

Information Paper

Driver Licensing and Driver Testing Fees Review

January 2010

*This document provides key information, for the purposes of public consultation, about proposed changes to **Driver Licensing and Driver Testing Fees**. It proposes the introduction of some new fees, and changes to current fees. A second document, "Background Information on the Fees Review", provides detailed explanations of each transaction and the underlying distribution of costs.*

The government expects that the NZ Transport Agency will balance the fees charged for driver licensing and driver testing services with the cost of providing those services. The fees were last reviewed in 2001 and, over the years, there has been a steady increase in the disparity between the cost of administering and maintaining the driver licensing and testing systems and the fees charged.

The cost of administering and maintaining the driver licensing and testing systems exceeded the revenue received by \$6.34 million in 2007/08, and by \$7.82 million in 2008/09, and is expected to exceed revenue again in 2009/10.

The fee changes proposed in this document are intended to bring future income from fees into better alignment with future costs. Work is also underway to reduce the costs of providing driver licensing and driver testing services where possible.

Your views are being sought on whether the proposed fees are appropriately allocated.

*If you wish to comment on the proposals, please see 'Information on submissions' on the final page of this document. The deadline for submissions is **26 February 2010**.*

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Executive summary

The NZ Transport Agency (NZTA) is responsible for managing the driver licensing and testing systems. The driver licensing and testing services are 'user-pays'. This means that costs should be met by the fees charged to users.

The current fees were set in 2001, and no longer cover the costs of administering and maintaining the driver licensing and driver testing systems. The NZTA and Ministry of Transport (MoT) are conducting a joint review of these services.

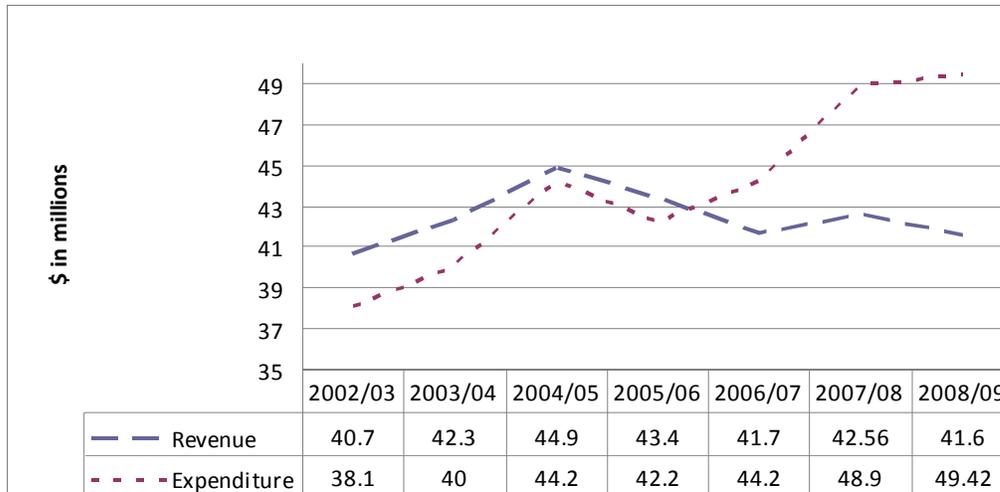
It is proposed that the imbalance is addressed by:

- examining costs, to make reductions where possible
- introducing new fees for services that are already provided but currently have no fee
- increasing some existing fees to recover costs (with none above 20 percent)
- reducing some fees where they exceed recovery costs.

Current situation

There are 3.2 million licence records with a status that entitles the licence holder to drive. As well, short-term visitors to New Zealand are entitled to drive on a valid and current overseas licence. The licensing of drivers is intended to ensure that drivers are appropriately skilled before they are allowed to operate a motor vehicle. Driver licensing is also the primary means of enforcing driving behaviour.

The NZTA is responsible for managing the driver licensing and testing system. Up to 2006, there was a slight surplus of revenue over costs; since then, there has been an increasing shortfall, as illustrated below (which shows the *combined* totals for licensing and testing):



The last two financial years showed the following combined balances:

	2007/08	2008/09
total revenue	\$42.56 million	\$41.60 million
total expenses	\$48.90 million	\$49.42 million
Balance (deficit)	-\$6.34 million	-\$7.82 million

Income fell in 2008/09; this is a result of lower transaction volumes. Total costs increased by around \$500,000 in the same period. The cumulative deficit will increase from \$13.99 million as at 30 June 2009 to \$21.78 million by 30 June 2010.

