Stage 2 Cost Recovery Impact Statement

Changes to land transport regulatory charges and fees

Scope

This Stage 2 Cost Recovery Impact Statement (CRIS) considers seven inter-connected proposals[1] with accompanying options to set new levels for fees and charges for regulatory services provided by Waka Kotahi NZ Transport Agency (Waka Kotahi) and its agents:

- Proposal 2 – Changes to driver licence and driver testing fees
- Proposal 3 – Changes to motor vehicle licence and registration fees
- Proposal 4 – Changes to fees for Road User Charges (RUC) administration
- Proposal 5 – Changes to transport service licence (TSL) holder fees and charges
- Proposal 6 – Changes to fees and charges for motor vehicle certifier activities
- Proposal 7 – Changes to charges for commercial users and councils that access Waka Kotahi data
- Proposal 8 – Changes to fees and charges for electronic road user charges (eRUC) providers.

Proposal 1 was consulted on but is not in scope of this CRIS as it concerns the use of land transport revenue for funding regulatory services and functions that benefit all road users (public goods). The Minister of Finance and Minister of Transport approved Proposal 1 in accordance with section 9(1A) of the Land Transport Management Act 2003 in December 2022.

Regulation of rail, road tolling, and setting of speed limits are outside the scope of this CRIS.

[1] The proposals are inter-connected in that the allocation of some components of the fees and charges are spread across all proposals – any changes to fees and charges in a proposal can affect the fees and charges in other proposals.

Agency Disclosure Statement

This CRIS has been prepared by Waka Kotahi.

Statement of responsibility

The Director of Land Transport (the Director) and the Waka Kotahi Board (the Board) are responsible for the preparation of this CRIS and the judgements made in it.

The Director is responsible for ensuring that regular reviews of the land transport regulatory funding system are undertaken and for assuring the integrity and reliability of the regulatory system through appropriate design of cost recovery settings.

The Board is responsible for reviewing and providing cost recovery advice and recommendations to the Minister of Transport to ensure that recommendations are reasonable and maintain the integrity of Waka Kotahi's regulatory functions.

Independent quality assurance has been obtained throughout the development of the proposals contained in this CRIS. All recommendations received from independent reviews have been incorporated and addressed.

In the Director's and Board's opinion, this CRIS is a fair and accurate reflection of the funding and cost recovery settings required to ensure Waka Kotahi's funding is sustainable and its regulatory function continues to be built to support a safe land transport system.

Data

The analysis in this CRIS uses a significant amount of quantitative and qualitative data.

Financial cost modelling is based on actual cost data drawn from Waka Kotahi's core financial information system. The 2017/18 data was selected as the base year as this data set was the most recent complete series when the review started and was required to validate the financial modelling. Financial data sets from the 2018/19 and 2019/20 financial years were subsequently extracted to validate the results of the financial modelling.

Data was sourced from core business systems and historic data for 10 years preceding 2017/18 where available. Where this data was unavailable or unreliable, a best estimate proxy was used.

Econometric models were developed for all user-facing services. External economists were employed to undertake this work. These models were based on known drivers of transaction service volumes. All macroeconomic data was drawn from publicly available sources, including from Treasury economic forecasts, Stats New Zealand and Immigration New Zealand. Volume forecasts were produced for a ten-year forecast period with high, medium and low scenarios. The medium scenario was selected to be used as it was the most moderate path.

A maturity model was used to assess our regulatory institutional capability and to map out future improvements required to meet regulatory effectiveness.

A deployment model was used to estimate the resource required to deliver the optimal level of regulatory compliance activities.

Modelling the effects of customer behaviour change in response to the proposed changes has not occurred. However, patterns of behaviour will be monitored, particularly for Proposal 2 where a zero resit policy applies.

A phasing and scaling exercise of Waka Kotahi's institutional elements was undertaken (at the instruction of the Minister of Transport) to ensure costs were necessary and appropriate given the current employment market.

A Value for Money (VfM) assessment and a self-assessed Performance Improvement Review (PIF) were undertaken to inform the development of the proposals – the latter was independently reviewed. The VfM assessment was caveated with a lack of quantifiable evidence that increased benefits will be large enough to offset increased costs when evaluated by individual activity areas. There was detailed data on expected costs of new activities but much less detailed information available on associated impacts. Both the VfM and PIF reviews acknowledged that not all data was currently present to provide for rigorous assessment. Best available information was therefore used to develop the proposals, with more rigorous data collection identified as a key requirement to inform VfM and PIF reviews as part of future funding and fees reviews.

The key forecasting assumptions used in the preparation of the consultation document were re-assessed in October 2022 to check that they remained valid given the changing economic climate. All models are based on this shared set of updated assumptions, including:

- where possible, actual inflation rates stipulated in contracts with our major suppliers have been used; an inflation rate of 3.9% per annum over the next three financial years is applied to all other costs based on Treasury's forecasts for Labour Cost Inflation (LCI)
- processes for transactions remain stable, noting there are no large technology improvements planned to increase efficiency and reduce costs during the timeframe of the current review
- a lower level of staff maturity and competence than would be considered 'normal' as a result of staff turnover and recent high levels of recruitment
- service channels remain stable
- Government loan debt will be repaid through regulatory services and goods; in particular those areas that received additional resources and personnel funded by loans, pay a proportionately higher contribution to loan repayments
- additional regulatory activity required is based on judgments that have been scrutinised by the Ministry of Transport, including during the process of draw-down of loans.

Efficiency benefits from initiatives to improve technology have not been included in the pricing calculations, as specific improvements are dependent on the future development of a business case and secured funding arrangements.

Crown loan repayments

Waka Kotahi has received a total of up to $95 million in repayable loan funding from the Government. The loan is made up of $45 million provided in 2019, consisting of $15 million to rectify identified urgent compliance issues, and $30 million to fill identified regulatory gaps. A further $50 million was provided in 2021 to maintain increased regulatory function until the funding and fees review is fully implemented.

The $15 million loan set aside for rectifying non-compliant activities has seen $4 million utilised, which will be repaid through land transport revenue. $11 million remains in reserve.

In line with best cost recovery practice, the remaining $80 million in loans has been built into the fees and charges presented in this CRIS, which is the amount of loan facilities estimated to be used by the existing go-live date of 1 October 2023 for the proposed changes. Any further delay in implementing the proposed changes might mean that additional borrowings are incurred, and the cost of servicing those loan costs would be reflected in the implemented proposed fees and charges.

All Crown loans and associated interest rates prescribed by the Treasury are fully repayable 10 years from the date the funds are drawn. Loans will be repayable from services that benefitted from the increase in staff to address regulatory gaps, post regulatory failure. The extra staffing resource required drove the requirement for loan funding. Those services that did not require additional staffing at that time are not required to contribute to the cost of repaying regulatory debt.

Options

This CRIS assesses the proposed fees and charges against the status quo. The status quo represents the current fees and charges, which:

- following independent review were found inadequate to cover the funding required to effectively provide Waka Kotahi's existing regulatory services
- have been supplemented by Government loans to immediately strengthen the regulatory framework and functions of Waka Kotahi, noting these loans will be exhausted in 2023 and must be repaid with interest.

The proposed fee and charges presented under each proposal have been developed based on the fully funded and equitable future state funding model (the funding model). The funding model reflects Waka Kotahi's cost recovery principles (described in Appendix 1), recognising that beneficiaries (customers and industry participants) should generally pay for the services they use based on the benefits they receive and the risks they create. In December 2021, Cabinet agreed to consult on the proposed funding, fees and charges on the basis of the consultation document having final review and approval by the Minister of Transport and the Minister of Finance.

In line with best practice cost recovery, the costs to repay $80 million of the Crown loan has been incorporated into the proposed rates presented under each proposal. See above.

Feedback received during consultation on all proposals was considered, including the feasibility of alternative or amended cost recovery options. As a result of feedback received, some aspects of Proposal 8 were incorporated into Proposal 1. Feasible amendments to proposals 5 and 8 were also made to better align with the cost recovery principles, including:

- Proposal 5: The proposed dangerous goods charge has been limited to all Goods Service Licence (GSL) holders and only rental service licence (RSL) holders that rent out heavy (3.5+ tonne) vehicles. This is in response to consultation feedback that rental operators would have considerable difficulty determining who would carry dangerous goods across the majority of their customers who hire smaller vehicles

- Proposal 8: Waka Kotahi proposed three new fees for provider applications and technology applications and approvals as there are no existing fees for these services. Consultation feedback highlighted that the high variability in the scale and nature of these services is not well-suited to a set (averaged) fee. The proposal has been amended to recover costs of these services through individualised mechanisms tailored to the scale and nature of these applications.

Consultation feedback received on other proposed options was considered but not progressed as the suggestions were considered not feasible and/or did not best align with the cost recovery principles.

Cost recovery principles

The options for each proposal have been developed in accordance with Waka Kotahi's cost recovery principles which align with the Transport Sector Funding Principles, best practice cost recovery principles of the Treasury, and guidance of the Office of the Auditor General[2].

Waka Kotahi is confident in the factual analysis supporting consideration of the cost recovery principles (the principles). Determining whether the principles have been met by the options involves a level of judgement. Waka Kotahi considers that the principles have been met for each preferred option.

Principles were not given any particular weight over each other. Assessment of options was done, on balance, across all principles.

Impact analysis

Estimated impact analysis on road users (businesses and households) is presented for each option. All impact analysis is based on an impact assessment conducted by Sense Partners that includes the following assumptions: an inflation rate based on the macroeconomic environment; treatment of loans as described above; a change in volumes for transport service licences (TSLs). All of these changes were approved in principle by the Minister of Transport.

Waka Kotahi considers the proposed changes to fees and charges would have a negligible overall distributional impact on households.

The vast majority (by volume of transactions) of proposed changes to fees and charges would either reduce current rates, keep current rates, or modestly increase rates.

[2] Treasury guidance: https://www.treasury.govt.nz/sites/default/files/2017-04/settingcharges-apr17.pdf
Office of the Auditor General guidance: https://oag.parliament.nz/2021/fees-and-levies/docs/fees-and-levies.pdf

The graphs and figures that relate to and show impacts of fees and charges in the body of the CRIS and proposal sections have all been updated to reflect all proposed policy decisions taken to date, and are congruent with the table of fees and charges.

Waka Kotahi has appended the Sense Partners impact assessment report dated July 2021 as the narrative relating to impacts is largely unchanged, but the report does not reflect the current table of fees and charges.

The cost breakdown is provided at a global level as assumptions and cost categories apply across all proposals. Any unique cost drivers pertaining to an individual proposal are discussed in the proposal section.

Changes go beyond the sticker price and ultimately increases will be passed onto households. The timeline for pass through of costs is hard to predict. On some products, such as a warrant of fitness, where passing on costs is relatively easy, it is almost certain that any increased fees will be immediately passed on in the price to the consumer. In other cases, such as a P endorsement for large vehicles, the costs may take longer for that business (say a courier) to pass through into the price to the consumer. The impact is therefore expected to commence from October 2023 but pass through, where it occurs, may not be completed until October 2025, beyond the expected peak of the current inflationary cycle.

In the event that the proposals are not approved then, without Crown funding, a significant reduction in regulatory activity would be required, with a higher risk of regulatory failure. Waka Kotahi would also find it difficult to pay back loans incurred.

Kane Patena

Director of Land Transport

Date:

Catherine Taylor

Chair, Waka Kotahi Regulatory Committee

Date:

Executive summary

Waka Kotahi NZ Transport Agency (Waka Kotahi) is the regulator of New Zealand's land transport system. Its statutory objective under the Land Transport Management Act 2003 *is to undertake its functions in a way that contributes to an effective, efficient, and safe land transport system in the public interest*.

Section 168 of the Land Transport Act 1998 (the Act) allows Waka Kotahi to prescribe fees and charges through Regulation to recover costs for its regulatory services. The following Regulations[3] apply to the proposals in this CRIS:

- Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011
- Land Transport (Certification and Other Fees) Regulations 2014
- Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999
- Transport Services Licensing Regulations 1989
- Road User Charges (Administration Fees) Regulations 2014.

In 2018, two independent reviews identified regulatory gaps in Waka Kotahi's regulatory system and that Waka Kotahi has insufficient resources to perform its duties as an effective regulator. The reviews identified the land transport funding regime as a key constraint, noting some of Waka Kotahi's fees and charges had not been adjusted in more than 20 years since the Regulations were established.

In response, Waka Kotahi undertook a funding and fees review (the Review) to:

- fund and sustain an effective and efficient land transport regulator which is modern, intelligence-led and risk based
- fairly spread costs of providing regulatory services across land transport users
- meet Cabinet direction that a regulatory strategy, operating model and associated funding review be completed
- repay Government-provided capital injections over the next decade.

The Review has determined that $273 million per annum (or an additional $108 million from Waka Kotahi's pre-loan position) is required to effectively regulate the land transport system.

This CRIS presents seven distinct proposals for 176 different fees and charges that arise from Waka Kotahi's fully funded and equitable funding model. The funding model reflects best practice in cost recovery and seeks to ensure those that benefit directly from Waka Kotahi's services, or create risk that need to be managed, pay.

The purpose of each of the proposals is outlined below, along with a brief summary of the feedback received during consultation.

[3] Some of these regulations were made under legislation now repealed and preserved by the Land Transport Act 1998.

Proposal 2 - Driver licence and driver testing fees

Currently, driver licence fees are set too high, while many other fees in the transport system are set too low, partly due to these fees being inherited when Waka Kotahi was established. The result is that the revenue generated from the driver licence fees currently cross-subsidises other groups of services that are not fully cost recovered.

Driver licence fees have been developed to recover the actual cost of the services, in accordance with Waka Kotahi's cost recovery principles, and are considered private goods as defined by the NZ Treasury.

Class 1-6 driver licence test fees are the exception, where they are now proposed to be a single charge, regardless of the number of times a person sits a particular test. This means resit costs would be subsidised by the group. The single test charge will provide cost certainty and increase access to driver licensing. The single test charge creates subsidisation, where someone who passes the test first time will subsidise others who sit the test multiple times.

Feedback on the proposed driver licence and testing administration fees was generally supportive of the need for a safer, more sustainable, and fairer system that removes cross-subsidisation across the land transport system.

Feedback was mixed on the proposed approach to introduce a single charge for a test that included resits (i.e., the introduction of a level of subsidisation) rather than charging a fee for each resit of each stage of the graduated driver licensing system (GDLS). The proposed approach (zero resit fees) aligns with the Ministerial direction sought by Waka Kotahi on the issue.

Proposal 3 - Motor vehicle licence and registration fees

The current fees do not reflect the current costs to regulate and provide motor vehicle licence and registration fees. The proposed fees address current under-recovery (currently cross-subsidised by revenue generated from license fees), and over-recovery. In addition, new fees are being introduced for services where no cost recovery mechanism was established when they were set up. The proposed changes, which would affect all vehicle owners, have been developed to recover the actual cost of the services in accordance with Waka Kotahi's cost recovery principles.

Feedback was mixed on proposals to change motor vehicle licence and registration administration fees. Submitters generally opposed proposed increases to fees and mostly supported proposed decreases to fees. On balance, the proposed fees would support the regulation of motor vehicles and remove cross-subsidisation across the land transport system.

Proposal 4 - Road User Charges (RUC) administration fees

Road User Charges (RUC) are paid by owners of vehicles that use diesel and are collected by Waka Kotahi. Waka Kotahi currently processes approximately 3.7 million RUC transactions annually, including eRUC (electronically recording and processing RUC transactions).

The current RUC administration fees are based on rates set in 2013/14 and do not reflect the current cost to regulate and provide RUC and eRUC services today. RUC administration costs are currently cross subsidised from driver and motor vehicle licence fees.

The proposed changes have been developed to recover the actual cost of the services in accordance with Waka Kotahi's cost recovery principles.

Submissions mostly opposed fee increases and supported fee decreases. Submitters generally considered increases would be passed on to consumers and some disagreed in principle. Submitters who agreed with the changes stated the increases would not have a material impact on costs, and the increased fees are 'the cost of doing business'.

Proposal 5 - Transport service licence (TSL) holder fees and charges

The current transport service licence (TSL) holder fees and charges are based on estimated rates set several years ago and do not reflect the current or projected costs to regulate and provide TSL services. Higher risk activities require greater oversight or regulation and the existing fees do not reflect the risks created in this part of the land transport system. Regulation of TSL holders as a group is currently being cross-subsidised.

The proposed fee levels and TSL group charges would be introduced to reflect the costs of regulating the TSL system and ensure that costs are recovered from those who directly benefit from Waka Kotahi's services, in accordance with Waka Kotahi's cost recovery principles.

Feedback was mixed on these changes – there was general support for fees and charges, but opposition to the proposed application of dangerous goods charges. Submitters did not consider charging all rental service licence (RSL) holders a dangerous goods charge is fair. RSL holders stated that they have no way of knowing which vehicle renters would carry dangerous goods in their vehicles and so they argued it is not a fair charge. The proposed application of the dangerous goods charge has been amended to apply to all goods service licence GSL holders and only RSL holders that rent out heavy (3.5+ tonne) vehicles, as these vehicles are most likely to carry dangerous goods.

Proposal 6 - Motor vehicle certifier fees and charges

Vehicle certification is the key area where regulatory failure occurred. This area had not been adequately regulated and monitored by Waka Kotahi. Waka Kotahi has broadened the regulatory services provided to the certifiers group to respond to the regulatory failure. The funding and fees review identified certifiers as a group that is being subsidised by other fee payers.

It is proposed that an existing group of six certifier fees would be changed into seven group charges to reflect the costs of providing sufficient regulatory services and to ensure no under-recovery occurs. The proposed changes include removing application fees to become a vehicle certifier and incorporating them into the certifier group charges. The proposed charges would affect vehicle certifiers – in-service (warrant of fitness (WoF)/ certificate of fitness (CoF)) certifiers, heavy vehicle certifiers, low volume vehicle certifiers, repair certifiers, border inspectors and entry certifiers.

Motor vehicle certifier industry submissions strongly opposed the replacement of application fees for certifiers with new group charges. Concerns ranged from the potential calibre of the applications to the fairness of existing certifiers subsidising future certifiers. Through industry workshops, Waka Kotahi advised certifiers that an application process would still exist and that there is no intention to change the standard to become a certifier.

Proposal 7 - Charges for commercial users and councils that access Waka Kotahi data

Waka Kotahi has been under-recovering costs that stem from increased requirements for IT security standards and privacy and the need to scale the system to keep pace with increased demand to access data. Waka Kotahi is experiencing an increased number of complaints regarding data and systems.

Feedback on this proposal was mixed. Support for the new charges to access data included understanding the need to reflect the cost of the service and support for a user-pays approach, particularly as commercial entities profit from Waka Kotahi data. Those who supported the changes are less likely to be impacted by the new data charges. Some submitters supported data charges to maintain and improve Waka Kotahi's data systems.

Some submitters opposed the changes to data charges, including local authorities, data users, and the general public. In addition, attendees at the data user industry workshop generally opposed the changes. A general concern was the impacts on business costs.

Waka Kotahi considered these issues, including an assertion that provision of data on stolen cars by agencies constitutes a public good. Waka Kotahi has established that, in fact, the New Zealand Police provide the definitive data source on stolen cars.

On balance, the proposed charges reflect both the costs and benefits the group of data users receive from access to Waka Kotahi's data systems.

Proposal 8 - Electronic road user charges (eRUC) providers

Waka Kotahi is working to increase Road User Charges (RUC) compliance and shifting users to electronic systems is a key intervention. Waka Kotahi needs a fair, effective and sustainable system to achieve this shift. Currently there is no way of recovering regulatory costs from the eRUC[4] provider groups and the sustainability of these services is at risk. This has resulted in the regulatory costs for eRUC provider groups being cross subsidised by other user groups in the Land Transport System.

Waka Kotahi consulted on three sets of fees based on estimated average times to process eRUC provider and technology applications and approvals. Consultation feedback highlighted the highly variable scale and nature of these applications and approvals and the risk that a set average fee could lead to Waka Kotahi significantly under- or over-recovering costs.

Acknowledging these concerns, the proposal has been amended to recover costs using an individualised charge (case-by-case, at assessed cost), which would better reflect the cost recovery principles (particularly fairness and user pays) and remove the current cross-subsidisation.

[4] Four approved electronic (eRUC) providers act as intermediaries between customers and Waka Kotahi, enabling their customers to meet RUC obligations through electronic RUC recording and purchasing.

Overall impact of the proposed changes

The nature of the land transport system means nearly all New Zealanders and businesses would be impacted by the changes to fees and charges. However, the impact on most households and businesses has been assessed as modest, with the proposed rate changes expected to increase average household expenditure between around $10.30 (lower income households) to $43.80 (higher income households) over the next 1 – 2 years [these figures are from Sense Partners report July 2021 and are not updated to current fees and charges].

