

Proactive Release

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Some information has been withheld on the basis that it would not, if requested under the Official Information Act 1982 (OIA), be released. Where that is the case, the relevant section of the OIA has been noted and no public interest has been identified that would outweigh the reasons for withholding it.

Listed below are the most commonly used grounds from the OIA.

| <u>Section</u> | <u>Description of ground</u> |
|----------------|---|
| 6(a) | as release would be likely to prejudice the security or defence of New Zealand or the international relations of the New Zealand Government |
| 6(b) | as release would be likely to prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by <ul style="list-style-type: none"> (i) the Government of any other country or any agency of such a Government; or (ii) any international organisation |
| 6(c) | prejudice the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial |
| 9(2)(a) | to protect the privacy of natural persons |
| 9(2)(b)(ii) | to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information |
| 9(2)(ba)(i) | to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public |
| 9(2)(ba)(ii) | to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest |
| 9(2)(f)(ii) | to maintain the constitutional conventions for the time being which protect collective and individual ministerial responsibility |
| 9(2)(f)(iv) | to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials |
| 9(2)(g)(i) | to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty |
| 9(2)(h) | to maintain legal professional privilege |
| 9(2)(i) | to enable a Minister of the Crown or any public service agency or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities |
| 9(2)(j) | to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) |

3 June 2022

OC220416

Hon Michael Wood
Minister of Transport

Action required by:
Friday, 10 June 2022

PROCESS DESIGN FOR THE TRIAL OF THE CLEAN CAR UPGRADE SCHEME

Purpose

To seek your direction on the high-level process for the Clean Car Upgrade scheme and to highlight key decisions needed for inclusion in the June Cabinet paper.

Key points

- The creation of the Clean Car Upgrade Scheme Trial has been agreed to and a tagged contingency has been established. A remaining design aspect is the scheme process
- The high-level process we propose uses the best elements of the Motor Trade Association (MTA)'s November proposal and California's successful "Clean Cars 4 All" programme.
- The scheme will commence with trials in different parts of the country. We have designed a six-step process for the trials.
- This process is dependent on the rapid development of an integrated IT system. Because the trials will be reliant on this IT system, it is vital to have this operating on time. However, it will be challenging to fully develop and test this system. As a result, there is a risk that the system will not be operational in time for the intended April 2023 launch.
- To meet an April 2023 launch date it is imperative to move quickly to finalise scheme design and release some implementation funding from the tagged contingency
- We have considered several design elements in the development of the proposed high-level process. These design elements include: selection of and payment to delivery partners, trial scheme requirements, mitigation to protect against misuse of the trial scheme, and providing a streamlined process for participants and delivery partners.
- To support the rapid implementation of the trials, we recommend changing the location of one trial from Bay of Plenty to the Gisborne region to enable use of existing Waka Kotahi relationships.

Recommendations

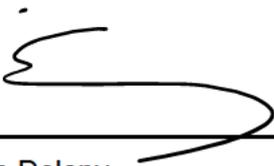
We recommend you:

- 1 **Note** that your decisions will be needed on the following aspects of the Clean Car Upgrade scheme so that they can be included in the June Cabinet paper:
 - Use of an integrative IT system linking the Clean Car Upgrade system with RealMe identification and IR Gateway
 - Criteria for vehicles accepted for scrapping
 - Requirements for disposal of scrapped vehicle parts
 - Selection and payment of delivery partners
 - Strategies to prevent misuse of scheme

- 2 **Agree** to discuss with officials your views on the proposed process for the Clean Car Upgrade scrapping scheme, including the design aspects listed above Yes / No

- 3 **Confirm** the proposed high-level process for the equity-oriented vehicle scrapping process Yes / No

- 4 **Confirm** the proposed trial locations in Auckland, Christchurch, and the Gisborne region. Yes / No



Ewan Delany

Manager, Environment, Emissions and Adaptation

3.6.22

Hon Michael Wood

Minister of Transport

..... / /

Minister's office to complete:

Approved

Declined

Seen by Minister

Not seen by Minister

Overtaken by events

Comments

Contacts

| Name | Telephone | First contact |
|---|-----------|---------------|
| Ewan Delany, Manager, Environment, Emissions and Adaptation | s 9(2)(a) | |
| Tracy Yandle, Senior Adviser, Environment, Emissions and Adaptation | s 9(2)(a) | ✓ |

PROCESS DESIGN FOR THE TRIAL OF THE CLEAN CAR UPGRADE SCHEME

We are accelerating trial design for the Clean Car Upgrade scheme.

- 1 The Clean Car Upgrade scheme is included in the transport chapter of the Emissions Reduction Plan and in the budget announced 19 May 2022, with \$31.8 million provided as a tagged contingency for designing and implementing a trial scrappage scheme.
- 2 Your intent is that the trial will commence in April 2023 in at least one of three locations. Any expansion of the scheme is dependant on the outcomes of the trial. Evaluation of the Clean Car Upgrade trials will be addressed in a briefing planned for July this year.
- 3 This briefing builds on previous advice provided on the targeting of the trial scheme (OC210954 refers), and forms of financial assistance (OC220136 refers). This briefing focuses on the high-level process design elements that are still to be agreed for the trial of the scheme, as well as a proposed change of one trial location.
- 4 Upcoming Cabinet decisions in June and September will enable Waka Kotahi to begin key implementation activities to stand up the scheme, including engagement with communities, affected industry, and potential delivery providers to further refine the proposed processes.

We propose a high-level process that incorporates the strengths of the Motor Trade Association (MTA)'s vehicle scrappage proposal and California's programme.

