

20 November 2020

OC200904

Hon Michael Wood
Minister of Transport**Action required by:**
Monday, 23 November 2020

DECARBONISATION OF THE PUBLIC TRANSPORT BUS FLEET

Purpose

To provide a draft Cabinet paper, and supporting information, on the decarbonisation of the public transport bus fleet.

Key points

- At the officials' meeting on 16 November 2020, you sought a paper to seek Cabinet's agreement to a work programme to support the Government's target of decarbonising the public transport bus fleet by 2035.
- We subsequently confirmed with your office that this paper would also include content on how the Government intends to require the purchase of only zero-emission buses after 2025.
- The attached draft Cabinet paper (**appendix one**) is provided for discussion on 23 November 2020 at the official's meeting.
- This briefing specifically notes the context to the Cabinet paper, including the considerations and risks to an accelerated decarbonisation programme at this time. It also provides a copy of a report on options to accelerate decarbonisation of the bus fleet that we commissioned from KPMG and Mott MacDonald earlier this year (**appendix two**).

Recommendations

We recommend you:

- 1 **discuss** the attached draft Cabinet paper at the official's meeting on 23 November 2020 Yes / No

Privacy



Helen White
Manager, Mobility and Safety

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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

Privacy

Contacts

Name	Telephone	First contact
Helen White, Manager, Mobility and Safety		✓
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DECARBONISATION OF THE PUBLIC TRANSPORT BUS FLEET

The Labour Party made a manifesto commitment to decarbonise the public transport bus fleet

- 1 The manifesto noted that a Labour Government would “require only zero-emissions buses to be purchased for the public transport bus fleet by 2025 and target decarbonising the public transport bus fleet by 2035.” It also committed to provide \$50m over four years to support regions with de-carbonisation of the bus fleet.
- 2 At the officials’ meeting on 16 November 2020, you sought a paper for Cabinet setting out a work programme to achieve the 2035 target. We subsequently confirmed with your office that the paper would also note how you intend to meet the 2025 purchasing target.

Decarbonisation of the bus fleet to date has been led by councils and largely limited to metro areas

- 3 The Cabinet paper outlines the reasons why decarbonisation of the public transport bus fleet is desirable, the work that has been underway in this area and the work programme you are endorsing for Government to support decarbonisation.
- 4 Local government is the key actor to drive decarbonisation of the public transport bus fleet. Prior to the outbreak of COVID-19 in New Zealand, Auckland Transport, Greater Wellington Regional Council and Environment Canterbury (which together contract services that operate eighty per cent of public transport buses in New Zealand) outlined their commitments and ambitions to decarbonise their bus fleets.
- 5 Central government can contribute to decarbonisation through different streams of work, including the review of the Public Transport Operating Model (PTOM), work related to the consideration of ongoing exemptions from road user charges (RUC) for heavy vehicles, and work related to the provision of funding streams.

Local government faces a range of barriers to decarbonise the public transport bus fleet

- 6 There are a number of existing barriers to consider if decarbonisation is to be achieved. These include:
 - 1.1 high upfront capital costs of zero-emission vehicles such as battery electric and hydrogen buses;
 - 1.2 high upfront costs of supporting infrastructure, such as charging infrastructure for e-buses and upgrades to power distribution networks;
 - 1.3 the risk premium applied by operators for deploying unproven technology with an unknown residual value;
 - 1.4 the impact of private ownership of assets on the potential for continued competition for public transport bus contracts;

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- 1.5 the higher weight of e-buses and the lack of options available that are compliant with New Zealand's vehicle weight regulations; and
 - 1.6 the high RUC costs that will likely apply to e-buses after 2025, when the current RUC exemption for heavy electric vehicles expires.
- 7 The increased use of zero-emission buses may impact the way that buses that have reached the end of their public transport service life are repurposed. This creates greater uncertainty about the residual value of zero-emission buses. For example, it has been common practice to redeploy diesel public transport buses to deliver Ministry of Education contracted school bus services. In the case of zero-emission buses, the requirement for charging infrastructure to operate the vehicles would likely render the repurpose option obsolete. In addition, if diesel buses are retired from the public transport bus fleet early (before the 20-year limit specified by Waka Kotahi NZ Transport Agency's (*Waka Kotahi*) *Requirements for Urban Buses*), that would add an additional cost.
- 8 The complexities above will not be overcome by any one intervention, e.g. funding or legislative/policy change. For this reason, the Cabinet paper outlines a programme of initiatives.
- 9 We propose that the initiatives will be progressed through a discussion document (discussed with the sector in the first quarter of next year) with policy decisions mid next year. Any legislative change would follow this.

We have considered the options to require only zero-emission buses to be purchased after 2025

- 10 We see three possible mechanisms to influence regional council purchases of buses:
- 10.1 Using your 2021/22 Letter of Expectation (LoE) to the Waka Kotahi Board to communicate specific Government expectations in this area. Your office has a draft of this letter (OC200709 refers), and if desired, the Ministry could add specific expectations for the agency on this issue (i.e. working with councils to review how they purchase buses) before sending. This would create an expectation for Waka Kotahi to include this in its performance targets for 2021/22 onwards, and the Ministry would monitor progress against those targets.

