

17 August 2021

OC210517

Hon Michael Wood
Minister of Transport**Action required by:**
Wednesday, 1 September 2021

CABINET PAPER SEEKING AGREEMENT TO RELEASE A DISCUSSION DOCUMENT ON REFORMS TO THE ROAD USER CHARGES SYSTEM

Purpose

1. To provide you with advice on the attached discussion document 'Driving Change: Reviewing the Road User Charges system' and to seek your agreement to sign the attached Cabinet Paper requesting Cabinet's agreement to release the discussion document.

Key points

- In March 2021, you agreed that the Ministry should prepare a discussion document to consult on potential changes to the Road User Charges (RUC) system [OC201018 and OC210080 refer] to address a wide range of potential reforms to the RUC system, including proposals to enable the RUC system to be used to promote the uptake of low carbon fuel vehicles, and a range of amendments to improve the operation of RUC.
- The discussion document is now ready for you to undertake consultation with your caucus colleagues, prior to seeking Cabinet's agreement that it be released for consultation. As you or your colleagues may yet wish to make changes, the attached version is draft. We will provide you with a professionally formatted version, prior to its submission to Cabinet.
- We propose that the discussion document is launched at (or before) the Road Transport Forum's Conference where you are speaking on 25 September 2021. The conference participants will be among the most affected by the issues covered in the discussion document.
- To have Cabinet's agreement for the discussion document's release before 25 September 2021, the paper would need to be considered by Cabinet's Environment Committee (ENV) on 9 September 2021, with the paper lodged by 2 September 2021. This limits the time for discussion with your caucus colleagues. Alternatively, your speech at the Road Transport Forum Conference can cover the general topics already in the public domain. You can also seek agreement from ENV to discuss the content in advance of its formal release.

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- This is the largest package of potential amendments to the RUC Act to be considered since the current Act was passed in 2012. As a result, the document is lengthy, covers a wide range of topics, and covers complex technical matters.
- We are still at an early stage of policy development so the document does not focus on specific proposals or solutions (such as dates for exemptions) and its questions are deliberately open-ended. Separate consultation would follow on specifics relating to the implementation of the policies once the scope of new enabling provisions is determined.
- As well as inviting written submissions, we intend to work with Waka Kotahi NZ Transport Agency and other agencies to hold stakeholder engagement workshops around New Zealand to better understand the various problems and develop solutions.
- Following consultation, some amendments could be made by regulations under existing provisions, but most would require amendments to the RUC Act before they could be implemented. We intend to provide advice to you on the package of proposed amendments for submission to Cabinet by mid-2022.
- Since we provided you with the briefings in March 2021, several additional policy issues have emerged that, subject to your agreement, we propose to include in the discussion document for wider consultation. These matters are:
 - whether electric motorbikes and very light electric vehicles should pay RUC once the light electric vehicle (EV) RUC exemption ends
 - whether electronic RUC should be made compulsory for all heavy vehicles
 - whether the Warrant of Fitness and Certificate of Fitness inspection processes should include looking for evidence of tampering with odometers
 - whether the level of accuracy required for a distance recorder should be set in law
 - how the RUC compliance regime can be updated
 - exempting vehicles from paying RUC if they are only travelling for Certificate of Fitness purposes
 - addressing how certain seven and eight axle trucks are charged RUC. This has been carried over, following the decision not to consult on this issue as part of extending the light EV RUC exemption.
- We expect elements of the package, especially those relating to incentivising low carbon fuels, and potentially around removal of paper labels, will have a high degree of public interest. However, many of the changes are quite technical and only of interest to affected groups. Most of the changes to improve the workability of the RUC system are likely to have general support as they should reduce costs. One of the key purposes of the document is to assess the level of support and better understand their costs and benefits before recommending legislative changes.

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- We will prepare a package of communication materials to support the release of the document.