In general, the proposed cost increases would likely be passed through to customers (over time). Waka Kotahi considers this will generally have a modest impact on household expenditure with some outliers perceiving a moderate level of impact.

Other common feedback

Common feedback in consultation related to the cost of living and the cost of running a business, including that increased transport fees and charges would be passed through to households. Submitters and industry participants appreciated the importance of Waka Kotahi as a strong regulator and recognised more funding is needed. However, some remained opposed to increasing fees and charges, noting there was an inability to simply absorb higher costs in the current economic climate.

Waka Kotahi acknowledges the concerns raised by the public and industry. However, land transport safety is paramount and requires regulation, which requires funding. Waka Kotahi has undertaken extensive independent quality assurance reviews to ensure the proposed changes are the right ones and that they align with best practice cost recovery. In addition, Waka Kotahi is committed to reviewing its fees and charges on a regular basis to ensure they remain fit for purpose.

Implementation, monitoring and review

Subject to Government approval, the proposed changes in this CRIS would take effect through regulatory amendment on the 1 October 2023. Waka Kotahi will action an implementation plan that articulates any changes to allow Waka Kotahi, its agents, industry, councils, and all those people affected to understand, prepare, and ready their systems and processes. Additionally, Waka Kotahi will prepare and action a communications plan, that closely aligns with the implementation plan, to raise awareness of any changes among affected stakeholders.

Waka Kotahi will undertake annual reporting on the financial and non-financial performance of its cost-recovered services, against measures that are linked to the regulatory strategy *Tū ake, tū māia*, as well as the operating model.

Waka Kotahi acknowledges that the proposed fees and charges in this CRIS are based on forecasting assumptions, and that forecast service volumes are likely to fluctuate over time and may differ from predictions. To manage any differences from forecast to actual volumes, and to ensure fees and charges appropriately reflect costs, Waka Kotahi will annually monitor and review the performance of its fee and charge accounts (memorandum accounts) to identify instances of significant deficit (under-recovery) or surplus (over-recovery) accrual. Waka Kotahi will assess the service rates at least every three years, which may result in rate changes if required to ensure full cost recovery or to address significant over-recovery. Best available information, including updated and more robust impact and value for money information, will be used to develop any future proposals to revise rates.

Contents

Introduction

1.1 New Zealand's land transport system

Waka Kotahi NZ Transport Agency's (Waka Kotahi) statutory objective under the Land Transport Management Act 2003 *is to undertake its functions in a way that contributes to an effective, efficient, and safe land transport system in the public interest*. Its core functions can be summarised as:

- investing in land transport activities
- managing the state highway network
- providing access to and regulation for land transport.

This CRIS focuses on fees and charges for regulatory services that Waka Kotahi provides as the regulator of New Zealand's land transport system, and not the other two functions described above.

New Zealand's land transport system has 3.6 million licensed drivers that operate a fleet of 5.5 million vehicles, with more than 8,000 appointed vehicle inspectors to check them. In addition, there are around 47,000 commercial transport operators moving people and goods around the country. The different participants in the land transport system create different levels of risk that require appropriate regulatory oversight.

1.2 Cost recovery at Waka Kotahi

Waka Kotahi's services

Cost recovery practice has not been well addressed in the past but plays a fundamental role in funding Waka Kotahi's regulatory services to ensure safety in the land transport system. Funding is required to fund a wide range of land transport regulatory services administered by Waka Kotahi including:

- driver testing services (making sure drivers are safe to be on the roads)
- issuing driver licenses
- transport service licenses (TSL)
- vehicle safety and certification (making sure vehicles are safe to be on the road)
- vehicle registration and licensing
- collecting road user charges (RUC) and other road revenue
- oversight of the land transport system, including governance, monitoring and auditing, developing strategy, policy, and rules to ensure the system remains safe, effective, efficient, fair, and sustainable.

Waka Kotahi also allows for other Government agencies, users and councils to access data collected through providing these services. The costs of providing data must also be recovered, particularly from those that receive commercial benefits from the data.

Demand for services

Waka Kotahi expects steady growth in demand for its regulatory activities in coming years. However, this is likely to be less than in the previous ten years given slow population growth, higher interest rates, and subdued economic growth.

For user-facing services, slower growth will cause only small changes to regulatory services at the margin. These user-facing services, such as vehicle licensing, road user charge administration, and driver licensing are high volume services (provided to a large number of drivers and vehicles) and are slow to change.

There are specific services that will see greater changes in volume in the coming years. These include licences for commercial vehicles, vehicle registration and border certifications, noting there has been an impact from COVID-19 on tourism with decreased rental vehicle numbers. The number of licensed commercial vehicles is likely to grow in the next two years as international tourism returns to New Zealand, resulting in car rental companies re-building their vehicle fleets. Waka Kotahi expects 4% growth per year of vehicles owned by licensed transport operators, with the majority of growth from a rebuild of the rental vehicle stock.

The largest changes in regulatory activity in percentage terms are likely to be for vehicle registration and border certifications. Higher interest rates, lower house prices, and subdued economic growth are likely to see quite large falls in registrations. Waka Kotahi expects registrations to be around 240,000 per year in the next four years. That is 15% lower than the annual average of 290,000 new registrations between 2013 and 2022.

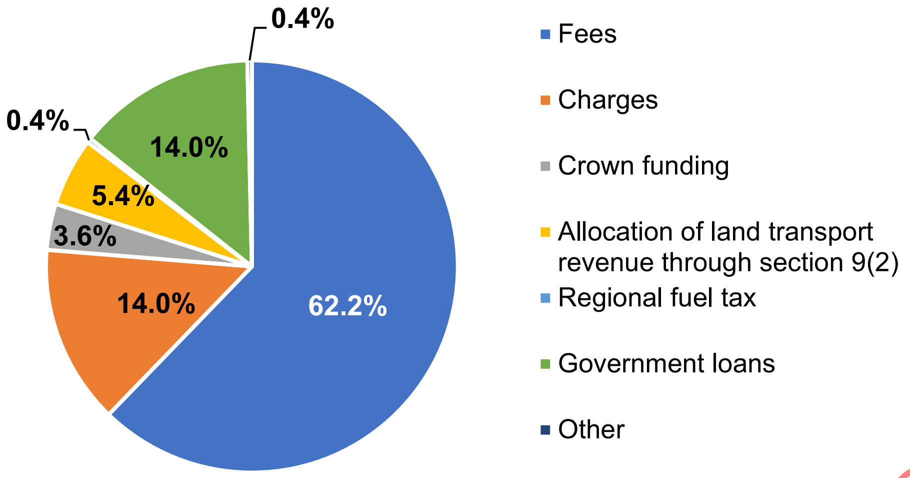
Waka Kotahi's regulatory funding and general cost recovery

Currently $151.6 million (76%) of Waka Kotahi's regulatory funding comes from revenue recovered from fees and charges. The following table and pie chart show the revenue breakdown of Waka Kotahi's current funding arrangements for the 2022/23 financial year.

Table 1.1: Current regulatory funding sources (2022/23)

Funding source	Amount ($m)
Fees	123.7
Charges	27.9
National Land Transport Fund (NLTF)	10.7
Regional fuel tax	0.7
Crown	7.2
Other	0.7
Capital loans	27.8
Total	**198.7**

Figure 1.1: Current regulatory funding sources (2022/23)



How are cost recovery charges regulated?

Section 168 of the Land Transport Act 1998 (the Act) allows Waka Kotahi to prescribe fees and charges to recover costs for its regulatory services.

Regulations made under the Act set out specific fee and charge rates for the services Waka Kotahi provides. The following apply to the proposals in this CRIS:

- Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011
- Land Transport (Certification and Other Fees) Regulations 2014
- Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999
- Transport Services Licensing Regulations 1989
- Road User Charges (Administration Fees) Regulations 2014.

Goods and services tax (GST)

The input costs to Waka Kotahi of providing the services described in this CRIS are GST exclusive.

The proposed output fees and charges in this CRIS are GST inclusive, with GST added for transparency of overall price to customers and stakeholders.

Waka Kotahi's cost recovery principles

Waka Kotahi's cost recovery principles are:

- supports transport system objectives
- sustainable
- focuses on ensuring risk exacerbators and beneficiaries of services pay
- users should pay for the services, but incentives are important
- Crown funding is limited to certain functions
- users and beneficiaries should contribute to the integrity of the system
- regularly review regime efficiency
- equitable
- simple and consistent.

These principles were developed in 2019 and align with the Transport Sector Funding Principles, complement the best practice cost recovery principles of the Treasury, and reflect the guidance of the Office of the Auditor General.

A more comprehensive description of the principles and how they are applied is set out in *Appendix One: Waka Kotahi's cost recovery principles*.

Determining who should pay and the structure of charges

When determining who should pay and how charges should be structured, Waka Kotahi applies Treasury guidelines[5] to consider the economic nature of the goods or service. In economic terms, services are generally able to be characterised as public, private or club goods (as shown in the following table).

Table 1.2: Current regulatory funding sources (2022/23)

Category	Funding method
Private good: a service or activity creates direct benefits to an individual user or users (excludable)	Fee
Club good: a service specifically benefits groups of users or where groups of users create specific risks to the land transport system	Charge
Public good: the service provides benefits to the wider New Zealand public	Crown funding[6]

Further information on determining the economic nature of goods and services is provided in *Appendix Two: Nature of the Goods.*

Calculating fees and charges

In line with Waka Kotahi's cost recovery principles and Treasury's guidelines, Waka Kotahi seeks to recover the true costs of providing its services, including:

- direct costs associated with services
  - personnel costs (such as staff time)
  - training and development of personnel
  - agent[7] fees (used in delivering the specific service) and
  - service delivery costs (e.g., travel costs, printing, manufacturing labels and plates, credit card and Poli fees, etc.)
- support costs associated with delivery of services
  - operational support costs (e.g., administration, management, change, risk, assurance and intelligence functions and project costs) and
  - business support costs - a fair proportion of wider common costs (e.g., corporate functions like finance, human resources management, information technology, property and utilities)
- capital costs including the 'core business loan' repayment.

[5] Section 3.2 of the Guidelines for Setting Charges in the Public Sector: https://www.treasury.govt.nz/sites/default/files/2017-04/settingcharges-apr17.pdf

[6] Using Sections 9(1A) and 9(2) of the Land Transport Management Act 2003 to use land transport revenue.

[7] Waka Kotahi agents include: AA, VTNZ, NZ Post.

Change is required to the land transport system

In 2018, two independent reviews were commissioned on the performance of Waka Kotahi as the land transport system regulator, following a fatal incident involving a seat belt that had been deemed compliant but failed, and consequently the discovery of 850 non-compliant cases.

The independent reviews found Waka Kotahi's current funding arrangement unsustainable, regulatory gaps in the system, insufficient resourcing for Waka Kotahi to perform its duties as an effective regulator, and that most of the current fees and charges did not cover the cost of providing services - noting some fees and charges had not been adjusted in more than 20 years.

In response, urgent funding was provided by Government to address the immediate regulatory gaps. To date, the Government has provided Waka Kotahi with up to $95 million repayable loans to rebuild and strengthen Waka Kotahi's regulatory capability and design. $15 million of this loan was provided to rectify non-compliance and certification issues ($4 million has been used, $11 million remains in reserve). The remaining $80 million has been used to address regulatory gaps and progress the required regulatory rebuild, including:

- regulatory policy change, including the establishment of the Director of Land Transport role to increase regulatory accountability (a role established through new legislation)
- developing the land transport regulatory strategy Tū ake, tū māia, which defines the key capability shifts needed over the next five years to become a best practice regulator
- confirming a new regulatory leadership team and structure
- building staff capability in core regulatory and technical areas (such as for compliance activities, monitoring, audit, and enforcement)
- developing and launching new risk and assurance and decision-making frameworks to support robust and consistent regulatory decision-making
- strengthening regulatory governance and accountability by establishing a regulatory sub-committee, and improving management-level performance monitoring processes
- undertaking a funding and fees review to identify and develop a sustainable funding model.

Funding and fees review

In 2019, Waka Kotahi undertook its first comprehensive review of its service design and associated fees and charges (the funding and fees review) in response to the findings from the independent reviews and in accordance with Cabinet direction.

1.3 The review findings

The funding and fees review found:

- that the current model (the status quo) is inequitable and unsustainable to achieve regulatory effectiveness
- Waka Kotahi has insufficient revenue to cover the costs of providing regulatory services
- systemic cross-subsidisation, with 97% of cost recovered revenue originating from driver licence holders and vehicle owners, used to cover the costs of other Waka Kotahi activities that are currently undercharged or not charged for
- beneficiaries of specific Waka Kotahi regulatory services were either not paying at all or not paying enough to cover the cost of regulatory services
- Waka Kotahi requires $273 million annually to fully fund the costs of services required to be an effective regulator ($108 million additional revenue from pre-loan state (the status quo))
- Waka Kotahi needs to build paying back $80 million of the Government loans used to date to strengthen regulatory capability into its fees and charges.

1.4 Development of a fully funded and equitable future state funding model

As a part of the funding and fees review and to address the key findings, a fully funded and equitable future state funding model was developed based on Waka Kotahi's cost recovery principles to:

- fund and sustain an effective and efficient regulatory function for the land transport system which is modern, intelligence-led and risk based
- fairly spread costs of providing regulatory services across land transport users, including:
    - rebalancing the funding system away from being disproportionately funded by fees towards a broader range of fees, charges, and funding, and to address identified cross-subsidisation
    - updating the relative proportion of costs borne by industry to reflect the level of benefit they receive and the need for more regulatory activity in this area (currently those who benefit do not fairly share costs)
    - charging for goods and services that have previously been free (currently 36% of products have no cost recovery mechanism)

    - funding core regulatory capacity and capability through recommended use of land transport revenue

- meet Cabinet direction that a regulatory strategy, operating model and associated funding review will be completed
- repay the provided Government capital injections (loans) over the next decade.

This model is Waka Kotahi's preferred funding model as it aligns with Waka Kotahi's cost recovery principles and Treasury guidelines, and best supports the realisation of the objectives within Waka Kotahi's regulatory strategy '*Tū ake, tū māia*'. It has been used as the basis for the development of the funding proposals (fees and charges) presented in this CRIS.

Proposal methodology

A summary overview of the methodology used to develop the proposed changes in this CRIS is presented in Table 1.3 below. Each model used was designed to ensure transparency in Waka Kotahi's services, forecasting and pricing decisions.

Table 1.3: Methodology used to develop funding proposals

Step	Description	What was involved?
1	Identify goods and services	The regulatory goods and services provided by Waka Kotahi were identified and mapped against Waka Kotahi's legislative and regulatory requirements Three distinct domains of services were identified – licensing, vehicles and collection management A fourth domain of services (dangerous goods) was split out of licensing to form its own category
2	Determine the economic nature of goods and services	The economic nature of each good and service was established. An independent QA was undertaken to test the assumptions made to determine whether services were public, private or club goods
3	Determine capacity and capability required to implement new model	Operational models were built for each category of services based on the regulatory strategy, Waka Kotahi's legislative requirements, and taking into account Waka Kotahi's journey to maturity (see section 1.5 for more information on the modelling)
4	Determine current and future costs of delivering categories of goods and services	The cost of delivering goods and services was determined, both for current and future states, using value driver profiles in the regulatory cost and forecasting models (see section 1.6 for more information on the breakdown of costs)
5	Consider how well the proposed changes meet our objectives	The ability to spread the proposed charges fairly across the system was explored and tested to ensure the charges were set consistently with the cost recovery principles and the Government's objectives The proposed fee and charge rates were designed to ensure the new regulatory strategy is fully funded and the cost recovery regime is sustainable and equitable Each proposal was developed to ensure all road users have clarity around their contribution based on the beneficiaries pay cost recovery principle Fees and charges were consolidated, when appropriate, to streamline Waka Kotahi's charging regime and to improve efficiency
6	Determine value-for-money	A value-for-money review was undertaken in order to provide independent assurance on Waka Kotahi's efficiency and effectiveness as the Regulator. The value-for-money review also provided an assessment of the likely positive outcomes. More detail on the value-for-money review and the determination of required resource to achieve efficiency is provided in section 1.7 below
7	Test funding proposals, then phase and scale	The build of the regulatory function was tested and a phasing and scaling exercise was undertaken to ensure deployment of resources was appropriate and recruitment could occur at the predicated rate The funding proposals, with associated fees and charges, were determined (see section 1.7 below for more information)

To ensure the quality of the Review and associated funding proposals, independent auditors and agencies provided quality assurance. The reporting and assessments received from those independent parties are available in *Appendix Three: Source reports*.

1.5 Modelling approach to develop the proposals

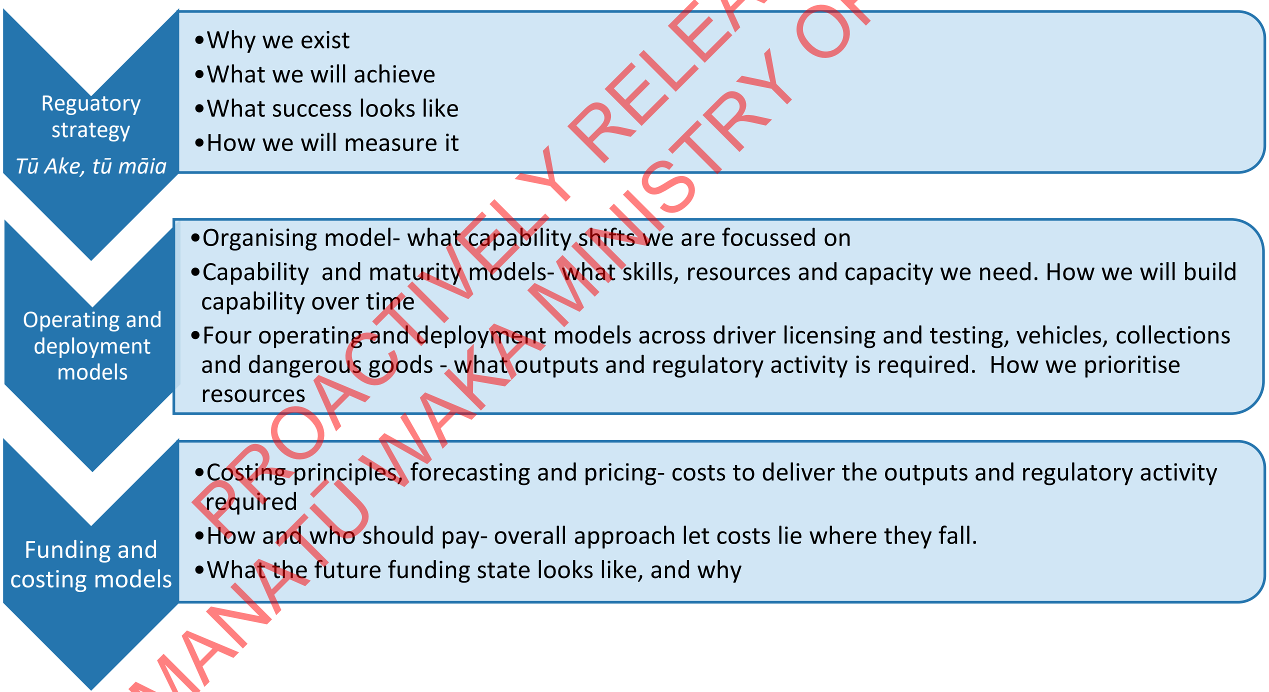
Waka Kotahi developed a regulatory strategy: *Tū Ake, tū māia (stand up, stand firm)*, which sets the path Waka Kotahi needs to take, from 2020 to 2025, to be the best regulator.

Waka Kotahi has examined its entire regulatory operation, its cost base, and delivery model. Through in-depth analysis across Waka Kotahi operations and the application of the transport sector cost recovery principles, eight proposals were developed.

Modelling occurred across Waka Kotahi's four main areas: driver licensing and testing, vehicles, collections, and dangerous goods.

The journey to strengthen the regulator and determine sustainable funding is illustrated in Figure 1.2 below.

Figure 1.2: Strengthen the regulator and determine sustainable funding



Cost drivers

1.6 Breakdown of costs from 2017/18 to future state

The funding and fees review proposes funding regulatory services at $273 million per annum to effectively regulate the land transport system. This means an additional $108 million per annum (from pre-loan state) is required to strengthen the regulatory function, increase Waka Kotahi's regulatory activities, and address volume and cost drivers.

The following table shows the main drivers of cost increases from pre-Government loans to future state.

