

Proactive Release

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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)

In Confidence

Office of the Minister of Transport

Chair, Cabinet Environment, Energy and Climate Committee

Trial of the Clean Car Upgrade

Proposal

1. This paper seeks agreement to the key design aspects of the Clean Car Upgrade (the Upgrade) and approval to drawdown part of the tagged contingency to progress its trial. The trial and its evaluation will inform the final design of any subsequent expansion of the Upgrade.

Relation to government priorities

2. On 9 May 2022 the Government announced New Zealand's first three greenhouse gas emissions budgets that set out the total amount of emissions New Zealand must cut over the next 14 years. This was followed, on 16 May 2022, by the release of the first Emissions Reduction Plan (ERP) that outlines how the emissions budgets will be achieved.
3. In transport, the ERP sets three focus areas and four targets to reduce transport emissions by 41 percent by 2035. Of these, the targets relevant to this paper are to:
 - 3.1. reduce total vehicle kilometres travelled by the light (vehicle) fleet by 20 percent by 2035 through improved urban form and providing better travel options, particularly in our largest cities
 - 3.2. increase zero-emission vehicles to 30 percent of the light fleet by 2035.
4. The ERP also reaffirms the Government's commitment to ensure an equitable transition to a low-emissions economy. An equitable transition is one where the opportunities to decarbonise work for everyone so our transition is just, fair and inclusive for all New Zealanders.

Executive Summary

5. The Upgrade is being established to help achieve an equitable transition to low-emission vehicles and low-emission transport alternatives. It will help make cleaner vehicles and alternatives affordable for low- and moderate-income households. It responds to the problem identified by the Productivity Commission that low-income New Zealanders risk being locked-in to high-emission vehicles because they are less able to afford to switch to low-emission vehicles, or because they live in areas poorly served by public transport.
6. Having a significant proportion of New Zealanders effectively locked-in to owning high-emission vehicles risks widening social and economic disparities. This is because over this decade some decarbonisation policies, such as the Emissions Trading Scheme, will increase vehicle running costs for those who do not move away from high emission vehicles, and lower costs for those who do.
7. Already New Zealanders who can afford to switch to electric vehicles (EVs) make significant savings in vehicle running costs. Charging an EV at home, during off-peak hours, is the equivalent to buying petrol at around 40 cents per litre.

8. The Upgrade is based on California's successful Clean Cars 4-All programmes. The latest annual report for these programmes states that 96 percent of survey respondents indicate that they are spending less money on fuel and the savings have helped "keep food on the table and a roof over their heads". Like those programmes, the Clean Car Upgrade will use a vehicle scrap and replace scheme to target financial assistance to low- and moderate-income New Zealanders. With the Upgrade, participants will be supported to scrap their high emitting unsafe vehicles and replace them with low-emissions transport, such as low-emission vehicles, e-bikes and public transport.
9. As well as helping to create an equitable transition, the Upgrade will have the co-benefits of emission reductions and improvements in vehicle safety. It will also raise public awareness of the type of transport changes all New Zealanders need to make as part of New Zealand's contribution to limiting climate change.
10. In Budget 2022 contingency funding was provided to implement a vehicle scrap and replace scheme (now referred to as the Clean Car Upgrade). The drawdown of the contingency is subject to Cabinet's satisfaction with further work to confirm the design, location and delivery model of the scheme. The proposals in this paper address this further work. On this basis I seek Cabinet's agreement to drawdown the contingency and establish new appropriations to allow the trial of the Upgrade to proceed.
11. The key proposals include:
- targeting the Upgrade through income thresholds pegged to the adult annual median wage¹ for single vehicle owners, and to the median annual household income for vehicle owners living with their partners. Both thresholds would increase by \$10,517 for each dependant child²
 - accepting a vehicle for scrapping if it is drivable and has: emissions higher than the fleet average or is a pre-2000 vehicle, a current or recently expired warrant of fitness and annual vehicle licence, and a safety star-rating of 2-or-less stars. The trial will test whether these criteria maximise the Upgrade's contribution to emission reductions and improvements in vehicle safety
 - giving participants replacement options that include safe low-emission vehicles and low emission alternatives, such as, e-bikes, public transport and social vehicle leasing
 - encouraging mode-shift by offering people the same level of financial assistance for opting for low-emission alternatives, as for an EV. This would enable households to meet their transport needs through, for example, purchasing a couple of e-bikes and using the remainder of their assistance for public transport
 - seeking in principle agreement to the scheme's financial assistance being grants set at 1.4 times the Clean Car Discount's rebates for new vehicles. Waka Kotahi will stress-test whether the resultant assistance levels are sufficient before Cabinet takes final decisions on the grants for the trial Upgrade in November 2022. Waka Kotahi will also test the desirability of letting people mix and match assistance and having participant advisors

¹ Based on June 2021 data from the Household Labour Force Survey this threshold would be \$56,836.

² This amount is based on the adjustment that is made for family size in applications for the Community Services Card.

- basing the trial in Auckland, Christchurch and Gisborne. These locations will allow the Upgrade to be tested in a variety of settings. The trial will commence in April 2023 in at least one of the three locations. The trials will be open to people who live in one of the trial locations, meet the income requirements and have an eligible vehicle to be scrapped
 - noting that Waka Kotahi will be the delivery agency responsible for the implementation of the Upgrade.
12. I will seek Cabinet's agreement in November 2022 to the remaining design issues for the Upgrade. These are the Upgrade's process for scrapping and replacing a vehicle, additional mitigations to prevent misuse of the scheme, and the framework for the trial's evaluation. At this time, I will also seek Ministers' final decisions on the trial design aspects in this paper that I have sought in principle agreement on.