- 5 In designing the process for the scrappage scheme we have drawn on the vehicle scrappage proposal that the MTA developed following an industry workshop in November 2021, and California's successful "Clean Cars 4 All" equity-oriented vehicle scrappage programme.
- 6 MTA's strategy is not equity-based but many of their insights and proposed processes are valuable. We extensively incorporated these elements.
- 7 We had far-reaching discussions with officials and dealers implementing California's scheme and incorporated their advice and elements of their programme. In addition, we have engaged with the Automobile Association (AA) and the Financial Service Federation (FSF). This briefing is also informed by their contributions.
- 8 Waka Kotahi provided input to earlier drafts of this briefing, but its comments are go further than the focus of this briefing. For reference, Waka Kotahi's full feedback on the draft is included in Annex 1.
- 9 Below, we discuss the contributors to the Clean Car Upgrade and the steps in the process.

Contributors to the Clean Car Upgrade Process

- 10 As the scheme administrator, Waka Kotahi is the lead delivery agency. Supporting agencies will be the Ministry of Transport, Inland Revenue, and the Department of Internal Affairs. In addition, there will be Participant Advisors and delivery partners. Respective roles are summarised in the table below.

Table 1: Contributors to the Clean Car Upgrade Process

| Contributor | Core Responsibilities |
|---|---|
| Waka Kotahi (Scheme Administrator) | <ul style="list-style-type: none"> • Co-design programme implementation with Ministry of Transport • Conduct focus groups with target communities to refine process design • Implement and administer trial scheme in three locations • Develop IT system supporting scheme • Hire, train, and supervise Participant Advisors • Select and monitor delivery partners • Collect and provide data necessary for trial evaluation • Assess scrap vehicle and confirm it meets requirements • Confirm documentation submitted by all parties, coordinates income verification with IR Gateway and could confirm ownership and clear title of vehicle • Audit and verify activities. |
| Ministry of Transport | <ul style="list-style-type: none"> • Governance and strategy • Co-design programme implementation with Waka Kotahi • Design (with support of Waka Kotahi) trial evaluation aspects • Confirm arrangements for trial evaluation |
| Inland Revenue | <ul style="list-style-type: none"> • Work with Waka Kotahi to support use of IR Gateway for verifying income |
| Department of Internal Affairs | <ul style="list-style-type: none"> • Work with Waka Kotahi to support use of RealMe for verifying identity |
| Participant Advisors | <ul style="list-style-type: none"> • Use existing relationships and knowledge of communities to provide targeted outreach with Maori, Pasifika, and other communities. • Help potential applicants assess whether scheme is a good fit, and what replacement options best suit their needs (if desired). • Support participants through the application process, and offer additional outside resource, such as Citizens' Advice Bureau and budgeting support (if desired). • Monitor vehicle pricing and steer participants away from overpriced options • Detect and report scheme misuse to Waka Kotahi. • Provide data about their activities needed for trial evaluation. |
| Delivery Partners (e.g., vehicle dealers, e-bike sellers, transit providers, social leasing providers) | <ul style="list-style-type: none"> • Meet qualifications required to be delivery partner • Sign and follow conditions of delivery partner contract • Provide product or services at a cost not above general market rate • Detect and report scheme misuse to Waka Kotahi • Provide data about their activities needed for trial evaluation and to conform cost of products and identity of purchasers • Scrappers: confirm vehicle identity and condition |

Steps in the Clean Car Upgrade Process

11 We propose a six-step process for the trials, which would provide a streamlined experience for participants and delivery partners. This process will be reviewed and if necessary refined if the scheme is expanded beyond a trial.

11.1 Figure 1 provides an overview of the vehicle scrappage process, summarising what would happen as a participant moves through each step.

11.2 Table 2 examines each step in more detail, focusing on the goals and activates for each step.

- 12 These steps would be supported using an integrative IT system, Participant Advisors, and steps to reduce the risk of misuse. These design aspects of the trial are discussed in paragraphs 14-32 of this briefing.
- 13 This IT system is crucial to the success of the trial and will require integration with two other government IT systems. It will be challenging to fully develop and test the system in time for the intended April 2023 launch. There is a significant risk that the IT system will not be fully ready in time. This could put the intended start date and the integrity or completeness of the trial at risk.

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Figure 1 – Proposed process for the trial of the equity-oriented vehicle scrappage scheme

