



# Road User Charges Bill

## Submission to the Transport and Industrial Relations Select Committee

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**SUBMISSION TO:** Transport and Industrial Relations Select Committee

**REGARDING:** **Road User Charges Bill**

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**ADDRESS:** Clerk of the Committee  
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WELLINGTON

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## **Introduction**

1. This submission is from the New Zealand Automobile Association (NZAA). We wish to appear before the Committee to speak to our submission. Our contact details are:

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2. The NZAA is an incorporated society with over 1.3 million Members. It represents the interests of road users who collectively pay over \$2 billion in taxes each year through fuel excise duties (FED), road user charges (RUC), registration fees, ACC levies, and GST. The NZAA's advocacy and policy work mainly focuses on protecting the freedom of choice and rights of motorists, keeping the cost of motoring fair and reasonable, and enhancing the safety of all road users.
3. The AA has a strong interest in this Bill because nearly 13% of AA Members own diesel vehicles (well over 100,000 individual Members). Also the total cost of the transport system is shared between those who pay FED (petrol users) and those who pay RUC (diesel users) as well as all powered vehicle users, who pay registration fees. Thus the AA has a strong interest in the proposed changes to the RUC regime because of the indirect effect on equity for its non-RUC paying Members. The AA thanks the Committee for the opportunity to submit on this Bill.
4. The AA considers the Ministry of Transport has been exemplary in its level of consultation with the AA in the development of this Bill, taking care to carefully explain the implications of the proposals and providing a good time frame for response.

## **Purpose**

5. NZAA supports the overall purpose of the Bill to reduce compliance costs, reduce avoidance and streamline the RUC system. The four areas of the Bill are discussed in turn below.

### **Change to definition of weight**

6. NZAA supports the change from nominated weight to gross vehicle weight for heavy vehicle RUC, because this will make the RUC system simpler to use, simpler to enforce and harder to avoid. Charging for maximum load, irrespective of actual load carried, reduces the 'per tonne' trucking costs which increases the incentive to operate trucks fully laden and find loads for otherwise empty return trips. This would be more efficient for the economy, the environment and the number of trucks on the road.
  
7. Another benefit is that it will enable heavy vehicle RUC enforcement on routes without a weigh bridge, hence dramatically increasing coverage of RUC enforcement and improving RUC compliance. This will entail a different strategy for enforcement of RUC and increase compliance, but the major concern that the AA has is that this will be at the cost of road safety enforcement of overweight limits per se. The agency responsible for enforcing heavy vehicles (Commercial Vehicle Investigation Unit, CVIU) is funded by RUC and recovering RUC should be a focus for CVIU, but the main concern for heavy vehicles should be ensuring safety, not payment. The AA seeks assurance that the change will be accompanied by a requirement that there will be no reduction in monitoring of overweight loads, ie that heavy vehicles are not carrying loads that are over their maximum safe limit. Vehicle carrying overweight loads would also not be paying sufficient RUC to cover the damage to the roads.
  
8. The AA also has a concern that the change in weight definition, which results in lower per kg trucking costs, will lead to some mode change from rail and shipping, and hence greater freight carried on the roads. The AA understands that this effect has not been carefully assessed, and was dismissed because RUC is only one component of costs. However, we consider that when comparing differences between the price of carrying freight on difference modes RUC will have an effect at the margin. If it results in more freight being carried by road, there are consequent impacts on both road safety and maintenance costs for our Members.
  
9. With regard to the change to gross vehicle weight for light vehicle RUC, the AA

understands that many light vehicles will move up a RUC class. Although there is currently not much difference between the charges for the light RUC classes, we would have a concern that the change should be adequately communicated to light vehicle owners so that they are not purchasing the wrong class of RUC.

10. The AA also has a concern about light vehicles that primarily carry passengers and are set up with seats, but under the new regime will be charged as if they carry the maximum freight load. Where a vehicle can carry quite a heavy freight load, such as a van, this could result in an unfair increase in costs. Many families own such vans and primarily use them for transporting children. Although the light vehicle classes have similar rates, this redefinition has the potential to be controversial and will apply to a large number of private vehicles. The AA suggests an exemption for private light vehicles whose primary function is to carry passengers rather than freight, as based on owner nomination. Should the vehicle be used for carrying freight this could then attract a penalty for a false declaration. The AA suggests that the change in definition of weight should then only apply to that small subset of light diesel vehicles that primarily carry freight loads, which would often be in the commercial vehicle class.