Table 1.4: Key drivers of costs from pre-Government loans to future state

Revenue and costs	**Building 2018 to future state ($m)**	
Pre-Government loans revenue	$165.3	-
Five key drivers of cost increases ($108.1 million) from pre-Government loans to future state		% of each of the 5 key cost driver increases (adding to $108.1 million increase)
1 Cost escalation (increased costs of current contracts, and forecast increases in labour and other costs)	$56.2	52%
2 Regulatory strengthening and uplift		
Increased regulatory activity	$13.5	13%
Back-office staff to support regulatory activity	$4.0	4%
Director of Land Transport	$2.0	2%
Implementing the regulatory strategy	$10.0	9%
3 Volume growth	$3.4	3%
4 Annual Crown loan repayments	$10.6	10%
5 Other	$8.1	8%
Total increases	$107.9	100%
Future funding state total cost	$273.2	

One of the key drivers (refer table 1.4 above) is cost escalation at 52%, because of:

- the compound effect of cost increases – most fees and charges have not been reviewed since the inception of the Agency in 2008, so now a significant period of time to catch up on under-funding cost increases as the funding and fees review is up to 2027, which is almost 20 years later
- printing and postal services have seen significant increases, in particular postal service jumped around 30% a few years ago – Waka Kotahi out-sources some form letters to a postal agency and this service has seen the same increases
- personnel costs have increased and will likely remain a cost pressure given the tight labour market.

Figure 1.3: Key drivers of cost increases: pre-Government loans to future state ($m)

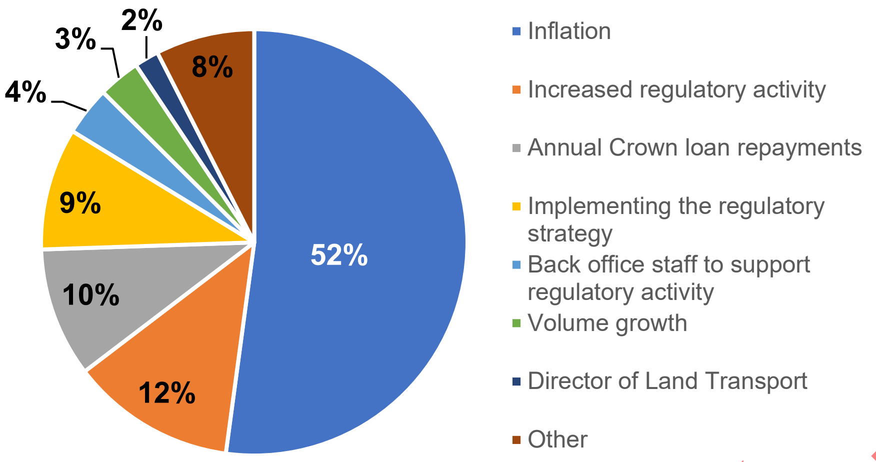


Figure 1.4 shows the breakdown of costs across cost types (from a business function viewpoint) from 2017/18 to future state, while the following table describes each of the cost types.

Figure 1.4: Breakdown of costs from 2017/18 to future state

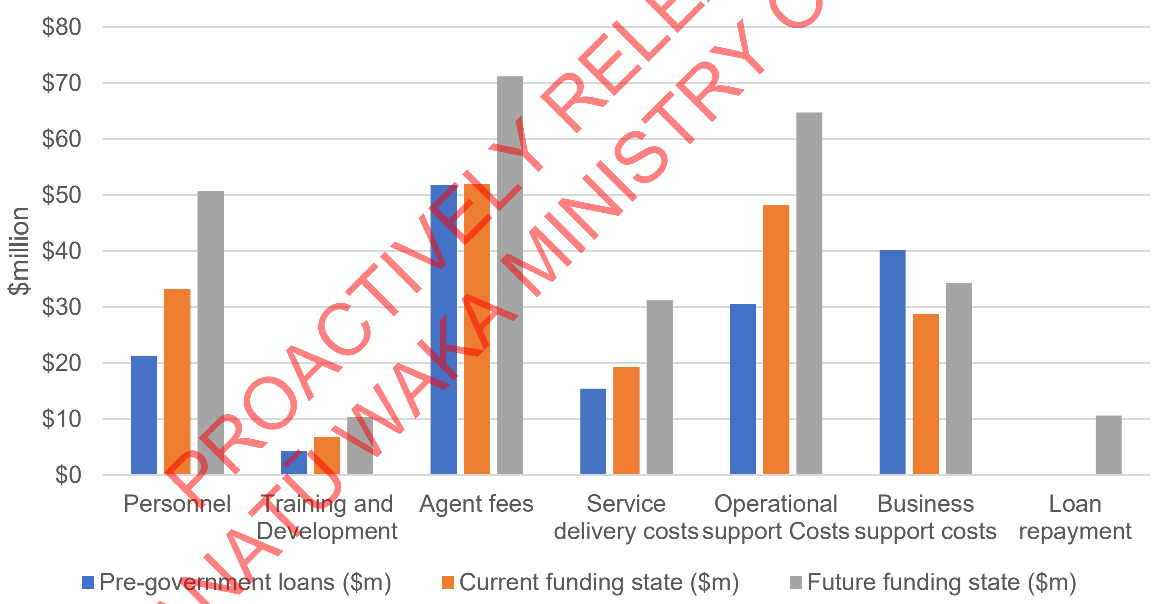


Table 1.5: Description of cost types

Type	Description
Frontline personnel	The cost of personnel who are involved in delivering frontline services including monitoring and auditing of parties in the land transport system, processing licencing applications and vehicle registration, and ensuring the data in Waka Kotahi's registers is accurate
Training and development	Ensuring Waka Kotahi staff have the skills and the working environment to perform the required regulatory services
Agent fees	Fees Waka Kotahi pays organisations that perform frontline services on its behalf. The services these agents perform are described in each proposal
Service delivery costs	Direct costs to deliver a service (excluding staff time or agent fees). Includes postage and printing, the manufacture of registration plates, credit card and Poli fees etc
Operational support costs	Non-frontline regulatory support functions including executive managers, project management, administrators, change, risk and assurance and intelligence functions
Business support costs	Wider shared corporate costs associated with Waka Kotahi including human resources, IT platforms, financial services, communications and information services
Loan repayment	The cost to repay the Government loan to rebuild the regulatory function in Waka Kotahi

A more detailed overview of the cost drivers and funding arrangements associated with Waka Kotahi's regulatory rebuild and the proposed changes is provided in *Appendix Four: Waka Kotahi rebuild – cost drivers and funding arrangements*. Specific cost drivers are also discussed in the individual proposals.

1.7 Efficiency tests were undertaken to ensure the proposed level of services are fit for purpose

As part of the Ffunding and fees review and to inform the development of the proposals, Waka Kotahi commissioned a Value for Money (VfM) exercise and undertook a self-assessed Performance Improvement Framework review (PIF). The latter was peer reviewed by an independent party.

The findings were:

- the proposed changes set the conditions for positive impacts and improved safety outcomes articulated in the regulatory strategy: *Tū Ake, tū māia*
- the cost recovery system will be strongly net beneficial and support the positive institutional changes proposed in *Tū Ake, tū māia*
- the proposed changes are reasonable overall as the proposed levels are, on average, lower than the costs of similar operations in the United Kingdom
- Waka Kotahi is well placed to implement *Tū Ake, tū māia*, with improvements already made in governance, strategy, culture, and workforce development
- a commitment to efficiency demonstrated in the efficiency programme under Proposal 1 (out of scope of this document) identified the potential to deliver cost savings.

Resources for the efficiency programme stem from funding regulatory oversight in Proposal 1 (use of land transport revenue). The efficiency programme is intended to investigate savings in items such as printing and postage through better use of systems with minimal changes to technology. Any savings will be reflected in future fee settings. However, to unlock real efficiencies in user facing services more investment in technology is required. It was agreed (by the Ministry of Transport and then Cabinet) not to seek funding for technology in the current review. Regulatory systems/technology investment is integral to the next phase of lifting Waka Kotahi's regulatory performance.

The cost-benefit element of the VfM assessment is caveated. The caveat being the lack of quantifiable evidence that increased benefits will be large enough to offset increased costs when evaluated by individual activity areas. There is detailed data on expected costs of new activities but much less detailed information on impacts. In essence, the VfM and PIF reviews both acknowledged that not all data is currently present to provide for rigorous assessment. The proposals presented in this CRIS have therefore been developed using best available baseline data, with more rigorous data collection identified as a key requirement to inform future PIF and VfM reviews (prior to the next funding and fees review).

An exercise to scale and phase the original (higher) funding proposition in May 2021 was also undertaken during the development of the proposals. Members of the Ministry of Transport's finance, investment and governance teams assessed the associated costs and additional full-time equivalents (FTEs) with the proposed funding package, and during the draw down process of the Government loans. The proposed changes to fee and charge rates presented in this CRIS reflect the findings from this exercise.

Collective impacts of the proposals

1.8 What the overall change means for Waka Kotahi

The 176 proposed fees and charges presented in this CRIS would increase Waka Kotahi's funding by $70.4 million per year on average (an increase of 46%). This consists of $36.2 million (a 30% increase) in additional fee revenue and $34.2 million (a 123% increase) in additional charge revenue. The proposed changes reflect the level of cost recovered funding required by Waka Kotahi to strengthen and effectively administer its regulatory functions, and pay back its debt to the Crown incurred through emergency contingency funding.

The table and figures below outline Waka Kotahi's funding breakdown per annum, for three phases: prior to receiving capital loans; currently; and under the proposed changes.

Table 1.6: Waka Kotahi's funding breakdown per annum: prior to receiving capital loans; currently; and under the proposed changes

Funding source	Pre-capital loan (2018/19)	Current (2022/23)	Proposed (Avg. 2023/24 to 2025/26)
	Amount ($m per annum)		
Fees	126.3	123.7	159.9
Charges	30.0	27.9	62.1
National Land Transport Fund (NLTF) S9(2)	4.9	10.7	14.7
Land Transport Revenue (LTR) S9(1A)	-	-	34.4
Regional fuel tax	-	0.7	0.7
Crown	1.4	7.2	1.4
Other	2.7	0.7	-
Capital loans	-	27.8	-
Total	**165.3**	**198.7**	**273.2**

Figure 1.5: Funding breakdown pre-capital loans provided by the Government (2018/19 financial year)

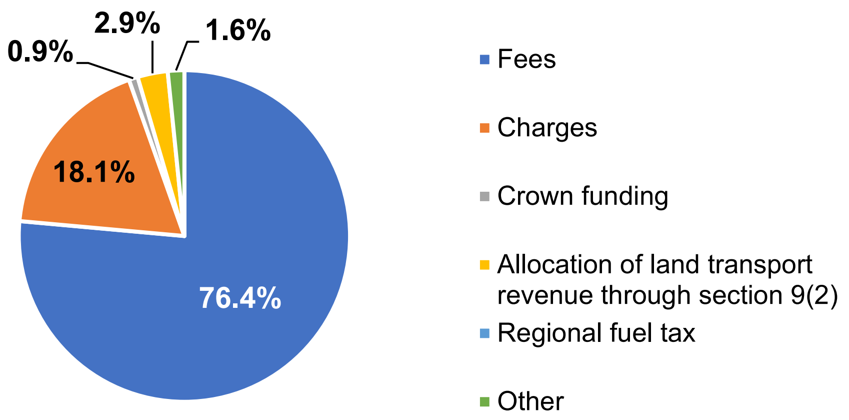


Figure 1.6: Funding breakdown current financial year (2022/23)

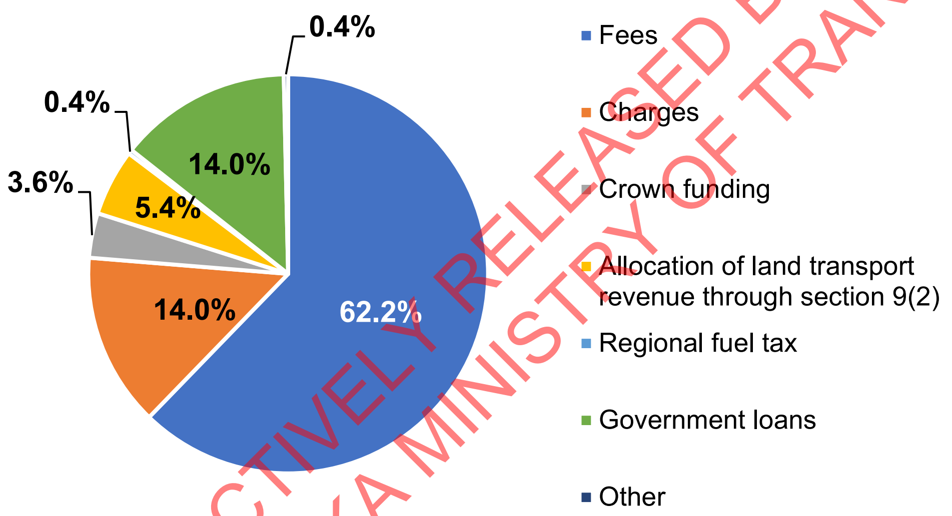
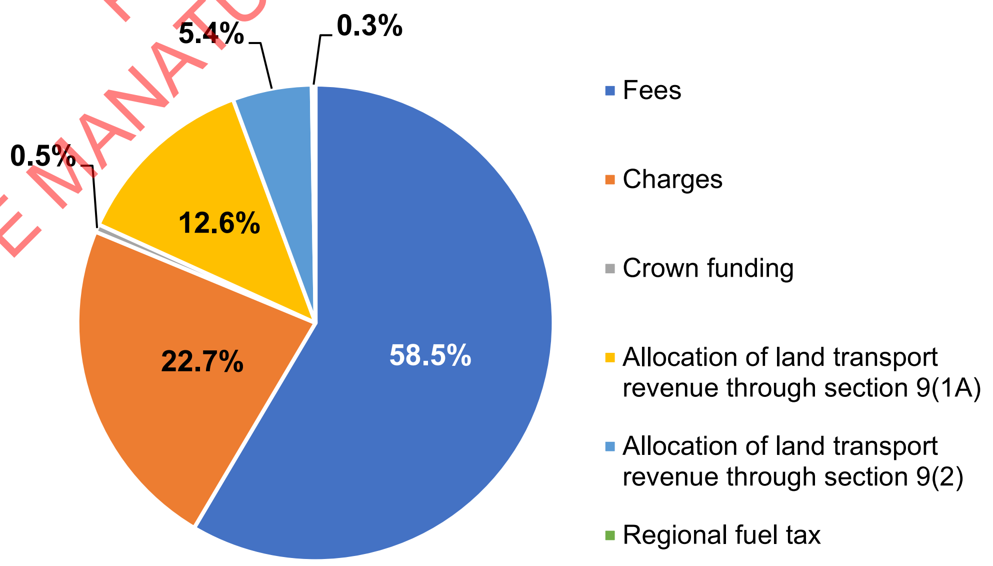


Figure 1.7: Funding breakdown proposed funding (average forecast for the 2023/24 and 2024/25 financial years)



1.9 System wide impacts of the proposals

Land transport regulatory fees and charges have not increased since 2008. The system-wide impacts of proposed changes to fees and charges are considered modest when set against other items of household spend and business and industry expenditure.

The one exception to these relatively modest effects is impacts on commercial small passenger vehicle operators (such as taxis). Here the impacts are more likely to be noticeable though a portion of these cost increases are likely to be passed on, over time, to a large volume of passengers (households).

The potential portion of household spending on Waka Kotahi's proposed fees and charges is the second lowest aspect of household expenditure. The overall proposed increase is modest compared to the main drivers of increased living costs (rentals, groceries, interest payments, and petrol). The proposed changes to fees and charges would likely have a modest overall distributional impact on households.

Appendix Five: System wide impact analysis of the proposed changes provides further information about the overall impact of the proposals.

Proposal Two – Changes to driver licence and driver testing fees

2.1 Background

There are approximately 3.6 million licensed drivers in New Zealand, and approximately 100,000 new drivers entering the New Zealand driver licensing and test system each year.

All drivers must have a current licence to drive on New Zealand roads. New Zealand has a driver licensing system to make sure that everyone who drives on the roads has the road safety standards (skills and knowledge) necessary to be a safe driver.

Driver licences do more than allow people to drive legally. They also provide proof of identity, better access to employment, and can be key to providing identity for a range of other services, like opening a bank account.

Services provided

Driver licensing and testing services refers to services provided under Part 4 of the Land Transport Act 1998 and Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999. Driver licensing and testing is administered by Waka Kotahi intermediaries (agents) acting on behalf of Waka Kotahi.

Administration of driver licence and driver testing services is provided through a variety of channels, including online, mail, email, phone, in-person and over-the-counter.

Waka Kotahi outsources the majority of its frontline services to its agents (for example NZ Post, VTNZ, AA). These agents are contracted to provide the over-the-counter services include processing applications for driver licences, scheduling tests, driver theory tests, eyesight tests, identity verification and driver licence renewals. Waka Kotahi provides all the non-face-to-face services through its customer service centre in Palmerston North.

Proposal 2 also covers services provided under regulation 15 and part 11 of the Schedule to the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999. These services require Waka Kotahi to refund or part refund or waive any fee, or part of a fee in the driver licence class endorsements.

Waka Kotahi also provides ongoing regulatory oversight, monitoring and other stewardship services to the driver licensing and testing area.

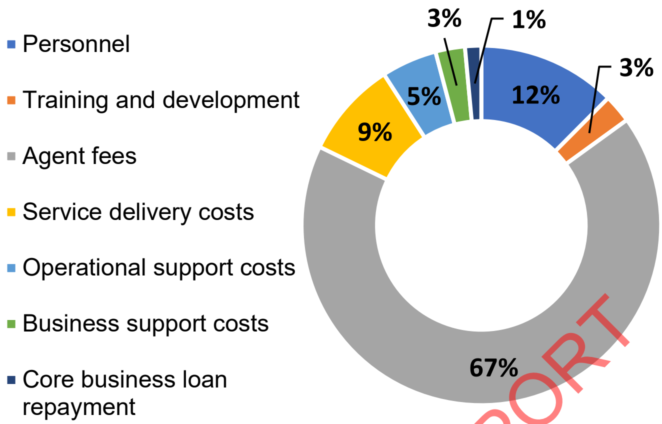
Cost drivers

Section 1.6 on page 23 presents a breakdown of costs that apply to all proposals from 2017/18 to the future state. Unique drivers for Proposal 2 are described below.

The average overall costs to provide regulatory services in Proposal 2 is $53.59 million per annum (ex GST). Figure 2.1 shows how these costs are made up.

Figure 2.1: Composition of costs per year (average costs 2023/24 – 2025/26)

Regulatory activity	Total cost per year ($m) (ex GST)
Personnel	$6.68
Training and development	$1.37
Agent fees	$36
Service delivery costs	$4.66
Operational support costs	$2.68
Business support costs	$1.42
Core business loan repayment	$0.78*
Total	**$53.59**



*Driver Licencing will repay approx. 7.4% of the $80 million in regulatory loans

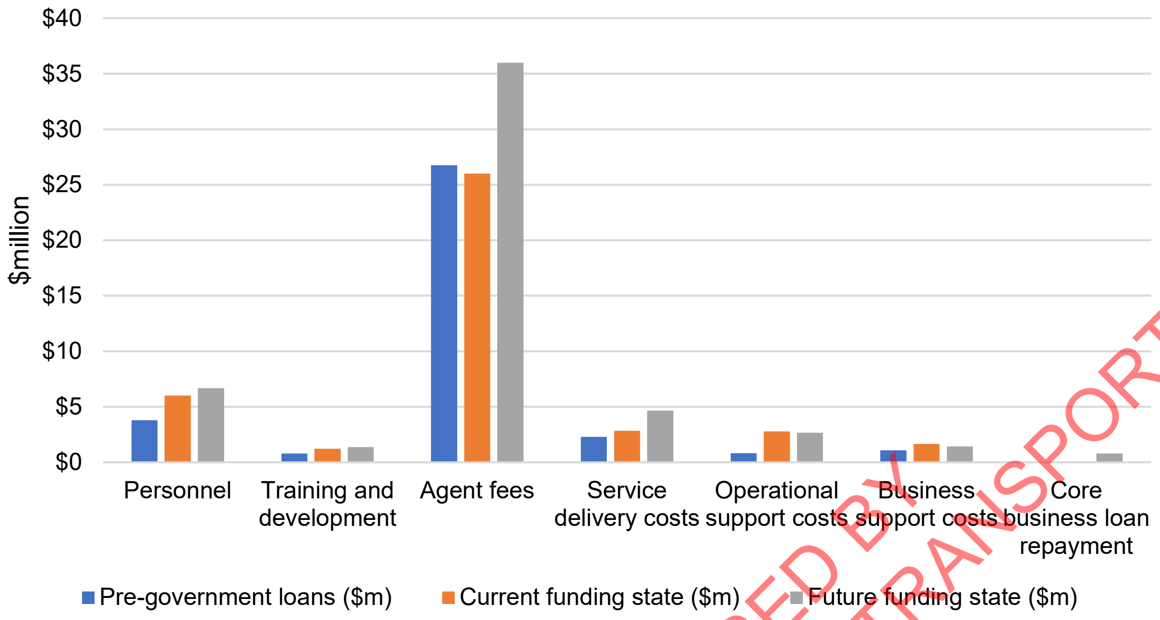
The highest cost driver for Proposal 2 is agent fees (67%). Given issuing driver licences and testing requires face-to-face service delivery, this cost driver is expected to remain dominant.

