

# REGULATORY IMPACT STATEMENT

## Driver Licensing and Driver Testing Fee Review

### Executive summary

1. The cost of delivering the driver licensing and driver testing services has exceeded the revenue received since 2006/07. The business is now operating at a deficit, which is continuing to increase at a rate of \$0.65 million per month. It is forecast that the accumulated deficit will reach \$21.78 million by 30 June 2010.
2. The preferred option to address the imbalance between expenditure and revenue consists of three elements: introduction of new fees for services that currently have no fee; amendment of existing fees to align with actual costs of service delivery (with a 20 percent cap on any increase); and implementing measures to reduce the cost of service delivery.
3. The intended outcomes of the preferred option are that the driver licensing and driver testing system will become self-funding, and that the gap between revenue and expenditure will be greatly reduced. The alignment of fees to the actual costs of delivering each service, and the introduction of new fees will improve equity and reduce cross-subsidisation between user groups. The preferred option is likely to result in a small annual deficit to the business; to address this, the New Zealand Transport Agency (NZTA) will look for ways to improve efficiency and reduce the costs of delivering the services. There is a risk that a future ongoing deficit will accumulate if the expected cost savings are not achieved.
4. The proposed changes are likely to affect a wide range of people, as a high proportion of the public are licensed. The degree to which people are affected will in part depend upon the frequency with which they interact with the system. Increases to fees may result in reduced compliance with licensing requirements, and increased compliance costs for drivers with higher driving qualifications and businesses who rely upon these drivers. However, it is considered that the level of increase proposed (the greatest increase for a single transaction being \$13.90 for a full practical car or motorcycle test) will not result in a noticeable increase in unlicensed driving, a labour shortage, or a significant increase to business compliance costs.

### Agency disclosure statement

5. This Regulatory Impact Statement has been prepared by the Ministry of Transport, with assistance from the NZTA.
6. It provides an analysis of options to realign the revenue and expenditure of the driver licensing and driver testing services, to minimise or eliminate the accumulation of an operating deficit, and to better align the fees for services with the cost of delivering each service. It also provides a summary and analysis of the public submissions received on the preferred option.

7. The analysis contained within this Regulatory Impact Statement is based on the following assumptions:
  - 7.1. that transaction volumes, and therefore income, will remain stable
  - 7.2. that costs remain constant at 2009/10 levels (no allowance has been made for inflation or price increases)
  - 7.3. no significant changes are made to delivery mode
  - 7.4. a limited allowance is made for costs incurred or income reduction arising from legislative changes to implement any changes to regulated fees
  - 7.5. no allowance is made for recovery or repayment of the accumulated operating deficit.
8. The analysis does not take into account any future changes to the driver licensing and driver testing system or requirements that may arise from the implementation of the first steps package of the *Safer Journeys* road safety strategy. This is because the size and nature of these costs are not sufficiently certain at this point to allow accurate costings of individual services, in part due to the early stage in the legislative process of these changes.
9. The impacts of those changes and the implications for any regulated driver licensing or driver testing fees will be evaluated when those changes are considered.

Fiona Warren  
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Date

## **Existing arrangements**

### *Legislation*

10. The key pieces of legislation governing the provision of the driver licensing and driver testing services are the Land Transport Act 1998 (the Act) and the Land Transport (Driver Licensing) Rule 1999 (the Rule). The legislation specifies the systems and the criteria to be used for licensing drivers, and the entitlement and application processes. Much of this law is very prescriptive and detailed. The applicable fees are set out in the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999 (the fee regulations).

*Management of the driver licensing and driver testing business*

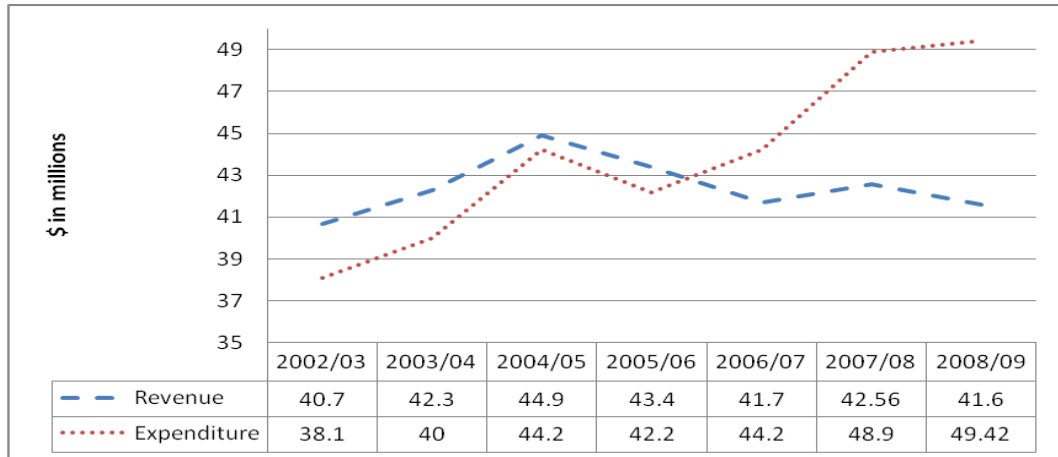
11. The NZTA is responsible for managing the driver licensing and driver testing services. The NZTA conducts some of these activities in-house, and contracts out the counter services for licence applications and the conduct of driver testing. The NZTA can only charge the fees that are set in the fee regulations. The fee regulations have not been reviewed since 2001.
12. Each fee covers a range of activities associated with that service, which include: the testing officer's time, when conducting a test; the licensing agent's time, when applying or undertaking a transaction in person; the materials for, and the production of, the licence card; the maintenance of the IT systems that the licensing agents rely upon to be able to provide services; assessing the medical fitness of licence holders and applicants for a driver licence; maintaining the *Road Code* and various fact sheet publications; and providing customer assistance via the contact centre.
13. The driver licensing and driver testing services affect almost every adult resident in New Zealand, with over 3.2 million licence records with a status that entitles a person to drive. The business is substantial, with very high transaction volumes (for example, annually there are over 231,000 new applications for a learner, restricted or full licence; about 206,000 licence renewal applications; and over 340,000 learner, restricted or full practical licence tests).
14. The driver licensing and driver testing revenue consists of income from the fees for services, as specified in the fee regulations, and a Crown-funded subsidy of \$1.445 million per annum for older driver licensing. For the 2008/09 year, the driver licensing and driver testing business received \$41.6 million in revenue, while it cost \$49.42 million to deliver the services. The business has been operating a growing deficit since 2006/07.
15. The NZTA has recognised and accounted for the year-by-year and accumulated operating deficits of the driver licensing and driver testing services as a separate component within the equity section of its balance sheet. The NZTA is responsible for a number of separate businesses, including driver licensing and driver testing, but operates an omnibus approach to managing the cash flows.
16. The NZTA has funded the deficits from its overall cash balances, most of which arise from the National Land Transport Fund (NLTF). This approach has enabled the driver licensing and driver testing services to continue, even though running operating deficits.

**Problem definition**

17. The revenue received for driver licensing and driver testing services does not meet the costs of providing the services. As a result, an operating deficit has accumulated, and is forecast to reach \$21.78 million by 30 June 2010. The NZTA cannot continue to bear the ongoing deficit of the driver licensing and driver testing business.

18. Between 2001/02 and 2005/06, revenue and expenditure were reasonably closely aligned. However, since 2006/07 expenditure has increased while revenue has decreased. As Graph 1 illustrates, expenditure and revenue are trending in opposite directions. In 2008/09 expenditure exceeded revenue by \$7.82 million. In 2009/10, the gap is forecast to be \$7.79 million.

Graph 1: Revenue and expenditure of the driver licensing and driver testing services, 2002/03 to 2008/09



19. Over time, the regulated fees for services have moved out of alignment with the costs of delivering the services. This has occurred for a range of reasons, and has affected some services more than others. In order of relative importance, the three key reasons are:
- 19.1. Legislative and policy changes over recent years have altered the costs of service delivery for some transactions, or the volume of transactions, while the regulated fees have not been amended to reflect these changes. Often these changes incur additional costs, such as IT costs and information provided to the public.
  - 19.2. There are some services that have no regulated fee (such as rescheduling tests, or reinstating a licence after a period of licence suspension or disqualification).<sup>1</sup> Over recent years, the volume of transactions that have no payable fee has been increasing. This has led to some cross-subsidisation between user groups, as the costs of those 'free' transactions are borne by all licence holders through general licensing fees.
  - 19.3. There have been general cost increases since the fees were last set. As an indication, the Consumer Price Index has increased by about 21 percent since 2001.

