ALLEN+CLARKE

Evaluation of the new Road User Charges (RUC) system newsletter

November 2013

THE RUC EVALUATION

Allen + Clarke has recently completed the first stage of an evaluation of the Ministry of Transport's new Road User Charges system. The Ministry contracted *Allen + Clarke* to find out what impacts the changes to the system have had, including how they have affected the transport industry. To understand these impacts, *Allen + Clarke* spoke to a range of different transport sector associations and commercial and private vehicle operators, and received a significant number of survey responses from both commercial and private operators. The following is a summary of the key findings of the evaluation relevant to the transport industry.

WHAT WE FOUND

The new system is simpler for most operators to work with

Overall, most operators felt that the new RUC system is easier to understand and simpler to work with than the previous system. This is mostly because operators no longer have to nominate a weight for purchasing RUC, and because they no longer need to use supplementary or time licences. There were some changes that operators found unclear, including their RUC liability when operating up to the 1.5 tonne Vehicle Dimension and Mass (VDAM) enforcement tolerance. Some operators with combination licensed vehicles were uncertain about whether they could decouple those vehicles, for example, to have them serviced.

The NZ Transport Agency has published a position statement on 'Assessments for unpaid RUC in respect of over-weight vehicles', which clarifies operators' liability when operating within or over the VDAM weighing tolerance. The Ministry has also amended the Road User Charges regulations to allow a towing vehicle with a combination licence to operate without a trailer when unladen.

Cost savings for individual operators cannot yet be quantified, but there is potential for future savings

The evaluation sought to find out if operators gained any administrative cost savings due to the changes (e.g., due to no longer having to nominate a vehicle weight to purchase RUC). It also considered whether the change to a fixed RUC weight would incentivise operators to carry heavier loads or backloads, resulting in direct savings from more efficient vehicle use. There is some evidence of administrative cost savings for the transport industry as a whole due to the removal of supplementary and time licences, and the reduction in administrative fees. However, most individual operators have not gained any administrative cost savings because they use the same administrative processes now as they did before the changes.

There is also little evidence that operators are using their vehicles more efficiently due to the changes or gaining direct savings as a result. This is generally because operators were already using their vehicles as efficiently as possible as a matter of good business practice. Further, some operators pointed out that they cannot physically carry heavier loads because they carry goods that are light weight, but take up a lot of space.

The greatest factor for reducing administrative costs for operators appears to be the use of electronic RUC systems. The operators we spoke to generally agreed that these significantly reduce the time spent on RUC administration (this is discussed further below). The move to fixed RUC weights has made electronic RUC more suitable because of removal of the need to manually nominate a vehicle's weight for purchasing RUC, a combination licence to operate without a trailer when unladen.

The total revenue collected by the government has not increased because of the changes

The changes to the RUC system were not intended to increase the total amount of money the government collects from road users. Instead, the changes sought to make it harder for individual operators to avoid paying their share of RUC (this is discussed further below). The evaluation tested if this intention was achieved by comparing expected revenue per kilometre by vehicle type, as determined at the time the new charges were set, to actual revenue. The initial data shows that indeed, the changes appear to be revenue neutral. This is something that will continue to be monitored and which will become clearer with more time.

The changes have had the greatest impact on operators of vehicles that carry light loads

The evaluation also considered how individual operators of different vehicle types were impacted by the changes. Although there are a number of variables that contribute to how individual operators were affected (e.g., the type of work and the configuration of individual vehicles and vehicle fleets), it was clear that operators of vehicles that carry loads significantly lighter than the vehicle's maximum legal weight were particularly affected by the change to fixed RUC rates. This includes operators that carry 'light and bulky' loads, such as furniture, groceries and courier items, or vehicles that have a high GVM but do not carry payloads, such as buses that have been converted into motorhomes. Most of these operators are paying more for their RUC than previously, and for those that are unable to mitigate that cost by passing it on to clients, or to moderate the cost within a mixed fleet, the additional cost can be burdensome. It is anticipated that over time the market and the national vehicle fleet will adjust to lessen the burden on individual operators. The Ministry is continuing to monitor this area.

The new system is perceived by many in the industry to be more difficult to evade

Under the previous system it was estimated that $30 million worth of RUC wasn't paid for each year, largely due to operators purchasing RUC at a weight lighter than their actual load. As a result, the RUC rates were higher for all operators to compensate for that lost revenue.

The change to fixed RUC rates was intended to make it harder for operators to avoid paying their share of RUC and to remove the subsidy that compliant operators paid to evaders. The perception of most people in the industry we spoke to was that the change has been successful in making the system harder to evade. This perception is also backed up by NZ Police data, which shows that the percentage of weight- and distance-based evasion amongst heavy vehicles has dropped from 4.0% in 2012 to 1.2% in 2013. A significant number of people we spoke to in the industry felt that the new system is now fairer, because operators that pay their full RUC are no longer compensating for those that don't.

Uptake of electronic RUC is increasing and there are opportunities for further efficiencies

Since changes were made to the RUC regulations to allow the use of electronic distance recorders, the uptake of electronic RUC has steadily increased. Transport operators suggested that the main benefit of electronic RUC was the cost savings gained through spending less time on RUC administration. This mainly related to not having to calculate and process refund applications, as well as not having to spend time purchasing RUC. However, many operators, especially those with small fleets, don't use electronic RUC because of the cost. We have suggested that the government create better incentives for operators to shift to electronic RUC by considering, for example, allowing post payment of RUC.

NEXT STEPS

What the Ministry are doing

Based on our findings, we have recommended that the Ministry allow the industry more time to adjust to the new system and that they make no more significant changes. We have also suggested that the Ministry continue to monitor the impact of the changes and consider how electronic RUC could be better incentivised.

Next stages of the evaluation

The Ministry are planning to do two more cycles of evaluation of the RUC system, including one next year. These next cycles will consider the mid-term and long-term impacts of the changes, and will seek to identify any problems with the system that may require adjustment.

QUESTIONS

If you have any questions about the evaluation please feel free to contact the Allen + Clarke Project Manager, Marnie Carter at mcarter@allenandclarke.co.nz.