

# Regulatory Impact Statement

Amendments to Road User Charges regulations

## Agency Disclosure Statement

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

It provides an analysis of options to:

- a) simplify the structure of additional road user charges rates; and
- b) set appropriate levels of road user charges for large motor caravans.

Analysis undertaken includes consideration of:

- an evaluation report on implementation of the new road user charges system implemented in August 2012
- feedback from transport industry organisations
- representations from individual vehicle owners
- information provided by the NZ Transport Agency on numbers of road user charges licences sold and related revenue
- the costs attributed to vehicles of different types by the Ministry of Transport cost allocation model.

The analysis assumes that available options are limited to those that can be implemented through regulations made under the Road User Charges Act 2012 (the RUC Act).

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Date

## Executive summary

1. The government has previously agreed that there should be an increase in road user charges (RUC) on 1 July 2014. The amount of the increase is to be equivalent to the 3 cents a litre increase in petrol excise duty that will occur at the same time, as provided for by amendments to the Customs and Excise Act passed in 2013.
2. Increases in RUC are effected by changes to regulations made under the Road User Charges Act 2012. Cabinet's previous authorisation of drafting instructions for changes in rates of RUC also covers minor and technical changes to the related regulations.
3. The Ministry of Transport proposes to use this opportunity to make two minor changes to the definitions of RUC vehicle types and licence classes. These are:
  - To simplify the schedules of additional RUC licences for over-weight combination vehicles (trucks and trailers)
  - To create new vehicle types for large 3 and 4 axle motor caravans.
4. Additional licences at present contribute less than 0.5 percent of RUC revenue, but occupy 14 pages in the Road User Charges (Rates) Regulations 2013. This results from attempting to prescribe rates for all possible combinations of trucks and trailers.
5. Experience with the new RUC system since August 2012 has shown that the length and complexity of additional licence schedules is unnecessary. Many classes of licence are unused, and differences in road costs between different vehicle combinations can be adequately reflected in a less extensive schedule of rates.
6. The additional licence reform option proposed would reduce the number of different RUC additional licence categories for combination vehicles from 53 to 7. This will make the system more transparent, easier for operators to comply with and easier to administer.
7. There are a very small number of large motor caravans, built on 3 or 4 axle truck or bus chassis. These vehicles have the same theoretical load capacity as trucks, and currently pay the same RUC, but are highly unlikely to ever approach their maximum legal weights.
8. The proposed option of creating specific vehicle types for the largest motor caravans will allow these vehicles to be charged at rates more in proportion to the road costs they generate.
9. These proposals affect a tiny proportion of RUC licences sold and have negligible effects on RUC revenue. There are therefore no implications for charges paid for other RUC licences

## Status quo and problem definition

### *Complexity of the schedules of additional RUC licence charges*

10. Rates of road user charges (RUC) are prescribed in the Road User Charges (Rates) Regulations 2013 (the rates regulations). Charges vary by vehicle type and weight. Definitions of vehicle types are contained in the Road User Charges Regulations 2012 (the RUC regulations).

11. The RUC regulations define separate vehicle types (H types) for vehicles that regularly operate under over-weight permits. Operators who use over-weight permits only occasionally, or use different permits for varying weights, can purchase additional licences to cover the exact distance travelled while over-weight. Additional licences are prescribed in the rates regulations, both for individual powered vehicles and for combinations of powered vehicles and trailers.
12. Additional licences are purchased in very small volumes and account for less than 0.5 percent of all RUC revenue. However, the schedules of additional licence charges are very lengthy and complex, occupying 14 pages in the rates regulations (twice as much space as all other RUC rates).
13. Most of the complexity in the current schedules of charges relates to additional licences for combination vehicles. These attempt to prescribe rates of RUC for all possible combinations of vehicle types on a tonne by tonne scale. This is because when the new RUC system was implemented in 2012 there was no information available as to the types of vehicle combinations used for over-weight loads, or their typical operating weights.
14. The use made of these licences indicates that a large number of the different classes and rates prescribed are redundant, making the scales needlessly complex both for operators and administrators. The level of complexity also obscures the fact that charges are similar for vehicles with similar numbers of axles, thereby reducing the transparency of the regulations.

#### *High charges for very large motor caravans*

15. Prior to August 2012, RUC licences for each vehicle type were prescribed in a tonne by tonne scale, and vehicle operators were expected to buy a licence covering the maximum actual weight of their vehicle during the distance covered by the licence. The Independent Review of the Road user Charges System (2009) concluded that this system was difficult to comply with and vulnerable to evasion. It recommended that vehicle operators should instead be charged on the basis of the maximum permissible gross laden weight of their vehicles.
16. As a result, the RUC Act now requires all vehicles to be allocated a fixed “RUC weight”, which is equivalent to their maximum allowable on road weight. Regulations prescribe rates of RUC that cover broad weight bands, and aim to recover the average costs attributed to vehicles within each band.
17. The change to charging on maximum weight imposed significant increases in RUC on vehicle owners who use large vehicles, with high weight capacities, and only carry light loads (e.g. furniture movers). This group included a very small number of large motor caravans<sup>1</sup>, built on 3 or 4 axle truck or bus chassis, that incur much higher rates of RUC under the new system than under the previous system of operator nominated weight. These vehicles have the same theoretical load capacity as the heaviest trucks, and are currently being charged on the basis of the estimated average weights of such trucks. In some cases RUC payable has more than doubled. Due to the modifications that have been made to these vehicles to convert them to caravans it is highly unlikely that they will ever approach their allowable legal weights.

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<sup>1</sup> 337 three and four axle vehicles are registered as motor caravans. There are a total of about 150,000 heavy vehicles in active use.