<sup>1</sup> *Licence suspension* is an administrative penalty applicable when a person has accumulated 100 or more demerit points within 2 years, and has their licence suspended for a period of 3 months. *Licence disqualification* is a court-ordered penalty, as part of the sanction for a serious traffic offence (such as drink driving) and is often for a period of 6 months or longer.

20. In many cases, the cost of providing a service has increased, while the regulated fee has not changed since the fees were last amended in 2001.

### **Policy objective**

21. The primary policy objective is to minimise, or eliminate, the gap between the revenue and expenditure of the driver licensing and driver testing services. This will limit any further growth of the accumulated operating deficit.
22. A secondary objective is to bring the regulated fees for individual services into better alignment with the cost of delivering each service.

### **Status quo**

23. Under the status quo, the costs of delivering the driver licensing and driver testing services would remain greater than the revenue received. Therefore the deficit would continue to accumulate—currently at a rate of \$0.65 million per month.
24. The cross-subsidisation that exists because some services are being provided for no fee would remain. This is inconsistent with the guidance set out in the Treasury's *Guidelines for setting charges in the public sector* (the Treasury Guidelines).
25. The NZTA would continue to make non-legislative service delivery improvements. However, there is little scope for significant cost savings. It is estimated that savings of about \$0.38 million per year can be made through process and administrative change. While some small legislative changes could be made to reduce annual expenditure, it is estimated that the cost of doing so in isolation from a larger programme of business redevelopment is likely to cost more to implement than would be achieved in savings.
26. The NZTA advises that in previous years the NLTF has had surplus funds, which has meant that a cash surplus has been used to cover the driver licensing and driver testing deficits. However, the NZTA advises that there are indications that the NLTF will be fully committed within the next 12 to 18 months. Therefore, there will be no surplus cash to cover the excess expenditure in driver licensing and driver testing, and any ongoing deficits must be addressed before this point is reached.
27. Retaining the status quo is not a sustainable option.

### **Options**

28. Cabinet has agreed to an approach that includes amendment to the fee regulations as well as undertaking cost-saving measures and efficiency improvements in delivering the services [CBC Min (10) 1/4 refers].<sup>2</sup>
29. In addition to considering retaining the status quo, the review has identified four options to achieve the policy objective.

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<sup>2</sup> With Power to Act [CAB Min (10) 1/9].

- 29.1. Option one—progress legislative cost-saving measures, and delay any changes to regulated fees until cost savings are realised.
  - 29.2. Option two—adjust existing regulated fees to achieve full cost recovery of all services, and progress cost-saving measures.
  - 29.3. Option three—introduce new fees for services currently without a regulated fee, and adjust existing fees to achieve full cost recovery of all services, and progress cost-saving measures.
  - 29.4. Option four—introduce new fees for services currently without a regulated fee; adjust existing fees to achieve full cost recovery of all services, with a maximum increase of 20 percent over the current regulated fee; and progress cost saving measures.
30. A further option, to delay any changes to regulated fees until a full review of the business model and service delivery is completed, was considered but is not included here as it is not a feasible option. While it is recognised that fee adjustments should be preceded by a thorough review of the business model and service delivery standards, such a review (including implementation) may take 36 months. That delay, at the current rate of deficit accumulation, could result in a further deficit of \$23.4 million. It should be noted, however, that this present review has examined the current and forecast costs of delivering the services, and has included a thorough review of the cost allocation model.
31. The option of delaying any changes until a fundamental review of the business model and service delivery standards is completed has been discounted as a feasible option due to the pressure to rectify the current revenue/expenditure imbalance. The fundamental review of the driver licensing and driver testing business will be progressed separately. The Minister of Transport will report to Cabinet by June 2010 on the terms of reference and timeframe for the completion of the fundamental review.
32. The accumulated historical deficit will not be recovered from users. The NZTA’s Board has approved the transference of the accumulated deficit as at 30 June 2010 to the ‘General Funds’ category of equity. The objective is to provide greater transparency in the allocation of equity to fund deficits; however, it will also have the effect of reducing the equity available for other purposes.

### **Regulatory Impact Analysis**

#### Option one: Progress legislative cost saving measures and delay changes until cost savings are realised

BENEFITS	<ul style="list-style-type: none"> <li>• No immediate changes to the fees paid by users.</li> <li>• Requires the NZTA to examine and adopt cost-saving measures which could potentially reduce the level of fee changes required.</li> <li>• Provides an opportunity to make a single adjustment, rather than potentially</li> </ul>
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	<p>requiring a further change in two to three years.</p> <ul style="list-style-type: none"> <li>• Would provide certainty that any changes to regulated fees would be sufficient to realign revenue and expenditure.</li> </ul>
COSTS	<ul style="list-style-type: none"> <li>• Any changes to fees would be delayed for at least 18 months while the necessary Act and Rule changes are made and implemented.</li> <li>• At the current rate of accumulation, the deficit could increase by a further \$11.7 million in 18 months.</li> <li>• It is estimated that the legislative cost saving measures will deliver a \$0.28 million reduction in expenditure per year. The losses incurred by the time the cost savings are realised would significantly exceed the potential annual cost savings.</li> </ul>
RISKS	<ul style="list-style-type: none"> <li>• There is potential adverse impact on other NZTA activities if the level of deficit forecast to be incurred over the 18-month period is to be absorbed by the NZTA.</li> <li>• Should the ability of the NZTA to meet the ongoing costs/deficit of the driver licensing and driver testing business becomes constrained, a reduction in the quality and availability of services may be necessary.</li> <li>• The cost of implementing the legislative cost saving measures is likely to exceed the expected cost savings.</li> </ul>

Option two: Adjust existing fees to achieve full cost recovery and progress cost saving measures

BENEFITS	<ul style="list-style-type: none"> <li>• The driver licensing and driver testing services will be self-funding, thus enabling the NZTA to meet its requirement to fully recover costs.</li> <li>• Addresses the problem of revenue not meeting expenditure.</li> <li>• Addresses the problem of fees not aligning with the costs of delivering each service.</li> <li>• Promotes equity, to a degree, by ensuring that the users of a service with a regulated fee pay for all the costs that are incurred.</li> <li>• Provides a clear basis (actual cost) for any changes to fees.</li> </ul>
COSTS	<ul style="list-style-type: none"> <li>• As no new fees are introduced (apart from the reinstatement fee), some existing cross-subsidisation will continue.</li> <li>• Achieving full cost recovery for each service will mean that some fees will need to be increased by a considerable degree—in a number of cases by over 20 percent.</li> <li>• Adjusting the fees to full cost recovery will mean that many fees will increase.</li> </ul>
RISKS	<ul style="list-style-type: none"> <li>• If the regulated fees are amended to ensure full cost recovery, there is potential</li> </ul>

	<p>for over-recovery once cost savings are made.</p> <ul style="list-style-type: none"> <li>• If full cost recovery is achieved without cost saving measures, there is less financial pressure on the NZTA to ensure cost savings are delivered.</li> <li>• Increasing the regulated fees by a considerable amount (such as over 20 percent) may not be considered acceptable in the current economic climate.</li> </ul>
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Option three: Introduce new fees and adjust existing fees to achieve full cost recovery, and progress cost-saving measures

