

In Confidence

Office of the Minister of Transport

Chair, Cabinet Environment, Energy and Climate Committee

Seed funding to support work to establish a Social Leasing Scheme trial

Proposal

- 1 This paper seeks approval for an initial draw down of some of the tagged operating contingency for the Cleaner Vehicles for Low-Income New Zealanders – Social Leasing Scheme trial (the trial) for the delivery agency to begin its design. I am also notifying you of my appointment of Waka Kotahi NZ Transport Agency (Waka Kotahi) as the delivery agency for the trial.

Executive Summary

- 2 Social Leasing is part of the effort toward providing equitable options in the transition to a low-emissions economy. It is intended to provide access to safe, zero- and low-emissions vehicles to people in Aotearoa on low incomes, in order to reduce social and economic disparities that decarbonisation policies would otherwise exacerbate.
- 3 I am notifying Cabinet that Waka Kotahi will be the delivery agency for this trial. With this, I seek to draw down seed funding from the tagged contingency approved under Budget 2022. This will allow Waka Kotahi, alongside Te Manatū Waka Ministry of Transport (Te Manatū Waka), to establish the trial's design and develop the key relationships that will be necessary to deliver it.
- 4 I will report back to Cabinet in February 2023 on the outcome of this initial work to confirm the design, locations, and delivery model for the trial. Subject to Cabinet approval, I will seek to draw down the remaining contingency and to establish any necessary new appropriations. This aligns with Cabinet's decisions reflected in the 12 April 2022 Vote Transport Letter (Vote Transport Letter) from the Minister of Finance to the Minister of Transport confirming the successful Vote Transport Budget 2022 initiatives.

Relation to government priorities

- 5 On 9 May 2022, the Government announced New Zealand's first three greenhouse gas emissions budgets that set out the total amount of emissions New Zealand must cut over the next 14 years. This was followed, on 16 May 2022, by the release of the first Emissions Reduction Plan (ERP) that outlines how the emissions budgets will be achieved.
- 6 In transport, the ERP sets three focus areas and four targets to reduce transport emissions by 41 percent by 2035. Focus area two – rapidly adopt low-emissions vehicles – and target two – increase zero-emissions vehicles to 30 per cent of the light fleet by 2035 – are relevant to this paper.
- 7 The ERP also reaffirms the Government's commitment to ensure an equitable transition to a low-emissions economy. An equitable transition is one where people are not left behind and support is available for whānau, households, and other vulnerable groups on low incomes who may face challenges due to this transition and require access to resources and technologies to help them participate in and benefit from our efforts to reduce emissions.

Background

- 8 Transport is responsible for 39 percent of New Zealand’s CO₂ emissions, and approximately 17 percent of its total greenhouse gas emissions. Consequently, transport largely needs to decarbonise if New Zealand is to achieve its 2050 net zero-carbon target.
- 9 The ERP outlines the initial plan for how the Government will achieve this target. In relation to transport, the ERP sets out key focus areas, targets, actions, and specific initiatives. One such focus area is to rapidly adopt low-emissions vehicles, supported by a specific target to increase zero-emissions vehicles to 30 per cent of the light fleet by 2035. Making zero- and low-emissions vehicles more accessible for people in Aotearoa on low incomes and who are transport disadvantaged is integral to this goal and is supported by multiple initiatives including this trial.
- 10 A core ERP principle is equity in the transition to the low-emissions economy. This equity focus recognises that there are groups in society who currently struggle to access low emissions transport options. Without support to reduce transport emissions, these groups may face higher costs which risks compounding existing disadvantages. In turn this may erode social license for the transition to a low emissions economy.
- 11 Low-emissions transport options are already cheaper over their lifetime than high-emissions vehicles,¹ but low-emissions vehicles still cost significantly more to buy than the average vehicle, even with the Clean Car Discount.
- 12 The Productivity Commission has identified that many people in Aotearoa on low incomes face “forced vehicle ownership”. They risk being locked into high-emissions vehicles due to cost barriers to obtaining low-emissions vehicles. Circumstances often make other options infeasible, for instance, living in areas far from work with poor public transport, or shift work not aligning with public transport schedules.
- 13 With planned decarbonisation policies, social and economic disparities will widen without equity-focused transport policies also being implemented, such as this trial. Transport is a critical enabler of everyday life and schemes like Social Leasing are key to achieving an equitable transition.