18. In general, the main impact of the increase in RUC for “light but bulky” vehicles was a one-time increase in operating costs, which commercial operators have been able to mitigate in various ways, including by changing the type of vehicle used. However, unlike commercial operators, owners of large motor caravans have very limited options to mitigate the increase, as their vehicles have no alternative use. Some owners have submitted that the increase in RUC has effectively made their motor caravans unsaleable.

## Objectives

19. The government’s objectives for the RUC system include cost recovery, equity, minimising administrative and compliance costs and providing incentives for efficient use of vehicles and roads.
20. The purpose section of the RUC Act states that charges should be “in proportion to the costs that vehicles generate”. The purpose of the Act also includes simplifying the road user charges system and improving compliance.
21. Cabinet has previously agreed that rates of RUC are to increase on 1 July 2014. New RUC rates have to be gazetted by 15 May 2014. This provides an opportunity for other minor changes to the related regulations to be made at the same time. The next such opportunity will not occur until 2015, when a further increase is scheduled.

## Options and impact analysis

22. No non-regulatory options are available to address the problems identified, as they relate to the way in which regulations setting road user charges classify vehicles.
23. Options that would require amendment of the RUC Act have not been considered, as the problems identified relate to only a tiny proportion of RUC licences sold and are not of sufficient magnitude to justify changes to primary legislation. For example, the Act precludes options involving charging on the basis of actual vehicle weight, or allowing motor caravan owners to nominate a RUC weight for a vehicle.

### *Simplification of additional licences*

24. The proposed option for simplification of additional RUC licences has been assessed primarily in relation to the status quo and is designed to be implemented without significant administrative cost. In principle, it would be possible to achieve a greater degree of simplification, but this would be likely to require information system changes for the NZ Transport Agency that could involve a cost that would be out of proportion to the expected benefits. Some simplification options would also detract from the objective of ensuring that charges are in proportion to costs generated by vehicles.
25. The expected benefits of the proposed simplification are greater ease of compliance for vehicle operators, reduced administrative complexity, and simpler and more transparent regulations. There is a slight theoretical loss in the accuracy of cost recovery, due to introduction of broader weight bands for lower value additional licences<sup>2</sup>. In view of the

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<sup>2</sup> Current charges are not an accurate reflection of the costs attributed to vehicles. Overall, the proposed additional licence charges are better aligned to the Ministry of Transport cost allocation model.

relatively minor nature of the changes, no attempt has been made to quantify these costs and benefits.

26. Simplification does not in itself have any implications for revenue. Under the proposed scale there will be a reduction of about \$1 million in RUC revenue from additional licences. However, this is to achieve better alignment between additional licence rates and the costs attributed to over-weight vehicles by the Ministry of Transport cost allocation model. Implementing this re-alignment along with simplification ensures that the latter has no direct negative impact on transport operators (a revenue neutral change would be likely to have generated winners and losers). Owing to the tiny proportion of RUC revenue involved<sup>3</sup> the proposal has no impact on the cost of other RUC licences.

#### *Charges for very large motor caravans*

27. Large motor caravans are identical in terms of load bearing capacity to trucks or buses with the same chassis. Consequently, the only option available to mitigate the identified problem is to create separate vehicle types defined by their bodywork characteristics.
28. Two options were considered. The preferred option creates two new vehicle types: one for 4 axle motor caravans; and one for 3 axle caravans with a RUC weight of more than 18 tonnes. Consideration was also given to creating a separate type for 2 axle motor caravans with RUC weights of over 12 tonnes (the maximum weight band for 2 axle powered vehicles). This option has not been recommended, as the actual weights of these caravans are unlikely to be much lower than the estimated average weights for similar trucks and buses.
29. The proposed RUC rates for the new motor caravan types will result in a saving in RUC of about 30 percent for affected owners<sup>4</sup>. There will be a resulting reduction of about \$130,000 in annual RUC revenue, but this is not sufficient to have any impact on charges for other vehicles.

## Consultation

30. The proposals have been prepared in consultation with the NZ Transport Agency. The NZ Police have been consulted on proposals with enforcement implications.
31. The Road Transport Forum NZ, The NZ Heavy Haulage Association and the Crane Association of NZ have been consulted on the proposed simplification of additional licence charges. The proposed changes are consistent with feedback received from these organisations. The creation of new classes for large motor caravans responds to submissions from owners of the affected vehicles.

## Conclusions and recommendations

#### *Simplification of additional licences*

32. The recommended option for simplification of RUC additional licences will reduce the number of licence categories from 53 to 7 and introduce weight bands for the lower end of the licence scale. This option is not expected to result in any significant reduction in the

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<sup>3</sup> Total annual RUC revenue is more than \$1.3 billion

<sup>4</sup> 337 such vehicles have been identified on the motor vehicle register

accuracy of cost recovery and will not impose any direct costs on any vehicle operators. No significant administrative costs are involved in implementing the change.

#### *Charges for very large motor caravans*

33. The recommended option for large motor caravans is to create 2 new vehicle types:
  - 4 axle motor caravan (covering all RUC weights)
  - 3 axle motor caravan with RUC weight of more than 18,000 kgs.
34. The small number of vehicles involved and the relatively small distances they travel mean that a more appropriate RUC rate can be set for them without any implications for levels of charges paid by other road users.

## **Implementation plan**

35. The proposed options are intended to be implemented along with the increase in RUC rates planned to take effect on 1 July 2014.

## **Monitoring, evaluation and review**

36. The effect of the changes on revenue will be monitored through RUC licence sales data. This will also provide information on numbers of additional licences sold of different classes and number of RUC licences sold for large motor caravans.
37. RUC rates are to be reviewed again in 2015. This will provide an opportunity to make any adjustments that may be required to ensure that the regulations are working as intended.