

## MINISTERIAL BRIEFING NOTE

<b>Subject</b>	Road User Charges compliance and debt management
<b>Date</b>	20 November 2024
<b>Briefing number</b>	BRI-3226

Contact(s) for telephone discussion (if required)				
Name	Position	Direct line	Cell phone	1 <sup>st</sup> contact
Brent Alderton	Director Land Transport & Group General Manager Regulatory		Section 9(2)(a)	✓

### Action taken by Office of the Minister

- .. Noted
- .. Seen by Minister
- .. Agreed
- .. Feedback provided
- .. Forwarded to
- .. Needs change [please specify]
- .. Withdrawn
- .. Overtaken by events

19 November 2024

**Hon Simeon Brown – Minister of Transport**

## ROAD USER CHARGES COMPLIANCE AND DEBT MANAGEMENT

### Purpose

1. This briefing follows your 11 September 2024 letter approving three years of funding for Road User Charges (RUC) investigation and enforcement activity, and the NZ Transport Agency Waka Kotahi (NZTA) Board Chair's 25 September 2024 response. It also addresses your 11 November request for further advice on RUC debt, collection and write-offs (MINO-1232 refers).
2. The purpose of the briefing is to provide an overview of NZTA's RUC compliance and debt management approach (including current and intended utilisation of the above funding), and challenges and potential solutions to effectively managing RUC non-compliance in the New Zealand vehicle fleet.

### History

3. Road User Charges were conceived in 1977, as a "user pays" prepay revenue stream for diesel heavy vehicles to proportionally recover funds from road users who cause the most damage to the roads, and consequently the cost of maintaining those roads.
4. The period in which the system was implemented is significant because it represents a time before rapid and significant growth in the transport industry and predates the widespread use of light diesel vehicles (LDVs) and electric vehicles (EVs). Non-petrol light vehicles were included in the RUC scheme because they were not subject to Fuel Excise Duty (FED). These types of vehicles were uncommon at this time. Recently, the RUC regime has also been extended to light EVs.
5. The Road User Charges Act 2012 changed penalties for non-compliance to flat, low value fines for light and heavy vehicles. Specifically, fines went from three times the outstanding RUC amount, to \$200 for light vehicles, and \$400 for heavy vehicles. Alongside this, NZTA's RUC compliance resourcing reduced from 30 to 7 FTE, and NZ Police (Police) began significantly reducing the non-compliance notices it issued year on year.
6. The MartinJenkins report into regulatory failure at NZTA in 2018<sup>1</sup> identified a minimal focus on RUC evasion and debt management. Following this, three years of Land Transport Management Act (LTMA) Section 9(2) funding was granted to improve detection of RUC evasion and debt recovery.
7. The success of this programme of detection and recovery has supported an extension of the appropriation for a further three years; to the end of 2026/27. This briefing sets out the way that funding is being used to support NZTA's RUC compliance and debt management activities.

---

<sup>1</sup> <https://www.transport.govt.nz/assets/Uploads/Report/Review-of-NZTA-Regulatory-Capability-and-Performance.pdf>

## RUC non-compliance

8. Evasion of RUC (also referred to as RUC non-compliance) is a term applied to the non-payment of RUC from all causes, including RUC debt invoiced not yet collected. Evasion implies deliberate and wilful avoidance of tax, but the reality is much more complex.
9. Finding and assessing RUC evasion requires analysis of large data sets (often paper records) to establish the amount of potential revenue loss. More difficult to assess than this calculable debt is the potential RUC evasion from sources that the existing systems do not see, such as tampering with recording devices (odometers), particularly in light vehicles.
10. Because of the illegal and clandestine nature of tampering with recording devices, the amount of lost revenue has not been quantified, although we consider that it could be significant.
11. Evasion from all causes is estimated to be approximately \$172 million per annum, with approximately \$52 million of that currently collected through RUC compliance activity.

