apr–30 Jun 2019	266.57	215.16
Quarter 1 RFT Auckland scheme area) Q1 2019/20: 1 Jul–30 Sep 2019	264.69	204.29

Note: The data for the baseline (fuel sold) and quarter 1 2019/20 (fuel delivered) is derived from different sources. The fuel volumes include both petrol and diesel (including bio-fuels and ethanol portions).

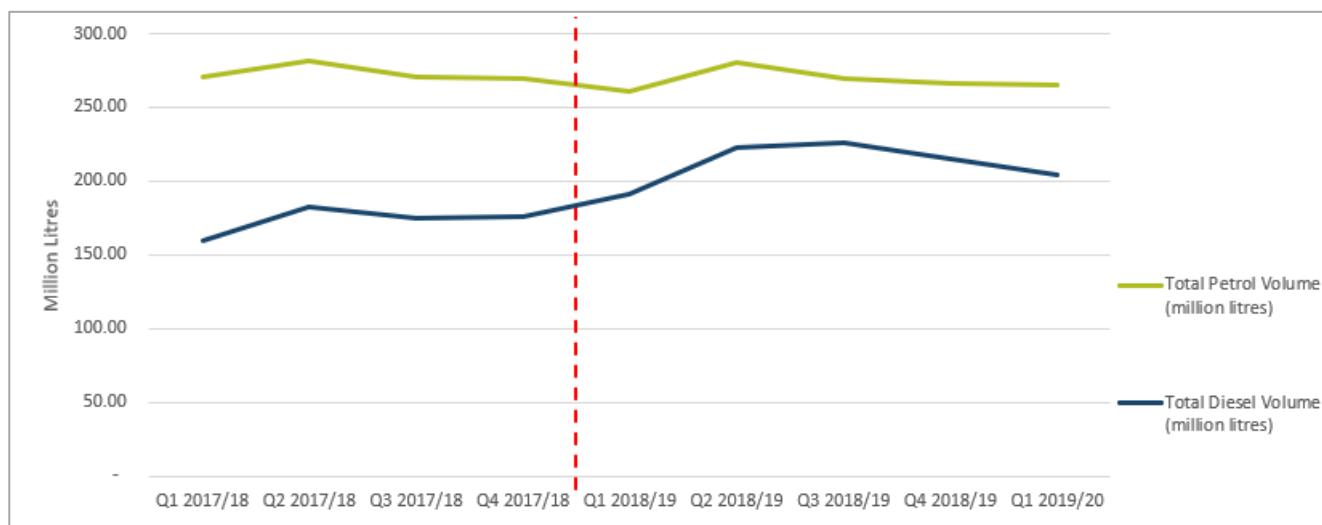


Figure 1 – Change in fuel volume inside the scheme area

Fuel delivered outside the scheme

The quarterly and baseline data for fuel volumes outside the scheme is collected by other government organisations for the whole of New Zealand. To approximate the volume of petrol and diesel fuel distributed outside the scheme area, the Transport Agency must subtract the scheme area volumes from the total volumes for the entire country. The reported volume includes fuel imports, refining volumes (not exported out of the country) and stock change. The baseline data is calculated similarly but subtracts the LAFT volume sold within the Auckland region (including Great Barrier Island), meaning the baseline is not directly comparable.

Due to the complexities of how this information is collected, there is a significant delay in obtaining data for quarterly reporting. Since the volume data is delayed and the Transport Agency is committed to providing this report in a timely manner, fuel volume outside the Auckland scheme area will be reported one quarter in arrears for all RFT quarterly reports.

Table 2 – Fuel volumes outside the scheme area

Quarter	Total volume outside the scheme area (million litres)	Total volume outside the scheme area (million litres)
	Petrol	Diesel
Baseline Q4 2017/18: 1 Apr–30 Jun 2018	486.64	788.84
Q1 2018/19: 1 Jul–30 Sep 2019	566.68	752.09
Q2 2018/19: 1 Oct– 31 Dec 2019	488.58	714.09
Q3 2018/19: 1 January – 31 Mar 2019	498.48	666.67

Note: This information is provided by other government and fuel distribution organisations and reported one quarter in arrears. The fuel volumes include both petrol and diesel (including bio-fuels and ethanol portions).

