

Chair
Cabinet Economic Growth and Infrastructure Committee

ROAD USER CHARGES: REFORM OF THE TIME LICENCE SYSTEM AND MODERNISATION OF THE LIST OF EXEMPTED VEHICLES

Purpose

1. This paper seeks approval for legislative amendments to the Road User Charges Act 1977 and associated regulations to remove time licences and modernise the list of exempt vehicles.
2. This paper is the third of five related Cabinet papers setting out proposals for new road user charges (RUC) legislation to replace the Road User Charges Act 1977 and Road User Charges Regulations 1978.

Executive summary

3. The Independent Review of the New Zealand Road User Charges System (the Review) recommended discontinuing the time licence¹ system. Further work by officials confirmed that the time licence system suffers from a number of limitations, including a lack of clarity, lack of objective basis for charging, and high transaction costs.
4. I propose to discontinue time licences for affected vehicles. These will then become exempt from RUC, but will continue to contribute to road maintenance costs through the payment of annual licence fees. Vehicle types that are estimated to travel more than 1,000 kilometres a year on road will be subject to an additional annual charge at the time of annual licensing.
5. The proposal is revenue neutral as I propose to recover current time licence revenue through adjustments to annual licence fees for tractors, and through the introduction of the new additional annual charge for selected vehicle types. Final decisions on the level of these fees and charges will be made closer to the time when time licences are abolished.
6. The following table summarises the different ways in which vehicles are at present categorised for RUC purposes and shows how the proposal in this paper affects those categories:

¹ Refer to Appendix One for a list of vehicles required to purchase time licences.

Vehicle category	Current Form of payment	Impact of Proposal
Not licensed for road use	None	Not affected
Licensed but exempt from RUC (see Appendix Two)	Annual licence fee (\$43.50 for most vehicles, \$24.50 for tractors)	Annual fee for tractors used on roads will increase to \$43.50 to align with all other licensed vehicles
Subject to time licence (see Appendix One)	Annual licence fee + time licence	Most will become exempt (types 70 to 81 in Appendix One), including all tractors. Some will be subject to a new annual charge (types 82–91 in Appendix One).
Subject to distance licence	Annual licence fee + distance licence	Not affected

7. As part of this proposal, the scope and definitions of vehicles exempt from RUC in the current legislation are to be reviewed and simplified, to ensure that only relevant vehicles are covered.

Background

8. The RUC system is based on the principle that vehicles that use the roads must pay for their use. It is designed to cover all vehicles not subject to fuel excise duty. There are effectively three categories of such vehicles².
- The majority of vehicles must purchase distance licences based on weight and distance travelled. This includes most light diesel vehicles and heavy vehicles.
 - A small number of eligible vehicles must purchase time licences. They comprise various construction, forestry and road maintenance related heavy machinery, unregistered motor vehicles operated under trade plates³, and some tractors. These are vehicles that the framers of the RUC system concluded were inappropriate for distance licences because (i) some vehicles cannot be easily fitted with distance recorders, and (ii) their travel on the road is relatively limited.
 - Some vehicles are exempt from RUC (see Appendix Two). This group comprises vehicles such as farmers' tractors, forklifts and vehicles used for agricultural purposes. While exempt vehicles may use roads occasionally (where permitted), their travel is assumed to be very limited. Due to administrative complexity and costs, the payment of RUC is not warranted in these cases.

² There is a fourth category that includes light vehicles whose motive power is wholly or partly derived from an external source of electricity. These vehicles are exempt from RUC until 2013 to encourage their uptake.

³ People use trade plates for different purposes and reasons, depending on their occupation and business. For example, a motor vehicle dealer may use trade plates to demonstrate a new vehicle.

