

Impact Summary: Increases to Petrol Excise Duty and Road User Charges

Agency Disclosure Statement

The Ministry of Transport is solely responsible for the analysis and advice set out in this Regulatory Impact Summary, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing key policy decisions to be taken by Cabinet.

It provides an analysis of options to ensure there is sufficient revenue available through the National Land Transport Fund (NLTF) to deliver on the Government's land transport investment priorities, as set out in the Government Policy Statement on land transport (GPS) 2018.

On balance, a steady series of regular increases to the petrol excise duty (PED) rate and equivalent percentage increases to road user charges (RUC) rates over the next three years is recommended in order to provide sufficient revenue to implement GPS 2018 without imposing unreasonable additional costs on individuals and businesses.

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Background

The purpose of this regulatory impact summary is to evaluate options for increasing transport revenue to fund the implementation of the Government Policy Statement on land transport 2018 (GPS 2018).

GPS 2018 will signal the Government's land transport investment priorities for the next ten years. This investment will be funded through revenue derived mainly from several hypothecated taxes and charges¹, including petrol excise duty (PED) and road user charges (RUC). This revenue is channelled into the National Land Transport Fund (NLTF). Most NLTF revenue comes from PED, RUC and motor vehicle registration fees (MVR) broken down as follows:

- PED - net revenue \$1.896 billion in 2016/17
- RUC - net revenue \$1.469 billion in 2016/17
- MVR - net revenue \$223 million in 2016/17

In addition, Crown funding enables public monies to be spent on specific or general activities using funds appropriated by Parliament through the Budget process. Decisions regarding Crown funding are made by Cabinet.

Both NLTF and Crown funding have been oversubscribed in the past.

Forecasting work for GPS 2018 has shown that in order to deliver on all of the Government's priorities for land transport as outlined in the GPS, additional revenue will be required. This regulatory impact summary considers the following three options, of which Option 2 is preferred:

- Option 1: retain the status quo;
- Option 2: increase road users' contributions through PED and RUC; and
- Option 3: use alternative funding mechanisms.

Key limitations/constraints on analysis

Time constraints

The *Road User Charges Act 2012* requires 42 days between the gazetting of new RUC rates and when the new rates go into effect. New RUC rates will need to be gazetted by 16 August 2018 for the new rates to come into force by 1 October 2018, as indicated by the Minister of Transport.

Constraints on cost-benefit analysis

The GPS 2018 will set funding ranges for different types of activity (for example, road policing, public transport, state highways). However, the New Zealand Transport Agency (NZTA) will determine the specific projects that will be funded within those ranges, through the National Land Transport Programme (NLTP). This limits the scope of cost benefit analysis that is possible at this stage.

As part of the process of developing the NLTP, the NZTA will conduct cost-benefit analysis on individual projects that are proposed to be funded (fully or partially) out of the NLTF.

¹ The revenue is 'hypothecated' in the sense that there are legislative constraints (in the *Land Transport Management Act 2003*) that govern how this revenue can be used.

Data constraints

The Ministry of Transport uses a Cost Allocation Model (CAM) to indicate appropriate RUC rates. The CAM calculates 'base rates' for each vehicle type, taking into account a number of factors, including the weight of the vehicle, size of the vehicle (amount of space taken up on the road) and the number of axles, which impacts the amount of road wear caused by the vehicle (more axles generally means less road wear).

The actual RUC rates set in regulations are generally higher than the base rates because a level of over-recovery from the system is necessary to fund additional investments.

Because the amount of money spent in different areas (for example, maintenance, road policing) can change from year to year, the CAM base rate for each RUC vehicle type can move up and down, while actual RUC rates only stay static or increase. For 2018, these factors have produced a situation where actual RUC rates are considerably higher for a number of very heavy vehicle types (some by up to 40 percent) than the CAM base rates for those vehicle types would indicate.

The CAM is vulnerable to fluctuations in terms of the base rates, because it only looks back one year. The Ministry of Transport intends to review the CAM in the near future.

Constraints on options analysis

During consultation, some submitters suggested alternative options to increasing PED and RUC, such as congestion pricing and tolling. These options were considered out of scope as a short-term solution to funding the Government's transport priorities, as outlined in the GPS 2018. These options are being considered through other Ministry of Transport work that is looking at medium to long-term solutions for addressing the transport funding gap.

Assumptions underpinning impact analysis

The purpose of this project is to generate additional revenue needed to fund the Government's transport priorities, as outlined in the GPS 2018.

Cabinet will be taking decisions on the level of desired expenditure at the same time as considering any proposed increases in PED and RUC, so the analysis is based on achieving levels of revenue required to fund expenditure targets in the draft GPS 2018. The analysis is based on forecast revenue as at April 2018. Forecasts are subject to change and may impact the magnitude of increases required in 2019 and 2020.

The Ministry of Transport has also assumed investment through the NLTP will have an overall cost-benefit ratio greater than one, so there will be a net benefit from a higher level of investment.