Background

13. The transport chapter of the ERP includes implementing an equity-oriented vehicle scrap and replace scheme to make cleaner vehicles and low-emissions alternatives affordable for low-income households. To progress this action, contingency funding was provided in Budget 2022 to implement the Upgrade. This contingency tags \$31.812 million over 2022/23 and 2023/24 to trial the scheme, and \$536.95 million over 2024/25 and 2025/26 for its subsequent expansion should the trial be successful in achieving its objectives. In approving this contingency Cabinet also:
- 13.1. invited the Minister of Transport to report back to Cabinet by September 2022 on the outcome of further work to confirm the design, location and delivery model for the scheme
 - 13.2. agreed that the drawdown of the contingency requires Cabinet approval (establishing any new appropriations as necessary), subject to Cabinet's satisfaction with the further work described in the recommendation above.
14. This paper is the report back referred to in paragraph 13.1 above.

Equity policies are needed to complement decarbonisation policies in transport

15. Transport is responsible for 38 percent of New Zealand's CO₂ emissions, and approximately 17 percent of its total greenhouse gas emissions. Consequently, transport largely needs to decarbonise if New Zealand is to achieve its 2050 net zero-carbon target. However, decarbonisation will slow, or stall, unless all New Zealanders can access low-emission transport.
16. The Productivity Commission and the Climate Change Commission both advised the Government of the significant risk that low-income households may be excluded from the shift to low-emission transport and the tangible financial benefits that result. This is because quality low-emission vehicles cost more to buy than the average internal combustion vehicle, even with the Clean Car Discount. It also reflects that many New Zealanders live in areas poorly served by public transport.
17. In July 2021 the average price paid for a used-imported 2013 Nissan Leaf (EV) was \$14,370, while the average used 2013 Mitsubishi Outlander PHEV (plug-in hybrid electric vehicle) sold for \$25,737. These averages compare with the average amount spent for a used-hatchback purchased via Trade Me of \$8,388, and an average of \$10,944 for a SUV.
18. The cost barrier of low-emission vehicles coupled with the lack of accessible alternatives, risks low-income households being locked-into owning high-emission vehicles. Over this decade some decarbonisation policies, such as the Emissions Trading Scheme, will increase vehicle running costs for those who do not move away from high emission vehicles. This is expected to

disproportionately increase living-costs for low-income households who are heavily reliant on car travel.

19. For low-income New Zealanders already susceptible to transport disadvantage and transport poverty, having to spend an even greater share of their income on transport will reduce the amount available for other essentials critical to wellbeing. Already, low-income households are spending, on average, 28 percent of their income on transport. This compares to 8 percent for high income households.
20. In the absence of a focus on equity, decarbonisation policies in transport risk contributing to a widening of economic and social disparities.

The key design aspects of the Clean Car Upgrade

The objectives of the Clean Car Upgrade

21. To help achieve an equitable transition, the Upgrade will target assistance to make the shift to low-emission transport possible for low- and moderate-income households. To guide its implementation, I propose the Upgrade be established with the specific objectives of helping to:
 - 21.1. reduce financial pressure for low-income New Zealanders by assisting them to replace a fuel-heavy fossil vehicle with low emission transport
 - 21.2. enable low-income New Zealanders to be part of, and benefit from, the transition to net-zero emissions, rather than bearing a disproportionate share of the costs of decarbonisation policies
 - 21.3. accelerate emission reductions through the earlier retirement of high-emitting vehicles and replacement by either low-emission ones, or low-emission alternatives
 - 21.4. improve vehicle safety by removing 2-or-less-star safety rated vehicles from the vehicle fleet earlier, and replacing them with vehicles with 3-stars or more
22. The first two objectives are the Upgrade's primary ones as it is an equity measure. Reducing emissions and improving vehicle safety are secondary objectives. The trial will aim to identify ways to optimise these secondary objectives.

The Clean Car Upgrade will be trialled before Cabinet considers making it available nationally

23. The Upgrade is based on California's targeted Clean Cars 4-All programmes. These programmes have been successful in assisting low-income Californians shift to clean transport.
24. As there are significant differences between California and New Zealand, I propose that the Upgrade be trialled before Cabinet is asked to consider making it available nationally. The trial will evaluate:
 - 24.1. whether a targeted vehicle scrap and replace scheme is an effective way to support low-income households to shift to cleaner vehicles and low-emission modes. This includes evaluating the cost-effectiveness of the scheme as an equity measure
 - 24.2. whether the scheme's community outreach and application process have been successful in achieving a high level of uptake by Māori and Pasifika households. This includes evaluating the simplicity and accessibility of the process for applicants

- 24.3. whether the key design settings, including the income thresholds for eligibility, the levels of financial assistance, the criteria for eligible vehicles and the low-emission replacement options, including the price-cap, support the achievement of the objectives in paragraph 21 above
- 24.4. how the trial version of Upgrade could be refined to increase its effectiveness in achieving its objectives.
25. I propose the Upgrade be trialled in Auckland, Gisborne and Christchurch. These locations will enable the scheme to be tested in our largest city, a smaller city and in a provincial setting. I also propose that the trial commence in April 2023 in at least one of the three locations.
26. An evaluation of the trial will be completed by 28 February 2024. If the trial is successful, the design of the Upgrade would be reviewed and improved in light of the learnings from the evaluation. The Minister of Transport would report back to the Cabinet Environment, Energy and Climate Committee by 30 April 2024 on the outcomes of the evaluation, any changes to the Upgrade's design and recommendations for any expansion. Any expansion would then proceed from July 2024.
27. To ensure the evaluation is fit for purpose and timely it is likely to have the following steps:
- As applicants go through the process of scrapping and replacing their vehicles they will be surveyed to ascertain whether the target population is being reached, whether their replacement options are likely to meet their transport needs and reduce their transport expenditure. In parallel, a comparison group including representative low- and moderate-income New Zealanders will be surveyed about their current transport expenditure and any future plans for vehicle replacement, including vehicle type and the amount they are likely to spend, and barriers preventing a switch to low emission transport
 - A follow-up survey of participants to ascertain whether their replacement transport options are meeting their transport needs and reducing their transport expenditure. As well as whether there are improvements that could be made to the Clean Car Upgrade.
 - Qualitative and/or quantitative research with non-participants and staff involved in the implementation of Clean Car Upgrade. This would help assess whether the targeting mechanism and outreach to low-income communities has been effective, and whether wider improvements could be made to the Clean Car Upgrade.
 - A cost benefit analysis would be done following the completion of the above three steps.