Recommendations

We recommend you:

- 1 **note** that following your agreement to its scope in March 2021 [OC201018 and OC210080 refer] we have worked with Waka Kotahi NZ Transport Agency and other stakeholders to prepare the attached discussion document on changes to the Road User Charges (RUC) system
- 2 **agree** that you wish to sign the preface Yes/No
- 3 **advise** if there are any changes you would like to make to the preface Yes/No
- 4 **agree** to the inclusion of the following additional items in the discussion document for public consultation:
 - 4.1 whether electric motorbikes should pay RUC once the light EV RUC exemption ends, as the current legislation requires that they should Yes/No
 - 4.2 whether electronic RUC should be made compulsory for all heavy vehicles Yes/No
 - 4.3 whether tampering with odometers should be inspected for as part of the Warrant or Certificate of Fitness (WoF/CoF) inspection process in order to reduce the risks of tampering Yes/No
 - 4.4 whether the level of accuracy required for a distance recorder should be set in law Yes/No
 - 4.5 whether we review how offences against RUC legislation are treated Yes/No
 - 4.1 whether to exempt vehicles from paying RUC if they are only travelling for CoF purposes Yes/No
 - 4.2 addressing how certain seven and eight axle trucks are charged RUC. This has been carried over following the decision not to carry out consultation on this issue as part of extending the light EV RUC exemption Yes/No
- 5 **agree** to forward the attached Cabinet paper and draft discussion document for caucus consultation Yes/No
- 6 **note** that if you wish to announce the release the discussion document at the Road Transport Forum's conference on 25 September 2021, then the Cabinet Paper and discussion document will need to be considered by the Cabinet Environment Committee (ENV) on 9 September 2021

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- 7 **note** that we will continue to format and edit the discussion document to prepare it for publication and will provide a near final version to your office prior to submission of the paper to Cabinet
- 8 **agree** that because it is not known how long it will take to resolve some of the policy issues, the Cabinet paper does not need to provide a specific report back date to Cabinet on the results of consultation

Yes/No

Withheld to protect personal privacy.

Ma 
Manager, Demand Management and Revenue
 ..17/08/2021

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
Marian Willberg, Manager, Demand Management and Revenue		
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Withheld to protect personal privacy.

CABINET PAPER SEEKING AGREEMENT TO RELEASE A DISCUSSION DOCUMENT ON REFORMS TO THE ROAD USER CHARGES SYSTEM

Background

1. In March 2021, we provided you with two briefings on potential amendments to the Road User Charges (RUC) system [OC201018 and OC210080 refer]. You agreed to progress the extension of the light Electric Vehicle (EV) RUC exemption and some minor technical matters immediately and then consult on the remaining issues through a discussion document. Cabinet has since agreed to the extension to the light EV RUC exemption [ENV-21-MIN-0036 refers]
2. We now seek your agreement to forward the attached discussion document to Cabinet for its agreement to release the document for consultation.

The discussion document covers three broad areas

3. The discussion document covers:
 - 3.1. whether to amend the RUC legislation to enable RUC to be used as a tool to support the uptake of low carbon fuels. It also asks whether it should be possible to consider other costs, such as air pollution or congestion when setting RUC rates.
 - 3.2. whether to make a range of possible changes to improve the workability of the RUC system, aimed at simplifying it for end users and reducing compliance costs. This includes a section on whether to limit the RUC exemption for light electric vehicles based on distance travelled as requested by Cabinet.
 - 3.3. whether to make a range of possible changes to improve Waka Kotahi NZ Transport Agency (Waka Kotahi) and NZ Police's ability to administer and enforce the RUC system.

There is mixed support from departments for the proposals being consulted on

4. We have worked directly with Waka Kotahi and consulted with other departments to prepare the attached discussion document. There is general support from departments for the proposals.
5. Treasury has indicated it does not support consultation proceeding on the idea of using RUC as a tool to support the uptake of low carbon fuels. We understand that in its view the emissions trading scheme is the primary tool for addressing carbon emissions in the transport sector. We note that the document acknowledges the important role of the ETS, but argues that a wide range of tools will be needed to reduce carbon emissions equitably.