Status quo and problem definition

Status quo

Transport is crucial to the New Zealand economy and a well-directed, future-proofed, focussed, multimodal network has huge benefits for productivity, jobs, business growth, and social well-being.

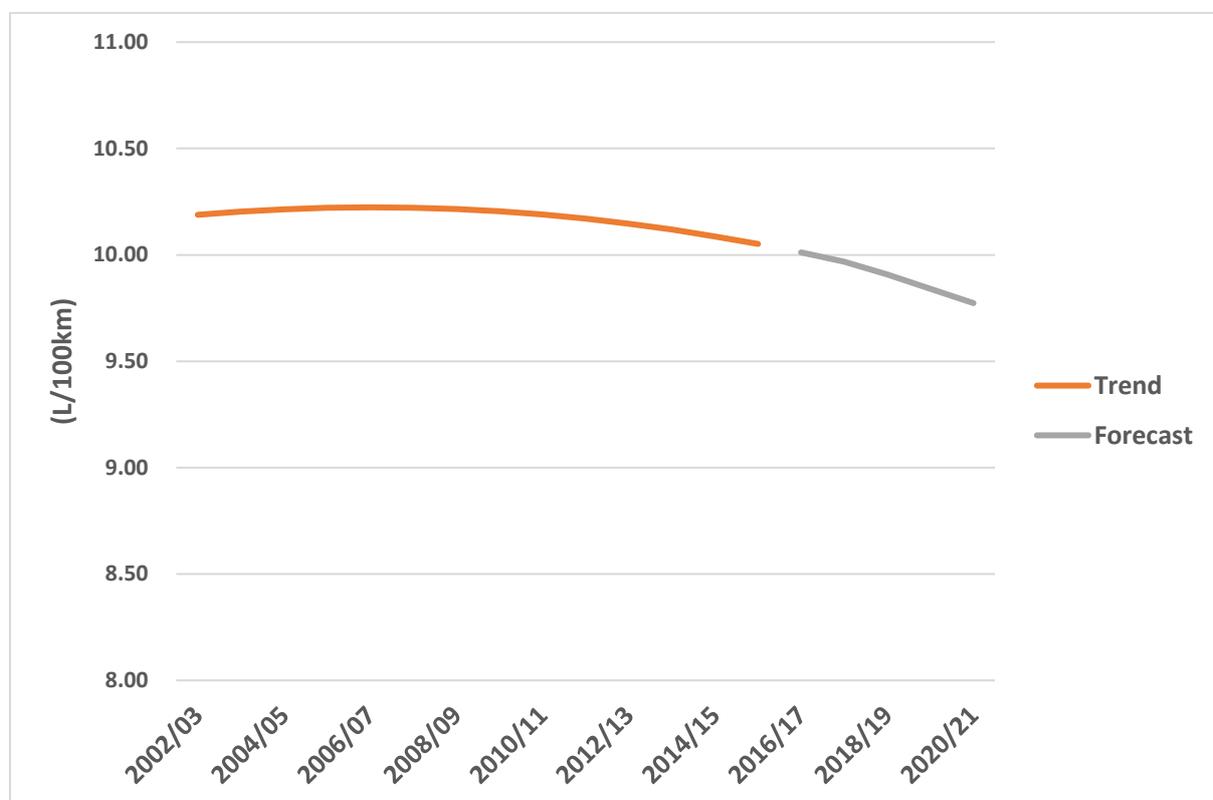
Investment in the land transport network is mainly funded by several hypothecated revenue sources including PED and RUC. Investment in the land transport system over the next ten years will be guided by the funding ranges set in GPS 2018. The priorities laid out in GPS

2018 will inform the development of the NLTP, which details, at a project level, how the land transport revenue will be spent.

PED is the largest contributor to the NLTF (approximately 53 percent of NLTF revenue). PED is a fixed rate (currently 59.524 cents) which is added to every litre of petrol purchased. Every user is subject to the same rate of PED, regardless of vehicle size or configuration.

Revenue generated from PED depends on the amount of fuel consumed. Vehicle fuel efficiency and vehicle kilometres travelled (VKT) are key factors that affect fuel consumption. Fuel efficiency of the light petrol fleet has been improving for a number of years and is predicted to continue to improve as the uptake of more fuel efficient vehicles and electric vehicles increases. The downward slope on the graph below shows that, on average, fewer litres of petrol will be required to travel 100 kilometres. Based on historical figures, the share of PED revenue in the NLTF is slowly dropping.

Figure 1: Estimated fuel efficiency of petrol light fleet (litres / 100km)



The RUC system (approximately 39 percent of NLTF revenue) consists of a set of distance based charges, which differ depending on the size, weight and configuration of the vehicle. The system is designed to account for, and recover charges based on, the different impacts imposed on the road network by different types of vehicles.

VKT can affect both PED and RUC revenue. Modelling shows that VKT is increasing; this includes an increase in both petrol and diesel VKT. VKT could be affected by a modal shift towards public transport, active modes, coastal shipping or rail freight. This could potentially be induced by increased investment in these modes from the NLTF. However, this hinges on whether there will actually be significant uptake of these modes over time, which is difficult to predict.