Waka Kotahi will be the delivery agency

- 14 I have appointed Waka Kotahi as the delivery agency for the trial of social leasing. Waka Kotahi is also delivering the Clean Car Upgrade and its trial, and there is potential for synergies to be captured in delivering both initiatives.
- 15 Waka Kotahi is also delivering a range of other transport-related initiatives funded in Budget 2022 via the Climate Emergency Response Fund (CERF). These include the Clean Car Upgrade, an equity-oriented pilot and rollout of a scrap-and-replace scheme, and the Transport Choices package, which will fund transport services and infrastructure investments that reduce reliance on cars and support uptake of active and shared modes.
- 16 To deliver these CERF initiatives, Waka Kotahi is establishing a team to oversee and coordinate operational policy work, trial design, and implementation. This approach

¹ New Zealanders who can afford to switch to EVs make significant savings in vehicle running costs. Charging an EV at home, during off-peak hours, is the equivalent to buying petrol at around 40c/litre.

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reflects the fact that there is potential for synergies to be captured in delivering on these initiatives in a coordinated manner.

- 17 To undertake the delivery agency role for social leasing, seed funding must be provided to Waka Kotahi so that it can add specialist expertise and capacity to the teams working on the CERF programme in order to enable them to design the trial.

Reporting on the design of the trial will be delayed

- 18 Funding to trial the social leasing scheme was approved for \$20 million through the Climate Emergency Response Fund (CERF) over 2022/23 and 2023/24 as a tagged operating contingency under Budget 2022.
- 19 The release of this funding is contingent on Cabinet approval on the design, location, and delivery model for the trial. Following the Vote Transport Letter, this was to be reported back to Cabinet in September 2022. Due to resourcing constraints and competing priorities, this needs to be shifted to February 2023 to ensure there is enough time to fully develop this initiative. The intent is to commence the trial by April 2023.
- 20 With your approval, I will report back to Cabinet in February 2023 on the outcome of this initial work to confirm the design, locations, and delivery model for the trial. In that February Cabinet paper, I will also propose the establishment of any new appropriations and to draw down the remaining contingency.

The key aspects of the trial

Overview and objectives of the trial

- 21 The design of the larger trial will be finalised by Te Manatū Waka and Waka Kotahi; however, I expected that the design and implementation of the trial will also include partner community groups and the vehicle industry.
- 22 I also expect that this trial will build on the Waka Aronui trial, a 20 car trial currently underway in South Auckland. This trial was developed by a partnership involving the Ākina Foundation and local and central government agencies and is administered through the Manukau Urban Māori Authority (MUMA).
- 23 The Social Leasing Scheme trial would lease up to 250 safe, low-emission vehicles to households on low incomes in up to three locations. Participants in the trial will lease a safe, zero- or low-emissions vehicle at a set weekly cost; in the Waka Aronui trial, this is around \$100 per week for a used hybrid. This weekly “running costs” fee will exclude any fuelling costs, but include maintenance, warrant of fitness, and registration.
- 24 The successes of the Waka Aronui trial will be carefully and thoroughly considered and will be used to design this trial. Lessons learned from Waka Aronui will also be used to improve this trial and to avoid pitfalls in its implementation.
- 25 A trial is being conducted to assess the social leasing concept before potentially rolling out a wider national scheme. This will help mitigate the risk of unknowns, as there are few and limited examples of this type of scheme in Aotearoa and abroad.

