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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)

28 February 2022

OC210954

Hon Michael Wood
Minister of Transport

Action required by:
Monday, 14 March 2022

THE TARGETING APPROACH FOR THE TRIAL OF THE EQUITY-ORIENTED VEHICLE SCRAPPAGE SCHEME

Purpose

To seek your direction on the targeting approach for the trial of the equity-oriented vehicle scrappage scheme.


Key points

- The draft Emissions Reduction Plan includes a commitment to implement an equity-oriented vehicle scrappage scheme. We have submitted a bid to Budget 2022 to resource a trial of such a scheme from November 2022.
- The main objective of the scheme will be to support low-income New Zealanders switch to low emission vehicles, or low emission alternatives. This will contribute to a just transition and improve equity through reducing transport costs and increasing road safety for low-income New Zealanders. It will have the secondary objective of reducing emissions.
- To succeed the trial scheme must have an effective targeting mechanism to safeguard its relatively high levels of financial support for low-income New Zealanders. This is important because the risk of applications from people who do not need assistance beyond the Clean Car Discount is high.
- We propose a targeting mechanism that uses an income threshold pegged to the adult fulltime living wage. To minimise use of the scheme by high-income New Zealanders, there would also be a household income threshold, pegged to 85 percent of median household income. These thresholds will limit but not remove the risk of the scheme's assistance flowing to high-income New Zealanders.
- The motor vehicle industry is very supportive of a vehicle scrappage scheme but not a targeted one. In its view, low-income New Zealanders would be adequately assisted by an untargeted scheme focused on increasing vehicle fleet turnover. However, experience shows that untargeted scrappage schemes have poor equity outcomes and are not a cost-effective way to reduce emissions.

Recommendations

We recommend you:

- 1 **confirm** that despite the presentation from the Motor Trade Association your preference remains trialling a scrappage scheme targeted to low-income New Zealanders Yes / No
- 2 **note** that the effectiveness of a targeted scrappage scheme depends on its ability to cost-effectively identify and target low-income people, while minimising use of the scheme by people with higher incomes and compliance and administration costs
- 3 **discuss** with officials your view on progressing a targeting mechanism with the following characteristics: Yes / No
 - participation would be open to people with an individual taxable annual income of \$47,320 or lower, and where they are living with a spouse, civil union partner, or de facto partner, a household taxable annual income of \$73,590 or lower
 - for couples with more than two children, the household income threshold would increase by \$10,318 for each additional child under the age of 18 years. For single parents the same adjustment would apply to the individual income threshold
 - people would provide their income and household information in applying to scrap a vehicle and applications would be statutory declarations to increase the provision of correct information. The accuracy of applicant income data would be verified against Inland Revenue (IR) data
- 4 **note** that IR would need to prioritise work to support the development of the verification process in relation to delivering the Tax Policy Work Programme, and although the time and cost implications for IR are not expected to be high, securing IR's support could present a delivery risk for the scrappage scheme.


Ewan Defany
Manager, Environment, Emissions and
Adaptation
24.2.22

Hon Michael Wood
Minister of Transport

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- Minister's office to complete:
- Approved Declined
- Seen by Minister Not seen by Minister
- Overtaken by events

Comments:

Contacts

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

PROACTIVELY RELEASED BY
TE MANATU WAKA MINISTRY OF TRANSPORT

THE TARGETING APPROACH FOR THE TRIAL OF THE EQUITY-ORIENTED VEHICLE SCRAPPAGE SCHEME

We have started work on the design of the trial of an equity-oriented scheme

- 1 In discussing our briefing entitled, 'Safeguarding equity in the decarbonisation of light vehicles' (OC210442 refers), you directed us to develop a vehicle scrappage scheme targeted to low-income New Zealanders. You noted that the scheme would be based on California's successful "Clean Cars 4 All" programme.
- 2 With the proposed scheme eligible low-income people who scrap a vehicle would receive financial assistance for the purchase of EVs, PHEVs and hybrids. Participants would have the option to use the financial assistance for low emission alternatives, such as the purchase of e-bikes and use of public transport.
- 3 Following your direction, we included an equity-oriented scrappage scheme in the draft Emissions Reduction Plan that Cabinet will soon consider. We have also submitted a bid to Budget 2022 to resource a trial of this scheme from November 2022.
- 4 We are now working on the design of the trial scheme. We have started with targeting as it is the key design element for an equity-focused scheme. This work addresses the questions.
 - What levels of annual income would be considered "low-income" and qualify people as eligible to participate in the scheme?
 - How could the targeting mechanism minimise use of the scheme by people with high-incomes, and maximise the number of low-income people assisted?
 - What would be the most effective and efficient way for applicants to demonstrate, and the scheme's administrator to verify, eligibility to participate in the scheme?
- 5 The targeting approach that we seek your feedback on is outlined in paragraphs 18 – 26.
- 6 Before this discussion, we recap the merits of a targeted scrappage scheme and seek confirmation that this remains your preference. This is to help us progress the design of the trial scheme with the Motor Trade Association (MTA) in light of their proposed untargeted scheme.

Experience with untargeted scrappage schemes show their costs tend to outweigh their benefits

- 7 Untargeted vehicle scrappage schemes have been implemented in many countries in the past. Overall, their evaluations show that the value of the schemes' benefits in terms of reduced emissions and increased road safety struggle to exceed the costs associated with vehicle replacement. This is largely because of the challenges that:
 - the vehicles scrapped tend to be end-of-life ones that would have been scrapped in the absence of a scheme and its incentives¹

¹ Sandler, Ryan. 2012. "Clunkers or Junkers? Adverse Selection in a Vehicle Retirement Program." *American Economic Journal: Economic Policy*, 4 (4): 253-81.

- they tend to incentivise vehicle sales that would have taken place anyway within the same year². Unless the schemes ensure that high-emission vehicles are replaced by low emission ones the emission benefits are eroded
 - carbon emission reductions are maximised the earlier a high emitting vehicle leaves the fleet. However, the younger a vehicle the higher its economic value and their owners will not be motivated to scrap them unless the scheme's incentives at least meet this value.
- 8 There is also evidence that untargeted schemes do little to improve equity outcomes. International evaluations of untargeted scrappage schemes demonstrate that either there is no statistically significant difference in household income levels in use of the schemes, or the schemes are disproportionately used by higher-income households³. Part of the reason for this is that scrappage schemes favour people who have enough upfront income to purchase a replacement vehicle⁴.
- 9 This is contrary to the view that low-income households should benefit most from untargeted scrappage schemes. This view is based on the misperception that older and high-emitting vehicles are predominantly owned by low-income people. In fact, in New Zealand these vehicles are owned across low-income and high-income households.
- 10 Although higher-income households may own more newer vehicles, they are also likely to own additional older vehicles. As well, the highest emitting vehicles, such as performance vehicles, utes and large SUVs, are more likely to be owned by wealthier households because they cost more.
- 11 Widespread ownership of old and high-emitting vehicles is evident in the results of the Auckland, Wellington and Christchurch scrappage trials over 2007–2009. Data from these trials showed no correlation between income and number of vehicles owned, or income and taking part in the trial.

Low-income New Zealanders will be better supported by a targeted scrappage scheme

- 12 The untargeted scrappage schemes contrast sharply with the targeted scheme we are working to develop. With our proposal the primary goal is equity. The scrappage scheme would be a mechanism through which targeted support would be given to assist low-income New Zealanders shift to low emission vehicles, or low emission alternatives. It will have the co-benefit of accelerating the removal of high emitting, unsafe vehicles from the fleet, but this is not its primary goal.
- 13 Such a scrappage scheme targeted to low-income people is likely to yield public benefit because it:
- will increase the number of low-income people that can access low emission vehicles, or low emission alternatives. These options provide tangible

² Mian, A. and Sufi, A. 2012. "The effects of fiscal stimulus: evidence from the 2009 cash for clunkers program", *The Quarterly Journal of Economics*, Oxford University Press, vol. 127(3), pages 1107-1142.

³ Guo, & Kontou, E. (2021). Disparities and equity issues in electric vehicles rebate allocation. *Energy Policy*, 154, 112291–. <https://doi.org/10.1016/j.enpol.2021.112291>.

