

Regulatory Impact Statement

Road user charges: Reform of the time licence system and modernisation of the list of exempted vehicles

Agency disclosure statement

This Regulatory Impact Statement (RIS) has been prepared by the Ministry of Transport (Ministry).

It provides an analysis of options to reform the time licence system for the New Zealand road user charges (RUC) system and to simplify and modernise the list of vehicles exempt from RUC.

Detailed analysis has been undertaken to understand the underlying problems with the time licence system. A key problem is the lack of objective data on the distance travelled by time licence vehicles. For this part of the analysis officials had to rely on industry feedback and original estimates from the time when the road user charges system was designed.

The preferred policy option will remove unnecessary complexity and costs to businesses. It will not impair private property rights, market competition, or the incentives on businesses to innovate and invest, or override fundamental common law principles.

The policy options comply with the Government Statement on Regulation.

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Status quo and problem definition

In New Zealand, the road user charging system is based on the principle that vehicles that use the roads must pay for their maintenance and construction. It is designed to cover all vehicles not subject to fuel excise duty. There are effectively three categories of such vehicles.

- 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 plates, and some tractors (see Appendix One). 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. 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.

The Independent Review of the New Zealand Road User Charging System (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.

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.

Cabinet subsequently supported in principle the proposal to discontinue time licences. However, further analysis was required regarding the feasibility of the proposal before approval could be sought for legislative changes. It was also noted that, as part of that analysis, officials would review the list and definitions of vehicles exempt from RUC. This is because there are significant linkages and similarities between exempted vehicles and those on time licences.

The time licence system is problematic for the following reasons.

Lack of clarity

In many cases there are no discernible differences between exempted vehicles and those subject to time licences and there is no clear rationale for maintaining two separate categories of vehicles with limited or no travel on the road.

Tractors are a particular problem for time licences. While farmers' tractors are exempt, agricultural contractors' tractors are subject to time licences. Of more than 27,500 tractors, about 3,800 require time licences. The others are exempt. While it can be argued that contractors' tractors will travel more on the road¹ as they may service several farms, their main purpose is agricultural work and their travel on the road is, like those of exempted tractors, ultimately very limited.

As a result of the arbitrary distinction between time licence vehicles and exempt vehicles, the legislation setting out RUC exemptions is extremely convoluted and inaccessible. In many cases

¹ Even though the large majority of tractors are exempt from RUC, they (along with some other vehicles used for agricultural operations) are permitted to travel on the road for up to 21km per trip.

administration staff, enforcement officers and vehicle owners are unable to determine without doubt whether a vehicle is eligible for an exemption. If time licence vehicles and exempted vehicles were to be treated in the same way, exemption definitions could be simplified and modernised.

Lack of objective basis for charging

Time licences may be purchased for a single month or up to 12 months. The charges for time licences are based upon vehicle type and weight, and determined by the period for which the owner purchases the licence. The charges for a 12 month time licence can range from as little as \$25 to more than \$3,000, although only few vehicles are subject to the charges in the upper range.

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, at least in part due to limited data.

The framers of the RUC system grouped vehicles requiring time licences into three categories based on estimates of the annual distance they were likely to travel: up to 1,000km (types 70–81); up to 2,500km (types 82–87); and up to 5,000km (types 88–91). However, there is no objective data (from surveys or Global Positioning System data) to confirm whether these travel estimates are still applicable.

In any case, current charges involve a high degree of averaging that can lead to significant under or overcharging. What is more, there are also cases where it is questionable to apply RUC (via time licences) because of the purpose of the vehicle. For instance, machinery such as graders working on roads incur most of their travel while maintaining roads, yet their operators are charged for doing so.

High transaction costs

Of the total diesel fleet of 580,000 vehicles, approximately 7,500 vehicles (just over 1 percent) currently require time licences. Total annual revenue from time licences amounts to approximately \$2 million. The average revenue per vehicle per year is approximately \$267, although a majority of vehicles (such as tractors) pay significantly less than that.