BENEFITS	<ul style="list-style-type: none"> <li>• The driver licensing and driver testing services will be self-funding, thus enabling the NZTA to meet its requirement to fully recover costs.</li> <li>• Addresses the problem of revenue not meeting expenditure.</li> <li>• Addresses the problem of fees not aligning with the costs of delivering each service.</li> <li>• It promotes equity, by ensuring that all the users of a service pay for the costs that are incurred, and by introducing new fees for services with no regulated fee, therefore reducing cross-subsidisation between user groups.</li> <li>• Introducing new fees spreads the costs across more transactions, and removes the extra cost burden on general fees. This may result in some fees decreasing, or increasing by a lesser amount than under option two.</li> </ul>
COSTS	<ul style="list-style-type: none"> <li>• Some future users will be required to pay for services that previous users have not been charged for.</li> <li>• Adjusting fees to full cost recovery will mean that some fees will increase.</li> </ul>
RISKS	<ul style="list-style-type: none"> <li>• If the regulated fees are amended to ensure full cost recovery now, there is potential for over-recovery once cost savings are made.</li> <li>• If full cost recovery is achieved without cost saving measures, there is less financial pressure on the NZTA to ensure cost savings are delivered.</li> <li>• Increasing the regulated fees by a considerable amount (such as over 20 percent) may not be considered acceptable in the current economic climate.</li> </ul>

Option four: Introduce new fees; adjust existing fees to achieve full cost recovery, up to a maximum of a 20 percent increase; and progress cost-saving measures

BENEFITS	<ul style="list-style-type: none"> <li>• Enables the driver licensing and driver testing services to be self-funding, thus making it possible for the NZTA to meet its requirement to fully recover costs.</li> <li>• Partially addresses the problem of revenue not meeting expenditure, with a small residual ongoing annual deficit. To address that residual deficit, the NZTA will look for ways to improve the efficiency, and reduce the cost, of service delivery.</li> </ul>
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	<ul style="list-style-type: none"> <li>Partially addresses the problem of fees not aligning with the costs of delivering each service (a 20 percent cap will mean that some fees will remain below the cost of service delivery).</li> <li>Improves equity by introducing new fees for services with no regulated fee, therefore reducing the cross-subsidisation between user groups.</li> <li>Introducing new fees spreads the costs across more transactions, and removes the extra cost burden on general fees. This may result in some fees decreasing, or increasing by a lesser amount than under option two and option three.</li> <li>Limiting fee increase to a maximum of 20 percent is likely to be more acceptable in the current economic climate than full cost recovery.</li> </ul>
<p>COSTS</p>	<ul style="list-style-type: none"> <li>Does not completely address the imbalance between revenue and expenditure, with a small forecast ongoing deficit (about \$0.55 million per annum). However, this residual deficit is considerably less than the forecasted annual deficit of \$7.79 million in 2010/11 if no change is made. It is expected that the residual deficit will be addressed in the long-term through the NZTA's cost saving activities.</li> <li>The 20 percent cap on increases to fees means that not all fees will meet the costs of service delivery. However, overall revenue will better align with overall transaction costs.</li> <li>Adjusting the fees towards full cost recovery will mean that some fees will increase.</li> <li>Some future users will be required to pay for services that previous users have not been charged for.</li> </ul>
<p>RISKS</p>	<ul style="list-style-type: none"> <li>It is not certain that the combination of fee adjustments (with a 20 percent cap on increases) and cost savings will result in revenue meeting expenditure. A further fee review will be required in two to three years time to ensure that the policy objective is met, and that alignment between revenue and expenditure is maintained.</li> </ul>

### Preferred option

33. The preferred option is option four, which consists of three streams of concurrent activities:

- 33.1. identifying and implementing cost-saving measures and making efficiency improvements in delivering the existing driver licensing and driver testing services;
- 33.2. introducing new fees for cost-generating services that have no regulated fee;
- 33.3. adjusting existing fees to reflect the actual costs of service delivery (with a maximum increase to any fee being capped at 20 percent).

*Impact of Safer Journeys on driver licensing and driver testing services*

34. The government has recently released *Safer Journeys*, the road safety strategy for 2010–2020. The first package of measures will include proposals relating to young and novice drivers. These proposals, when implemented, are likely to affect the cost of delivering the driver licensing and driver testing services.
35. This review has not made any provision for future changes which may arise from the *Safer Journeys* proposals. This is because the future costs associated with these changes are not certain, because the proposed changes are at an early stage in the legislative process. The Treasury guidelines state that only future costs which are known and certain should be incorporated when setting fees.
36. It is expected that the *Safer Journeys* proposals will create a need for minor adjustments to some regulated fees. Cabinet has previously noted that, when Cabinet agrees to future legislative or policy proposals that will affect the cost of delivering driver licensing and driver testing services, agreement will also be sought to amend any relevant regulated fee [CBC Min (10) 1/4 refers]. This agreement will be sought when the size and allocation of costs are better known, and therefore the scope of any proposed changes can be outlined to Cabinet.

*Cost-saving measures and efficiency gains*

37. The introduction of new fees and amendment of existing fees will not be sufficient to completely eliminate the accumulation of future operating deficit. It is expected that following amendment to the fee regulations, there will be a residual level of deficit of \$0.55 million per annum.
38. The NZTA will be required to find cost savings in the driver licensing and driver testing business to fully address the imbalance between revenue and expenditure. The NZTA is already undertaking work to reduce the administrative costs incurred in delivering the driver licensing and driver testing services. Some measures have been implemented in recent months, while others are undergoing further development for future introduction. However, there will be pressure upon the NZTA to continue to improve efficiencies and operate the driver licensing and driver testing business within the revenue base.
39. The NZTA is working with the Ministry to identify areas where the law is unnecessarily preventing the services being delivered in a more cost-effective way. A paper, listing the range of potential cost saving measures, including legislative measures, has been considered by the joint Ministry/NZTA fees governance group.<sup>3</sup> The legislative measures that do not require further policy development and can be progressed within the 2010/11 financial year are minor and will not deliver significant savings. Indeed, the cost of implementing

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<sup>3</sup> The joint Ministry/NZTA governance group considers, and has oversight of, all the areas of the NZTA business where regulated fees are collected for the provision of a service.

those smaller changes on an ad hoc basis is likely to outweigh the annual savings that would be achieved.

40. The programme of cost-saving measures includes process changes that the NZTA is either currently implementing or investigating, and legislative changes that will be considered as part of the fundamental review of the driver licensing and driver testing business model and service delivery.

Table 1: Programme of proposed cost-saving measures and estimated potential saving

Type of measure	Timeframe	Estimated potential saving per annum
Process/Administrative	<i>Short-term / medium-term</i> Work underway, some measures already implemented, some being developed, some being scoped. It is expected that most measures will be in place by end of the 2010 calendar year.	\$380,000
Legislative	<i>Long-term</i> To be progressed through the fundamental review of the driver licensing and driver testing business model and service delivery.	TBC Given the early stage of the review, it is not possible to estimate potential cost-savings.

41. The key risk of the preferred option is that cost-saving measures need to deliver the expected level of saving to reduce the gap between revenue and expenditure.

*Introduction of new fees*

42. There are three new fees to be introduced, for activities that currently have no cost recovery mechanism. The licence reinstatement fee, payable as part of the process for reinstating a licence in some circumstances following licence suspension or licence disqualification, has been passed by Parliament. This fee will be set at \$65. Complex system changes are required to give effect to this fee, which will be brought into force by an Order in Council. It is expected that this fee will be in place and returning revenue by 31 January 2011.
43. Some legislative amendment will be required to ensure that the reinstatement regime is effective. The Ministry and the NZTA are identifying the necessary changes, which Cabinet will be asked to agree to as part of the third *Safer Journeys* paper, expected to be considered by Cabinet in May 2010. It is expected that these changes will be in place by 31 January 2011.
44. The two other proposed new fees are to recover administrative costs directly incurred when rescheduling a test, and when refunding a fee where costs were incurred at the time payment was made (such as the agent commission for commencing an application and booking a test). Both of these new fees will be set at \$16, and will be in force from 1 July 2010.

### *Adjusting existing fees*

45. It is proposed that existing driver licensing and driver testing fees be adjusted to reflect the actual cost of providing each service, with a cap upon the maximum increase set at 20 percent. The NZTA has assessed the cost of service delivery for each service. These estimates of actual cost assume that the new fees, outlined above, are introduced as proposed. The proposed amended fees will be in force from 1 July 2010.
46. For the 45 core driver licensing and driver testing fees, it is proposed that:
  - 46.1. 22 fees (49 percent) are increased, because the actual cost of delivery is greater than the current fee
  - 46.2. 19 fees (42 percent) are decreased, because the actual cost of delivery is less than the current fee
  - 46.3. 4 fees remain the same as the current regulated fee.
47. The full schedule of proposed new and amended fees is set out in Appendix A to this paper. The schedule includes a comparison with existing regulated fees, the assessed cost of delivery (actual cost), and the expected annual volume of transactions for each service. Appendix A also lists other low-volume fees and refunds, which will either be retained at current levels or will be consequentially amended to retain current alignment with other regulated fees (for example, some refunds are set at a level equal to 80 percent of the fee paid).