⁴ Rubin, D. & St-Louis, E. (2016). Who's in, who's out? Evaluating the economic and social implications of participating in clean vehicle rebate programs. *Transport Research Record*. <https://doi.org/10.3141/2598-08>.

reductions in transport costs, which has the potential to relieve financial pressure for low-income households

- has greater potential to genuinely accelerate emissions reduction and increase vehicle safety. The higher levels of financial support, achieved by targeting, enable the vehicle purchases of low-income people to shift from cheaper high-emitting and less safe replacement vehicles, to options that are cleaner and safer
- restricts use by high-income households who are more able to access low emission alternatives or purchase low emission vehicles without assistance beyond the Clean Car Discount.

The MTA have proposed an untargeted scrappage scheme

- 14 The MTA presented its proposal for an untargeted scheme to you at the meeting of the Clean Car Sector Leadership Group on 15 November 2021. The aim of the MTA's scheme is to "accelerate the removal of high emitting, unsafe vehicles from the fleet".
- 15 The MTA do not consider that a focus on equity is needed as it "suspects that low-income New Zealanders predominantly own the vehicles that would be eligible for a scrappage scheme". In its view, a general scheme should be able to provide support to those who need help to transition to low emission vehicles.
- 16 We do not support the MTA's proposal for an untargeted scheme. However, the overall process they propose for implementing a scrappage scheme has merit. We are looking to engage with the vehicle industry to refine and finalise this process for the trial.
- 17 To facilitate this engagement, it would be helpful if we could remove the issue of targeting from the discussion. To do that we seek confirmation that your preference is to trial a targeted scheme.

An effective targeting mechanism is key to the success of the trial scheme and we propose using income thresholds tied to the full-time adult living wage

- 18 To succeed, an equity-oriented scrappage scheme must cost-effectively concentrate support where it is most needed. This requires a targeting approach that achieves an acceptable balance between the objectives of:
- accurately identifying low-income people who need assistance to shift to low emission vehicles or alternatives
 - maximising the number of people in the target population who access the scheme and minimising use by people in higher income groups
 - minimising compliance costs and government administration costs.
- 19 In our previous briefing (OC210442 refers), we suggested that the Community Services Card (CSC) could be used as the scheme's targeting mechanism. However, with further analysis we no longer consider the CSC suitable. This is because many eligible low-income people do not have a CSC in part due to the barrier of having to apply for one.

- 20 Instead, we propose targeting the scheme through an income threshold tied to the full-time adult living wage. This would mean that people would be eligible if their individual taxable annual income is \$47,320 or lower. Taxable income would be used for this threshold as this is the easiest and most accurate measure to verify. The timeframe for annual income would be the latest financial year.
- 21 As low-income earners are found in households across all income deciles, there is a risk that high-income households would access the scheme. This would limit the effectiveness of the scheme in increasing equity. To mitigate this risk, we propose having a second threshold for an applicant's household income. This could be set at 85 percent of annual median household income⁵, which is currently \$73,590.
- 22 The household threshold would not apply to single people living in households with others who are not their spouse, or civil union, or de facto partner.
- 23 To mitigate the risk of large families being disadvantaged by the household income threshold an adjustment would be made. For couples with more than two children, the household income threshold would increase by \$10,318 for each additional child under the age of 18 years. For single parents the same adjustment would apply to the individual income threshold.
- 24 The \$10,318 adjustment is the average adjustment made for family size in assessing eligibility for the Community Services Card.
- 25 To maximise the number of low-income people who benefit from the scheme, only one application could be made per household, or single-person not subject to the household threshold.
- 26 If the trial of the vehicle scrappage scheme were to occur in Auckland, an estimated 357,200 people would be eligible to participate with this targeting approach. If this trial extended to Northland, an estimated additional 63,700 people would be eligible, and if the trial extended to the East Cape (Gisborne and Opotiki) an estimated additional 14,100 people would be eligible.

Our proposed targeting mechanism requires the use of Inland Revenue data to verify income information

- 27 To implement this targeting approach, people would provide information on their annual individual taxable income, annual household taxable income and household type in applying to scrap a vehicle. Applications would be statutory declarations to encourage correct reporting.
- 28 To accept an application, the trial scheme's administrator would verify that people's income and household information meets the threshold requirements.
- 29 The scheme's administrator would check the accuracy of the income information by verifying it against Inland Revenue's (IR) data. This could be done via IR's gateway service. With the capability and infrastructure of this service a verification process would be put in place for the trial scheme through:
- a memorandum of understanding (MOU) between the trial scheme's administrator and IR. The MOU would authorise the administrator to use IR data for verification and would set out the conditions and safeguards for its use

⁵ This measure is before housing costs.