Ministry of Transport modelling assumes that economic growth is correlated with VKT. For example, VKT growth stalled during the Global Financial Crisis, however, we are unsure of the causal relationship between these two variables.

The NLTF model also assumes that increases in fuel prices decrease VKT. This is supported by economic analysis that was done for the model in the past. The elasticities calculated for this assumption are relatively low, so the overall effect is assumed to be relatively small, reflecting that people still depend heavily on road travel despite the price of fuel.

NLTF revenue is also generated from MVR fees, property sales and a variety of other sources which are, collectively, much smaller than PED or RUC. The NZTA also has the ability to make limited use of financing, which is repaid out of the NLTF.

The hypothecated revenue streams outlined above have not been sufficient to meet transport investment requirements over the past decade. As shown in Appendix 1, PED and RUC rates have been increased consistently over this period in response to revenue shortfalls.

For some projects, the Crown has needed to inject additional revenue sourced from general taxation to meet the costs. In the past, Crown funding has been used for specific transport projects outside of the scope of the GPS (e.g. funding rail infrastructure) or where the government has an interest in the specification and delivery of a project (e.g. City Rail Link). Crown funding has also been used to establish funds that may operate independently of the NLTF or leverage the NLTF (e.g. the Urban Cycleway fund and the Provincial Growth Fund).

Both NLTF and Crown funding sources have been oversubscribed in the past.

Problem definition

Modelling work conducted by the Ministry of Transport and the NZTA has shown that in order to deliver on all of the Government's priorities for land transport as outlined in the draft GPS 2018, additional revenue will be required. As noted above, this has been a recurring issue over the past decade.

The draft GPS 2018 proposes approximately \$45.1 billion of investment over the next ten years. Revenue forecasting projects that, at current rates of PED and RUC, land transport revenue will total approximately \$40 billion over the period covered by the GPS 2018, creating a shortfall of approximately \$5 billion over ten years.

Objectives

The options should achieve the following key objectives:

- that sufficient revenue will be available over ten years to implement the spending priorities included in the GPS 2018
- that any additional costs should be reasonable for users.²

The following objectives have also been taken into consideration:

² This includes that individual road user charges rates are in proportion to the costs generated by different types of vehicles subject to RUC.

- that, so far as practical, the pay-as-you-go model for land transport funding is preserved
- that the hypothecated revenue model for land transport funding is preserved

Who is affected and how?

Importers and producers of petrol will be affected by increases in PED, because they will need to pay additional costs per litre of petrol produced in New Zealand or imported into the country. Our best understanding is that this cost is generally reflected in retail petrol prices (the point at which the tax is recovered from road users), so the net impact is likely to be limited for this group.

Most New Zealanders will be affected either directly or indirectly by an increase in PED and RUC rates. Individuals and businesses will be directly affected by the rate increases through higher travel costs as a result of the increases. Individuals and businesses will also be indirectly affected through the higher cost of goods resulting from freight companies passing their increased travel costs onto consumers.

Constraints on the scope for decision making

As mentioned in the 'constraints on analysis' section, there are inconsistencies with the current RUC system which can result in significant differences between base rates and regulated RUC rates for a number of heavy vehicle types. This constrains the amount that rates can be raised on these vehicles, because the current regulated rates are already over-recovering (according to modelling).

Legislation that will allow Auckland Council to apply an additional 10 cents in tax (excluding GST) on each litre of fuel sold in the Auckland region is likely to come into force on 1 July 2018. It is anticipated that the 10 cent per litre regional fuel tax will be collected in Auckland from the day the legislation comes into force. The existence of a regional fuel tax in Auckland constrains the ability of the Government to increase PED and RUC rates as further rate increases across the country will place an additional burden on businesses and individuals in the Auckland region.

As part of decisions on the draft GPS 2018, Cabinet agreed that the Minister of Transport would report back to the Cabinet Economic Development Committee on increases to PED of between 3-4 cents per litre per year for three years (with equivalent increases in RUC). This constrains the magnitude of increases that can realistically be considered. The 3-4 cents increase per litre range has been included in public engagement on the draft GPS 2018.

Options and Impact analysis

Officials have identified the following three options for consideration:

- Option 1: retain the status quo;
- Option 2: increase road users' contributions through PED and RUC; and
- Option 3: alternative funding mechanisms.

Options one and two have been evaluated against the following criteria:

- Revenue – the option generates sufficient revenue to implement the investment priorities laid out in GPS 2018
- Fairness – the additional costs imposed on road users are reasonable
- Equity – different groups of road users are contributing in proportion to the costs they generate.³

Option 1 – Status quo

This option would retain the current PED and RUC rates. Total revenue generated over the next ten years under this option is approximately \$40 billion.

Rating against revenue criteria - low

This option generates approximately \$5 billion less than what is required to fund the expenditure levels outlined in GPS 2018.