9. Vehicles that are exempt from RUC still contribute to roading costs if licensed for use on the roads. The total amount paid to re-license a vehicle is largely made up of ACC levies, but includes a contribution to the National Land Transport Fund (\$43.50 a year for most vehicles). Vehicles that are not used on road at all are not required to be licensed.
10. The following table summarises the current categorisation of vehicles for RUC purposes:

Vehicle category	Form of payment
Not licensed for road use	None
Licensed but exempt from RUC	Annual licence fee
Subject to time licence	Annual licence fee + time licence
Subject to Distance Licence	Annual licence fee + distance licence

11. The Review was established in August 2008 and reported back to government in March 2009. One of the terms of reference of the Review was to look at the costs of the current system and identify any improvements that might be made to reduce those costs.
12. In relation to time licences, the Review found the system to be costly to administer, serving only a small fraction of eligible diesel vehicles and adding unnecessarily to the complexity of the RUC system. The Review recommended discontinuing time licences. It also suggested that vehicles currently subject to time licences should be required to pay a flat rate network access fee, similar to all other road vehicles, as their contribution to road costs.
13. I previously informed you that while I do not support the Review's recommendation regarding a flat rate network access fee, as it would unduly increase fixed annual licensing costs for all vehicle owners, I support in principle the proposal to discontinue time licences.
14. However, further analysis was required regarding the feasibility of the proposal before approval could be sought for legislative change. I also noted that, as part of that analysis, officials would take into account the linkages between exempted vehicles and those requiring time licences. Cabinet agreed to this approach [EGI MIN (09) 16/8 refers].
15. This further analysis found that the time licence system is problematic for the following three reasons.

Lack of clarity

16. In many cases the distinction between vehicles subject to time licences and those exempt from RUC is arbitrary and there is no clear rationale for maintaining two separate categories of vehicles with limited or no travel on the road.
17. Tractors are a particular problem for time licences. While farmers' tractors are exempt, agricultural contractors' tractors are subject to time licences. There is no evidence that tractors owned by contractors are more likely to be used on the road than farmers' tractors. As a result of the arbitrary distinction, the legislation setting out RUC exemptions is extremely convoluted and inaccessible. In many cases administration staff,

enforcement officers and vehicle owners are unable to determine without doubt whether a vehicle is eligible for an exemption.

Lack of objective basis for charging

18. While the detailed schedules setting out the charges create a perception that charges accurately reflect the costs these vehicles impose on the road network, this is not actually the case.
19. The system is based on travel estimates from the 1970s and there is no objective data to confirm whether they are still applicable. Current charges involve a high degree of averaging that can lead to significant under or overcharging.

High transaction costs

20. The transaction costs involved in obtaining and managing time licences are relatively high in proportion to the revenue gained. Of the total diesel fleet of 580,000 vehicles, approximately 7,500 vehicles (just over 1 percent) currently require time licences.
21. Administration costs exceed 9 cents for every dollar in revenue for just under 50 percent of vehicles that pay about \$100 or less annually for time licences. In some cases transaction costs can be higher than the actual costs of a time licence. This appears excessive and reflects the fact that for time licences the revenue per transaction is comparatively low. Overall, time licences contribute about 0.2 percent of the total RUC revenue at 0.5 percent of the total administration cost.

Options

22. Officials identified a number of options to reform the system, including:
 - A. the removal of time licences, exempting relevant vehicles from RUC and recognising the standard annual licence fee as an appropriate contribution to road costs
 - B. as for A, but imposing an additional annual charge on all RUC exempt vehicles
 - C. the replacement of time licences with an additional flat annual fee at the time of annual licensing
 - D. a combination of options A and C, that is the removal of time licences but their replacement with an annual charge for some selected vehicle types.
23. Option A has the greatest benefit in terms of simplification of the RUC system, but would require the recovery of most of the current time licence revenue (about \$2 million a year) from all other road users.
24. Option B has similar benefits to option A in terms of simplification of the RUC system, but instead of transferring costs to the general vehicle fleet the equivalent of the existing time licence revenue would be recovered through a combination of adjusting annual licence fees for tractors and a small additional annual fee for all exempted vehicles.

