

Chair  
Cabinet Economic Growth and Infrastructure Committee

## **DRIVER LICENSING AND DRIVER TESTING FEES REVIEW**

### **Proposal**

1. This paper:
  - 1.1 provides the background to the driver licensing and driver testing fees review (the review)
  - 1.2 proposes that, to ensure that the costs of delivering driver licensing and driver testing services are better met by the third party revenue received, new fees be introduced and existing fees be adjusted in line with the estimated true cost of providing the services, to complement the introduction of cost-saving measures
  - 1.3 specifies the proposed new and amended fees that the NZ Transport Agency (NZTA) intends to release for public consultation.

### **Executive summary**

2. Driver licensing and driver testing services are funded through third party revenue, gained through driver licensing and driver testing fees, as set in the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999. A Crown-funded subsidy of \$1.445 million per annum is provided for older driver renewals and tests.
3. The fees, last reviewed in 2001, no longer provide sufficient revenue to meet the costs of providing the services. If no action is taken, it is forecast that the cumulative operating deficit will increase from \$13.99 million at 30 June 2009 to \$21.78 million by 30 June 2010. Retaining the status quo is not sustainable.
4. The NZTA is developing a proposal to make a range of legislative and non-legislative changes to reduce the costs of, and improve efficiencies in, service delivery. While some process changes can be made within a short timeframe, it is the legislative changes that are expected to deliver the more significant savings. Savings from legislative changes are not likely to be realised until 2010/11. The total savings expected from the measures being considered is up to \$0.85 million per year.
5. While the cost reduction work is underway, the operating deficit will continue to accumulate at a rate of about \$0.65 million per month. The benefit of the potential cost saving measures would be exceeded by the deficit accumulated within two months.
6. Therefore, it is proposed that while cost efficiency work continues, complementary amendments are made to the regulated fees. I propose that two new fees, in addition to the reinstatement fee included in the Land Transport (Enforcement Powers) Amendment Act 2009, be introduced; and the existing driver licensing and driver testing fees be adjusted to reflect, where possible, the full cost of delivering each of

the services. I recommend that 23 fees be increased and 18 fees be reduced. This will bring expenditure and third party revenue closer into line, and is expected to be sufficient to align revenue and expenditure once the full savings of the cost-reduction and efficiency improvements are realised.

7. Officials have previously put forward two other fee proposals, each of which I rejected. The first was a higher level of fee increase based on full cost recovery. The second proposal was a 20 percent increase to all fees, to align with the increase of the Consumer Price Index (CPI) since the fees were last amended. I rejected both proposals and asked that further scrutiny be placed on the costs of providing the driver licensing and driver testing services. The NZTA undertook a further recosting exercise at that point, which resulted in the revised proposal set out in this paper.
8. I intend to commence a fundamental review of the driver licensing and driver testing services business model in the 2010/11 financial year, which will consider the trade-offs between level of service and the cost of delivering that service. I expect that review to take at least 18 months, with a further 18 months required to implement any changes (such as amending legislation, IT systems and developing new operational processes). Should the proposed amendments be delayed until after the fundamental review, it is expected that an additional \$23.4 million in deficit will be incurred. Therefore the cost reduction and fee amendments proposed in this paper are necessary to address the immediate issue of the costs of providing the service not being met by third party revenue, and the resulting operating deficit.

## **Background**

### *Driver licensing and driver testing services*

9. The driver licensing and driver testing services affect almost every adult resident in New Zealand. There are over 3.2 million licence records with a status entitling that person to drive. The NZTA is responsible for managing the driver licensing and driver testing services. It conducts some of these activities (such as the 0800 helpline and the maintenance of the Driver Licence Register) in-house; and contracts out the counter services for licence applications and the conduct of driver testing.
10. Driver licensing and driver testing services is a substantial business, with very high transaction volumes. In May 2009 (a typical month), the NZTA and its agents dealt with 21,607 licence renewals, 7,182 new learner licence applications, 5,599 new restricted licence applications, and 5,293 new full licence applications. The 0800 helpline handles nearly 700,000 enquiries a year (over 58,000 a month) related to driver licensing.
11. While driver licensing and driver testing services are distinct businesses, and are accounted for separately, this paper generally considers driver licensing and driver testing services as a package, as they are closely related.
12. The key pieces of legislation for 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).

13. 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 the detailed provisions, such as requiring the capture of a person's image and signature, mean that applicants must attend in person for many transactions. The NZTA works with an outsourced network of agents to provide reasonable access to licensing and testing facilities around the country.
14. The fees that can be charged for driver licensing and driver testing services are specified in the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999 (the fee Regulations).

*Key costs incurred in delivering driver licensing and driver testing services*

15. In 2008/09, driver licensing and driver testing services cost \$49.42 million. The key outlays can be grouped as follows:
  - 15.1 Agent costs: the cost of the outsourced counter service for applications, eyesight testing and image capture, and theory and practical driving tests. All the equipment that is required to provide these services is owned by the agent. In the 2008/09 financial year, agent costs were \$17.55 million.
  - 15.2 Transaction and administrative costs: includes all of the support functions, such as the call centre, producing information and application forms, issuing licence renewal reminders, producing licence cards, administering licence records, administering the demerit points system in conjunction with the New Zealand Police, and providing medical review services. In the 2008/09 financial year, transaction and administrative costs accounted for \$17.47 million.
  - 15.3 Information technology costs: maintaining and updating the Driver Licence Register. The nationwide network of agents rely upon the transactional and entitlement functionality of the computerised register to provide outsourced counter services, whilst protecting the privacy of individual licence holders. The cost of maintaining and updating the IT system for the 2008/09 financial year, including systems depreciation, was \$8.68 million.
  - 15.4 Corporate costs: the costs incurred by the NZTA, including those for finance, IT support, assurance and risk, legal, and human resources. The corporate costs include salaries, rent, software licences, depreciation, and capital charge, and accounted for \$5.71 million in 2008/09.

