



17 March 2022

OC220166

**Hon Michael Wood**

**Minister of Transport**

## **REDUCING ROAD USER CHARGES RATES**

### **Purpose**

To provide you with advice on implementing temporary reduced rates of road user charges for three months to align with the 25 cents per litre reduction in petrol excise duty effected on 14 March 2022, including potential legislative options.

### **Key points**

The Road User Charges Act requires at least 42 days to elapse between when a change in RUC rates is notified in the *Gazette* and it comes into force. Implementing a quick change to road user charges rates therefore requires an urgent Bill. A Bill permits a more straightforward approach than amending the 200 separate rates in regulations that apply to over 80 vehicle types.

- Putting in place an equivalent reduction for road user charges could be achieved by applying a reduction of either \$27 across all road user charges rates per 1,000 km purchased, or by a percentage reduction (namely, 36 percent) across all road user charges rates. The Ministry's preference is to apply the \$27 figure as it limits the risk to revenue and gears the reductions towards households. Households acutely struggling with the high price of fuel may have less ability, unlike some freight businesses, to pass on costs. We also do not know if reducing the rates of road user charges for heavy vehicles (trucks) results in lower costs across the economy.
- We also seek several technical decisions from you that are important to the implementation and the operation of the rate reduction initiative. Many of these decisions reflect the administrative complexities for Waka Kotahi in implementing the reductions. These include:
  - how to deal with pre-purchased road user charges. Many road users purchase road user charges in multiples of 1,000 kms. Road users who have already purchased road user charges covering their travel for the next three months may not benefit from the initiative.
  - suspending administration fees for the issue of a new distance licence
  - measures to prevent the hoarding or bulk purchase of road user charges.

- Waka Kotahi has advised that a commencement date of 1 April is challenging but feasible. However, fraud mitigations in its computer system may not be in place by then. Waka Kotahi would prefer a commencement date of between 16 and 21 April. Based on this advice from Waka Kotahi, we therefore recommend a commencement date of 21 April 2022 and 21 July 2022 as the end date. However, we understand you may wish to move more quickly on this and there could be the opportunity to discuss timeframes more generally.
- s 9(2)(f)(iv) [redacted], and instead recommend the full reduction apply for the whole three months, ending on 21 July 2022.
- We have had initial conversations with officials from the Treasury, Ministry of Business and Innovation and Employment, the Ministry of Foreign Affairs and Trade, and the New Zealand Customs Service regarding the potential for a diesel subsidy as an alternative option. Key challenges with this approach are establishing the mechanism to pay fuel companies as no framework currently exists, and the s 9(2)(g)(i) [redacted], trade deals, and the economy.

**Recommendations**

We recommend you:

- 1 **note** officials recommend the preferred approach for putting in place reductions to road user charges is a Bill to temporarily reduce road user charges rates and accompanying amendments to the Road User Charges Act 2012, rather than through changing the detailed and specific regulations Yes / No
- 2 **agree** to:
 

EITHER

  - a) provide an oral update to Cabinet on 21 March 2022, asking Cabinet to make an amendment to the minute, authorising you to proceed through a Bill, rather than Regulations, make final policy decisions, and issue drafting instructions to Parliamentary Counsel Office for a Bill. **This option is the Ministry of Transport’s preference.** Yes / No

OR

  - b) take a policy paper to Cabinet on 21 March 2022, asking Cabinet to agree to your decisions (below) on this paper, and authorise you to issue drafting instructions to Parliamentary Counsel Office for a Bill. Yes / No
- 3 **agree** to reduce all rates of road user charges by
 

EITHER

  - a) \$27 – **Ministry of Transport’s preference** Yes / No

OR

  - b) 36% Yes / No

4 **agree** in respect to pre-purchased road user charges, to:

EITHER

a) enable road users who have pre-purchased road user charges to surrender a licence and repurchase a licence at the lower rate, potentially receiving a partial refund or credit (if the refund amount is less than \$20) Yes / No

OR

b) put in place a temporary surrender provision so that only road users who pre-purchased in March 2022 can surrender a licence – Waka Kotahi's preference Yes / No

5 **agree** to suspend the administration fee for the issue of a new distance licence Yes / No

6 **agree** to prevent the bulk purchase or hoarding of road user charges, to:

a) put in place arrangements, similar to the existing provision relating to changes in RUC licence rates for heavy vehicles, that mean reduced rate licences expire one month following the end date of the reduction period Yes / No

b) empower the Waka Kotahi to place a cap (potentially on the number of licences or kilometres) that can be purchased at the reduced rate for a light vehicle Yes / No

c) put in place a reporting or after-the-fact auditing provision to enable Waka Kotahi to carry out an assessment if unreasonable hoarding or unreasonable bulk purchasing is suspected Yes / No

7 **agree** to a commencement date of 21 April 2022 for the reduction to road user charges – this is Waka Kotahi's preference Yes / No

8 **agree** to the reduction ending, and the current rates of road user charges being reinstated, on 21 July (three-month duration) – based on Waka Kotahi's preferred commencement date. Yes / No



Marian Willberg  
**Manager Demand Management and Revenue**

...17/03/2022....

