

Proactive Release

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Some information has been withheld on the basis that it would not, if requested under the Official Information Act 1982 (OIA), be released. Where that is the case, the relevant section of the OIA has been noted and no public interest has been identified that would outweigh the reasons for withholding it.

Listed below are the most commonly used grounds from the OIA.

| Section | Description of ground |
|------------------------|---|
| 6(a) | as release would be likely to prejudice the security or defence of New |
| 0(4) | Zealand or the international relations of the New Zealand Government |
| 6(b) | as release would be likely to prejudice the entrusting of information to the |
| 0(0) | Government of New Zealand on a basis of confidence by |
| | (i) the Government of any other country or any agency of such a |
| | Government; or |
| | (ii) any international organisation |
| 6(c) | prejudice the maintenance of the law, including the prevention, investigation, |
| 0(0) | and detection of offences, and the right to a fair trial |
| 9(2)(a) | to protect the privacy of natural persons |
| 9(2)(a) 9(2)(b)(ii) | to protect information where the making available of the information would be |
| 9(2)(0)(1) | likely unreasonably to prejudice the commercial position of the person who |
| | supplied or who is the subject of the information |
| 9(2)(ba)(i) | to protect information which is subject to an obligation of confidence or which |
| 9(Z)(Da)(I) | any person has been or could be compelled to provide under the authority of |
| | any enactment, where the making available of the information would be likely |
| | to prejudice the supply of similar information, or information from the same |
| | source, and it is in the public |
| 9(2)(ba)(ii) | to protect information which is subject to an obligation of confidence or which |
| 9(Z)(Da)(II) | |
| | any person has been or could be compelled to provide under the authority of |
| | any enactment, where the making available of the information would be likely |
| 0(2)(f)(ii) | otherwise to damage the public interest |
| 9(2)(f)(ii) | to maintain the constitutional conventions for the time being which protect |
| O(2)(f)(i,j) | collective and individual ministerial responsibility |
| 9(2)(f)(iv) | to maintain the constitutional conventions for the time being which protect |
| $O(2)(\pi)(i)$ | the confidentiality of advice tendered by Ministers of the Crown and officials |
| 9(2)(g)(i) | to maintain the effective conduct of public affairs through the free and frank |
| | expression of opinions by or between or to Ministers of the Crown or |
| | members of an organisation or officers and employees of any public service |
| 0(2)(b) | agency or organisation in the course of their duty |
| 9(2)(h) | to maintain legal professional privilege |
| 9(2)(i) | to enable a Minister of the Crown or any public service agency or |
| | organisation holding the information to carry out, without prejudice or |
| 0(0)(i) | disadvantage, commercial activities |
| 9(2)(j) | to enable a Minister of the Crown or any public service agency or |
| | organisation holding the information to carry on, without prejudice or |
| | disadvantage, negotiations (including commercial and industrial negotiations) |

In Confidence

Office of the Minister of Transport

Chair, Cabinet Environment, Energy and Climate Committee

Final design decisions for the trial of the Clean Car Upgrade

Proposal

1 This paper seeks agreement on the remaining policy design decisions needed for the trial of the Clean Car Upgrade (the Upgrade). The trial and its evaluation will inform the final design of any subsequent expansion of the Upgrade.

Relation to government priorities

- 2 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 by the release of the first Emissions Reduction Plan (ERP) in May 2022, that outlines how the emissions budgets will be achieved.
- 3 The ERP sets three focus areas and four targets to reduce transport emissions by 41 percent by 2035. Of these, the targets relevant to the Upgrade are to:
 - 3.1 increase zero-emission vehicles to 30 percent of the light fleet by 2035; and
 - 3.2 reduce total vehicle kilometres travelled by light vehicles by 20 percent by 2035 through improved urban form and providing better travel options, particularly in our largest cities.
- 4 The ERP also reaffirms the Government's commitment to ensure an equitable transition to a low-emissions economy. An equitable transition is one where opportunities to decarbonise work for everyone so our transition is just, fair and inclusive for all New Zealanders. The Clean Car Upgrade supports an equitable transition to low emissions transport for New Zealanders on a lower income.

Executive Summary

- 5 The Upgrade will contribute to an equitable transition by making cleaner vehicles and lowemission alternatives more affordable for households on low- and moderate-incomes. It responds to the problem identified by the Productivity Commission that New Zealanders on a low-income risk being locked-in to high-emission vehicles because they are less able to afford to switch to low-emission vehicles, or because they live in areas poorly served by public transport.
- 6 On 1 August 2022, Cabinet agreed key aspects of the Upgrade's design and approved the drawdown of the tagged contingency provided in Budget 2022 to fund its trial [ENV-22-MIN-0031 refers]. For the trial, this includes \$15.906 million in 2022/23 and in 2023/24. This would provide for a trial of up to 2,500 vehicles in three locations, with the first trial commencing in April 2023.

- 7 The proposals in this paper address the remaining policy design decisions needed for the trial. The key proposals are:
 - 7.1 setting the Upgrade's grants at a multiplier of 1.4 of the new vehicle rebate in the current Clean Car Discount's rebate schedule, regardless of whether the vehicle purchased is new or used. When applied to used vehicles, this results in a benefit approximately 3.5 times the current Clean Car Discount rebate for a used vehicle.
 - 7.2 allowing participants to combine their grants and collectively purchase replacement transport. This increases the likelihood that participants can switch to low-emission transport without the need for market financing
 - 7.3 allowing participants to divide the use of the grants across more than one replacement transport option. For example, this would allow a participant to divide the EV grant of \$12,075 into \$6,000 towards the purchase of two e-bikes and \$6,075 towards a vehicle purchase
 - 7.4 facilitating uptake by households on low incomes through the use of participant advisers or a participant advisory function, which may be delivered by a person or an organisation. This role would raise awareness of the subsidised transport choices available through the Upgrade. Where needed, it would help people apply and complete the process of scrapping a vehicle and securing replacement transport. They would be contracted by Waka Kotahi and could be existing community groups or organisations, iwi-based groups, or individuals
 - 7.5 requiring applicants to have owned their vehicle for at least 2 years prior to applying for it to be scrapped. This prevents people from buying end-of-life vehicles to participate in the Upgrade
 - 7.6 having an additional vehicle eligibility criterion that a vehicle must be at least 10 years old to be scrapped
 - 7.7 authorising me to make specific policy decisions (as noted below) should Waka Kotahi's consultation process show that current settings would significantly undermine the success of the trial. I would receive a report on these issues in February 2023, and these decisions would be made before a trial is launched.
- 8 The paper also outlines the high level indicative process for the Upgrade and its evaluation framework. The process may need to be refined once Waka Kotahi has had detailed discussions with vehicle dealers, scrappers, iwi, and community groups in the three trial locations. This will occur following the announcement of Cabinet's decisions on the Upgrade.
- 9 I will announce Cabinet's July decisions on the Upgrade [ENV-22-MIN-0031 refers] and the outcome of the decisions on this paper following confirmation by Cabinet.