You could release the document at the Road Transport Forum Conference on 25 September 2021

6. You have agreed to speak at the Road Transport Forum's conference on 25 September 2021. As its members are the key stakeholders for the policies being proposed, the conference provides a useful opportunity to release the document. The Ministry has also agreed to speak to the conference at a separate session the next day about the discussion document. Cabinet's agreement to release the document would be required by that date.
7. When Cabinet's Environment Committee (ENV) considered the paper on extending the light EV RUC exemption in July 2021, it invited you to report back to it with the discussion document prior to its release. ENV meets fortnightly. Papers for ENV on 9 September 2021 would need to be lodged by 2 September 2021. Meeting this deadline would limit your opportunity to consult with your caucus colleagues. The following ENV meeting date is 23 September meaning Cabinet would not be able to consider the paper until after the Conference, limiting what you will be able to say at the time.
8. If it is not appropriate or possible to meet the 2 September lodging deadline for ENV on 9 September, you could still speak at the Conference about broad areas of change that are already in the public domain and then release the discussion document formally at a later date. We have included text in the Cabinet paper in anticipation of this being required.
9. You could also choose to submit the paper for consideration by ENV on 23 September 2021 (lodgement on 16 September 2021) and seek ENV's agreement to publicly discuss the contents of the document, in advance of Cabinet's consideration (on 27 September 2021).
10. We will provide you with speaking notes and related material for the discussion document release closer to the time of the launch.
11. Once the discussion document is released publicly, we are planning a series of meetings in partnership with Waka Kotahi around New Zealand to work with stakeholders to consult and develop solutions to the issues presented.

The discussion document has not been formatted for publication

12. We have prepared a preface under your name. Please advise us if you do not wish to be the author of the preface and we will ask Peter Mersi, as Chief Executive of the Ministry of Transport to sign it instead. If you would like any changes to the preface these can be incorporated before we provide the version for Cabinet to consider.
13. Once you have advised us whether you agree to the preface and the additional items now included in the discussion document (see below), we will format the document to a professional standard. We propose that your Office uses the attached unformatted version for consultation with your caucus colleagues. We will provide a near final formatted version to your office before it is lodged with ENV for consideration.
14. The attached Cabinet paper also contains a recommendation to enable us to make any final editorial of formatting changes to the discussion document before its release.

We expect most of the proposals in the document to be received positively and for consultation to take around six months

15. This package of amendments is the largest suite of changes to the RUC Act to be proposed since the current Act was put in place in 2012. The document does not propose specific amendments to legislation and in many cases, it does not have a preferred option. It is intended, instead, to gather information and feedback that will help prepare a final package of amendments.
16. The potential changes to enable RUC rates to include matters such as climate policy or wider environmental costs are likely to be of the widest public interest and receive the strongest reactions. Some of this reaction could be negative, especially if people consider the proposals will lead to reduced transport spending on roads, or increased costs for them. As we advised in February, the Road Transport Forum and similar organisations may not support changes that move away from using vehicle weight and axle number as the primary variable to determine the costs of RUC.
17. We would note that most of the proposals are intended to reduce costs, make compliance simpler, and ensure that RUC can be collected fairly.
18. We expect the more technical changes to receive a generally favourable reaction from stakeholders.
19. Some of the technical issues being consulted on are complex and we do not know how long it will take to develop workable solutions. For this reason, we propose to not provide a definite date for reporting back to Cabinet. We think it is more important to develop workable solutions than to meet an arbitrary deadline
20. Once consultation is complete, we expect there to be several packages of legislative changes. Some of the potential changes, such as those relating to RUC rates for seven and eight axle trucks, and the removal of the requirements for paper RUC licences, can be made under existing legislation. These changes can be made relatively quickly after consultation on the discussion document is complete. We would ask Cabinet to agree to make these regulations, using normal processes, when we report back in 2022.
21. Most other changes will only be able to be made, if they proceed, once a new amendment Act is in place. This is likely to be in 2023 or 2024. [REDACTED]
[REDACTED]
[REDACTED]
22. We expect that the new legislation would provide enabling powers and the actual policies, for example revised exemption end dates for heavy EVs, or exempting hydrogen powered vehicles from RUC, would be implemented through new regulations. While it may be possible to develop the new regulations in parallel to developing the RUC Amendment Act, the exact process and timing will need to be determined at the time. Withheld to protect confidential advice to government.
23. A Gantt chart showing the indicative timing of the expected legislative changes is attached as Annex 1.