Maintaining the status quo means it would be necessary to:

- fund transport investment from general taxation revenue, which would go against the objectives of preserving the pay-as-you-go and hypothecated revenue models;
- use a larger programme of financing than what is already proposed, which would impose additional costs on the NLTF over time; or
- the NZTA will need to scale back its planned programme of investment (which would result in additional costs for road users from continuing congestion, particularly in large urban areas like Auckland).

Rating against fairness criteria – medium/high

This option would impose no additional direct financial costs on road users as current rates of PED and RUC would remain at current levels. However, there may be some additional costs associated with externalities (for example, worsening congestion resulting from reduced investment in the road network).

Rating against equity criteria – medium

Drivers of light petrol vehicles currently contribute roughly five percent more revenue per kilometre through PED (5.83 cents per kilometre) than drivers of light diesel vehicles through RUC (5.39 cents per kilometre), which is not appropriate given the different types of vehicle impose the same costs on the road network. Additionally, the RUC rates set in regulations over-recover compared to the indicative base rates for a number of heavy vehicle types

Option 2 – increase road users' contributions through PED and RUC

This is the preferred option, because PED and RUC are the largest contributors to the NLTF. The only feasible way to generate sufficient revenue, and preserve a user-pays approach, is to increase PED and RUC rates. We have assessed two different options, because there are different ways of calculating increases to RUC rates.

Increasing the PED rate

There are two ways to increase the PED rate:

³ For example, drivers of light petrol vehicles contribute on a per-litre basis through PED. Drivers of light diesel vehicles contribute on a per-kilometre basis through RUC. These vehicles impose roughly the same costs on the road network, so should be contributing roughly the same amount of revenue.

- a one-off, sharp increase of 10.5 cents per litre in 2018 (necessary to achieve sufficient revenue)
- three incremental increases spread across 2018, 2019 and 2020 (3.5 cents per litre per year for the next three years)

The Ministry of Transport has assumed that a series of incremental increases to the PED provides the best fit with the Government’s objectives, because it achieves the necessary revenue while spreading the increased burden for road users over several years.

Increasing the RUC rate

Because the RUC system makes use of a number of different rates, it is not possible to increase RUC in the same way as PED. The preferred approach is to increase total RUC revenue by a percentage amount equivalent to the increase in PED (5.9 percent for 2018). There are different ways to achieve an equivalent increase in total RUC revenue, so the Ministry of Transport has assessed Options 2A and 2B below, which are:

Option 2A – Three increases in PED of 3.5 cents per litre, and three increases in total RUC revenue of an equivalent percentage amount (5.9 percent for 2018).

Rating against revenue criteria – high

This option would generate revenue of approximately \$45.22 billion over 10 years. This is approximately \$100 million more than the \$45.1 billion required to implement the GPS 2018. Table 1 shows how much revenue will be generated by this option.

Table 1: Revenue generated over 10 years by Option 2A (in \$billions)

Net PED	Net RUC	Net MVR	Other	Total
22.862	19.211	2.373	0.780	45.226

Rating against fairness criteria – medium

Because increased costs will be spread over several years, the Ministry considers that the additional costs are reasonable. No road users will see costs increase by more than 10 percent in a given year (unless the amount of travel increases dramatically, in which case costs would increase even if rates remain at current levels).

Rating against equity criteria – medium

For 2018, the proposed increase in PED and RUC rates would move light petrol vehicles (5.98 cents per kilometre) closer to light diesel vehicles (5.91 cents per kilometre). However, average petrol consumption rates are declining, so PED revenue per kilometre will likely decline over time. This option would spread RUC rate increases across vehicles weighing 18 tonnes or less, where over-recovery is generally less pronounced, and avoid increasing rates on vehicles already subject to high rates of over-recovery.

Option 2B – Three increases in PED of 3.5 cents per litre, and three increases in total RUC revenue equivalent to the per-kilometre increase in PED revenue (2.7 percent for 2018).

This option would increase PED revenue by the same amount as option 2A, but takes a different approach to RUC. A higher PED rate will increase the amount of revenue generated

per kilometre. This option would align the increase in total RUC revenue with this number. For 2018, this would increase total RUC revenue by 2.7 percent.

Rating against revenue criteria – low

This option would generate approximately \$44.16 billion over ten years, approximately \$1 billion less than the revenue necessary to implement the GPS 2018. This is because RUC revenue will be approximately \$1.1 billion lower under this option than under Option 2A. Table 2 shows the breakdown of revenue over ten years for Option 2B.

Table 2: Revenue generated over ten years by Option 2B (in \$billions)

Net PED	Net RUC	MVR	Other	Total
22.862	18.149	2.373	0.780	44.164

Rating against fairness criteria – medium

This option has similar fairness implications as Option 2A. Costs for road users who pay PED will increase by the same amount over three years. Costs for road users who pay RUC will increase by less than they would under Option 2A.

