Regulatory Impact Statement

Increases to petrol excise duty

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Transport.

It provides an analysis of options to ensure the revenue available through the National Land Transport Fund is sufficient to achieve the Government's expenditure targets under the Government Policy Statement on Land Transport Funding 2012/13-2021/22 (GPS 2012) and to deliver the Roads of National Significance programme on schedule.

On balance, a steady series of regular increases to petrol excise duty and equivalent increases to road user charges over the next three years is recommended so that the NZ Transport Agency is in a position to manage expenditure pressures in the short term, as well as the longer term.

Because decisions have been made on the required level of expenditure, the analysis is restricted to an analysis of the options available to fund the Government's expenditure programme. The analysis is based on forecast revenue at November 2012. Forecasts are subject to change and may impact on the preferred course of action.

The proposal to increase petrol excise duty will not impose any additional compliance costs on businesses, although it will have a minor impact on costs for those operating petrol vehicles.

A Regulatory Impact Statement is only required for the proposed changes to petrol excise duty. The proposed changes to road user charges are exempt, because these will be confirmed through a Subordinate Legislation Confirmation and Validation Bill. For completeness, the proposed increases to road user charges, as part of the overall solution, are referenced in this document.

Alastair Farr
Senior Adviser
Ministry of Transport

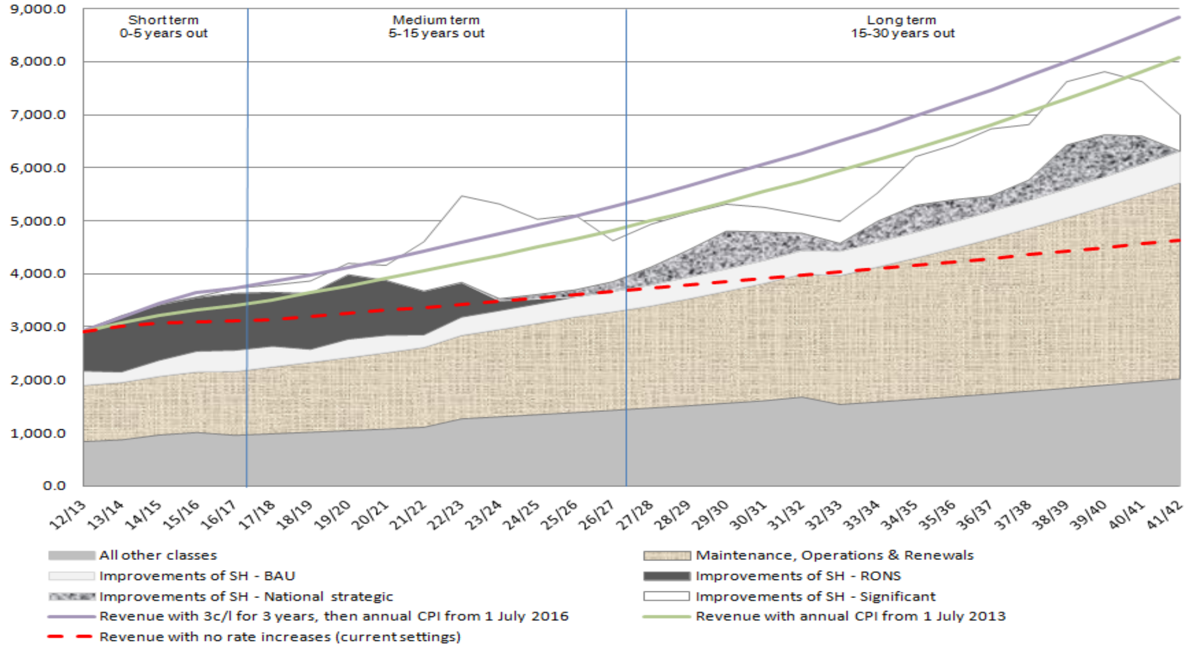
30 April 2013

Status quo

On 20 August 2012, Cabinet agreed to progress the Roads of National Significance programme on time and to hold to the Government Policy Statement on Land Transport Funding 2012/13-2021/22 (GPS 2012) expenditure profile for other activity classes. On 3 December 2012, Cabinet considered and approved a proposed package for delivering these objectives in a timely and value for money manner [EGI Min (12) 17/4 refers]. Cabinet agreed to increase petrol excise duty by three cents per litre on 1 July 2013, 1 July 2014 and 1 July 2015 and to make equivalent increases to road user charges.

Forecasts of revenue and expenditure for the National Land Transport Fund in November 2012 indicated a total revenue shortfall of around $1.6 billion over the next five years.[1] The shortfall is due to the timing of the Roads of National Significance programme, which is identified as a key priority in the current GPS 2012. It has also been exacerbated by flatter than expected revenue growth in 2011/12 due to slower than expected economic growth.

Figure 1: Projected annual expenditure and revenues, nominal $ million, 2012/13 to 2041/42



Objectives

The options are assessed against the following objectives:

- that the GPS 2012 expenditure targets and the Roads of National Significance programme schedule for 2012-2015 will be met
- that any additional costs should be reasonable for users
- that the National Land Transport Fund should be positioned to respond to short and longer-term expenditure pressures
- that, so far as practical, the pay-as-you-go model for land transport funding is preserved.