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- 26 It is intended that the trial will assess whether a targeted social leasing scheme is generally an effective way to support households on low incomes to shift to cleaner transport, including through the consideration of:
- 26.1 The extent to which participants are likely to opt for social leasing over vehicle ownership.
 - 26.2 Any improvements that would make vehicle leasing more attractive to people with the greatest transport disadvantage, including design of the leasing arrangements and how the organisations engage with households.
 - 26.3 The robustness of the social leasing model across a range of diverse communities (especially Māori and Pasifika), including communities in rural areas, and across a range of zero- and low-emission vehicles, including entirely electric vehicles (EVs).
 - 26.4 The financial sustainability of a vehicle leasing scheme, without long-term government support, including the ability to replace vehicles over time.
 - 26.5 The most effective and efficient commercial and financial structures for a vehicle leasing scheme.
 - 26.6 The affordability of a vehicle leasing scheme for households on low incomes, relative to their transport costs prior to the trial.
 - 26.7 The challenges and opportunities for households on low incomes shifting to EVs, including access to home charging.

Details are still to be decided on the final design of the trial

- 27 Once Waka Kotahi receives seed funding it will further design and deliver this work.
- 28 Jointly, Waka Kotahi and Te Manatū Waka will finalise the design of the trial. This will include detail of the trial's proposed design, locations, and delivery model.
- 29 Some considerations for this work (locations, duration, parties, and exit strategies) are included in Appendix 1.

A funding agreement will formally establish Waka Kotahi and Te Manatū Waka's roles to deliver the trial

- 30 Subject to Cabinet agreement to seed funding, a funding agreement will be established to formally set out:
- 30.1 the respective roles, responsibilities and obligations held by Te Manatū Waka and Waka Kotahi
 - 30.2 the activities funding can be used for
 - 30.3 how funding will be allocated and the basis on which it can be drawn down
 - 30.4 outline reporting, assurance, and monitoring arrangements.
- 31 Waka Kotahi will be the lead delivery agency responsible for:

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- 31.1 **Detailed design and implementation of the initiative.** This may be in-house delivery OR provided by partnering with/contracting for services from other organisations (other organisations may include not-for-profit organisations, businesses, and more.)
 - 31.2 **Identification and engagement of delivery and community partners** to ensure the right parties are represented and involved.
 - 31.3 **Reporting to Te Manatū Waka on delivery and performance** of the initiative (benefits/outcomes delivered, risks, outputs purchased)
 - 31.4 Where Waka Kotahi has entered its own funding arrangements with other organisations, Waka Kotahi will monitor and seek assurances and information from those organisations on its delivery.
- 32 Te Manatū Waka will be responsible for:
- 32.1 **Releasing funding to Waka Kotahi.** This will be done on a basis to be agreed between Te Manatū Waka and Waka Kotahi through the funding agreement, and will be consistent with Cabinet decisions, including the scope of appropriations established.
 - 32.2 **Reporting to the Minister of Transport** on the delivery and performance of the initiative. This will rely on regular reporting information being provided by Waka Kotahi, and possibly also rely on a targeted initiative evaluation.
 - 32.3 **Evaluating the trial.** This evaluation is planned to be completed by January 2024, however timing will be confirmed through the February 2023 paper as this will depend on the agreed duration of the trial. This will enable me to report back to Cabinet by 30 April 2024 (or a later date) on the outcomes of the evaluation and with recommendations for any expansion.
 - 32.4 **Monitoring Waka Kotahi's performance** on the delivery of the initiative from a Crown monitoring perspective.
 - 32.5 **Preparing requests to Ministers** for changes to the initiative during its lifetime, including requesting more funding, or changing its scope or timeframe.

A February 2023 Cabinet paper will provide specifics on the design of the trial

- 33 I will report back to Cabinet in February 2023 on the outcome of this initial work to confirm the design, locations, and delivery model for the trial. If this satisfies Cabinet, I will also seek Cabinet's approval for the drawdown of the remaining contingency and to establish any new appropriations as necessary. This aligns with Cabinet's decisions in the Vote Transport Letter.
- 34 The February 2023 paper will also include a timeline for the implementation steps proposed to deliver the trial, its evaluation, and key milestones.