### *Impacts of preferred option*

48. The proposed changes to the driver licensing and driver testing fees will have impacts across much of the population, due to the high proportion of the public who are, or will become, licensed and therefore use the driver licensing and driver testing system. For those who have limited interaction with the system, such as those who only need to renew their car licence every 10 years, the impact of any changes will be minimal. However, for those who interact more frequently, such as those gaining their licence, the cumulative effect of changes will be greater. The 20 percent cap on any increase helps to reduce the potential impact upon users, with the biggest increase being \$13.90 (for the full licence practical test for a car or motorcycle licence). However, it is acknowledged that any increase in fees may affect compliance rates, particularly in relation to people becoming licensed. It is not expected that the proposed increases will have a significant impact on people becoming licensed or renewing their licence/endorsement as necessary.
49. The introduction of new fees for existing services that have no applicable fee will shift the costs of these services from the general licensing fees to those who create the cost. At present these costs are allocated against high-volume general licensing fees, such as renewal fees. This means that the wider public is paying for the costs incurred by repeat traffic offenders. The introduction of these new fees reduces the cross-subsidisation that has crept into the driver licensing and driver testing system over time, and will improve equity in the

distribution of costs. Improving the allocation of costs to users is good practice and consistent with the Treasury guidelines.

50. The changes will also impact on businesses that employ drivers with specialist driving qualifications and skills (for example, those who drive heavy vehicles, passenger vehicles, or special-type vehicles such as forklifts). In some cases it is a condition of employment that the employer pays the costs of the employee remaining appropriately licensed, where any increase to licensing fees is an increase to the organisation's compliance costs. Appropriately licensed drivers are important for the organisation to meet its compliance requirements for insurance and health and safety reasons. In other situations, the costs of gaining and retaining a driving qualification fall to the driver themselves. In these cases, the costs associated with licensing are part of the cost of being appropriately qualified for a particular job. While fees for gaining a special-type vehicle endorsement will increase by \$5.80, the fees for the other endorsements types will decrease by up to \$35.75.
51. If the cost of gaining a driving qualification increases to a point where people decide not to gain or renew their qualifications, organisations that rely on drivers to carry out their business, and for the delivery of goods, may suffer from a shortage of skilled labour. The level of increases proposed is not considered to be significant enough to trigger the withdrawal of labour from the market.
52. The proposed changes to the fees—both new fees and adjustments to existing fees—will result in revenue and expenditure being much more closely aligned. The changes to the existing fees will mean that the fee for each service will better reflect the cost of delivering the service. However, as the changes to the fees will not completely recover costs, there will be pressure upon the NZTA to achieve reasonable savings through the programme of cost-saving measures.

### **Financial implications**

53. The introduction of new fees, and amendment of existing fees, will bring the revenue and expenditure of the driver licensing business into much closer alignment. However, it will not be sufficient to completely eliminate the accumulation of future operating deficit.
54. It was expected that all new and amended fees would be brought into force on 1 July 2010. However, because the reinstatement fee will not be in force until 31 January 2011, there will be a seven-month period of foregone revenue, of \$1.38 million (excluding GST). This paper assumes that the proposed amendments to the reinstatement provisions in the Land Transport Act 1998 are progressed as intended within the 2010 calendar year.<sup>4</sup> There is a risk to revenue if the amendment to the legislative provisions is delayed, or if the 31 January 2011 implementation date is not achieved.

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<sup>4</sup> The Ministry and the NZTA are preparing an amendment to the Land Transport Act 1998. The Land Transport Bill has a priority of 2, which means it is expected to be passed by Parliament by the end of the 2010 calendar year.

55. The net effect of the new and amended fees is that revenue and expenditure will be brought closer into line. The deficit in 2010/11 is expected to be \$1.93 (resulting from the residual deficit of \$0.55 and the loss of revenue from the delayed introduction of the reinstatement fee), while the forecast annual deficit in outyears is expected to be \$0.55 million per annum. Table 3 outlines the forecast financial status of the driver licensing and driver testing business if the preferred option is adopted, compared with the forecast financial situation if no change is made.

**Table 3: Forecast financial status of the driver licensing and driver testing services, in millions<sup>5</sup>**

	2007/08	2008/09	2009/10 (forecast)	2010/11 (forecast) NO CHANGE	2010/11 (forecast) PROPOSAL	2011/12 (forecast)	2012/13 (forecast)
<b>Revenue</b>	42.56	41.60	43.12	43.12	48.98	50.36	50.36
<b>Expenditure</b>	48.9	49.42	50.91	50.91	50.91	50.91	50.91
<b>Annual surplus/(deficit)</b>	(6.34)	(7.82)	(7.79)	(7.79)	(1.93)	(0.55)	(0.55)
<b>Accumulated total in outyears</b>	—	—	—	—	(1.93)	(2.48)	(3.03)

56. The forecast residual deficit of \$0.55 million per annum does not take into account the savings expected as a result of the non-legislative cost saving measures expected to be progressed during the 2010/11 financial year, and any future legislative changes arising from the fundamental review. It is expected that revenue and expenditure will be better aligned following the implementation of those measures.

## Consultation

57. Cabinet agreed in January 2010 to the NZTA releasing a schedule of proposed new and amended fees for public feedback [CBC Min (10)1/4 refers]. The NZTA prepared an Information Paper, and a more detailed Background Paper, to accompany the proposed fees. The Cabinet paper was also made available on the Ministry of Transport website.
58. The NZTA managed the consultation process. The NZTA maintains a database of people and organisations with an interest in driver licensing issues. These people were all notified of the consultation. In addition, a copy of the Information Paper and a letter explaining the proposal was sent to 42 key stakeholders. The submission period was four-and-a-half weeks, with the Information and Background Papers and an online submission form available on the NZTA website. The Ministry of Youth Development was also advised, to allow the Ministry to publicise the consultation through its youth networks.
59. Twenty-one submissions were received, 9 from private individuals, 7 from community/lobby groups, 4 from commercial operators, and 1 from the Central

<sup>5</sup> 2009/10 and 2010/11 forecasts, for both revenues and expenses, exclude the Fit and Proper Person Check carried out by NZ Police (\$0.744 million) and the Road Code printing costs (\$0.595 million).

Hawke's Bay District Council. The key stakeholders who provided comment were Age Concern Hamilton, the Bus and Coach Association New Zealand Inc, the Road Transport Forum New Zealand Inc, the NZ Federation of Motoring Clubs Inc, the New Zealand Automobile Association (the AA), the New Zealand Institute of Driver Educators and the Motor Trade Association.

*Public response to the preferred option and the proposed new and amended fees*

60. Most submitters supported the approach proposed, and accepted that fees should be set on the basis of cost recovery. There was also recognition that driver licensing fees in New Zealand are among the cheapest in the world. Several wider policy issues, mainly relating to young and novice drivers, were raised by some submitters.

*Comments from the public*

61. Some submitters raised concerns about the rigid application of fees against cost. The cost allocation approach affects the issue of novice drivers who do not progress through the licensing system to obtaining a full licence, as the cost of entering the licensing system is increased. There were suggestions that fees for the learner, restricted and full licence stages should be subsidised to encourage progression through the licensing system. Others suggested that higher fees would encourage young people to wait until they could afford a licence, with related benefits in the road toll and in public transport usage.
62. Other concerns were raised in relation to overseas drivers. One submitter suggested that the fee for overseas licence conversion should be higher. Two other submitters suggested other means of raising revenue: namely requiring overseas visitors to sit a theory and practical driving test, and introducing a new fee for overseas drivers who hire a vehicle in New Zealand. Issues relating to the safety of overseas drivers on New Zealand roads are being looked at separately to this review; however it should be noted that the two United Nations (UN) Conventions on Road Traffic allow overseas drivers to drive in New Zealand for 12 months on their overseas licence. The conversion fee only applies if an overseas driver wishes to remain driving in New Zealand for longer than 12 continuous months.
63. While it is proposed that older driver fees are retained with no amendment, several submitters suggested that these fees should be changed. One submitter believed that older drivers can pay more than the current level of fee and they would not mind paying more personally to ensure that the fees for younger drivers were more affordable. Conversely, another submitter stated that as the general driving public has a collective interest in ensuring that older drivers are safe drivers, the general driving population should pay for the costs of older drivers.
64. While there was general acceptance of the proposed level of miscellaneous fees, one private individual suggested that the exemption application fee should be set to full cost recovery. This fee is proposed at a level considerably below actual cost, as the difference between actual cost and the current fee is

so great that even with a 20 percent increase, the proposed fee will recover only 35 percent of the cost of each transaction.