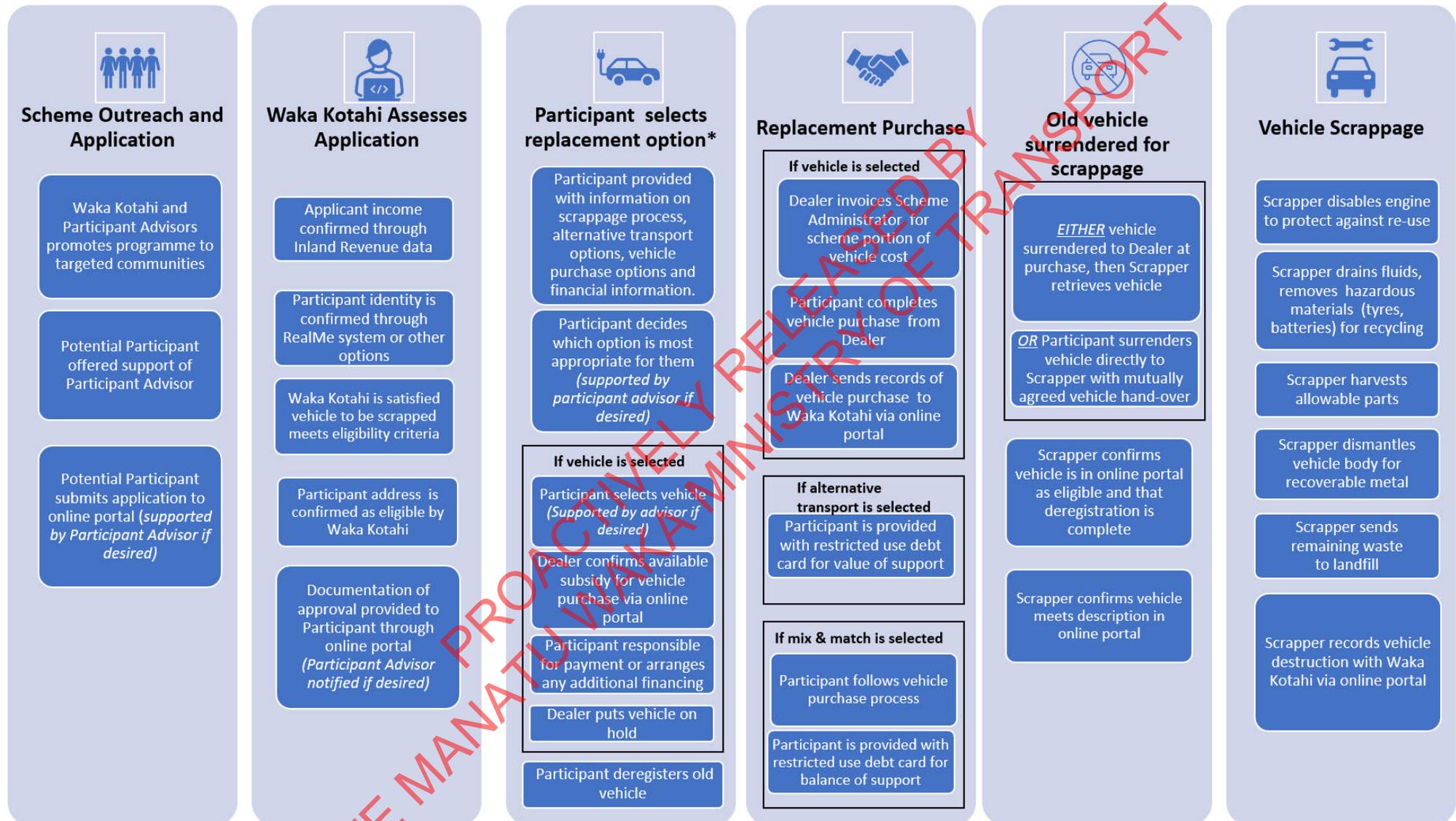


Table 2: Goals and Activities in the Clean Car Upgrade Process

| Step 1: Scheme outreach and application | |
|--|---|
| Goals | <ul style="list-style-type: none"> Promote the scheme to low- and moderate-income participants to maximise engagement Encourage use of the scheme by those at risk of being negatively impacted by transport decarbonisation Strengthen communities by increasing their access to low-emission transport. |
| Key Activities | While information would be available online, Participant Advisors would raise awareness of the scheme within targeted communities and offer support. This is important to ensure uptake by low-income communities. |
| Step 2: Waka Kotahi Assesses Application | |
| Goals | Waka Kotahi evaluating applications using income ¹ and vehicle eligibility criteria and notifying accepted applicants. |
| Key Activities | <p>Application assessment would be driven by a combination of online and in-person activity.</p> <ul style="list-style-type: none"> Income eligibility would be confirmed online through Inland Revenue Gateway. Vehicle eligibility confirmation would include inspecting against scheme criteria (described in paragraph 16) |
| Step 3: Participant Seeks Replacement Option | |
| Goals | Participant selects which replacement option best meets their needs with information provided by Waka Kotahi and (if desired) support of Participant Advisor. |
| Key Activities | <p>While this step is centred on participants making their own decisions, this will be supported by information provision.</p> <ul style="list-style-type: none"> Waka Kotahi would provide information about options and process. E.g., the Right Car website could be updated to show if specific cars are eligible for scrapping or purchase. If desired, the Participant Advisor would support decision-making. |
| Step 4: Replacement Purchase | |
| Goals | Participant experiences a streamlined purchasing experience, and delivery partners are paid promptly for products and services |
| Key Activity | <p>This step relies on the interaction of a range of delivery partners and Waka Kotahi to ensure the rapid provision of products and services, as well as prompt payment by the scheme administrator</p> <ul style="list-style-type: none"> Well-vetted delivery partners would provide the product or service at market rates Payment method would vary depending on option selected |
| Step 5: Old Vehicle is Surrendered for Scrapage | |
| Goals | Maximising flexibility for participant in the surrender of old vehicle, while guarding against scheme misuse |
| Key Activities | <p>Scrappers support the integrity of the programme, while also providing a surrender process focused on needs of the participant.</p> <ul style="list-style-type: none"> Participants would choose when (within a three working-days window) and how their old vehicle would be surrendered. Scrappers would confirm vehicle condition and identity before scrapping. |
| Step 6: Vehicle Scrapage | |
| Goals | A scrapage process that adheres closely to the traditional scrapage process while aligning with the Ministry for Environment's product stewardship programme objectives for tyres and electronics, which are presently under development. |
| Key Activities | <ul style="list-style-type: none"> Engine is destroyed, while rest of the vehicle is harvested for parts, recycled, or disposed of according to best industry practice. Scraper uploads evidence of engine or vehicle destruction |

¹ Defined as at and below annualised median income for individuals and partnered households, with an income adjustment of \$10,318 per child (OC220340 and updated in forthcoming Cabinet Paper informed by your 5 May 2022 discussion with officials.

Trial design considerations to be resolved for the June Cabinet paper:

- 14 In addition to process, there are key design issues that need to be considered for the June Cabinet paper. Below, we discuss criteria for accepting vehicles for scrappage, selection and payment of delivery partners, limitations of reuse of scrapped vehicle parts, trial location, and prevention of trial misuse.