The discussion document includes additional areas for consultation

24. The content of the discussion document reflects the decisions you made in March 2021. However, various issues have arisen as part of developing the document that we consider are appropriate to also consult on as part of this package. These new

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policy proposals are discussed further below. The matters are relatively minor and generally relate to the potential changes to the operation of the RUC system.

25. Waka Kotahi has also reassessed the package of measures it had proposed to assist with its administration of the RUC Act and determined that some of those changes originally proposed in March are not required. These have been removed.
26. We had originally intended to consult on how seven and eight axle trucks are charged RUC at the same time as consultation on the light EV RUC exemption, but public consultation did not occur on that issue. The matter has been included in this discussion document using the text developed at that time.

We are asking for agreement to include the following additional minor matters in the discussion document

27. The additional matters that we are seeking your agreement to include for discussion are:

Whether electric motorbikes and very light electric vehicles should pay RUC once the light EV RUC exemption ends

28. In principle all motor vehicles that use the road network should pay to use it, and this includes lighter vehicles such as electric motorbikes, electric mopeds and also light four-wheeled vehicles such as farm quadbikes and all terrain vehicles (ATVs) that may be registered for road use. Until recently, most of these types of vehicle were petrol powered and so paid fuel excise duty. We estimate that collectively there are around 210,000 of these types of vehicles registered and they contribute around \$14 million in fuel excise duty.
29. Electric (and in some cases, diesel) versions of these lightweight vehicles are becoming increasingly common and their owners should pay RUC under the definition of RUC vehicle in the RUC Act. The Act does not set a lower limit below which RUC is not required. We propose to consult on whether these types of vehicles should be exempted permanently, if they should pay RUC, most likely at a lower rate, or pay an additional amount as part of the vehicle licence fee.

Whether electronic RUC should be made compulsory for all heavy vehicles

30. The 2012 amendments to the RUC Act established in law a scheme to enable payment of RUC electronically (eRUC). This has been highly successful, with around half of all RUC for heavy vehicles collected through this tool. However, usage is skewed to larger vehicles and larger fleets and many smaller firms do not use it. This is largely because the costs of the fully commercial services cannot be justified for the level of benefit a small company might receive.
31. There are advantages from reduced compliance costs to both the customer and Waka Kotahi to have RUC collected electronically and automatically, rather than manually. We propose to consult on whether making eRUC mandatory should be considered. If this did proceed it would almost certainly require development of a lower cost form of eRUC and this would need to be established in legislation first.
32. We propose to only seek feedback on the question of whether eRUC should be made compulsory for heavy vehicles. The text in the discussion document makes it explicit that the proposal does not relate to mandating eRUC for light diesel or other light vehicles, or to moving petrol vehicles to RUC. However, the feedback would be useful

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if there were plans for wider deployment of RUC, as the technical and privacy issues would be broadly similar.

33. There is an overlap between the deployment of mandatory eRUC and the Road to Zero Action to “review logbook and work-time requirements under the Land Transport Act 1998”. This Action includes a discussion of mandating electronic logbooks to record driving hours for commercial vehicle operators. It is likely that the technology required for electronic logbooks (if these were to be recommended) would also be expected to work as an eRUC system. Both require knowing the location of the vehicle and the distance travelled. At present the RUC Act explicitly prevents the use of eRUC data for use in enforcement of logbook offences. This was done to encourage the uptake of eRUC. We would ensure that the review of logbooks under Road to Zero and the proposal for mandatory use of eRUC under the RUC Act are aligned on these matters as far as possible.
34. In our consultation with departments, NZ Police has advised that it would prefer to consult on the ability for it to use eRUC data for logbook offences. We think this issue is best dealt with as part of the Road to Zero Action, but we have included a general question in the attached discussion document on whether eRUC data should be able to be used for enforcement.

