

Driver Licensing and Driver Testing Fees Review

Questions and Answers

February 2010

1 Why are fees being reviewed?

The New Zealand driver licensing and driver testing systems are based on the principle of self-funding (commonly known as 'user-pays'). This means the costs of processing transactions, issuing licences, and managing the information technology (IT) and operational systems must be met by the fees charged to users.

The current fees no longer cover the costs of administering and maintaining the driver licensing and driver testing systems. The fee changes proposed are intended to bring future income from fees into better alignment with future costs.

The cost of administering and maintaining the driver licensing and testing systems exceeded the revenue received by \$6.4 million in 2007/08 and by \$7.82 million in 2008/09, and is expected to exceed revenue in 2009/10.

2 Why have costs gone up?

The fees were last reviewed in 2001. Licensing costs have since been going up due to:

- **Legislative changes.** Since the fees were last set, there have been a number of legislative changes which have required changes to processes and IT systems. The costs associated with these changes are not able to be recovered through the current fee structure. Some changes (such as removing compulsory on-road tests for drivers aged 80 years and over) have also resulted in reduced revenue.

Most changes in legislation require us to change our computer systems in some way. IT changes can often involve substantial costs. The NZTA also incurs costs to change content in forms, pamphlets and other communication material.

If a requirement is removed, fewer people will be paying the fee; an example is when people converting an overseas licence ceased to sit the theory test if they held a licence from an "exempt country" – such as the UK. Changes in transaction volumes do reduce some costs – the costs incurred only when the service is provided – but other costs, such as power and IT maintenance, remain the same. Reduced volumes mean reduced revenue and only partially reduced costs.

- **Transactions that have no set fee.** There are some driver licensing services that don't have a fee set in the Fee Regulations. For example, no fee applies to someone who reinstates a licence following the end of a demerit licence suspension or a disqualification of less than 12 months. Transactions with no set fee also include processing refund applications and test rescheduling.
- **General cost increases.** With inflation of more than 20% since the last fee review in 2001 (2.77% per annum compounded annually), the cost of providing driver licensing and testing services has risen.

3 What is the NZTA doing to ensure efficiency?

The NZTA is exploring changes which will allow it more flexibility delivering services and reduce costs for users. We anticipate giving government a list of options for their consideration shortly. Some changes to legislation may be needed.

The NZTA regularly reviews its service delivery strategy. These reviews are aimed at improving and modernising the delivery of driver licensing and driver testing services. An example of this is the current rollout of the computerised theory testing system.

4 What do fees cover?

Depending on the type of licence, fees cover the cost of one or more of the following:

- Paying agents for processing licence applications on the NZTA's behalf.
- Paying testing officers for conducting tests on the NZTA's behalf.
- Manufacturing and postage of each photo licence card.
- Ongoing review and improvement of driver licensing processes, tests and courses.
- Auditing agents, testing officers and course providers to ensure they are complying with all relevant legislation and NZTA requirements.
- Investigation of complaints into the activities of commercial drivers, agents, testing officers, driving instructors and course providers.
- Development and maintenance of IT systems required to effectively administer the driver licensing system.
- Providing customer assistance via a multi-channel helpdesk (0800, email and written correspondence).
- Recording infringements and convictions imposed by the Police and the Courts.
- Administering the demerit point regime (including mailing warning letters and personally serving suspension documents).

5 How do we know the proposed fees accurately reflect costs and aren't just a revenue gathering exercise?

The NZTA reviewed the full cost of delivering each of the driver licensing and testing services in January and October 2009. Estimates from the October 2009 cost review can be found in the *Background Paper* on the NZTA website. This review found that the cost of providing a number of services is higher than the current fees. Also, given that Parliament has agreed to a new fee for licence reinstatement and that there are two other new fees proposed, the allocation of costs across all driver licensing and driver testing services has changed. The reallocation of costs means that some fees can be reduced and still meet costs.

Therefore the proposed fees are worked out as follows:

- New fees are linked to the cost recovery for that transaction
- 18 fees are reduced, and meet the costs of providing these services
- 23 fees are increased, to meet the costs of providing these services (with a maximum increase of 20 percent), and
- 4 fees remain unchanged.

The methodology used in the costing and setting of fees has been independently assessed by Audit New Zealand which found that it is reasonable and in compliance with good practice standards.

Fees cannot be applied to activities other than the purpose for which they are collected. The combination of the introduction of new fees, and adjusting fees for existing transactions, is designed to bring revenue into line with costs.

The total income from fees proposed in this review will not meet all the identified costs; the NZTA is being asked to make savings to bring these activities into balance.