We recommend five criteria for accepting vehicles for scrappage

- 15 In designing these criteria, we seek to remove higher emitting and unsafe vehicles from the road, while protecting the scheme from misuse.
- 16 We recommend that eligible scrapping vehicles² comply with five criteria:
- Emit at or above the weighted average CO₂ emissions for vehicles up to 20 years old³ OR have an equivalent engine size proxy
 - Have a 2-star or lower safety rating
 - Have a Warrant of Fitness (WoF) and vehicle licencing (Rego) OR apply to trial scheme within 30 days of WoF and Rego expiry
 - Documentation of owning or being responsible for the vehicle (registration) for at least two years before applying to scheme
 - Be able to start without external assistance and be capable of being driven forward and backward at least 100 meters
 - Show no outstanding liens on the Personal Property Security Register (PPSR).

Criteria should be in place for selecting delivery partners.

- 17 For the trials, we need reputable delivery partners capable of working as part of a complex networked arrangement. Table 3 summarises our recommended criteria.

Table 3: Criteria for Accepting Delivery Partners

| Delivery Partner | Criteria |
|-------------------|--|
| Vehicle Dealers | Businesses with a good reputation, such as AA Preferred, or higher accreditation level (e.g., Toyota Signature) |
| Vehicle Scrappers | Businesses with a good reputation. Since there is no existing accreditation, we recommend selecting scrappers with an insurance company scrappage contract. |
| Social Leasing | Government-supported social leasing schemes (such as the planned Ākina and Manukau Urban Māori Authority's social leasing programme, or the trial social leasing programmes announced in the latest budget). |

² Vehicles defined as: road registered light motor vehicles excluding motorcycles, mopeds, and ATVs.

³ Presently this is 213 grams/km or higher CO₂ emissions (WLTP) but will reduce as fleet emissions improve.

| | |
|--|--|
| Transit Providers | Public transit providers within the geographic limits of the trial. |
| Personal Transportation (e.g., e-bikes) | Since there is no existing accreditation, we recommend selection based on local reputation, having an established storefront business, and history of providing specified products, and an established relationship with local government PT/Mobility teams. |

We recommend a mixed model for paying delivery partners

- 18 In designing our proposed approach, we balanced timely payment of providers, protection against scheme misuse, and providing a streamlined experience for participants and delivery partners.
- 19 Waka Kotahi will need to work with the Ministry of Business, Innovation and Employment to align with best practice procurement rules.
- 20 For vehicle purchases, we recommend directly paying funds to the delivery partner once the replacement vehicle is approved and the participant pays or obtains financing for any remaining costs.
- 20.1 This model is successful in California and reduces misuse compared to paying participants directly.
- 20.2 Rebate payment (such as the Clean Car Discount) is not appropriate for this scheme as lower income households may not be able to afford to pay full price upfront then wait for a rebate payment.
- 21 For alternative transport options, we are exploring whether participants could be given a restricted use debit card for the value of support.
- 21.1 This strategy was tested in Oakland’s “Universal Basic Mobility” programme, which provided transit support to lower-income community members. While this approach reduces the risk of misuse, it has not been tested in a more complex transportation context and in the New Zealand legal/regulatory context. (See Table 4)
- 21.2 Waka Kotahi will need to further investigate whether this approach is appropriate and whether it is possible to lock down types of purchases made on limited use debit cards, in addition to locking down vendors.
- 22 Participants who mix vehicle and low emission alternatives could experience a combination of these payments. Vehicle support could be paid directly to dealers, and the balance loaded onto a limited use debit card, if this approach is appropriate to the New Zealand context.

We recommend limited restrictions on the re-use of scrapped vehicle parts.

- 23 Any restrictions should balance three competing objectives:
- 23.1 removing high-emitting and unsafe vehicles, and limiting the longevity of similar vehicles by restricting parts reuse

23.2 protecting the long-term economic viability of the scrappage industry (which earns much of its profits from used parts sale)

23.3 encouraging re-use and recycling as part of promoting a circular economy.

24 We recommend following California's model by requiring destroying the engine but allowing harvest of other parts. This destroys the CO₂-emitting component, while protecting the viability of the scrappage industry and discouraging waste.

25 We recommend that Waka Kotahi work with both Ministry for Environment and scrappage providers to align with their developing product stewardship standards.

Changing one trial location would support the accelerated trial timeframe.

26 In our last discussion with you, you indicated a preference for trials in Auckland, Christchurch, and Bay of Plenty. This provides for trials in a large and small city, and a region.

27 Waka Kotahi has recommended conducting the third trial in the Gisborne region, because they have existing and ongoing community relationships. This would be a significant advantage in rapidly implementing a successful trial.

28 We support the Waka Kotahi recommendation as it would allow a trial in a mixed city and rural region while also supporting the accelerated timeframe.

Steps need to be taken to protect the trials from risk.

29 Implementing this type of scheme carries many risks. These are both risks to implementation and risks of scheme misuse.

30 We recommend a multi-faceted approach to mitigate the major risk of scheme misuse. This approach draws on experiences from the Californian model, industry recommendations, and our analysis.

31 This approach, which is outlined in Table 4 below, relies on a combination of checks and balances, online safeguards, and strategic planning of the trial to support the intended April 2023 launch of trials. All proposed mitigations are grounded in our research but will require further investigation to assess appropriateness and effectiveness prior to implementation.