The manner in which driver licensing and testing must be managed is set by law, with the principal legislation being the *Land Transport Act 1998* (the Act) and the *Land Transport (Driver Licensing) Rule 1999* (the Rule). Between them, they specify the data to be maintained on the Driver Licence Register, set out application processes, and provide a system for approving tests, courses and course providers.

Successive governments have made it clear that people throughout New Zealand, and not just those living in the main centres, must have reasonable access to licensing and testing facilities. This has meant that the NZTA needs to use a network of agents who can provide the required geographical coverage.

Within these constraints, the NZTA (and the organisations which previously had this responsibility) has to consider how best to deliver services in a cost-effective manner.

The NZTA provides regular reports detailing its costs, revenue, and transaction volumes to the Ministry of Transport. This ensures that the Ministry of Transport has sufficient information to meet its responsibility to monitor the NZTA's activities.

Recovering costs

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 should be met by the fees charged to users.¹

The fees that can be charged are set out in the *Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999* (the Fee Regulations). The current fees were set in 2001. They no longer cover the costs of administering and maintaining the driver licensing and driver testing services.

Why do fees no longer meet costs?

1. Legislative and policy changes

Legislative changes result in costs because of the need to change IT systems and operational processes, and they sometimes affect transaction volumes.

In particular, changes in 2006 to older driver requirements, and in 2006 and 2008 to overseas licence conversion requirements, significantly reduced test volumes – and therefore reduced revenue. Costs, however, did not reduce as much as the income from fees.

2. Transactions that have no fee set

Some driver licensing services do not have a fee set in the Fee Regulations. As the NZTA can only charge the fees set by the Regulations, the costs of services that have no set fee can't be recovered from the person who incurs the cost.

For example, the cost of administering driver licence suspensions is currently borne by all licence holders. The number of suspensions has greatly increased since 2001, and this review seeks to make the people involved pay the associated costs.

3. General cost increases

Costs used for the basis of calculation reflect actual expenditure, but have to be seen in the wider context of general inflation. Price level changes, as measured by the Consumer Price Index (CPI), increased by about 21 percent between December 2001 and December 2008.

4. Fees set below cost

Some of the fees were set in 2001 below the level needed to recover transaction costs. In many instances, the context in which they were set has changed, but the fees have not been subsequently adjusted. Exemption applications for example, cost more to process than the fee provides.

¹ There are currently two exceptions to this principle. They are the contributions made by government, as explicit budget items, to fund the cost of drug and alcohol assessments for repeat drink-drivers, and to reduce the cost of renewing driver licences for older drivers (these drivers are required to renew their licences more frequently).

Addressing the problem

The key issue is that the costs of delivering driver licensing and driver testing services are greater than the fees charged for these services. Retaining the status quo – making no changes – is not sustainable. The proposed approach to addressing this issue has three elements:

- identify, and action, ways in which costs could be reduced, if necessary by changing the relevant legislation
- introduce new fees for services provided, but that currently have no set fee
- adjust most existing fees, to reflect the actual cost – about half the existing fees would be increased, and about half the existing fees would be reduced.

Any changes to fees would be introduced in July 2010.

The proposal outlined in this paper is designed to ensure future fees match future costs. In setting the proposed fees, no allowance has been made for recovery of the deficit that has been accumulated to date. This is being considered separately.

Considering ways to reduce costs

The NZTA regularly looks at ways to more efficiently manage the costs of delivering driver licensing and driver testing services.

There are requirements for how driver licensing and driver testing services are carried out, which are set in legislation. This means the ability to make major changes, by considering alternative methods of delivery for all or part of the service, is constrained.

Driver testing clearly requires people to attend in person. However, the NZTA already has other options for booking tests and has recently begun introducing computerised theory testing (which allows for more flexibility).

The NZTA has looked at ways to make internal processes more efficient, and has considered changes that could be made to legislation to improve the way in which driver licensing and driver testing services are provided, and to remove other impediments that are placing undue compliance costs on users. The NZTA anticipates providing the government with a list of possible options for its consideration shortly.