6 What principles underpin the fee setting process?

The fee review has taken account of the following principles:

- The Driver Licensing and Driver Testing system should be self funding.
- Where practicable and reasonable, a person who uses the service or who is responsible for the activity should pay.
- Law changes that improve the driver licensing system be funded from driver licensing revenue/fees.
- The costs of ensuring the integrity of the Driver Licensing System should be built into the fees.
- The level of fees should be sufficient to maintain services and quality.
- Fees should be simple and uniformly applied.
- Fees should conform to the relevant guidelines for the setting of fees in the public sector issued by Treasury and Audit NZ.

7 What fees are being considered in the review?

The review is examining the level of fees for driver licensing and driver testing services, including some transactions that are not currently being charged for.

Consideration is being given to:

Existing fees:

- All existing fees are being reviewed (to ensure they correctly reflect the cost of providing each service)

Proposed new fees:

- Test booking rescheduling fee
- Refund fee
- Licence reinstatement fee.

The approach adopted in the review is to ensure future fees match future costs. No allowance has been made for the recovery of the deficit that has been accumulated to date; this is being considered separately.

8 What are the proposed new fees for?

Test booking rescheduling fee

Many tests applicants reschedule their test by phoning the NZTA's toll-free help desk or by visiting an agent's office. Both options incur costs for the NZTA. The proposed \$16 fee will enable the NZTA to recover these costs.

The proposed fee is set below the estimated cost per transaction (which is approximately \$26) to keep the fee proportional to the cost of sitting a driving test.

Refund fee

Where a person gives at least two days' notice of an intention to withdraw from a driving test, they are currently entitled to a refund of the prescribed fee, minus the cost of arranging that test. If less than two day's notice is given, a refund is only available if that test slot can be filled.

The amount that may be deducted from any refund is not currently specified in the Fee Regulations. The proposed fee of \$16 will allow the NZTA to recover the costs already incurred for processing the application and/or arranging the original test.

Licence reinstatement fee

Parliament has authorised the introduction of a new fee of \$65 for ‘licence reinstatement’ for people who have had their licence suspended or been disqualified from driving for up to 12 months. *(This fee has already been set, but not yet introduced, so is not part of this consultation process).*

Currently no fee is charged for this so fees from all licensed drivers (including those without any demerit points) are used to pay these costs. The fee will enable the NZTA to recover such costs as:

- Recording offences and demerit points.
- Mailing warning letters to drivers accumulating demerit points.
- Personally serving demerit suspension documents.
- Manufacturing and mailing photo licence cards after a demerit suspension or a disqualification (of less than 12 months) has ended.
- Providing a temporary licence while the photo licence is being arranged.
- Answering related enquires via the toll-free helpdesk.

9 What changes to existing fees are being considered?

Please see Appendix 1 for a detailed schedule of proposed fee changes.

Sometimes both a licensing and a testing fee is required in the same transaction. This includes new application for a learner, restricted, and full licence.

The proposed increases (on the basis of 20%) in application fees for new licences (and additional licence classes) range from \$6.30 to \$8.90. Where a driver licence has been issued for ten years, the increase for a full licence application is less than \$1.00 for each year the licence is valid. People applying for a new learner, restricted or full licence need only pay the application fee once. This is paid at the same time that the relevant test fee is paid. If any subsequent re-sits of the test are required, then only the test fee is required to be paid.

The total fees payable (both current and proposed) when a person first applies for a learner, restricted or full licences are set out in the table below. Learner and restricted licence fees will remain at below the full cost, due to the 20 percent cap on any increases. The full licence fees will meet costs.

Service	Current total fees	Proposed total fees	Cost of providing the service
Learner (application fee and test fee)	\$79.00	\$91.90	\$93.10
Restricted (application fee and test fee)	\$88.20	\$105.08	\$107.05
Full (application fee and test fee)	\$115.10	\$133.20	\$133.17

Other situations where a licensing and a testing fee are required in the same transaction are:

- Applicants for a new P (passenger), V (vehicle recovery), I (driving instructor) or O (testing officer) endorsement, if a full licence test hasn't been passed in the five years preceding the application. O endorsement applicants also have to pass a certification test.
- Applicants for converting an overseas licence to a New Zealand licence, when the overseas licence is issued by a country not listed as an exempt country in Schedule 7A and 8 of the Driver Licensing Rule. Applicants converting a licence from a non-exempt country are required to pay the fees for (and pass) a learner (theory) test and a full licence test.

10 Will the increase in cost deter people from getting their licence?

In most cases, people who choose not to have a driver licence do so for reasons other than cost.

Because of the benefits to drivers of having a valid licence, the NZTA does not believe the increase will lead to an increase in unlicensed driving.