*Comment from key stakeholders*

65. The New Zealand Federation of Motoring Clubs, the AA, the Motor Trade Association, and a driving school operator supported the adoption of the proposed approach as sensible in the current economic climate. Although the Road Transport Forum considered this approach to probably be the best option, it advocated that the NZTA take a rigorous approach to sorting out its agent relationships, to ensure the delivery of cost-efficient services.
66. A number of key stakeholders commented on the proposed amended fees for young drivers. Concerns were raised by several submitters, including the AA and New Zealand Federation of Motoring Clubs, on the proposed 20 percent increase in application and test fees for a learner or restricted licence. This would mean that a novice driver would face an increase of about \$49 to progress through the entire GDLS, from learner to full licence holder, assuming no retesting was required. It was suggested that the current level of fees was already acting as a barrier to novice drivers becoming licensed and progressing through to a full licence.
67. A range of suggestions was made to address the issue of unlicensed driving. The New Zealand Federation of Motoring Clubs called for consideration to be given to lowering fees for novice drivers, as in the Northern Territory, Australia. Similarly, the AA would like the NZTA to consider subsidising novice driver fees, as is the case for older driver fees. The AA also raised wider policy issues, including whether substantive changes should be made to the licensing system for novice drivers.
68. The Bus and Coach Association and a driving school welcomed the proposed reductions in fees for passenger (P), vehicle recovery (V), driving instructor (I) and testing officer (O) endorsements. Another driving school considered the increases to forklift (F), rollers (R), tracks (T), wheels (W) and dangerous goods (D) endorsements to be reasonable, but would prefer to see the current fees for the P, V, I and O endorsements retained and the surplus held as a hedge against future cost changes. The Road Transport Forum was concerned that F, R, T, W and D endorsements will be increased during difficult economic times.
69. There was a general acceptance that fees should be set on the basis of cost recovery, and recognition that driver licensing fees in New Zealand are among the cheapest in the world. The New Zealand Federation of Motoring Clubs, the AA, the Motor Trade Association, and a driving school operator supported the adoption of option four as sensible for the current economic climate. Although the Road Transport Forum considered option four to be probably the best option, it had reservations about the use of the Consumer Price Index as an indicator of general cost increases. The Central Hawke's Bay District Council supported the introduction of new fees.

70. The proposal to conduct more frequent fee reviews, in line with guidance from the Controller and Auditor General,<sup>6</sup> was welcomed by two submitters, including the AA, which believes that more frequent reviews are more likely to impact older drivers and endorsement holders who would prefer more certainty about fees. The further review of service delivery with a view to cutting licensing costs was also endorsed. A private individual, who supported the fee changes in general, said that he would have preferred to see the NZTA implement cost saving measures before increasing the fees.
71. A detailed breakdown of the comments received on the fees for different user groups is attached as Appendix B to this paper.

### **Conclusions and recommendations**

72. Most submitters generally supported the preferred option, and considered it to be a sensible option in the current economic climate.
73. A number of submitters, in suggesting an alternative approach to a particular fee or issue, requested that the NZTA either set a fee that was greater than the actual cost of delivering the service, or suggested an approach that would involve some cross-subsidisation between user groups. A range of concerns was also expressed around the rigid application of fees against cost, particularly as this approach affects the cost of entry into the licensing system. The issue of people who do not progress to obtaining a full driver licence was also raised by several submitters, including the AA.
74. These comments are acknowledged. However, they cannot be addressed by this fee review. Moving away from a strict cost-recovery cost allocation model, and consideration of cross-subsidisation of particular user groups, is outside the scope of this review and would require a change in government policy. The comments made and concerns raised will inform future policy discussions. Consideration of these issues will also be included in the fundamental review of the driver licensing and driver testing business model and service delivery, currently in scoping stage.
75. Subsequent departmental consultation identified that there was an inconsistency in the proposed fees for driver ID cards (identity cards required to be displayed by drivers of small passenger vehicles and vehicle recovery vehicles). It is proposed that the application fee for a replacement ID card is increased, while the application fee for a driver ID card issued when a person is applying for an endorsement will remain unchanged. However, there is a third fee relevant to driver ID cards, which applies when the driver ID card is issued when the person is not applying for an endorsement. Not including this fee was an oversight, and it should retain alignment with the driver ID card replacement fee. It is proposed that this fee be increased from \$11.20 to \$13.40, a 20 percent increase.

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<sup>6</sup> Office of the Controller and Auditor-General, *Good Practice Guide: Charging Fees for Public Sector Goods and Services* (2008).

76. It is recommended that the preferred option is adopted to achieve the policy objective of minimising, or eliminating, the gap between revenue and expenditure in the driver licensing and driver testing business.
77. It is recommended that no change be made to the originally proposed fees as a result of consultation, and that an additional change to the application fee for a driver ID card when the applicant is not applying for an endorsement be increased by 20 percent, from \$11.20 to \$13.40.
78. It is noted that further amendment to driver licensing and driver testing fees may be required as a result of implementation of the first package of *Safer Journeys* initiatives.

### **Implementation and any risks**

79. Legislative action will be required to amend the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999. Draft amendment regulations are currently being prepared by the Parliamentary Counsel Office, and will be submitted to Cabinet Legislative Committee, should Cabinet agree to the final proposed new and amended fees.
80. The NZTA has advised that renewal reminder notices, which contain information about fees, are sent to people 6 weeks before their licence expiry date. Therefore, some people will shortly be receiving renewal packs containing information about the new fees applicable after 1 July 2010. Cabinet agreement will be sought, should the final fee proposal be agreed to, for the Minister of Transport to make a public announcement relating to the new and amended fees following Cabinet's decision. This will mean that all users (and potential users) of the driver licensing and driver testing services will be aware of the changes, rather than only those people who are due to renew their licence and/or endorsements.
81. The amendment regulations will be in place and the new fees, other than the reinstatement fee, will be payable from 1 July 2010. While this is a mid-week implementation date, it aligns with the beginning of the 2010/11 financial year and the new financial quarter. This implementation timeframe is tight, but achievable. The NZTA will manage the operational implementation schedule, to ensure that the necessary IT changes are completed in time, and that public information is updated.
82. There are two significant implementation risks relating to the reinstatement fee. This fee was agreed to by Parliament in September 2009 as part of the Land Transport (Enforcement Powers) Amendment Act 2009.
  - 82.1. The application of the fee is simple in concept rather than practice, and requires amendment to the legislation to be fully effective. This paper has assumed that the amendments to the Land Transport Act 1998 required to make the fee more effective are progressed as intended and will be passed by Parliament by the end of the 2010 calendar year. Should those amendments not progress within the expected timeframe,

it is likely that people will become aware of how they may evade paying the reinstatement fee, and revenue will decrease.

- 82.2. The NZTA advises that the reinstatement fee implementation date is expected to be 31 January 2011. This is dependent on the legislated amendments progressing as intended.
83. There is a risk to revenue if the amendment to the legislative provisions is delayed, or if the 31 January 2011 implementation date is not achieved.
84. As the fee will be introduced by Order in Council, there is no legal impediment to a later in-force date for the reinstatement fee. The Order in Council will be made separately to the amendment regulations for all other new and amended fees.
85. As noted earlier in this paper, there is a risk that the preferred option may not result in revenue completely recovering expenditure. The residual deficit means that there is pressure upon the NZTA to find cost savings and improve efficiencies, and operate the driver licensing and driver testing business within the revenue base.