Waka Kotahi will be the delivery agency with oversight from Te Manatū Waka

28. Waka Kotahi will finalise the design, implement and administer the trial of the Upgrade. It will engage and select vehicle dealers, scrappers and low-emission alternative providers to participate in the trial scheme as delivery partners. Delivery partners, especially the vehicle dealers, will be selected if they have good market reputations, for example, they are an AA preferred dealer.
29. Waka Kotahi will report to Te Manatū Waka (the Ministry of Transport) on the delivery and performance of the Upgrade. The latter will be responsible for reporting to the Minister of Transport. Te Manatū Waka will also be responsible for evaluating the trial.

30. Prior to implementation, certain aspects of the trial Upgrade's design will be refined through consultation with representatives of low-income communities. Waka Kotahi will be responsible for this engagement. The key theme of the engagement will be how the Upgrade can be best tailored to ensure it achieves its equity objectives, including achieving a high level of uptake among low-income communities, and reducing financial pressure.
31. Waka Kotahi will also engage with the vehicle and scrappage industries, the public transport providers, e-bike retailers, and other low-emission providers in the trial locations. This engagement will focus on ensuring the Upgrade's process is as streamlined as possible, while still providing the necessary processes to minimise fraudulent use of the scheme.

Income thresholds set at the median wage and median household income would define who is eligible for the Clean Car Upgrade

32. To be effective, the Upgrade needs a targeting mechanism that accurately identifies vehicle owners with low and moderate income. To achieve this, I propose using two thresholds of median income that would apply depending on people's living arrangements. Vehicle owners would be eligible for the Upgrade if their taxable annual income is below, or at, the relevant threshold. The timeframe would be the latest financial year available, up to a maximum of three years.
33. The first threshold would be pegged to median annualised weekly earnings from wages and salaries and would apply to individual vehicle owners not living with a spouse, or civil union, or de facto partner. Based on June 2021 data from the Household Labour Force Survey this threshold would be \$56,836.
34. The second threshold would be pegged to median annualised household weekly income and would be for vehicle owners residing with their partners. Based on June 2021 data this threshold would be \$97,760³.
35. The second threshold will limit high-income households accessing the Upgrade. It is needed because low-income earners are found in households across all income deciles. If high-income households access the scheme they will reduce the number of low-income New Zealanders supported to switch to low-emissions transport.
36. To mitigate the risk of larger families being disadvantaged by the income thresholds, I propose increasing both thresholds by \$10,517 per child where an applicant has dependant children under the age of 18. This amount is based on the adjustment that is made for family size in applications for the Community Services Card.
37. I am aware that there may be a need for a third threshold to avoid disadvantaging vehicle owners living in multi-generational households. The trial Upgrade will evaluate whether there is a need for such a threshold. This will inform any future expansion of the Upgrade.
38. As the thresholds are pegged to medians they would be recalibrated annually as the medians change. The trial will assess whether these thresholds need to be adjusted for any subsequent rollout of the Upgrade.
39. In addition to meeting the above income thresholds, participation in the Upgrade trial would also be limited to vehicle owners who reside in the trial locations.
40. To maximise the number of low-income people assisted by the Upgrade, I propose that only one application per individual applicant or household would be able to be made over the life of the

³ Household Labour Force Survey June 2021 quarter.

policy. There will be a number of ways to ensure this occurs. For example, Waka Kotahi could reject an application where an applicant's IRD number, or those in their household have appeared in a previous application.

41. Based on an estimate by Statistics New Zealand, the number of people aged over 16 years, who would be eligible either as an individual applicant, or as a household member, are in the table below.

Location	Number eligible
Auckland	478,467
Gisborne	15,558
Christchurch	119,877
All New Zealand	1,508,142

Applicants would prove their identity and their income data would be verified against their Inland Revenue data

42. In applying for the Upgrade, people would need to verify their identify and provide proof of their residence in a trial location, their annual individual taxable income, their household type (for example living with spouse and two children), and if applicable their annual household taxable income. To encourage correct reporting I propose applications be statutory declarations.
43. To assess applications, I propose that Waka Kotahi verify applicants' income information against Inland Revenue's (IR) data. This would be done via IR's Gateway Service. With the capability and infrastructure of this service a verification process would be able to be put in place through:
- 43.1. a memorandum of understanding (MOU) between Waka Kotahi and IR. The MOU would authorise Waka Kotahi to use IR data for verification and would set out the conditions and safeguards for its use
 - 43.2. IR supporting Waka Kotahi develop the software to allow the latter to send data to IR for verification, and to receive the results. IR's support would be in the form of technical information for the software design and development and the provision of a test environment
 - 43.3. people consenting, in their applications, to their information being verified against their IR data and to any audit of that information. People would also provide all relevant IRD numbers for their application and personally identifiable information.
44. To support an April 2023 commencement of the trials, I propose that Ministers direct Inland Revenue to prioritise the work described in paragraph 43 above to support implementation of the trial Upgrade.