Financial Implications

- 35 Cabinet agreed, as part of Budget 2022, to establish the following tagged operating contingency to trial the Social Leasing Scheme:

| Vote Transport Minister of Transport | \$m – increase/(decrease) | | | | |
|---|---------------------------|---------------|---------------|---------|--------------------|
| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 & Outyears |
| Cleaner Vehicles for Low-Income New Zealanders – Social Leasing Scheme – Tagged Operating Contingency | - | 10.000 | 10.000 | - | - |
| Total | - | 10.000 | 10.000 | - | - |

- 36 This paper recommends that Cabinet agrees to draw down part of the tagged operating contingency funding into an output expense appropriation to allow the design of the trial to proceed.
- 37 Waka Kotahi estimates that it will require an operating budget of \$3.311 million for the 2022/2023 period to design and establish the social leasing trial. Since this scheme is yet to be substantially designed, it is not able to estimate an operating budget for 2023/2024 at this time.
- 38 Waka Kotahi’s estimated 2022/2023 operating budget includes seed funding of \$1.950 million for draw down by Waka Kotahi as soon as possible. This budget can be seen in more detail in Appendix 2. This amount includes a contingency of \$0.250 million, reflecting the high uncertainties, risks, and complexities of the proposed trial.
- 39 I propose that the use of the contingency funding is conditional on Waka Kotahi providing advanced notification, in written form, to Te Manatū Waka, on the need to draw on it. If the need to use the contingency does not arise, the money will be returned to the fund.
- 40 This seed funding is for work to be undertaken through to February 2023. Waka Kotahi will not be able to start meaningful work on the trial without this funding. This funding will be used to provide resources to conduct pre-trial engagement with representatives of people and households on low incomes and engage delivery partners at a minimum.
- 41 Waka Kotahi will exercise due diligence in using this funding, and beyond creating a minimum working product, I expect that any funding remaining will be returned to the pool of funding to be used to provide benefit to participants through the trial.
- 42 Where there are clear synergies between the Clean Car Upgrade and this trial, Waka Kotahi will take advantage of any cost savings that can be realized.

Legislative Implications

- 43 There are no legislative implications arising from the proposals in this paper.

Impact Analysis

Regulatory impact statement

- 44 Cabinet's regulatory impact analysis requirements do not apply to this proposal as it does not involve the introduction of new legislation, or changes to, or the repeal of existing legislation.

Population impact

- 45 The Social Leasing Scheme will benefit households on low incomes that participate in the trial. Safer, low-emission vehicles offer tangible benefits in lowering transport costs and improving health outcomes through better air quality and reduced harm from road crashes. By reducing greenhouse gas emissions this initiative will contribute to efforts to avoid the worst effects of climate change on te moana, te whenua and te taiao.
- 46 Other groups who face transport disadvantage may also benefit from the Social Leasing Scheme, including people with disabilities, with health conditions, and older people for whom other low-emissions transport is inaccessible.
- 47 Waka Kotahi and/or community partners will work with representatives of Māori and Pasifika communities to ensure a high level of uptake of the Social Leasing Scheme by these communities.

Climate Implications of Policy Assessment

- 48 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met. Emissions impacts will be assessed in more detail and disclosed to Cabinet as appropriate as this work is progressed.

Human Rights

- 49 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

Departmental consultation

- 50 The following agencies were consulted in the development of this paper: Waka Kotahi, Te Puni Kokiri, Ministry for Pacific Peoples, Ministry of Social Development (MSD), Ministry of Disabled People, Ministry of Primary Industries (MPI), Treasury, Ministry for the Environment, Department of Internal Affairs, Ministry of Business, Innovation and Employment (MBIE), Kāinga Ora, and the Energy Efficiency and Conservation Authority. The Department of Prime Minister and Cabinet has been informed.
- 51 Generally, departments were supportive of the initiative.
- 52 Waka Kotahi raised concerns around the timing of the trial's design, which have been incorporated into this paper.

- 53 MBIE provided comments around strengthening the equity lens. MSD and the Office of Disability Issues also provided comments regarding equity for disabled people, people with health conditions, and older people into the design of the trial. Where appropriate, these have been addressed in this paper or will be addressed in the design of the trial.
- 54 MPI suggested specifically including a rural community as one of the trial locations. It also pointed out that charging infrastructure is a particular challenge for rural communities. These comments will be addressed in the final design of the trial.