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
Andrew de Montalk	s 9(2)(a)	✓
Marian Willberg		

## IMPLEMENTING TEMPORARY RATES OF ROAD USER CHARGES

### Cabinet has agreed to reduce the rates of road user charges

- 1 On 14 March 2022, Cabinet agreed to reduce the rates of petrol excise duty and road user charges. The reduction aims to offset some of the costs faced by households and businesses due to high fuel prices.
- 2 The temporary reduction in petrol excise duty was legislated immediately, came into effect at a minute past midnight on 15 March 2022 and applies until the end of 14 June 2022. However, the reduction of road user charges still needs to be legislated. This paper provides advice on the following matters:
  - 2.1 options for reductions in road user charges that are equivalent to the 25 cents a litre reduction in excise duty on petrol
  - 2.2 dealing with pre-purchased road user charges (many of the risks cannot be completely resolved)
  - 2.3 mitigating the risk of hoarding or bulk forward purchasing of road user charges
  - 2.4 timeframes for implementing reduced rates and recommencing the full rates.
- 3 On 16 March 2022 you advised that you had received representations from some freight sector stakeholders who asked you to explore whether it was possible “to do something at the pump” (for example, subsidise diesel). The **annex** provides further information about this for you. <sup>§ 9(2)(g)(i)</sup>  

- 4 We consider a Bill in the House is preferable to making amendments to regulations. Over the past few days, we have explored what would be the most effective and timely way to put in place a reduction to road user charges, either by way of amendments to regulations (by Order in Council) or by a Bill in the House (under urgency).
- 5 It is our view that a Bill in the House is most constructive. It would allow the reductions to be put in place much sooner, avoiding the requirement for at least 42 days to elapse between the time a change in rates is notified in the *Gazette* and its coming into force (section 85(3)(a) of the Road User Charges Act). A Bill could also provide Waka Kotahi with additional tools to administer the reductions.
- 6 You may wish to update your Cabinet colleagues that officials have advised that a Bill is a preferred approach noting that the Cabinet minute explicitly contemplates the reductions to road user charges being put in place by amendment to the existing regulations. However, Cabinet authorised you to make final policy decisions on the reductions to road user charges and issue drafting instructions to Parliamentary Counsel Office. Parliamentary Counsel Office has advised that given the Cabinet minute contemplates amendments to regulations rather than a Bill, you may need to be re-authorised by Cabinet to issue drafting instructions for a Bill.

- 7 You could do this by way of either:
- 7.1 an oral item to Cabinet on 21 March 2022 – asking Cabinet to consider substituting the reference to amendments to ‘regulations’ to ‘a Bill’ – **Ministry of Transport preference**
- or
- 7.2 a paper to Cabinet on 21 March 2022 – asking Cabinet to make policy decisions (endorse your decisions on this paper) and asking Cabinet for permission to issue drafting instructions to Parliamentary Counsel Office.
- 8 If your preference is a paper to Cabinet, officials will need to commence work on this immediately. You will need to seek permission for late lodgement and no ministerial consultation on the paper.
- 9 Further, you would return to Cabinet on 28 March for permission to introduce the draft bill into the House, and the Bill would be passed under urgency between 29 March and 31 March 2022. You will need to speak to the Leader of the House about fitting this into the Government’s legislative programme.