25. \$0.6 million would be recovered from aligning registration and annual licensing fees for tractors with those of similar vehicles. Of all tractors currently registered and licensed in New Zealand, approximately 22,000 are exempt from RUC under the various 'use' and 'ownership' exemption provisions, and approximately 4,000 tractors require RUC time licences. Tractors make up more than 50 percent of time licence vehicles and the registration and licence fees for tractors are currently much lower than the fees for other vehicles. Bringing the annual licence fees for tractors (\$24.50) in line with most other vehicles (\$43.50) would recover about \$0.5 million in revenue. While this proposal would also affect other tractors currently exempt from RUC, there is no clear rationale for having lower fees for tractors.
26. The remaining \$1.4 million would be recovered from all exempted vehicles (including former time licence vehicles), through an additional new fee of \$28 on top of existing annual licence fees.
27. This option would also enable equal treatment of time licence vehicles and exempted vehicles, enable the simplification and modernisation of exempted vehicle definitions, and eliminate operator compliance costs and government administration costs. However, it imposes an increase in annual charges on vehicles currently exempt from RUC. The increase would be particularly large for exempt tractors.
28. Option C removes the transaction costs associated with time licences and imposes no new costs on any other group of vehicles, but would involve a very high degree of averaging compared to current time licence payments. Time licences at present recover an average of \$267 per vehicle per annum, but the majority of users pay much less than this. Almost 50 percent of time licence vehicles currently pay less than \$100 annually.
29. Setting an annual flat fee of \$267 could be seen as excessive for these vehicles, especially as there is no objective data on the road network costs that can be attributed to them. This option also fails to address the lack of a clear distinction between exempted vehicles and those currently subject to time licences (as definitional differences in legislation would have to be maintained).
30. In option D, time licences would be removed and the standard annual licence fee would be recognised as an appropriate contribution to road costs for vehicle types 70–81 (see Appendix One), including tractors. These vehicles currently pay much lower time licence charges than other types, as it is assumed they travel less than 1000km per year. This option would also enable the simplification, modernisation and consolidation of exempted vehicle definitions (most of the problems are linked to vehicle type 73: tractors).
31. Time licences for vehicle types 82–91 would also be removed. However, as these vehicles are assumed to travel more than 1,000 km a year, they should contribute more to road costs. A new additional charge would therefore be introduced at the time of annual licensing.
32. The lost revenue from vehicle types 70–81 could be recovered fully from aligning registration and annual licensing fees for all tractors with fees for other vehicles, as described in option B (about \$0.6 million). The lost revenue from vehicle types 82–91 (about \$1.4 million) would be recovered through the new additional annual charge. This would be set at about \$560. The vehicles that would be affected by this charge currently pay an average of between \$260 and \$1,700 a year per vehicle in time licence fees.

Preferred option

33. On the balance of arguments, I propose to adopt option D. The proposal would result in savings to operators (for example, less time spent on obtaining licences, avoided licence “administration fee” costs), and savings to the government (avoided administration costs). There would be small one-off costs to the New Zealand Transport Agency and the Ministry of Transport to implement the proposal. There are also costs to make changes to LANDATA, the database holding information on New Zealand vehicles and their owners. No changes are anticipated in terms of New Zealand Police enforcement costs.
34. The Road Transport Forum had reservations relating to the removal of time licences for tractors, noting that some agricultural contractors actively compete with road transport service providers in some areas. The extent of such abuse is not known; however, the proposal to remove time licences does not materially add to the incentive to misuse tractors because of the relatively small financial savings (generally less than \$100 per vehicle per annum). Under the present system, once a time licence is purchased, there is already an incentive to maximise distance travelled.
35. To help prevent the “gaming” of the system (for example, registering a tractor so as to be exempt from RUC, yet using it to haul commercial freight), I propose that officials review the legal definition of a “tractor” and associated rights and responsibilities, and report back to me on suggested changes.
36. There are also some vehicle types that (i) may no longer qualify for an exemption as vehicle design and use may have changed over time, or (ii) are not currently covered by either existing exemption provisions or time licences.
37. The former (i) may include vehicles for which there may no longer be any justification for an exemption from RUC. Thus, affected vehicle types could be removed from the list of exemptions. I propose that such changes are to be taken into account when revised regulations are developed.
38. The latter (ii) may include vehicles such as combine harvesters and similar self-propelled agricultural machines. They are designed for agricultural purposes and their on-road travel is very limited; therefore they should be included in the list of exempted vehicles when revised regulations are developed.

Consultation

39. The following agencies and organisations were consulted on the content of this paper: the Treasury; the New Zealand Transport Agency; the New Zealand Police; Ministry of Economic Development; Department of Labour; the Accident Compensation Corporation (ACC); and the Ministry of Justice. The Department of Prime Minister and Cabinet has been informed.
40. The Review consulted with the transport industry; and subsequently the Ministry of Transport has consulted with the transport, agricultural and construction industries.
41. I intend to consult with industry on the reviewed scope and definitions of vehicles exempt from RUC at the time when the new regulations are developed.