[1] This estimate assumes that petrol excise duty and road user charges increase with inflation.

Regulatory impact analysis

Option 1 – status quo

This option is not preferred.

The rates of petrol excise duty and road user charges are not indexed to inflation. Maintaining the status quo would see a rapid deterioration in the purchasing power of the National Land Transport Fund.

Maintaining the status quo would mean that the NZ Transport Agency would be required to reduce expenditure by deferring the commencement of major State highway projects, including the Roads of National Significance, contrary to the timeframes indicated in the GPS 2012.

Option 2 – increasing road users' contributions

This option provides the greatest fit with the Government's objectives.

- It will provide sufficient revenue to enable the delivery of the GPS 2012 targets and the Roads of National Significance programme for 2012/13-2014/15.
- It ensures that the National Land Transport Fund is in a position to respond to future expenditure pressures.
- It preserves the principle of the pay-as-you-go model, with road users meeting the costs they impose on the road network.

We considered a range of options for how the level of user contributions could be increased. These options are set out in the table below. The preferred option was based on selecting the option that was the most reasonable to road users, while ensuring sufficient revenue was collected to meet the Government's objectives.

Option	**Comment**
Regular, steady increases in petrol excise duty, with equivalent increases to road user charges *(In line with movement of CPI for the next three years)*	This would fail to provide the required revenue in the short to medium term. There would still be a shortfall of $900 million over the next five years.
Regular, steady increases in petrol excise duty, with equivalent increases to road user charges *(3 cents per litre for next three years)*	Preferred – best fit with the Government's objectives
Short, sharp increase to petrol excise duty, with equivalent increases to road user charges *(5 cents per litre in 2013 with lower increases in future)*	The short term burden placed on road users would be less reasonable.
Increasing either petrol excise duty or road user charges (ie changing the relative balance in charges).	Current balance between net user contributions through petrol excise duty and road user charges was considered appropriate.
Increases to Motor Vehicle Registration charges	This would be applied across all vehicle owners, without reflecting the actual usage of the network.

On balance, a series of moderate increases to petrol excise duty of three cents per litre over three years was preferred over the alternatives. The three year schedule provides certainty to road users about likely increases in costs and is in line with previous increases (see appendix).

The Ministry considers that the level of increase per user (at around $45 per annum) is justified, in terms of the economic benefits to New Zealand that will result from construction of the Roads of National Significance on schedule.

Option 3 – alternative funding mechanisms

Alternative mechanisms for addressing the short term gap between revenue and expenditure were also considered. This included short and long term borrowing options and tolling of new routes, as follows.

- There are already arrangements for short term borrowing by the NZ Transport Agency in place. These provide a means of smoothing cash-flows (both expected seasonal variations and unanticipated costs) within the National Land Transport Fund.
- Tolling options will be considered, for new roads, on a case-by-case basis, where there is a strong case. The likely revenue generated might service any debt taken on to create the roads, but would likely be insufficient to support the National Land Transport Fund against other pressures.
- Long term borrowing is more problematic for the pay-as-you-go model, and the NZ Transport Agency would still need to manage any long term debt commitments within National Land Transport Fund revenue. Long term borrowing will only be considered where an individual proposal satisfies value for money considerations.

These options may be applied as part of the solution, but on balance, these options were not considered to be as effective as the proposed increases to petrol excise duty and road user charges, particularly in the short term.

Consultation

The Treasury, NZ Transport Agency and NZ Customs Service were consulted on the proposals in this Regulatory Impact Statement. The Department of Prime Minister and Cabinet, State Services Commission and the Ministry of Business, Innovation, and Employment were informed.

No public consultation was undertaken. However, the proposed increases were publicly announced in December 2012, through a ministerial press release.

Conclusions and recommendations

A key principle of the pay-as-you-go system for land transport funding is that road users must make a sufficient contribution toward the costs of operating and developing the network. Therefore, a steady series of regular increases to petrol excise duty, and equivalent increases to road user charges, is recommended so that the NZ Transport Agency is in a position to manage short term expenditure pressures, and to place the National Land Transport Fund into a sustainable position for the future (ie ensuring there is sufficient revenue through pay-as-you-go to meet likely expenditure demands).

Implementation

Changes to petrol excise duty for 1 July 2013, and each year thereafter, must be made through amending the Customs and Excise Act 1996.

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, NZ Transport Agency and the Treasury, to determine if further increases to petrol excise duty and road user charges are required or decreases are possible in the event of revenue surpluses.

Appendix: Increases to petrol excise duty, 2002 - 2015

	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**
	2003 – no increase			**36.2**
	2004 – no increase			**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**
	2008 – no increase			**42.5**
	1 October 2009	3	7.1%	**45.5**
	1 October 2010	3	6.6%	**48.5**
	2011 – no increase			**48.5**
	1 August 2012	2	4.1%	**50.5**
Proposed increases	1 July 2013	3	5.9%	**53.5**
	1 July 2014	3	5.6%	**56.5**
	1 July 2015	3	5.3%	**59.5**