### **Deciding on an equivalent road user charges rate**

- 10 Cabinet agreed to a 25 cent per litre reduction to the rate of fuel excise duty and an equivalent reduction to the rates of road user charges. In terms of equivalence, the overall aim is to ensure that an owner of a petrol vehicle (that contributes through petrol excise duty) and an owner of a diesel vehicle (subject to road user charges), with the average fuel consumption (9.5 litres per 100 km), pay a similar amount in road tax.
- 11 Over time, transport officials have provided Ministers with options to achieve an equivalent rate, but we have typically recommended rates that align with a cost allocation model. The cost allocation model is designed to attribute costs to specific vehicle types in accordance with the costs that different types of vehicles generate.
- 12 In this instance, given the overall purpose of the reductions is to assist households and businesses facing high fuel prices, we suggest that you have two options in putting in place an equivalent reduction for road user charges:
- 12.1 **option one** - every rate reduced by 27 dollars per 1,000 km – this would gear the reductions to households or light vehicles, rather than heavy transport operators
- or
- 12.2 **option two** – every rate reduced by 36 percent. This percentage reduction would be across the board for all RUC vehicle types (no differentiation by type) and is approximately the same as the percentage reduction in petrol excise duty<sup>1</sup>.

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<sup>1</sup> As RUC rates are rounded to the nearest dollar, there will be minor differences in the percentage reduction between individual rates

- 13 The table below shows how these apply to a car or a ute (for example, owned by a family) and a large truck (owned by a transport operator).

	Current RUC rate per 1,000 km	Reduced RUC rate in option one (\$27 reduction) per 1,000 km	Reduced RUC rate in option two (36 percent reduction) per 1,000 km
Light vehicle (car, ute) (RUC type 1)	\$76	\$49 (saving \$27)	\$49 (saving \$27)
Large truck (RUC type 308)	\$431	\$404 (saving \$27)	\$276 (saving \$155)

- 14 Our recommendation is option one. Households, unlike businesses, cannot pass on costs. Due to this, households likely feel the pressure of increased fuel prices more acutely. Businesses are also likely impacted by the increase in fuel price, especially those businesses in competitive markets, and unable to pass on costs readily. The reduction aims primarily to provide support to households that are struggling rather than to subsidise the heavy transport sector. Option one is also likely:
- 14.1 has less revenue risk
  - 14.2 means that heavy vehicles are still covering their pavement damage costs
  - 14.3 has the potential to limit the incentive for large refunds or credits being claimed by firms.
- 15 Either option will still deliver reductions and preserve appropriate relativities between charges for heavy vehicles depending on their road wear characteristics, but option one best aligns with the user pays notion underlying the road user charges (that heavy vehicles pay for pavement damage).
- 16 The Road User Charges Act 2012 (the Act) requires rates of road user charges to be set in regulations made by Order in Council. There is a minimum period of 42 days before the regulations can come into force after being notified in the *Gazette*. This minimum period would delay implementation until mid to late May 2022. The regulations that contain the rates are long, detailed and technical with 200 separate rates. As the duration of the reduced rates is only three months (rather than at least a year), it is more straightforward to make the reductions by a Bill. The Bill could simply provide that all light RUC rates are reduced by a set amount or percentage and heavy RUC rates also reduced by a set amount or percentage, rather than altering each rate set out within the regulations.

**Under the existing provisions of the Road User Charges Act road users that have pre-purchased road user charges will be able to purchase additional distance or claim refunds**

- 17 Road user charges are pre-purchased by vehicle owners, who purchase a distance licence for their particular vehicle type in multiples of 1,000 kilometres. Road users must ensure their vehicle's odometer or hubodometer does not exceed the kilometres stated on the distance license. If it does exceed the kilometres, the road user needs to purchase another distance licence. However, the Act provides for a small distance overrun without penalty.

- 18 As it is a continuous obligation, many road users make purchases of multiple 1,000km units at a time (the average light vehicle in New Zealand does around 12,000km each year). Purchasing multiple units reduces the transaction charges and compliance costs.
- 19 We recommend that road users who have pre-purchased road user charges also benefit from the temporary three-month reduction. Not extending the reduction to pre-purchased road user charges could be seen as disadvantaging compliant road users who have purchased units in advance and may not otherwise need to purchase within the three months for the reduced charges.
- 20 Under the existing provisions of the Act, road users who have pre-purchased can elect to:
- 20.1 Buy additional kilometres at the reduced rate
- and/or
- 20.2 Surrender their current distance licence, receive a partial refund (if over \$20 or a credit) and repurchase at the reduced rate.
- 21 We surmise that road users who are struggling financially are unlikely to buy additional kilometres in advance unless their existing licence requires replacing. Road users who are struggling financially could be more likely to surrender their current distance (as there is a prospect of receiving a refund or credit).
- 22 You may wish to consider limiting the ability to surrender a licence. We do not think those with a used distance licence should be eligible to receive a refund or credit (for example, someone who has used all the mileage on their licence). During the three-month reduction period, options could include limiting the surrender provision to only those road users who purchased a distance licence after 1 March 2022. This is Waka Kotahi's preferred approach as it limits the benefit to those who have purchased licences close to the three months