Table 4: Risks to Clean Car Upgrade Trial Scheme and Mitigation Options

| Risk to Scheme | Issue and Mitigation Option |
|--|---|
| Risks to Implementation | |
| Delayed IT system | <p>The IT system, which would integrate information from Inland Revenue Gateway, the RealMe identity confirmation system from Department of Internal Affairs, and applicants may not be ready for the trial launch. Because the trials are dependent on this integrated system, it is vital to have this operating on time. The proposed mitigations are:</p> <ul style="list-style-type: none"> • Identifying this work as a priority for Waka Kotahi • Including this issue in the June Cabinet Paper for decision-making will support its timely progress. |
| Scheme fails to attract low-income participants | <p>International research shows that Scrap-and-Replace or new vehicle purchase support programmes often attract disproportionately high participation by the wealthiest cohort of eligible participants, many of whom would have purchased similar vehicles without support. The proposed mitigations are:</p> <ul style="list-style-type: none"> • Limiting participation to low- and moderate-income households prevents high-income participants from accessing the trial. • Participant Advisors using their relationships to provide targeted outreach and support enhances participation by to low-income, Māori, Pasifika, and other communities that experience barriers to participating in government programmes. |
| Scheme exacerbates financial stress for participants | <p>Participants may choose to purchase a vehicle that requires them to take out market rate loans, and as a result, end up under worse financial stress. Our analysis (OC220340) shows that the degree of financial benefit would vary depending on the type of vehicle selected, and the size of loans. The proposed mitigations are:</p> <ul style="list-style-type: none"> • Participant Advisors aiding potential participants with assessing whether the trial scheme is best option for them. • Participant Advisors guiding potential participants to outside sources of budgeting advice⁴ |
| Participant Advisors engaging in the role of Financial Advisors. | <p>Participant Advisors may stray into the role of the Financial Advisor as defined by the Financial Services Legislation Amendment Act, potentially creating regulatory obligations. The proposed mitigations are:</p> <ul style="list-style-type: none"> • Waka Kotahi training Participant Advisors about these limitations and how to guide participants to outside sources of budgeting advice. • Providing Participant Advisors with worksheets or online tools to help them navigate these conversations |
| Elements of scheme may trigger compliance obligations under CCCFA or Fair Trade Act. | <p>Activities such as securities of over vehicles subject to a loan; use of debit cards may trigger requirements related to the Credit Contract Consumer Finance Act. Certain protection requirement may trigger the Fair Trade Act.</p> <ul style="list-style-type: none"> • Waka Kotahi intends to seek external legal review on this issue. • Further investigation is needed on how to avoid providing any guarantee or perception of guarantee against faults • Waka Kotahi's experience with these issues in the Clean Car Discount may provide useful insights. |
| A significant amount of commercial | <p>Contracts will be required for many parties in this scheme. These will require significant lead time and investment. The proposed mitigations are:</p> |

⁴ For example, the Citizens Advice Bureau's free and confidential services

| Risk to Scheme | Issue and Mitigation Option |
|---|---|
| contract work is required for this scheme. | <ul style="list-style-type: none"> Identifying this work as a priority for Waka Kotahi Addressing this issue in the June Cabinet Paper so work on this task can begin promptly. |
| Participants privacy rights may be violated. | <p>Sensitive information about participants income and identity may be shared inappropriately. The proposed mitigations are:</p> <ul style="list-style-type: none"> Use of the privacy protected IR Gateway system for income confirmation Careful management of personal information, including information sharing protocols between agencies that are consented by participants and the interface with IT systems. |
| Perceived and actual conflicts of interest | <p>Participant Advisors may be perceived to have or have conflicts of interest such as preferring some participants, vehicles, or delivery partners. Proposed mitigations are:</p> <ul style="list-style-type: none"> Careful selection of Participant Advisors, and definition of Participant Advisor role. Training Participant Advisors on conflict-of-interest issues Monitoring of Participant Advisors by Waka Kotahi |
| Vehicle supply issues | <p>Due the increased demand for high efficiency and EV vehicles in New Zealand and globally, enough vehicles may not be available. Proposed mitigations are:</p> <ul style="list-style-type: none"> Allowing high efficiency hybrid and petrol vehicles, for which MoT analysis project there is sufficient supply Allowing domestically sourced vehicles to qualify for the trial. |
| Recruitment and Training | <p>In a tight labour market, recruiting, training, and retaining qualified staff for the trail may be difficult. This is a particular concern for Participant Advisors. The proposed mitigations are:</p> <ul style="list-style-type: none"> Identifying this work as a priority for Waka Kotahi Exploring this issue and strategies to address it during community engagement prior to September Cabinet Paper |
| Risks of Scheme Misuse | |
| Inaccurate reporting of participants' income to qualify for scheme | <p>Participation in the scheme is limited to individuals or households at or below median income. Steps are needed to mitigate the risk of potential participants misreporting their income to qualify for the scheme. The proposed mitigation steps are:</p> <ul style="list-style-type: none"> Requiring participants to sign as statutory declaration of their household income and agreeing to their (and their household members) income being verified using Inland Revenue's Gateway services (OC21954 refers). <p>Development of the scheme's IT system and Gateway interface with Inland Revenue and Waka Kotahi.</p> |
| Participants on-sell their replacement vehicle or e-bike for profit | <p>Participants may rapidly on-sell to capture the support value ("flipping") a replacement vehicle or e-bike. The proposed mitigation option is:</p> <ul style="list-style-type: none"> Requiring participants to agree to a contract requiring two-year ownership of the replacement option or having to re-pay the value of support. <p>There is the risk the cost of monitoring potential sales and taking participants to court to enforce the contract is too costly to be a fully effective deterrent.</p> |

