In Confidence

Office of the Minister of Transport

Cabinet

Ending the Clean Car Discount Scheme

Proposal

1 This paper seeks Cabinet's agreement to end the Clean Car Discount and sets out the steps necessary to achieve this by 31 December 2023.

Relation to government priorities

2 Ending the Clean Car Discount by 31 December 2023 is a commitment under the Government's 100-Day Plan. It is also a key commitment under the National Party's 100 Day Action Plan and the National-ACT Coalition Agreement.

Executive Summary

3 To end the Clean Car Discount, I am seeking Cabinet's agreement to:

3.1 end charges for all vehicles registered after 11:59pm on 31 December 2023.

3.2 end rebate applications from 11:59pm on 31 December 2023, and require the New Zealand Transport Agency (NZTA) to process all outstanding rebate applications by 31 January 2024.

3.3 amend primary and secondary legislation to remove or amend provisions relating to the scheme.

3.4 the Ministers of Transport and Finance amending the current Funding Deed with NZTA, and (if necessary) agreeing a new Deed with NZTA to terminate the existing funding arrangements and enable the wind-down of the scheme.

4 Upon Cabinet's agreement, I will progress the operational steps to end the scheme and will return to Cabinet shortly seeking approval to introduce legislation to the House. To pass this legislation before the House rises for 2023, it will need to be accorded urgency.

We have committed to ending the Clean Car Discount scheme by 31 December 2023

The scheme faces challenges around fiscal sustainability

5 When introduced by the previous Government, the scheme was intended to be fiscally neutral to the Crown over 10 years, with the scheme's charges providing the revenue for rebates and administration costs.

6 However, substantially more has been paid out in rebates than has been received in charges. Through to 31 October 2023, $537.2m was paid in rebates and $13.5m spent in costs to establish and operate the scheme. Meanwhile, $269.3m has been received from charges. The $281.5 deficit has been funded by the taxpayer through Crown grants provided to administer the scheme and cover cashflow pressures.

7 The scheme faces significant challenges to be fiscally sustainable and self-financing. Under current settings, the scheme is only expected to be able to operate until approximately mid-2024. To continue the scheme running in the longer-term would likely require a combination of:

7.1 narrowing/lowering rebates – dampening the low-emission vehicle uptake incentive

7.2 widening/increasing charges – compounding equity issues

7.3 investing additional Crown funding to minimise the scale of changes to rebates and/or charges.

The scheme design raises issues around equity and fairness

8 Under the scheme, many businesses and consumers cannot avoid charges as there are no affordable low-emissions alternatives currently on the market that meet their needs.

9 For example, those that require the 4WD, off-road, towing or storage capacities of utes face charges from $3,680 to $6,900. This is a significant cost to businesses, rural communities, emergency responders, conservation groups and a range of other agencies that are reliant on the vehicle functionality utes provide.

To end the scheme, amendments to primary and secondary legislation will be required

10 Amendments to several pieces of legislation will be needed to remove references to the Clean Car Discount and cease the scheme, this includes:

10.1 the **Land Transport Act 1998**

10.2 the **Land Transport Management Act 2003**

11 The **Land Transport (Clean Vehicle Discount Scheme Charges) Regulations 2022** will be repealed in their entirety.

12 There are also provisions in the **Income Tax Act 2007** that refer to the Clean Car Discount scheme for the purposes of Fringe Benefit Tax. Officials from the Inland Revenue Department (IRD), which administers the Act, have requested to leave these provisions in force for the time being. Once the scheme has ended, these provisions would be redundant and IRD could arrange for their repeal as part of regular legislative amendments to the Income Tax Act 2007.

13 Additionally, amendments to some secondary regulations are proposed to remove references to the Clean Car Discount scheme:

13.1 **Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011** – these amendments would remove requirements for charges to be paid before a vehicle is registered.

13.2 **Energy Efficiency (Vehicle Energy Economy Labelling) Regulations 2007** – these amendments would remove references to the scheme and remove rebate and charge information from vehicle energy economy labels.

14 I propose the amendment Act commence on 1 January 2024 meaning that high-emitting vehicles no longer face charges from 1 January 2024.

15 Some transitional provisions through to the end of the 2023/24 financial year will be needed to allow NZTA to complete the wind-down of the scheme.

16 I am seeking Cabinet's approval to issue drafting instructions to the Parliamentary Counsel Office (PCO) to begin drafting the necessary legislation.

17 I will return to Cabinet shortly to seek approval to introduce legislation to the House. To pass this legislation before the House rises for 2023, it will need to be accorded urgency.

Act to bind the Crown

18 Under Cabinet Office Circular (02) 4, when policy decisions on the content of a Bill are being made by Cabinet, a decision must be made on whether the Bill will state that the Crown will be bound by the proposed Act. The general principle is that the Crown should be bound by Acts unless the application of a particular Act to the Crown would impair the efficient functioning of the Government.