### **Suspending administration fees for the issue of a distance licence**

- 23 A further matter for your consideration is what to do, if anything, about administration fees associated with the issue of new licences during the three month reduced rates period. Fees normally apply to both the issue of new licences (currently \$4.80 online or \$7.80 over the counter).
- 24 The amount of road user charges a road user can purchase is a minimum of 1,000 kilometres at a time. The fee is the same no matter how many thousands of kms are purchased at once. Administration fees may mean that, despite the reductions, some road users (especially light vehicle owners who purchase the minimum amount of road user charges) determine the reductions are not worthwhile. To address this issue, you could decide to suspend the administration fee for the three-month period, which could be done through a Bill.
- 25 The administration fees are set to meet the cost of issuing licences on a cost-recovery basis. Suspending the administration fee would reduce the amount of revenue Waka Kotahi has to undertake the extra work administering the reductions



(issuing new licences). It will also incur a cost for Waka Kotahi as licenses are issued by agents, and Waka Kotahi will still need to pay its agents.

- 26 We have considered whether it would be possible to suspend the administration fees only for road users who apply to surrender a licence. We consider it could create an incentive for road users to surrender their licence, which is resource-intensive for Waka Kotahi.

### **Limiting the excessive bulk purchase of road user charges**

- 27 There is a potential risk that some road users could seek to buy significant amounts of road user charges (e.g., enough to cover a full year's distance, which may be many tens of thousands of kms for some users) during the period of reduced rates. We do not know whether this potential issue will eventuate or its likely scale as that will depend on the individual circumstances of road users. Bulk advance purchase of road user charges is more likely by those with financial means than those struggling with the fuel price. Further, in other areas of the retail economy, this level of reduction does not seem to result in significant changes in purchasing behaviour.
- 28 A potential safeguard that could reduce the motivation to bulk purchase road user charges for heavy vehicles, is that distance purchased for heavy vehicles becomes invalid one month after rates have increased. This is in the Act, and the industry is well aware of the provision, but it only applies when regulations set new rates.
- 29 We, therefore, suggest consideration could be given to two options:
- 29.1 capping the amount of reduced rate road user charges (or licences) that can be purchased for a light vehicle. We suggest giving Waka Kotahi the ability to determine the cap (and its metrics) as it may need to be adjusted depending on purchasing behaviour and vehicle use (trades people, couriers could have a higher cap). We think it is important that the cap does not create undue inequities compared with the benefits provided to petrol vehicle owners through reducing the rate of petrol excise duty.
- 29.2 putting in place an invalidation provision for heavy vehicle RUC licences means the mileage becomes invalid a month after the reduction period. Waka Kotahi have advised the Police are the predominate enforcement agency for the detection of invalid licences.
- 30 Waka Kotahi has suggested a reporting requirement and compliance checks (for example, auditing). Road users should be advised that the amount of road user charges that can be purchased is capped, and only once per vehicle, during the reduction period. Should it be discovered that multiple purchases have occurred at the reduced rate, consideration would be given to enforcement action.
- 31 Such changes require primary legislation. As we do not know whether the bulk purchase of road user charges is likely to be a problem, consideration could be given to a provision providing Waka Kotahi discretion in applying the provision.