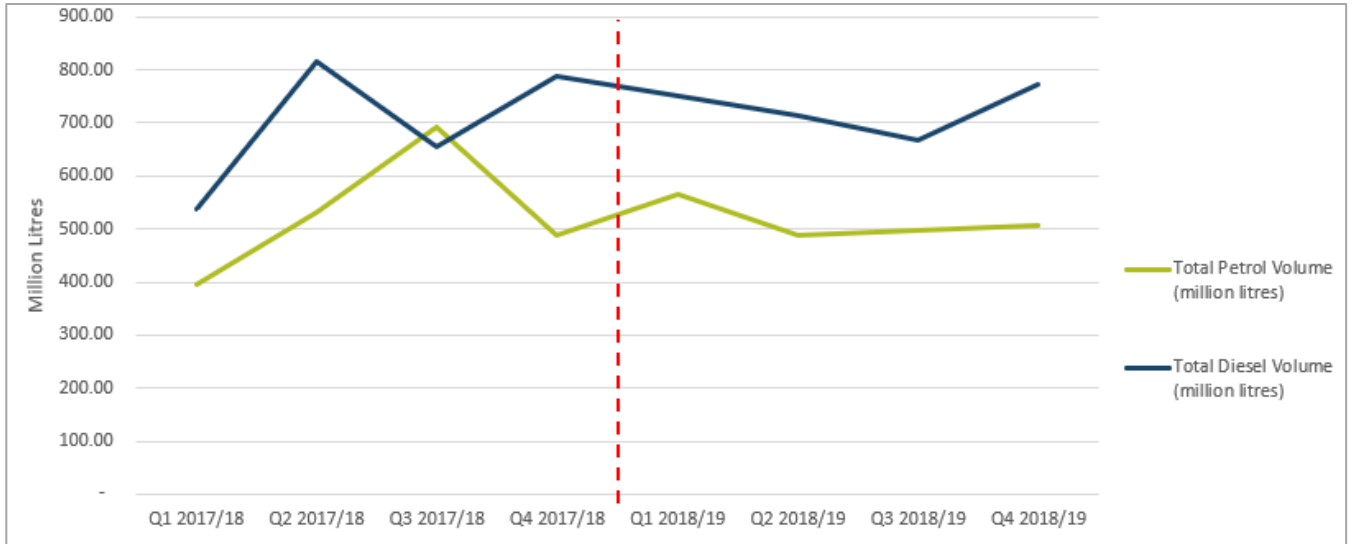


Figure 2 – Change in fuel volume outside the scheme area

FUEL PRICES INSIDE AND OUTSIDE THE AREA

Under section 65Y(3)(b) of the LTMA, the Transport Agency is required to report fuel prices inside and outside the scheme area. To meet this obligation, the Transport Agency had to identify a source for fuel price reporting in New Zealand. The Transport Agency used standard procurement processes and Datamine, a third-party provider, was determined to be the most appropriate supplier of fuel price data for this report.

Datamine information is publicly sourced, cleansed and aggregated through robust statistical methodologies prior to being provided to the Transport Agency. This means the final quality of the dataset cannot be quantified by the Transport Agency. The price observations are based on 'board prices', which means discounts from individual service stations are included but customer promotions (eg discount vouchers and loyalty schemes) are excluded from the dataset.

Table 3 – Average fuel prices by region (NZD cents per litre)

