

IN CONFIDENCE**Memo: Additional information for Cabinet paper "Road User Charges Amendment Regulations 2020"****Purpose**

- 1 This memo provides additional information following Cabinet Business Committee's (CBC) consideration of regulations that would increase the rates of road user charges (RUC) on 1 July 2020.
- 2 CBC invited the Minister of Transport to provide further information on the implementation timeline for the increases to RUC and Petrol Excise Duty (PED) [CBC-20-MIN-0044 refers]. I have also provided information on options that provide greater flexibility, including increases at a future date.

Background

- 3 To fund the Government Policy Statement on land transport 2018 (GPS 18), Cabinet decided in June 2018 to increase PED and RUC in 2018, 2019 and 2020 [DEV-18-MIN-0123 refers]. The 2020 increase to PED was legislated as part of Budget 19 legislation. The 2020 increase to RUC still needs to be put in place.
- 4 The increases are necessary to ensure there is enough revenue to deliver the expenditure levels set out in GPS 18. Cabinet recently agreed to public engagement on the draft Government Policy Statement 2021 (GPS 21), which assumes the 2020 increases to PED and RUC occur. GPS 21 proposes no further increases to RUC and PED for three years.

Decisions relating to the increase to RUC on 1 July 2020

- 5 Below I outline the timing of decisions needed to increase RUC on 1 July 2020. I also outline prior decisions made by Cabinet on this increase.

Decisions to increase RUC on 1 July 2020 have hard deadlines

- 6 For the increase to RUC to come into force on 1 July 2020:
 - 6.1 Cabinet on 28 April 2020 needs to approve the regulations for submission to Executive Council. If approved, the regulations could be gazetted on 30 April (or shortly thereafter); or
 - 6.2 Cabinet Legislation Committee could consider the regulations on 5 May 2020, followed by both Cabinet and Executive Council on 11 May 2020, and gazetting on 14 May 2020.
- 7 The alternative timetable (6.2 above) would defer Cabinet's consideration by eight working days. There are no further timetable options that would achieve the 1 July 2020 coming into force date as 19 May 2020 is the last date for notification of the regulations in the *Gazette*. This is because section 85(3) of the Road User Charges Act

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2012 requires any increases to RUC rates to be notified in the *Gazette* at least 42 days before the increases come into force.

Cabinet has already given policy approval for increasing RUC on 1 July 2020

- 8 The annex attached sets out the consideration of the increases by Cabinet. You will note from the annex that the Cabinet Economic Development Committee considered the increases to RUC on 11 March 2020, which was confirmed by Cabinet on 16 March 2020.
- 9 All consideration was before the State of National Emergency was declared and COVID-19 Alert Level 4 was implemented on 25 March 2020.

Options for greater flexibility for increasing PED and RUC, including increases at a future date

- 10 The worldwide COVID-19 outbreak has brought economic and social disruption in New Zealand.
- 11 Increasing the rates of PED and RUC will result in additional costs for households and businesses. For example, the 2020 increases will cost a road user with a light vehicle around \$35 to \$40 extra per year and a business with a heavy truck by around \$220 extra per year.
- 12 If Cabinet decides not to increase the rates of PED and RUC on 1 July 2020 two potential options are to:
 - 12.1 defer the increase to a specified date (for example, until 1 January 2021 or 1 July 2021); or
 - 12.2 cancel the increase.
- 13 The main consequence of any of these options is that there would be less revenue into the National Land Transport Fund, which helps to pay transport expenditure set out in GPS 18 (and proposed in the draft GPS 21). The GPS sets out basic transport services like public transport and essential road maintenance.
- 14 The Ministry of Transport does not recommend retaining the increase in PED should the increases in RUC be cancelled or deferred, as the rates are calculated to achieve as much parity as possible between what a light petrol vehicle owner and a light diesel vehicle owner would pay.

Deferring the increase to a specified date

- 15 Noting the considerable uncertainty caused by the impacts of COVID-19, our estimates are that, for the financial year 2021, deferring until:
 - 15.1 1 January 2021 will result in a revenue reduction of between \$60 and \$90 million (between 1 July 2020 and 1 January 2021)

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- 15.2 1 July 2021 will result in a revenue reduction of between \$120 to \$190 million (between 1 July 2020 and 1 July 2021)
- 16 These reductions are in addition to the already forecasted reduction in revenue due to COVID-19, s9(2)(f)(iv). Officials need to do more to understand this potential COVID-19 related reduction which could involve a significant reduction of expenditure and delivery of priorities if additional Crown support is not provided.
- 17 There would be no immediate legislative change required to defer RUC increases. Regulations would be required to be made at a later date at least 42 days before the deferred increases would be intended to come into force.
- 18 An Order in Council would be required under Schedule 3, section 20 of the Customs and Excise Act 2018 to suspend and modify the 2020 increase to PED. This Order in Council will amend the 2020 increase to PED which is set out in primary legislation (the Excise and Excise-equivalent Duties Table (Budget Measures – Motor Spirits) Amendment Act 2019). The Order in Council will come into force on 1 July 2020 to modify the PED rate that is legislated to take effect on 1 July 2020.