Rating against equity criteria – medium

This option would move towards parity between light petrol vehicles (5.98 cents per kilometre) and light diesel vehicles (5.73 cents per kilometre) in terms of revenue generated. It also provides space for per kilometre PED revenue to erode (due to falling petrol consumption) while still moving towards parity. This option would mainly limit RUC rate increases to vehicle types weighing nine tonnes or less

Option 3 – alternative funding mechanisms

Alternative mechanisms for addressing the gap between revenue and expenditure were also considered. This included short and long term borrowing options, Crown funding, scaling back expenditure, using the Provincial Growth Fund (PGF) and alternative funding and financing mechanisms such as value capture.

- NZTA has legislative authority to conduct short-term borrowing. This provides a means for smoothing cash-flows (both expected seasonal variations and unanticipated costs) within the NLTF. Short term borrowing will be used alongside increases in road users’ contributions.
- Long term borrowing is more problematic for the pay-as-you-go model, and the NZTA would still need to manage any long term debt commitments within NLTF revenue. Long term borrowing will be used alongside increases in road users’ contributions.
- Revenue from general taxation is committed to other priority areas. There is insufficient Crown revenue to fund transport priorities.
- The State Highways Improvement activity class and the Rapid Transit activity class have already been scaled back significantly. Further reducing the funding available in these activity classes would risk not meeting the Government’s investment priorities.
- The PGF will provide opportunities for additional investment in land transport that will support regional development.

A cross-government programme of work on alternative funding and financing options for infrastructure is currently underway. Deliverables from this programme are likely to be

medium to long term solutions, and it is unlikely that the revenue generated will be sufficient to bridge the gap between revenue required to implement the GPS 2018, and revenue that is forecast at current rates of PED and RUC. While these options may be applied as part of a revenue solution, the Ministry of Transport has not analysed option 3 against the criteria because it does not provide a good fit with any of the objectives we are trying to achieve through this analysis. As mentioned under *key constraints/limitations on analysis*, the Ministry of Transport is currently progressing work that looks at medium to long-term solutions for addressing the transport funding gap.

Impacts of the preferred option

Option 2A is the preferred approach, because it performs best against the criteria laid out in the previous section, and also provides the best fit with the objectives.

Costs and benefits

It is not possible to complete a detailed cost benefit analysis at this time, because the individual projects that will be funded by this revenue have not yet been defined. This will happen as part of the development of the NLTP, at which point the NZTA will carry out detailed cost-benefit analysis on the individual projects.

It is relatively simple to define the additional direct costs: approximately \$5 billion in additional costs to road users over ten years through higher rates of PED and RUC. Businesses will bear a high share of this additional cost, particularly additional RUC costs. However, the Ministry of Transport is assuming that most of this cost will be passed on to individual road users.

The types of benefits achieved by the proposed changes will include reduced congestion, greater accessibility, safety benefits and increased walking and cycling.

For the purposes of this analysis, the Ministry of Transport is assuming that the overall NLTP programme will have a BCR of greater than one, so there will be a net-benefit from a higher level of investment. The Ministry of Transport has conducted analysis of the average BCRs of a range of projects in each of the GPS activity classes (for example, state highway improvements, public transport). This analysis shows a wide range of BCRs across different activity classes, with the lower end of the range sitting around two. This supports the assumption that the overall programme of NLTP investment will have a net benefit.

We have also assumed that the cost to road users of paying additional PED and RUC is 1:1.

Equity and fairness

The NLTF funds the majority of transport expenditure. The NLTF is made up of transport users' contributions such as PED, RUC, and MVR. As previously noted, the rate of PED is the same for every litre of petrol imported into or produced in New Zealand, while RUC rates differ depending on the size and configuration of the vehicle.

The amount of money from the NLTF spent in different areas (for example, maintenance, road policing) can change from year to year. For 2018, there is a situation where actual RUC rates (as set in regulations) are considerably higher for a number of very heavy vehicle types (some by up to 40 percent) than the indicative base rates for those vehicle types would suggest they should be. Under the preferred approach, rates will not increase for these vehicle types. The rates that will increase are generally over-recovering by a much smaller amount.

To manage this issue, it is proposed that RUC rates are increased according to the preferred option for 2018, but for the next two rounds of increases, the Ministry of Transport will:

- undertake thorough engagement with the heavy vehicle sector; and
- establish a more data-driven approach for RUC increases in the following two years.

Those who pay PED and RUC should benefit from investment in the land transport network. While a large share of GPS 2018 spending is targeted towards urban areas, there is allowance for increased spending on projects in the regions, for example, increased spending on local roads. Until the NLTP is finalised, it is not possible to accurately define the impact on urban and rural areas.