Driving without an appropriate current driver licence is an offence. An instant infringement fee of \$400 applies, or a fine of up to \$1,000 if summonsed to appear in court and convicted of the offence.

11 Will the fee to renew a licence be changed?

Renewal is the highest volume transaction (with over 200,000 standard renewals each year).

The proposed fee is a slight decrease – from \$44.30 to \$43.00.

12 How will this affect older drivers?

Since 1999, licence holders have been required to relicence at the age of 75 years, and again at age 80, 82, 84, and so on. When relicensing, these drivers incur additional cost because of the additional and more frequent licensing requirements, (for example, they are required to present a medical certificate from age 75 years, and in some cases sit and pass the On-Road Safety Test).

As previously stated, because these additional costs are likely to present a barrier to an older driver's decision to relicence, with likely consequences for their mobility, independence and quality of life in the community, the government has provided a 10-year subsidy of \$1.445 million a year since 2001 for these drivers in recognition of their limited incomes and the higher licence renewal costs.

As it is assumed that the Crown-funded subsidy of \$1.445million a year for the relicensing of older drivers will continue beyond 1 July 2010, it is proposed to retain the current On-Road Safety Test fee of \$41 and the licence renewal fee of \$18.30 This would ensure the subsidy continues to benefit all of the estimated 56,000 older drivers who relicence each year.

13 Why have new fees been proposed for services that haven't previously been charged for?

- The new fees are proposed because the general driver licence fees would have to increase disproportionately if they are not introduced.

- It is seen as appropriate that the people who incur a cost should be the ones who pay for it, rather than passing it on to all other drivers.
- The NZTA cannot charge a fee unless it is stated in the Fee Regulations.

14 With so many people being fined for driver licence offences, why isn't that cash covering these costs?

The NZTA does not receive any money from the collection of fines, even from those related to driver licensing offences.

15 How has the NZTA paid for driver licensing and testing when revenue has been less than costs?

The NZTA has used prior year surpluses to cover the shortfall. Doing so has enabled the driver licensing and testing businesses to continue to operate even though they are running deficits.

16 Will the proposed fees be used to pay back the deficit accumulated in past years?

No, the proposed fees will not be used to pay back any part of the historical deficit. The proposed changes are designed to ensure the fees charged will better match the current costs of providing each service. The NZTA will have to absorb all of the deficit accumulated from prior years.

17 Are there going to be more changes in the future?

Given the substantial deficit that has accumulated in the 8-year period since the fees were last reviewed, it is proposed to review licence fees on a three-yearly basis. This may lead to smaller, but more frequent, changes in fees. This is in line with guidelines issued by the Office of the Controller and Auditor-General.

Also, the government is reviewing public submissions for the *Safer Journeys* discussion document, which outlined options for improving road safety. The chosen initiatives may lead to changes in the way we license drivers.

The Minister has also requested a review of the driver licensing and driver testing business model and service delivery standards in 2010/11 to further ensure the system is efficient. The last fundamental review of driver licensing and driver testing services was in 1999. The scope of this review is yet to be determined.

18 What will the review of the business model and level of service delivery consider?

The Ministry of Transport and the NZTA are now beginning to plan this review. The full scope of the review has not yet been determined. At a high level, the review is about how driver licensing and driver testing services are delivered – what is done, who does it, and how. It is likely that the review will take into account any proposed driver licensing changes in the *Safer Journeys* road safety strategy, the balance between the level of service provided and the means and cost of providing that service. We will also seek public feedback on driver licensing services.

19 Why are fee changes being proposed prior to the fundamental review of the driver licensing and driver testing business model and service delivery standards?

Fee changes are necessary to address further increases in the deficit, which is currently increasing at a rate of \$650,000 per month.

20 How can I get involved in the review of the business model and level of service delivery?

Once the review is underway, the public can have their say through a consultation process which will be lead by the Ministry of Transport and NZTA.

21 When will any change in fees come into effect?

Any changes to existing fees or new fees must first be approved by government and brought into effect by amendments to be made to the *Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999*. The amended fees and new fees are expected to come into effect by 1 July 2010.

22 Why is the NZTA consulting on the Driver Licensing and Driver Testing Fee review?

Although there is no legal requirement for the NZTA to consult on the fee changes, where such fees affect a large number of people, the practice has been to give prior advice of proposed changes and to give affected parties an opportunity to comment.

23 How can I make a submission?

If possible, please send your submission by email to info@nzta.govt.nz and, if you wish, follow it up with a signed paper copy. Alternatively, you can submit your comments on-line at www.nzta.govt.nz/consultation/driver-fees-review/index.html

If posting your submission, please address it to:

DL Fees Review
Rules Team
NZ Transport Agency
PO Box 5084
Lambton Quay
Wellington 6145

Please send your submission to reach the NZTA by 5pm, 26 February 2010.