Table 2.1 and Figure 2.2 shows the breakdown of the regulatory costs by activity over three years.

Table 2.1: Change in cost over time – driver licensing and testing

	Total Cost (GST Excl) $		
Regulatory activity	**Pre-Govt loans total cost (GST Excl)**	**Current state total cost (GST Excl)**	**Future state total cost (GST Excl)**
Personnel	$3,801,259	$6,025,780	$6,679,076
Training and development	$778,571	$1,234,196	$1,368,003
Agent fees	$26,754,838	$26,019,667	$36,001,283
Service delivery costs	$2,295,966	$2,835,742	$4,657,224
Operational support costs	$829,183	$2,776,653	$2,680,131
Business support costs	$1,088,653	$1,660,812	$1,419,319
Core business loan repayment	$0	$0	$782,823
TOTAL	**$35,548,471**	**$40,552,850**	**$53,587,860**

Figure 2.2: Change in cost over time – driver licensing and testing



Driver licencing volumes have increased 2% from 2017 and are likely to increase another 4% to 2026 driven largely by licence renewals.

Personnel and agent fees are expected to increase over time. The personnel costs increase relates to wage and inflation adjustments over time, and three additional personnel to manage the projected increase in volumes.

Nature of the goods

The nature of the goods was identified for each service, and this determined how costs should be applied across the funding model – this approach is outlined in Table 1.2 on page 17 and in *Appendix Two: Nature of the Goods*.

Given the number of fees and charges in this area the analysis is complex and driver licence activities are found in not only this, but other proposals. The analysis is laid out in detail below.

The proposed fees in this proposal are for user-facing services that are considered private goods, and charges that relate to club goods.

Waka Kotahi considers the fees and charges are appropriate for these services as they directly benefit individuals by allowing them to drive a vehicle on New Zealand's roads.

Test fees are now proposed as a single charge, where resit costs would be subsidised across the group.

Driver licence activities funded through land transport revenue

Waka Kotahi assessed five existing fees as benefiting all road users and so are more efficiently charged as a public good as these five fees fund functions that keep the whole system safe. These are to be funded through the use of land transport revenue. These fees relate to:

- approve course providers to conduct approved driver licensing courses
- approve course content
- class 6 (motorcycle) restricted competency-based training and assessment course (CBTA)
- class 6 (motorcycle) full restricted competency-based training and assessment course (CBTA)
- class 6 (motorcycle) assessment ride.

Driver licence activities incorporated into Proposal 7

Waka Kotahi assessed three existing fees as benefiting a whole group that could be more efficiently charged as club goods. These fees relate to:

- secure data access on the driver licence register (DLR)
- charges per request to access data
- the costs of providing access to and maintaining the data registers.

Waka Kotahi considers it is more administratively efficient to collect these fees from the club or group of all commercial users as a group charge. These fees have been incorporated into the driver licence register user group charge (outlined in Proposal 7).

2.2 Problem

The funding and fees review found that 97% of fee revenue collected comes from driver licence holders and vehicle owners so currently mainly individuals (households) are cross-subsidising businesses (operators). Currently, driver licence fees are set too high, while many other fees in the transport system are set too low, partly due to the fact these fees were inherited when Waka Kotahi was established. The result is that revenue generated from the driver licence fees currently cross-subsidises other groups of services that are not fully cost recovered.

2.3 Options

Two options are considered:

- Status quo – retain existing fees for driver licensing and testing
- Option 1 – fees as proposed.

Following discussion with the Minister of Transport Waka Kotahi proposes to proceed with Option 1 - including changes to 53 existing fees, single test fees that average and therefore subsidise resit costs across the group, and the introduction of 2 new fees for services that currently cannot be cost recovered. In addition, Waka Kotahi propose to incorporate 8 existing fees into user group charges that are established under Proposal 7 (see ‘Nature of the goods’ above).

The analysis below outlines the policy rationale for the status quo and the proposed option for a single test charge.

2.4 Analysis – status quo option and proposed option as consulted (Option 1) for single test charge

Options	Comparative Analysis
Status quo is current fees but updated to the new funding model. It is a pure cost recovery model based on each step of the graduate driver licence scheme being priced separately i.e., pay the test fee, and pay for every resit fee Note on average it takes 3 attempts to sit and pass restricted and full stages of the Graduated Driver Licensing System (GDLS) which costs approximately $900 on average. This option provides the lowest price for most people if resits are not required.	Fees for each stage for all licence classes are reduced for all applicants if they pass the first time. If an applicant fails more than twice, fees will cost more than Option 1 and are cumulative depending on the number of times they resit Overall, for 73 percent of people that pass first time the total cost of a licence is $270.67 in all 3 licence classes (learner, restricted and full). This is $81.52 cheaper than Option 1 If an applicant fails one of the three licence class tests it is marginally cheaper than Option 1 Status quo provides financial barriers to people remaining in the system until they are safe drivers, so does not meet broader policy objectives of equity and access but meets the policy objective of providing the lowest price for most people The cost of the restricted licence fee is $108.83, that is cheaper than the current fee of $134.80 and cheaper than Option 1 at $162.77 In Option 1, all fees are cheaper than the current fees. The status quo would have to rely on other policy levers to improve driver licensing outcomes for those who face financial barriers in resitting their test
Option 1 – as consulted on – single charge for driver licence test and resits. The total cost of a licence is $352.19 (includes cost of learner, restricted and full) regardless of the number of times an applicant sits the test This Option provides price certainty, and minimises financial barriers, by providing a set fee regardless of how many times an applicant sits the driver licence test. So, one fee for the application, test, and test resit fees Option 1 deviates from a pure cost recovery model as costs for resits are averaged and are therefore	All fees are reduced compared to current fees except for new Class 1 Restricted and new Class 1 Learner cost if an applicant passes first time. Compared to status quo if an applicant passes first time, then Option 1 costs more. If an applicant needs to sit any test again, Option 1 is cheaper. Option 1 would see: • Learner – 77 percent pass first time (additional 2 percent apply but don't sit) subsidising the other 21 percent who do resits • Restricted – 53 percent pass first time (additional 8 percent apply but don't sit) subsidising the other 39 percent who do resits • Full – 72 percent pass first time (additional 9 percent apply but don't sit) subsidising the other 19 percent who do resits.

Options	Comparative Analysis
subsidised across a group. However, it is designed to keep people in the system, and provide equity of access for all until they pass the test and are safely driving, and to provide price certainty	This option meets the policy objective of equity and access to the graduated driver licensing system, but it does not provide the cheapest option for some, as analysis above shows

2.5 How will services be funded?

Waka Kotahi is proposing changes to driver licensing and testing fees to reflect the costs of regulating the driver licensing and testing system, and to ensure the costs of providing these services are recovered directly from the beneficiaries and those introducing risk into the system. In addition, some changes are reflected in Proposal 7 and in the use of land transport revenue (see 'Nature of the goods' above).

Two new fees are proposed for two services that are currently Crown funded or cross subsidised because there was no cost recovery mechanism established when they were set up. These two new fees relate to issuing additional transport service licence (TSL) labels and issuing exemptions for the New Zealand Defence Force.

The proposed changes would affect all licensed and new drivers.

The level of fees is determined from the costs to process applications

The following tables set out the current and proposed driver licence and driver testing services fees. Each of these fees reflect the costs of processing the applications at a level that prevents either ongoing under- or over-recovery. The existing costs of assessing applications for some outputs may increase where the cost of providing the service is greater than the fee paid for it, including endorsements and renewals, new licence classes and some overseas licence conversions.

New and existing driver licensing and testing fees would, overall, decrease to reflect the true cost of providing them, noting that re-sit fees for driver licence tests would be removed from the driver licensing system (all classes).

Waka Kotahi also proposes that some fees are disestablished and replaced either by being added to another fee or incorporated into a user group charge that is being established under Proposals 7 (data users group charges).

Table 2.2: Increase and decreases to driver licence and testing fees that change to charges[1]

Service	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Current fees (status quo) (incl. GST) *Arrow indicating fee increase or decrease*
New licence classes or stages				
New class 1 learner (flat rate, no resit fees)	$6,493,630	77,635	$96.19	$117.36 ↓
New class 1 restricted (flat rate, no resit fees)	$9,675,053	66,398	$167.57	$203.02 ↓
New class 1 full 1 (flat rate)	$5,363,749	62,329	$98.96	$129.85 ↓
New class 2, 3 and 5 learner (flat rate, no resit)	$1,224,120.61	18,155	$77.54	$112.96 ↓
New class 4 learner (flat rate, no resit)	$11,268.33	478	$27.11	
New class 2-5 full (flat rate, no resit fees)	$583,453	16,856	$39.81	$112.16 ↓
New class 6 learner (flat rate, no resit fees)	$601,711	7,636	$90.62	$103.95 ↓
New class 6 restricted (flat rate, no resit fees)	$184,536	3,914	$54.22	$138.31 ↓
New class 6 full (flat rate, no resit fees)	$122,772	2,974	$47.48	$102.28 ↓

Table 2.3: Increase and decreases to driver licence and testing fees

Service	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Current fees (status quo) (incl. GST) *Arrow indicating fee increase or decrease*
New licence classes or stages				
Limited licence	$178,886	4,222	$48.72	$39.30 ↑
Alcohol interlock licence	$9,094	334	$31.35	$200.00 ↓
Zero alcohol licence – average	$101,102	3,114	$37.33	$156.04 ↓
Endorsements				
New large P (passenger) endorsement (1-year) – application only	$1,750,726	9,913	$203.11	$73.00 ↑
New small P (passenger) endorsement (1-year) – application only			$213.93	$73.00 ↑
New V (vehicle recovery) endorsement (1-year) – application only *	$68,232	394	$198.91	$73.00 ↑
New I (driving instructor) endorsement (1-year) – application only *		326	$188.97	$73.00 ↑
New O (testing officer) endorsement (1-year) – application only *			$188.97	$73.00 ↑
New forklift, roller, tractor, wheel endorsement	$962,755	17,814	$62.15	$44.00 ↑
New large P (passenger) endorsement (5-year)	$1,750,726	9,913	$203.11	$254.90 ↓
New small P (passenger) endorsement (5-year)			$213.93	$254.90 ↓

[1] Option 1, Table 2.2. proposes charges to replace current fees. The charges are the averaged, calculated from the cost of service divided by the estimated volume.

Service	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Current fees (status quo) (incl. GST) *Arrow indicating fee increase or decrease*
New V (vehicle recovery) endorsement (5-year) application only *		394	$198.91	$254.90 ↓
New I (driving instructor) endorsement (5-year) application only *	$68,232	326	$188.97	$254.90 ↓
New O (testing officer) endorsement (5-year) application only *			$188.97	$254.90 ↓
D (dangerous goods) endorsement	$95,168	5,272	$20.76	$44.00 ↓
Conversions of overseas licences				
Overseas licence conversions – new class 1 restricted (non-exempt) application only*	$1,048,996	7,199	$167.57	$158.12 ↑
New class 1 learner (non-exempt)	$2,028,991	48,396	$96.19	$121.11 ↓
New class 1 full (non-exempt) application only*			$98.96	$131.17 ↓
New class 2-5 learner (non-exempt) application only*			$77.54	$116.54 ↓
New class 2-5 full (non-exempt) application only *			$39.81	$114.40 ↓
New class 6 learner (non-exempt)			$90.62	$107.85 ↓
New class 6 restricted (non-exempt) application only *			$54.22	$114.40 ↓
New class 6 full (non-exempt)			$47.48	$104.81 ↓
New class 1 learner (exempt)			$26.48	$52.10 ↓
New class 1 restricted (exempt) application only*			$25.85	$52.10 ↓
New class 1 full (exempt) application only *			$26.42	$52.10 ↓
New class 2-5 learner (exempt) application only*			$27.11	$52.10 ↓
New class 2-5 full (exempt) application only *			$29.59	$52.10 ↓
New class 6 learner (exempt)			$26.47	$52.10 ↓
New class 6 restricted (exempt) application only *			$28.13	$52.10 ↓
New class 6 full (exempt) application only *			$28.33	$52.10 ↓
Licence renewals				
Renew large P endorsement (1-year) – application only	$733,832	9,164	$92.09	$73.00 ↑
Renew small P endorsement (1-year) – application only			$102.70	$73.00 ↑
Renew V endorsement (1-year) – application only			$102.70	$73.00 ↑
Renew I endorsement (1-year) – application only			$92.09	$73.00 ↑
Renew O endorsement (1-year) – application only			$92.09	$73.00 ↑
Renew driver licence - average	$9,218,984	326,178	$32.50	$60.02 ↓
Renew large P (passenger) endorsement (5-year)	$733,832	9,164	$92.09	$254.90 ↓
Renew small P (passenger) endorsement (5-year)			$102.70	$254.90 ↓
Renew V (vehicle recovery) endorsement (5-year)			$102.70	$254.90 ↓
Renew I (driving instructor) endorsement (5-year)			$92.09	$254.90 ↓
Renew O (testing officer) endorsement (5-year)			$92.09	$254.90 ↓

Service	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Current fees (status quo) (incl. GST) *Arrow indicating fee increase or decrease*
Apply to renew D (dangerous goods) endorsement 5 year	$79,026	4,115	$22.08	$44.00 ↓

Table 2.4: Proposed changes to driver licence and testing fees

Service	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Current fees (status quo) (incl. GST) *Arrow indicating fee increase or decrease*
Replacement cards				
Issue additional TSL labels	$160,955	7,140	$25.92	New fee
Extend expiry date of a licence	$50,203	2,088	$27.65	$38.20 ↓
Replace licence card (identification)	$45,277	1,884	$27.64	$13.70 ↑
Replace licence card (photo driver licence)	$2,983,862	130,239	$26.35	$38.20 ↓
Licence reinstatements				
Reinstatement (Class 1-6)	$1,489,397	35,641	$48.06	$66.40 ↓
Requalification reinstatement (class 1-6)	$812,965	9,337	$100.12	$285.72 ↓
Exemptions				
New Zealand Defence Force	$16,391	1,654	$11.40	New fee
Application for an exemption – DL4	$536,834	6,170	$100.06	$27.20 ↑

** there are additional fee components that get charged for specific components*

Table 2.5: Proposed fees recovered in a different way

Service	Volume	Current fees (Status Quo) (inc. GST)	Incorporation into proposed fee or group charge
Approve course providers to conduct approved driver licensing courses	76	$38.00	Funded from land transport revenue
Approve course content	<1	$186.50	
Class 6 (motorcycle) restricted competency-based training and assessment course (CBTA)	9	$38.80	
Class 6 (motorcycle) full competency-based training and assessment course (CBTA)	9	$38.80	
Class 6 (motorcycle) assessment ride	9	$190.60	
Request for a certificate of particulars	16,810	$11.10	DLR data users group
Request for demerit point and suspension history report	14,130	$11.10	
Various driver check fees	826,926	$1.55 - 11.10	

Proposed change to refunds policy

Waka Kotahi proposes to remove an automatic entitlement to refunds for certain driver licence endorsement applications under Regulation 15 and Part 11 of the schedule to the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999. This is because Waka Kotahi currently must recover the costs to assess all applications for a driver licence class endorsements whether they are successful or not.

If the entitlement to a refund is removed for endorsements and application and testing fees, Waka Kotahi would still be able to use legislation that enables it to exercise discretion to waive, refund or rebate a fee on a case-by-case basis where there are special circumstances applicable to the case.

2.6 Estimated financial and economic impacts

Table 2.6 summarises the impacts of the proposed driver licensing and testing fees in Proposal 2 on different users and Waka Kotahi.

The main impacts of Proposal 2 are on licensed drivers – their costs would go up where existing fees (and services not charged) under-recover regulatory costs, and would drop where existing fees over-recover regulatory costs.

Section 1.9 on page 29 describes the overall impacts of this review on business and households. Impacts on business and households specific to the fees in Proposal 2 are described here.

Table 2.6: Impacts of the proposed fees

Numbers affected	Approximately 3.6 million driver licence holders in New Zealand, and approximately 100,000 new drivers entering the New Zealand driver licensing and test system each year
For individuals or families	More affordable driver licensing should mean positive impacts for people wanting to get their driver licence, in the process of getting their licence, or renewing their driver licence The removal of re-sit fees gives price certainty, which should result in more people finding it easier and more affordable to move through the system
For businesses that own a fleet of vehicles	Would save money on some activities and pay more for others
For commercial drivers	Would save money on some activities and pay more for others The biggest proposed change is to increased fees for 1-year passenger (P) endorsements Some endorsement holders may opt to pay for a 5-year P endorsement, which would cost the same as a 1-year P endorsement
For agents	May increase demand for licensing and testing providers (given the removal of resit fees) Waka Kotahi agents who issue driver licences, collect fees, or do driver testing would need to change their pricing schedules
For Waka Kotahi	The costs for providing driver licensing and testing services would be recovered fairly and support the sustainability of this part of the regulatory function Waka Kotahi has done a detailed assessment for each product/service of what the impact on all business processes is likely to be A final detailed implementation plan to manage the transition would be developed once Cabinet decisions are made. Pre implementation planning, including with Waka Kotahi Agents, would be put in place Waka Kotahi would implement any changes through a communications and implementation plan. Waka Kotahi would monitor behaviour around re-sits. Should issues occur because of the policy, then Waka Kotahi would discuss and address these with agents

Subject to the approval of the proposed changes, from October 2023 100% of the changes to costs for driver licensing fees and charges (both increases and decreases) will be passed through to consumers. Those fees being replaced by a group charge are discussed in Proposal 7. The zero-re-sit policy would take effect as soon as fees and charges are implemented.

Impacts on businesses

Figures 2.3 and 2.4 show the changes in fees collected from business under Proposal 2 – these are mostly endorsement fees. Approximately a quarter of those renewing their 5-year endorsements may see a decrease of around $175. Approximately half of the changes in fees are less than $25 and approximately half of the fees are reducing by approximately $75. The highest volume transaction is the Forklift, Rollers, Tracks and Wheels (FRTW) endorsement (18,000) and it has a relatively low increase of $18.15.

Figures 2.3 and 2.4: Graphs showing dollar and percentage change in fees collected from businesses

Figure 2.3: Proposal 2: <u>change</u> in fees collected from <u>businesses</u>

Figure 2.4: Proposal 2: <u>percentage change</u> in fees collected from <u>businesses</u>

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The following personas provide case studies of the financial impacts of driver licensing and testing services to businesses, with a comparison of current (status quo) and proposed (Option 1) regulatory fees and charges. All estimates include GST.

The personas may show fees and charges that are in other proposals to provide a broader picture of the impacts of the costs to businesses for transactions relating to Proposal 2 (for example a driver may apply for an endorsement (Proposal 2) to drive a transport vehicle that needs a motor vehicle licence (Proposal 3) and transport service licence (Proposal 5)).

The personas illustrate that drivers can choose options with different financial impacts according to their circumstances. For example, Robyn chooses the 5-year endorsement costs and the overall costs over 5 years is cheaper (around $2,750), than for Ken who renews a 1-year endorsement annually for each of the 5 years (just over $3,200). The personas do not deal with any pass through of costs to customers, which would reduce the impacts on business but increase impacts on customers.