Background

10 On 1 August 2022, Cabinet agreed key aspects of the Upgrade's design and approved the drawdown of the tagged contingency that was provided in Budget 2022 for its trial. It also agreed that the trials would be located in Auckland, Gisborne and Christchurch with a commencement date of April 2023 for at least one of these locations [ENV-22-MIN-0031]

refers]. In taking these decisions, Cabinet invited me to report back by 30 November 2022 with final recommendations on the:

- 10.1 level of the multiplier to be applied to the Clean Car Discount (the Discount) rebates for new vehicles, to set the Upgrade grants
- 10.2 the ability for people to divide the use of the grants across more than one replacement option, and;
- 10.3 inclusion of participant advisers to facilitate uptake of the Upgrade by households on low incomes and the extent of the participant advisor role.
- 11 These decisions were taken in the context that the November 2022 report back, which this paper provides, would also cover:
 - 11.1 additional measures that could be used to limit misuse of the Upgrade (
 - 11.2 the process for scrapping a vehicle and securing replacement transport
 - 11.3 the framework for the evaluation of the trial and the metrics that will be used, and;
 - 11.4 a summary of the initial cost-benefit analysis that was done for the trial of the Upgrade to inform Budget 2022 decisions.

The level of the Clean Car Upgrade grants is proposed to be 1.4 times the new car rebate

- 12 On 1 August, Cabinet agreed that the Upgrade grants would be set by applying a multiplier to the current Clean Car Discount rebate schedule for new vehicles. To encourage modeshift, it also agreed that the grants for low emission alternatives, like public transport and electric bikes (e-bikes), would be the same as for EVs [ENV-22-MIN-0031 refers].
- 13 The rationale for this grant setting methodology is to help ensure the grants will be high enough to make quality low-emission vehicles, and low-emission alternatives, affordable for New Zealanders on low- and moderate-incomes. It also results in vehicles being subsidised on the basis of their carbon dioxide (CO₂) emissions and fuel use. These factors are central to achieving the outcomes sought by the Upgrade.
- 14 Cabinet also agreed in principle that the multiplier applied to the current Clean Car Discount rebate schedule for new vehicles would be 1.4, subject to a report back from the Minister of Transport with final recommendations by 30 November 2022 [ENV-22-MIN-0031 refers].
- 15 A multiplier of 1.4 results in the grant levels below. To avoid doubt, the same level of grant would apply irrespective of whether a replacement vehicle is new or used. In the case of applying this enhanced grant to used vehicle, this results in a benefit approximately 3.5x the Clean Car Discount rebate for a used vehicle.
- 16 Each vehicle's grant level would be determined based on its emissions as recorded for the Clean Car Discount. Grant levels would be fixed for the duration of the trial to the current rebate levels. For clarity, this will be based on the Clean Car Discount rebate on 1 November 2022. The figures below are illustrative examples, based on the emissions of specific vehicles.
 - 16.1 \$12,075 towards the purchase of an EV or low-emission alternatives

- 16.2 \$8,050 towards the purchase of a PHEV with emissions between 1-56 grams CO₂ per kilometre
- 16.3 \$6,011 towards the purchase of the most fuel efficient hybrid
- 16.4 \$3,774 towards the purchase of the most fuel efficient internal combustion engine vehicle.

Waka Kotahi has provided some initial feedback from communities

- 17 To assess the sufficiency of the proposed grants, Waka Kotahi commissioned in-depth interviews with 30 people in Auckland, Christchurch and Gisborne who would be eligible for the Clean Car Upgrade. While specifics of trial details could not be discussed due to confidentiality, key insights from the interviews include that:
 - 17.1 higher upfront purchase price is one of the key constraints for switching from current fossil vehicles to low-emission ones. The target population do not have the financial means or desire to switch given this financial barrier
 - 17.2 a subsidy, like that provided by the Upgrade, would help overcome the financial barrier to switching and is more likely to be taken up by people in the target population who:
 - are already looking at lower emission vehicles for petrol cost saving and/or environmental reasons
 - would like a 'newer' more reliable vehicle to reduce the financial stress associated with vehicle maintenance, including having a current warrant of fitness. Typically these interviewees currently have a smaller and/or lower powered vehicle
 - have household incomes greater than \$70,000 per annum.
 - 17.3 people are not willing to spend beyond their means to buy a vehicle, or to stretch their spend to gain a subsidy. Most are not willing to take out a loan to buy a replacement car generally, nor to take out a loan to obtain a subsidy.
 - 17.4 taking into account their current vehicle's trade-in-value, the most common amount interviewees expect to spend on their next vehicle was \$5,000. However, the expected values ranged from \$1,000–\$59,000, with around a third of people expecting to spend more than \$10,000.
- 18 As is expected, the interviews suggest that grants set using a multiplier of 1.4 may make low-emission vehicles a realistic choice for some, but not all, New Zealanders on low- to moderate-incomes.
- 19 However, many New Zealanders who are financially unable to access the Clean Car Discount (due to the higher cost of new vehicles) will be supported in their transition to cleaner vehicles by the Clean Car Upgrade.
- 20 The number of eligible people able to use the Upgrade could be increased by rising the multiplier beyond 1.4. However, this would not necessarily increase the number of people assisted, because the trial has a limited amount of funding. A higher multiplier would also

reduce the cost-effectiveness of the Upgrade. Given these trade-offs, I propose that the trial of the Upgrade proceed with grants set using a multiplier of 1.4 applied to the current Clean Car Discount's rebate schedule for new vehicles.