Vehicles eligible for scrapping would be high-emission, have a low-safety rating, with a WOF and "rego"

45. To maximise the scheme's contribution to emission reductions and improvements in vehicle safety, there would be criteria for accepting vehicles for scrapping. I propose that to be eligible for the trial scheme vehicles must be drivable and have:

- 45.1. emissions at, or higher than, the fleet average. As at June 2021, this average was 213 grams CO₂ per kilometre. Where emission data is missing for a vehicle, Waka Kotahi may use an equivalent engine size proxy to determine eligibility. The trial will also consider a focus on pre-2000 vehicles. These vehicles are subject to 6-monthly warrant of fitness (WoF) inspections and often present higher maintenance costs that can be challenging for low-income families
- 45.2. a safety star rating of 2-or-less stars, or the equivalent on inspection
- 45.3. a current WoF and annual vehicle licence (“rego”), or ones that have expired by no more than 28 days.

The Clean Car Upgrade would subsidise the uptake of low emission vehicles and encourage mode-shift

46. The benefits of the Update are predicated on less safe, high-emission vehicles being removed and replaced with safer, low-emission transport. This includes low emission vehicles and mode-shift to public transport and cycling.
47. To maintain consistency with the other Clean Car initiatives, I propose that replacement vehicles be those with CO₂ emissions below the Clean Car Standard’s required fleet average for passenger vehicles for the corresponding year. In 2023 this will be vehicles with CO₂ emissions lower than 145 grams per kilometre. This threshold will lower to below 133.9 grams in 2024 and below 112.6 grams in 2025.
48. By aligning with the Clean Car Standard, peoples’ choice of replacement vehicle will be EVs, plug-in hybrid EVs, petrol and diesel hybrids, and very fuel efficient internal combustion engine vehicles.
49. To minimise the risk of poor quality vehicles being purchased that risk increasing rather than decreasing motoring costs, such as an EV with a battery that will soon need replacing, I also propose that the trial test the following quality criteria. That vehicles:
 - be less than 10 years old
 - have a safety star-rating of at least 3-stars
 - with a charging battery, have batteries with a state of health of at least 70 percent.

The choice of low-emission alternatives will depend on what is available in the trial locations

50. To contribute to the target of reducing the total vehicle kilometres travelled by light vehicles, the Clean Car Upgrade will also support people to switch to low-emission alternatives. To maximise the contribution to this target, I propose that the replacement low-emission options be as wide as possible. As well as subsidising the use of public transport and the purchase of bikes and e-bikes, assistance would be available for other reputable low-emission services that are available in the trial locations, such as low-emission car share and lease services.
51. Waka Kotahi will identify and engage suitable providers of low-emission alternatives in the trial locations. In return for scrapping a vehicle, participants opting for low-emission alternatives would be given a voucher that would be redeemable at the participating delivery partners in their trial location. For instance, people would be able to purchase e-bikes and use the remainder of their vouchers on the other low-emission alternatives available in their city.

Replacement vehicles would be subject to a price-cap of \$35,000

52. To reduce the appeal of the Upgrade to high-income New Zealanders, I propose a cap on the retail price of replacement vehicles of \$35,000 (including GST). This amount is sufficient to ensure quality low-mileage low-emission vehicles can be purchased. This is because the Upgrade will be available for new, used-import and second-hand low-emission vehicles.
53. The disadvantage of a \$35,000 cap is that it largely removes new medium to large sized vehicles from the scheme. However, it is sufficient for the purchase of quality used-ones. Nevertheless, the trial will assess whether the price-cap has unduly limited people's ability to purchase vehicles that meet their transport needs.
54. **[Legally privileged]** ^{s 9(2)(h)}



The Clean Car Upgrade's assistance would be provided as a grant

55. The budget bid proposal for the Upgrade assumed that participants would receive 30 percent of the assistance as a grant and 70 percent as a loan. However, loans risk increasing financial stress and vulnerability for low-income New Zealanders. To mitigate this risk, I propose the assistance be provided solely as a grant. This would also greatly reduce the complexity and administrative cost of the scheme.
56. The key impact of providing assistance as grants is the loss of future Crown revenue that would otherwise have been received as loan repayments

The Upgrade's assistance levels would be based on the Clean Car Discount's rebates for new vehicles

57. The effectiveness of the Upgrade, is heavily dependent on the levels of financial assistance it provides. The assistance needs to be high enough to make quality low-emission vehicles, or alternatives, affordable for low-income New Zealanders. However, it should not be so high that the number of participants is unduly restricted, gaming or misuse is encouraged, and the scheme's cost-effectiveness undermined.
58. To achieve an appropriate balance, I propose setting the Upgrade's assistance levels by applying a multiplier, greater than one, to the Clean Car Discount's rebate schedule for new vehicles. To encourage participants to opt for low-emission alternatives, I propose that the assistance level for this choice be set at the same level as for EVs.
59. The advantages of the proposed approach are that it would:
- 59.1. result in vehicles being subsidised on the basis of CO2 emissions and fuel use. These factors are central to achieving the outcomes sought by the Upgrade