Waka Kotahi is expected to refresh their Statement of Intent in advance of the 2021/22 financial year. As part of our review of this document, the Ministry can raise working with councils to review how they purchase zero-emission buses as a priority issue to include.
 - 10.2 Legislative change through the Land Transport Management Act 2003 (LTMA)
 - 10.3 Using the Government Policy Statement on land transport (GPS) to signal the Government's priority to decarbonise the public transport bus fleet and linking funding to this.
- 11 We have noted in the Cabinet paper that you will, as a first step, use your LoE to the Waka Kotahi Board for 2021/22 to reiterate the Government's commitment to

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decarbonising the public transport bus fleet and set out your expectation that Waka Kotahi supports this objective.

- 12 Legislative backing of the Government commitments to 2025 and 2035 may be something you want to consider as part of the PTOM review and funding discussions.
- 13 If an investment lever is also required, this would mean using GPS 2024, or an amendment to GPS 2021, to signal the priority and link funding to it. Sufficient funding to support this would need to be available within the National Land Transport Fund (NLTF).

The 2035 target is ambitious, especially given COVID-19 impacts on the sector

- 14 COVID-19 has considerably disrupted decarbonisation plans already in place by the metro councils. Patronage level decreases have led to decreased fare revenue and necessitated injections of Crown funding to retain service levels. With a premium on operating electric buses, and competing financial priorities, funding electric buses has become increasingly difficult for councils.
- 15 Delivering decarbonisation plans through the GPS would add to funding pressures already faced by the NLTF. GPS 2021 added a number of priorities to be funded through the NLTF, and Waka Kotahi has signalled that it will need to make some major trade-offs in order to deliver the next National Land Transport Programme.
- 16 COVID-19 has also led to additional central government support for public transport funding. While this funding has recognised the key role public transport plays, it has led to ongoing concerns about sustainable funding if patronage continues to be negatively affected. Implementing a living wage for bus drivers and any additional funding for the Super Gold Card, while also priorities to ensure sustainable public transport, may place further pressure on the NLTF.

Likewise, there will be competing priorities for any central government funding

- 17 We do not have a cost estimate for achieving the Government's decarbonisation objectives. Auckland Transport (AT) has undertaken modelling to estimate the cost of decarbonising Auckland's public transport bus fleet by 2030. The AT modelling estimates these costs as:
 - 17.1 cumulative increases of \$164 million between 2020 and 2030; and
 - 17.2 cumulative increases of \$350 million between 2020 and 2040.
- 18 We do not have cost estimates for decarbonising the bus fleet in other regions.
- 19 As outlined in the Cabinet paper, we also recommend any funding to support decarbonising the public transport bus fleet is considered in the broader context of other actions to reduce transport emissions. When considering how much central government versus local government funding should be provided for decarbonisation of the bus fleet, thought should be given to how much funding should be reserved for other initiatives to reduce transport emissions where no easy funding sources to incentivise demand and transition exist.

20 The Cabinet paper notes that we will discuss funding and financing options/needs with the sector and report back to Cabinet on that in the first half of next year. This will consider how the proposed manifesto commitment of \$50m could be spent [REDACTED]

Timeframes are ambitious to finalise the Cabinet paper for Cabinet consideration on 30 November 2020 Under active consideration

21 You have indicated your intention to take this paper to Cabinet on 30 November 2020. To finalise the Cabinet paper we need to:

- a. incorporate your feedback on the initial draft
- b. reflect any comments through ministerial and interdepartmental feedback in a revised draft
- c. share a final Cabinet paper with you (and make any final changes)

22 Completing these steps by 10:00am Thursday (for traditional lodging with Cabinet office) would limit time for ministerial and interdepartmental consultation. We are discussing the draft Cabinet paper with you on 23 November 2020. Depending on the scale of change we propose the following next steps (either option assumes ~1.5 days for ministerial and interdepartmental consultation and lodging with Cabinet office on Friday 27 November 2020) (Please see table below for proposed timelines).

	Monday 23	Tuesday 24	Wednesday 25	Thursday 26	Friday 27
Draft Cabinet paper is approved and/or limited change required	Discussion with officials. Revised paper provided to Ministers office by close of business.	Commence Ministerial and interdepartmental consultation.	Ministerial and interdepartmental feedback received by midday. Officials finalise Cabinet paper.	Revised paper provided to Minister's office.	Late lodgement with Cabinet office for consideration Monday 30 November 2020
Draft Cabinet paper requires significant change	Discussion with officials. Officials redraft Cabinet paper.	Revised paper provided to Minister's office ASAP but no later than close of business.	Commence Ministerial and interdepartmental consultation.	Ministerial and interdepartmental feedback received by midday. Officials finalise Cabinet paper.	Revised paper provided to Minister's office on Friday morning. Late lodgement with Cabinet office for consideration Monday 30 November 2020

24 In parallel with drafting the Cabinet paper, we are preparing a Climate Implications of Police Assessment (CIPA). We will provide this to you when we provide the final Cabinet paper.

Appendix 1

Appendix 2