Region	Baseline				Q1 2019/20			
	(1 April – 30 June 2018)				(1 July – 30 September 2019)			
Fuel type	91	95	98	Diesel	91	95	98	Diesel
Auckland	207.90	222.90	226.90	138.90	217.90	232.90	232.90	149.90
Average outside scheme area	211.90	222.90	226.90	142.90	210.90	226.90	221.70	140.90
Bay of Plenty	206.70	220.90	222.70	135.90	207.70	222.90	220.90	139.90
Canterbury	219.90	226.90	236.90	152.90	220.90	230.90	242.90	139.90
Gisborne	208.00	221.90	227.90	136.90	207.90			141.90
Hawke's Bay	205.90	217.90	217.70	135.90	207.90	220.90	214.70	137.90
Manawatu-Whanganui	205.90	219.90	228.70	134.90	208.90	220.90	217.70	140.90
Marlborough	219.90	226.90	235.90	151.90	218.90	229.80	220.90	148.90
Nelson	221.90	230.90	238.90	157.90	212.90	224.90	232.90	144.00
Northland	212.70	221.90	217.70	141.90	208.90	226.90	218.70	143.90
Otago	219.90	224.90	234.90	152.90	221.90	229.90	233.90	143.90
Southland	213.90	219.90		143.90	215.90	229.90		139.90
Taranaki	201.90	214.90	218.70	132.50	206.90	219.90	220.90	141.90
Tasman	219.40	223.90	239.90	152.90	214.90	219.90		145.90
Waikato	207.90	221.00	224.70	136.90	208.90	223.90	225.40	139.70
Wellington	215.90	226.90	236.90	148.90	221.90	235.90	243.90	154.90
West Coast	223.90	228.90	251.90	155.90	228.90			155.90

Note: The fuel prices for 91, 95 and 98 octane petrol are recorded where available, and the blank cells indicate no prices were observed.

Table 4 – Fuel price range by region for Q1 1 July – 30 September 2019 (NZD cents per litre)

Fuel type Region	91			95			98			Diesel		
	Lowest	Median	Highest	Lowest	Median	Highest	Lowest	Median	Highest	Lowest	Median	Highest
Auckland	195.00	217.90	240.70	214.40	232.90	253.10	202.90	232.90	265.10	128.60	149.90	173.40
Overall outside scheme area	183.40	210.90	240.60	200.30	226.90	254.80	187.50	221.70	261.00	116.40	140.90	168.40
Bay of Plenty	184.70	207.70	227.90	200.30	222.90	243.90	191.60	220.90	249.50	121.50	139.90	156.80
Canterbury	198.70	220.90	240.90	210.10	230.90	252.60	215.70	242.90	266.40	114.80	139.90	169.60
Gisborne	174.70	207.90	236.00							119.70	141.90	160.20
Hawke's Bay	186.70	207.90	226.60	207.40	220.90	233.80	197.70	214.70	232.70	119.10	137.90	155.70
Manawatu-Wanganui	190.80	208.90	225.90	205.90	220.90	238.40	191.60	217.70	245.60	123.30	140.90	158.20
Marlborough	199.40	218.90	236.80	206.40	229.80	249.70	179.40	220.90	290.80	126.30	148.90	168.30
Nelson	205.10	212.90	222.50	198.50	224.90	259.40	221.70	232.90	241.60	135.20	144.00	152.90
Northland	187.30	208.90	232.10	206.30	226.90	246.00	200.70	218.70	236.60	117.50	143.90	172.70
Otago	202.40	221.90	241.40	207.80	229.90	251.80	220.30	233.90	248.70	113.90	143.90	174.30
Southland	191.20	215.90	239.30	197.20	229.90	261.00				107.60	139.90	179.20
Taranaki	192.60	206.90	221.20	204.50	219.90	237.60	194.50	220.90	249.70	128.10	141.90	154.30
Tasman	202.20	214.90	229.90	204.90	219.90	232.40				127.80	145.90	163.30
Waikato	186.50	208.90	231.20	199.70	223.90	250.40	190.80	225.40	259.30	121.00	139.70	158.50
Wellington	192.00	221.90	251.70	207.60	235.90	263.20	188.20	243.90	286.10	123.20	154.90	183.50
West Coast	189.50	228.90	270.10							123.30	155.90	186.30

Note: Blank cells indicate no prices were observed.

Figure 3 shows the difference between scheme area fuel prices and the average fuel price nationally outside the scheme area. The baseline shows that historically (April - June 2018), the median fuel prices outside of the scheme area were higher for all 91 octane petrol and diesel and the same for premium petrol. This report compares average prices inside and outside the scheme area after its implementation.