The NZTA has also conducted a benchmarking exercise, which compared the total cost of obtaining and holding a driver licence in New Zealand, with each state in Australia, and other representative jurisdictions. In Australia, only the Northern Territory (which is trying to encourage more drivers to enter its licensing system) has cheaper fees than New Zealand.

The NZTA is also considering whether current service modes and levels can be varied to save costs while still providing reasonable access for customers.

Options considered for fee changes

In proposing any fee changes, the NZTA is required to consider the options open to it. This fee review considered five options:

1. retain the status quo, with no fee increases

2. delay any fee changes until cost savings are made, then adjust them
3. adjust existing fees for all users to reflect the true cost of the services, by adopting a full user-pays principle
4. adjust existing fees to achieve full recovery and introduce new fees where there is no cost recovery mechanism
5. adjust fees to match the true cost of providing the service (with a maximum 20 percent increase) and introduce new fees where there is no cost recovery mechanism.

Option	Evaluation
1. Retain the status quo	<ul style="list-style-type: none"> • No change to current fees. • Costs of test booking rescheduling and refund processing would be recovered from other transactions rather than the people that incur these costs. • This option is not sustainable as costs would continue to exceed revenue by about \$0.65 million per month.
2. Delay fee changes until cost savings are realised	<ul style="list-style-type: none"> • Fee changes would be delayed for at least 18 months. • Reduction in the quality and availability of services may be necessary in the meantime. • There is potential adverse impact on other NZTA activities. • Requiring the NZTA to examine and adopt cost-savings measures could potentially reduce the level of fee changes required. • However, the NZTA estimates that the losses incurred by the time the cost savings would be realised would exceed the potential cost savings.
3. Adjust existing fees to achieve full cost recovery	<ul style="list-style-type: none"> • This option promotes greater equity by ensuring all users pay for the costs they incur. However, as it does not introduce new fees, existing cross-subsidisation for some services will continue. • Achieving full cost recovery means some fees will be greater than 20 percent, which is not considered reasonable in the current economic climate. • There is potential for over-recovery once cost efficiencies are realised.
4. Introduce new fees and adjust existing fees to achieve full cost recovery	<ul style="list-style-type: none"> • The driver licensing and driver testing systems will be self-funding, thus enabling the NZTA to meet its legal requirement to fully recover costs. • Greater equity is achieved for all licence applicants and licence holders. • With the introduction of new fees to recover costs from the people who incur the costs, existing cross-subsidisation will be removed; this may result in reductions for some existing fees. • Full cost recovery for some fees would be greater than 20 percent, which is not considered reasonable in the current economic climate. • There is potential for over-recovery once cost efficiencies are realised.

<p>5. Introduce new fees and adjust existing fees to achieve full cost recovery, up to a maximum of a 20 percent increase</p>	<ul style="list-style-type: none"> • The introduction of new fees to recover costs from the people who incur the costs would remove existing cross-subsidisation for some services. • Limiting fee increases to a maximum of 20 percent is more acceptable in current economic climate. • Although some fees would not fully recover costs, overall fees would better align with the costs of transactions. • A further fee review is required in two to three years' time to ensure revenue better align with expenditure. • NZTA is required to improve the efficiency of service delivery.
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Option 5 is the preferred option proposed in this paper, since it addresses the growth in the current deficit, but constrains fee increases, and requires the NZTA to examine and reduce the cost of providing this service.

Please note that the proposed changes to fees, as described in the next section, will not fully recover the projected total costs. However, it is expected that the cost of services and the fees charged will be in balance once the cost-reduction measures – discussed above – are introduced.

Proposed changes to existing fees

Allocating costs

The NZTA undertook costing exercises in January and October 2009, to establish the full cost of delivering each of the driver licensing and driver testing services. The *Background Document* provides a further explanation of this process.

Estimates from the October costing exercise are included in the *Schedule of proposed fees* (the *Schedule*). A few transactions (such as exemption applications) would require very substantial increases to match the costs they impose. However, it is the government's view that excessive price increases are not to be passed on to consumers and businesses during a period of economic constraint. Any increase to an existing fee is therefore limited to 20 percent.