| Risk to Scheme | Issue and Mitigation Option |
|--|---|
| Access to scheme is unevenly applied | <p>One household (defined as two adults in a partnership and any underage children at a residence) may benefit from the scheme multiple times while others could not participate due to scheme budget limitations. The proposed mitigation is:</p> <ul style="list-style-type: none"> • Requiring each household may only participate in the scheme once. |
| Theft of scheme resources using false identities | <p>Individuals or criminal organisations may attempt to fraudulently access scheme resources through identity theft. The proposed mitigations are:</p> <ul style="list-style-type: none"> • Requiring applicants to use the RealMe identity verification system. • Development of the scheme's IT system to interface with Department of Internal Affairs' RealMe identity verification system. |
| Price gouging on alternative transportation options or replacement vehicle | <p>Delivery partners may attempt to capture part or all of the support by inflating prices for scheme participants. The proposed mitigations are:</p> <ul style="list-style-type: none"> • Delivery partners sign contracts requiring them to sell products at market rate and submit documentation and agreeing that they may be removed from scheme for violating controls. • Participants completing survey that includes what replacement they purchased, where and at what price. • Participant advisors monitor interactions between participants and delivery partners and alert Waka Kotahi to suspicious behaviour. • Auditing of records provided by delivery partners • Waka Kotahi compared reported prices to data submitted on similar sales in the Clean Car Discount programme. |
| Inappropriate spending of alternative transportation support | <p>Participants must spend their support at a limited number of providers and are restricted in types of purchase. They may try to avoid these restrictions. The proposed mitigations are:</p> <ul style="list-style-type: none"> • Providing support as restricted use debit card that limits their use to specific merchants (such as transit providers and stores approved by Waka Kotahi). • Requiring participants to sign a contract saying they will only use debit cards for approved purchases and to not share or sell debit card or having to re-pay the value of support. • Requiring delivery partners to check identification of participants and that replacement qualifies for the scheme <p>There is a risk that participants would use limited use debit cards at approved stores for unapproved purchases. The cost of monitoring sales and taking violators to court to enforce the contract is too costly to be an effective deterrent.</p> |
| Inappropriate vehicle being scrapped | <p>Participants may submit a different vehicle or a vehicle in worse condition for scrapping than described in the application. The proposed mitigation are:</p> <ul style="list-style-type: none"> • Waka Kotahi confirms vehicle is eligible through an online check and in person inspection prior to acceptance to the scheme. This information is recorded in the IT system. • Scrappers would use IT system to confirm vehicle identity and confirm in person the condition of vehicle before accepting and scrapping. |

32 A range of controls will limit many potential avenues for misuse. Annex 2 provides a list of controls we think are needed to support scheme integrity. Scheme misuse will be a topic of the trial evaluation and will be addressed in greater detail in a forthcoming briefing on trial scheme evaluation (July 2022).

Next steps

- 33 We are working to have decisions and funding in place to enable Waka Kotahi to promptly begin work to allow for trials to start by April 2023.
- 34 Following your direction on the proposed process for the trial scheme, the next key steps in implementing the trial scheme are outlined in the table below.

| Trial aspect | Timeframe |
|--|---------------------------|
| Cabinet Paper seeking agreement to the Clean Car Upgrade's key design aspects and approval to draw down part of the tagged contingency to progress the trial | By 30 June 2022 |
| Briefing on the design of the scheme's evaluation | By 31 July 2022 |
| Waka Kotahi conducts and reports on focus groups in participating communities on scheme trial design. | July – August 2022 |
| Waka Kotahi develops IT system and implementation structure for scheme trial | July – September 2022 |
| Cabinet Paper seeking approval of the scheme's process, additional risk mitigations and confirmation of the scheme's assistance levels and the role of the Participant Advisors. | By 30 September 2022 |
| Waka Kotahi implements and establishes trial with its delivery partners, and providers of low emission alternatives | September – December 2022 |
| Trial scheme in operation | April 2023 |

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Annex 1: Waka Kotahi feedback on the draft briefing and broader feedback on scheme design (shared with Waka Kotahi agreement)

BRI-2487 [MoT for Input] OC220416_Process design for the trial of the Clean Car Upgrade Scheme

31 May 2022

Te Manatu Waka the Ministry of Transport (MoT) is seeking input from Waka Kotahi NZ Transport Agency on the draft briefing OC220416: *Process design for the trial of the Clean Car Upgrade Scheme*.

The Clean Car Upgrade Scheme is the new name for the equity focused vehicle scrap and replace scheme and the social leasing scheme, signalled in the Emissions Reduction Plan (ERP) and funded through the Climate Emergency Response Fund (CERF).

Waka Kotahi has previously provided feedback on these equity-focused vehicle schemes:

- BRI-3741 Equity focused vehicle scrap and replace scheme – November 2021.
- BRI-2263 on OC210442: *Safeguarding equity in the decarbonisation of light vehicles* briefing; and via email following discussion on 1 September 2021
- BRI-2319: Terms of Reference for Clean and Safe Vehicles for All.
- BRI-2449 on OC220136: Financial assistance for the trial of the equity-oriented vehicle scrappage scheme.

Waka Kotahi was not invited to comment on relevant Ministerial briefings in May 2022 for *Early actions to progress the trial of the equity oriented vehicle scrappage scheme* (OC220282) and *Additional information requested in relation to the assistance for the trial vehicle scrappage scheme* (OC220340).

Waka Kotahi notes that it has been identified as the delivery agent for the vehicle scrappage component of the Clean Car Upgrade Scheme, and that a trial commencement date of April 2023 has been made public. This timeline is highly challenging. We consider a great deal more due diligence is required across a range of issues to determine (a) whether this timeline is achievable; and (b) to design and establish a trial that can usefully inform a larger scheme in future.

Part of this due diligence needs to include a robust assessment of scheme and trial legal and delivery risks, in addition to the selection of policy design and integrity risks included in the process paper (and previous papers). There are a substantial number of risks to participants, the delivery agent and delivery partners that need to be scoped and mitigations developed.

Waka Kotahi cannot fully participate in or lead aspects of this due diligence until we have a legal mandate and funding to do so. While providing advice and support to the Ministry for policy development is within our statutory functions, substantive design and delivery of the trial scheme is not. This will need to be addressed via a Ministerial direction. Because the work is not part of our statutory remit, National Land Transport Funds (NLTF) cannot be used for it. This means funding for any work Waka Kotahi undertakes to substantively design and implement the trial scheme needs to be provided promptly.