19 Bills that are amending existing Acts will generally follow the position of the principal Act on whether the Act is binding on the Crown. The principal Act proposed to be amended by this Bill is the Land Transport Act 1998, which is binding on the Crown.

20 I do not consider that the proposed amendments are of a significant or substantive nature, or that there are any good reasons why the Crown should not be bound, so I recommend that this Bill is binding on the Crown.

I propose to initiate termination of the Funding Deed with NZTA

21 The Funding Deed with NZTA sets out how Crown grant funding and charge revenue can be used to administer the scheme.

22 There is a six-month notice period to end the Deed. Initiating this notice period will require the Minister of Finance and the Minister of Transport to amend the existing Funding Deed, and/or agree a new Deed with NZTA. Upon Cabinet's agreement to end the scheme, I will direct my officials to work with NZTA to make these arrangements.

I intend to update the Ministerial Direction to NZTA and put in place some transitional arrangements for the wind-down of the scheme

23 Once the amendment bill has passed, I will update the existing Ministerial Direction to NZTA. This direction will require NZTA to no longer accept rebate applications after 31 December 2023.

24 To enable NZTA to wind-down administration of the scheme, I propose the following transitional provisions:

24.1 NZTA must process remaining applications for rebate payment by 31 January 2024.

24.2 Following NZTA's confirmation that all remaining eligible rebates have been paid, unspent revenue and Crown Grant funding (following deduction of costs of operating the scheme) will be returned to the Crown in accordance with the Funding Deed.

Amendments to vehicle labelling requirements must be coordinated with the end of the scheme

25 Under the Energy Efficiency (Vehicle Energy Economy Labelling) Regulations 2007, motor vehicle traders are required to display energy economy labels on vehicles for sale, and energy economy information for vehicles offered for sale on websites.

26 In line with paragraph 9.2, I propose that these regulations are amended to remove rebate and charge information from the energy economy labels. This will require that, from 1 January 2024, all energy economy labels on vehicles and information for vehicles available for sale (both in-person and online) must be updated to the new requirements.

27 There is the potential for risks to arise given the short notice and the timing of changes occurring during the holiday period:

27.1 **Implementation risk:** Motor vehicle traders will be required to update labels on all vehicles for sale, which will lead to significant demand on the label generator database. There is a risk that, if there are issues with the label generator over this period, motor vehicle traders may not be able to comply with the new requirements. The Energy Efficiency and Conservation Authority (EECA), who provide the label generator, will work to prevent any technical issues from occurring over this period.

27.2 **Compliance risk:** There is also a risk of trader non-compliance, given the speed at which they will need to update the labels on vehicles and information for vehicles for sale online. To mitigate this risk, I will direct officials to undertake proactive communications to vehicle traders notifying them of the label changes and encouraging compliance with the updated regulations.

Financial Implications

Costs to wind-down the scheme

28 Through *Supercharging EV Infrastructure*, we noted “There will be a one-off cost to unwind the Ute Tax and EV subsidy scheme to repay the $281.5 million in outstanding loans from taxpayers to NZTA.”

29 Officials have advised that costs to wind-down the scheme will be covered through existing funding, and surplus funding can be returned to the Crown.

Returning surplus funding to the Crown

30 The Clean Car Discount scheme has been funded by revenue received from charges and by a repayable Crown Grant (Non-Departmental Other Expense, - Clean Vehicle Discount Scheme – Rebates MYA).

31 To date, $401.8m has been allocated to the scheme in Crown Grant funding. This is drawn-down by NZTA on request. $120.3m remained with the Crown as at 31 October 2023.

32 In ending the Clean Vehicle Discount by 31 December 2023, I propose $50m in surplus funding be returned immediately to the Crown.

33 s 9(2)(f)(iv) [redacted]

34 The net Crown funding paid out in rebates to consumers will not be recovered.

Revenue from charges

35 The scheme was expected to generate revenue from charges for high emitting vehicles. This revenue was expected to have been fully allocated to the payment of rebates and scheme administration costs.

36 Following the decisions in this paper, revenue for 2023/24 is expected to decrease by approximately $68m. From the 1 January 2024, no revenue will be collected. The impact of reduced revenue will be offset by a reduction in rebate expense for 2023/24. Once the scheme ends, NZTA will be able to provide final figures for 2023/24 rebate expenses.

Other financial implications

37 Government agencies have been able to receive rebates on purchases of eligible vehicles.

38 Agencies that have vehicles on order through the government procurement motor vehicles panel may need to find additional funds to cover the shortfall after the removal of the rebate.