Some proposed fees (such as an application for a passenger (P) endorsement) are reduced from current levels. This is in part because the income from new fees means that existing transaction fees do not have to include a loading to cover those costs.

Cost assumptions

For the proposed fee increases, the following assumptions were used:

- volume (and income) projections are accurate and remain stable over the period
- transaction costs remain constant at 2009/10 levels
- no significant change is made to the delivery mode
- no allowance is made for recovery of the accumulated deficits
- a limited allowance is made for costs arising from future legislative changes.

Application fees

Application fees are payable in addition to test fees when progressing through stages:

Stage	Application fee		Test fee		Total fees	
	Current	Proposed	Current	Proposed	Current	Proposed
Learner licence	39.30	47.20	39.70	44.70	79.00	91.90
Restricted licence	39.30	47.20	48.90	58.60	88.20	105.80
Full licence (Cl 1 or 6)	44.30	48.50	70.80	84.70	115.10	133.20
Full licence (Cl 2 to 5)	44.30	48.50	48.90	58.60	93.20	107.10

Note that many drivers progressing through heavy vehicle classes (2 to 5) undertake courses, rather than a practical test. Course fees are set by providers, not government.

The proposed increases in fees for licence applications range from \$4.20 to \$7.90. A breakdown of fees is provided in the *Schedule*. The NZTA's projections indicate that an estimated 238,000 drivers will apply for a learner, restricted or full licence in 2009/10.

Renewal fees

Most driver licence holders have to renew their licence every ten years. For most drivers in New Zealand, this is the only fee they need to pay between getting their licence and becoming an older driver. This is the highest volume transaction, with over 200,000 people renewing their licence every year. The proposal is to reduce the 10-year renewal fee by \$1.30, to align it to its recovery cost.

Relicensing of drivers aged 75 years and over

No change is proposed to the older driver renewal fee (\$18.30), or the current older driver testing fee of \$41.00.

Older drivers are required to renew their licence more frequently than drivers aged less than 75 years. This means that over a ten-year period, older drivers pay considerably more to be able to drive. The government recognises that older drivers face higher costs to remain licensed, and provides a subsidy of \$1.445 million a year for older driver licensing.

Most of the government subsidy is used to reduce the older driver renewal fee (for 56,000 applications), while only about 660 older drivers sit the on-road safety test each year. The current policy of waiving the test fee for a person's second attempt is not changing.

Licence renewal and upgrade for periods other than 10 years

Some licence holders renew their licence for periods varying from 1-11 years.

- Drivers aged 64-74 who renew their licence are issued with a licence that will expire on their 75th birthday. If this period is 10 or 11 years, the fee is the same as the standard renewal fee (\$43.00, as proposed in this paper).
- A few drivers are still upgrading from a synthetic paper licence to a photo driver licence (after living overseas). In these cases, their first New Zealand photo licence will expire on their next mid-decade birthday.

In these situations, the fee is pro-rated to the length of time for which the licence will be valid. For example, the proposed fee for a one-year renewal (age 74) is \$12.00. It is proposed to simplify these fees, with fewer steps. The cost to the NZTA (estimated as \$37.40) to process the application and issue a replacement licence would be the same, whatever the period of validity.

F, R, T, W and D endorsements

There are four categories of special-type vehicle endorsements: forklift (F), rollers (R), self-laying tracks (T) or wheels (W). A 'D' endorsement allows the transport of dangerous goods. Special-type vehicle endorsements are renewed automatically with other licence classes, while dangerous goods endorsements are issued for five years.

The proposed fee for a special-type vehicle or dangerous goods endorsement is \$43.00 (up from \$37.20). The new fee is set slightly below the estimated cost of these transactions.

P, V, I, and O endorsements

These endorsements allow a person to drive in a passenger service (P endorsement), vehicle recovery service (V), or to act as a driving instructor (I), or a testing officer (O).

All endorsements are issued for a term of 1 year or 5 years, at the choice of the applicant. The fees in the Schedule do not include the cost of “fit and proper” vetting. There is no proposal to change the cost of the vetting fee, which is set by the Fee Regulations.

The proposal is to reduce all these fees and bring them into alignment with one another. Costs are similar across these transactions, and a simpler scale of fees is easier to explain and administer.

Fee for a Certificate of Particulars

It is proposed to raise the current fee of \$9.10 to \$11.00, an increase of 20 percent.