### **Reform of the Time Licence System**

11. The AA's concerns about the proposals to remove the time licence system are two-fold:
- The rationale for discontinuing the time licence system is "high compliance costs" but it costs only 3.5c to collect every \$1, which is hardly high! Any private sector company would jump at the chance; to put this into perspective it costs 35c per dollar collected on the ALPURT toll road, a factor of ten higher, and yet this is not considered "high" because the private sector collects it. But the motorists are the ones paying either way; we object to the patently false rationale for the removal of the time licence system. Collecting \$2m pa significantly exceeds the cost of the time licence system; if the time licence system improves RUC targeting and refinement, the rationale to remove it would be fundamentally flawed;
  - Removing the time licence system must not result in an increase in cross-subsidy, which is going in the opposite direction to that sought, eg to recover

ACC costs on motorcycles. The statement that it is “revenue neutral” should not disguise that it is only revenue neutral to the Crown; the proposals mean that payments currently made under the time licence system could be picked up by subsidies from other vehicles in the fleet.

12. The AA strongly opposes any option for replacing the time licence system that adds a subsidy burden on other vehicles currently carried by the time licence class of vehicle.
13. The AA strongly opposes Option A which, while allowing registration fees to become another valid method of collecting a contribution to road user costs, would require the recovery of the full \$2m revenue from the general vehicle fleet.
14. The AA supports Option B which allows for an additional annual charge on *all* RUC-exempt vehicles, as well as full recovery from time licence vehicles.
15. The AA also supports Option C which allows for replacement of time licences with a flat relicensing fee that means there is no transfer to other user groups.
16. The AA has concerns about the proposed option, Option D which, depending how it is implemented could result in other vehicles subsidising the current time licence classes. The AA would oppose any implementation of Option D that results in cross subsidies.
17. The AA supports Option E, gradual improvement, including for example making it possible to buy time licences online and other measures that would reduce compliance costs.

### **Regulatory Framework for e-RUC**

18. The AA strongly supports the introduction of e-RUC and the provisions in this Bill support the practical governance arrangements for e-RUC. Ultimately, e-RUC will enable much more accurate charging based on location and time of day and will become increasingly important as more of the vehicle fleet has e-RUC capability.

19. The AA considers that enabling RUC to be monitored and enforced through electronic records for all vehicle types against WoF-based odometer reading will be the next step. The AA understands that the Ministry of Transport is undertaking work to reduce light vehicle compliance costs as a separate exercise, and supports further investigation of making RUC a more electronically based system for RUC purchase, RUC information and communications, and monitoring of RUC compliance.

### **Compliance**

20. The AA supports the proposals to increase RUC compliance through simplifying the penalty regime, simplifying the weight definition and to bring in an assessment system that requires commercial transport service operators to maintain and provide records.

21. In particular the AA strongly supports the changes to the light vehicle penalty regime, with the current system being both overly punitive on light vehicle owners *and* cumbersome to enforce, resulting in less enforcement and lower compliance – the worst of both worlds. Setting the penalty at a level that is in line with other comparable vehicle offences will do much to rectify resentment about heavy penalties that are perceived as a glaring injustice for a relatively small oversight. Bringing in a flat penalty, rather than the complex calculation will simplify enforcement for the Police and enable greater enforcement of RUC compliance for light vehicles.

22. However, the AA has a concern that for deliberate avoiders, the low flat \$200 penalty will create an incentive to run a very large RUC shortfall, particularly given the small chance of being caught given that light vehicle RUC has low enforcement rates. The AA considers that as well as a 500km tolerance at one end, there should be a step increase in penalty for those that have very large RUC underpayments (eg over 10,000km), set to ensure there is not a financial incentive to not pay.