Ken			
Ken has just graduated from university and is looking for a job in his field of study but wants to work as a ride-share driver to supplement his income. He is applying for 1-year P endorsements only. He has signed up with a large provider, but he will need to hold the small passenger service licence.			
	Proposal	Status quo	Option 1
First year			
New small P (Passenger) endorsement (1-year)	2	$73.00	$213.93
Annual NZ Police vetting fee (requirement of endorsement application)	2	$9.70	$9.70
COF per vehicle	6	$288.00	$284.69
Renewal of a motor vehicle licence	3	$109.16	$113.95
Small passenger service licence charge (TSL)	5	$56.20	$98.87
Total first year (rounded)		$536	$721
Subsequent years			
Renew small P (Passenger) endorsement (1-year)	2	$73.00	$102.70
Annual NZ Police vetting fee (requirement of endorsement application)	2	$9.70	$9.70
COF per vehicle (average)	6	$288.00	$284.69
Renewal of a motor vehicle licence	3	$109.16	$113.95
Small passenger service licence charge (TSL)	5	$56.20	$98.87
Total subsequent years (rounded)		$536	$610
Total 5-year cost	$2,680	$3,161	$3,209

Robyn			
Robyn has invested in a taxi service and is looking forward to her change in work as a taxi driver. She is applying for 5-year P endorsements (no subsidy proposed).			
	Proposal	Status quo	Option 1
First year			
New small P (Passenger) endorsement (5-year)	2	$254.90	$213.93
Annual NZ Police vetting fee (requirement of endorsement application) $9.70 per annum (5-year)	2	$48.50	$48.50
COF per vehicle (average)	6	$288.00	$284.69
Renewal of a motor vehicle licence (petrol, taxi, online payment)	3	$109.16	$113.95
Small passenger service licence charge (TSL)	5	$56.20	$98.87
Total cost – First year (rounded)		$757	$760
Subsequent years			
COF per vehicle (average)	6	$288.00	$284.69
Renewal of a motor vehicle licence (petrol, taxi, online payment)	3	$109.16	$113.95
Small passenger service licence charge (TSL)	5	$56.20	$98.87
Total cost subsequent years (rounded)		$453	$498
Total 5-year cost		$2,570	$2,750

Impact on households

Figures 2.5 and 2.6 show the changes in fees collected from households, under Proposal 2. Around 30% of changes result in cost increases ranging from $75 for licence exemptions to $12 for a limited licence. Although the volume of transaction is low at around 7,000 and 5,000 respectively, over 70% of transaction costs are decreasing from between $25 and $180.

Four services have much higher volumes than the others - renew driver licence (327,000), replace photo licence (131,000), restricted licence and full licence car (50,000). All of transaction costs are reducing from between $25, $12, and around $37 respectively.

Figures 2.5 and 2.6: Graphs showing dollar and percentage change in fees collected from households

Figure 2.5: Proposal 2: change in fees collected from households

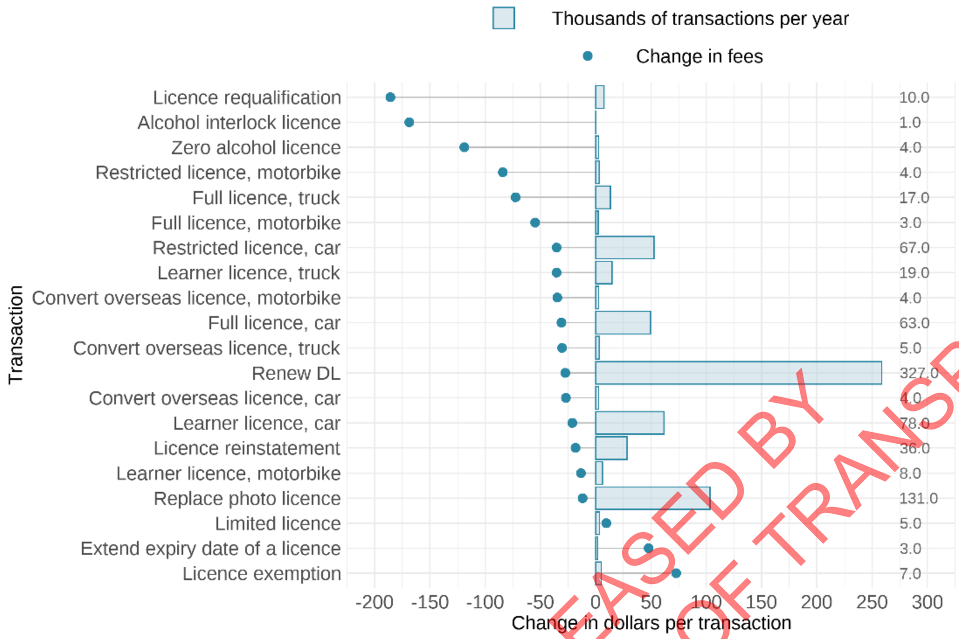
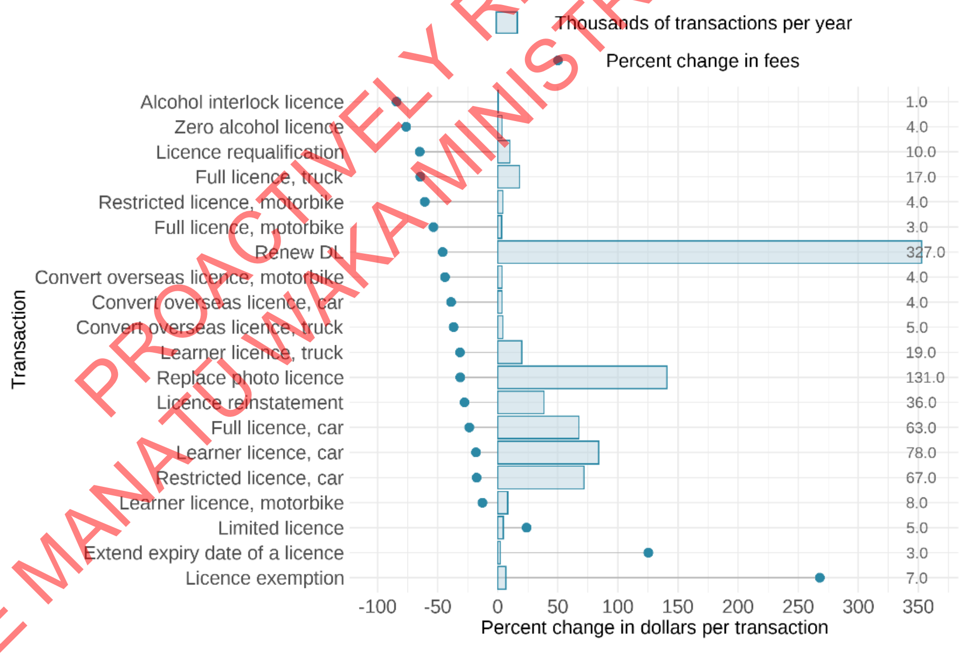


Figure 2.6: Proposal 2: percentage change in fees collected from households



The following persona provides a case study of the financial impacts of driver licensing and testing services to households. As noted above, all estimates include GST.

Thomas		
Thomas is a currently living in Wairoa. He has just finished at Wairoa College and is looking for work. He wants to stay in Wairoa to look after his kuia. Employers only want to talk to him if he has a full licence. When Thomas sits his restricted test, he fails and needs to re-sit it again but does not need to pay for the re-sit.		
	Status quo	Option 1
New class 1 learner licence	$93.90 (covers application fee and testing fee)	$96.19 (flat rate)
New class 1 restricted licence	$221.40 (application fee, testing fee plus additional resit fee*)	$167.57 (flat rate)
New class 1 full licence	$109.50 (covers application fee and testing fee)	$98.96 (flat rate)
Total (rounded)	**$425**	**$363**

**If Thomas failed the resit again for his restricted licence every other resit under the status quo costs $86.80, but no additional fee would apply under Option 1.*

As noted above, the personas do not include costs that businesses may pass through to customers. Section 1.9 on page 29, notes that the overall annual cost impact on households is considered to be modest.

Impacts on agents

Agents who issue driver licences, administer tests, and collect fees would need to change their pricing schedules, and potentially make process changes.

Waka Kotahi did not receive any feedback from agents which raised concerns about changes in demand or volumes. If the volume of fee services provided by agents increase then the revenue accruing to those fees will increase, enabling agents to use that extra revenue to employ temporary staff if necessary.

The impact on agents is therefore assessed as low and sufficient time will be provided to manage implementation by agents.

Impacts on Waka Kotahi

As for fee services above, additional demand accrues additional revenue and the ability to hire additional resource. Waka Kotahi bears the financial risk of the zero re-sit policy. However, re-sits have been averaged using a re-sit rate which has been consistent over time.

As advised above, Waka Kotahi will monitor behaviour around re-sits. Should blockages occur because of the policy, then Waka Kotahi will discuss and address these with agents. In addition, re-sit numbers will be re-considered in the next funding and fees review to test whether the rate has remained consistent or increased.

Waka Kotahi has a dedicated implementation project and sufficient time to ensure a smooth transition to implementation. The communications and implementation plans will include ensuring agents and people understand and can plan for changes.

2.7 Assessment against cost recovery principles

This section assesses the options using the cost recovery principles endorsed by the Waka Kotahi Board (based on Transport and Treasury cost recovery principles) to guide its approach to the funding and fees review and to ensure future costs would be spread fairly and in a transparent way.

Table 2.7: Policy assessment for all of Proposal 2

Principles	Status quo (existing model)	Option 1 (proposed fees)
Supports transport system objectives	- - - Past experience shows that underfunding places risks to transport system objectives (safety). Under-resourcing the regulatory function resulted in regulatory failure, and then the Government provided loans to address regulatory gaps	+++ The proposed funding model would sustain the regulation of driver licensing and testing to contribute to a safer system
Users should pay for the services, but incentives are important	- - - Users do not currently pay for some of these services and do not pay the real costs of other services. The administration costs of driver licensing and testing transactions are cross subsidised by other fee payers	+ The proposed fees reflect the costs of providing the services and provide an incentive to progress through the driver licensing system Promoting access and equity
Users and beneficiaries should contribute to the integrity of the system	- - - The administration costs of driver licensing and testing services will continue to cross-subsidise other groups of fee payers. Other group beneficiaries will continue to not pay the full cost of services received	+ User pays for the integrity of the system, but some users contribute more towards this than others
Be simple and consistent	- + The current driver licence and testing system has a complex fee structure. It does not apply a consistent approach – some services are cost recovered and some are not There is also no price certainty as it is dependent on the number of tests sat by the user	++ The proposed system is simple and applies a consistent approach to recover fees across services

Principles	Status quo (existing model)	Option 1 (proposed fees)
Focused on ensuring risk exacerbators and beneficiaries of services	- + Tiered fees target some risks to some of those that benefit but is cross-subsidising others	+ Policy incentives may remove some financial barriers to gaining a licence and minimise the risk of unlicensed drivers on the road Does not have risked based pricing - cost is fixed
Crown funding is limited to certain functions	N/A	
Be equitable	- - - There are barriers to access the GDLS system The status quo does not appropriately recover ongoing regulatory costs from the main groups that contribute to risks and benefit from the regulatory services	+ Incentives encourage people to keep in the system and complete, provides equity and access through price certainty and removing a financial barrier
Is sustainable	- - - Not charging for services and not recovering the costs of other services is not sustainable	+ Funding sustainable to cover costs. However, risks exist that there may be behaviour changes that is not included in the model and may need to be responded to

Key

+++ much better than doing nothing/ the status quo	++ better than doing nothing/ the status quo	+ slightly better than doing nothing/ the status quo
- - - much worse than doing nothing/ the status quo	- - worse than doing nothing/ the status quo	- slightly worse than doing nothing/ the status quo
- + has an element of being slightly better but retains some element of being slightly worse so on balance is about the same as doing nothing/status quo		

2.8 Consultation / Industry feedback

Waka Kotahi undertook consultation on the changes under Proposal 2 from 21 March 2022 to 13 May 2022.

Consultation involved 29 engagement hui with industry, councils, iwi and Māori, and focus groups, including hard-to-reach community groups. The workshops and focus groups provided an opportunity for stakeholders to query the proposals and give initial feedback.

46 people and organisations submitted on Proposal 2. In addition, participants at 3 industry workshops with 28 attendees commented on Proposal 2 (i.e., key service delivery partners, TSL passenger, and GSL and rental). People at 7 focus groups also commented on Proposal 2 (37 attendees, i.e., rangatahi Māori, whānau Māori, Pasifika families, Pasifika young people, older people, disabled people, and disability advocates).

Feedback on having a single fee for each step in getting a driver licence and removal of resit fees (with no additional fee for resitting your test) was mixed.

17 submitters commented positively about the proposed change as this proposed change as improving access to getting a driver licence that had social, economic, and cultural benefits, cost certainty, and making the driver test less stressful.

14 submitters disagreed with the proposal to have a single fee for each step of the driver licence. The reasons for disagreeing varied, including the change removes the incentive to be prepared for the test and people passing the first time will subsidise resits.

19 Submissions were received on P endorsements. Submissions were mixed with 7 agreed and 12 disagreed. Those who agreed supported the user-pays approach as the activity was for commercial gain so users should pay and recognised Waka Kotahi's activities and work in this area. Those that disagreed noted that the increased fee, particularly in the P endorsement, will create an entry barrier to the industry and employment.

20 submitters commented on the impact of the single fee for their business or industry. These submitters included the industry group (workshop), data users, professional bodies, businesses owning a fleet, the general public, certifier, and other. They noted the change would increase the burden on an already stretched driver testing system, as they thought the number of resits would increase. Feedback on these fees is discussed in Proposal 6.

Iwi, whānau and rangatahi Māori feedback

Waikato Tainui, whānau and rangatahi Māori focus group participants suggested decreasing licencing and registration fees to further lower the financial barriers. They also wanted further implementation of driver education in schools. Waikato Tainui called for more iwi members endorsed as driving instructors and assessors to allow Māori to see themselves in the sector and increase their engagement ability. These submissions support the direction that Waka Kotahi intends to proceed with driver licensing and are helpful to the refresh of *Tū ake, tū māia*.

Waka Kotahi response to feedback

Waka Kotahi analysed all consultation feedback and held workshops with relevant Waka Kotahi regulatory teams to confirm an understanding of the issues raised. The removal of resit fees, increased cost for P endorsements were the most significant.

Having a single fee for each step in getting a driver licence and removal of resit fees

There was mixed consultation feedback on the proposed approach to introduce a single fee for a test to include resits (i.e., subsidisation across the group) rather than charging a fee for each resit of each stage of the graduated driver licensing system (GDLS). Waka Kotahi sought Ministerial input on progressing the options of a single charge (as consulted) or fees for tests and resits (status quo). The policy trade-offs are keeping people in the graduated driver licence system, minimising financial barriers of resits until they are safe drivers; or providing those people who sit each step only once with a cheaper pathway for the graduated driver licence system.

As feedback was mixed on the proposal to introduce a single fixed fee for each step in getting a driver licence and the remove resit fees two options were further analysed – the status quo which analysed the impact of full user pays based on 2022 costings and Option 1 – a fixed fee for Class 1-6 licences (as consulted on). *See 2.7 Options Analysis*.

While the status quo reflects a pure cost recovery model based on each step of the graduate driver licence scheme being priced separately, it is on average more expensive than Option 1. On balance Waka Kotahi considers that although Option 1 deviates from a pure cost recovery model, as there is some subsidy within a group, it keeps people in the graduated driver licensing system and provides equity of access for all until they pass their test and are safely driving.

Consideration was also given to concerns raised about the potential for the system to be overwhelmed as drivers may choose to use the testing system to progress their driving skills rather than progressing these through driver education. Vehicle Testing NZ, the main provider of driver testing did not raise any concerns that their system would be overwhelmed.

Waka Kotahi cannot accurately predict the impact the proposed user facing fees and charges could have on the behaviour of drivers or demand for services. However, should demand exceed the projected volumes in the model, the increased revenue accruing to increased volume of fees will pay for any additional staff required to manage that demand. Monitoring of re-sits will occur, as increased volumes of re-sits will not accrue additional fees or revenue for Waka Kotahi. However, Waka Kotahi will pay agents these additional fees as required to mitigate against this risk. As a result, Waka Kotahi considers the identified risks with Option 1 are manageable and would closely monitor the effects of the proposed changes during implementation.

Increased costs of P endorsements

Representatives of the taxi industry and rideshare representatives attended a Waka Kotahi Workshop. Corporate Cabs, Super Shuttle NZ, Blue Bubble Alliance Ltd and Ola provided a collective submission that raised concerns about the increased costs for small passenger endorsements.

In reviewing Waka Kotahi costs to administer 1-year and 5-year passenger, vehicle, I (driving instructor), and O (testing officer) endorsements the review found it took the same time to administer regardless of the outcomes of the assessment.

Following analysis of submissions on P endorsements Waka Kotahi considers that P endorsements are commercial licences that provide a commercial benefit and, as such, associated costs should be recovered, according to cost recovery principles and cover services considered private goods as defined by the Treasury. Therefore, no changes are proposed to these charges for 1-year and 5-year P endorsement charges.

See *Appendix Six: Consultation overview* for further information on the consultation process undertaken and the general themes raised about the collective proposals as part of the funding and fees review.

Consultation confirmed that some fees should be funded through the use of land transport revenue.

The review found that five fee activities benefit all road users and are also administratively difficult and costly to calculate the appropriate level of cost to the user groups. These services include approvals for course providers and course content, and providing competency-based training and assessment (CBTA) courses and assessment rides for class 6 (motorcycle) restricted and full applicants listed in Table 2.5. These five fees fund functions that keep the whole system safe. In December 2022, the Minister of Finance and Minister of Transport agreed to use land transport revenue for funding services such as these, that benefit all road users. The approach to funding these services through land transport revenue will be reviewed in the next funding and fees review process.

2.9 Overall assessment

Option 1 aligns best to Waka Kotahi's cost recovery principles, albeit improved access is traded against subsidisation in resit fees. Waka Kotahi proposes to introduce the new funding model for driver licensing and testing fees to achieve broader Government outcomes to improve equity and access.

The proposed driver licence and testing fees under Option 1 accurately reflect the actual costs of the services and prevent ongoing under-recovery or over-recovery of costs for that service. Fees increase where the cost of providing the service is greater than the fee paid and decrease where the cost of providing the service is less than the fee paid. In addition, new fees are introduced for services that have previously been provided free as a result of there being no cost recovery mechanism established when they were set up.

The status quo is an undesirable option as this would see driver licence and driver testing services continuing to cross-subsidise the cost of other services, which would be inconsistent with Waka Kotahi's cost recovery principles of fairness and efficiency.

The proposed changes under Option 1 reflect the need to accurately recover the costs of providing regulatory services, and would remove cross-subsidisation and ensure more sustainable funding. Some fees also seek to contribute to broader Government outcomes.

2.10 Implementation

If agreed, the proposed rate changes under Proposal 2 would be made through amendments to the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999, and sections 167 and 168 of the Land Transport Act 1998 and would take effect on 1 October 2023.

An implementation plan would outline actions to implement and effect the new rate changes. People already in the system and progressing through the GDLS will automatically move to the new fees and charges and no resit fees will apply for future bookings. Waka Kotahi will also be able to exercise discretion if refunds are sought. See "*Appendix Seven*: *Implementation, Monitoring and Review"* for further information on Waka Kotahi's implementation approach for the proposed changes."

2.11 Monitoring and review

The proposed service rate changes under Proposal 2 are based on forecasted service volumes which may fluctuate and change and could result in under- or over-recovery. In addition, although there is detailed data on the expected costs for the proposed changes, there is much less detailed information on the associated impacts.

Waka Kotahi will mitigate the financial risk of developing a significant surplus or deficit in response to service volume change by actively monitoring the performance of the associated memorandum account on an annual basis, specifically, that the account balance tracks towards zero over a three-year time period. Waka Kotahi will assess the service rates at least every three years, which may result in rate changes if required to ensure full cost recovery or to address significant over-recovery.

Waka Kotahi will continue regular targeted engagement with industry to better understand the ongoing impacts the progressed changes may have on the sector over time. Updated and more robust impact information will inform the development of any future funding and fees review.

Waka Kotahi will report annually on the performance of the services provided under Proposal 2 to provide transparency to industry, the public and other interested parties, and to report on actions undertaken to ensure the regime continues to operate efficiently.

See "*Appendix Seven: Implementation, Monitoring and Review*" for further information on Waka Kotahi's monitoring and review activities for the proposed changes.

Proposal Three - Changes to motor vehicle licence and registration fees

3.1 Background

There are around 5.5 million motor vehicles in New Zealand, and approximately 300,000 additional new and used vehicles are registered annually. A vehicle must be registered and have a valid vehicle licence to be driven on our roads.

Registration refers to paying a one-off fee to add a vehicle's details to the motor vehicle register (MVR). When the vehicle is added to the register, Waka Kotahi issues number plates for it. This only happens once for most vehicles, when they've arrived in New Zealand and are first going to be used on the road.

Vehicles also need a current licence (registration), which in turn requires that the vehicle is registered and has a Warrant of Fitness (WoF) or Certificate of Fitness (CoF). Routine licence and WoF/CoF renewals are required to ensure safety compliance through the lifetime of a vehicle.

As well as its own costs, Waka Kotahi recovers regulatory costs on behalf of other Government agencies (e.g. Accident Compensation Claim (ACC) levies) in the vehicle licence and registration fees. Changes in this proposal only relate to the fees recovering Waka Kotahi and its agents' costs. Waka Kotahi does not control levy rates of other agencies.