- 59.2. encourage people to opt for low-emission alternatives over vehicle replacement with a hybrid, PHEV, or low-emission internal combustion engine vehicle
- 59.3. provide a level of consistency between the Clean Car Discount's rebates for new vehicles that high-income New Zealanders are more likely to be able to take advantage of, and the assistance levels available to low-income New Zealanders through the Upgrade.
60. I also seek Ministers' agreement in principle to a multiplier of 1.4. This would result in assistance levels of:
- \$12,075 towards the purchase of an EV or low-emission alternatives
 - \$8,050 towards the purchase of the most fuel efficient PHEV
 - \$6,011 towards the purchase of the most fuel efficient hybrid
 - \$3,774 towards the purchase of the most fuel efficient internal combustion engine vehicle.
61. It is envisaged that many low-income participants will require a market loan, in addition to the Upgrade's assistance, to be able to afford a quality low-emission vehicle, if they opt for vehicle purchase. Requiring a market loan to buy a vehicle is commonplace. However, there is a risk that instead of reducing financial pressure, low-income families experience financial stress because of their vehicle loans.
62. Consequently, I propose that the levels of assistance resulting from a multiplier of 1.4 be stress-tested with representatives of low-income communities before Ministers take final decisions. This is to make sure that the assistance levels will be sufficient to enable low-income New Zealanders to switch to low-emission transport, without causing financial hardship.
63. This testing would be done by Waka Kotahi through focus group engagement over September–October. I also propose that the Minister of Transport report back with final recommendations on the multiplier by 30 November 2022.
64. The trial will also test the adequacy of the Upgrade's financial assistance. The evaluation may result in changes in assistance levels if a decision is made to roll-out the scheme nationally.
65. Following any roll-out, to ensure that the levels of assistance remain relevant, I propose that they be reviewed and adjusted as part of the scheduled reviews for the Clean Car Discount.

People could mix and match how they use the assistance

66. To give participants as much choice as possible, I seek Ministers' agreement in principle to people being able to mix and match the use of the assistance. For example, using \$6,000 towards two e-bikes with the remaining \$6,075 subsidising the purchase of an EV. To preserve the integrity of the CO₂ based assistance, the amount of assistance would be determined by the replacement vehicle the participant chooses.
67. I propose that the need for the ability to mix and match be tested with representatives of low-income communities before Ministers take final decisions. This testing would be done by Waka Kotahi through focus group engagement over September–October. I also propose that the Minister of Transport report back with final recommendations on the multiplier by 30 November 2022.

People would not be able to receive a Clean Car Discount rebate on a vehicle purchased through the Clean Car Upgrade

68. To maximise the number of people supported into cleaner transport I propose that the Clean Car Discount not apply to people purchasing vehicles subsidised through the Upgrade. As both

schemes have a limited amount of funding, preventing double-dipping ensures the funding is spread over a greater number of people.

69. An explicit decision is needed on this issue because the Discount's rebates are required to be applied to all vehicles sold for the first time in New Zealand. If Ministers agree with my proposal, I would give effect to it via an amended Ministerial Direction to Waka Kotahi.

Participant advisers could be used to increase uptake by low-income households

70. To ensure strong uptake of the Upgrade by low-income households, especially among Māori and Pasifika, I propose Ministers agree in principle to the scheme operating with participant advisers.

71. In California "participant advisers"⁴ have contributed to a high level of uptake among disadvantaged communities through:

- 71.1. raising awareness of the benefits of low-emission vehicles. This is important as EVs and PHEVs tend to be viewed as vehicles only the wealthy can afford. Consequently, knowledge about them in low-income communities is low
- 71.2. helping people from disadvantaged communities apply and complete the process
- 71.3. helping people overcome the language barriers to engaging with the programme.

72. I suspect this role would be a beneficial one in the New Zealand context. To avoid doubt, the role of participant advisers would exclude any financial advice, or any other advice that exposed the Crown to potential litigation.

73. However, having participant advisers will increase administrative costs and this will reduce the number of people that would be able to be supported into clean transport. Given this trade-off, I propose that the role of participant advisers be tested with representatives of low-income communities before Ministers take final decisions. This testing would be done by Waka Kotahi through focus group engagement over September–October. I would report back with final recommendations on the inclusion of participant advisers and the extent of their role by 30 November 2022.

A further paper in November 2022 will address the remaining design issues

74. This paper has covered the key design aspects of the Upgrade. It will be followed by a subsequent paper in November 2022 that:

- outlines a proposed process for scrapping a vehicle and securing replacement transport
- seeks agreement to additional measures to limit misuse of the scheme, such as, requiring that an applicant must have owned their vehicle to be scrapped for a minimum period
- seeks Cabinet's decisions on the multiplier setting the level of financial assistance, the ability to mix and match assistance, the role of participant advisors for the purposes of the trial
- outlines the framework for the evaluation of the trial and the metrics that will be measured

⁴ They are called "case managers" in the Californian Clean Cars 4 All programmes.

- provides a summary of the initial cost-benefit analysis. The trial will evaluate the cost-effectiveness of the scheme, allowing a full cost-benefit analysis to be done to inform Cabinet's decisions on expanding the scheme in 2024.

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Implementation

75. A timeline of the main policy and implementation milestones is below.

Key implementation milestone/activity	Timeframe
Media release on Cabinet's decisions on the proposal in this paper	Early August 2022
Funding agreement established between Te Manatū Waka and Waka Kotahi to enable the trial's establishment, including the necessary IT development, and its subsequent operation	July–August 2022
Waka Kotahi establishes an implementation team, identifies likely delivery partners in trial locations, establishes pre-trial engagement approach	July–September 2022
Waka Kotahi engages with representatives of low-income communities to refine trial scheme's design and to tailor it to secure strong uptake	September–October 2022
Waka Kotahi identifies, develops and tests system requirements (e.g. IT and financial system requirements) for trial purposes, with a view to potential future use	August 2022–March 2023
Report back to the Cabinet Environment, Energy and Climate Committee to finalise the Upgrade's design	By 30 November 2022
Media release on Cabinet's decisions on the report back issues	Early December 2022
Waka Kotahi selects and contracts delivery partners to participate in the scheme e.g. reputable vehicle dealers and scrappers	November 2022 – February 2023
Waka Kotahi starts promoting low emission vehicles and the Clean Car Upgrade in selected low-income communities	March 2023 onward
Trial scheme in operation in at least one of the three trial locations	April 2023