Whether the Warrant or Certificate of Inspection process should include looking for evidence of tampering with odometers

35. It is illegal under both the RUC Act and the Land Transport Act 1998 to tamper with a distance recording device in a motor vehicle.
36. Given that we expect RUC to become more important in coming years it is sensible to consider how compliance can be improved. We therefore propose to consult on whether the Warrant and Certificate of Fitness (WoF/CoF) inspection processes should be altered to look for any evidence of tampering.
37. This would be a major shift in focus for the WoF/CoF inspection, as tampering with a distance recording device is not safety related. It may also incur new costs to the inspection organisations especially if digital scan tools had to be used to carry out the inspection. We would also need to determine what type of inspection was required, its degree of intrusiveness (a simple glance at the odometer housing or a detailed physical inspection) and whether there would be a legal penalty if odometer tampering was detected (with other safety inspection faults the vehicle only has to be repaired).

Whether the level of accuracy required for a distance recorder should be set in law

38. The RUC Act requires that a vehicle have an accurate distance recorder (either the vehicle’s own odometer or an external hubodometer for heavy vehicles). However, there are no New Zealand or international standards to determine what is ‘accurate’ for distance measurements. Again, given the likely increased importance of RUC it is sensible to consult on whether ‘accurate’ should be defined in legislation.

Whether to exempt vehicles only travelling for Certificate of Fitness purposes from RUC

39. It is proposed to exempt vehicles from RUC that are almost entirely used off road and are only travelling on a public road for CoF or maintenance purposes. Such vehicles are usually agricultural equipment that is driven short distances on public roads between tasks, but where RUC does not need to be paid. Presently, these vehicles are

required to purchase RUC licences and then claim back the distance not used for travel on roads.

40. We propose to consult on whether it would be sensible to waive the requirement for RUC entirely for these specific vehicles.

Whether future RUC exemptions should be limited by distance, rather than by time

41. In July 2021, as part of Cabinet decision agreeing to extend the light EV RUC exemption, you were invited to report back to ENV later in 2021 to consult on options for limiting the RUC exemption for light EVs based on distance travelled [ENV-21-MIN-0036 refers].
42. We have included a new section to seek feedback on alternative ways to administer EV RUC exemptions.

How we can we assist new RUC payers to commence paying RUC

43. When the light EV exemption ends on 31 March 2024 EV owners will need to commence paying RUC. RUC licences are purchased for a fixed minimum distance to another fixed maximum distance. To calculate when the licence expires it is necessary to know the distance from which the licence starts.



The initial odometer reading is usually recorded by a Waka Kotahi agent as part of the official process of registering the vehicle. However, for EVs, we will need to know the initial distance for vehicles that are already in use. Waka Kotahi will need a way of accurately recording the initial odometer reading for the first purchase of RUC on, or before, the day the exemption ends.