Stakeholder engagement

- 55 Initial conversations have begun with agencies that have an interest in participating in the trial. This has included discussion with the Ākina Foundation and Mercury Energy. Further conversations with other interested parties and community groups who could help deliver the trial will be realised once seed funding is provided.

Proactive Release

- 56 I propose to proactively release this Cabinet paper subject to any necessary redactions. This would be done within 30 business days of decisions being confirmed by Cabinet.

Recommendations

The Minister of Transport recommends that the Cabinet Business Committee:

- 1 **note** that establishing a Social Leasing Scheme gives effect to the Emissions Reductions Plan’s core principle of equity in the transition to the low-emissions economy and is relevant to transport focus area two – rapidly adopt low-emissions vehicles – and target two – increase zero-emissions vehicles to 30 per cent of the light fleet by 2035;
- 2 **note** that Waka Kotahi New Zealand Transport Agency will be the Delivery Agency for the trial;
- 3 **note** that as part of Budget 2022 on 11 April 2022, and in detailed Budget 2022 financial recommendations agreed by the Minister of Transport and the Minister of Finance on 14 April 2022, Cabinet and the Ministers of Finance and Transport:

- 3.1 **agreed** to establish a tagged operating contingency of up to the following amounts to provide for the trial of the Social Leasing Scheme:

| | \$m – increase/(decrease) | | | | |
|---|---------------------------|---------|---------|---------|---------|
| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Cleaner Vehicles for Low-Income New Zealanders – Social Leasing Scheme – Tagged Operating Contingency | - | 10.000 | 10.000 | - | - |

- 3.2 **invited** the Minister of Transport to report to Cabinet by September 2022 on the outcome of further work to confirm the design, location and delivery model for the trial;

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- 3.3 **agree** that the contingency may be drawn down by Cabinet (establishing any new appropriations as necessary), subject to Cabinet’s satisfaction with the further work described in paragraph 3.2 above;
- 4 **note** that due to resourcing constraints and competing priorities, the further work described in paragraph 3.2 above has been delayed, and that in the meantime some of the tagged contingency needs to be drawn down to fund Waka Kotahi to work on the design, locations, and delivery model of the scheme;
- 5 **agree** to change the report back date to February 2023 to accommodate the additional time required to fully develop this initiative;
- 6 **note** that, subject to Cabinet’s agreement to recommendation 5, I will report back to Cabinet in February 2023 to confirm the design, locations, and delivery model of the scheme and seek Cabinet’s agreement to draw down the remaining tagged operating contingency;
- 7 **note** it is intended that the social leasing scheme trial is commenced by April 2023;
- 8 **agree** to draw down \$1.950 million seed funding from the tagged operating contingency to enable Waka Kotahi to work on the design, locations, and delivery model for the trial;
- 9 **note** that \$0.250 million of the seed funding is tagged as a contingency which will require Waka Kotahi to advise Te Manatū Waka in writing, of its intent to use the contingency and its purpose;
- 10 **agree** to establish the following new appropriation:

| Vote | Appropriation Minister | Appropriation Administrator | Title | Type | Scope |
|-----------|------------------------|-----------------------------|-----------------------------|---------------------------------|---|
| Transport | Minister of Transport | Ministry of Transport | Social Leasing Scheme Trial | Non-Departmental Output Expense | This appropriation is limited to funding to Waka Kotahi NZ Transport Agency to meet the costs associated with implementing and operating a vehicle social leasing scheme trial. |

- 11 **approve** the following changes to appropriations to provide for the decision in recommendation 8 above, with a corresponding impact on the operating balance:

| | \$m – increase/(decrease) | | | | |
|----------------------------------|---------------------------|--------------|---------|---------|---------|
| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Vote Transport | | | | | |
| Minister of Transport | | | | | |
| Non-Departmental Output Expense: | - | 1.950 | - | - | - |
| Social Leasing Scheme Trial | | | | | |
| Total Operating | - | 1.950 | - | - | - |