Financial implications

76. Cabinet agreed, as part of Budget 2022, to establish the following tagged operating contingency to trial and expand the Clean Car Upgrade:

Vote Transport Minister of Transport	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Cleaner Vehicles for Low-Income New Zealanders – Vehicle Scrap and Replace Scheme - Tagged Operating Contingency	-	15.906	15.906	242.900	294.050

77. This paper recommends that Cabinet agrees to drawdown part of the tagged contingency funding into a multi-category appropriation to allow the trial of the Upgrade to proceed.

78. The tagged contingency envisaged only operating expenditure being needed. However, an IT system will need to be built to operate the scheme. To enable this, I propose that a separate category within the multi-category appropriation be established for capital costs relating the scheme, with joint Ministers (Minister of Finance and Minister of Transport) to agree movement of funding into this category once further work has been completed on the expected cost of the IT systems.

79. The financial recommendations include a departmental output expense of \$653,000 for Te Manatū Waka. This relates to its additional policy and monitoring responsibility for the Upgrade, and the cost of evaluating the trial.

80. Waka Kotahi estimate that it will require an operating budget of \$7.865 million for 2022/23 and \$8.958 for 2023/24 for the trial Upgrade. The first year's costs reflect the costs of establishing a new team to design and operate the trials, to conduct the pre-trial engagement with representatives of low-income communities, and to engage delivery partners. The second year's reflect the costs of scaling up the operational processing team. Both estimates include a combined contingency of \$5.608 million (\$2.622 million for 2022/23 and \$2.986 million for 2023/24) reflecting the high uncertainties, risks and complexities of the proposed trial.

81. A large part of the Upgrade's set-up and contingency costs have to be budgeted for irrespective of its scale. As the scale of the trial Upgrade will be small compared to its potential roll-out, the proportion of administration costs to total costs appears high. However, if the Upgrade is expanded the share of administration costs will fall significantly. As a potential guide, the share of administration costs in the Californian scheme is one-fifth of total costs. I expect we will see a similar proportion here.

82. The tagged contingency provides funding to allow the Upgrade to be expanded if the trial is successful. However, the tagged contingency currently expires on the default date of 1 February 2023. To enable the trial's evaluation to inform future decisions, including on funding, I propose the expiry date for the tagged contingency be extended to 30 June 2024.

Legislative Implications

83. There are no legislative implications arising from the proposals in this paper.

Impact Analysis

Regulatory impact statement

84. Cabinet's regulatory impact analysis requirements do not apply to this proposal as it does not involve the introduction of new legislation, or changes to, or the repeal of existing legislation.

Population impact

85. The Upgrade will benefit low-income households that participate in the scheme. Low-emission and safer vehicles offer tangible benefits in lowering transport costs, through reduced fuel and maintenance costs. They can also improve health outcomes, for example, through better air quality and reduced harm from road crashes. As well, by reducing greenhouse gas emissions this initiative will contribute to efforts to avoid the worst effects of climate change on te moana, te whenua and te taiao.

86. Waka Kotahi will work with representatives of Māori and Pasifika communities to ensure a high level of uptake of the Upgrade by these communities.

Human Rights

87. The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

Cross-Party consultation

88. This paper is part of the co-op agreement, specifically in relation to increasing the uptake of zero emission vehicles. The Green Party of Aotearoa New Zealand were consulted on the paper and are supportive of its proposals.

Departmental consultation

89. The following agencies were consulted in the development of this paper: Waka Kotahi, Ministry of Housing and Urban Development, Te Arawhiti, Ministry for Pacific Peoples, Ministry of Social Development, Inland Revenue, Treasury, Ministry for the Environment, Department of Internal Affairs, Ministry of Foreign Affairs and Trade, Ministry of Business, Innovation and Employment, and the Energy Efficiency and Conservation Authority. The Department of Prime Minister and Cabinet and Te Puni Kōkiri have been informed.

Stakeholder engagement

90. The broad direction of the Upgrade has been informed by engagement with The Financial Services Federation, the New Zealand Automobile Association and the Motor Trade Association (MTA). MTA's input was informed by a workshop with the vehicle and scrappage industries.

91. The vehicle and scrappage industries are supportive of a vehicle scrap and replace scheme. However, their preference is to have an untargeted scheme focused on increasing the number of vehicle replacements.

Communications

92. I will announce the outcome of the decisions on this paper in a media release following confirmation from Cabinet.

Proactive Release

93. I propose to proactively release this Cabinet paper subject to any necessary redactions. This would be done within 30 business days of decisions being confirmed by Cabinet.