- 21 To increase the number of people who are able to take up the Upgrade I propose that participants be able to combine their grants and collectively purchase replacement transport.
- 22 Waka Kotahi advised that further work is required to understand the needs of some communities. With this in mind, I have requested authorisation to make some final decisions around trials later in this paper.

Mixing the use of the Clean Car Upgrade's grants

- 23 On 28 July, ENV agreed in principle that participants could spend the grants across the replacement transport options (e.g. using \$6,000 towards two e-bikes and \$6,075 towards an EV) subject to a report back from the Minister of Transport by 30 November 2022 [ENV-22-MIN-0031]. This ability comes with the proviso that the total grant received is set at the level of the replacement vehicle.
- 24 The desirability of dividing the use of the grants was not explicitly tested with representatives of low-income communities. Across the people interviewed the predominant view was that people would opt to replace their scrapped vehicles with other vehicles, and not opt for low-emission alternatives.
- 25 However, this option may be appealing to other segments of the targeted community, such as a family with moderate income looking to replace a second vehicle with alternative transport.
- 26 To provide as much choice as possible for participants, I propose that people be able to divide their grants across more than one replacement option in all trial locations.

Participant advisers will be trialled as a means of facilitating uptake by households with low incomes

- 27 As a way to ensure strong uptake of the Upgrade by households with low incomes, especially among Māori and Pacific peoples, Cabinet agreed in principle to the Upgrade operating with participant advisers [ENV-22-MIN-0031 refers]. Participant advisers would:
 - 27.1 raise awareness of the financial and environmental benefits of low-emission transport among low-income communities
 - 27.2 help people apply and complete the process of scrapping a vehicle and securing replacement transport, where needed
 - 27.3 help people overcome the language barriers to engaging with the Upgrade, where needed
 - 27.4 be available in both a rural and urban setting, and provide advice about transport options appropriate to that setting, where needed.
- 28 The role of participant advisers would allow budgeting support, but exclude providing any financial advice as defined by the Financial Services Legislation Amendment Act (unless they are legally qualified), or any other advice that exposes the Crown to potential litigation.

- 29 As participant advisers will increase administrative costs, I asked Waka Kotahi to test the proposed role with representatives of low-income communities. Comment was also sought from the Clean Car Sector Leadership Group. Overall, having participant advisers was supported with the feedback that:
 - 29.1 access to reliable, trusted, local and independent advice that is relevant to a participant's circumstances is important in encouraging people to switch to lowemission vehicles
 - 29.2 to ensure specific groups with specific needs are catered for, and they have confidence in the participant advisers, for example, "Māori should deliver to Māori, and Pacific People to Pacific."
- 30 On the basis of this feedback I propose the trial proceed with the participant advisory functions provided by community based partners. This advisory support could be iwi-based and Pacific peoples based groups or other trusted local community organisations and/or individuals.

Additional measures to prevent misuse of the Upgrade

- 31 On 1 August, Cabinet agreed a number of design features that will combine to reduce misuse of the Upgrade [ENV-22-MIN-0031 refers]. This is necessary because as a programme that offers the opportunity for participants to receive substantial financial benefit, the Clean Car Upgrade is at a significant risk of misuse in doing so they safeguard the Upgrade's potential to generate public benefit, and reduce (but do not eliminate) the risk of fraud. These features are listed in Appendix 1.
- 32 I propose bolstering these mitigations through the Upgrade:
 - 32.1 focusing on individuals (including sole traders) and households (as declared on the application) and being closed to applications from organisations and commercial entities, such as companies, charities, incorporated societies, trusts and partnerships. These entities have other means of obtaining support, and by restricting their ability to access the Upgrade, this mitigation helps safeguard use of the Upgrade by New Zealanders with low- and moderate-incomes who are the target of this programme
 - 32.2 having an additional eligibility criterion that applicants must have owned their vehicle for at least 2 years prior to applying. This criterion will prevent people buying end-oflife vehicles to participate in the Upgrade. Not only will this criterion help reserve use of the scheme by those who need assistance. Where the Upgrade scraps vehicles that were going to be scrapped anyway, the potential emission reductions are much less
 - 32.3 having an additional eligibility criterion that for a vehicle based on age. In selecting this eligibly criteria, we should seek to maximise participation and prevented emissions (through prevented vehicle use), enhance safety, minimise perceived unfairness, and reduce frustration from potential participants' vehicles not qualifying. These trade-offs are summarized in Appendix 2. I recommend a minimum age of 10 years as providing the best balance of these objectives.
- 33 Based on advice from Inland Revenue and Waka Kotahi, I recommend noting that Waka Kotahi should continue to move forward with plans to verify income with Inland Revenue.

However, in order to prevent delay of the trial start, I recommend that this verification mechanism not be limited to the IR Gateway platform.

The process for scrapping a vehicle and securing replacement transport

- 34 Figure one, on the following page, outlines the proposed Upgrade process. With this process, New Zealand Transport Agency (Waka Kotahi) will work with vehicle dealers, low-emission transport providers and vehicle scrappers to deliver the Upgrade. This will include engaging with product stewardship programmes as available.
- 35 In California, the state administrators of the similar *Clean Cars 4 All* programme select and have formal agreements with the delivery partners. This model helps them minimise the risks that opportunistic businesses might otherwise pose. It also helps leverage the contribution participating vehicle dealers can make; such as dealers helping participants understand the relative advantages of EVs, PHEVs and hybrids, and the vehicle type that will best suit their intended vehicle use.