Key issues are set out in the next section of this document. Our summary view is that:

- We reiterate our core concerns that this very substantial investment is based on limited policy development for the Aotearoa New Zealand context. Our preference is for the approach to have been preceded by a robust feasibility study.
- A consolidated overview of the policy and trial design and intent is urgently required. The current policy and design elements are contained in multiple papers and briefings and there does not appear to be any singular source of the current state (i.e., fixed vs malleable policy settings, decisions and commitments made, decisions yet to be made, risks and mitigations).
- The Ministerial briefings need to focus on policy issues that design needs to address, and should avoid prematurely locking in detailed design elements and responses that are yet to be tested with partners and participants. This maximises flexibility, avoids locking in sub-optimal policy and design settings, and minimises the risk of the Minister having to revisit past decisions, particularly on quite detailed rules or requirements.
- Key information about participant needs, challenges and opportunities remain outstanding. We appreciate the intention to use focus groups soon to address this matter and flag this as an example of an activity that we cannot commence prior to funding being provided.
- Separation of the vehicle scrappage scheme from the social-leasing scheme is not ideal. We consider both schemes are best developed and established together, under the same governance and delivery arrangements, to avoid participant and delivery partner confusion and duplication, and leverage synergies.
- There are a substantial range of outstanding legal, financial, systems, privacy, contractual, partnering and commercial risks related to scheme design and delivery that need to be addressed before policy and trial design and establishment can be advanced.
- We suggest a series of risk management workshops is required to fully unpack and identify mitigations for risks related to policy and trial design, participants, the delivery agent and delivery partners and the evaluation process.
- Funding is required now for these risk management workshops and other due diligence activities, and for subsequent work to fully design and establish the trial. As the nominated delivery agent, Waka Kotahi cannot undertake substantive work until mandate is provided and funding is available.

Key issues and risks to address are outlined out below. We have also made comments in the draft process paper provided.

Provide a consolidated overview of policy/trial decisions

Waka Kotahi has commented on multiple papers for the equity-focused vehicle schemes. These canvas a range of issues associated with policy rationale and design, including the targeting mechanism, level of financial assistance, addressing issues of mis-use, and process design. The various papers contain some detailed design elements. We are unsure which of these elements are fixed or malleable and therefore subject to testing and refinement. We are also unsure of what has or has not been agreed with central government agencies that are needed for the trials (e.g. Inland Revenue ability to provide resource for the API in time for an April 2023 trial start date). We are unsure of the scheme objectives which appear to shift from paper to paper. Roles and responsibilities remain unclear – with the draft implementation plan being particularly inconsistent here (e.g. the evaluation task is variously for MoT, Waka Kotahi or an independent entity to lead).

Waka Kotahi strongly recommends that MoT provide a singular overview across currently fragmented policy elements contained in multiple papers and the draft implementation plan. It needs to include the

policy intent and objectives, agreed or fixed policy settings, policy settings that are malleable and subject to testing, commitments made or yet to be made (by agencies). The policy description in the draft implementation plan is an outline only and the implementation plan as a whole does not perform this function. Following completion of risk workshops (see below), this consolidated view should also record key risks and mitigations.

Avoid premature agreement of detailed design elements

Waka Kotahi is also concerned that detailed design elements are potentially being locked in ahead of testing. This risks unduly constraining future design and establishment decisions. Paragraphs 21-51 in the process paper (under the heading 'We consider seven key issues in trial design'), are an example. We are concerned about the merits of discussing and potentially agreeing design responses with the Minister, ahead of a full risk assessment.

Waka Kotahi also recommends that the policy focus for now should be on key issues that design needs to address and potential options for addressing them, rather than on detailed policy design responses.

Key risks to address

Waka Kotahi has seen limited exploration of risks for participants, the delivery agent, and delivery partners; and a 'lite' approach to policy design risks. This is not consistent with risk and assurance best practice and does not appear to be aligned with Treasury expectations of risk assessment for projects and programmes, particularly those that are high risk, high cost and novel in the New Zealand context.

Waka Kotahi is concerned that the proposal as outlined, and lacking a disciplined approach to risk and assurance, will result in significant risks being transferred to Waka Kotahi which it may not be able to mitigate. Examples of some key risks and issues are outlined below. This is not an exhaustive list. Risk workshops are required to fully identify and detail risks and mitigations.

We do not believe that all these matters can be pushed downstream and addressed as the trial progresses. These are substantive design and delivery matters that need to inform and shape the overall approach, before it is tested in the real world, and subsequently refined as appropriate.

Mandate and funding

Waka Kotahi mandate and funding to undertake substantive work required of the delivery agent is urgently required, as discussed above.

Financial

There are a range of financial risks to be addressed:

- Waka Kotahi has previously raised concerns (shared by IRD and MSD) that the potential need for participants to seek market loans to address the gap between the grant and the purchase price of an eligible vehicle may introduce or exacerbate financial stress for participants. Is the use of income as a proxy for ability to service debt an appropriate proxy in this context?
- Elements of the scheme may trigger compliance obligations related to provision of financial services, financial regulation and securities (i.e. related to potential for budget advice to be offered by Participant Advisors; securities over vehicles subject to a loan; use of debit or debt cards and

requirements related to the Credit Contracts and Consumer Finance Act). Waka Kotahi considers it will need external financial/securities legal advice.

- Roles and responsibilities for providing financial advice to participants need to be carefully worked through. Is this a role for Participant Advisors? If so, does this risk duplicating or confusing provision of financial advice and support from social agencies?

Consumer contract issues

Issues of replacement vehicle eligibility, replacement vehicle reliability and participant 'contracts' required to enter the scheme may raise issues of misrepresentation and onerous contracts related to consumer contracts and the Fair Trading Act (e.g. what are the risks for Waka Kotahi if participants incur debt for a vehicle deemed eligible, but which proves faulty or unreliable? Scheme design for determining eligible vehicles will need to avoid providing any guarantee or perception of guarantee against faults).