Recommendations

The Minister of Transport recommends that the Cabinet Environment, Energy and Climate Committee:

1. **note** that Cabinet established a tagged contingency in Budget 2022 to implement and operate a vehicle scrap and replace scheme and invited the Minister of Transport to report back by November 2022 on the outcome of further work to confirm the design, location and delivery model for the scheme

The objectives of the Clean Car Upgrade and the purpose and location of its trial

2. **agree** that the objectives of the Clean Car Upgrade be to help:
 - 2.1. reduce financial pressure for low-income New Zealanders by assisting them to replace a fuel-heavy fossil vehicle with low emissions transport
 - 2.2. enable low-income New Zealanders to be part of, and benefit from, the transition to net-zero emissions, rather than bearing a disproportionate share of the costs of decarbonisation policies
 - 2.3. accelerate CO2 emission reductions through the earlier retirement of high-emitting vehicles and replacement by either low-emission ones, or low-emission alternatives
 - 2.4. improve vehicle safety for low-income New Zealanders by assisting them move out of 2-or-less-star safety rated vehicles, into vehicles with 3-stars or more
3. **agree** to proceed with a trial of the Clean Car Upgrade and that the trial test:
 - 3.1. whether a targeted scrap and replace scheme is an effective way to support low-income households shift to cleaner vehicles and low-emission modes. This includes evaluating the cost-effectiveness of the scheme as an equity measure
 - 3.2. whether the scheme's community outreach and application process have been successful in achieving a high level of uptake by low-income Māori and Pasifika households. This includes evaluating the simplicity and accessibility of the process for applicants
 - 3.3. whether the key design settings, including the income thresholds for eligibility, the levels of financial assistance, the criteria for eligible vehicles and the replacement options, and the price-cap, support the achievement of the objectives in recommendation 2 above
 - 3.4. how the trial version of Clean Car Upgrade could be refined to increase its effectiveness in achieving its objectives in recommendation 2 above
4. **agree** that the Clean Car Upgrade be trialled in Auckland, Gisborne and Christchurch with the trial commencing in April 2023 in at least one of these locations

5. **invite** the Minister of Transport to report back to the Cabinet Environment, Energy and Climate Committee by 30 April 2024, on the outcomes of the trial's evaluation, any changes to the Clean Car Upgrade's design and recommendations for any expansion

Income thresholds for defining who is eligible for the Clean Car Upgrade

6. **agree** that the following thresholds of median income be used to define who is eligible for the Clean Car Upgrade, noting that vehicle owners would be eligible if their taxable annual income is at the threshold or lower:
 - 6.1. for individual applicants not living with their spouse, or civil union, or de facto partner a threshold pegged to the median annualised weekly earnings from wages and salaries, noting that this would be \$56,836 using June 2021 data
 - 6.2. for applicants living with their spouse, or civil union, or de facto partner a threshold pegged to the median annualised household weekly income, noting that this would be \$97,760 using June 2021 data
7. **agree** that the thresholds in recommendation 6 above be increased by \$10,517 for each of the applicant's dependant children under the age of 18
8. **agree** that the timeframe for taxable annual income be the latest financial year available (up to a maximum of three years)
9. **note** that as the thresholds are pegged to medians they would be recalibrated annually as the medians change
10. **agree** that for the trial of the Clean Car Upgrade in addition to the income thresholds, eligibility would be limited to vehicle owners residing in the trial locations
11. **agree** that to maximise the number of low-income people assisted by the Clean Car Upgrade only one application per individual applicant or per household would be able to be made over the life of the policy

Implementing the income eligibility thresholds

12. **agree** that Waka Kotahi verify applicants' identity and verify applicants' income information against Inland Revenue's (IR) data via the latter's Gateway Service
13. **agree** that applications for the Clean Car Upgrade be statutory declarations in which vehicle owners:
 - 13.1. provide proof of their identify and of their residence in one of the trial locations and all other relevant income and household information necessary to assess their eligibility
 - 13.2. consent to their information being verified against their IR data and to any audit of that information
14. **direct** Inland Revenue to prioritise work to support Waka Kotahi develop the IT interface for the verification process consistent with a April 2023 commencement of the trial

Vehicles eligible for scrapping through the Clean Car Upgrade

15. **agree** that to be eligible for scrapping vehicles must be drivable and have:

- 15.1. emissions at, or higher than, the fleet average. Where emission data is missing for a vehicle, Waka Kotahi may use an equivalent engine size proxy to determine eligibility. The trial will also consider pre-2000 vehicles, which often have higher maintenance costs that can be challenging for low-income families
- 15.2. a safety star rating of 2-or less-stars
- 15.3. a current warrant of fitness (WoF) and annual vehicle licence, or ones that have expired by no more than 28 days

The low-emission replacement options available through the Clean Car Upgrade

16. **agree** that replacement vehicles subsidised by the Clean Car Upgrade be those with emissions below the Clean Car Standard's required fleet average for passenger vehicles for the corresponding year, noting that in 2023 this will be below 145 grams of CO₂ per kilometre, lowering to below 133.9 grams in 2024 and below 112.6 grams in 2025
17. **agree** that the trial test the following quality criteria for replacement vehicles, that vehicles must:
 - 17.1. be less than 10 years old
 - 17.2. have a safety star-rating of at least 3-stars
 - 17.3. with a charging battery, have a battery with a state of health of at least 70 percent
18. **agree** that replacement vehicles be subject to a retail price cap of \$35,000 (including GST)
19. **agree** that the low-emission alternatives subsidised by the Clean Car Upgrade be the use of public transport, the purchase of bikes and e-bikes and low-emission services available in the trial locations that Waka Kotahi considers reputable, such as low-emission car share and lease services

The level and form of financial assistance

20. **agree** that the Clean Car Upgrade's assistance levels be set by applying a multiplier, greater than one, to the Clean Car Discount's rebate schedule for new vehicles, noting that this will result in vehicles with the lowest emissions receiving the highest levels of assistance
21. **agree** that the assistance level for low-emission alternatives be the same as for EVs
22. **agree** in principle to the multiplier in recommendation 20 above being 1.4, noting that this will result in assistance levels of:
 - \$12,075 towards the purchase of an EV or low-emission alternatives
 - \$8,050 towards the purchase of the most fuel efficient PHEV
 - \$6,011 towards the purchase of the most fuel efficient hybrid
 - \$3,774 towards the purchase of the most fuel efficient ICE vehicle.
23. **agree** in principle that people have to choice to mix the use of the assistance opting for some funding towards a vehicle and the remainder towards low-emission alternatives (eg \$6,000 towards two e-bikes and \$6,075 towards an EV), with the proviso that the total assistance received is set at the level of the replacement vehicle

