



Reference: T2022/544

SH-8-0-8

Date: 10 March 2022

To: Minister of Finance (Hon Grant Robertson)

Deadline: None  
(if any)

## Aide Memoire: Advice on FED and RUC

### Purpose

This aide memoire provides you with advice on a proposal we understand Cabinet is considering on Monday 14 March 2022 for a six-month reduction in Fuel Excise Duty (FED) and Road User Charge (RUC).

If Ministers wish to implement a temporary decrease to FED/RUC without reducing levels of transport investment, you could provide additional Crown operating funding to compensate for the reduction in NLTF revenue.

You have a number of options available to manage the fiscal impact of providing additional funding:

- **Fund this from Budget 2022 allowances:** This would be our first-best option from a fiscal management perspective so that Budget Ministers can weigh up the importance of this funding against your other spending priorities. However, we note that there is significant pressure on the operating allowance and it would be difficult to include this initiative without making significant changes to the draft Budget 2022 package;
- **Reprioritise unspent funding:** There may be opportunities to reprioritise underspends from other areas of public expenditure, particularly COVID Response and Recovery Fund (CRRF) related funding that is no longer needed as a result of changes to policy settings. We can provide you with further advice on these options if you wish;
- **Fund from the CRRF:** Given the proposed reduction to FED/RUC is time limited, Ministers could agree time-limited revenue replacement funding from the CRRF. However, an initial assessment suggests that the proposal is unlikely to meet the refined CRRF criteria;

- **Fund outside allowances:** You could choose to manage the costs of providing top up funding outside allowances. However, this would directly impact the fiscal position and would be inconsistent with the principles underpinning the fiscal management approach where discretionary policy changes are managed against allowances.

### Key considerations if progressing

If Ministers are considering a six-month reduction in FED/RUC, we would recommend taking into account the following key considerations and risks:

- **Broader market conditions:** There is no guarantee that any reduction in FED/RUC wouldn't immediately be counteracted by exogenous price variables given current global conditions (e.g. exchange rate fluctuations, the emerging situation in Ukraine). This may also mean that after six months, it may be hard to return FED/RUC to previous levels if prices are still at elevated levels, creating a medium- to longer-term fiscal risk of insufficient revenue into the NLTF to fund the investment pipeline;
- **Emissions reduction / climate change goals:** Several planned or existing actions to address transport sector emissions (e.g. Emissions Trading Scheme (ETS), congestion charging) actively require increases to fuel prices as a behaviour change incentive and, by extension, as a funding mechanism for key Emissions Reduction Plan (ERP) actions. In order to achieve the Government's climate goals, sustainably higher fuel prices are needed through time to enable transport transitions and support your complementary investments;
- **Impacts on the NLTF and transport investment:** There is already substantial pressure on the NLTF with a \$2 billion loan required (agreed in December 2021) to address the gap between planned investments in the National Land Transport Programme (NLTP) 2021 and the level of investment required to deliver on Government priorities and commitments. <sup>s.9(2)(f)(iv)</sup>  
[REDACTED]
- **Future sustainability of Land Transport revenue:** A Land Transport Revenue Review is underway; this work will identify the funding gap between planned investments and forecast NLTF revenue in the medium-term. The Review will also consider what increases to NLTF revenue, and/or use of other funding and financing approaches, may be required in order to deliver on planned investments. There is not capacity within the NLTF to absorb a reduction in FED/RUC; replacement of lost revenue would mean Ministers have to consider critical trade-offs in terms of the level of investment delivered;

## BUDGET-SENSITIVE

- **Distributional impacts:** Reductions in FED and RUC are a broad intervention so unlikely to target those that are most affected by cost of living increases. Ministers may wish to consider alternative options that may better target low-income households, if this is a policy objective.

Olivia Maxwell, Graduate Analyst, National Infrastructure Unit (NIU)

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