Financial implications

42. The proposal is revenue neutral and not intended to detract from the central principle of the RUC system: that road users should pay their share of road costs. I do not consider that this creates a precedent for further exemptions and I am not intending to consider any new exemptions from RUC beyond the reforms discussed in this paper.
43. There are some one-off implementation costs for this proposal. To the extent that these costs cannot be absorbed by the New Zealand Transport Agency, they are included in a total estimate of \$1.485 million that covers the implementation of all changes resulting from the new RUC legislation, including those proposed in other cabinet papers associated with this submission. I intend to fund this cost through a fiscally neutral adjustment to appropriations in Vote: Transport. A proposal for this purpose is included in the paper: "Road User Charges: Overview and introduction to legislation proposals".
44. With regard to the adjustments to the licence fees for tractors and the new annual charge for vehicle types 82–91, I intend to make the final decisions at the time when time licences for these vehicles are abolished.

Legislative implications

45. The removal of time licences will require amendments to RUC legislation.
46. [withheld]
47. With regard to exemptions from RUC, the intention is that all RUC exemptions be reviewed, simplified and consolidated in new regulations.
48. It will also be necessary to amend the Land Transport Management (Apportionment and Refund of Excise Duty and Excise Equivalent Duty) Regulations 2004⁴ to reflect the intended changes and to ensure consistency with the revised exemptions in the new RUC regulations.
49. The proposal to exempt all tractors and to review and modernise the list of vehicles exempt from RUC has implications for ACC because it relies on the same regulations to define vehicles exempt from ACC levies. The Ministry of Transport will keep ACC and the Department of Labour informed of any changes to ensure ACC levy legislation and regulations continue to function as intended.

Regulatory Impact Analysis

Regulatory Impact Analysis Requirements

50. The Ministry of Transport confirms that the principles of the Code of Good Regulatory Practice and the regulatory impact analysis requirements, including the consultation requirements, have been complied with. A Regulatory Impact Statement (RIS) has been prepared and is attached to this paper.

⁴ The Land Transport Management (Apportionment and Refund of Excise Duty and Excise Equivalent Duty) Regulations define eligibility for refunds of fuel excise duty, but are also used to define many of the exemptions from RUC.

Quality of the Impact Analysis

51. A Principal Adviser in the Aviation and Maritime Group of the Ministry of Transport has reviewed the RIS. The reviewer considers that the information and analysis in the RIS meets the quality assurance criteria.

Consistency with Government Statement on Regulation

52. I am satisfied that the proposals outlined in this paper will materially reduce the regulatory impact of the RUC system, relative to the current arrangements, and are consistent with our commitments in the government statement "Better Regulation, Less Regulation". My preferred option has slightly fewer benefits in terms of regulatory impact compared to option A considered in the RIS, but has been selected to minimise the transfer of costs to operators of vehicles not currently subject to time licences.

Publicity

53. I intend to issue a media statement announcing a package of reforms that will simplify and modernise the RUC system.

Recommendations

54. It is recommended that the Committee:

Time licences

- 1) **note** that the road user charges time licence system lacks clarity and an objective basis for charging, and involves high transaction costs;
- 2) **agree** that time licences be removed from the road user charges system;
- 3) **[withheld]**;
- 4) **note** that I intend to recover the lost revenue from the removal of time licences by aligning the registration and annual licence fees for tractors with those of other similar vehicles and introducing a new annual charge for vehicles that are estimated to cover more than 1,000 kilometres a year on road, at the time when the changes to the time licence system take effect;

Exemptions

- 5) **note** that the scope of exemptions from road user charges is inconsistent, and that the definitions of exempt vehicles in current legislation are convoluted and inaccessible;
- 6) **agree** that the scope and definitions of vehicles exempt from road user charges, which are currently contained in several pieces of legislation, be reviewed, simplified and consolidated in new road user charges regulations;
- 7) **agree** that vehicles that, due to their specific characteristics, do not use the roads or have only very limited travel on roads (for example, combine harvesters) be exempt from road user charges;