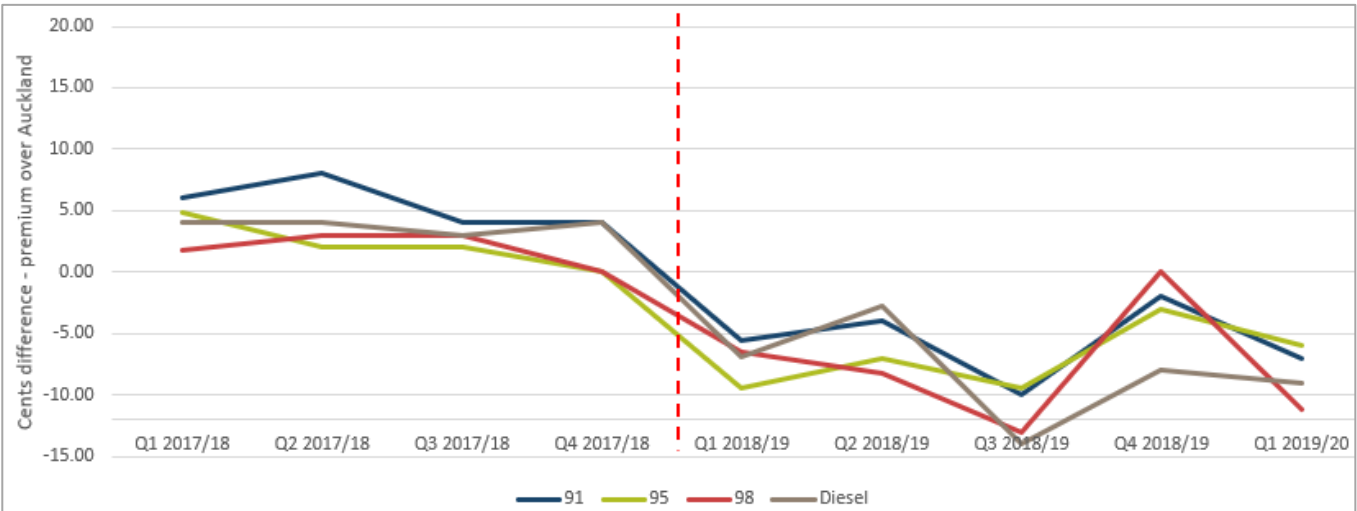


Figure 3 – Price difference between fuel inside and outside of the scheme area (raw figures)

Figure 4 shows the difference between average fuel prices inside and outside the scheme for 91, 95, 98, and diesel fuels when adjusting out the expected 11.5c impact arising from introducing RFT.