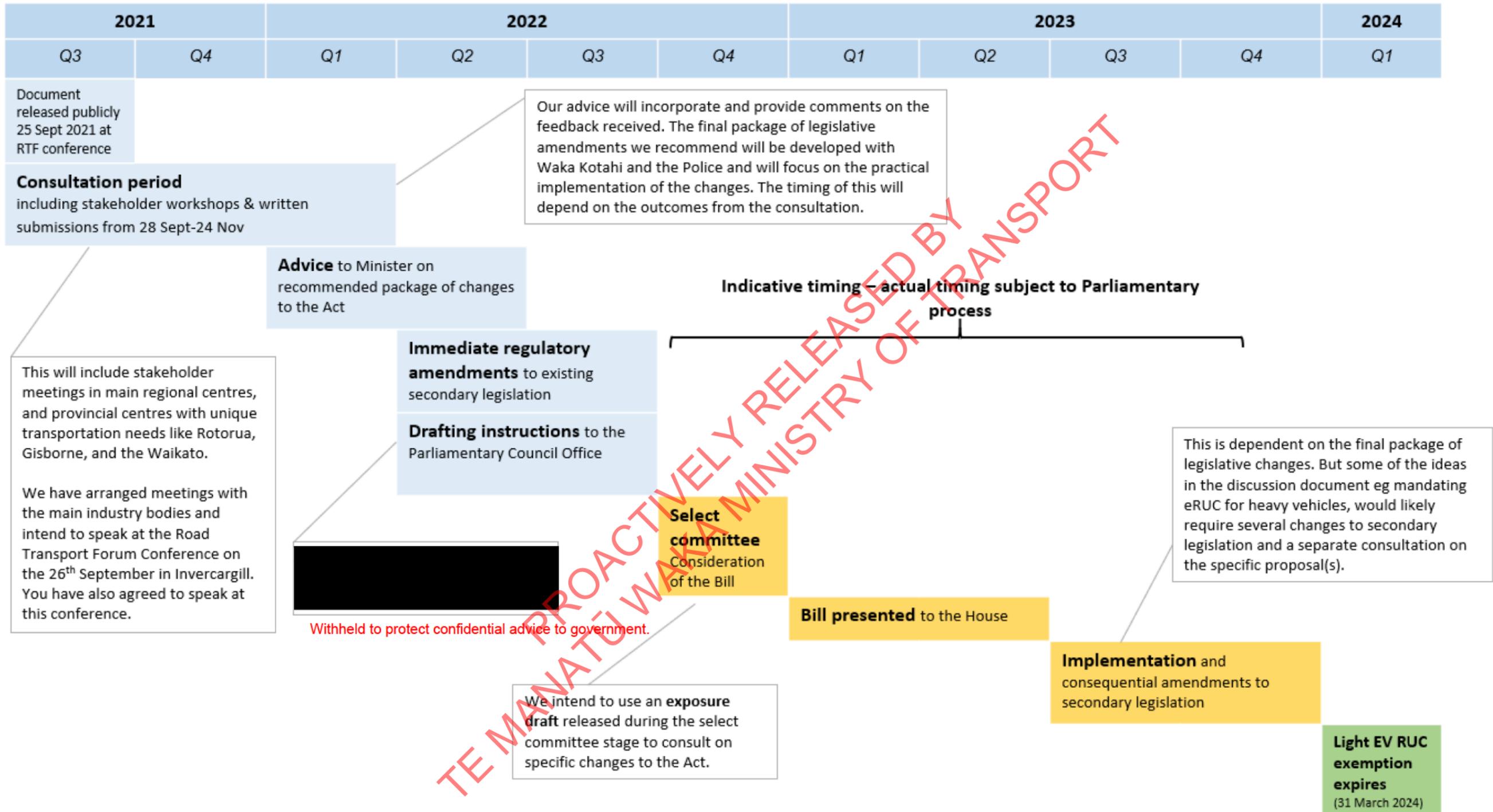
44. We are seeking feedback on whether any changes to legislation or special processes will be needed to manage the transition for vehicles that are already in our fleet to paying RUC.

Whether to amend the RUC Act's compliance regime

45. In administering the RUC system, Waka Kotahi has identified several issues with the compliance regime which, accompanied by the changing customer base we expect, has prompted us to consider potential changes. Our aim is that there are appropriate and proportionate incentives to make the compliance regime more effective. To address this, we have added two sections with questions focusing on:

- 45.1. whether the infringements and fines are set at an appropriate amount for a range of offences; and
- 45.2. potential amendments to the non-payment regime.

Annex 1: Indicative timeline for RUC Discussion Document consultation and legislative changes



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