Please note: submissions are public information. Please indicate clearly if your comments are commercially sensitive, or if, for some other reason, you do not want them disclosed.

For more information on this proposal, you can:

access the website at www.nzta.govt.nz/consultation/driver-fees-review

or

telephone the NZTA Contact Centre on 0800 822 422.

24 What happens after I've made a submission on the proposed fees?

The NZTA will summarise and analyse all submissions received and make recommendations to the Minister of Transport, via the Ministry of Transport. The proposed fees will need to be considered and approved by government before they are implemented.

Appendix 1 - Schedule of proposed fees

New fees

Service	New fee (\$)
Licence reinstatement	65.00
Test booking rescheduling fee	16.00
Refund fee	16.00

Application fees

Service	Cost (\$) ¹	New fee (\$)	Current (\$)	Change (\$)	Change (%)
Learner licence	48.46	47.20	39.30	7.90	20%
Restricted licence	48.46	47.20	39.30	7.90	20%
Full licence (Class 1 or 6)	48.46	48.50	44.30	4.20	9%
Full licence (Class 2 to 5)	48.46	48.50	44.30	4.20	9%
Overseas licence conversion	50.96	51.00	44.30	6.70	15%
Renewal 10 yr (or upgrade)	42.31	43.00	44.30	-1.30	-3%
Replacement	41.61	37.40	31.10	6.30	20%

Renewal (and upgrade) fees: Periods of less than 10 years

Period (Age)		New fee (\$)	Current (\$)	Change (\$)	Change (%)
9 (66)	Recovery cost is constant across the range and is estimated as \$37.40	30.00	27.50	2.50	9%
8 (67)		30.00	25.00	5.00	20%
7 (68)		25.20	23.00	2.20	9%
6 (69)		25.20	21.00	4.20	20%
5 (70)		19.80	18.50	1.30	9%
4 (71)		19.80	16.50	3.30	20%
3 (72)		14.40	14.50	-0.10	-0.5%
2 (73)		14.40	12.00	2.40	20%
1 (74)		12.00	10.00	2.00	20%

Drivers aged 75 years and over

Service	Cost (\$)	New fee (\$)	Current (\$)	Change (\$)	Change (%)
Renewal: 75 years old	41.56	18.30	18.30	nil	nil
Renewal: 80, 82, etc	41.56	18.30	18.30	nil	nil
Driver testing - Older Driver	48.65	41.00	41.00	nil	nil

¹ This is the estimated recovery cost for this transaction

Application fees: Endorsements

Service	Cost (\$)	New fee (\$)	Current (\$)	Change(\$)	Change (%)
F, R, T, W or D	44.40	43.00	37.20	5.80	16%
1Yr - P and V, New	62.49	63.00	70.10	-7.10	-10%
1Yr - I and O, New	62.49	63.00	72.60	-9.60	-13%
1Yr - P and V, Renewal	62.49	63.00	63.20	-0.20	-1%
1Yr - I and O, Renewal	62.49	63.00	70.65	-7.65	-11%
5Yrs - P and V, New	240.91	241.00	272.75	-31.75	-12%
5Yrs - I and O, New	240.91	241.00	276.75	-35.75	-13%
5Yrs - P and V, Renewal	240.91	241.00	256.90	-15.90	-6%
5Yrs - I and O, Renewal	240.91	241.00	273.50	-32.50	-12%

Note: the vetting fee of \$28.20 per year is not included in these fee amounts

Fees: Miscellaneous

Service	Cost (\$)	New fee (\$)	Current (\$)	Change (\$)	Change (%)
Certificate of Particulars	20.74	10.90	9.10	1.80	20%
Application Fee - ID Card replacement	18.00	13.40	11.20	2.20	20%
Application Fee - Exemption	74.52	26.70	22.20	4.50	20%
Application Fee - Limited licence	38.14	38.50	46.50	-8.00	-17%
ID card ('small' P and V) issued with endorsement	8.50	8.50	8.50	nil	nil

Test fees

Service	Cost (\$)	New fee (\$)	Current (\$)	Change (\$)	Change (%)
Driver testing - Learner	44.73	44.70	39.70	5.00	13%
Driver testing - Restricted	58.59	58.60	48.90	9.70	20%
Driver testing - Full Class 1 or 6	84.71	84.70	70.80	13.90	20%
Driver testing - Full Class 2, 3, 4, or 5	58.59	58.60	48.90	9.70	20%