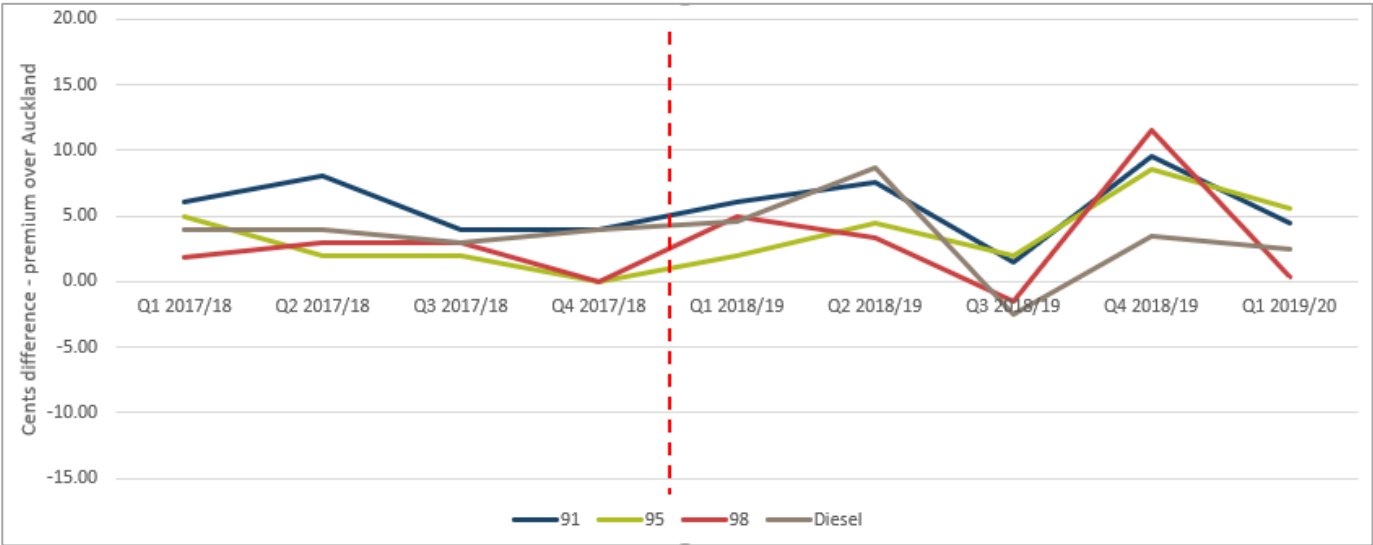


Figure 4 – Price difference between fuel inside and outside the scheme area (adjusted figures)

Figure 5 illustrates the difference between 91 petrol fuel prices in scheme area and other regions. The graph shows the regions bordering the scheme area, as they are likely to be affected by price differences; Wellington; the remainder of the North Island and the South Island. During the quarter immediately before the RFT scheme took effect, the median prices in Northland, Wellington, and South Island were higher than in Auckland but were lower than Auckland in the Bay of Plenty and remainder of the North Island, and the same in Waikato. Once the scheme took effect, only the average price in the South Island remained higher than in Auckland during the period 01 July 2018 to 30 June 2019. During the period 01 July 2019 to 30 September 2019, Wellington, Otago and West Coast fuel prices are the highest.

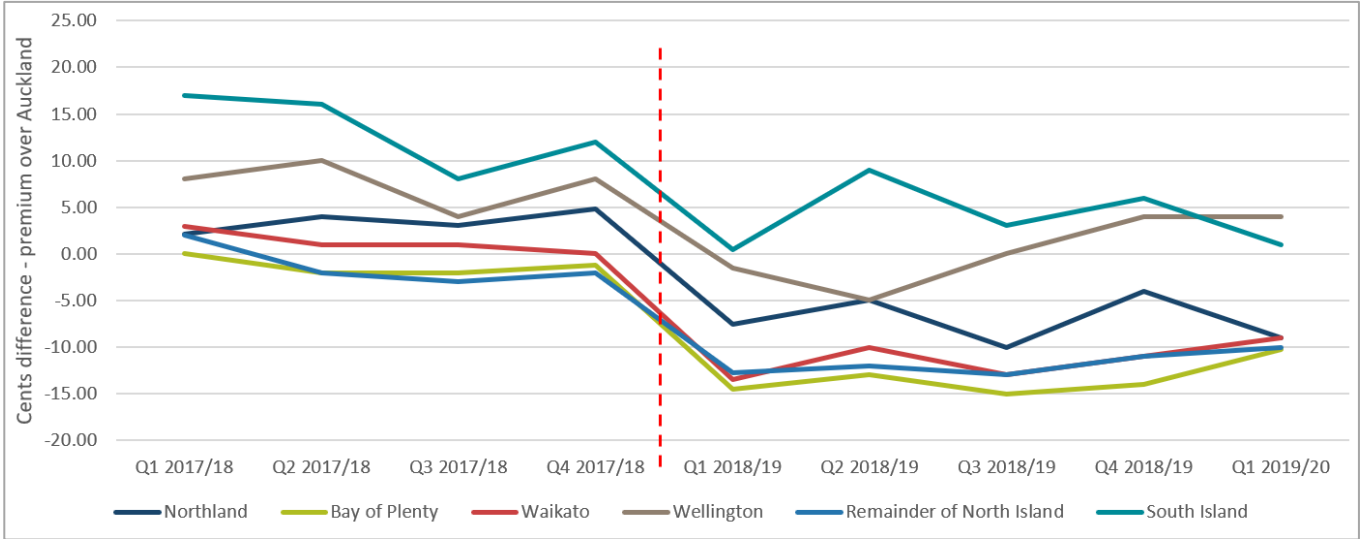


Figure 5 – Price differences between scheme area and other regions (raw figures)

Figure 6 shows the difference between average fuel prices inside and outside of the scheme area for 91 octane petrol in various regions when adjusting out the expected 11.5c impact from the introduction of RFT.