Figure 1: RUC non-compliance financial model 2023/24

Non-compliance type	Description	Vehicle Weight	Estimated Non-compliance (A)	Identified and invoiced (B)	RUC Debt Recovered (C) = (B x 73%)	Not Collected (B-C)	Missed Revenue / Not invoiced (A-B)	Total Potential lost revenue (A-C)
Distance	Vehicle being over-run on RUC (not paid up for distance travelled)	Light Vehicles	\$83.0m	\$53.3m	\$51.9m	\$19.6m	\$29.7m	\$120.7m
		Heavy vehicles	\$29.9m	\$14.7m			\$15.2m	
Weight	Vehicle carrying more weight than the RUC they paid for	Heavy vehicles	\$59.7m	\$3.5m			\$56.2m	
<b>Total</b>			<b>\$172.6m</b>	<b>\$71.5m</b>			<b>\$101.1m</b>	<b>\$120.7m</b>

## NZTA's approach to managing RUC non-compliance

12. NZTA's approach to managing non-compliance is different for heavy vehicles and light vehicles. This is due to:
  - a. Significant differences in behaviour between the commercial and private sectors, both light and heavy.
  - b. The regulatory framework provides very different legal powers between light and heavy RUC enforcement, with more limited regulatory levers and responsibilities available to NZTA for light vehicle RUC non-compliance than for heavy vehicle non-compliance.
  - c. Light vehicle RUC non-compliance is generally low value but with a high number of debtors, making it less economic to pursue individual debts.

13. The following two sections outline the current RUC approaches to heavy and light vehicles.

### Current approach to RUC non-compliance in the heavy commercial fleet

14. Commercial RUC non-compliance occurs through either a failure to pay for mileage or weight.
15. Police are responsible for on-road enforcement through the weighing of vehicles suspected of overloading. Where overloading is detected, Police will issue fines for an overweight vehicle and NZTA will invoice for any identified unpaid RUC.

16. NZTA also undertakes compliance monitoring to independently identify operators who overload vehicles and will complete full audits of those operators for unpaid RUC. This is a mostly manual process and resource intensive.
17. Weight audits are currently constrained by a lack of a legislative requirement for operators to keep weight records, or any other practicable method to monitor overloading, other than voluntary methods employed by the industry themselves for their own commercial purposes.
18. Since receiving the 2019 Section 9(2) appropriation, NZTA has significantly improved oversight of the heavy transport fleet by expanding audits beyond the traditional logging and bulk sectors who do maintain weight records. This includes audit of the incorrect use of RUC rates, investigations into light commercial odometer tampering, and examination of sectors not previously seen, such as the oil and gas bulk transport industry.
19. The number of RUC compliance activities has increased from eight in 2018 to 198 in 2023 and continues to increase.
20. Appropriation-funded activities have seen a significant year on year increase in the return to the National Land Transport Fund (NLTF) both by direct invoicing and wider influencing of compliant behaviour through the increased chance of being caught and facing consequences.
21. Recently, NZTA has initiated a method of using data from the Commercial Vehicle Safety Programme (CVSP) to identify and recover unpaid RUC for all heavy vehicles passing across in-road weigh in motion technology. CVSP includes the on-road weighing of heavy vehicles at highway speed and is able to identify the vehicle, reach into NZTA databases and compare the vehicle type to the actual RUC licence being used. This permits the 24/7 monitoring of the heavy fleet where the CVSP and weighbridge combination is operating and enables the ability to invoice for unpaid RUC. We intend to commence this invoicing in January 2025. At completion of full capacity (12 national CVSC locations plus future expansion of additional regional sites), the CVSP will provide coverage of over 75 percent of freight kilometres<sup>2</sup>, with a commensurate return to the NLTF of unpaid RUC (through identification of RUC evasion and invoicing of debt, or proactive full payment; both compensating for the damage to road pavement and/or preventing it).
22. In 2023, NZTA also significantly expanded its monitoring of distance evasion of RUC. The results from this can be seen in the table below.