#### **Arrangements for monitoring, evaluation and review**

86. The driver licensing and driver testing fees have not been reviewed since 2001. To ensure that fees and costs remain appropriate, the regulated fees will be reviewed on a more regular basis, in line with the recommendation of the Controller and Auditor-General.<sup>7</sup> The Ministry is developing a fee review programme for all regulated transport fees. The driver licensing and driver testing fees will be part of this programme, to be reviewed on a 3-yearly basis.
87. Cabinet has agreed that a fundamental review of the driver licensing and driver testing business model and service delivery be undertaken, commencing in 2010/11. This review is currently being scoped, and the Minister of Transport will report back to Cabinet on the Terms of Reference and timeframes by June 2010. The fundamental review will be an opportunity to consider the issues outside the scope of this review that were raised by submitters during consultation. Should significant changes arise from the fundamental review, a re-evaluation of fee settings will be undertaken.
88. A significant driver of the growing discrepancy between revenue and costs over recent years has been legislative and policy changes that have affected the cost of delivering the services, without amendment to the fees for affected services. Cabinet has noted that, to ensure that an alignment between revenue and expenditure is retained, when Cabinet is asked in the future to agree to policy or legislative change that affects the costs of service delivery, it will also be asked to agree to make the corresponding amendment to the regulated fee(s) [CBC Min (10) 1/4 refers].

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<sup>7</sup> Office of the Controller and Auditor-General, *Good Practice Guide: Charging Fees for Public Sector Goods and Services* (2008)

89. It is likely that future legislative changes will include those arising from the first package of *Safer Journeys* initiatives. Cabinet agreement for any necessary changes to retain an alignment between costs of service delivery and the regulated fees is likely to be sought once the costs, and the allocation of those costs, are better known.

## APPENDIX A SCHEDULE OF PROPOSED NEW AND AMENDED FEES (including GST)

This Appendix follows the format of the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999, in separating out the licensing fees and the testing fees. In some situations, such as learner licence applications, both a licensing application fee and a testing fee are required.

### New fees

Service	Cost of delivery (\$)	New fee (\$)	Forecast annual transaction volume
Test booking rescheduling fee	16.73	<b>16.00</b>	10,961
Refund processing fee	16.56	<b>16.00</b>	1,843
Licence reinstatement fee	64.83	<b>65.00</b>	40,847

### Amended fees—driver licensing Application fees

Service	Current fee (\$)	Cost of delivery (\$)	Proposed fee (\$)	Change (\$ and %)		Forecast annual transaction volume
Learner licence	39.30	48.46	<b>47.20</b>	7.90	20%	95,748
Restricted licence	39.30	48.46	<b>47.20</b>	7.90	20%	69,010
Full licence (Classes 1, 2, 3, 4, 5 and 6) <sup>8</sup>	44.30	48.46	<b>48.50</b>	4.20	9% (full cost)	66,373
Overseas licence conversion	44.30	50.96	<b>51.00</b>	6.70	15% (full cost)	48,977
Renewal <sup>9</sup>	44.30	42.31	<b>43.00</b>	-1.30	-3% (full cost)	206,000*
Replacement	31.10	41.61	<b>37.40</b>	6.30	20%	115,320

\* **NOTE:** the forecast annual transaction volume for renewals *includes* all transactions for transitional renewal transactions (listed below).

### Transitional renewal fees

These fees are payable when a person's licence card expires between ages 66 and 74 years. As there is mandatory renewal at age 75 (with added requirements) a licence card renewed at ages 66 to 74 will be for a period less than 10 years. While the cost does not change, the fee is pro-rated to the length of time the licence will be valid for.

Period of licence validity (Age)	Current (\$)	Cost of delivery (\$)	Proposed fee (\$)	Change (\$ and %)	
9 (66)	27.50	The cost of service delivery is the same, regardless of length of validity, and is estimated to be \$37.40	30.00	2.50	9%
8 (67)	25.00			5.00	20%
7 (68)	23.00		25.20	2.20	9%
6 (69)	21.00			4.20	20%
5 (70)	18.50		19.80	1.30	9%
4 (71)	16.50			3.30	20%
3 (72)	14.50		14.40	-0.10	-0.5%
2 (73)	12.00			2.40	20%
1 (74)	10.00		12.00	2.00	20%

<sup>8</sup> Class 1 is the car licence and Class 6 is the motorcycle licence. Classes 2-5 are the heavy vehicle Classes. Class 2 is the medium rigid vehicle licence; Class 3 is the medium combination vehicle licence; Class 4 is the heavy rigid vehicle licence; and Class 5 is the heavy combination vehicle licence.

<sup>9</sup> The general renewal fee is paid when a person renews their driver licence for a further 10 years.

*Endorsements*

Service	Current fee (\$)	Cost of delivery (\$)	Proposed fee (\$)	Change (\$ and %)		Forecast annual transaction volume
F, R, T, W or D <sup>10</sup> endorsement	37.20	44.40	<b>43.00</b>	5.80	16% (full cost)	29,360
New-1 year P (passenger) endorsement	70.10	62.49	<b>63.00</b>	-7.10	-10% (full cost)	2,252
New-1 year V (vehicle recovery) endorsement	70.10	62.49	<b>63.00</b>	-7.10	-10% (full cost)	102
New-1 year I (driving instructor) endorsement	72.60	62.49	<b>63.00</b>	-9.60	-13% (full cost)	20
New-1 year O (testing officer) endorsement	72.60	62.49	<b>63.00</b>	-9.60	-13% (full cost)	8
Renewal-1 year P endorsement	63.20	62.49	<b>63.00</b>	-0.20	-1% (full cost)	8,200
Renewal-1 year V endorsement	63.20	62.49	<b>63.00</b>	-0.20	-1% (full cost)	200
Renewal-1 year I endorsement	70.65	62.49	<b>63.00</b>	-7.65	-11% (full cost)	170
Renewal-1 year O endorsement	70.65	62.49	<b>63.00</b>	-7.65	-11% (full cost)	29
New-5 year P endorsement	272.75	240.91	<b>241.00</b>	-31.75	-12% (full cost)	957
New-5 year V endorsement	272.75	240.91	<b>241.00</b>	-31.75	-12% (full cost)	30
New-5 year I endorsement	276.75	240.91	<b>241.00</b>	-35.75	-13% (full cost)	55
New-5 year O endorsement	276.75	240.91	<b>241.00</b>	-35.75	-13% (full cost)	4
Renewal-5 year P endorsement	256.90	240.91	<b>241.00</b>	-15.90	-6% (full cost)	5,700
Renewal-5 year V endorsement	256.90	240.91	<b>241.00</b>	-15.90	-6% (full cost)	330
Renewal-5 year I endorsement	273.50	240.91	<b>241.00</b>	-32.50	-12% (full cost)	350
Renewal-5 year O endorsement	273.50	240.91	<b>241.00</b>	-32.50	-12% (full cost)	30

*Miscellaneous*

Service	Current fee (\$)	Cost of delivery (\$)	Proposed fee (\$)	Change (\$ and %)		Forecast annual transaction volume
Certificate of Particulars	9.10	20.74	<b>10.90</b>	1.80	20%	10,670
Application for exemption	22.20	74.52	<b>26.70</b>	4.50	20%	3,118
Application for a limited licence	46.50	38.14	<b>38.50</b>	-8.00	-17% (full cost)	4,400
Driver ID card <sup>11</sup> issued with endorsement	8.50	8.50	<b>8.50</b>	Nil	Nil (full cost)	12,162
Driver ID card issued or renewed without endorsement	11.20	18.00	<b>13.40</b>	2.20	20%	Estimated to be no more than 200
ID card replacement	11.20	18.00	<b>13.40</b>	2.20	20%	830

<sup>10</sup> Forklift (F), Rollers (R), Tracks (T), Wheels (W) and Dangerous Goods (D) endorsements.

<sup>11</sup> The identity card required to be displayed by the driver of a small passenger vehicle (eg taxi) or vehicle recovery vehicle (eg tow truck).