Petrol consumption

Demand for petrol is relatively inelastic; a 10 percent rise in the price of petrol will affect consumption as follows:

- petrol consumption will decrease by 1.5 percent in the first year; and
- petrol consumption will decrease by 2 percent after two years.⁴

Social equity impacts

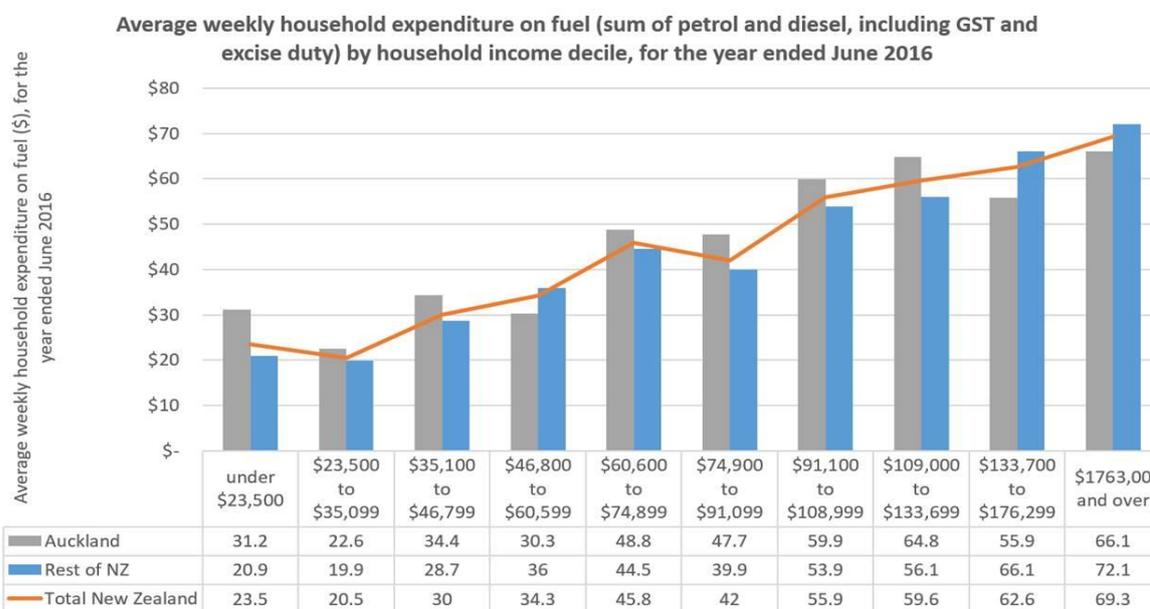
Taxes that increase the cost of using vehicles such as PED and RUC, may be regressive as they will increase the cost of non-discretionary travel (for example, travel to work by car where there is no viable alternative). Travel costs typically account for a larger share of income or expenditure in low-income households than high-income households, but the overall regressive impact is likely to be small since low-income households generally do less mileage. Deciles 1 and 2 households and deciles 5 to 8 households spend eight percent and six percent of their income on private travel costs respectively.

The Ministry of Transport has done some analysis on how much more households will have to spend on fuel per week, assuming three annual increases in the PED rate. Table 3 illustrates the increased spending for households in Auckland, and the rest of the country (reflecting that fuel prices will increase more in Auckland because of the 10 cents per litre regional fuel tax).

⁴ *Kennedy, D., *Wallis, I. 2007. Impacts of fuel price changes on New Zealand transport. *Land Transport New Zealand Research Report 331*.

Table 3 – Estimated additional household spending on petrol and diesel

Increase in FED for NZ (max over 3 years)	max. inc.	max. inc. with GST	maximum increase from year 3	
			Cents/litre	% change with respect to current fuel price
Auckland	12	13.8	25.3	12.5%
Regional fuel tax (10c) for Auckland	10	11.5	Rest of NZ	11.5
				5.7%



Estimated increased average weekly fuel expenditure with regional fuel tax and increase in FED rate from year 3

	\$	35.1	\$	25.4	\$	38.7	\$	34.1	\$	54.9	\$	53.7	\$	67.4	\$	72.9	\$	62.9	\$	74.4
Auckland	\$	35.1	\$	25.4	\$	38.7	\$	34.1	\$	54.9	\$	53.7	\$	67.4	\$	72.9	\$	62.9	\$	74.4
Rest of NZ	\$	22.1	\$	21.0	\$	30.3	\$	38.0	\$	47.0	\$	42.2	\$	57.0	\$	59.3	\$	69.8	\$	76.2

It can be argued that PED is more regressive than RUC because low-income households own older, less fuel efficient cars, and tend to live in the suburbs where housing costs are less (they will use more fuel and pay more PED as a result). However, there is no direct evidence to support this and it can also be argued that wealthier families own larger vehicles that use more fuel.

Due to time and data constraints, the Ministry of Transport has not been able to do a thorough analysis of the distributional impacts of the proposed increase in PED and RUC. Therefore, the exact distributional impacts are unknown. The Ministry of Transport is developing a process for carrying out qualitative assessment of distributional impacts. Once developed, this will be an important tool for screening various types of policy interventions, including transport pricing options. The Ministry of Transport will carry out further analysis of the distributional impacts of transport pricing including PED and RUC.

The Ministry of Transport acknowledges that low-income households are likely to be relatively more affected by the proposed PED and RUC increases. This is because the price increase will increase their total spending on fuel by a larger percentage of their incomes than for high income households. However, the Ministry assumes that the overall impact of the increases will be relatively small. Additionally, the preferred option will likely lessen the impact of rate increases on lower-income households by spreading increases across three years.