24. **invite** the Minister of Transport to report back to the Cabinet Environment, Energy and Climate Committee by 30 November 2022 with final recommendations on the level of the multiplier and the ability for people to mix and match the use of the assistance
25. **agree** that to ensure the Clean Car Upgrade reduces financial stress for low-income New Zealanders that its assistance be provided solely as a grant, rather than as a mix of grant and loan funding
26. **agree** that the levels of the Clean Car Upgrade's grants be reviewed and adjusted alongside the scheduled reviews for the Clean Car Discount
27. **agree** that the Clean Car Discount rebates not apply to vehicles subsidised through the Clean Car Upgrade, noting that the Minister of Transport would give effect this decision via an amended Ministerial Direction to Waka Kotahi

Facilitating strong uptake among low-income households through participant advisers

28. **agree** in principle to the Clean Car Upgrade operating with participant advisers whose role would be to facilitate uptake by low-income households, especially by Māori and Pasifika peoples
29. **invite** the Minister of Transport to report back to the Cabinet Environment, Energy and Climate Committee by 30 November 2022 with final recommendations on the inclusion of participant advisers and the extent of their role

Financial implications

30. **note** that as part of Budget 2022 decisions, a tagged operating contingency was established in Vote Transport of the following amounts to provide for the trial and expansion of the Clean Car Upgrade:

Vote Transport Minister of Transport	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Cleaner Vehicles for Low-Income New Zealanders – Vehicle Scrap and Replace Scheme - Tagged Operating Contingency		15.906	15.906	242.900	294.050

31. **note** that funding is required to progress the trial, and that while further work is required to finalise the scheme, sufficient work has been completed on the design, location and delivery model of the scheme to allow funding to be drawn down for the trial
32. **agree** that, as Cabinet is satisfied with the work described in recommendation 31 above, the Clean Car Upgrade trial can now proceed
33. **note** that the Minister of Finance has approved the establishment of a new multi-category appropriation "Clean Car Upgrade" in Vote Transport, to be administered by the Ministry of Transport and with the Minister of Transport as appropriation Minister, to facilitate the implementation and operation of the Clean Car Upgrade scheme

34. **note** that the Minister of Finance has agreed that the single overarching purpose of this appropriation is to make low-emission transport more accessible to low and moderate income New Zealanders and thereby promote equity in the transition to net zero emissions
35. **note** that the Minister of Finance and the Minister of Transport have agreed that the categories for this appropriation be as follows:

Title	Type	Scope
Administration of the Clean Car Upgrade	Non-Departmental Output Expense	This category is limited to Waka Kotahi NZ Transport Agency meeting operating costs associated with implementing and operating the Clean Car Upgrade scheme.
Clean Car Upgrade – Grants	Non-Departmental Other Expense	This category is limited to the payment of grants under the Clean Car Upgrade scheme.
Clean Car Upgrade – Capital Costs	Non-Departmental Capital Expenditure	This category is limited to capital investment in Waka Kotahi NZ Transport Agency for capital expenditure associated with setting up the Clean Car Upgrade scheme.

36. **approve** the following changes to appropriations to provide for the decision in recommendation 32 above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Transport Minister of Transport	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Departmental Output Expenses: Transport – Policy Advice, ministerial servicing, governance and other functions (funded by revenue Crown)	-	0.397	0.256	-	-
Multi-Category Expenses and Capital Expenditure: Clean Car Upgrade MCA					
Non-Departmental Output Expense: Administration of the Clean Car Upgrade	-	7.865	8.958	-	-
Non-Departmental Other Expense: Clean Car Upgrade – Grants	-	7.644	6.692	-	-
Non-Departmental Capital Expenditure: Clean Car Upgrade – Capital Costs	-	-	-	-	-
Total Operating	-	15.906	15.906	-	-
Total Capital	-	-	-	-	-

37. **agree** that the proposed changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply
38. **note** that further work will be completed to determine the required capital costs of implementing systems to support the Clean Car Upgrade, and that the Minister of Transport and the Minister of Finance will agree to the movement of funding to the capital expenditure category above (including any operating to capital swap) once they are satisfied with this further work
39. **agree** that the expenses incurred under recommendation 36 above be charged against the Cleaner Vehicles for Low-Income New Zealanders – Vehicle Scrap and Replace Scheme – Tagged Operating Contingency described in recommendation 30 above

40. **note** that following the adjustments detailed in recommendation 36 above, the remaining balances and indicative phasing of the operating contingency described in recommendation 30 above will be:

Vote Transport Minister of Transport	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Cleaner Vehicles for Low-Income New Zealanders – Vehicle Scrap and Replace Scheme - Tagged Operating Contingency	-	-	-	242.900	294.050

41. **note** that the tagged operating contingency described in recommendation 30 above will expire on 1 February 2023, however decisions on further expansion of the Clean Car Upgrade beyond the trial will not be made until 2024
42. **agree** to extend the expiry of the tagged contingency to 30 June 2024 to allow for these future decisions

Communications

43. **note** that if Ministers support the recommendations in this paper, the Minister of Transport would announce these decisions in a media release following Cabinet confirmation
44. **note** that this Cabinet paper will be proactively released, subject to any necessary redactions, within 30 business days of decisions being confirmed by Cabinet.

PROACTIVELY RELEASED BY
TE MANATU WAKA MANATU WAKA MINISTRY OF TRANSPORT