**Amended fees–driver testing**

Service	Current fee (\$)	Cost of delivery (\$)	Proposed fee (\$)	Change (\$ and %)		Forecast annual transaction volume
Learner licence (Classes 1, 2, 3, 4, 5, 6)	39.70	44.73	<b>44.70</b>	5.00	11% (full cost)	151,720
Restricted test (Class 1 and 6)	48.90	58.59	<b>58.60</b>	9.70	20% (full cost)	92,500
Full test (Class 1 and 6)	70.80	84.71	<b>84.70</b>	13.90	20% (full cost)	93,700
Full test (Class 2, 3, 4, or 5)	48.90	58.59	<b>58.60</b>	9.70	20% (full cost)	2,595

**Amended fees–older drivers**

Service	Current fee (\$)	Cost of delivery (\$)	Proposal (\$)	Change from current fee (\$)	Older Driver subsidy per transaction (\$)	Forecast annual transaction volume
<b>Driver licensing</b>						
Application for renewal: 75 years	18.30	41.56	<b>18.30</b>	nil	23.26	16,800
Application for renewal: 80, 82, etc	18.30	41.56	<b>18.30</b>	nil	23.26	40,000
<b>Driver testing</b>						
On-road safety test (first, third and subsequent tests)	41.00	48.65	<b>41.00</b>	nil	7.65	660
'Free' second attempt at test	0.00	48.65	<b>0.00</b>	nil	48.62	132 (about 20 percent of all tests)

**Low volume fees and refunds – amendments to the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999 consequential to agreement to final fees proposal**

<b>Transaction</b>	<b>Current</b>	<b>Proposal</b>	<b>Rationale</b>
<b>Renewal of a D (dangerous goods) endorsement</b>	Aligned with cost of obtaining a new endorsement (currently \$37.20).	Retain alignment, therefore the fee will be same as obtaining a new D endorsement (proposed new fee is \$43.00).	The costs involved with renewing a D endorsement are the same as obtaining a D endorsement.
<b>Basic motorcycle handling skills test</b>	\$41.00	\$41.00	No change is proposed as this transaction is low volume.
<b>Older drivers – taking the second on-road safety test</b>	Free	Free	Older drivers who fail their first attempt are waived the cost of their second attempt. This cost is met by the Crown-funded older driver licensing subsidy.
<b>Test fee for P (passenger), V (vehicle recovery) and I (driving instructor) endorsement</b>	Same as the full Class 1 (car) licence test (currently \$70.80).	Same as the full Class 1 (car) licence test (proposed to be \$84.70).	The test required to be passed as part of the application process for these endorsements is the same as a Full Class 1 test (and are exempted from requiring to pass the test if the applicant has passed the full Class 1 licence test in the five years preceding the application).
<b>Test fee for O (testing officer endorsement)</b>	\$466.00	\$466.00	A very low volume transaction. The NZTA is confident this fee is reasonable.
<b>Police vetting fee (fit and proper person check conducted by NZ Police)</b>	\$28.20 per year of endorsement validity (\$141.00 for a five-year endorsement)	\$28.20 per year of endorsement validity	Fee is set by NZ Police and is therefore outside the scope of this review.
<b>Fees for approval of course providers</b>	\$38.00 for provider \$186.50 for course	\$38.00 for provider \$186.50 for course	No change is proposed; this activity is outside the scope of this review.
<b>Refunds for unsuccessful P, V, I and O endorsement applications</b>	Varies depending on endorsement and period of validity (one/five years) applied for. For each application, the refund is generally set to 80 percent of the fee.	Align all P, V, I and O endorsement refunds to 80 percent of fee.	The refund is set to 80 percent of the fee to cover administrative costs, including processing the refund. The level of refund to be specified in the Regulations is therefore dependent on the P, V, I and O fees agreed to. <i>NOTE: the refund processing fee will not apply to these refunds.</i>

## **APPENDIX B: COMMENTS ON THE PREFERRED OPTION AND THE PROPOSED NEW AND AMENDED FEES**

### **Feedback on the preferred option**

#### *General renewals*

1. Many people who have a licence have only a car licence, which needs to be renewed every 10 years. At present, the costs of delivering this service are higher than the regulated fee.
2. The costs that are incurred in delivering services that do not have a fee have been, in part, borne by the high-volume general licensing fees. Therefore, by introducing new fees for these services this additional cost burden is removed from fees such as the general renewal application fee. The reduction in costs allocated to the renewal fee means that the current regulated fee will be higher than the costs of delivery once the new fees are introduced. Therefore, the general renewal fee will be slightly reduced.
3. Most of the six submitters who commented on the general renewal application fee welcomed the proposed reduction in the fee. However, the AA and a commercial operator questioned the need for a fee reduction, arguing that since licence holders have accepted the current level of regulated fee it should be retained. It was suggested that the additional revenue received could be used to offset any future cost increase or inflationary adjustment.

#### *Young and novice drivers (car and motorcycle)*

4. People who are entering the driver licensing system must progress through the Graduated Driver Licensing System (GDLS), which involves the stages of learner, restricted and full licence holder. To progress through to the next stage, a person is assessed on whether they have met the requirements for doing so (such as minimum age, time lapse since gaining current level of licence, or completing an approved course). If a person meets the requirements they may apply by paying an application fee for the next stage of the licensing system, and booking (and paying) for a test. If the applicant fails the test, only the test fee is payable for subsequent attempts.
5. All the relevant GDLS fees were found to be set below the cost of delivering these services. Most of these fees are now set to full cost recovery, with the learner licence and restricted licence application fees remaining slightly below the actual cost of delivering the service.
6. Twelve submitters commented on the proposed changes to the GDLS fees. Concerns were raised by several submitters, including the AA and the NZ Federation of Motoring Clubs, on the 20 percent increase in application and test fees for a learner and restricted licence. It was suggested that current fees were already acting as a barrier for novice drivers to progress through the GDLS, and the proposed fees were likely to act as a further disincentive, which may encourage people to drive unlicensed.
7. To address the issue of unlicensed driving, the NZ Federation of Motoring Clubs called for consideration to be given to lowering fees for novice drivers, as in the

Northern Territory, Australia. Similarly, the AA would like the NZTA to consider subsidising young and novice driver fees, as is the case with older drivers. The submitters that supported the increases said that it would encourage young people to wait until they could afford a driver licence, with potential benefits for the road toll and public transport usage. Age Concern Hamilton said that all test fees should have the same increase of 20 percent.

8. Young and novice drivers are most likely to be affected by two of the new fees that are to be introduced—the refund processing fee and the test booking rescheduling fee. These fees are set to recover costs incurred by specific individuals in cancelling or rescheduling a test. If a person does not change their test slot, they will not be liable for additional fees.
9. Thirteen submitters commented on the new fees, with the majority supportive of the introduction of these fees. One commercial operator suggested that the rescheduling and refund fees should be set at 10 percent of the actual transaction costs, while a private individual would like to see the rescheduling fee to be set higher at \$25 to change behaviour.
10. The rescheduling and refund fees are proposed at a level that is considered reasonable. Further reducing the fee, such as to 10 percent of the transaction cost, will mean that the cost of delivering the service will exceed the regulated fee. It is expected that charging a fee will reduce demand on these services; if the fee is set at a low level, it will reduce the likelihood of affecting a change in behaviour.

*Drivers obtaining a higher class licence (Classes 2–5)*

11. The higher licence classes are those which are required to be entitled to drive heavy rigid and combination vehicles.<sup>12</sup> As is the case with people progressing through the GDLS for a car or motorcycle licence, there are several stages involved in gaining each licence class. To gain a Class 2 to 5 learner licence, a person must pay an application fee and a test fee, and pass the theory test. To gain a Class 2 to 5 full licence, a person must pay an application fee and a test fee, and pass the practical test (there are alternative methods, such as completing an approved course; however, courses are a more costly option and the fees are determined by course providers).
12. The learner licence application and test fees, and the application fee for a full licence for Classes 2 to 5, are the same as the GDLS fees for young and novice drivers, outlined above. These fees will increase by 20 percent, 11 percent, and 9 percent respectively. The full licence test fee for Classes 2 to 5 was found to be set below cost, and will be increased by 20 percent (an increase of \$9.70). People who sit the learner and/or the full tests for Classes 2 to 5 may also be affected by the proposed new refund processing fee and the test booking rescheduling fee.
13. A commercial operator commented that driver licences are an important qualification for its business to meet its compliance requirements for insurance, and for health and safety reasons, and that any fee increase will impact on its ability to operate in a

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<sup>12</sup> Rigid vehicles are one unit (for example, a large furniture removal truck); combination vehicles are two or more units (such as a truck and trailer).

sustainable manner. It is acknowledged that any fee increase would impose a cost burden on individuals and businesses.