Time licences cannot be purchased online and payment channels are more limited than for distance licences. Based on a recent survey conducted by Research New Zealand², it is assumed that operators spend at least 20 minutes obtaining a time licence (including travel, waiting and filling in the form) for their vehicle³. Considering the limited travel of these vehicles and the relatively small amount of revenue per vehicle, total operator “time” costs of approximately \$67,500 per year⁴ to comply with the RUC system appear relatively high.

From an administrative perspective, the revenue-cost ratio is lower for time licences than distance licences. For every dollar in revenue from distance licences, there are average administration costs of 1.5 cents. For time licences, average administration costs amount to 3.5 cents for every dollar in revenue.

² Research New Zealand, Road User Charges Review Stock-take and Compliance Activity Report, Jan 2009

³ Operators spend approximately 5 to 10 minutes (on average) to fill in the relevant form. As time licence applications cannot be made online, two-thirds of respondents physically go to the sales agent. Such a trip is assumed to take at least 10 minutes.

⁴ This is based on a cost of \$19.63 per hour and 10,327 transactions per year. The number of transactions and time licence vehicles has remained relatively constant since 2004. It is assumed that this situation will continue.

Notably, however, 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. This reflects the fact that for time licences, the revenue per transaction is comparatively low.⁵ Overall, time licences contribute about 0.2 percent of the total RUC revenue at 0.5 percent of the total administration cost.

This indicates that the efficiency of operating the time licence system is relatively low, and the transaction costs involved are disproportionate to the fees gained, compared to other forms of taxation.

Objectives

The objectives and outcomes against which the options to improve the system are assessed are as follows:

- simplifying the RUC system and clarifying the rationale behind vehicles subject to (or exempt from) RUC
- reducing operator compliance costs and government administration costs so as to improve productivity.

Regulatory impact analysis

The Ministry has identified five options to reform the system. All options are revenue-neutral. Options A to D involve changes to the Road User Charges Act 1977 and associated regulations.

Option A: Removal of time licence system

Option A involves the removal of time licences, and, in light of the limited travel of affected vehicles, recognising the annual vehicle licence fee (\$43.50 for most vehicles) as an appropriate contribution to road costs. This option would 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. Details regarding the quantified costs and benefits can be found in Appendix Two.

The loss in revenue of \$2 million can be recouped through a combination of minor adjustments to inflows into the National Land Transport Fund, including adjustments to annual licence fees and/or rates of fuel excise duty and RUC.

This option removes any distinction between vehicles currently subject to time licences and those already exempt from RUC and would reallocate the costs at present recovered from time licence vehicles to the general vehicle fleet.

Option B: Removal of time licence system plus new fee targeting exempt vehicles

Option B is similar to option A as it also removes any distinction between existing time licence vehicles and exempt vehicles. However, instead of redistributing costs to non-exempt vehicles

⁵ In some cases transaction costs can be higher than the actual costs of a time licence. For instance, a time licence for a bulldozer weighing seven tonnes will cost \$15.90 for a 3-month period, yet government administration costs and operator time costs amount to \$9.56 and \$6.54 respectively

this option would recover the revenue at present derived from time licences from all exempt vehicles.

\$0.6 million would be recovered from aligning registration and annual licensing fees for tractors with those for other vehicles. At present, tractors are subject to lower registration and annual licence fees than other vehicles, but there is no clear rationale for this distinction.

The remaining \$1.4 million would be recovered through an addition of \$28 to existing annual licence fees for all exempt vehicles.

This option retains most of the benefits of option A, in that it would 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, the additional fee for exempt vehicles would add to the complexity of annual vehicle licensing and impose an additional burden on those vehicles currently exempt from RUC. These vehicles are exempt because they presumably have no or limited travel on the road, so there is no clear rationale for raising fees for them. The additional cost would particularly affect exempted tractors, for which the annual licence fee would increase from \$24.50 to \$71.50.