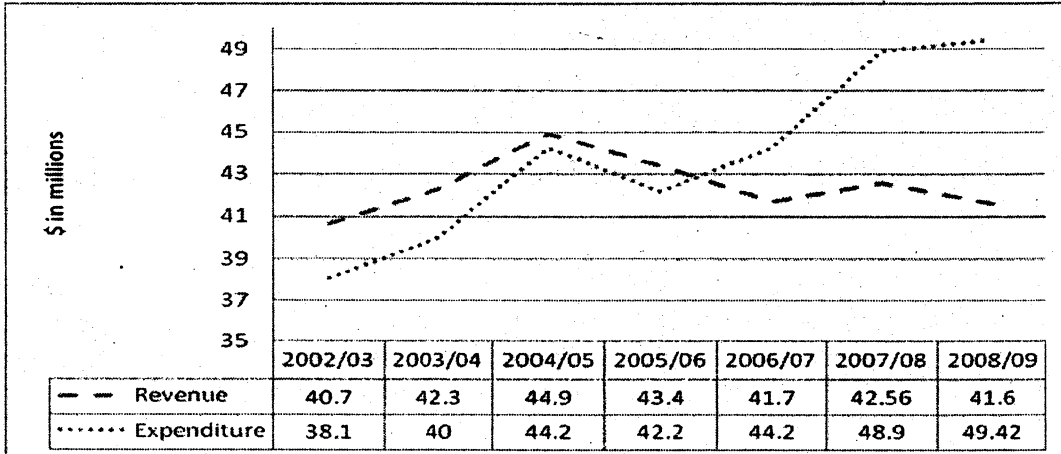
**The review of driver licensing and driver testing fees**

16. A review of the driver licensing and driver testing fees to look at the alignment of revenue and expenditure has been underway since 2007/08. The review has identified a gap between revenue and expenditure, ascertained the reasons for the gap, considered the impact of future costs, and developed an approach to realign revenue and expenditure.

*Misalignment between revenue and expenditure*

17. Between 2001/02 and 2005/06, revenue and expenditure were reasonably closely aligned. However, since 2006/07 expenditure has increased while revenue has decreased.

Graph 1: Revenue and expenditure of the driver licensing and driver testing system, 2002/03 to date



18. 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.

*Why is there a gap between revenue and expenditure?*

19. There are several factors that have either substantially reduced transaction volumes and associated fee revenue, or have increased the baseline cost of service delivery. In order of relative importance, the key factors behind the increase in expenditure and decrease in revenue are:

19.1 Legislative and policy changes: a number of legislative and policy changes over recent years have altered the costs of delivering driver licensing and driver testing services. The regulated fees have not been amended to reflect these changes:

19.1.1 Rule changes in early 2006 removed the requirement for people from a number of countries to sit a practical test when converting an overseas licence to a New Zealand licence. A further change in 2008 removed the requirement for these people to sit a theory test. Both changes reduced testing volumes and revenue, and incurred IT functionality and process change costs.

19.1.2 Rule changes in 2006 removed the requirement for older drivers to sit a practical test when renewing their licence, except when referred to do so by a general practitioner. While this was a positive change, in helping older drivers retain their mobility, it significantly reduced practical test volumes. The NZTA was contractually required to provide compensation

to testing agents for the significant loss of income.<sup>1</sup> This was for a short and specified period of time until the agent commission contracts were put out for tender.

- 19.2 Increased transaction volumes of activities with no fee: there has been a noticeable increase in several activities that have no fee. For example, there is no fee to recover the cost of processing demerit point licence suspensions. Licence suspension notices increased from 5,878 in the 2001 calendar year, to 18,021 notices in 2008.<sup>2</sup> This number is expected to continue increasing, in part due to the revised approach to traffic offence penalties, with a greater emphasis on demerit points for traffic-related offences. The existence of cost-generating services with no fee has led to some cross-subsidisation in the driver licensing services between user groups. In particular, high-volume activities, like renewals, have borne a portion of this cost.
- 19.3 General cost increases: the regulated fees have not been adjusted for inflationary increases in the costs of personnel, overheads, postage, printing and other administrative costs. Since 2001, when the fees were last adjusted, the CPI has increased by about 21 percent.
- 19.4 Some fees have never fully met costs: for various reasons, some fees were set below full cost recovery. Therefore, each of these transactions incur a cost to the NZTA. The fees set below cost include:
- 19.4.1 the renewal fees for drivers aged 66-74 years, where the costs of the transaction are equal to the standard licence renewal, but the fee is pro-rated to licence validity<sup>3</sup>
- 19.4.2 the fee for converting an overseas licence to a New Zealand licence, which was aligned with the cost of obtaining a New Zealand licence, but involves a more complex process
- 19.4.3 the application fee for an exemption from a requirement set in the Rule. Originally, exemptions could only be granted from the conditions applicable to learner and restricted drivers. However, now a person can apply for an exemption from any requirement in the Rule, and many applications are more complex. As an applicant denied an exemption has a right of appeal to the District Court, further legal costs may be incurred by the NZTA.