- 8) **note** that for some vehicles there may no longer be any justification for an exemption from RUC and that such changes will be taken into account when revised regulations are developed;
- 9) **note** that officials will consult with industry before finalising a revised and consolidated list of vehicles exempt from road user charges;
- 10) **note** that officials will review the legal definition of a “tractor” and associated rights and responsibilities, and report back to me on suggested changes;
- 11) **agree** to amend the Land Transport Management (Apportionment and Refund of Excise Duty and Excise Equivalent Duty) Regulations 2004 to reflect the consolidated list of road user charges exemptions proposed in recommendation 6 above;
- 12) **note** that the New Zealand Transport Agency will incur additional one-off operating costs totalling \$1.485 million to implement the package of proposals to modernise and simplify the road user charges system (including the proposals contained in this paper);
- 13) **note** that a proposal to meet these costs, through a fiscally neutral adjustment of appropriations in Vote:Transport, is included in the overview cabinet paper relating to this package of reforms to the road user charges legislation;
- 14) **invite** the Minister of Transport to issue drafting instructions to Parliamentary Counsel for legislation to give effect to the recommendations in paragraphs 2, 6, 7 and 11 above.

Hon Steven Joyce
Minister of Transport

Dated: _____

APPENDIX ONE – VEHICLES REQUIRING TIME LICENCES

Type of motor vehicle	Vehicle type number	Road travel assumption	Revenue 08/09 (\$)	Vehicles 08/09
Trailer scrapers	70	1000km	0	0
Plant for servicing oil filled cables	71		749	8
Road Rollers	72		71,497	860
Tractors other than those owned and operated by farmers on their own farms	73		315,961	3,766
Post debarkers	74		310	3
Saw bench apparatus	75		527	6
Forestry chippers	76		3,940	21
Sawing or shearing apparatus for tree cutting	77		6,077	33
Stone and gravel crushing and screening plant	78		36,773	189
Asphalt mixing and paving plant	79		22,997	112
Bulldozers and angle dozers	80		3,040	30
Tractor mounted mobile cranes and log skidders	81		2,995	32
Front end loaders	82	2500km	288,709	1,111
Mobile pile drivers	83		1,995	7
Motor scrapers	84		23,588	28
Self-propelled water carts that are always unladen on the road	85		5,520	14
Self-propelled trench diggers and excavator	86		150,125	495
Self-propelled vehicles that are always unladen on the road and that are designed exclusively for carrying earth or other bulk materials	87		73,019	134
Mobile cranes (excluding mobile vehicle recovery units, truck mounted cranes, and cranes to which a distance recording device is or could readily be fitted)	88	5000km	79,588	47
Motor Graders	89		616,702	617
Unregistered motor vehicles operated under trade plates	90		274,759	N/A
Cable Jinkers	91		3,030	11
TOTAL			1,981,897	7,524

APPENDIX TWO – VEHICLES CURRENTLY EXEMPT FROM ROAD USER CHARGES (Excluding electric vehicles)

Type of motor vehicle
Any motor vehicle whose motive power is always wholly derived from [petrol] and whose gross laden weight is 3.5 tonnes or less (*)
Any trailer whose gross laden weight is 3.5 tonnes or less (*)
Two wheeled motor vehicles whose gross laden weight is 1 tonne or less (^)
Trailers designed and used exclusively as part of the armament of any of Her Majesty's Forces (other than trailers designed solely for the carriage of goods) (^)
Motor vehicles used on road only for or solely in connection with agricultural operations (")
Farmers' vehicles used on road only in connection with agricultural operations (")
Tractors or traction engines used on road only or mainly for agricultural operations (")
Farmers' tractors used on road only for specified purposes (...agricultural operations, construction and maintenance of roads) (")
Agricultural contractors' tractors used on road only for cartage or haulage of farm implements (")
Tractors for use with topdressing aircraft and that satisfy requirements if taken along public highway (")
Motor vehicles with permanently attached machinery and used on road only for specified purposes (")
Tractors used only for upkeep of specified land or for cutting of grass verges of roads (")
Local authorities' tractors used only for stopbanks and banks of watercourses (")
Huts, etc, used on road solely in connection with construction or maintenance of roads (")
Tractors used only for shunting railway rolling stock (")
Traction engines (")
Forklifts (")
Aerodrome crash fire tenders used on road only in emergencies (")
Vehicles for ships' passengers, cargo, mails, etc, and used on public highway only as specified (")
Trailers drawn by certain exempt vehicles (")

(*) see Road User Charges Act 1977

(^) see Road User Charges Regulations 1978

(") see Land Transport Management (Apportionment and Refund of Excise Duty and Excise Equivalent Duty) Regulations 2004