Option C: Removal of time licence system plus new fee targeting time licence vehicles

Option C avoids transferring any costs to the non-exempt vehicle fleet. It involves the removal of time licences but, in order to fully recover the loss in revenue of \$2 million, charging an additional flat fee of \$267 per vehicle on top of annual licence fees for affected vehicle types only. This option would remove the transaction costs associated with time licences, but

- would fail to address the lack of clarity between exempted vehicles and those currently subject to time licences (as definitional differences in legislation would have to be maintained)
- add to the complexity of annual vehicle licensing (a higher licence fee would be required for a very limited number of vehicles and vehicle types)
- and fail to take into account the different characteristics of vehicles, thereby creating inequities.

If the charge were set at approximately \$267 per vehicle to recover the same revenue most vehicles currently subject to time licences would end up paying more on an annual basis. This is problematic, given that the charges do not accurately reflect the costs these vehicles impose on the road network and there is no objective basis for charging. Almost 50 percent of vehicles currently pay less than \$100 annually.

Option D: Removal of time licence system plus new fee for selected vehicle types

Like Option C, option D avoids transferring any costs to the non-exempt vehicle fleet. It involves removing time licences and recognising the annual licence fee as an appropriate contribution to road costs only 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).

Time licences would also be removed for vehicle types 82–91. However, as these vehicles are assumed to travel further, they should contribute more to road costs. A new additional charge would be introduced at the time of annual licensing.

The lost revenue from vehicle types 70–81 could be recovered fully from aligning registration and annual licensing fees for all tractors (about \$0.6 million), as described in option B, while the lost revenue from vehicle types 82–91 (about \$1.4 million) would be recovered through the new additional annual charge. The level of that charge would be set at approximately \$560 per vehicle per year.

This option retains most of the benefits of option A in that it would enable the simplification and modernisation of exempted vehicle definitions (most of the problems are linked to vehicle type 73: tractors).

Option E: Status-quo and incremental improvements

This option would retain time licences but minor administrative changes would be investigated so as to make it easier and more cost-effective for operators to comply. This option would also involve further work by officials to establish whether the travel estimates for time licence vehicles are still applicable. This may provide a more objective basis for any future reforms.

Consultation

The Review consulted with the transport industry. While conducting further analysis on the Review’s proposal and assessing alternative approaches, the Ministry consulted with the organisations and stakeholders listed below.

Government Agencies / Crown Entities	Industry
NZ Transport Agency	Federated Farmers New Zealand (agriculture)
New Zealand Police	Rural Contractors New Zealand (agriculture)
The Treasury	Horticulture New Zealand (agriculture)
Department of Labour	New Zealand Forest Owners Association (forestry)
Accident Compensation Corporation	New Zealand Contractors’ Federation (construction)
Ministry of Justice	Roading New Zealand (construction)
Ministry of Economic Development	Road Transport Forum (transport)
	Motor Trade Association (transport)
	Motor Industry Association (transport)

The Ministry sought comment on the proposals to remove time licences. Most organisations provided written feedback. Where requested, officials also met directly with stakeholders.

The New Zealand Transport Agency and the New Zealand Police strongly support the removal of time licences from the RUC system as per option A. The Department of Labour and Accident Compensation Corporation (ACC) do not have concerns about the proposal. However, because ACC relies on the same regulations to define its list of vehicles exempt from ACC levies, they have requested that the Ministry keeps them informed of any changes to ensure ACC levy legislation and regulations continue to function as intended.

For the most part, industry did not provide detailed feedback. Agricultural organisations were in favour of removing time licences but did not support additional new fees. The Road Transport Forum had reservations relating to the removal of time licences for harvesting and agricultural equipment (effectively 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.

The Ministry intends to consult the industry and relevant government departments on the revised and modernised list of exemptions from RUC.

Conclusion and recommendations

Option A is the preferred option, that is, to remove time licences, exempt the affected vehicles from RUC, and simplify and modernise the list of vehicles exempt from RUC.