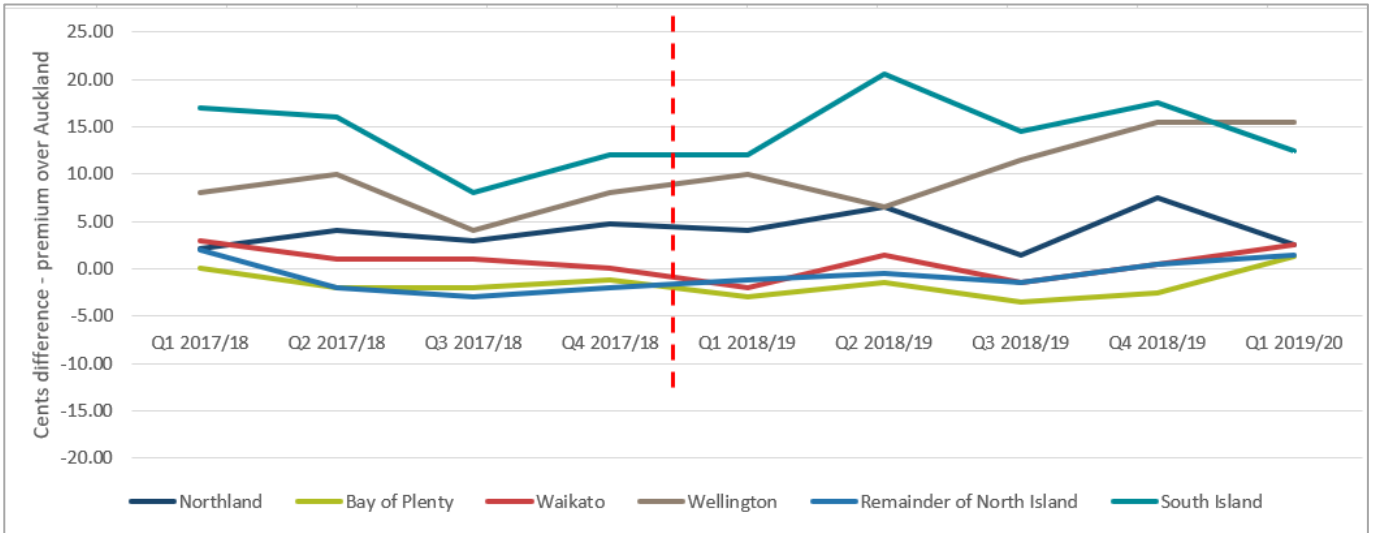


Figure 6 – Price differences between scheme area and other regions (adjusted figures)

COMPLIANCE CHECKS

Under section 65Y3(c) and (d) of the LTMA, the Transport Agency must report non-compliance with the RFT scheme and also the avoidance of RFT.

As a first point of non-compliance checks, the Transport Agency has developed assessment processes for RFT revenue collection and rebates.

The Transport Agency is resourced to conduct all RFT audits. These audit investigations are to identify avoidance of RFT and non-compliance within the Auckland RFT scheme. The overall audit process is in review along with the approach for planned taxpayer audits. An initial audit is due to commence in the second quarter and is expected to be completed by 20 December 2019, with the audit methodology to be put into action for subsequent audits.

The planned audit schedule is expected to be finalised before the end of the second quarter with implementation to start once the schedule has been finalised.

Site exemptions (sites exempt from paying RFT)

This includes site inspections, reports and recommendations upon customer applications for a site exemption, and the renewal/amendment of an approved exempted site.

Audit frequency: As required (referred through RFT assessments or chosen at random).