Figure 2: Increased RUC recoveries from enhanced monitoring of RUC non-compliance

Evasion type	22/23 recoveries	23/24 recoveries
Distance	\$895,699	\$1,717,472
Distance & Weight	\$12,397	\$596,003
Weight & RUC type	\$908,054	\$2,976,209
Tampering	-	\$11,279
<b>TOTAL</b>	<b>\$1,816,150</b>	<b>\$5,300,963</b>

23. We have recently started pursuing transport licence suspensions and revocations for RUC non-compliance. We were also recently successful in our first ever prosecution of commercial

<sup>2</sup> Implementation of the planned 12 CVSC national locations will provide 46% coverage of all heavy vehicle kilometres travelled. This would increase to over 75% should additional regional sites be prioritised for investment.

odometer tampering identifying \$11,279.84 in unpaid RUC, with the offender being fined an additional \$6,500.

### **Current approach to RUC evasion in the light vehicle fleet**

24. To date, NZTA has mainly focussed its compliance activities on the heavy commercial fleet. This is for three main reasons:
  - a. The RUC Act was designed at a time when commercial heavy vehicles made up the majority of diesel users and did not include provisions to enable effective enforcement for private light RUC users, other than roadside Police intervention.
  - b. Light vehicle RUC evasion is generally low value but with a high number of debtors. Efforts to recover this debt are high-cost relative to the value of the debt/non-compliance.<sup>3</sup>
  - c. All light vehicles have odometer readings captured at time of Warrant of Fitness inspection. Any unpaid mileage is identified at this point and invoices are automatically generated for debt owed.
25. Current efforts to ensure light vehicle compliance involve the collection of odometer readings at Warrant of Fitness inspection, and subsequent invoicing of unpaid RUC mileage, which is largely successful.
26. NZTA is introducing new initiatives such as the use of SMS messaging and bulk communication via email combat help target high-volume, low-value debt.
27. We are also currently trialling a more detailed examination of existing data sources to identify anomalies in odometer records that might indicate evasion and following up directly with owners to recover unpaid RUC. Odometer tampering in the light RUC fleet is difficult to detect, and more difficult to investigate and prosecute.

### **NZ Police's role in RUC enforcement**

28. The RUC Act is fundamentally designed around the use of heavy vehicles, and compliance for heavy vehicles is driven by monitoring requirements and the ability to recover unpaid funds and exclude non-compliant transport operators from operation. These mechanisms are not present for light vehicles.
29. Police act as the on-road enforcement agency and are funded through the NLTF, via the Road Policing Investment Programme, to deliver those services. Police are essential in ensuring that non-compliance is addressed and provide deterrence to the loss of revenue. The current Police deployment model does not drive significant RUC enforcement beyond the resources of the Commercial Vehicle Safety Team. Light vehicle RUC enforcement by Police is shown below and shows a decline in offences issued over time.

---

<sup>3</sup> Our recent experience with introducing EVs into the RUC system has demonstrated that even amongst a group typified as early adopters and relatively affluent approximately 2 percent remain who have not purchased their first RUC licence. While the high rates of compliance represent a resounding success, the final non-compliant percentage does highlight the difficulty of ensuring all users comply. While NZTA continues to take measures to enforce payments on these final non-compliant owners, it is increasingly costly, resource intensive and with diminishing returns.