Even though there are some equity concerns with option B (new fee targeting exempt vehicles), it retains most of the benefits and is considered second-best alongside option D (new fee for selected vehicle types). Option E (status-quo and incremental improvements) is the third best option. Option C (flat annual fee for all vehicles currently subject to time licences) is the least-preferred option.

Implementation

Discontinuing time licences will require legislation. [withheld]

With regard to exemptions from RUC, the intention is that the RUC Bill continues to contain empowering provisions to enable exemptions to be included in regulations. The new RUC regulations will contain a revised and consolidated list of all vehicles exempt from RUC. Industry and relevant government organisations will be consulted on the revised list of exemptions before the regulations are finalised.

It will also be necessary to amend the Land Transport Management (Apportionment and Refund of Excise Duty and Excise Equivalent Duty) Regulations 2004 to reflect the intended changes and to ensure consistency with the new RUC regulations.

Depending on the option selected, minor changes may need to be made to regulations under the Land Transport Act 1998 to reflect changes to annual licence fees.

Monitoring, evaluation and review

There are some potential risks with the removal of time licences in that a blanket exemption may lead to a marginal increase in on-road travel (and the associated road damage) by some vehicles. However, this is only the case for those vehicles that are eligible to use time licences but do not currently obtain time licences.⁶ Not obtaining licences is most likely to apply to heavier

⁶ As time licence vehicles are normally unsuitable for travelling long distances, a decision to travel will be influenced by whether or not there are alternatives to travel (for example, a mobile crane cannot practically be transported via truck) or whether it is economic to do so. Thus, the removal of time licences and the associated small cost saving is unlikely to increase the travel of vehicles currently subject to time licences.

eligible vehicles, since the charges for lighter eligible vehicles are relatively low and are unlikely to significantly influence a travel decision. Heavy special purpose vehicles such as graders, mobile cranes, excavators, motor scrapers and some front end loaders pay in excess of \$500 per year for time licences. A quantitative estimate of relevant vehicles based on current data is not possible; however, the number of relevant vehicles is likely to be very small and any associated increase in road damage is likely negligible. Officials intend to monitor the situation.

Due to technological advances it may, within 10 to 15 years, become possible to objectively and cost-effectively assess (and charge for) on-road travel of any vehicle, including those currently exempt from RUC and those currently on time licences. While this is too costly at present, it will be possible to review the list of vehicles exempt from RUC when relevant technology becomes more cost effective. This approach would enable a clearer and more objective distinction between vehicles that are subject to (or exempt from) RUC.

APPENDIX ONE – VEHICLES REQUIRING TIME LICENCES

Type of motor vehicle	Vehicle type number	Road travel assumption (1970s)	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 – QUANTIFICATION OF THE COSTS AND BENEFITS OF REMOVING TIME LICENCES

Item	Unit	Amount	Source / Remarks
Savings to operators (avoided time spend on obtaining licences)			
Estimated time that operators spend on obtaining the licence	min	20	based on Research NZ results
Cost per hour	\$	19.63	Deloitte
Number of licences per year		10,327	NZTA, 2008/2009
Total savings (per year)	\$	67,573	
Savings to operators (avoided licence “administration fee” costs)	\$	66,246	NZTA, 2008/09
Savings to government (avoided administration costs)			
Total administration costs	\$	74,000	NZTA
Total administration fees collected for RUC time licences	\$	66,246	NZTA, 2008/09
Total avoided net administration costs	\$	7,754	
LANDATA⁷ changes (one-off)	\$	110,000	NZTA estimate
Other implementation costs at MoT and NZTA			Please refer to the paper: “Road User Charges: Overview and introduction to legislation proposals”
Increase in road damage		N/A	cannot be quantified, assumed negligible
Police enforcement costs		N/A	no change

⁷ LANDATA is the database holding information on New Zealand vehicles and their owners.