Waka Kotahi is highly likely to employ a similar model to provide customers with as wide a pool of choice as possible, while maintaining the integrity of the scheme and protecting customers and government investment. Delivery partners will be selected based on clear and transparent criteria using relevant best practice all of government processes and guidelines. This will minimise perceptions of favouring particular businesses over others.

- 36 Outreach to low and middle-income communities is a key component of the process. This outreach will raise awareness of the benefits of low-emission transport and the opportunity to realise those benefits with the Upgrade. This promotion is important because households with low incomes are less likely to be contemplating a switch to low emission vehicles and e-bikes because, currently, they are relatively less able to affordable them.
- 37 The process is framed by a set of six customer experience principles that guide the overall approach. These guiding principles aim first to establish trust, demonstrate empathy, and do no harm. They also focus on ensuring the scheme meets the needs of participants, is simple for all involved, reliable and consistent. These guiding principles create an experience, mapped in Appendix Two, that is focused on supporting participants as they interact with the Clean Car Upgrade.
- 38 The process is underpinned by two streams of ongoing support for participants and delivery partners:
 - 38.1 **Participant advisory support**: delivered by an agency or person and available to participants throughout the process, providing or referring people to key sources of information, advice and tools to help people make a decision and support them through the application process.
 - 38.2 **Proactive support of delivery partners**: which will be provided by Waka Kotahi throughout the process.
- 39 Waka Kotahi will work with all delivery partners and communities in trial locations to refine the process and deliver the Clean Car Upgrade.

Figure 1 – Possible Process for the Clean Car Upgrade – to be confirmed after further operational design by Waka Kotahi



The generic process and trial locations may require refinements

- 40 The generic process described above may need to be refined once Waka Kotahi has been able to have detailed discussions with vehicle dealers, scrappers, iwi and community groups in the three trial locations. This would occur following the announcement of Cabinet's decisions on the Upgrade. One area of refinement will be the range of low-emission alternatives. As the previous Cabinet paper noted, this range will depend on what is available in each of the three locations and will be decided after Waka Kotahi engagement with stakeholders.
- 41 Waka Kotahi will keep me informed of the refinements it intends to make. My expectation is that the refinements will be made within the policy settings decided here and by ENV on 28 July 2022.
- 42 On 1 August, Cabinet agreed (ENV-22-MIN-0031 refers) to Gisborne as one of the trial locations. After input from Ministry of Primary Industries and Waka Kotahi, Lecommend expanding the definition of this trial location to include the broader Tairawhiti region as it will provide an opportunity to trial the Clean Car Upgrade in less urban settings.
- 43 However, as Waka Kotahi has not yet been able to fully engage with the Gisborne/Tairāwhiti community about the trial, there are concerns about the immediate feasibility of a trial in this location. In light of this risk:
 - 43.1 I propose that Waka Kotahi continue to engage with the Gisborne/Tairāwhiti community to work on trial co-design within the parameters agree by Cabinet.
 - 43.2 If after this further work Waka Kotabi determines that there is limited prospect of a successful trial in Gisborne/Tairāwhiti in 2023, it will report back to me on this by 17 February 2023, proposing alternative solutions.

Limited delegation of authority from Cabinet to Minister of Transport

- 44 Waka Kotahi has not yet been able to test in detail the policy setting with communities and potential delivery partners. In response to this, I seek Cabinet's authority to make decisions consistent with the overall policy for the following matters:
 - 44.1 Trial length: To determine whether it is necessary to extend the length of trials both to enhance uptake and support acceptance of trials by communities. The trials would be no longer than 15 months, and Waka Kotahi has confirmed that this extension would not significantly increase overheads.
 - 44.2 Warrant of Fitness (WoF) and scrapped vehicle eligibility: To determine whether one trial region could allow vehicles that do not have a WoF for more than 28 days to be eligible under the trial. This change would allow for vehicles that have been driven without a WoF to be removed from the road, improving safety and emissions outcomes. This may particularly be an issue in Tairāwhiti.

- 44.3 Individual income eligibility: To determine if the current individual income threshold should change to ensure the right balance of accessibility of the trial for those who can afford to upgrade their vehicles without creating financial hardship.
- 44.4 Multi-generational household eligibility: To determine if a higher income threshold would be required for multi-generational households, to ensure they are eligible under the scheme.
- 44.5 Eligibility of higher priced vehicles under limited circumstances: To determine if a separate price cap should be allowed when multiple households scrap a vehicle and pool funding. This would support the purchase of a larger vehicle that suits multiple households.
- 45 The principles that I will need to be satisfied before making my decisions are as follows:
 - 45.1 any changes are kept to the minimum necessary to ensure successful operation of trials of the initiative.
 - 45.2 any changes to schemes would need to be agreed ahead of launch of the scheme.
 - 45.3 the proposed change continues to meet the intent of the scheme (ENV-22-MIN-0031 refers): To support transition to low emissions transport for New Zealanders' with lower incomes by reducing financial pressures, ensure all New Zealanders benefit from the transition to net-zero emissions, accelerate CO2 emissions reduction, and improve vehicle safety.
- 46 Officials from Te Manatū Waka and Waka Kotahi would provide me with a briefing including evidence supporting a change in policy and specifying any proposed changes by 17 February 2023. This evidence would be based on feedback from community engagement and potential delivery partners.

The framework for the evaluation of the trial and the metrics that will be used

- 47 On 1 August, Cabinet agreed (ENV-22-MIN-0031 refers) that the trial of the Upgrade would evaluate:
 - 47.1 whether the Upgrade is an effective way to support households with low incomes to shift to lower emission transport. This includes evaluating the cost effectiveness of the scheme as an equity measure



the success of the outreach and application process in achieving a high level of uptake by Māori and Pacific peoples' households with low incomes, as well as disabled communities. This includes evaluating the simplicity and accessibility of the process for applicants

47.3 whether the key design settings support the achievement of the Upgrade's objectives of assisting New Zealanders with low or moderate incomes shift from fuel-heavy fossil vehicles to low-emissions and safer transport. This includes both a programme evaluation and economic modelling to understand the possible emissions impacts. And;

- 47.4 how the trial version of Clean Car Upgrade could be refined to increase its effectiveness in achieving the Upgrade's objectives.
- 48 The Ministry of Transport will commission an independent evaluation of the trial. The framework that will be used for the evaluation is in Appendix 3. This framework provides the outcomes to be evaluated and the metrics that will be used. Because Waka Kotahi has yet to finalise trial design, this framework is preliminary. It will be refined when programme design is finalised.
- 49 If the trial extends to the maximum 15 months, the evaluation will be completed by April 2025. If the trial is successful, the design of the Upgrade would be reviewed and improved in light of the learnings from the evaluation. The Minister of Transport will report back to Cabinet by June 2025 on the outcomes of the evaluation, any changes to the Upgrade's design and recommendations for any expansion. Any expansion would then proceed from September 2025.