Cancelling the increase

- 19 Cancelling the increase to PED and RUC will result in a revenue reduction of between \$120 to \$190 million (in the financial year 2021) and between \$190 to \$200 million (in the financial year 2022), and this increases in subsequent years if rates are not increased (for example, in the financial year 2023 and in later years, the reduction increases to around \$250 million per annum).
- 20 It would be possible to cancel the increases to RUC by simply not implementing the regulations proposing to increase RUC rates from 1 July 2020.
- 21 Cancelling the legislated increase to PED for 1 July 2020 would require an amendment to the Excise and Excise-equivalent Duties Table (Budget Measures – Motor Spirits) Amendment Act 2019.

If Cabinet decides to defer or cancel increases planned to come into effect on 1 July 2020, we will need to consider how to support long term investment

- 22 Deferring or cancelling the 2020 increase to PED and RUC will further exacerbate the pressures on the National Land Transport Fund which was already under pressure to deliver GPS 18 and is now under greater pressure due to the impact of COVID-19.
- 23 Officials will shortly provide advice on the potential revenue reduction in the National Land Transport Fund and options for addressing it. Options, for example, may include the Crown under-writing the fund to an agreed level for a period or funding some projects directly through Crown injections.

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- 24 There may be limited ability to stop work or reprioritise projects that are already committed. This means a deferral or cancellation of the increases may, in effect, amount to the Crown agreeing to make up the gap.

Other factors

While fuel prices have declined, the cost of living has increased and some transport costs may increase following COVID-19

- 25 Since February 2020, the cost per litre of petrol and diesel has fallen by as much as 20 percent. Although unrelated, this fall would more than offset the planned increase in charges. We are unable to say whether the fall in the price of fuel is permanent or what the price difference might be in July when the increases are planned to take effect. However, when the price of fuel has fallen significantly in the past it has generally regained or increased to earlier levels over a period of months or years.
- 26 Because of COVID-19, it is possible some households - despite paying less per litre for fuel - may face increased transport costs. This could happen if people decide to travel further by private motor car rather than by other modes (for example public transport). Public transport is generally cheaper than the cost of travelling by private motorcar (especially when including the cost of parking).
- 27 When considering the impact on households and businesses, other costs are important, not just the cost of fuel. Recent data from Statistics New Zealand suggests from the March 2020 quarter there has been an increase in the annual inflation rate (2.5 percent), which follows a rise in the consumer price index (0.8 percent) in the March 2020 quarter. This increase was related to increased housing costs and the annual increase in tobacco tax. The food price index also increased (0.7 percent) in the March quarter, mainly due to rises in the price of vegetables.

Government has a work programme focused on the price of fuel which may result in greater competition and lower prices

- 28 The Government, following the Commerce Commission's Market Study into the Retail Fuel Market, has started work to improve competitiveness and transparency in the retail fuel market. The Commerce Commission has stated that consumers were paying higher prices than could be expected in a competitive market. It has been reported the impact of the work could see fuel prices fall by around 18 cents per litre; however, this is uncertain and may not happen until sometime in the future.

Hon Phil Twyford
Minister of Transport

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Annex: timeline of Cabinet's prior consideration of the RUC increase

20 June 2018 – Cabinet Economic Development Committee (DEV) [DEV-18-MIN-0123 refers]:

- **noted** that on 3 April 2018 Cabinet invited the Minister of Transport to report back to DEV on proposed increases in fuel excise duty and road user charges equivalent to 3-4 cents per litre per annum for three years (a total increase of the equivalent to 9-12 cents per litre), from 1 September 2018 [CAB-18-MIN-0115 refers]
- **agreed** to increase PED to 63.024 cents per litre for 2018 and agreed to further increases in PED of 3.5 cents per litre in 2019 and 2020
- **agreed** to increase RUC on 1 October 2018, and noted that the Minister of Transport will report back to DEV to seek approval for increases in RUC rates for 2019 and 2020.

25 June 2018 – Cabinet confirmation of DEV decision [CAB-18-MIN-0293]

7 May 2019 – Cabinet Legislation Committee (LEG) [LEG-19-MIN-0052 refers]:

- **noted** that on 15 April 2019, following reference from DEV, Cabinet agreed that the RUC rates be increased for the vehicles types and the amounts, with effect from 1 July 2019 [CAB-19-MIN-0173]
- **noted** that the Excise and Excise-equivalent Duties Table (Budget Measures – Motor Spirits) Amendment Bill (the Bill) gives effect to the increase in PED of 3.5 cents per litre for the 2019 and 2020 financial years), and approved the Bill for introduction.

13 May 2019 – Cabinet confirmation of LEG decision [CAB-19-MIN-0210]

1 July 2019 – Part 1 of Excise and Excise-equivalent Duties Table (Budget Measures – Motor Spirits) Amendment Act 2019 came into force, increasing PED from 1 July 2019.

11 March 2020 – DEV agreed to increase all rates of RUC by 5.3% with effect from 1 July 2020 [DEV-20-MIN-0031]

16 March 2020 – Cabinet confirmation of DEV decision [CAB-20-MIN-0100]

1 July 2020 – Part 2 of Excise and Excise-equivalent Duties Table (Budget Measures – Motor Spirits) Amendment Act 2019 comes into force, increasing PED from 1 July 2020.