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<sup>1</sup> This has been the only change in service delivery and/or volumes that has been significant enough to justify compensation.

<sup>2</sup> These figures are for successful service of suspension notices; in a number of cases multiple attempts to serve the notice is required. Each unsuccessful attempt to serve the suspension notice incurs costs.

<sup>3</sup> Due to the mandatory renewal at age 75, drivers who renew their driver licence at ages 66-74 years will be issued with a licence with a validity period of less than 10 years. As the validity of a person's new licence could range from 1-10 years, there is a transitional scale of pro-rated fees for this group of licence holders.

*Current financial status of the driver licensing and driver testing services*

20. As a result of expenditure exceeding revenue, both the driver licensing and the driver testing services are currently running operating deficits. These deficits are cumulatively forecast to continue to increase at a rate of about \$0.65 million per month.<sup>4</sup>

**Table 1: Current and forecast financial status of driver licensing and driver testing services**

<b>Cumulative deficits</b>	<b>As of 30/06/2009 Actual \$ million</b>	<b>As of 30/06/2010 Projected \$ million</b>	<b>As of 30/06/2011 Projected \$ million</b>
Driver licensing services	(11.45)	(16.60)	(21.75)
Driver testing services	(2.54)	(5.18)	(7.83)
<b>Accumulated total</b>	<b>(13.99)</b>	<b>(21.78)<sup>5</sup></b>	<b>(29.58)</b>

*Management of costs to date*

21. 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 business, including driver licensing and driver testing, but operates an omnibus approach to managing the cash flows. This means that the NZTA has funded the deficit from its overall cash balances, most of which arise from the National Land Transport Fund (NLTF). Therefore, the NLTF has in effect been subsidising the driver licensing and driver testing services. This approach has enabled the driver licensing and driver testing services to continue, even though running operating deficits.
22. The NZTA advises that in prior years the NLTF has had surplus funds. Thus there has been a NLTF cash surplus which has been used to cover the driver licensing and driver testing deficit. 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.
23. The NZTA (and predecessor entities) has previously considered the cost-effectiveness of the delivery of services. This has included bringing the 0800 helpline services in-house, and introducing automatic data entry for practical driving tests. The reviews of the counter-based licensing services and the testing services in 2008 found that the existing outsourcing model was more cost-effective than bringing the services in-house.

<sup>4</sup> This is an approximation based on the deficit forecast to be incurred in 2009/10.

<sup>5</sup> These projections are different from those in the NZTA 2009-12 Statement of Intent.

### *Forecast expenditure*

24. The cost of delivering the driver licensing and driver testing services is anticipated to increase in 2009/10 to \$50.91 million.
25. In forecasting levels of expenditure in outyears, the cost modelling incorporated known future costs.<sup>6</sup> There is a limited allowance for IT and other development costs arising from legislative changes, and recently negotiated commission rates. No allowance has been made for any further change to agent commissions and other underlying costs.
26. In 2009 the NZTA completed a thorough competitive tender process for its agent counter-based transaction services. The commission rates had not been reviewed for some years. The increase proposed by the agents was 29.4 percent for driver licensing, and 6 percent for driver testing activities.<sup>7</sup> Following negotiation, the NZTA agreed to increases of 17 percent for driver licensing and 5.8 percent for driver testing.
27. The NZTA has balanced the intention to achieve the lowest possible cost with the importance of maintaining high customer service standards and meeting national coverage requirements. The new commission rates take into account a large drop in transaction volumes, expected as a result of the legislative changes that have removed the requirement for people from a number of countries to pass a theory test as part of converting to a New Zealand licence. The new rates also account for costs to licensing agents associated with the introduction of computerised theory testing.
28. IT development work is a critical component of any process change to the driver licensing and driver testing services, as the services that agents can provide are dependent on the transactional functionality of the computerised Driver Licence Register. The expenditure forecast has included a provision of \$0.35 million for the IT costs related to implementing the proposed new fees and the proposed amendments to existing fees.
29. The expenditure forecasts have not made full provision for any changes to driver licensing or driver testing, or changes relating to young and novice drivers/riders, that may arise from the *Safer Journeys Road Safety to 2020* strategy (anticipated to be released in January 2010 with a subsequent action plan to be developed); and any changes or costs that may arise from the Land Transport (Driver Licensing) Amendment Rule 2010, currently being developed.

### **The proposed approach to realign revenue and expenditure**

#### *Reducing costs*

30. The NZTA is already undertaking work to improve efficiencies in service delivery. The NZTA is, with the Ministry, also identifying areas where the law is unnecessarily

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<sup>6</sup> The Treasury's *Guidelines for setting charges in the public sector* states that it is reasonable to incorporate known future costs when setting a fee.

<sup>7</sup> A limited adjustment had been made for testing commission rates following older driver test changes; see 19.1 above.

prescriptive and acts to prevent the NZTA from delivering the services in a more cost-effective manner. A paper, listing the range of potential cost savings measures, was considered by the joint NZTA/Ministry fees governance group.<sup>8</sup> The Ministry will provide me with a report on the proposed measures in early 2010.