Initial cost-benefit analysis was done for Budget 2022

- 50 Te Manatū Waka prepared an initial cost-benefit analysis to inform Ministers decisions on whether to trial the Upgrade. This assessment reviewed previous analysis on vehicle scrappage schemes, including the ones in Auckland in 2007, and Wellington and Christchurch in 2008.
- 51 This review shows that the main target outcomes of scrap and replace schemes are improving vehicle safety and reducing emissions. Recent schemes, like the Californian Clean Vehicles 4 All have also focused on improving equity.
- 52 Overall, the largest benefit tends to be a reduction in travel costs, because scrap and replace schemes incentivise the use of newer, more efficient vehicles or cheaper alternative modes. Other benefits include reduced emissions and air pollution, safety risk, and increased physical activity, but these tend to be less significant. Lower travel costs may also incentivise greater travel demand by participants (potentially meeting previously unmet transport need), that can partly offset the other benefits.
- 53 The largest cost component can be a potential loss of a vehicle's value (particularly when the replacement option is not another vehicle). While a better vehicle would have a higher value, the purchase cost of that vehicle still needs to be overcome: a low subsidy limits participants to lower value replacements, whereas higher subsidies make it easier to purchase a higher value replacement. Other costs can include deadweight costs, implementation costs, and some small externality increases (such as road wear and tear).
- 54 There are a wide range of results from assessments of scrap and replace schemes, depending on policy design and the assessment method, but generally results lean towards them not being cost effective, or having a high degree of uncertainty.
- 55 Uncertainty relates to the fact that we have limited information on the potential uptake of a scheme, the transport options participants will choose, and their longer-term behaviours. This has led to significant gaps in many ex-ante assessments, which we intend to address in the trial and evaluation of the Upgrade.

Implementation

56 A timeline of the main policy, implementation, and evaluation milestones is below.

| Key implementation milestone/activity | Timeframe |
|--|--------------------------------------|
| Media release on Cabinet's decisions on the Clean Car Upgrade | Early December 2022 |
| Waka Kotahi works with vehicle dealers, scrappers, low- emission transport providers, iwi and community groups in the three trial locations to co-refine the generic process where needed | December 2022 – March 2023 |
| If relevant, Waka Kotahi through a tender process selects and contracts delivery partners for the Upgrade | Mid-December 2022 - February 2023 |
| Waka Kotahi identifies, develops and tests system requirements (e.g. IT and financial system requirements) for trial purposes, with a view to potential future use | August 2022–March 2023 |
| Communication and engagement on low emission transport and the Clean Car Upgrade starts in the first trial location | March 2023 onward |
| Trial scheme in operation in at least one of the three trial locations | April 2023 |
| Trial scheme in operation in all locations | July 2023 |
| End of trial (15 months maximum after all trials start) | October 2024 |
| Evaluation and modelling of potential emissions impacts of the Clean Car Upgrade complete | April 2025 |
| Report back to the Cabinet on the outcome of the evaluation and the future of the Clean Car Upgrade | June 2025 |

Financial implications

- 57 The financial implications arising from the trial of the Upgrade were considered by Cabinet on 1 August 2022 [ENV-22-MIN-0031 refers].
- 58 Because the timeline for the trial, evaluation, and report back to Cabinet on the Upgrade is extended until June 2025, I propose Ministers note that at the end of the first trial, I may seek access to the tagged contingency to allow any trials that finish in the 2024/25 budget year to continue or be scaled up using funding from the 2025/26 year.
- 59 This paper notes the additional implication of the potential for payments from vehicle scrappers for the vehicles they receive through the Upgrade. This potential arises from the

financial value they will gain from selling the scrapped vehicles' parts and reusable metals. As the Upgrade will impose additional compliance costs for the participating scrappers, Waka Kotahi would negotiate the magnitude of this payment.

60 Any payments will be transferred into the consolidated fund. It is appropriate that any payments go to the centre because the trial is fully funded by the Clean Car Upgrade appropriation. If the Upgrade were to be expanded following the trial, Cabinet could consider whether the payments could be used to partly fund the expansion.

Legislative Implications

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

Impact Analysis

Regulatory impact statement

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

Population impact

- 63 The Upgrade will benefit households on low to moderate incomes that participate in the scheme. Low-emission and safer vehicles offer tangible benefits such as lowering transport costs, through reduced fuel and maintenance costs. They can also improve health outcomes, for example, 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.
- 64 As Māori, Pacific peoples, and disabled communities are over-represented in the low-income demographic, it is anticipated that this programme would have strong population impact there. Furthermore, as Māori experience a significantly higher traffic mortality rate than other ethnicities and Māori children (under 14 years) have a road crash mortality rate three times higher than children of other ethnicities, it is expected that supporting transition to safer vehicles would similarly have an important impact.
- 65 Waka Kotahi will work with representatives of Māori and Pacific peoples and disabled communities to ensure a high level of uptake of the Upgrade by these communities. Furthermore, the use of Participant Advisory Services is expected to support uptake by these communities. This will be monitored as part of the trial evaluation.

Climate implications of policy assessment

66 A climate implications of policy assessment is not needed for the trial of the Clean Car Upgrade as its expected emission reductions are below the threshold requiring assessment.