**When should reduced rates start?**

- 32 Cabinet has agreed to a three-month reduction. Section 82 of the Act states when rates are changed by Order in Council, the regulations only come into force 42 days after their notification in the *New Zealand Gazette*.
- 33 A Bill would enable lower rates to be implemented earlier by avoiding the 42-day notice period required for changes made by regulation. Section 85(3)(a) was a provision that industry advocated for when the current Act was implemented. We suggest that you consider engaging with the industry via their representative bodies before deciding on a date. We note that Nick Leggett of Transporting New Zealand has publicly stated he would like to work with the Government on the reduced rates. Waka Kotahi has advised it has started engagement.
- 34 Implementation work would need to be undertaken by Waka Kotahi, including reprioritising resources and making some system changes including to mitigating (but not eliminating) risk around the potential for fraud. Waka Kotahi has advised that resourcing the administrative tasks to implement changes poses risks. This could impact:
- 34.1 the delivery of business as usual functions (for example, providing off road refunds and petrol excise duty refunds)
  - 34.2 the delivery of key government priorities (for example, Clean Car, Road to Zero, road user charges compliance work and cause compliance complexity for the regulator).
- 35 Waka Kotahi estimates that processing 100,000 refund applications would require 40 staff for three months (turn-around time for processing is hard to estimate but could be several days or weeks, particularly if there is an early influx). Some of the staff maybe additional or redeployed. Waka Kotahi estimates that around 700 – 800 thousand road users could be eligible for refunds due to the change, but it is not known how many will take up the option. Waka Kotahi advises this change will have a significant impact on its internal resourcing across other revenue functions, as product knowledge is needed for this work (if personnel without subject matter experience are brought in, it will take longer to get them up to speed).
- 36 Waka Kotahi has advised that a 1 April 2022 commencement date is challenging but possible but fraud mitigations in the computer system will not be in place. However, the more time allowed, the more it can prepare for, resource, and make the necessary system changes. Waka Kotahi have advised its fraud mitigations and system change work will be completed between 16 and 21 April 2022. Based on advice from Waka Kotahi, our recommendation is therefore the coming into force date be 21 April. We understand that this date may not be preferred by you, so understanding your timeframes could be helpful.

**When should reduced rates end?**

- 37 We recommend the reduced rates period ends 21 July 2022 (if a commencement date of 21 April 2022 is chosen). We understand that there could be interest in

gradually phasing a return to the current full rates, given the uncertainty about future global fuel prices.

38

s 9(2)(f)(iv)

. Loading the rates into its system is a manual (5-day keying-in) process. Note that the reinstatement of full rates of petrol excise duty has been legislated, with the full rate recommencing at the beginning of 15 June 2022.

39

Reducing the rate of the petrol excise duty is something that could be done quickly. Changes to road user charges rates however involve much more administrative complexities, and there are also likely to be better ways to provide support to those struggling. s 9(2)(f)(iv)

**Due to the computer system, the reduction will apply to unpaid road user charges invoiced during the three-month reduction period**

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Waka Kotahi invoices road users that do not purchase road user charges. One of the main ways such road users are identified is when the vehicle is inspected for its warrant of fitness or certificate of fitness. The distance reading is recorded in a Waka Kotahi administered computer system at such inspections. If the reading exceeds the last distance licence issued, an invoice is generated and sent to the road user.

s 9(2)(g)(i)

**ANNEX: SUBSIDISING DIESEL** s 9(2)(g)(i)

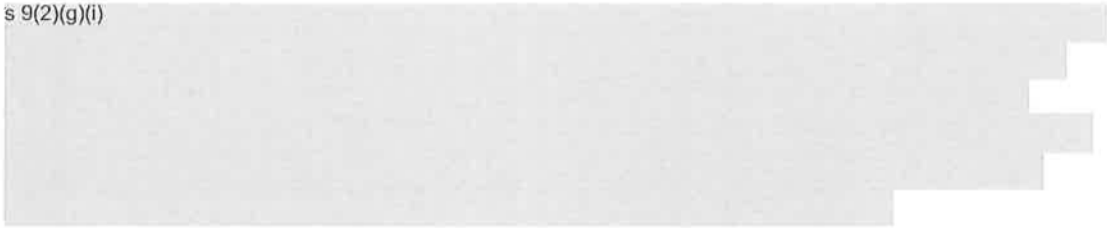
The Ministry of Transport organised a meeting with representatives from the New Zealand Customs Service, the Ministry of Business, Innovation and Employment, The Ministry of Foreign Affairs and Trade, and The Treasury to discuss the idea, put to you by stakeholders, to subsidise diesel to reduce the price at the pump. Below is an outline of observations on the concept.

- Providing a subsidy for diesel would impact the economy more broadly than reducing road user charges, which will only directly impact road users.
- Unlike with petrol, there is no excise equivalent on diesel, so there is no ability to reduce the rate of taxation to potentially influence the price (like there is with petrol).
- There is no existing legal mechanism to put a subsidy in place or agency to administer it, so we would need to work through how to do that.
- No obvious way to ensure any subsidy is passed through and resulted in lower pump prices (economic incidence).
- A risk that once a subsidy is in place could be challenging to roll back.

• s 9(2)(g)(i)



- s 9(2)(g)(i)



- Subsidies are economically inefficient, often resulting in adverse and unintended consequences and distort market behaviour. Examples of where the Government has subsidised market goods are largely historical and did not achieve their policy objectives.
- Administering reduced road user charges rates could be challenging and costly, but it is not impossible. Putting in place a diesel subsidy could also be equally fraught.