23. The AA considers there needs to be greater analysis of RUC offences to determine the relative importance of deliberate evasion as opposed to omissions

that are not deliberate. Penalties for wilful noncompliance or deliberate avoidance should be higher than penalties for making a mistake, particularly given the poor level of communication to diesel vehicle owners about the added responsibilities of RUC or systems for reminder. The AA considers that there is considerable unintentional noncompliance and much more could be done by government agencies to:

- inform diesel vehicle owners about their responsibilities for RUC in the first instance at purchase; and
- remind them when RUC is due, eg a check box on the annual registration notice or through matching electronic records (odometer reading at Warrant of Fitness compared against RUC kilometres purchased matched to that vehicle). Matching electronic records is already done to ensure a current Warrant of Fitness when purchasing annual vehicle registration.

24. The AA considers that government agencies have an onus to better inform light diesel vehicles owners about the RUC regime and see this as a matter of some importance.

25. The AA would support investigation of measures to combat odometer tampering for RUC avoidance, because odometer tampering undermines confidence in the wider vehicle purchase market, rather than just being a RUC compliance issue of up to \$2.5 m per year.

26. The AA has no comment on the provisions for commercial operators to create and retain records as these do not apply to our Members, but considers that the provisions seem quite onerous for a small one-person business.

27. The AA objects to the waiving of RUC for the Ministry of Justice for seized and stolen vehicles. Essentially RUC is a charge to pay for road use, and the road use has occurred and should be paid, otherwise the Land Transport Fund will not be compensated. Hence the AA proposes that unpaid RUC should not be waived, but added to the amount to be covered by sale of the vehicle, and paid as first priority before the other fees, or added to the debt to be recovered from



the offender. This is because the use has already occurred and the payment should have priority. Essentially use of someone else's RUC should be treated as theft and recovered from the thief.

28. The AA supports the provision to enable warrant of fitness (WoF) inspectors to pass on odometer readings to NZTA for the purpose of recovering RUC. We would suggest that in the first instance a reminder letter be issued, rather than using it for enforcement and penalties, given the current lack of information and reminders about RUC to light diesel vehicle owners. The AA supports the 500km tolerance for RUC enforcement and considers that the tolerance should start off higher when these measures are introduced to prevent a backlash, given the current lack of information and reminders, and also very low levels of enforcement. The AA suggests that prior to the introduction of enforcement through this data matching, there should be a high profile public education campaign about the changes, and a RUC reminder check box added to the annual vehicle registration form.

### **Omissions**

#### **Cost Allocation**

29. The AA is very concerned that the review ignores the significant disparity between the amounts being paid by FED and RUC light vehicle users.

The *Independent Review of the New Zealand Road User Charging System* recommends:

*“That, in future, the charges set for cost recovery purposes are consistent with the rates calculated by CAM (because, assuming CAM reflects the relationship between use and expenditure, it should, on equity grounds, dictate what is charged).”*

30. The AA is strongly concerned that this review fails to acknowledge the massive under recovery of RUC compared to FED now that the FED is fully hypothecated.

### **Recovering ACC via RUC**

31. The AA is disappointed that the review has not taken the opportunity to include provision to recover ACC through RUC, even though it does make the counterpart provision, ie to recover road user charges through the motor vehicle registration fee.

### **Enabling the Cost Allocation to be Recovered on Diesel**

32. The AA is disappointed that the Bill does not propose to enable road costs to be recovered through a fuel tax on diesel (as is already currently done for petrol vehicles). The Crown should have greater flexibility to recover costs, and the cost allocation model has a significant, if not majority component, which is represented by fixed costs which are almost arbitrarily assigned on a per vehicle or per kilometre basis, and could just as easily be attributed per litre (as a tax on diesel) than as a per a kilometre charge collected through RUC. Certainly the per vehicle costs are not used to set annual registration fees! Transferring to a diesel tax would result in far greater simplification of the RUC system, much lower costs to the Crown, much lower compliance costs for users and significantly greater compliance than any tweaking of the current RUC system could achieve.

### **Summary**

33. The AA thanks the Committee for the opportunity to submit on this important Bill.

Yours sincerely



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**General Manager Motoring Affairs**