Human Rights

67 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

68 The following agencies were consulted in the development of this paper: Waka Kotahi, Ministry of Primary Industries, Ministry of Housing and Urban Development, Te Arawhiti, Ministry for Pacific Peoples, Ministry of Social Development, Inland Revenue, Treasury, Ministry for the Environment, Department of Internal Affairs, Ministry of Foreign Affairs and Trade, Ministry of Business, Innovation and Employment, Office for Disability Issues, and the Energy Efficiency and Conservation Authority. The Department of Prime Minister and Cabinet and Te Puni Kokiri have been informed.

Stakeholder engagement

- 69 The direction of the Upgrade has been informed by engagement with representatives of low income communities, the Clean Car Sector Leadership Group, the Financial Services Federation, the New Zealand Automobile Association and the Motor Trade Association (MTA). MTA's input was informed by a workshop with the vehicle and scrappage industries.
- 70 The vehicle and scrappage industries are supportive of a vehicle scrap and replace scheme. However, their preference is to have an untargeted scheme focused on increasing the number of vehicle replacements.

Communications

71 I will announce the outcome of the decisions on this paper in a media release following confirmation from Cabinet.

Proactive Release

72 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 Cabinet:

The level of the Clean Car Upgrade's grants

- 1. **note** that on 1 August, Cabinet agreed that the Clean Car Upgrade's grants would be set by applying a multiplier to the current Clean Car Discount rebate schedule for new vehicles, and agreed in principle to this multiplier being 1.4 subject to a report back from the Minister of Transport with a final recommendation by 30 November 2022 [ENV-22-MIN-0031 refers]
- 2. **note** that the grant levels resulting from a multiplier of 1.4 have been tested to a limited extent, suggesting that the grants will make low-emission vehicles a realistic choice for some, but not all, New Zealanders with low- to moderate incomes.
- 3. **note** that the multiplier of 1.4 times new car rates applied to all vehicles results in an effective grant rate of 1.4 times the Clean Car Discount rebate (as at 1 November 2022) for a new car and approximately 3.5 time the Clean Car Discount rebate for a used car.
- 4. **agree** to proceed with a multiplier of 1.4 to set the grants for the trial of the Upgrade and address the lack of sufficiency for some households by allowing participants to combine their grants and collectively purchase replacement transport

Mixing the use of the Clean Car Upgrade's grants

- 5. **note** that on 1 August, 2022, Cabinet agreed in principle that participants can mix the use of the grants across replacement transport options (eg using \$6,000 towards two e-bikes and \$6,075 towards an EV) subject to a report back from the Minister of Transport with a final recommendation by 30 November 2022 [ENV-22-Min-0031 refers]
- 6. **note** that interviews with representatives of low-income communities indicate that most people are likely to opt replace their scrapped vehicles with other vehicles and are not likely to use the ability to divide their grants across different options
- 7. **agree** that notwithstanding the views of interviewees in recommendation (5) above, participants have the choice to divide their grants across more than one replacement option

The trial will use participant advisers to facilitate uptake by households on low-incomes

- 8. **note** that on 1 August 2022, Cabinet agreed in principle, subject to a report back from the Minister of Transport by 30 November 2022, that the Clean Car Upgrade would operate with participant advisers whose role would be to facilitate uptake by households with low incomes, especially by Māori and Pacific peoples
- 9. **note** that feedback from representatives of low-income communities indicates that it would be desirable to have a participant advisory function, which may be a person or a partner community organisation
- 10. **agree** that the trial of the Clean Car Upgrade proceed with a participant advisory function, noting that New Zealand Transport Agency (Waka Kotahi) will decide the level of support and whether it is provided by individuals, or organisations, or a mixture of both

Further safeguards to reserve use of the Clean Car Upgrade to people who require assistance to shift to low-emission transport

- 11. **agree** that the Clean Car Upgrade be closed to applications from organisations and commercial entities, such as companies, charities, trusts, incorporated societies, and partnerships
- 12. **agree** that to prevent people buying end-of-life vehicles to participate in the Clean Car Upgrade, that applicants must have owned their vehicle to be scrapped for at least 2 years prior to applying
- 13. **agree** that the criteria defining eligibility for a vehicle to be scrapped include an additional criterion that the vehicle must be at least 10 years old
- 14. **note** that Waka Kotahi will verify income information with Inland Revenue, but this verification may take place through some mechanism other than the IR Gateway platform.

The process for scrapping a vehicle and securing replacement transport

- 15. **note** the generic process for the Upgrade shown in Figure One that Waka Kotahi will refine, if needed, following detailed discussions with vehicle dealers, scrappers, iwi and community groups in the three trial locations
- 16. **agree** that the Gisborne trial location should be expanded to include the broader Gisborne/Tairāwhiti region

17. **note** that if, upon further consultation with the community, Waka Kotahi determines that this trial location is not immediately viable, it will report back to me on this by 17 February 2023, proposing alternative solutions

Limited delegation of authority from Cabinet to Minister of Transport

- 18. **agree** that the Minister of Transport is delegated Cabinet authority to make decisions relating to the trial for the matters as set out in paragraphs 44.1 to 44.5 above
- 19. **note** that officials from Te Manatū Waka with Waka Kotahi will provide a paper to support recommendation 18 no later than 17 February 2023

The evaluation of the trial Upgrade

- 20. **note** the evaluation framework in Appendix Two that will be used in an independent evaluation of the trial to be commissioned by the Ministry of Transport.
- 21. **note**, this evaluation framework is preliminary and will be refined once Waka Kotahi finalises trial detail.

Financial implications

- 22. **note** that due to the longer timeline for the trial and evaluation, if Cabinet decides to implement a national Clean Car Upgrade, the tagged contingences presently planned for 2024/25 and 2025/26 would be required a year later, ie for 2025/26 and 2026/27.
- 23. **note** that at the end of the first trial the Minister of Transport may seek to draw down the tagged contingency in order to allow any trials that finish in the 2024/25 budget year to continue or be scaled up using funds from the 2025/26 year (ie from the current tagged contingency for 2024/25).
- 24. **note** that there is the potential for payments to be received from vehicle scrappers for the vehicles they receive and these payments will be transferred into the consolidated fund

Communications

- 25. **note** that if Ministers support the recommendations in this paper, the Minister of Transport would announce these decisions and the ones Ministers made on 28 July 2022 in a media release following Cabinet confirmation
- 26. **note** that this Cabinet paper will be proactively released, subject to any necessary redactions, within 30 business days of decisions being confirmed by Cabinet.