- IR supporting the scheme administrator's development of 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
 - people consenting, when they apply to scrap a vehicle, to their information being verified against their IR data. As well as to consenting to any audit of that information. People would also provide all relevant IRD numbers for their application and personally identifiable information.
- 30 The cost and time implications to develop the verification process have yet to be determined. However, they are not expected to be high given the capability and infrastructure of IR's gateway service. Funding for this is included in the bid to Budget 2022 to resource a trial of the vehicle scrappage scheme.
- 31 Nevertheless, IR has advised that it would need to prioritise work to support the equity-oriented vehicle scrappage scheme in relation to delivering the Tax Policy Work Programme Ministers have agreed.

We have designed the targeting mechanism to reduce the risk of use by high-income New Zealanders, but this risk cannot be completely removed

- 32 Our proposed targeting approach will be effective in identifying low-income New Zealand and will have relatively low administration and compliance costs. However, it has the following key trade-offs and risks:
- It will limit, but not prevent, financial assistance going to people that do not require support, for example, those:
 - o living with a high-earning spouse, civil union or de facto partner who falsely declare their relationship status in their applications. The magnitude of this risk would be reduced through applications being statutory declarations. However, realistically the scheme administrator would have little capability to actively detect false declarations. Nor would it be expected that Police would prioritise prosecution of false statutory declarations
 - o receiving New Zealand superannuation with high levels of savings and other assets
 - o who satisfy the income thresholds for the scheme but have significant levels of assets and/or income from non-taxed sources, such as, capital gains, inheritances and gifts.
 - Its use of national thresholds does not allow for regional differences in the cost-of-living. This creates a risk that the thresholds are too low for people in regions with relatively higher living costs, as they could have lower levels of disposable income to finance a switch to low emissions travel.
- 33 The trial's evaluation will assess the extent to which these risks are significant. This will allow the targeting mechanism to be adjusted should the scheme subsequently be implemented nationally.

- 34 Beyond the targeting risks, the trial scheme would be vulnerable to people selling the replacement vehicles to realise the cash value of the subsidy. We intend to minimise this risk by a condition that prevents someone selling a subsidised vehicle for at least two years. However, we have yet to work-through how this condition could be given effect and enforced.
- 35 There is also the risk that people will buy very cheap old vehicles to enable them to participate in the scheme. This would undermine the level of genuine emission reductions and safety improvements. We propose to remove this risk by requiring proof that a person applying to scrap a vehicle has owned it for at least two years.

Next Steps

- 36 Following your direction on our suggested targeting mechanism the next key steps in designing and implementing the trial scheme are outlined in the table below. The timeframe in it is dependent on the Budget 2022 bid to resource the trial being approved by the Minister of Finance.

Design aspect	Timeframe
Advice on whether the trial scheme's financial incentives would be a grant, or a loan, or a mixture of both. As well as recommendations on the level of the incentives.	By 31 March 2022
(Subject to the outcome of Budget 2022) Advice on the proposed process for scrapping a vehicle and securing a replacement, or low emission alternatives. This includes: <ul style="list-style-type: none"> the criteria for eligible vehicles how the process could be streamlined for participants the expectations of vehicle dealers and scrappage partners involved in the scheme processes to reduce fraudulent use of the scheme location of the trial the agency that will be the Scheme Administrator how an alternative option to vehicle purchase could be given effect, including its potential scope. 	By 30 June 2022
Briefing on the design of the scheme's evaluation.	By 30 June 2022
Report to the Cabinet Economic Development Committee seeking approval of the design of the trial scheme and its commencement.	By 31 August 2022
Scheme Administrator implements and establishes trial with its delivery partners in the vehicle and scrappage industries, and providers of low emission alternatives	September – December 2022
Trial scheme in operation	Early 2023

- 37 We are working with KPMG on the design aspects for the June briefing. The advice in this briefing will be informed by engagement with the MTA and other key stakeholders.