31. Measures under consideration include:

31.1 changing the exemption application process, to bypass the counter agent and therefore remove the need to pay the agent for receiving the application

31.2 streamlining and reducing the content of the licence renewal reminder packs

31.3 amending the Rule to correct an anomaly regarding eyesight standards, which at present is dealt with via exemptions.

32. The process changes can be implemented relatively quickly, and it is expected that the NZTA will be able to start work on implementation early in 2010. However, most proposed cost-saving measures require changes to either the Act or the Rule. The legislative changes will take longer, and may not be able to be implemented until late 2010/11. The total identified saving is up to \$0.85 million per annum.

*Adjusting revenue*

33. Five options for adjusting revenue were considered to complement the cost-efficiency improvements:

Option	Evaluation
1. No amendment to fees	Expenditure will continue to exceed revenue, increasing the accumulated deficit by about \$0.65 million per month. The NZTA will not be able to absorb the ongoing deficit indefinitely.
2. No amendment to fees until cost savings are realised	This is expected to delay the amendment to fees for at least 18 months. The level of deficit incurred by the time the cost savings are realised will exceed the potential cost savings.
3. Adjust existing fees only, to achieve full cost recovery	Has the potential for over-recovery once cost-efficiency measures are introduced.
4. Introduce new fees and adjust existing fees to achieve full cost recovery	Full cost recovery for some fees is greater than 20 percent, and may not be considered reasonable in the current economic climate. Has the potential for over-recovery once cost-efficiency measures are introduced.
5. Introduce new fees and adjust existing fees to achieve full cost recovery, up to a maximum of a 20 percent increase	Preferred option – Revenue will better align with expenditure while still providing an incentive for the NZTA to improve the efficiency of service delivery, and ensuring that any fee increases are within a reasonable range.

34. The NZTA has advised that the net effect of options 1 and 2 are significant, in terms of the deficit that would be accumulated, and the ability of NZTA to absorb that deficit. In the case of option 2, deferring the implementation of the proposed new and amended fees to allow for the realisation of savings would take around 18 months. In that time, based on current projections, a further \$11.70 million in deficit would be accumulated.

<sup>8</sup> The joint NZTA/Ministry governance group considers, and has oversight of, all the areas of NZTA business where regulated fees are collected for the provision of a service.



If this future deficit was to be written-off by the NZTA, it would exceed available funds by \$7.7 million.

35. While options 3 and 4 aim to achieve full cost recovery by amending the fees, there is potential for over-recovery once the expected savings from the cost-efficiency measures are realised.
36. The preferred option is option 5, where new fees are introduced for services that currently have no fee, and existing fees are amended to reflect the actual costs of delivery. Any increases to fees will be capped at a 20 percent increase to ensure that the increases are within a reasonable range, which is less than a Consumer Price Index adjustment.

#### *Introduction of new fees*

37. The NZTA and its agents can only charge the fees specified in the fee Regulations. The existence of cost-generating services that have no regulated fee was identified as a driver of the accumulated deficit, and has led to some cross-subsidisation in the driver licensing services. In particular, high-volume transactions, like renewals, have borne a portion of these costs.
38. Two new fees are proposed to recover the administrative costs directly incurred by rescheduling a test, and processing a refund. Both of these proposed new fees can be introduced by amending the Regulations.
  - 38.1 Test booking rescheduling fee: the Regulations currently provide that a person may reschedule a test, if two days' advance notice is given. Each time a test is rescheduled the NZTA incurs costs yet the customer is not charged any additional fee. It is proposed the rescheduling fee be set at \$16. Anecdotally, officials understand that the demand for rescheduling tests would reduce if a fee was charged for doing so.
  - 38.2 Refund processing fee: tests cannot be rescheduled with less than two days' advance notice. This is because the NZTA is committed to paying the testing agent for the test slot. In these instances, the person must cancel the test booking and apply for a refund. If the test slot is able to be reallocated within the two day period, then the test fee is refunded. The NZTA incurs a cost each time a refund is processed. A provision already exists in the Regulations to charge a fee to recover these costs, but the level is not defined. It is proposed that the refund processing fee be set at \$16, which would be deducted from the refund.
39. A further new fee, for licence reinstatement, has been set in the Land Transport (Enforcement Powers) Amendment Act 2009. The licence reinstatement fee will recover the direct costs that are incurred in administering the suspension or disqualification of a driver licence. The reinstatement fee will be required to be paid before the driver has their licence card returned to them. This fee will be brought into force on a date to be determined by an Order-in-Council, and will be set at \$65. Public comment will not be sought on this fee.

40. Introducing the new fees will not only add a revenue source that will meet the costs of providing these services, it will remove the additional cost from being borne by general licensing fees. Removing the cross-subsidisation from within the driver licensing services will result in a fairer, and more accurate, allocation of costs.