Authorised for lodgement

Hon Michael Wood Minister of Transport

Appendix 1

Design features agreed by Cabinet to minimise misuse of the Clean Car Upgrade

| Diale | Milliontions anneal by Cabinat |
|--|--|
| Risk | Mitigations agreed by Cabinet |
| The Clean Car Upgrade is accessed by people who do not need assistance beyond the Clean Car | The following agreed mitigations will combine to limit the risk of high- income people or households with high incomes, accessing the Clean Car Upgrade. |
| Discount to switch to low- emission transport | The eligibility thresholds of median income that will limit participation to vehicle owners¹ with low- and moderate- incomes. The thresholds are the: |
| | adult annual median wage where the vehicle owner is not living with a spouse or partner (this is \$56,836 using dune 2021 data). The threshold will increase by \$10,517 for each dependent child under the age of 18 |
| | median annual household income where the vehicle owner is living with a spouse or partner (this is \$97,760 using June 2021 data). This threshold will prevent high- income households with a member earning a low-income accessing the Clean Car Upgrade. The threshold will increase by \$10,517 for each dependent child under the age of 18. |
| | • The use of Inland Revenue data to verify applicant income. This will overcome the risk of high-income people and/or households misreporting their income. Participants will need to provide consent for information sharing as part of the application. |
| | Applications will be statutory declarations. Coupled with the verification of applicant income against Inland Revenue data, this mitigation will increase the validity of applicant information. |
| PR- | The retail price cap of \$35,000 (inclusive of GST) on replacement vehicles. This will limit the appeal of the Clean Car Upgrade to wealthier New Zealanders. |
| TE MANA | • The use of participant advisers who will work in low-income communities to encourage applications from eligible people. This will help reduce the number of grants that go to people who do not need government assistance. Participant advisers will encourage applications from eligible people through: |
| | raising awareness of the benefits of low-emission transport and the opportunity to apply for the Upgrade providing hands-on help with applying and completing the process, and; helping overcome any language barriers in applying. |
| | • Only one application per household or individual applicant can be made over the life of the Clean Car Upgrade. This will help maintain grants for low- and moderate-income applicants. |

| | • Preventing the Clean Car Upgrade and the Clean Car Discount applying to the purchase of the same vehicle. |
|--|---|
| People on-sell their | Only one application per individual applicant, or per household, will be |
| replacement vehicle to | able to be made over the life of the Clean Car Upgrade. This |
| realise the cash-value of | overcomes the risk of repeated misuse of the Clean Car Upgrade. |
| the grant. | |
| Delivery partners inflate | The extent to which vehicle dealers can increase the prices of some |
| vehicle prices | vehicles will be limited by the \$35,000 (inclusive of GST) price cap for replacement vehicles. |
| Frank Contraction of the second secon | ACTIVELYNINGTRANGER |

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| Appendix 2 | | | |
|---|--|--|--|
| Trade-offs Between Age Criteria for Scrappage | | | |

| | 10 years (2013) | 12 years (2011) | 14 years (2009) | 16 years (2007) |
|--|----------------------|----------------------|----------------------|----------------------|
| Number and percent of Light Passenger Vehicles (LPVs) this age or older | 2,541,704 (74.2%) | 2,290,254 (66.9%) | 2,039,931 (59.6%) | 1,717,033 (50.2%) |
| Average odometer reading (total kilometers travelled) for LPVs this age by end of 2021 | 110,075 | 127,567 | 135,862 | 150,112 |
| Percent of LPVs this age with 1-star or 2-star safety rating | 9.3% | 11.9% | 16.7% | 20.9% |
| Average CO2(g/km) emissions of LPVs this age** | 186.0 | 202.3 | 208.6 | 219.3 |
| LPVs this age above or below average age* of LPV fleet? | Below | Below | Below | Above |

* Average age of LPV fleet in 2021was 14.8 years, and has remained relatively stable

** Fleet average CO2 emissions as at June 2021 was 213 grams CO2 per kilometre.

In assessing the appropriate minimum age limit for the trial, we need to balance the objectives of maximising participation and avoiding emissions (through prevented vehicle use), enhancing safety, minimising perceived unfairness, and reducing frustration from potential participants' vehicles not qualifying.

In addition, we need to consider the criteria already set, which limit the pool of eligible vehicles. Vehicles must meet the following criteria, that they have:

- 1) emissions at or above the fleet average (213 grams CO2 per kilometre as at June 2021)
- 2) a safety star rating of 2-or-less stars (or equivalent on inspection)
- 3) a current WoF and annual vehicle registration or ones that expired within 28 days.

The trade offs between each age limit are summarised below:

• **10 year age limit:** Maximises participation and reduction in vehicle distance travelled (and thus emissions) by scrapped vehicles. However, it places the age of accepted vehicles significantly below the fleet average. Furthermore, less than 10% of vehicles in this age class will be eligible based on safety rating. Eligibility in this age class is further limited by their relatively low emissions.

• **12 year age limit:** Somewhat reduces participation and reduction in vehicle distance travelled (and thus emissions) by scrapped vehicles compared to 10 year limit. However, a higher average CO2 emissions suggests that a higher proportion of vehicles would be eligible. Age of vehicles accepted for scrappage is two years below the fleet average.

• **14 years age limit:** Substantially lower gross number of vehicles potentially eligible than with 12 or 10 year age limit. Similarly, there is a drop in reduced vehicle travel distance. However, as the average CO2 emissions are higher, a greater proportion of vehicles will be eligible. Similarly, there is a jump in the number of vehicles with low safety rating. Vehicles this age are almost the same as the average fleet age (14.8 years).

