



Cabinet Background Information and Speaking Points

Cabinet

Subject: *Putting in place reduced rates of road user charges and reduced public transport fares*

Portfolio: Transport

Officials available to attend (subject to remote access arrangements):

- Marian Willberg, Manager, Demand Management and Revenue
- Matthew Skinner, Manager, Mobility and Safety

Background information:

On 21 March 2022, you have an oral item at Cabinet to:

- seek an amendment to Cabinet Minute CAB-22-MIN-0073 from 14 March 2022, which refers to reductions to road user charges being made by an amendment to regulations, and replace the references to 'regulations' with 'a Bill in the House'
- provide an update on the advice you have received from transport officials on reducing the rates of road user charges and options being worked through.
- update your colleagues relating to reducing public transport fares.

Talking Points:

Ask for an amendment to Cabinet minute CAB-22-MIN-0073 to proceed by way of a Bill instead of regulations

- On 14 March 2022, Cabinet authorised the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to reduce road user charges for three months by an amendment to the Road User Charges (Rates) Regulations 2015. Cabinet also authorised the Minister of Transport to clarify and develop minor and technical policy decisions [CAB-22-MIN-0073 refers].
- Transport officials have advised a Bill in the House is the most effective and efficient way to put a reduction in place rather than amending hundreds of rates in the regulations. It also means the reductions could be in place more quickly, given that a 42-day notice period applies to road user charges rate changes by regulations.

- I am asking Cabinet to amend the minute of 14 March (CAB-22-MIN-0073) and substitute the references to an “amendment to the Road User Charges (Rates) Regulations 2015” with “a bill in the House”.
- Once the Bill has been drafted, I will return to Cabinet on 28 March 2022 to seek approval to introduce the Bill. I will talk to the Leader of the House on the prioritisation of the Bill and the need for urgency.

Outline of what the proposed amendment Bill will likely provide, details are still being worked through by transport officials, so this is an early preview.

The rate of reduction for road user charges

- Overall, the aim is to reduce road user charges by an equivalent amount to the 25 cents per litre reduction for petrol excise duty for three months. Petrol excise duty is levied on every litre of petrol whilst road user charges are pre-purchased kilometres.
- **Three options are being considered:**
 - **a dollar option (option 1):** a \$27 reduction across all rates. This option gears the reductions to light vehicles (the cost of a distance licence for a light vehicle would reduce by \$27 from \$76 to \$49 per 1,000 km). We estimate the cost of this option is around \$100m for three months, depending on uptake.
 - **a percentage option (option 2):** a 36 percent reduction across all rates. This option would mean that heavy vehicles receive significant reductions (for example, the licence cost for a very large truck (RUC type 308) would reduce from \$431 to \$276, per 1,000 km. We estimate the cost of this option is around \$170m for three months, depending on uptake.
 - **hybrid – a combination of dollar and percentage reductions (option 3):** rates reduced by approximately 14 percent or \$27, whichever results in a lower rate. The 14 percent reduction would mean the increases by the Govt since 2017 to rates are un-done, so rates revert to their levels before the election of the Labour Government in 2017. The \$27 reduction would apply to light vehicles to ensure parity between light petrol and light diesel vehicles. The \$27 reduction would mean the cost of a road user charges licence for a light diesel vehicle is lower than it was at the end of the previous government’s term. We would anticipate the three-month cost is less than option 2, but higher than option 1, but would depend on uptake This option is still being worked through by transport officials
- Transport officials prefer option 1 for the following reasons:
 - lower revenue risk – there is a risk the steeper the reductions, the higher the uptake and the possibility of exceeding the funding envelope. Even though option 2 sat behind figures used in the cabinet paper, overwhelming uptake could mean the envelop is exceeded. If option two is chosen, there will need to be close monitoring of uptake and revenue impact.
 - deliver the primary policy intent: to assist households with the heightened fuel cost. Unlike businesses, households have less ability to pass costs on.
 - the heavy freight sector should continue to pay for the wear and tear costs of their road use, which is an objective of the road user charges system.

- How about adopting a similar approach taken to rate increases to decreases?
 - Officials use the Cost Allocation Model (CAM) to indicate how rates should be applied to achieve the required level of revenue. In the past few increases, Cabinet has chosen not to follow the recommendations of the Cost Allocation Model, and instead apply a % rate increase. This has resulted in some RUC vehicles, notably the heavier vehicles, paying more than their 'fair share' (according to the CAM) and other (mostly lighter) vehicles paying less than indicated by the CAM. The last increase in 2020 was a 5.3% increase across all rates. This means the rate for light vehicles under recovers and many heavy rates over recover.
 - Officials do not think past rate increase decisions are a good guide to reductions. Applying a flat reduction figure would gear reductions to the heavy sector. The approach in recent years has sought to limit/reduce increases to light vehicle owners and, in effect, over recover from the heavies. For example, the CAM indicates the light vehicle rate should be around \$82. It is currently \$76. The CAM suggests that the rates for many heavies should be lower than current rates.

Eligibility for reduced rates

- **All road users will be able to purchase extra distance at a reduced rate.** Unlike with petrol excise duty, where all road users immediately pay less or receive a saving, with road user charges, all road users can save money or pay less over time by purchasing additional road user charges at a reduced rate.
- **Road users who have pre-purchased road user charges since 1 March 2022** will be able to receive a credit for unused distance purchased at the higher rate. Officials advise that providing credits or refunds to all pre-purchased road user charges is too administratively complex.

Putting in place measures to prevent abuse (for example, the hoarding of road user charges)

- Officials recommend an amendment to an existing provision that heavy licences purchased at the reduced rate become invalid one month after rates are increased
- Officials recommend a power to cap purchases at the reduced rate (likely only to be used for light vehicles)
- Officials recommend a power to issue an assessment where Waka Kotahi determines that the purchase was unreasonable, an abuse or excessive.

Commencement date

- Officials have provided two start date options:
 - **1 April 2022** would align with other government initiatives focused on household cost pressures. However, not all Waka Kotahi system changes will be in place by 1 April 2022. As such, 1 April has not been recommended by officials.

- **16 - 21 April 2022** – would be preferred as it allows Waka Kotahi time to make necessary system changes. I am minded adopting 21 April as I consider system changes should be in place before going live.

End date

- s 9(2)(f)(iv)

I want to provide you with an update on the work to reduce public transport fares

- Councils are generally positive about the proposed fare reductions, but some have expressed concern about the start date of 1 April.
- Cabinet agreed for \$25–\$40 million to be spent. Based on further work, a scheme appears to be achievable within this envelope, subject to confirmation of the scope.
- The following cost estimates assume patronage at 70 percent of pre-COVID levels, which is a significant increase above current levels.
- Approximately \$2 million of the costs relate to the cost to councils of implementing the change (changes to ticketing systems and communication of the changes).

Scope	Includes	Estimated cost (\$m)	Cumulative Cost (\$m)
Core public transport services	Services operating under contract with councils	32.1	32.1
Inter-regional train services	Te Huia and Capital Connection	0.3	32.4
Total mobility	Transport for people with long-term impairments unable to use regular public transport	4.1	36.5
Commercial public transport services	Devonport, Waiheke and Rakino ferry services, Wellington Cable Car	3.7	40.2

These costs do not include inter-regional bus services or private school bus services