The Ministry of Transport has assumed that any workforce participation impacts will be negligible because the regressive nature of PED and RUC will be balanced out by other non-

transport related Government interventions (for example, increases in the minimum wage and increased Working for Families payments).

Many of the investments resulting from the priorities signalled in the GPS 2018 are likely to benefit low-income households by providing greater transport choice that is more accessible and affordable.

Compliance and administration costs

The system should be as simple and low cost as possible for taxpayers to comply with and to administer. Increasing PED and RUC rates is a relatively standard procedure that has been done many times before. It will be relatively simple and low-cost to administer the changes, and those subject to PED and RUC will not have to change their behaviour to comply.

Speed of implementation

The Minister of Transport has indicated that the proposed rate changes should come into force on 1 October 2018. We will be able to fulfil the legislative and administrative requirements in time to enable the new rates to come into force by 1 October 2018.

Consultation

The Treasury, the NZTA, the NZ Customs Service and the Ministry of Business, Innovation and Employment were consulted on the proposals in this regulatory impact summary. The Department of Prime Minister and Cabinet and were informed.

The Cabinet paper seeking approval of GPS 2018 contains reference to increases in PED and RUC being required to deliver the programme of investment. Possible increases to PED and RUC have been publically announced and formed part of the public engagement on the draft GPS 2018.

Possible increases in PED and RUC were included in public engagement on the draft GPS 2018. There were mixed reactions to the proposed changes to PED and RUC. Many submitters accepted that increases in PED and RUC would be necessary to deliver on the Government's priorities, to create livable cities and thriving regions. However, some submitters were strongly opposed to the increases.

Outside of formal submissions on the draft GPS, around 100 pieces of correspondence were also received by the Minister and Ministry of Transport that provided negative feedback on the proposed increases. The correspondence was generally concerned that the increases would impact disproportionately on households with lower or fixed (e.g. work and income benefit) incomes, particularly in Auckland when coupled with the regional fuel tax.

Implementation and operation

For the 2018/19 financial year, PED and RUC rates can both be amended by Order in Council. For the PED rate, this involves amending the *Customs and Excise Act 1996* (the Customs Act).⁵ The following PED increase (for 2019/20) will require a full legislative process, perhaps through Budget legislation in mid-2019. There is only one PED rate, so this is a relatively straightforward change.

⁵ Section 79A of the Customs Act allows for the PED rate (called motor spirits excise in the Customs Act) to be raised by Order in Council in the second or third financial year after the financial year in which the current rate was set. The current rate was set in July 2015.

The New Zealand Customs service is responsible for administering and collecting PED. To implement new PED rates by 1 October 2018, Customs must be given sufficient warning to enable them to change their systems as necessary.

The RUC system consists of a set of distance based charges, which differ depending on the size, weight and configuration of the vehicle. For this reason, changing RUC rates is a more complicated process than for PED. Current RUC rates are set in the *Road User Charges (Rates) Regulations 2015*. These will need to be replaced by a new set of regulations.

The NZTA is responsible for administering and collecting RUC. To implement new RUC rates by 1 October 2018, NZTA must be given sufficient warning to enable them to change their systems as necessary.

The exact date of implementation of further increases (for 2019 and 2020) is subject to decisions by the Minister of Transport.

Monitoring, evaluation and review

Revenue forecasts are regularly updated with updated economic growth and actual revenue data. These updates will be monitored by the Ministry of Transport, NZTA, and the Treasury, to determine whether revenue forecasts are accurately projecting the amount of revenue available to invest in the land transport network.

Appendix 1: Table of PED increases since 2002

	Date of change	Increase (c/L)	Percentage	Total petrol excise duty (c/L)
Previous increases	1 January 2002	1.4	4.4%	33.4
	1 April 2002	2.8	8.4%	36.2
	1 April 2005	5	13.8%	41.2
	1 April 2006	0.71	1.7%	41.9
	1 April 2007	0.62	1.5%	42.5
	1 October 2009	3	7.1%	45.5
	1 October 2010	3	6.6%	48.5
	1 August 2012	2	4.1%	50.5
	1 July 2013	3	5.9%	53.5
	1 July 2014	3	5.6%	56.5
	1 July 2015	3	5.3%	59.5
Proposed increases	1 October 2018	3.5	5.9%	63
	TBC 2019	3.5	5.6%	66.5
	TBC 2020	3.5	5.3%	70

Appendix 2: Proposed changes to individual RUC rates for 2018/19

Notes on these tables:

These tables detail the RUC rate increases that would result from the preferred approach of increasing total RUC revenue by 5.9 percent. The tables only include the RUC rates that are proposed to change, rather than all rates. 'CAM base rate' refers to the rate calculated by the CAM for each vehicle type based on NLTF expenditure and distance travelled data for the 2016/17 financial year (this model was run in 2018).