• **16 years age limit:** Highest proportion of vehicles qualify based on safety and CO2 emissions criteria. This is the most restrictive age range, almost two years lower than the fleet average, which will restrict the number of people able to participate. However, the number will still be high with over 50 percent of the light vehicle fleet qualifying. Similarly, given the high odometer reading, these vehicles are closest to end-of-life. This reduces prevented CO2 emissions.

Appendix 3: Clean Car Upgrade Experience Principles

CCU Experience Principles

These customer experience principles serve as a compass to design a future state that supports people to interact with the Clean Car Upgrade and meet their needs.



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Appendix 4: Framework for the evaluation of Clean Car Upgrade

| Key evaluation areas | Outcomes | Metric for evaluation |
|---|---|---|
| Whether the Upgrade is an effective way | Participants shift to lower emissions transport | Comparison of rate of shift to low-emission vehicle for the targeted |
| to lower emission transport. This includes evaluating the cost | than they would have without the scheme | group using matched comparison data or group, and/or ex-post CBA data |
| effectiveness of the scheme as an equity measure | Participants scrap a vehicle that would have continued to be driven | Comparison of rate vehicle retention (e.g. average vehicle age) for the targeted group using matched comparison data or group, and/or expost CBA data |
| | Scrapped vehicles are replaced by either low | Data required to support estimation of change in emissions such as |
| | emissions transport option leading to reduction in emissions. | share of participants by low-emission transport option, and either modelling on matched comparison data. |
| | The trial scheme provides equity outcomes at a similar or lower cost than comparable equity | Data to support calculation of average cost of shifting participant to selected transport option |
| | programmes | Comparison of cost and outputs/outcomes with other equity programmes. |
| | A reduction in participants' transport expenses | Comparison of spending on transport expenses pre and post |
| | | programme |
| | | Participants' perceived transport-related financial pressure pre- and post-programme |
| Whether the Upgrade community | Māori and Pacific Peoples households and | Māori and Pacific Peoples and disabled communities enrolment rate, |
| butreach and application process have been successful in achieving a high | disabled communities complete programme at the same or higher rate than their representatior | relative to eligible population, in comparison with uptake of other support programmes |
| level of uptake by Māori and Pacific Peoples' households. This includes evaluating the simplicity and | in the eligible population | Māori and Pacific Peoples households and disabled communities programme completion rate, relative to eligible population, in comparison with completion rates of other programmes |
| accessibility of the process for applicants | Clean Car Upgrade process is simple and accessible for applicants | Perception of the simplicity and accessibility of the programme (including participant advisers) by participants eligible and population |
| | MANA | Waka Kotahi, participant advisers, and delivery partner insights into implementation of the CCU Clean Car including areas that are simple and accessibility and barriers to accessibility |

| Key evaluation areas | Outcomes | Metric for evaluation |
|---|---|---|
| Whether the key design settings, including the income thresholds for eligibility, the levels of financial assistance, the criteria for eligible vehicles and the replacement options, and the price-cap, support the | Income thresholds enable low- and moderate- income households' participation (participants' demographic match target community) | % of participants that are: in the lower half of the eligible income band relative to eligible population % of participants that are in multi-generational households, relative to the eligible population |
| | | Participation rate of high asset/low- or moderate-income households |
| achievement of the Upgrade's | Financial assistance enables low- and | Perceived appropriateness of provided support levels |
| objectives | moderate-income households participate and benefit. | % of (completed) participants unable to use preferred replacement option due to cost. |
| | | % of non-participation (non-completed participants) due to insufficien financial assistance |
| | Financial assistance level is sufficient for | Vehicle loan comparison between participants and matched |
| | participants to avoid unsuitable loans | comparison groups or matched comparison data. |
| | | Participants perception of how loans impacted their financial security |
| | | Loan amounts and repayment terms (per week, % of income), where applicable. |
| | R | % of non-participation or changing replacement option due to loan burden. |
| | Criteria for scrapped vehicle enables financially eligible applicants to participate | % of non-participants reporting scrapping criteria as participation barrier |
| | | Perceived appropriateness of eligibility criteria by participants and non-participants |
| | Criteria for replacement vehicles result in shift to lower emissions and higher safety vehicles | % of non-participants reporting replacement vehicle criteria as participation barrier |
| | ROANAK | Comparison of vehicle emissions for scrapped vs replacement vehic categories for participants and matched comparison data (non- participants) |
| | PRJ W | Comparison of vehicle safety ratings for scrapped vs replacement vehicles, and participants and matched comparison data (non- participants) |
| | Criteria for replacement vehicle allows participants to select satisfactory replacement | % of participants reporting difficulties obtaining suitable replacement option. |
| | . AT' | % of non-participants reporting vehicle price cap as participation barrier |
| | | % of non-participants reporting replacement option criteria as participation barrier |

| Key evaluation areas | Outcomes | Metric for evaluation |
|--|--|--|
| transport options in the context of a | Participants scrap a low safety/high emissions vehicle and select alternative transport option | % of participants shifting to alternative transport |
| scrappage-based regime | Among participants who choose the proportion of travel which transport choice vehicle, where possible. What are the safety implications by alternative transport and CAS data | choose not to) select alternative transport options e alternative transport: they estimate shifted to alternative transport and why, replaces the remainder of travel previously done in the scrapped s of shifting to alternative transport using participants' estimates of travel at for DSI in car and alternative transport in trial region. |
| How the trial version of the Upgrade could be refined to increase its effectiveness in achieving the objectives | Officials will use insights from evaluation of Clear increasing the effectiveness of the programme in | an Car Upgrade to make recommendations in a 2023 Cabinet paper for fectivity of the progress a full roll-out. |
| Reviewing levels of fraud/misuse | of the vehicle upgrade choice made | ed group, for example, using data on retention and registration changes |
| Success/failure of participant advisers | include broad programme uptake, completion ra | nd capacity. Some examples of information or evidence to be collected te by Māori and Pacific Peoples' households, and qualitative feedback parriers to completion will serve to provide evidence around how the programme. |
| | on the role of participant advisers in mitigating b successful the use of participant advisers is in th | |