Commercial contracts and procurement issues

The scheme appears to rely on a large range of contracts being established with participants, vehicle suppliers, vehicle scrappers, potentially other delivery partners (e.g. central government agencies such as IRD; potentially central government financial support agencies), an IT system designer, and employment contracts for Participant Advisors. This substantial package of contracts will require a range of commercial and contractual matters to be thought through, including ensuring that the time and cost required to set these contracts up is correctly scoped.

Privacy

The targeted nature of the scheme requires careful management and protection of personal information, including information sharing protocols between agencies that are consented by participants and the interface with IT systems.

IT System

The process paper and draft implementation plan correctly identify the need for an IT system that can integrate information from different agencies, protect private and commercial information, and track the progress of participants and vehicles through the six stages of the scheme. It is unlikely that current systems can be adapted for this functionality, which is more complex than the system requirements for the Clean Car Discount. We envisage a bespoke manual system will need to be developed for the trial.

Conflicts of interest

Perceived and actual conflicts of interest may need to be addressed. Participant Advisors will need to be carefully selected and their role clearly defined. There are risks related to preferring some participants over others; favouring some vehicles more than others; favouring some vehicle suppliers or scrappers over others; favouring some financial service providers over others. The whole selection process for delivery partners will need to address these issues as well.

Vehicle industry risks

There are range of vehicle industry risks that need to be fully scoped. Some, but not all have been captured in papers seen to date. Examples include:

- Risks of scheme misuse by participants (double-dipping; buying vehicles to scrap; on-selling), vehicle suppliers (inflating costs, vehicle quality/batter life misrepresentation) and scrappers (flipping engines and vehicles, harvesting parts to put unsafe and high emitting vehicles back on the road etc)
- Vehicle supply; longevity issues with batteries
- Potential for market price distortion.

Role clarity

The scheme relies on integrated or seamless interactions between multiple entities, including Waka Kotahi, other central government agencies (including MoT's monitoring role), vehicle suppliers, vehicle scrappers, Participant Advisors and participants. The different roles and where they start and stop, needs to be fully explored and built into the scheme design and contracts. For example it is unclear how vehicle dealers would confirm the identity of participants (paragraph 50 in the process paper).

Simplicity and integrity

The stages of the process, the number of participant and vehicle eligibility tests, the range of criteria or rules that might apply, and the number of entities and participants engaging in the scheme is a recipe for complexity. A balance needs to be struck between simplicity and scheme integrity, particularly for trial purposes. We consider it may be useful to identify design principles to get the 'pitch' right, e.g. decisions are based on objective criteria or standards and individual judgement is minimised – this will impact on the 'rules' of the scheme. We also suggest that the design and implementation of the trial focus on core practical functions required to establish the trial (systems, people, process), with other matters fully addressed for any future roll-out.

Workforce

A range of skills and subject matter experts will need to be engaged on the design and delivery of the scheme. These include Participant Advisors, project managers, social enterprise and community engagement specialists. Recruitment and training risks are high in a tight labour market.

It is unclear whether Participant Advisors are intended to be Waka Kotahi staff. Position descriptions, contracts and training for a potentially wide range of capabilities, systems, processes and core product information will be required. Sourcing the expertise to devise and deliver the training will likely need to include third parties since some capabilities are outside the current remit of Waka Kotahi (e.g. financial or budget advice).

We also note we do not have staff with capacity to determine vehicle eligibility (for entry to the scheme or for scrappage) and that this gap will need to be addressed.

Quantum of criteria, legal challenge or clarity issues and compliance

The six stage process and some of the issues related to trial design contain a range of criteria required at different stages to confirm eligibility and/or ethical behaviour (participants, vehicles, vehicles to be scrapped, vehicle suppliers and vehicle scrappers). Our experience with the Clean Car Programme is that ideally core criteria are set out in regulations to minimise the risk of legal challenge

or confusion which may hamper the trial. Drafting disciplines for regulations provide the opportunity to maximise clarity for participants and observers and a sunset clause could be deployed for trial purposes.

Next steps

We suggest that risk workshops be organised between Waka Kotahi and MoT so that the matters outlined above can be fully explored, assessed and mitigations discussed. We are happy to have our Risk and Assurance Team lead these workshops.

We also seek an assurance that MoT will fast-track the release of funding to Waka Kotahi so that work can commence promptly.

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Annex 2: Controls needed to reduce scheme misuse:

- Requiring applicants to sign a statutory declaration confirming the truthfulness of their application could reduce the likelihood of fraudulent applications.
- A two-year ownership or registration requirement on scrapped vehicles could prevent people purchasing a cheap used vehicle for the purpose of participating in the scheme.
- A quality requirement on replacement vehicles could prevent auto dealers from providing inadequate vehicles to participants.
- A basic functionality test requirement for scrapped vehicles combined with a recent Warrant of Fitness and vehicle licence requirement could reduce the risk of accepting an end-of-life vehicle that would be scrapped outside of the programme.
- Eligibility requirements for vehicle dealers and scrappers could reduce the risk of attracting participants inclined to fraudulent behaviour.
- A positive obligation in contracts with delivery partners (such as vehicle and e-bike dealers) could require delivery partners to not inflate the price products sold in the programme above standard commercial rates and provide a means of removing delivery partners who fail to comply with these controls. This could also require providing data necessary for trial scheme evaluation.
- Documentation controls for scrappers could require evidence that the correct vehicle had been scrapped and scrapped appropriately (e.g., engine disabled), as well as data necessary to evaluate the trial scheme. A contract to this effect could also provide a means of removing scrappers who do not comply with these controls. This could also require providing data necessary for trial scheme evaluation.
- Scrapped vehicles could be required have to have no loans listed on the PPSR to avoid submission of vehicles participants do not have the legal right to scrap.