A Certificate of Particulars is an extract from the Driver Licence Register, in the same way as a Birth Certificate is an extract from the Register of Births. They must be carefully checked before being issued. Our estimate of the cost for processing each certificate is \$20.74.

Exemption fee

The proposal is to raise the fee from \$22.20 to \$26.70, an increase of 20 percent.

The current exemption fee does not reflect the time taken to process an application. The processing of each application requires a significant amount of work on the part of NZTA employees, given that it must be considered on an individual case basis. If an exemption application is declined, the applicant has the right of appeal to a district court. The NZTA incurs costs when an appeal is defended. Additionally, it may have to issue a new photo driver licence if the exemption is granted.

The NZTA’s estimate of the cost of processing each exemption transaction is \$74.52.

Overseas licence conversion fees

It is proposed that the cost of the overseas licence conversion application fee be increased from \$44.30 to \$51.00. The costs associated with this service (which is more complex and time-consuming than a standard application) are not currently reflected in the overseas licence conversion application fee. The proposed fee is set to recover costs.

Other fees

Some low-volume fees (in the existing fee regulations) have not been discussed in this document. Below is a summary of how they might fit with the proposed fees in the *Schedule*.

Transaction	Current	Proposed
Renewal of a type D endorsement	Aligned with obtaining a new D endorsement (\$37.20)	Align to the new endorsement fee (proposed as \$43.00)
Basic Motorcycle Handling Skills Test	\$41.00	No change
Test fee for P, V or I endorsement	Same as full class 1 test (\$70.80)	Align to class 1 full test fee (proposed as \$84.70)
Certification fee for O endorsement	\$466.00	No change
Police vetting fee	\$28.20 per year	No change
Fees to approve course providers	\$38.00 for provider \$186.50 for course	No change; these services were not part of this review.
Refunds for unsuccessful P, V, I or O applications	Varies, but refund is generally 80 percent of fee	Align refunds to 80 percent of new fees

Proposed new fees

Test booking rescheduling fee

It is proposed to introduce a new test booking rescheduling fee of \$16.00. The NZTA incurs direct costs each time a licence applicant decides to reschedule a practical driving test booking. In the 2007/08 financial year, 14,500 tests were rescheduled.

The new fee would mean that these costs were met by the people who create the cost by rescheduling a test. The NZTA would also make savings if the volume of rescheduled tests reduced (for example, if non-essential rescheduling of tests reduces because there is a fee to pay for doing so). The proposed fee is set below the estimated cost per transaction (which is approximately \$26.00) to keep the fee reasonable, and proportional to the cost of sitting a driving test.

Refund fee

It is proposed to set a refund fee of \$16.00 where a customer seeks to cancel an application or a booking and asks to have their fee returned. The fee is designed to recoup the direct costs of recording the transaction and processing the refund.

While the Fee Regulations allow the NZTA to deduct the costs incurred in processing a refund, the amount that may be deducted from any refund is not currently specified in the Regulations. The NZTA's standard practice in the past has been to refund the entire amount. The NZTA would continue this practice where there is evidence that a mistake has been made by the NZTA or its agents.

Prescribing a refund fee would provide clarity for the NZTA and the public by stating the exact amount to be deducted, and enable the NZTA to recover the costs incurred.

Licence reinstatement fee

Parliament has already authorised the introduction of a new fee of \$65.00 for 'licence reinstatement' for persons who have had their licence suspended, or who have been disqualified from driving by a court for up to 12 months. This fee is not part of this consultation.

The NZTA incurs a cost for each successful and unsuccessful attempted service of suspension documents. There is also a range of other costs, such as updating licence records and reissuing licence cards, associated with enforcing licence suspensions and disqualifications

Currently, there is no fee in place to recover the direct costs incurred by the NZTA for the service of demerit suspension notices and the subsequent re-issuing of a licence. As a result, fees from all licensed drivers (including those without any demerit points) have been used to pay these costs.

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%

Information on submissions

The NZTA is interested in your comments on this proposal and will take them into account in finalising its recommendations to the government on the fees. Specific transactions have been highlighted in this document, but general comments are also encouraged.

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/index.html, or
- telephone the NZTA Contact Centre on 0800 822 422.