Impact Analysis

Regulatory Impact Statement

39 Cabinet has decided to suspend the requirement for Regulatory Impact Statements for decisions relating to 100 Day Plan proposals (taken within the 100 Days) which solely involve the repeal of legislation.

Climate impacts and implications for meeting statutory emissions budgets

40 s 9(2)(h) [redacted]

41 s 9(2)(h) [redacted]

42 s 9(2)(h) [redacted]

s 9(2)(h) [redacted]

Climate Implications of Policy Assessment

43 A Climate Implications of Policy Assessment (CIPA) for this proposal has been completed and is attached to this Cabinet paper.

44 The CIPA team has been consulted and confirms that the CIPA requirements apply to this proposal. The discontinuation of the Clean Car Discount scheme is expected to result in a total cumulative increase in emissions of approximately 1,100 to 2,200 Kt CO_2-e by 2050. Eliminating rebates for low emissions vehicles and fees for high emission vehicles is expected to elevate emissions due to a potential decrease in the adoption of low emissions vehicles, resulting in higher uptake of higher emissions vehicles.

45 The CIPA team has reviewed the results and considers them reasonable for indicating the impact of this change.

Transport is on track to achieve its contribution to the first two emissions budgets but not the third, however this can be addressed in 2024 through the next emissions reduction plan

46 Based on current modelling, removal of the Clean Car Discount scheme is not expected to affect achievement of the transport sector's contribution to EB1 (as agreed within the ERP1). However, in the absence of an alternative policy, it will increase the risk that transport's contribution to the second emissions budget (EB2) is not achieved, and will make the achievement of transport's contribution to the third emissions budget (EB3) more difficult.

47 The development of the second Emissions Reduction Plan (ERP2) in 2024 will be an opportunity for Ministers and Cabinet to make decisions on the cross-sector policy mix to achieve the later emissions budgets. I will be seeking further advice from my officials on appropriate policies. This will include quantifying the impact of our planned investment in EV charging infrastructure as we know access to reliable, frequent, and convenient public charging is a key barrier to EV uptake.

Implications for ERP1

48 s 9(2)(h) [redacted]

49 s 9(2)(h) [redacted]

49.1 s 9(2)(h) [redacted]

49.2 s 9(2)(h) [redacted]

49.3 s 9(2)(h) [redacted]

50 s 9(2)(h) [redacted]

Population Implications

51 Impacts for relevant population groups of ending the Clean Car Discount scheme are set out in the table below:

Population group	How the proposal may affect this group
Low-income households	Low-income households may have been impacted by the scheme's charges if they were unable to alter their vehicle purchasing choices. Ending the scheme would ease the cost burden of charges on low-income households. However, ending rebates will mean low-emission vehicles in the domestic second-hand market may be higher in price in the medium-term than if the scheme continued. This may exclude low-income households from the benefits of low-emission vehicles for longer.
Rural communities	To date, rural communities have disproportionately borne the costs of the Clean Car Discount scheme through charges on utes necessary for their work. These charges have been unavoidable given there has been no suitable low-emissions alternative. Ending the scheme will remove this additional cost burden on rural communities.
Disabled people	Disability vehicles have been exempt from charges under the Clean Car Discount scheme, however they have been eligible for rebates. Ending the scheme is expected to make it more difficult for disabled people to access low-emission vehicles.

52 Additionally, I intend to make vehicles modified to accommodate disabilities exempt from the Clean Car Standard (the supply-side policy requiring importers to meet specific emissions targets for the vehicles they import). This will ensure that disabled people are not adversely affected by the Clean Car Standard. I will bring a proposal to Cabinet in 2024 to achieve this.

Human Rights

53 There are no human rights implications arising from this proposal.

Consultation

Departmental consultation

54 The following agencies were consulted in the development of this paper: NZTA, Ministry of Business, Innovation and Employment, Treasury, Crown Law, Parliamentary Counsel Office, Ministry for the Environment, Ministry of Foreign Affairs and Trade, Inland Revenue, and the Energy Efficiency and Conservation Authority. The Department of Prime Minister and Cabinet has been informed.

View of the vehicle industry

55 Due to tight timeframes, it has not been possible to engage in detail with the vehicle industry.

56 However, based on information available in the public domain, vehicle importers have expressed general support for the proposal to end the Clean Car Discount scheme. The amendments made in July 2023 highlighted for industry the issue of changes in scheme settings at short notice. Many had made importing decisions based on previous rebate/charge settings, leaving them facing losses when they had imported significant numbers of vehicles that were no longer eligible for rebates or that were subject to increased charges. They have expressed significant concerns about future amendments to rebates and charges in the future, and the impacts they may have.

57 EV advocacy groups have expressed concern that ending the Clean Car Discount will disrupt EV sales. They support the introduction of alternative policies to maintain momentum in the shift to low-emission vehicles.