Table 5 – Inspections of exempt sites from 01 July 2018 – 30 September 2019

Quarter	Inspections of exempt sites
Q2 2018/19	Three exempt sites were inspected and granted approval.
Q3 2018/19	Two exempt sites were inspected and granted exemption status.
Q4 2018/19	No exempt sites were referred for inspection. Four existing exempt sites were granted renewal.
Q1 2019/20	No exempt sites were referred for inspection. Eleven existing exempt sites were granted renewal.

Scheduled/unscheduled taxpayer (fuel distributor) audits

This includes audits of all regional fuel taxpayers' record-keeping systems and their compliance in reporting and paying RFT. Taxpayer audits will be completed according to a planned audit schedule, which is expected to be finalised by the end of the second quarter.

Audit frequency: As required (referred through RFT assessment processes)

Rebate claim audits

This includes targeted and ad-hoc audits of rebate customers' RFT rebate claims. The Transport Agency has now collected sufficient data and evidence from rebate claimants to identify targeted audits. These audits are planned to commence once the schedule has been completed.

Audit frequency: As required (referred through RFT assessment processes).

Bureau audits

Bureaus are organisations which file rebate claims on behalf of another entity (customer) for a profit. Bureaus must undergo an audit of their internal processes and systems upon entering into a service agreement with the Transport Agency. Bureaus are also subject to on-going regular audits to evaluate compliance and remediation of any issues identified. This may include audits of rebate claims submitted. The audit schedule is under development with bureau audits expected to commence in the third quarter.

Audit frequency: As-required (referred through RFT assessment processes).

Table 6 – Activity of non-compliance and tax avoidance from 01 July 2019 – 30 September 2019

Quarter	Non-compliance	Avoidance
Q4 2018/19	<p>An investigation of the processes of a Regional Fuel Taxpayer regarding the delivery of fuel was conducted to ensure that regional fuel tax is being accurately applied and collected for non-exempt fuel. The investigation did not identify any non-compliance. The next step now is to fully investigate the tax paid. This investigation will commence during the next quarter. It is intended that this targeted investigation will determine where full RFT compliance has been achieved.</p> <p>Having applied the full audit/investigation process throughout this current investigation, the next stage of this investigation will inform a wider review to further develop the audit compliance framework. Once the review is completed, we will use the same approach to audit the other taxpayers.</p>	<p>Taxpayer (3) continues to be under investigation as further audit is required.</p> <p>Taxpayer (4 and 5) Exempt entries are being investigated to ensure that there is no RFT avoidance for quarter four.</p>
Q1 2019/20	<p>Following an investigation of the processes of a Regional Fuel Taxpayer regarding the delivery, application and collection of non-exempt fuel, an incorrect filing penalty was issued to the taxpayer. The Transport Agency is confident that the penalty covered all unpaid revenue from this process.</p> <p>It was determined that the return submitted by Taxpayer (6) did not comply with the regulations in section 65(b) of The Land and Transport Management Act, and a penalty was raised.</p> <p>Late submission of RFT returns by Taxpayer (7) resulted in a late submission penalty. The return has since been filed.</p> <p>Late payment penalties were issued to Taxpayers (8 and 9) for late payment of RFT.</p>	<p>Taxpayer (3) continues to be under investigation. Information gathering and risk area identification was completed in quarter one. An audit will be completed in quarter two.</p> <p>Taxpayer (4) has since paid RFT for the under-reported litres and the subsequent penalty that was issued.</p> <p>It was confirmed that Taxpayer (5) correctly determined RFT liability.</p>

DEFINITIONS

The following definitions are the Transport Agency's interpretation of non-compliance and avoidance when specifically referring to section 65Y3(c) and (d).

- **Non-compliance:** includes any act or omission by any person subject to obligations under an RFT scheme that results in the person failing to comply with any of their obligations under the RFT provisions of the Land Transport Management Act 2003.
- **Avoidance:** includes any act or omission by any person subject to obligations under an RFT scheme that results in the person avoiding (or attempting to avoid) RFT, where the Transport Agency considers on reasonable grounds that the act or omission was deliberate or fraudulent in nature.