Services provided

Waka Kotahi and its agents currently issue around 6 million motor vehicle licences and 300,000 registrations annually under Part 17 of the Land Transport Act 1998 and Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011, with fees specified in Part 8 and Schedule 5 of those Regulations. The Land Transport Act 1998 regulates services for vehicle registrations and is administered by Waka Kotahi or intermediaries (agents) acting on behalf of Waka Kotahi.

They cover administrative regulatory services across the whole life of a vehicle:

- from entering the system through motor vehicle registration and issuing new plates
- to regularly ensuring compliance through vehicle licensing and WoF/CoF and managing changes through renewals, replacement of licence and plates etc.
- to exiting the system through cancelling registration and plates.

Applicants receive the benefits of entering and exiting the motor vehicle registration system and being able to show that their vehicle is compliant with the land transport regulations that support safe roads.

These services are provided through a variety of channels, including online, mail, email, phone, and over the counter:

- Waka Kotahi outsources the majority of its user-facing services through agents (e.g., NZ Post, VTNZ, AA) who provide customer facing over-the-counter services for motor vehicle licensing and registration. These agents are contracted to provide this service on Waka Kotahi's behalf. These services include replacing licence plates, putting licences on hold, personalised licence plates, and registering overseas vehicles, where it is either necessary or desirable for a face-to-face service.

- Waka Kotahi provides all non-face-to-face services through its customer service centre in Palmerston North.

Waka Kotahi also processes applications for exemptions from specific motor vehicle rules and regulations (e.g., exemption from border check requirement etc), and for permits to operate outside of the rules (e.g., permits for over dimension vehicles, left hand drive vehicles, etc). Exemptions from the rules and regulations are strictly managed and enable successful applicants to operate their vehicles without being subject to regular rule and regulation enforcement, that would limit their operations and impact business costs.

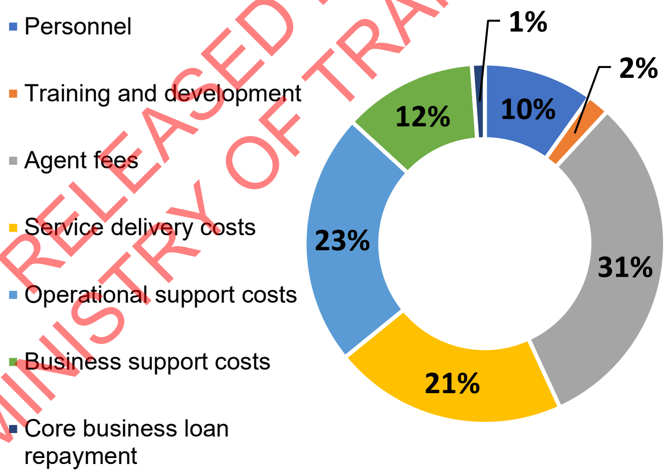
Cost drivers

Section 1.6 on page 23 presents a breakdown of costs that apply to all proposals from 2017/18 to the future state. Unique drivers for Proposal 3 are described below.

The average overall costs to provide the services in Proposal 3 is $73.49 million per annum (ex GST). Figure 3.1 shows how these costs are made up.

Figure 3.1: Composition of costs per year (average costs 2023/24 – 2025/26)

Regulatory activity	Total cost per year ($m) (ex GST)
Personnel	$7.25
Training and development	$1.48
Agent fees	$22.98
Service delivery costs	$15.42
Operational support costs	$16.67
Business support costs	$8.83
Core business loan repayment	$0.85*
Total	**$73.49**



*Driver Licencing will repay approx. 8.2% of the $80 million in regulatory loans

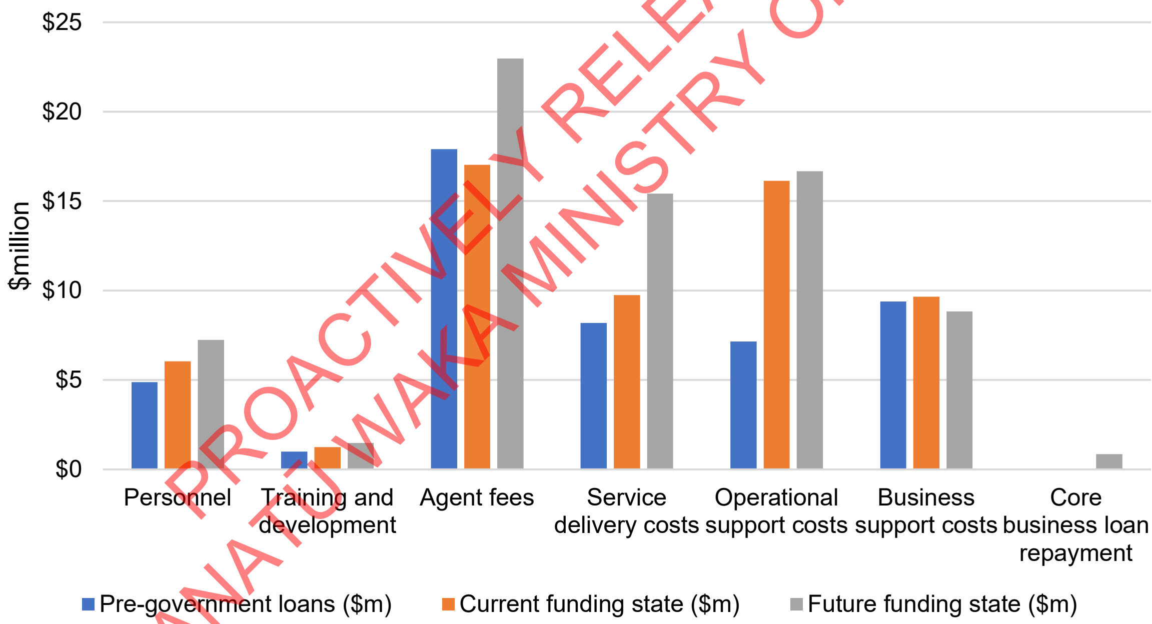
The largest costs are agent fees (31%), operational support costs (23%) and service delivery costs (21%).

Table 3.1 and Figure 3.2 show how the costs are anticipated to change over time.

Table 3.1: Change in cost over time – motor vehicle licensing and registration

	Total Cost (GST Excl) $		
Regulatory activity	**pre-Govt loans total cost (GST Excl)**	**Current state total cost (GST Excl)**	**Future state total cost (GST Excl)**
Personnel	$4,871,091	$6,039,472	$7,248,277
Training and development	$997,693	$1,237,000	$1,484,587
Agent fees	$17,901,976	$17,032,242	$22,979,345
Service delivery costs	$8,189,719	$9,752,060	$15,417,009
Operational support costs	$7,147,280	$16,131,864	$16,674,642
Business support costs	$9,383,819	$9,649,021	$8,832,094
Core business loan repayment	$0	$0	$851,862
TOTAL	**$48,491,578**	**$59,841,660**	**$73,487,816**

Figure 3.2: Change in cost over time – motor vehicle licensing and registration



Transaction volumes have decreased by 8% since 2018 due to the change in ACC rates applied to MVR renewals. This rate change made the cost of renewing a motor vehicle licence cheaper, resulting in renewals being made for longer periods. That effect has now stabilised, and volumes are now forecast to increase by 7% to 2026 but will still be below 2018 levels.

Operational support costs increased significantly as Waka Kotahi invested in additional support staff to strengthen its financial, risk and data, intelligence, and regulatory leadership functions.

Service delivery costs are externally driven. Postage, printing costs, credit card and Poli fees, label printing, licence plate production and debt collection fees are subject to cost and volume increases.

Nature of the goods

The nature of the goods was identified for each service, and this determined how costs should be applied across the funding model – this approach is outlined in Table 1.2 on page 17 and in *Appendix Two: Nature of the Goods*.

Fees are charged for user-facing services as they are private goods. The changes discussed here relate to either fixed or variable fees that have been set based on the cost to regulate motor vehicle licensing and registration services, and assessed to ensure that those who directly benefit from that service pay. Fees for services that directly benefit an individual by allowing them to register their vehicle to drive on New Zealand's roads are the appropriate charging mechanism.

Waka Kotahi have assessed some existing services as benefiting a whole group, and they are club goods. Therefore, Waka Kotahi proposes existing fees for those services are incorporated into new group charges which are a more appropriate cost recovery mechanism:

- 12 fees pay for access to data on the motor vehicle register (MVR), charged per request, and are proposed to be incorporated into new MVR group charges because the costs of providing access to secure data and maintaining these registers should be spread across commercial users who derive financial benefit from ongoing access to Waka Kotahi's secure data
- 6 fees relate to approving new certifiers and are proposed to be incorporated into new certifier group charges, as these groups gain financially from the services provided to their users.

3.2 Problem

The funding and fees review found that 97% of revenue collected comes from fees placed on driver licence holders and vehicle owners, who have been subsidising regulatory activities in other areas.

The current fees do not reflect the current cost to regulate and provide motor vehicle licence and registration fees. The proposed fees address current under-recovery (currently cross-subsidised by revenue generated from license fees) and over-recovery. In addition, new fees are being introduced for services where no cost recovery mechanism was established when they were set up. The proposed changes, which would affect all vehicle owners, would recover the actual costs of providing these services in accordance with Waka Kotahi's cost recovery principles.

3.3 Options

This document analyses two options:

- Status quo – retain existing fees for motor vehicle licencing and registration
- Option 1 – proceeding with the proposed fees consulted on – changing existing fees to better reflect the costs of providing regulatory services, introducing additional new fees for services that currently cannot be cost recovered and disestablishing some existing fees (to be either recovered through other fees or incorporated into new user group charges established under Proposals 6 and 7).

3.4 How will services be funded?

Proposed changes to fees would recover the actual costs of these services and would affect all vehicle owners.

The level of fees is determined from the costs to process applications

The following tables set out the current (status quo) and proposed (Option 1) motor vehicle registration and licence fees. Each of these fees reflects the costs of processing the applications and prevents ongoing under-recovery or over-recovery of costs for that service. Fees are charged at the point of application.

Existing motor vehicle licence and registration fees would increase where the cost of providing the service is greater than the fee paid for it and decrease where the cost of providing the service is less than the fee paid for it.

New fees are proposed to be introduced for six services that are currently provided free because there was no cost recovery mechanism established when they were set up.

Table 3.3: Proposed changes to motor vehicle licence and registration fees

Service	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Status quo (incl. GST) *Arrow indicating fee increase or decrease*
Registering a vehicle				
Register a vehicle with VIN (MR2A) through an agent (excludes cost of licence plate)	$2,184,120	174,626	$14.38	$7.40 ↑
Register a vehicle with VIN (MR2A) through an industry agent (excludes cost of licence plate)	$644,850	85,861	$8.64	$7.40 ↑
Register a vehicle with exempt VIN (MR2B) (excludes cost of licence plate) through an agent	$454,211	35,543	$14.70	$7.40 ↑
Register a vehicle with exempt VIN (MR2B) (excludes cost of licence plate) through an industry agent	$8,887	1,486	$6.88	$7.40 ↓
Re-register a vehicle - previously cancelled / lapsed (MR2A/B) (excludes cost of licence plate)	$67,049	12,173	$6.33	$7.40 ↓
Reverse a vehicle registration (MR2D)	$6,145	351	$20.12	$57.50 ↓
Replace certificate of registration (MR7)				
Email/Mail	$19,569	1,401	$16.06	$9.10 ↑
Phone	$54,471	4,198	$14.92	$9.10 ↑
Cancel a vehicle registration (MR15)				
Agent	$959,565	110,092	$10.02	$9.10 ↑
Email/Mail	$5,776	601	$11.06	$9.10 ↑
Plates				
Personalised plates (MR19/MR6A/MR6L)*	$631,062	20,757	$34.96	$20.96 ↑
Replacement plates (MR6A)*	$2,056,920	81,253	$29.11	$20.96 ↑
Issue new Crown plates	$23	1	$36.32	$14.51 ↑
New plates (After a MR2a/b) - motorcycles, mopeds, and tractors – agent*	$4,145,701	309,080	$14.01	$8.74 ↑
New plates (After a MR2a/b) - trailers – agent*			$14.01	$9.45 ↑
New plates (After a MR2a/b) - All other vehicles – agent*			$18.25	$14.51 ↑

Service	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Status quo (incl. GST) *Arrow indicating fee increase or decrease*
Duplicate plates (MR6B)*	$136,145	9,080	$17.24	$20.95 ↓
Supplementary plates (MR6S)*	$153,250	7,118	$24.76	$30.12 ↓
Trade plates – new (MR5)*	$15,119	1,063	$16.36	$38.43 ↓
Trade plates – renew*	$81,635	5,814	$16.15	$38.43 ↓
Trade plates – replacement*	$13,704	694	$22.70	$38.43 ↓
Renewal of motor vehicle licence (registration) (MR1/MR1B)				
Agent	$33,868,917	3,248,550	$11.99	$7.20 ↑
Industry agent	$1,865,021	269,958	$7.94	$2.79 ↑
Mail	$70,176	5,696	$14.17	$2.99 ↑
Online	$18,325,368	2,434,014	$8.66	$4.10 ↑
Apply for replacement licence label (MR6)				
Agent	$2,742,395	224,541	$14.05	$4.31 ↑
Email/Mail	$20,124	1,381	$16.76	$4.31 ↑
Phone	$189,888	13,968	$15.63	$4.31 ↑
Exemptions				
Vehicle chassis ratings (light, heavy and new)	$173,682	4,875	$40.98	New fee
Apply for a left-hand drive exemption	$17,313	501	$39.77	$184.00 ↓
Apply for an exemption from Land Transport Rules (CA11)	$20,706	471	$50.60	$368.00 ↓
Exemption for removal of trim of imported vehicle	$13,040	59	$253.83	$420.00 ↓
Request for an exemption from border check requirement (CA99)	$21,616	626	$39.72	$184.00 ↓
Permits				
Exemption to travel on toll road and Schedule 8 exemptions (Land Transport Rule Vehicle Dimensions and Mass 2016)	$397	31	$14.72	New fee
Travel time exemption (Land Transport Rule Vehicle Dimensions and Mass 2016)	$901	80	$12.94	New fee
50 max permits	$87,854	3,144	$32.13	$62.73 ↓
50 max permit renewals	$59,472	4,194	$16.31	$62.73 ↓
Application for a higher mass permit - over 44 tonne	$91,031	8,834	$11.85	$62.73 ↓
Application for an overweight permit – single/multiple/area permit	$59,828	7,000	$9.83	$62.73 ↓
Application for over-dimension permit	$117,983	6,185	$21.94	$31.70 ↓
Category A special interest left hand drive light vehicles	$10,085	500	$23.20	$184.00 ↓
SIVP application for a special interest vehicle permit	$3,025	150	$23.20	$184.00 ↓
22 metre log exemption	$1,762	80	$25.32	$32.50 ↓
Vehicle identification numbers (VINs)				
VIN approvals	$18,744	543	$39.70	New fee
VIN/Re-VIN LV	$1,951,223	260,996	$8.60	New fee
Set up purchasing facilities				

Service	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Status quo (incl. GST) *Arrow indicating fee increase or decrease*
Fleet relicensing (MR1A/1S)	$26,191	1,045	$28.83	New fee
Other fees				
Alternate documents exemption	$12,548	68	$211.92	$184.00 ↑
Temporary vehicle import by overseas visitor (MR2C)	$6,706	202	$38.18	$7.39 ↑
Vehicle licence invoice (MR1C)	$1,435,142	117,505	$14.05	$4.10 ↑
Application for an overlength permit	$20,237	720	$32.32	$32.20 ↑

Waka Kotahi also propose that some fees are disestablished and replaced either by being added to another fee or incorporated into various user group charges that are being established under Proposals 6 (certifier group charges) and 7 (data users group charges).

Table 3.4: Fees recovered through another fee or proposed new group charge

Service	Volume	Status quo (inc. GST)	Incorporation into proposed fee or group charge
Fees relating to vehicles and plates			
Re-Issuing previously registered plates - email/Mail	<1	$22.10	Added to fee to cancel vehicle registration
Re-Issuing previously registered plates - phone	<1	$22.10	Added to fee to cancel vehicle registration
Exemption from continuous vehicle licensing - MR 24	654,306	$0 to $10.40	MVR data users group
Application to change licence expiry date to match WoF	92,748	$7.20	MVR data users group
Other fees relating to motor vehicle register (MVR)			
Request a registered person's name and address (MR31)	1,269	$15.00	MVR data users group
Request motor vehicle details (MR32)	100	$15.00	
Apply for VPN connection to LANDATA	238	$9.00	
Change registered person - buyer or acquirer (MR13B)	1,038,365	$9.00	
Change registered person – trader (MR13C)	510	$0.90	
Personalised plates - exchange from one vehicle to another (MR17)	103	$0.40	
Section 241 - allowing people to have access to the register – standard	139	$621.46 - $1,320.65	
Section 241 - allowing people to have access to the register – non-standard	736	$621.46 - $1,320.65	
Automatic distance assessments	78,344	$6.84	
Various moto-check fees	56,000,200	$0.02- $9.78	MVR data users group

Table 3.5: Charges recovered through another fee or proposed new group charge

Service	Volume	Status quo (inc. GST)	Incorporation into proposed fee or group charge
Charges relating to certifiers			
Application to become a WoF/ CoF, border or entry inspecting organisation	246	$1,437.50	In-service certifiers group WoF In-service certifiers group CoF Entry certifiers group Border inspectors group
Application to become a border inspecting organisation, heavy vehicle, low volume vehicle or repair certifiers organisation	15	$1,437.50 - $1,644.50	Low volume vehicle certifiers group Repair certifiers group Heavy vehicle certifiers group
Application to add additional premises, change inspection groups, relocate inspection site to an inspecting organisation	255	$184.00 per hour	All certifier groups
Application to become a low volume vehicle certifier, specialist certifier heavy vehicle, repair certifier, WoF/CoF inspector	3,404	$494.50-$1,644.50	Low volume vehicle certifiers group Repair certifiers group Heavy vehicle certifiers group In-service certifiers group WoF In-service certifiers group CoF
Application to add inspection group to an existing WoF/CoF, e.g., WoF, CoF, agricultural machines, tractors, forklifts, heavy vehicles exempt from CoF and alt fuels	188	$184.00 per hour	In-service certifiers group WoF In-service certifiers group CoF
Application to add used entry inspection group to an existing WoF/CoF		$184.00 per hour	Entry certifiers group

3.5 Estimated financial and economic impacts

Table 3.6 summarises the impacts of the proposed vehicle fees in Proposal 3 on different users and Waka Kotahi.

The main impacts are on vehicle owners – their costs would go up where existing fees (and services not charged) under-recover regulatory costs, and would drop where existing fees over-recover regulatory costs.

Section 1.9 on page 29 describes the impacts of this review on business and households. Impacts on business and households specific to the fees in Proposal 3 are described here.

Table 3.6: Impacts of the proposed fees

Numbers affected	Vehicle owners (5.5 million vehicles in New Zealand) Vehicle importers (approximately 300,000 new and used vehicles imported each year)
For individual or family	Increased cost of renewing motor vehicle licence and registering a new vehicle Increased fees for businesses (e.g., vehicle importers) may be passed onto individuals/households
For businesses that own a fleet of vehicles	Would save money on some activities and pay more for others
For commercial drivers	Would save money on some activities and pay more for others
For other businesses	Would save money on some activities and pay more for others
For agents	Agents who issue motor vehicle registrations and collect fees would need to change their pricing schedules
For other parties	Car importers would pay more for some fees and may pass these costs on
For Waka Kotahi	The costs for providing vehicle licensing and registration services would be recovered more equitably and support sustainable funding for this part of the regulatory function Waka Kotahi will implement changes through a communications and implementation plan

Impacts on businesses

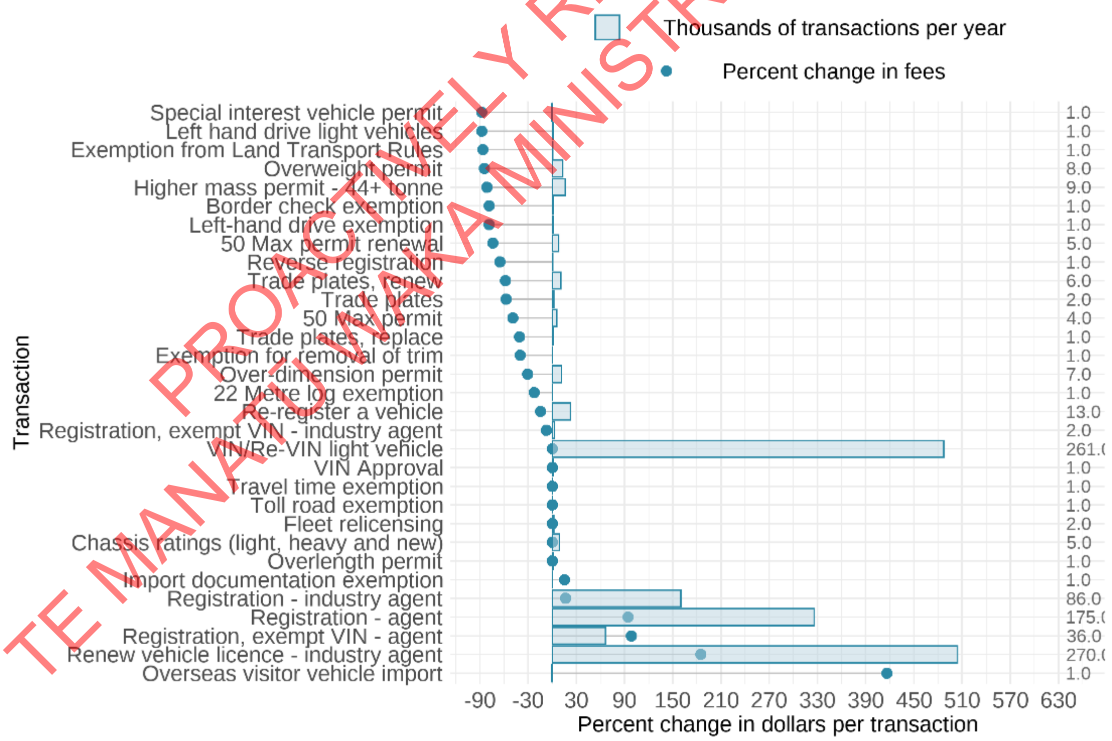
Figure 3.4 shows that changes to fees for high volume transactions by businesses are relatively modest. The costs of some services such as overseas visitor import, chassis rating (light, heavy and new), and VIN approval are increasing by a significant amount (nearly $50) but these are either very low volume transactions or, in the case of chassis ratings, are small percentage changes.