*Amendment to existing fees*

41. 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 of 20 percent. The NZTA has assessed what level of fee for each service will achieve cost recovery of service delivery. The estimates of actual cost assume that the new fees, outlined in paragraphs 38 and 39 are introduced as proposed.
42. For the 45 core driver licensing and driver testing fees, it is proposed that:
- 42.1 23 fees (51 percent) are increased, because the actual cost of delivery is greater than the current fee
- 42.2 18 fees (40 percent) are decreased, because the actual cost of delivery is less than the current fee
- 42.3 4 fees remain the same as the current regulated fee.
43. Of the 23 fees where an increase is proposed, only eight will meet the actual costs of service delivery. The remaining 15 fees will still not meet actual costs, as the difference between the current fee and actual cost is greater than 20 percent. The size of the proposed increases range from \$1.80 to \$13.90.
44. Of the 18 fees where a decrease is proposed, the greatest benefit is to commercial drivers who require a P (passenger), V (vehicle recovery), I (driving instructor) or O (testing officer) endorsement. The proposal is that P, V, I and O fees are reduced and standardised to simplify the fee structure. Standardising the fees will provide benefits to both applicants and agents, and is expected to reduce the number of queries to the 0800 helpline. The NZTA have forecast that over 18,000 people will apply to obtain or renew a P, V, I or O endorsement in 2009/10.
45. The transitional renewal fees are the renewal fees that apply when a person aged 66-74 renews their driver licence. As there is a mandatory driver licence renewal at age 75, any licence that is renewed at ages 66-74 will have a validity period of less than ten years. In the past, the transitional fees have been pro-rated to length of licence validity. The principle of pro-rating the fee to licence validity will be retained, but the schedule of transitional renewal fees will be simplified to a five-tier system.
46. The core schedule of proposed amended fees, including a comparison with actual cost of service delivery, is attached as Appendix A.
47. The Schedule lists the licensing fees separately from the testing fees. Driver licensing and driver testing are treated as separate businesses, although they are closely related, with revenue and expenditure for each business accounted for separately. The licensing fees and testing fees are listed separately in the Regulations.

48. Fees for licensing transactions cover costs such as agent fees, recording changes to licence status on the register, production of licence cards, and a contribution to auditing of agents and maintenance of the IT systems. The testing fee includes provision for the booking process, the testing officer's time when conducting a test, and a contribution to auditing testing officers and investigating complaints. Both licensing and testing fees contribute to providing a help desk service.
49. There are five situations where both a licensing and testing fee are required in the same transaction:
- 49.1 the application for a new learner licence
  - 49.2 the application for a new restricted licence
  - 49.3 the application for a new full licence
  - 49.4 the application for a new P, V, I or O endorsement, when a full Class 1 (car) licence has not been passed in the five years preceding the application
  - 49.5 the application for converting an overseas licence to a New Zealand licence when the overseas licence is issued by a country which is not listed as an exempt country in Schedules 7A and 8 of the Rule. Applicants converting licences from non-exempt countries are required to pass a learner licence (theory) test and a full Class 1 practical test.
50. Table 2 illustrates the total cost of the proposed fees for people progressing through the learner, restricted, and full licence stages, which are the more common of the five situations detailed above. The licensing and testing fees must be paid together in the first instance, when the application is made. If a person fails their first attempt, they are only required to pay the test fee for any subsequent attempts.

**Table 2: Cost of a learner, restricted and full licence under the current and proposed fee structures**

Stage	Application fee		Test fee		Total fees		Total cost of delivery
	Current \$	Proposed \$	Current \$	Proposed \$	Current \$	Proposed \$	
Learner licence	39.30	47.20	39.70	44.70	79.00	91.90	93.19
Restricted licence	39.30	47.20	48.90	58.60	88.20	105.80	107.05
Full licence (Class 1 or 6)	44.30	48.50	70.80	84.70	115.10	133.20	133.17
Full licence (Class 2 to 5)	44.30	48.50	48.90	58.60	93.20	107.10	107.49

51. Appendix B contains the other fees and refunds that are listed separately in the fee Regulations, which are mentioned here for completeness. The fees/refunds in

Appendix B are mainly aligned to other fees, and it is proposed that these alignments are retained. For example, the test fee for the practical test that a P, V, or I applicant must pass as part of the licensing process is the same as a full Class 1 (car) test, but is listed separately in the fee Regulations.

52. There are also a few low volume transaction fees in Appendix B which are set at an acceptable level and therefore no change is proposed.

*Treatment of the accumulated deficit*

53. The preferred option does not include any allowance for recovering the accumulated operating deficit. Therefore, the deficit will not be recovered from the users of the driver licensing and driver testing services via fees. The deficit is already recognised in NZTA equity, as a particular category of equity called 'Third party fees and charges memorandum accounts'.
54. The options available to the NZTA for treatment of the operating deficit are to seek a Crown contribution, or to absorb the accumulated operating deficit through reducing the NZTA's other categories of equity. The option of seeking a Crown contribution is not supported. The NZTA advises that there is limited remaining capacity to continue absorbing the deficit and that doing so will ultimately result in pressure on cash flow required for the National Land Transport Programme (NLTP).
55. The NZTA is currently preparing a case, subject to advice from the Treasury, to absorb the deficit by transferring it 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.

**Net outcomes of the proposed approach**

56. It is expected that the proposed fee adjustment will bring revenue and expenditure closer into line, with a forecast annual deficit of \$0.55 million (a monthly deficit of about \$45,000). This is considerably less than the forecasted annual deficit of \$7.79 million in 2010/11 if no change is made.