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- 12 **agree** that the proposed changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 13 **agree** that the expenses incurred under recommendation 11 above be charged against the Cleaner Vehicles for Low-Income New Zealanders – Social Leasing Scheme tagged operating contingency described in recommendation 3 above;
- 14 **note** that, following the adjustments detailed in recommendation 11 above, the remaining balances and indicative phasing of the operating contingency described in recommendation 3 above will be:

| | \$m – increase/(decrease) | | | | |
|---|---------------------------|---------|---------|---------|---------|
| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Cleaner Vehicles for Low-Income New Zealanders – Social Leasing Scheme – Tagged Operating Contingency | - | 8.050 | 10.000 | - | - |

- 15 **note** that the tagged operating contingency described in recommendation 3 above will expire on 1 February 2023, however, subject to Cabinet’s agreement to recommendation 5, further decisions on the draw down of the tagged operating contingency will be made after this date;
- 16 **agree** to extend the expiry of the tagged contingency to 30 June 2023 to allow for these future decisions;
- 17 **note** that Te Manatū Waka Ministry of Transport will be responsible for the evaluation of the trial;
- 18 **note** that following the draw down of seed funding, a funding agreement will be drawn up to formally establish the roles and responsibilities of Waka Kotahi and Te Manatū Waka.

Authorised for lodgement

Hon Michael Wood
Minister of Transport
 Dated:

Appendix 1

Current considerations for the stand up of the Social Leasing trial:

| | |
|-----------------|---|
| Locations | <ul style="list-style-type: none"> • The implementation plan proposes s 9(2)(f)(iv) [REDACTED] • s 9(2)(f)(iv) [REDACTED] • Location selection requires further assessment by the delivery agency based on target audience (Māori, Pasifika, low-income and rural communities), the delivery agency’s existing relationships, and the availability of community partners. • The locations for this trial will be jointly decided upon by Te Manatū Waka and Waka Kotahi. |
| Timeframe | <ul style="list-style-type: none"> • The Budget 2022 bid stipulated a six-month trial programme. • The implementation plan has identified that six months would inhibit uptake and provide insufficient time to assess outcomes, and suggests that a trial should be at least one year in duration. • The Waka Aronui trial is three years and will not end until 2024. • Three years reflects commercial leasing schemes and allows the partner organisations to learn from, assess and adapt the scheme to test responses to the various issues, constraints and opportunities that will not necessarily be evident at the outset of the scheme. • The preference of Waka Kotahi is to defer any final decisions on the term of the trial until more information is gathered through pre-trial engagement. |
| Parties | <ul style="list-style-type: none"> • Te Manatū Waka will provide oversight and evaluation. • Waka Kotahi will be the delivery agency and will identify and work with: <ul style="list-style-type: none"> ○ Community partners ○ Lending groups ○ Industry partners • The inclusion and engagement with community is essential to this project, and developing robust relationships is a key part of the initial work. |
| Exit strategies | <ul style="list-style-type: none"> • Preventing adverse impacts on participants at the end of the trial is a key priority. This may include: <ul style="list-style-type: none"> ○ developing a lease-to-own system ○ ensuring that participants are not required to give up a vehicle to participate. • Investigating additional solutions |

Appendix 2

Detailed budget for Waka Kotahi from September 2022 until the Cabinet report back (February 2023).

| Description of costs | \$ |
|---|------------------|
| <p>Salaries</p> <p>To provide resources to work on the design of the trial, conduct pre-trial engagement, and engage with community partners. This includes organisation overhead costs and on-costs such as ACC, KiwiSaver, and training.</p> | 992,000 |
| <p>Contractors/Consultants</p> <p>Roles to be filled by contractors to provide immediate access to resources needed to meet short delivery timeframes, recognising a tight labour market and minimal options to reprioritise and refocus committed internal Waka Kotahi resource. This also includes contracted out services for anticipated specialist support, including legal, financial, and research/insights.</p> | 580,000 |
| <p>Consultation</p> <p>To undertake upfront consultation and engagement required to inform the design and development of the scheme, including travel and accommodation, meeting, communication material and media costs.</p> | 128,000 |
| <p>Contingency</p> <p>Allowance to account for considerable uncertainties at this stage</p> | 250,000 |
| Total | 1,950,000 |