Frontline user facing fee changes in prices, provided through Waka Kotahi agents, would likely be passed on immediately as they would be set, regulated prices that represent one transaction by Waka Kotahi agent to the individual customer.

Figures 3.4 and 3.5: Graphs showing dollar and percentage change in fees and charges collected from businesses

Figure 3.4: Proposal 3: change in fees collected from businesses

Figure 3.5: Proposal 3: percentage change in fees collected from businesses



The following personas provide case studies of the financial impacts of motor vehicle services to businesses, with a comparison of current (status quo) and proposed (Option 1) regulatory fees and charges. All estimates include GST. The personas may show fees and charges that are in other proposals to provide a broader picture of the impacts of the costs to businesses for transactions relating to Proposal 3 (e.g. a WoF/CoF is needed to renew a motor vehicle licence and WoF/CoF rates are set out in Proposal 6). The personas do not deal with any pass through of costs to customers, which would reduce the impacts on business but increase impacts on customers.

MM Construction			
MM Construction Ltd is a nationwide construction company with six offices and 600 staff. They operate a vehicle fleet of 20 vans, 160 utes, 80 cars and 60 light trucks.			
	Proposal	**Status quo**	**Option 1**
WoF per vehicle (per car, van, ute)	6	$60.00	$62.38
COF per vehicle (per truck)	6	$288.00	$284.69
Renewal of a motor vehicle licence (per car)	3	$109.16	$113.95
Renewal of a motor vehicle licence (per van)	3	$127.67	$132.46
Renewal of a motor vehicle licence (per ute)	3	$195.08	$199.87
Renewal of a motor vehicle licence (per light truck)	3	$392.04	$396.83
Total (rounded)		**$98,901**	**$100,854**

City Connector Bus Services			
City Connector Bus Services is a budget transport services company that transports people between cities nationwide. Currently, they have a fleet of 50 diesel buses but have forecasted an increase in domestic travel so are importing five additional used diesel buses to meet anticipated demand.			
	Proposal	**Status quo**	**Option 1**
COF per vehicle (per vehicle)	6	$288.00	$284.69
Renewal of a motor vehicle licence (per vehicle)	3	$392.04	$396.83
Register a new vehicle with VIN (MR2A) – agent (per vehicle)	3	$234.32	$241.30
Entry into NZ for new heavy vehicle – agent (per vehicle)	3	$1,150.00	$1,184.76
New plates (After a MR2a/b) - agent (per vehicle)	3	not charged	$18.25
Large passenger service licence (paid at each motor vehicle licence)	5	$56.20	$98.87
Total (rounded)		**$45,455**	**$48,159**

Impacts on households

Figures 3.6 and 3.7 show the changes in fees collected from households, under Proposal 3. The majority of these fees have moderate changes in fees (up to 75% and less than $10 change), including for one of the highest volume services *Renew vehicle licence - agent* (3,249,000). While the percentage change in fee for the other high-volume service (*Renew vehicle licence – online* (2,435,000)) is significant at around 100%, the change in dollar amounts per transaction is relatively small at less than $5 dollars.

Over recent years, Waka Kotahi has made more vehicle registration and licensing services available online to give customers choice and options to minimise their costs where possible.

Figures 3.6 and 3.7: Graphs showing dollar and percentage change in fees collected from households

Figure 3.6: Proposal 3: <u>change</u> in fees collected from <u>households</u>

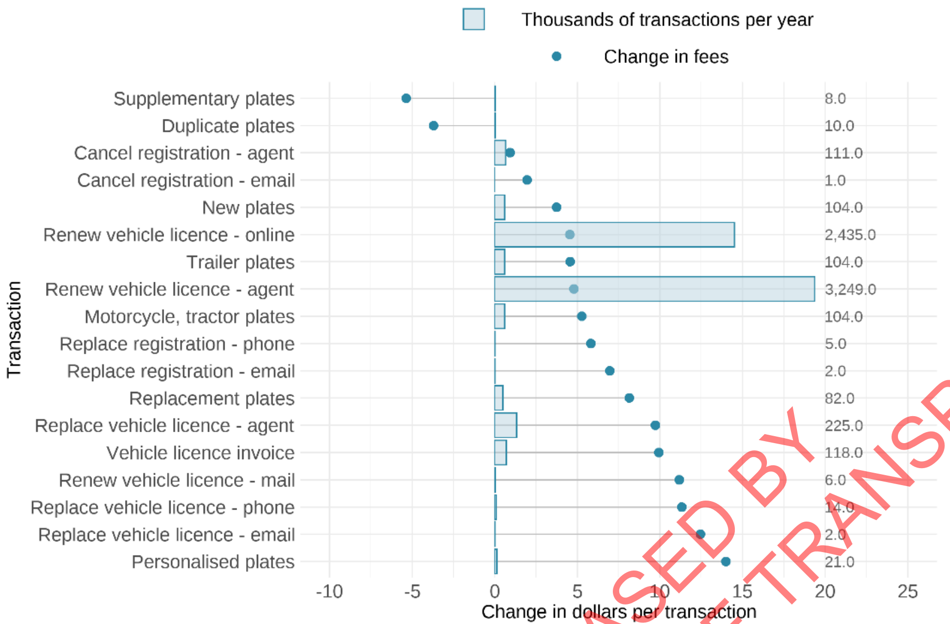
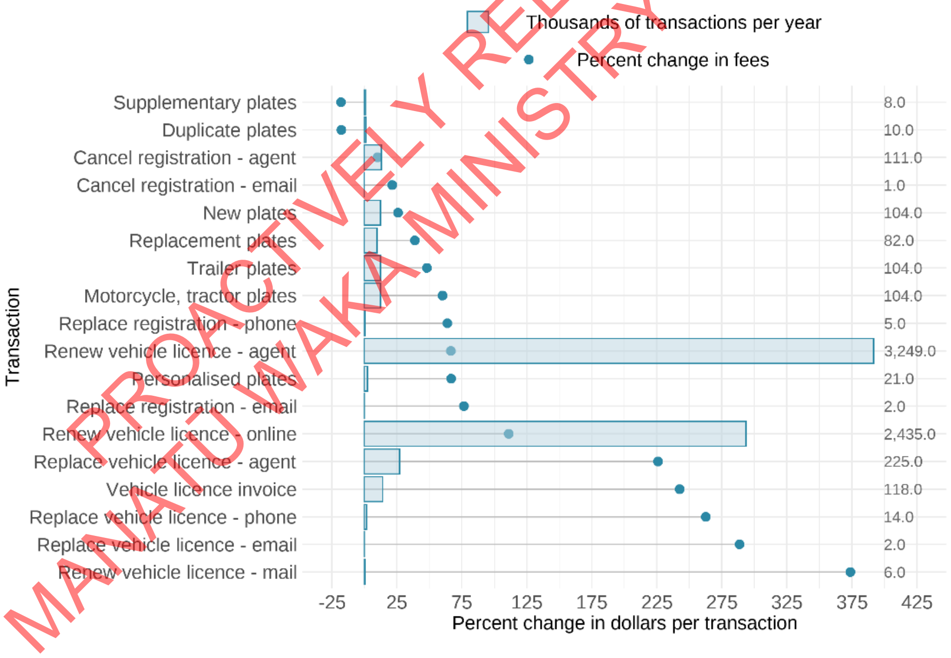


Figure 3.7: Proposal 3: <u>percentage change</u> in fees collected from <u>households</u>



The following persona provides a case study of the financial impacts of motor vehicle services to households. As noted above, all estimates include GST and the personas may show fees and charges that are in other proposals to provide a broader picture of the impacts of the costs to households for transactions relating to Proposal 3.

Mere and Gary			
Mere and Gary are a single income family, with two kids, living in New Brighton, Christchurch. They own two cars to get to and from work and transport their family around.			
	Proposal	**Status quo**	**Option 1**
WoF per vehicle (per vehicle)	6	$60.00	$62.38
Renewal of a motor vehicle licence (per vehicle)	3	$109.16	$113.95
Renew driver licence (two people under 65yrs – no test required)	2	$43.90	$32.50
Total (rounded)		**$426**	**$418**

As noted above, the personas do not include costs that businesses may pass through to customers. As noted in section 1.9 on page 29, the overall annual cost impact on households is considered to be moderate.

Impacts on agents

Agents who issue motor vehicle registrations and collect fees would need to change their pricing schedules, and potentially make process changes.

Waka Kotahi did not receive any feedback from agents which raised concerns about changes in demand or volumes. Should the actual volumes not align with the forecast, user facing services provided by agents will be able to employ additional resources with the commission that agents receive on the fees.

The impact on agents is therefore assessed as low and sufficient time will be provided to manage implementation by agents.

Impacts on Waka Kotahi

The costs for providing vehicle licensing and registration services will be recovered more equitably and support sustainable funding for this part of the regulatory function.

Some of the fees are being replaced by charges which are based on projected volumes. Should the actual volumes not align with the forecast there is a risk that charges may not adequately fund all regulatory services. All services will need to be monitored to ensure that new charges adequately recover costs.

There is less impact on changes in volumes for services recovered by fees as each fee reflects the costs of providing the service.

Waka Kotahi has a dedicated project and sufficient time to ensure a smooth transition to implementation.

3.6 Assessment against cost recovery principles

This section assesses the options using the cost recovery principles endorsed by the Waka Kotahi Board (based on Transport and Treasury cost recovery principles) to guide its approach to the funding and fees review and to ensure future costs would be spread fairly and in a transparent way.

Table 3.7: Policy assessment for all of Proposal 3

Principles	Status quo (existing model)	Option 1 (proposed fees)
Supports transport system objectives	- - - Past experience shows that underfunding places risks to transport system objectives (safety). Under-resourcing the regulatory function resulted in regulatory failure, and then the Government provided loans to address regulatory gaps	+++ The proposed funding model would sustain the regulation of motor vehicle licensing and registration, to contribute to a safer system
Users should pay for the services, but incentives are important	- Users do not currently pay for some of these services and do not pay the real costs of other services, meaning they are cross subsidised by other fee payers	++ The proposed fees reflect the costs of providing the services and removes cross-subsidisation
Users and beneficiaries should contribute to the integrity of the system	- - Some groups are not paying the full cost for the services they receive	+++ The proposed fees would ensure that the regulatory function and system integrity is adequately funded overall
Be simple and consistent	- + The current system is simple but does not apply a consistent approach. Some services are cost recovered and some are not	+++ The current system is simple and applies a consistent approach across agents and users
Focused on ensuring risk exacerbators and beneficiaries of services	- - - The status quo does not appropriately recover ongoing regulatory costs from the main groups that contribute to risks and benefit from the regulatory services	++ The common feature of these services is that they involve administration costs to collect fees. The services are provided at the request of the applicant, who receives private benefits from the service
Crown funding is limited to certain functions	N/A	++ Funding stewardship and ongoing regulatory oversight of Motor Vehicle Register agents is proposed under Proposal 1 to be appropriately and efficiently funded as a public good
Be equitable	- - - Not charging for services and not recovering the costs of other services is not sustainable	+ The proposed fees would ensure the beneficiaries pay the full cost of the private services received and removes cross subsidisation

Principles	Status quo (existing model)	Option 1 (proposed fees)
Is sustainable	- - - Not charging for services and not recovering the costs of other services is not sustainable	+++ The proposed fees would ensure that the system is adequately funded overall

Key

+++ much better than doing nothing/ the status quo	++ better than doing nothing/ the status quo	+ slightly better than doing nothing/ the status quo
- - - much worse than doing nothing/ the status quo	- - worse than doing nothing/ the status quo	- slightly worse than doing nothing/ the status quo
- + has an element of being slightly better but retains some element of being slightly worse so on balance is about the same as doing nothing/status quo		

3.7 Consultation / Industry feedback

Waka Kotahi undertook consultation on the changes under Proposal 3 from 21 March 2022 to 13 May 2022.

Consultation involved 29 engagement hui with industry, councils, iwi and Māori, and focus groups, including hard-to-reach community groups. The workshops and focus groups provided an opportunity for stakeholders to query the proposals and give initial feedback.

44 submissions were received on Proposal 3. In addition, five industry workshops (with key service delivery partners, low volume vehicle (LVV) stakeholders, data users, border and entry stakeholders and industry agents) gave an opportunity for feedback and allowed clarification on key aspects of the proposed vehicle licensing and registration fees under Proposal 3. Participants in seven focus groups also commented on Proposal 3 (the focus groups comprised rangatahi Māori, whānau Māori, Pasifika families, Pasifika young people, older people, disabled people, and disability advocates).

Feedback was mixed on proposals to change vehicle licence and registration administration fees. Submitters generally opposed proposed increases to fees and mostly supported proposed decreases to fees.

14 submitters commented on the proposed new fees for vehicle identification numbers (VINs), fleet licensing, exemptions, and permits. Feedback was mixed. Reasons for supporting the new fees included understanding that fees need to reflect the cost of the service as well as support for a user-pays approach. Those who opposed the fees perceived the new fees as a way to gather more (perceived) tax.

22 submitters commented on the proposed increase to 26 fees. Again, submitters' feedback was split, with half agreeing and half disagreeing, however qualitative feedback suggested more opposition to the proposed increases. Focus groups noted that while the increase in costs for registration is small, they were struggling with general increases in living costs. Submitters, including businesses also noted fee increases would be passed on to customers, this was raised as a particular concern for disabled people.

The impacts on businesses highlighted in submissions included: industry feeling the pressure of increased costs to businesses, some queried the timing of the changes given there are other transport sector changes coming too, such as RUC changes. They noted costs would be passed on to customers. The AA commented that the cumulative impact of the Review could be considerable.

Individuals also raised concerns about the overall cost of living and these increases added to those pressures.

Most of the 19 submitters who commented on the proposed fee decreases agreed, seeing the decreases as alleviating pressure on the public and businesses facing wider increases in business and living costs.

There were questions raised in the submissions seeking clarification on why some of the fees were set as they were. Waka Kotahi responded to these queries, including that fees represent the costs of providing the service.

Response to feedback

Waka Kotahi analysed all consultation feedback on Proposal 3 - received through submissions and workshops. Internal workshops with relevant business teams were held to confirm understanding of the issues raised.

While Waka Kotahi acknowledges the points raised in the consultation feedback, our overall assessment on cost of living on households and businesses indicated the increases would not be a major cost driver. It is also a key aspect of this Review that users that gain private benefit or derive risks should pay for their fair share of the costs of the regulatory services.

In response to the concerns about the cumulative impact of the fees, Waka Kotahi commissioned economic advice suggesting the spend on Waka Kotahi fees is second to lowest spend for households and is not one of the main drivers of the cost of living. Waka Kotahi had previously commissioned analysis that suggests that the total impact of the Review would be between $10.30-$43.80 for households (see *Table 1, Appendix Five: System-wide impact analysis of the proposed change*).

Waka Kotahi considered other concerns raised in submissions were either not material or invalid, and did not necessitate changes to the proposed vehicle licensing and registration fees that were those consulted on.

See *Appendix Six: Consultation overview* for further information on the consultation process undertaken and the general themes raised about the collective proposals as part of the funding and fees review.

3.8 Overall assessment

Option 1 aligns best with Waka Kotahi's cost recovery principles. Under Option 1, the proposed fees would reflect the actual cost of providing registration and vehicle licensing, noting the current fees under the status quo are either set too high or too low, and some services are not charged for at all. While there is a moderate level of financial impact on users under Option 1, including users of the most heavily used services (e.g., motor vehicle licence), it is more equitable, efficient and transparent for the beneficiaries of these private services to pay the full associated cost, and for cross-subsidisation to be removed from the system.

The status quo is not a desirable option as this would likely continue to result in under-recovery, creating funding challenges and driving the need for continued cross-subsidisation to maintain efficient and effective service delivery.

3.9 Implementation

If agreed, the proposed rate changes under Proposal 3 would be made through amendments to the Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011, Road User Charges (Administration Fees) Regulations 2014 and Land Transport (Certification and Other Fees) Regulations 2014, and would take effect on 1 October 2023.

An implementation plan would outline actions to implement and effect the new rate changes. See *Appendix Seven*: *Implementation, Monitoring and Review* for further information on Waka Kotahi's implementation approach for the proposed changes.

3.10 Monitoring and review

The proposed service rate changes under Proposal 3 are based on forecasted service volumes which may fluctuate and change and could result in under- or over-recovery. In addition, although there is detailed data on the expected costs for the proposed changes, there is much less detailed information on the associated impacts.

Waka Kotahi will mitigate the financial risk of developing a significant surplus or deficit in response to service volume change by actively monitoring the performance of the associated memorandum account on an annual basis, specifically, that the account balance tracks towards zero over a three-year time period. Waka Kotahi will assess the service rates at least every three years, which may result in rate changes if required to ensure full cost recovery or to address significant over-recovery.

Waka Kotahi will continue regular targeted engagement with industry to better understand the ongoing impacts the progressed changes may have on the sector over time. Updated and more robust impact information will inform the development of any future funding and fees review.

Waka Kotahi will report annually on the performance of the services provided under Proposal 3 to provide transparency to industry, the public and other interested parties, and to report on actions undertaken to ensure the regime continues to operate efficiently.

See *Appendix Seven: Implementation, Monitoring and Review* for further information on Waka Kotahi's monitoring and review activities for the proposed changes.

Proposal Four – Changes to fees for RUC administration

4.1 Background

Road user charges (RUC) are paid by owners of vehicles that use diesel, and these charges are collected by Waka Kotahi. Waka Kotahi currently processes approximately 3.7 million RUC transactions annually, including eRUC (electronically recorded and processed RUC transactions). Proposal 4 does not include any changes to RUC rates.

The RUC collected contribute to land transport revenue that largely goes to the National Land Transport Fund (NLTF).

Waka Kotahi and its agents provide a range of administrative services around recording and purchasing RUC. RUC does not fund these administrative services. The administrative costs should be recovered through fees.

Waka Kotahi also regulates RUC agents and eRUC providers[1], by providing regulatory oversight, monitoring, enforcement, guidance and support services. These regulatory services are not included in Proposal 4 as it is proposed they are funded from land transport revenue. Changes to fees for other eRUC provider activities are reflected in Proposal 8.

Services provided

Services related to RUC transactions including eRUC fees are provided under the Road User Charges Act 2012 and the Road Users Charges (Administration Fees) Regulations 2014.

Waka Kotahi and its agents provide a range of front-facing RUC administration services:

- accurate RUC recording is facilitated by processing applications to change distance recorders and hubodometers, and processing applications to amend RUC vehicle types and exemption applications
- purchasing services include setting up purchasing facilities and processing RUC distance licence and additional applications through a variety of channels (online, mail, email, phone, and over the counter at specified agents).

These services are provided on application, by those consumers who receive benefits accessing the RUC purchasing system and being able to pay the right amount of RUC for their circumstances.