Table 3: Forecast financial status of driver licensing and driver testing services, in millions<sup>9</sup>

	2007/08	2008/09	2009/10 (forecast)	2010/11 (forecast) NO CHANGE	2010/11 (forecast) PROPOSAL
<b>Revenue</b>	42.56	41.60	43.12	43.12	50.36
<b>Expenditure</b>	48.90	49.42	50.91	50.91	50.91
<b>Surplus/(deficit)</b>	(6.34)	(7.82)	(7.79)	(7.79)	(0.55)

57. The forecast deficit of \$0.55 million per annum after the fees are adjusted does not take account of the savings expected as a result of the cost-efficiency measures. It is

<sup>9</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).

expected that revenue and expenditure will be better aligned following the implementation of those measures.

### **Review of the business model and level of service delivery**

58. The last fundamental review of the driver licensing and driver testing services was in 1999, when an entirely new driver licensing and testing system was introduced. Since then, component parts of the system have been reviewed, but within the context of the current system. Given the length of time that has elapsed since the last review, there are grounds to conduct a fundamental review of the driver licensing and driver testing services business model.
59. Issues to be considered by such a review would include the trade off between the level of service provided and the cost of providing that service. Substantial public consultation would be required to gain feedback about the level of service that the public considers necessary.
60. I expect that it would take 12 to 18 months to undertake such a review and gain any necessary government decisions, with further time required to implement any substantive changes to service delivery. Ministry officials advise me that the implementation period will depend on the changes required (such as legislative change, modernising the IT system, moving to more online based transactions, and operational process change), but could take a further 18 months.
61. The NZTA and Ministry officials will undertake initial scoping work for a review of the driver licensing and driver testing services business model, and I expect that the review proper will be able to begin in the 2010/11 financial year.
62. The review of the business model will not affect the progression of the proposed amendments to the fees as set out in this paper. This proposed approach is necessary to address the immediate issue of the costs of providing the services not being met by third party revenue.

### **The Treasury's comment**

63. The Treasury agrees that the deficit incurred by the government in undertaking driver licensing and driver testing activities is unsustainable and needs to be remedied.
64. Ideally, fee adjustments should be preceded by a thorough review of the business model and service delivery standards. However, the Ministry advises that to complete and implement such a review would take up to 36 months. This would result in a continued deficit position of approximately \$23.4 million over that period.
65. If the NZTA were to absorb this, they would need to cross-subsidise from the NLTF and this may put pressure on cash flow required to deliver the NLTP. This has been less of an issue in the past due to NLTF under spends and relatively smaller deficits.
66. Under the circumstances, the Treasury considers an interim fee adjustment may alleviate some of the potential cash flow pressures.

67. Ministers should, however, be aware there is some risk associated with this approach, and that the fee amendments will not recover the full costs unless cost saving measures are progressed and these include legislative change. In the event that these measures are not progressed the fees will remain unsustainable.
68. The Treasury considers that completion of the review is a priority to ensure appropriate fee settings at the earliest opportunity. We therefore recommend a report back to the Cabinet Committee by the end of June 2010 on progress on anticipated milestones and timeframes for completing the review.

### **Other improvements**

69. To ensure that alignment between revenue and expenditure is maintained, 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).
70. The Controller and Auditor-General recommends that fees and charges are reviewed regularly to ensure that the fees remain appropriate.<sup>10</sup> The Ministry is developing a fee review programme for all transport fees. The driver licensing and driver testing fees will be part of this programme, reviewed on a three-yearly basis.

### *Next steps*

71. There is no legislative requirement to consult on proposed amendments to regulations. However, officials consider it prudent to carry out public consultation before presenting a final fee proposal to Cabinet. This is because a large portion of the public will be affected by the changes to driver licensing and driver testing fees. If Cabinet agrees, the NZTA will commence consultation on the proposed new and amended fees, as specified in Appendix A and Appendix B to this paper.
72. Following consultation, a final fee proposal will be presented to a Cabinet policy committee, and the Committee will be advised of any significant issues raised in public submissions. Draft amendment regulations will be prepared for Cabinet Legislation Committee in April 2010. It is proposed that the new and amended fees be in place by the end of the current financial year.
73. The NZTA and Ministry officials will undertake scoping work for a review of the driver licensing and driver testing business model and service delivery. I will report back to the Cabinet Committee by the end of June 2010 on the scope and timeframes for completing the review and implementation. I will ensure that the NZTA place priority on completing the review.

### **Consultation**

74. The Ministry of Transport has consulted the following agencies on this paper: Ministry of Economic Development, Ministry of Justice, Department of Labour, Ministry of Pacific Island Affairs, the New Zealand Police, the NZ Transport Agency, the Office for

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<sup>10</sup> Office of the Controller and Auditor-General, *Good practice guide: Charging fees for public sector goods and services* (2008).

Senior Citizens, the Office for Disability Issues, Ministry of Social Development, Te Puni Kōkiri, the Treasury, and the Ministry of Youth Development.

75. The Department of the Prime Minister and Cabinet, and the State Services Commission were informed.

### Financial implications

76. The costs of the proposed public consultation will be met from within NZTA baselines.
77. As noted in paragraph 34, should the introduction of the proposed new and amended fees be delayed by 18 months (for example, by waiting for cost savings to be realised) it is forecast that the accumulated deficit will exceed the funds available for funding the deficit by \$7.7 million.
78. The Treasury considers that, ideally, any amendment to the fees should be preceded by a fundamental review of the business model and service delivery standards. However, NZTA and the Ministry advise that such a review, including implementation of changes, would take at least 36 months, and would therefore result in a further \$23.4 million in deficit (based on current projections). The expected additional deficit would exceed the reserves available for funding the deficit by \$19.395 million.