Figure 3: Declining RUC offences pursued by Police and corresponding reduction in light RUC paid on time

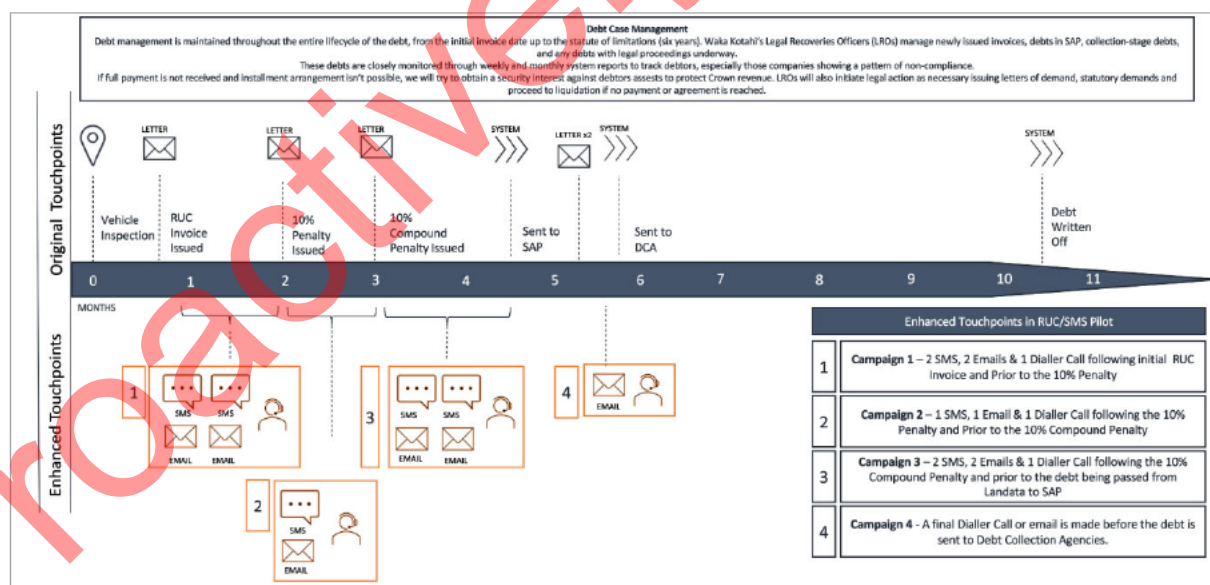
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Light RUC offences identified by Police (for not being current on RUC)	8735	7753	7122	6503	3919	3550	3708	4498	4819	5266	5301
Light RUC offences not waived	8458	7544	6909	6364	3828	3431	3151	2639	2727	3048	2070
Proportion of RUC offences waived by Police	3%	3%	3%	2%	2%	3%	15%	41%	43%	42%	61%
Light RUC paid on time	97%	95%	96%	96%	95%	95%	94%	94%	94%	95%	93%

30. Light vehicle compliance remains a challenging issue. The high number of light vehicle users, their relatively low debt individually, the level of odometer tampering, and the absence of other enforcement levers means Police are a vital deterrent component of the compliance landscape.

### RUC debt management

31. We have seen an increase in the amount of debt repaid as a result of increased NZTA debt management resourcing (supported by the additional S9(2) funding). High volume outreach campaigns using low-cost channels such as email, SMS and automated dialler software have enhanced the collection process and increased touchpoints made with debtors. This has also contributed to a reduction on the reliance on debt collection agencies.
32. The RUC debtor journey map below shows the enhanced approach to managing RUC debt that we have implemented.