14. It should be noted that only a minority of people who gain higher licence classes actually sit (and pay for) the practical test. The majority of people complete an approved course, which removes the requirement to sit the full licence test and does not require a person to hold a learner licence for a 6 month minimum period (during which time work opportunities may be limited). The cost of these courses is set by the course providers (and often cost over \$1000 per licence class), at a level considerably more than the tests, although the trainer does provide the vehicles. In 2008, 90.5 percent of people who gained a higher licence class did so by completing a course, while in 2009, 85.6 percent completed a course. While there has been a shift towards sitting tests, perhaps due to economic considerations, the proportion of people who sit a test remains small.

*Drivers obtaining or renewing a licence endorsement*

15. There are two different groups of licence endorsements.
  - 15.1. Vehicle-related endorsements (where the endorsement allows the holder to drive a particular type of special-type vehicle) are for special-type vehicles with forklifts (F), rollers (R), tracks (T) or wheels (W). There is also a dangerous goods (D) endorsement, which allows a person to drive a vehicle that carries dangerous goods. F, R, T and W endorsements are valid for as long as the holder's licence card is valid for (up to 11 years), while D endorsements are valid for up to 5 years.
  - 15.2. Driver-related endorsements (where the endorsement allows the holder to undertake particular activities in the course of driving) are for drivers who carry passengers (P), recover vehicles (V), act as a driving instructor (I), or as a testing officer (O). These endorsements are valid for 1 year or 5 years, at the choice of the applicant.
16. F, R, T, W and D endorsement fees were found to be set below the cost of delivering the service. These fees will be increase from \$37.20 to \$43.00, which is close to full cost (a 16 percent increase). This fee applies to both new applications and renewal applications. Submissions were generally supportive of the increases to these endorsements, but the Road Transport Forum noted that the actual cost increase to a D endorsement holder over a 10 year period would be greater, as the endorsement is only valid for up to 5 years. While officials recognise that a D endorsement has a shorter validity period than the special-type vehicle endorsements, this has been the case for a number of years. All F, R, T, W and D endorsements are now set to, or close to, actual cost.
17. P, V, I and O endorsement types were found to be set at a level greater than the cost of providing the service. Therefore the P, V, I and O fees will be reduced, by between \$0.20 and \$35.75. It was also found that the current schedule of regulated P, V, I and O fees is overly complex, with a range of fees depending on the endorsement, the length of validity, and whether the transaction was for a new application or a renewal. Therefore, as the costs of delivery are similar for similar transactions, the fees will be standardised to length of validity.

18. The reduced fees for new and renewal applications for P, V, I and O endorsements were welcomed by the Bus and Coach Association New Zealand, the Road Transport Forum, and a driving school. Another driving school would prefer to see the current fees for P, V, I and O endorsements kept, with the surplus retained as a hedge against future changes.

*People with an overseas licence who wish to convert to a New Zealand licence*

19. People with licences from other jurisdictions can drive for 12 months in New Zealand on their overseas licence, as provided by two UN Conventions. If they wish to drive longer than that 12 month period, they must gain a New Zealand licence. To do so, a person must pay the overseas licence conversion fee. Additional fees, such as the learner (theory) test fee and the practical full licence (car) test fee, may be payable if the person is not from a country listed in the Rule as exempt from these requirements.
20. The fees applicable to those people who are required to sit tests as part of the conversion process have been set out above in relation to the GDLS fees payable by young and novice drivers. The learner licence (theory) test will be increased by \$5.00 and the full licence test will increase by \$13.90, both to full cost.
21. It was found that the current application fee for the conversion of an overseas licence was set at a level below the cost of delivering the service. It is proposed to increase the fee to full cost: an increase of 15 percent, which is equivalent to an increase of \$6.70.
22. Three submitters commented on the fees for overseas licence conversions. One called for the fee to fully recover the costs (which it does), and raised road safety concerns related to the perceived failure of the licensing system to capture long-term residents who continue to drive on their overseas licence. Another submitter argued that the overseas licence conversion fee should be much higher to recover costs for verifying overseas licences and ensuring that those presented were genuine.
23. Two other submitters suggested other means of raising revenue: namely, by requiring overseas visitors (particularly those from countries that drive on the right) to sit a theory and practical driving test, and introducing a new fee on overseas drivers who hire a vehicle in New Zealand.

*Older drivers*

24. Older drivers (those aged 75 years and over) are subject to a different licensing system to those aged under 75 years. All older drivers are required to renew their licence at ages 75, 80 and 2 yearly thereafter. The NZTA receives a Crown-funded subsidy of \$1.445 million per year to subsidise the fees payable by older drivers.
25. The licensing frequency for older drivers is driven by concerns about maintaining fitness to drive. Changes in 2006 now mean that an on-road safety test is only required if the older driver is directed to do so by their general practitioner.
26. No change was proposed to the older driver fees. The combination of the current level of fees and the subsidy means that the costs of providing this service are met.

27. Nine submitters commented on the fees relating to older drivers. Age Concern Hamilton is happy to see no changes made to older driver fees. Two submitters would like to see older driver fees kept as low as possible and to encourage the elderly to remain mobile with reduced fees. Another submitter argued that since it is in the collective interest of the general driving public to ensure that older drivers are safe drivers, general drivers should pay for older drivers. One local government agency noted that 2 yearly re-testing/re-licensing for those aged over 80 years was too onerous and suggested that consideration be given to reducing fees for older driver with no crash records. A commercial operator considered the amount paid by older drivers for renewals to be unjustified, while a private individual argued that older drivers could afford to pay more, and were prepared to pay more, to ensure that fees were more affordable for young drivers to be properly trained and licensed.
28. The AA supported the ongoing government subsidy for older drivers but considered that, instead of retaining the current level of fee, fees for older drivers could be increased by a maximum of 20 percent in line with other fee increases. It was suggested that the surplus generated could be used to offset the effects of future increases in transaction costs and an increasing number of older drivers, should the current level of subsidy remain unchanged.

*Drivers renewing for a period of less than 10 years (transitional renewal fees)*

29. As there a mandatory licence renewal at age 75, all licences renewed when the licence holder is aged between 66 and 74 years are issued for a period less than 10 years. When the fees were set in 1999, these fees were pro-rated to the length of time the licence was valid for (based on the general licence renewal fee at that time). However, the cost of renewing a licence for less than 10 years is similar to that for renewing for the standard 10 years. Therefore these 'transitional' fees have always been set below cost.
30. While these fees are acknowledged to be set below cost, the policy of pro-rating the fee to the length of time that the licence is valid for will be retained. However, the current 10-step schedule for transitional fees will be simplified into a 5-step schedule. This means that some transitional fees will increase by 20 percent and some others will increase by 9 percent (and one will reduce by 0.5 percent), in order to align the fees. The increases will range from between \$1.30 and \$5.00.
31. Age Concern Hamilton suggested that all these fees be increased by 9 percent for simplicity. We appreciate that the different levels of increases may appear complex, but once the fees are in place the schedule of fees will be simpler for people to understand. Age Concern Hamilton also argued that the increases of 20 percent could not be justified. It should be noted that even after making the increases, these fees are set at a level well below actual cost, and the low level of current fee means that the maximum increase in dollar terms is \$5.00.

*Other fees*

32. There are other fees that are not paid by just one user group, or do not easily fit into such a breakdown.
  - 32.1. Replacement fee: this fee will increase by 20 percent, from \$31.10 to \$37.40, which is still below the actual cost of delivering the service. The NZ Institute of Driver Educators considered the new fee for replacing a licence to be realistic. However, a commercial operator asked for the fee to be lowered, claiming that it is stopping people from replacing a lost or stolen licence.
  - 32.2. Exemption fee: this fee is payable when a person applies to be exempted from a licensing requirement. The proposed fee of \$26.70 is significantly below the actual cost of \$74.52. One submitter considered that the costs of processing an exemption should be fully recovered.