**Table 4: Impact on NZTA general funds of delaying amendment to fees for 36 months**

<b>NZTA – general funds</b>	
General funds brought forward as at 1/07/2009	\$25.785 million
Less: Projected cumulative deficit from driver licensing and driver testing operations (year ending 30/06/2010)	\$21.780 million
<b>Remaining general funds available for any further write-offs</b>	<b>\$4.005 million</b>
Additional projected deficit if the implementation of the new fees is delayed by a further 36 months, at \$0.65 million per month	\$23.400 million
<b>Negative general funds on NZTA balance sheet</b>	<b>(\$19.395 million)</b>

### Human rights implications

79. There are no specific human rights implications arising from the proposals in this paper.

### Legislative implications

80. This paper is seeking agreement for draft amendment Regulations to be prepared for the Cabinet Legislation Committee following consultation. Should consultation result in amendments to the proposed schedule of new and amended fees, Cabinet's attention will be drawn to the changes at that time.
81. Legislative action will be required to amend the current Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999.

## Regulatory Impact Analysis

82. A Regulatory Impact Statement (RIS) has not been prepared for this paper, due to the pre-consultation stage of policy development. A RIS will be prepared following consultation and will be presented to a Cabinet policy committee with the final fee proposal. The Treasury advised that this proposal is unlikely to meet the significance threshold for the Regulatory Impact Assessment Team to assess the proposal.
83. The Ministry of Transport will liaise with the New Zealand Transport Agency to ensure that the consultation document fulfils the requirements as set out in the Regulatory Impact Analysis Handbook. The consultation document will not be submitted for Cabinet consideration, but will be derived from the information in this Cabinet paper and incorporate the Schedules of Fees provided in Appendix A and Appendix B.

## Publicity

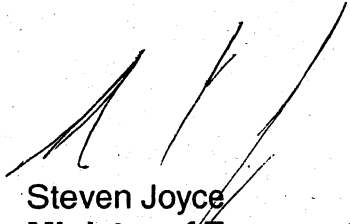
84. Should Cabinet agree, the NZTA will issue a public notification advising my intention to amend the driver licensing and driver testing fees, explaining why the proposed approach is preferred, and welcoming any public feedback on the preferred course of action. The schedule of the proposed new and amended fees, attached as Appendix A, will be made public.
85. Information about the proposed approach will be made available on the NZTA and Ministry of Transport websites, and letters advising of the proposed approach will be sent to key stakeholders. It is expected that the submission period will be four or five weeks, starting in mid-January 2010.

## Recommendations

86. It is recommended that the Committee:
- 1) **note** that the NZ Transport Agency forecasts that the accumulated operating deficit for the driver licensing and driver testing services will reach \$21.78 million by 30 June 2010, increasing at a rate of \$0.65 million per month;
  - 2) **note** that while fee adjustments should be preceded by a thorough review of the business model and service delivery standards, such a review, including implementation, could take 36 months, potentially resulting in a further deficit of \$23.4 million;
  - 3) **note** that the NZ Transport Agency advise that they have limited remaining capacity to absorb any further deficit, and that doing so may put pressure on the cash flow required to fund National Land Transport Programme projects;
  - 4) **agree** to the proposed approach, including the following concurrent activities:
    - 4.1 identify and action cost-saving measures and making efficiency improvements in delivering the existing driver licensing and driver testing services;



- 4.2 introduce new fees for cost-generating services that have no regulated fee;  
and
- 4.3 adjust existing fees to reflect actual costs of service delivery;
- 5) **agree** that the NZ Transport Agency may seek public comment on the proposed new and amended fees listed in Appendix A and Appendix B;
- 6) **Invite** the Minister of Transport to liaise with the New Zealand Transport Agency to ensure that the public consultation document fulfils the Regulatory Impact requirements as set out in the Regulatory Impact Analysis Handbook issued by Treasury;
- 7) **note** that the Minister of Transport will report back to Cabinet in April 2010 on a final fee proposal, incorporating any changes to the proposal that may arise from public consultation;
- 8) **invite** the Minister of Transport to issue instructions to the Parliamentary Counsel Office to draft amendment regulations to give effect to the proposed amendments to the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999, including any change to the proposal that may arise from public consultation;
- 9) **note** that the NZ Transport Agency and the Ministry of Transport will commence a review of the driver licensing and driver testing business model and service delivery standards in 2010/11;
- 10) **agree** that the Minister of Transport will report back to Cabinet by June 2010 on the scope and timeframes for completing both the review and implementation;
- 11) **note** that, as cost savings are to be realised as a result of actions outlined in recommendation 4.1, a full adjustment of the fees to meet costs may not be justified, and may result in over-recovery; and
- 12) **note** that future policy or legislative changes submitted to Cabinet that affect the cost of delivering the driver licensing and driver testing services will also seek agreement to correspondingly amend the relevant regulated fee(s) at that time.



Steven Joyce  
Minister of Transport

Dated: 22/12/09



## 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 (\$)
Test booking rescheduling fee	16.73	16.00
Refund processing fee	16.56	16.00
Licence reinstatement fee*	64.83	65.00

\* Note: while this new fee will be noted in the public consultation document, public comment will not be sought.