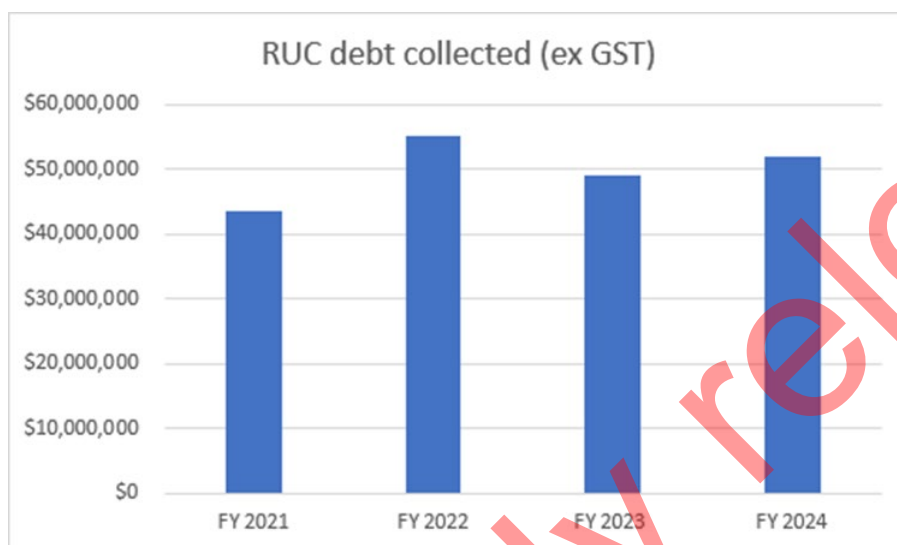
Figure 4: RUC Debtor Journey – original and enhanced approach



33. At 12 months old, a debt has met the criteria for financial write off, although it remains payable. The write off procedure is annual and reported via an SPE that measures the proportion of bad debt for RUC against forecast revenue (BDP1). The write-off for 2023/24 was approved at \$14 million excluding GST, at the time of processing \$13.45 million was written off. This is 0.74 percent of net RUC revenue of \$1.821 billion.

34. In the write-off, liquidated companies make up less than 0.4 percent of debtors. These debtors represent 1.4 percent of the total amount written off. Liquidations initiated by NZTA generally have security registered against the company assets.
35. As of 31 October 2024, RUC debt totalled \$66 million. Companies make up approximately 32 percent of this, versus 68 percent owed by individuals.
36. NZTA has collected \$20 million of RUC debt in Q1 of 2024/25, putting us significantly ahead of previous years on an annual basis. Prior years' RUC debt collection is pictured below.

Figure 5: RUC debt collection 2021-2024



### Summary

37. NZTA's multi-faceted approach to RUC compliance and debt management has delivered a net-benefit of \$24.7 million from \$7.8 million (the increased Section 9(2) appropriation) invested over three years. We forecast a continued net benefit of at least \$8.6 million in 2024/25 and will keep you updated on this quarterly through our reporting.
38. Alongside direct financial benefits, our firmer approach has indirect benefits which will be improving RUC compliance. Examples of this include our first ever prosecution for odometer tampering, several revocations of transport service licences and liquidation of companies unable to meet their debt obligations.

### Next steps / the future

39. LTMA Section 9(2) appropriation funding is enabling the building of further insights into RUC non-compliance, and the capacity to grow the return of unpaid RUC funds to the NLTF.
40. A measure of particular note that will continue to grow the return of unpaid RUC funds include the in-progress expansion of the commercial vehicle safety centre network and the weigh-in-motion-enabled automated invoicing system.
41. For light vehicles, NZTA believe some compliance improvements and significant debt recovery benefits can be made through more contact details being collected, more frequent customer interactions (e.g. through the new NZTA App) and a higher level of debt collection activity.

42. Notwithstanding the above, there are still challenges with managing light vehicle RUC non-compliance. In particular, NZTA's regulatory levers are constrained. NZTA sees importance in compliance by design as the fleet moves to RUC. Potential examples could include incentives or penalties to improve rates of vehicle deregistration (which would include being paid up for RUC), harsher penalties for odometer-tampering, and potentially utilising NZTA's wider camera network (e.g. tolling cameras, safety cameras) to identify vehicles for RUC enforcement.

**It is recommended that you:**

1. **Note** NZTA's approach to managing RUC compliance and debt collection
2. **Note** that Land Transport Management Act Section 9(2) appropriation funding for RUC investigation and enforcement activity continues to provide a strong and positive return on investment.

*Brent Alderton*

.....  
**Brent Alderton**

Director Land Transport & Group General Manager Regulatory

.....  
**Hon Simeon Brown, Minister of Transport**

Date: 2024