Table 1: Powered vehicles

RUC vehicle type and weight	Current rate (excluding GST)	2018 CAM base rate (excluding GST)	Proposed new rate (excluding GST)	Proposed new rate (including GST)	Percentage increase
<i>Type 1: Powered vehicles with two axles</i>					
Not more than 3.5 tonnes	53.91	54.00	59.13	68.00	9.68%
Between 3.5 and 6 tonnes	59.13	57.49	64.35	74.00	8.82%
Between 6 and 9 tonnes	120.00	111.89	131.30	151.00	9.42%
More than 9 tonnes	253.04	230.75	275.65	317.00	8.93
<i>Type 2: Powered vehicles with one single-tyred space axle and one twin-tyred spaced axle</i>					
Not more than 6 tonnes	57.39	57.67	62.61	72.00	9.09%
Between 7 and 9 tonnes	90.83	91.81	99.13	114.00	9.62%
Between 9 and 12 tonnes	123.48	114.89	134.78	155.00	9.15%
More than 12 tonnes	241.74	205.92	246.96	284.00	2.16%
<i>Type 311: Bus</i>					
Not more than 18 tonnes	241.74	230.85	263.48	303.00	8.99%
More than 18 tonnes	323.48	259.34	323.51	372.00	Almost zero
<i>Type 6: Powered vehicles with 3 axles</i>					
Not more than 12 tonnes	78.26	86.67	86.09	99.00	10.00%
Between 12 and 18 tonnes	253.91	242.69	279.13	321.00	9.93%
More than 18 tonnes	340.00	271.75	340.03	391.00	Almost zero
<i>Type 14: Powered vehicles with 4 axles</i>					
All RUC weights	313.91	284.76	340.87	392.00	8.59%
<i>Type 19: Powered vehicles with 5 or more axles</i>					
All RUC weights	279.13	254.75	304.35	350.00	9.03%

Table 2: Unpowered vehicles

RUC vehicle type and weight	Current rate (excluding GST)	2018 CAM base rate (excluding GST)	Proposed new rate (excluding GST)	Proposed new rate (including GST)	Percentage increase
<i>Type 24: Unpowered vehicles with 1 axle</i>					
All RUC weights	99.13	62.25	99.14	114.00	Almost zero
<i>Type 28: Unpowered vehicles with two axles</i>					
Not more than 10 tonnes	34.78	32.05	38.26	44.00	10.00%
More than 10 tonnes	223.48	221.38	243.48	280.00	8.95%
<i>Type 29: Unpowered vehicles with two twin-tyred or single large-tyred close axles</i>					
Not more than 10 tonnes	32.17	27.27	32.18	37.00	Almost zero
More than 10 tonnes	108.70	75.66	108.71	125.00	Almost zero
<i>Type 30: Unpowered vehicles with two twin-tyred spaced axles</i>					
Not more than 10 tonnes	32.17	29.77	32.18	37.00	8.11%
More than 10 tonnes	183.48	103.14	183.50	211.00	Almost zero
<i>Type 33: Unpowered vehicles with three twin-tyred, or single large-tyred, close axles</i>					
All RUC weights	146.09	99.98	146.10	168.00	Almost zero
<i>Type 37: Unpowered vehicles with 3 axles</i>					
Not more than 10 tonnes	32.17	29.77	34.78	40.00	8.11%
More than 10 tonnes	249.57	198.41	249.59	287.00	Almost zero
<i>Type 43: Unpowered vehicles with 4 axles</i>					
All RUC weights	186.96	116.64	186.98	215.00	Almost zero
<i>Type 951: Unpowered vehicles with 5 or more axles</i>					
All RUC weights	140.00	92.74	140.01	161.00	Almost zero

Table 3: Other vehicles

RUC vehicle type and weight	Current rate (excluding GST)	2018 CAM base rate (excluding GST)	Proposed new rate (excluding GST)	Proposed new rate (including GST)	Percentage increase
<i>Type 402: Vintage powered vehicles with two axles</i>					
More than 12 tonnes	158.26	145.99	173.91	200.00	9.89%
<i>Type 403: Vintage powered vehicles with 3 axles</i>					
All RUC weights	139.13	128.97	153.04	176.00	10.00%
<i>Type 404: Vintage powered vehicles with at least 4 axles</i>					
All RUC weights	142.61	131.38	156.52	180.00	9.76%
<i>Towing vehicle types for specific combinations</i>					
Type 308 (all RUC weights)	312.17	234.39	337.39	388.00	8.08%
Type 309 (all RUC weights)	246.96	231.28	271.30	312.00	9.86%
Type 408 (all RUC weights)	289.57	238.53	314.78	362.00	8.71%
<i>Large motor caravan types</i>					
Type 413 (more than 18 tonnes)	246.09	212.97	246.11	283.00	Almost zero
Type 414 (all RUC weights)	213.91	189.10	213.93	246.00	Almost zero
<i>H types</i>					
H91 (all RUC weights)	279.13	202.28	304.35	350.00	9.03%
H94 (all RUC weights)	313.91	237.32	340.87	392.00	8.59%
H97 (all RUC weights)	246.96	168.94	271.30	312.00	9.86%