#### Amended fees—driver licensing

##### Application fees

Service	Current fee (\$)	Cost of delivery (\$)	Proposed fee (\$)	Change (\$)	Change (%)
Learner licence	39.30	48.46	47.20	7.90	20%
Restricted licence	39.30	48.46	47.20	7.90	20%
Full licence (Class 1 or Class 6) <sup>11</sup>	44.30	48.46	48.50	4.20	9% (full cost)
Full licence (Class 2, 3, 4, or 5) <sup>12</sup>	44.30	48.46	48.50	4.20	9% (full cost)
Overseas licence conversion	44.30	50.96	51.00	6.70	15% (full cost)
Renewal <sup>13</sup>	44.30	42.31	43.00	-1.30	-3% (full cost)
Replacement	31.10	41.61	37.40	6.30	20%

<sup>11</sup> Class 1 is the car licence and Class 6 is the motorcycle licence.

<sup>12</sup> 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>13</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 (\$)	Change (%)
F, R, T, W or D <sup>14</sup> endorsement	37.20	44.40	<b>43.00</b>	5.80	16% (full cost)
New-1 year P (passenger) endorsement	70.10	62.49	<b>63.00</b>	-7.10	-10% (full cost)
New-1 year V (vehicle recovery) endorsement	70.10	62.49	<b>63.00</b>	-7.10	-10% (full cost)
New-1 year I (driving instructor) endorsement	72.60	62.49	<b>63.00</b>	-10.40	-14% (full cost)
New-1 year O (testing officer) endorsement	72.60	62.49	<b>63.00</b>	-10.40	-14% (full cost)
Renewal-1 year P endorsement	63.20	62.49	<b>63.00</b>	-0.20	-1% (full cost)
Renewal-1 year V endorsement	63.20	62.49	<b>63.00</b>	-0.20	-1% (full cost)
Renewal-1 year I endorsement	70.65	62.49	<b>63.00</b>	-7.65	-11% (full cost)
Renewal-1 year O endorsement	70.65	62.49	<b>63.00</b>	-7.65	-11% (full cost)
New-5 year P endorsement	272.75	240.91	<b>241.00</b>	-31.75	-12% (full cost)
New-5 year V endorsement	272.75	240.91	<b>241.00</b>	-31.75	-12% (full cost)
New-5 year I endorsement	276.75	240.91	<b>241.00</b>	-35.75	-13% (full cost)
New-5 year O endorsement	276.75	240.91	<b>241.00</b>	-35.75	-13% (full cost)
Renewal-5 year P endorsement	256.90	240.91	<b>241.00</b>	-15.90	-6% (full cost)
Renewal-5 year V endorsement	256.90	240.91	<b>241.00</b>	-15.90	-6% (full cost)
Renewal-5 year I endorsement	273.50	240.91	<b>241.00</b>	-32.50	-12% (full cost)
Renewal-5 year O endorsement	273.50	240.91	<b>241.00</b>	-32.50	-12% (full cost)

## Miscellaneous

Service	Current fee (\$)	Cost of delivery (\$)	Proposed fee (\$)	Change (\$)	Change (%)
Certificate of Particulars	9.10	20.74	<b>10.90</b>	1.80	20%
ID card replacement	11.20	18.00	<b>13.40</b>	2.20	20%
Application for exemption	22.20	74.52	<b>26.70</b>	4.50	20%
Application for a limited licence	46.50	38.14	<b>38.50</b>	-8.00	-17% (full cost)
ID card (small P and V) issued with endorsement	8.50	8.50	<b>8.50</b>	Nil	Nil (full cost)

<sup>14</sup> Forklift (F), Rollers (R), Tracks (T), Wheels (W) and Dangerous Goods (D) endorsements.

### Transitional renewal fees

These fees are payable when a person's licence card expires between ages 66-74 years. As there is mandatory renewal at age 75 (with added requirements) a licence card renewed at ages 66-74 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 (\$)	Increase (\$)	Change (%)
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		30.00	5.00	20%
7 (68)	23.00		25.20	2.20	9%
6 (69)	21.00		25.20	4.20	20%
5 (70)	18.50		19.80	1.30	9%
4 (71)	16.50		19.80	3.30	20%
3 (72)	14.50		14.40	-0.10	-0.5%
2 (73)	12.00		14.40	2.40	20%
1 (74)	10.00		12.00	2.00	20%

### Amended fees—driver testing

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

### Amended fees—older drivers

Service	Current fee (\$)	Cost of delivery (\$)	Proposal (\$)	Change from current fee (\$)	Older Driver subsidy per transaction (\$)
<b>Driver licensing</b>					
Application for renewal: 75 years	18.30	41.56	<b>18.30</b>	nil	23.26
Application for renewal: 80, 82, etc	18.30	41.56	<b>18.30</b>	nil	23.26
<b>Driver testing</b>					
On-road safety test (first, third and subsequent tests)*	41.00	48.65	<b>41.00</b>	nil	7.65

\* **Note:** the second attempt at the on-road safety test is free; therefore the subsidy is 100% of actual costs (\$48.65). The NZTA advises that the 'free' retests make up about 20% of total tests of any recent month.



## APPENDIX B

### 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

Transaction	Current	Proposal	Rationale
<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. Most learner motorcycle riders elect to take a course which exempts them from taking the test.
<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 \$80.70).	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, 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>