Communications

58 I intend to issue a media release confirming the Government's decision to end the Clean Car Discount scheme. This will be supported by information on the NZTA and Ministry of Transport websites and social media, and messages to industry and stakeholders.

Proactive Release

59 This Cabinet paper and its corresponding minute will be proactively released within 30 business days of final decisions being taken by Cabinet.

Recommendations

The Minister of Transport recommends that Cabinet:

1 agree to end Clean Car Discount charges for all vehicles registered after 11:59pm 31 December 2023;

2 agree to end rebate applications from 11:59pm 31 December 2023;

3 agree to update the vehicle energy economy labelling requirements to remove the Clean Car Discount's rebate and charge information from 1 January 2024;

Legislative amendments

4 invite the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to these decisions (including for primary legislation), including any necessary consequential amendments, savings and transitional provisions;

5 authorise the Minister of Transport to make any minor or technical amendments that arise during the drafting of legislative amendments to give effect to these decisions;

6 note the Minister of Transport intends to seek Cabinet's approval to introduce and pass a Bill, under urgency, to end the Clean Car Discount scheme by 31 December 2023;

Binding on the Crown

7 note that it is appropriate for the Bill to be binding on the Crown because the principal Act which it amends (the Land Transport Act 1998) is binding on the Crown;

8 agree that the Bill should include a provision stating that the Act will bind the Crown;

9 note that the implications for government departments of the Act binding the Crown are likely to be minimal;

Funding Deed with NZTA

10 invite the Ministers of Finance and Transport to amend the existing Funding Deed and (if necessary) agree a new Deed with NZTA that enables the wind-down of administration of the Clean Car Discount scheme, and terminates the existing Funding Deed.

Direction to NZTA

11 note, once legislative amendments have passed, the Minister of Transport will issue Ministerial Direction to NZTA to:

11.1 no longer accept rebate applications after 31 December 2023

11.2 complete processing of outstanding rebate payments by 31 January 2024;

Financial implications

12 note the funding available in the Crown Grant (Non-Departmental Other Expense, - Clean Vehicle Discount Scheme – Rebates MYA) as at 31 October 2023 is $119.900m;

13 agree that, following the decision to end the Scheme by 31 December 2023, $50.000m in surplus funding is able to be returned from the Crown Grant now, s 9(2)(f)(iv) [redacted]

14 note the following changes to revenue and appropriations in accordance with Section 9(1F) of the Land Transport Management Act 2003, reflecting the decision to end the scheme in recommendation 1 above, with no corresponding impact on the operating balance and/or net debt;

	$m – increase/(decrease)				
Vote Transport Minister of Transport	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & outyears**
Non-Tax Revenue Infringements	(68.000)	(141.101)	(122.184)	(115.977)	(115.977)
Non-departmental Other Expense: Clean Vehicle Discount Rebates PLA	(68.000)	(133.101)	(114.184)	(107.977)	(107.977)
Non-departmental Output Expense: Clean Vehicle Discount Administration Costs PLA		(8.000)	(8.000)	(8.000)	(8.000)
Total Operating	-	-	-	-	-

15 approve the following changes to appropriations to give effect to the decision in recommendation 13 above, with the following impact on the operating balance and net debt;

	$m – increase/(decrease)				
Vote Transport Minister of Transport	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & outyears**
Non-departmental Other Expense: Clean Vehicle Discount Scheme – Rebates MYA	(50.000)				
Total Operating	(50.00)	-	-	-	-
Total Capital	-	-	-	-	-

16 note that the Minister of Finance will report back to Cabinet on 11 December 2023 for Cabinet to agree a Mini Budget package;

17 agree that final decisions about the fiscal treatment from the decision in recommendation 13, will be made by Cabinet when considering the Mini Budget package on 11 December 2023;

18 agree that the proposed changes to appropriations in the recommendations above be included in the 2023/24 Supplementary Estimates;

Climate impacts

19 note the discontinuation of the Clean Car Discount scheme is expected to result in a total cumulative increase in emissions of approximately 1,100 to 2,200 Kt CO2-e by 2050;

20 note, based on current modelling, removal of the Clean Car Discount scheme is not expected to affect achievement of the transport sector's contribution to the first emissions budget (as agreed within the first emissions reduction plan);

21 note the development of the second emissions reduction plan will be an opportunity for Ministers and Cabinet to make decisions on the cross-sector policy mix to achieve the second emissions budget and to consider the impact of other policies such as increased roll out of an EV charging network.

Communications

22 note that I will issue a media release following Cabinet's approval of the recommendations in this paper;

Implementation

23 delegate authority for the Minister of Transport to work with other relevant Ministers to manage operational and technical issues that arise during implementation of Cabinet's policy decisions.

Authorised for lodgement

Hon Simeon Brown

Minister of Transport