RUC administration services are provided through a variety of channels, including online, mail, email, phone, and over the counter at specified agents. Waka Kotahi contracts a variety of providers like New Zealand Post, Vehicle Testing New Zealand, Vehicle Inspecting New Zealand, and the Automobile Association to provide a suite of over-the-counter RUC

[1] A small number of approved electronic RUC (eRUC) providers act as intermediaries between customers and Waka Kotahi, enabling their customers to meet RUC obligations through electronic RUC recording and purchasing.

administration services (e.g. purchasing RUC, changing hubodometers) on its behalf where it is either necessary or desirable for a face-to-face service. Waka Kotahi provides all non-face to face (online) services through its customer service centre in Palmerston North.

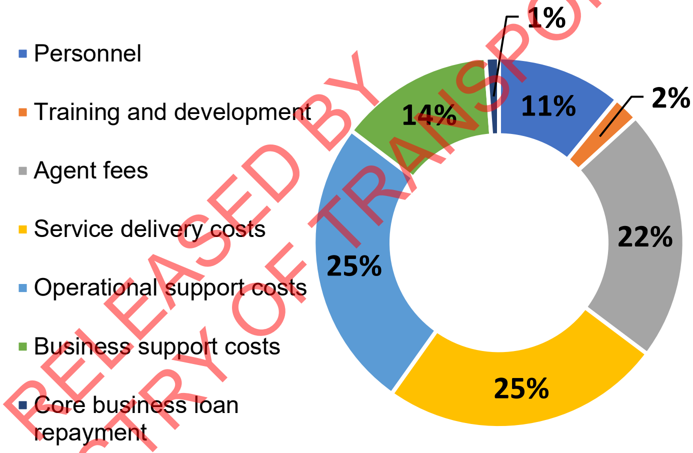
Cost drivers

Section 1.6 on page 23 presents a breakdown of costs that apply to all proposals from 2017/18 to the future state. Unique drivers for Proposal 4 are described below.

The overall costs to provide the services in Proposal 4 is $36.75 million per annum (ex GST). The following graph shows how these costs are made up.

Figure 4.1: Composition of costs per year (average costs 2023/24 – 2025/26)

Regulatory activity	Total cost per year ($m) (ex GST)
Personnel	$4.03
Training and development	$0.82
Agent fees	$8.10
Service delivery costs	$9.03
Operational support costs	$9.37
Business support costs	$4.96
Core business loan repayment	$0.43*
Total	**$36.75**



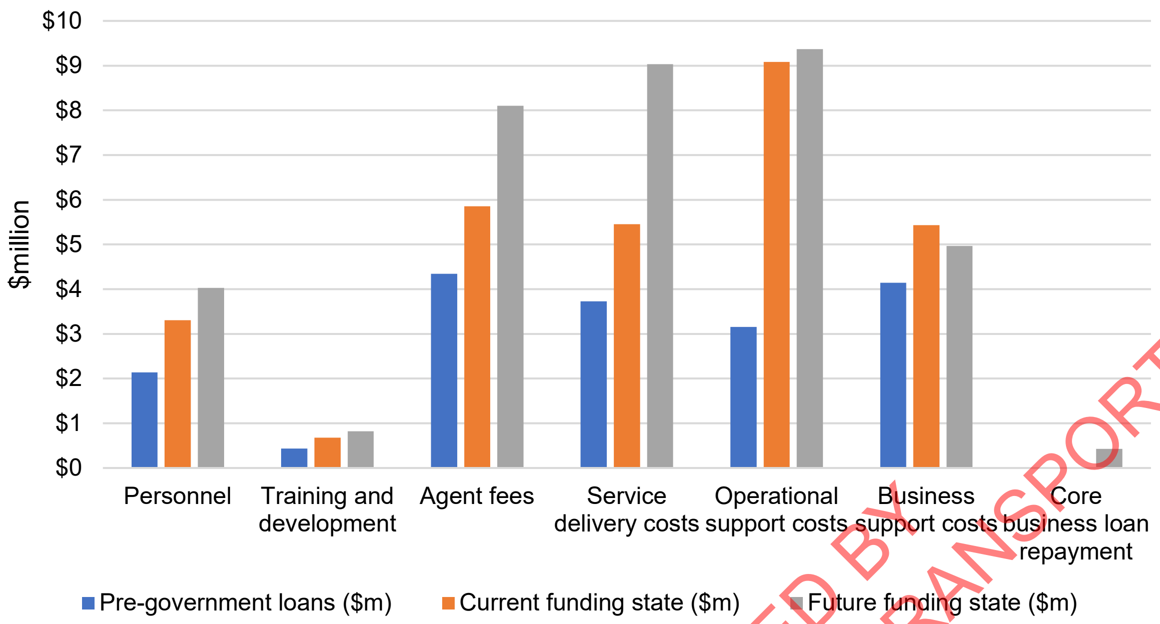
*Driver Licencing will repay approx. 4.1% of the $80 million in regulatory loans

The largest costs are service delivery costs (25%), operational support costs (25%) and agent fees (22%). Table 4.1 and Figure 4.2 show how the costs are anticipated to change over time:

Table 4.1: Change in cost over time – RUC administration

	Total Cost (GST Excl) $		
Regulatory activity	**pre-Govt loans total cost (GST Excl)**	**Current state total cost (GST Excl)**	**Future state total cost (GST Excl)**
Personnel	$2,139,529	$3,303,094	$4,027,718
Training and development	$438,217	$676,537	$824,954
Agent fees	$4,345,259	$5,851,416	$8,103,772
Service delivery costs	$3,729,149	$5,456,481	$9,034,540
Operational support costs	$3,156,943	$9,079,146	$9,371,305
Business support costs	$4,144,820	$5,430,549	$4,964,064
Core business loan repayment	$0	$0	$425,298
TOTAL	**$17,953,917**	**$29,797,223**	**$36,751,652**

Figure 4.2: Change in cost over time – RUC administration



RUC transaction volumes are projected to increase by 8% by 2026 (based on historic trends and current growth).

Service delivery costs are externally driven. Postage, printing costs, credit card and Poli fees, label printing land debt collection fees are subject to cost and volumes increases.

Operational support costs increased significantly as Waka Kotahi invested in additional support staff to strengthen its financial, risk and data, intelligence, and regulatory leadership functions.

The costs of agents to provide face-to-face services are forecast to increase by 85% from 2018 to 2026 due largely to cost and volume increases.

Nature of the goods

The nature of the goods was identified for each service and this determined how costs should be applied across the funding model – this approach is outlined in Table 1.2 on page 17 and in *Appendix Two*: *Nature of the Goods*.

The proposed fees in Proposal 4 are charged for user-facing services that are considered private goods. These services are provided at the request of the applicants, who receive benefits accessing the RUC purchasing system and from being able to pay the right amount of RUC for their circumstances.

4.2 Problem

The current fees and charges are based on rates set in 2013/14 when the Road User Charges Act 2012 came into force, and do not reflect the current cost to regulate and provide RUC and eRUC services today. RUC administration costs are cross-subsidised from driver and motor vehicle licence fees.

4.3 Options

Two options are considered:

- Status quo – retain current fees for RUC administrative services
- Option 1 – proceeding with the proposed fees consulted on – change existing fees to reflect the costs of providing services, introduce additional new fees for services (changing odometers and hubodometers) that currently are not cost recovered, and incorporating one fee into another fee as the most efficient way of recovering the costs of this service.

4.4 How will services be funded?

The proposed fees under Option 1 reflect the costs of processing the applications. It is proposed that they will continue to be collected at the point of application or when purchasing new RUC. The proposed new fees would recover costs for services that to date have not been cost recovered by Waka Kotahi. The following table sets out the current (status quo) and proposed (Option 1) RUC administration fees.

Table 4.2: Proposed RUC administration fees

Application fees changing	Revenue from service (ex GST)	Volume	Option 1 (including GST)	Status Quo (including GST)
Set up purchasing facilities				
Set up the CCFAX purchasing facility - Email / Mail	$940	60	$18.02	New fee
Set up the Direct Connect or Industry Agent purchasing facility - Email / Mail	$360	19	$21.78	New fee
Application to purchase distance licence (RUCLA)				
Industry Agent - DC / eRUC	$8,988,124	1,640,439	$6.30	$2.10 ↑
Agent	$14,871,064	1,246,988	$13.71	$7.80 ↑
Online	$8,255,841	762,943	$12.44	$4.80 ↑
Phone/Fax	$1,205,338	93,215	$14.87	$8.63 ↑
Application to purchase additional licence (RUCAD)				
Industry Agent / DC / eRUC	$1,081,995	197,477	$6.30	$2.10 ↑
Agent	$73,082	6,204	$13.55	$7.80 ↑
Phone/Fax	$78,996	5,223	$17.39	$8.63 ↑
Application to change distance recorder				
Change in odometer for light diesel vehicles (LDVs)	$481,942	43,409	$12.77	New fee
Application to change hubodometer (RUCHO) - Agent process	$78,535	10,285	$8.78	New fee
Application to change hubodometer (RUCHO) - Direct Connect, eRUC providers and online			$6.32	New fee
Application to change hubodometer (RUCHO) - CCFAX process	$6,369	761	$9.63	New fee
Second-hand hub - Approval to have one fitted	$69,496	5,728	$13.95	New fee
Application to change RUC vehicle types				
Application to change to an H RUC vehicle type (RUCCV-H)	$54,404	4,600	$13.60	$46.00 ↓
Application to change to an elective RUC vehicle type (RUCCV)	$13,015	1,023	$14.63	$46.00 ↓
Exemptions				
Application for RUC exemption under Section 40 (RUCEX)	$5,973	176	$39.08	$115.00 ↓
Application to change details of RUC exemption (RUCEC)	-	<1	Cost recovered by application fee for RUC exemption RUCEX	$11.50

4.5 Estimated financial and economic impacts

Table 4.3 summarises the impacts of the proposed RUC administration fees in Proposal 4 on different users and Waka Kotahi.

Table 4.3: Impacts of the proposed fees

Numbers affected	Approximately 3.7 million RUC and eRUC transactions are completed each year
For individual or family	Individuals and families who drive a diesel vehicle would pay more when they purchase distance licences. Costs may be passed on from businesses.
For businesses that own a fleet of vehicles	Businesses that own diesel vehicles would pay more
For commercial drivers	Drivers of diesel vehicles would pay more
For other businesses	Businesses that own diesel vehicles would pay more
For Transport Services Licence (TSL) Holder	Would pay more if paying RUC
For RUC agents	Agents who collect fees on behalf of Waka Kotahi would need to change their pricing schedule New RUC agents pay to set up purchasing facilities
For Waka Kotahi	The costs for providing RUC administration services will be recovered fairly and supporting the sustainable funding of this part of the regulatory function Waka Kotahi has done a detailed assessment for each product/service of what the impact on all business processes is likely to be Waka Kotahi will implement changes through a communications and implementation plan. A final detailed implementation plan to manage the transition will be developed once Cabinet decisions are made. Pre implementation planning, including with Waka Kotahi Agents, will be in place to manage service changes

Impacts on businesses

Most of the RUC administration fees in Option 1 will have low percentage increases or decreases (refer to Figures 4.2 and 4.3).

Higher percentage increases would be experienced for purchasing distance RUC licence and additional RUC licence. Users have a choice between channels to purchase RUC. For the highest volume services, RUC distance licence (eRUC and RUC distance licence online), the value of changes in fees is relatively low (around $5 and $8 respectively), even though the percentage changes in fees is high (just under 200% and 160% respectively). The eRUC channel remains the most cost-effective option (lowest cost) for users and Waka Kotahi does not consider a small increase in costs would disincentivise a shift to eRUC transactions.

Figures 4.2 and 4.3: Graphs showing dollar and percentage change in fees and charges collected from businesses

Figure 4.2: Proposal 4: change in fees collected from businesses

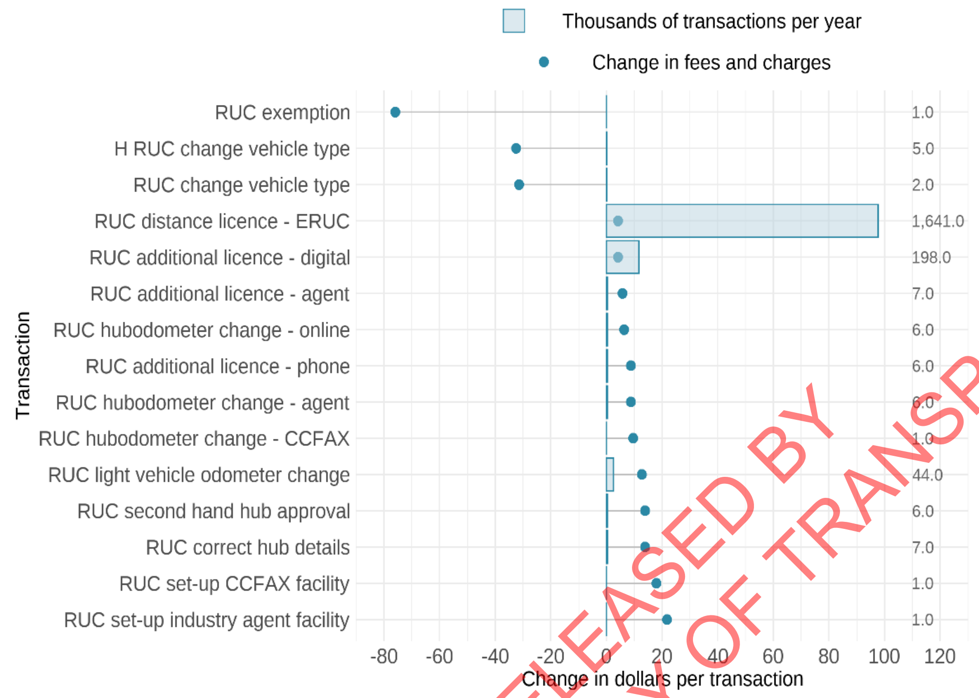
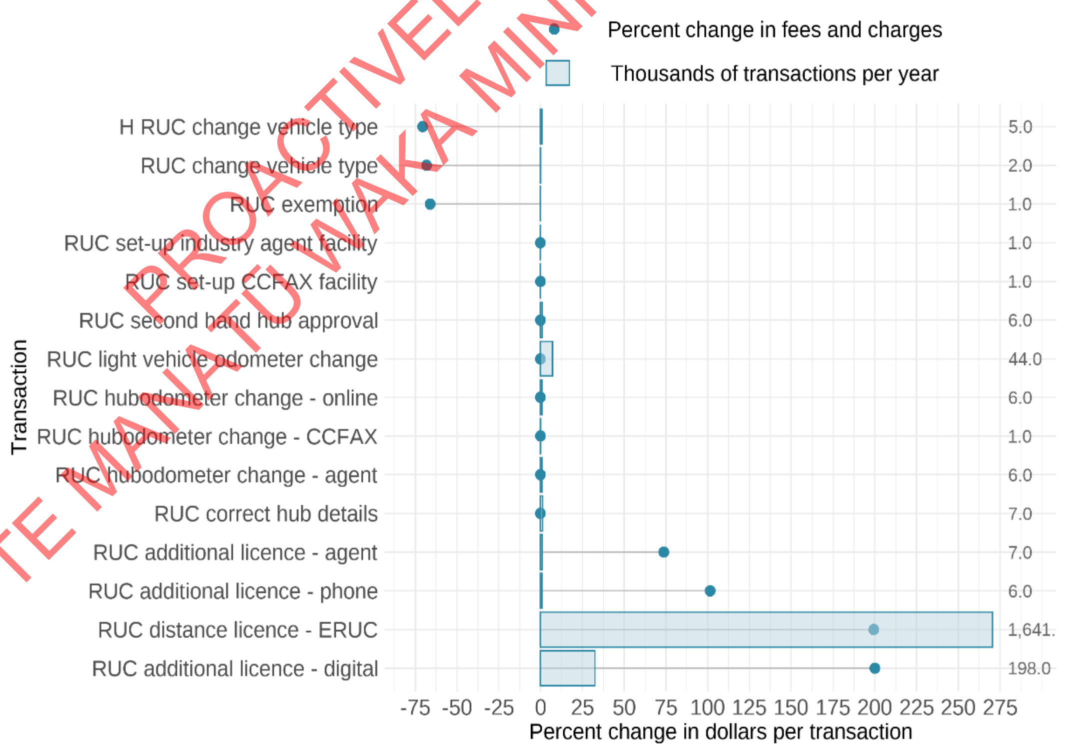


Figure 4.3: Proposal 4: percentage change in fees collected from businesses



Impacts on households

Increased fees are likely to be passed-through immediately to households rather than being borne by business.

As noted in section 1.9 on page 29, the overall annual cost impact on households is considered to be modest. For similar reasons as outlined in the overall assessment, the impact of increasing RUC administration fees is expected to be low considering the benefits and costs of the overall RUC transactions, and customers will have choice between channels to purchase RUC.

Impacts on RUC agents

RUC agents would need to change their pricing schedules. The proposed new fees would be recovered via the existing transaction revenue collection processes minimising the need for additional process costs. Waka Kotahi cannot accurately predict the impact the proposed fees could have on the behaviour of motor vehicle (diesel) owners or demand for services. However, should demand exceed the projected volumes in the model, the increased revenue accruing to increased volume of fees will pay for any additional staff required to manage demand.

New RUC agents would face greater costs to enter the system as they would have to pay to set up purchasing facilities.

Impacts on Waka Kotahi

The costs for providing RUC administration services will be recovered fairly and support sustainable funding for this part of the regulatory function. As noted above, should demand exceed the projected volumes in the model, the fees will pay for any additional staff required to manage demand.

Waka Kotahi has a dedicated project and sufficient time to ensure a smooth transition to implementation.

4.6 Assessment against cost recovery principles

This section assesses the options using the cost recovery principles endorsed by the Waka Kotahi Board (based on Transport and Treasury cost recovery principles) to guide its approach to the funding and fees review and to ensure future costs would be spread fairly and in a transparent way - See Table 4.4. below.

Table 4.4: Policy assessment for all of Proposal 4

Principles	Status quo (existing model)	Option 1 (proposed fees)
Supports transport system objectives	- - - Past experience shows that underfunding creates risk to the transport systems objectives. Under-resourcing the regulatory function resulted in regulatory failure, and then the Government provided loans to address identified regulatory gaps	+++ The proposed funding model would sustain the regulation of RUC and eRUC, and strengthen the integrity of the RUC system
Users should pay for the services, but incentives are important	- Users do not currently pay for some of these services and do not pay the real costs of other services, meaning they are cross subsidised by other fee payers	++ The proposed fees reflect the costs of providing the services and minimise cross-subsidisation
Users and beneficiaries should contribute to the integrity of the system	- - The current fees and charges are based on rates set in 2013/14 when the Road User Charges Act (2012) came into force, and do not reflect the current cost to provide RUC and eRUC services today	+++ The proposed fees would ensure that the regulatory function and RUC system is adequately funded
Be simple and consistent	- + The current system is simple but does not apply a consistent approach - some services are cost recovered and some are not	++ The proposed system is simple and applies a consistent approach to recovering fees across services
Focused on ensuring risk exacerbators and beneficiaries of services	- - - The current model (status quo) does not appropriately recover regulatory costs from the main groups that benefit from the regulatory services	++ The proposed fees reflect the costs of providing the services and are collected from those who receive private benefits from the service
Crown funding is limited to certain functions	N/A	N/A
Be equitable	- Unless the changes are made, some groups are not paying their fair share for services provided	+ The proposed fees would ensure everyone is paying their fair share of these costs
Is sustainable	- - - Not charging for services and not recovering the costs of other services is not sustainable	+++ The proposed fees would ensure that the system is adequately funded overall

Key

+++ much better than doing nothing/ the status quo	++ better than doing nothing/ the status quo	+ slightly better than doing nothing/ the status quo
- - - much worse than doing nothing/ the status quo	- - worse than doing nothing/ the status quo	- slightly worse than doing nothing/ the status quo
- + has an element of being slightly better but retains some element of being slightly worse so on balance is about the same as doing nothing/status quo		

4.7 Consultation / Industry feedback

Waka Kotahi undertook consultation on the changes under Proposal 4 from 21 March 2022 to 13 May 2022.

Consultation involved 29 engagement hui with industry, councils, iwi and Māori, and focus groups, including hard-to-reach community groups. The workshops and focus groups provided an opportunity for stakeholders to query the proposals and give initial feedback.

23 submissions were received on Proposal 4. In addition, four industry workshops (with eRUC providers, key service delivery partners (agents), industry agents, and TSL holder groups) gave an opportunity for feedback and allowed clarification on key aspects of the proposed RUC administration fees.

Consultation feedback, including from industry and users, was generally mixed. Submitters generally opposed proposed fee increases and mostly supported proposed decreases to fees.

Submitters who opposed changes focused on the impact of rising costs for them and their business. Industry noted:

- the cumulative effect of many small increases could add up to a substantial increase in industry administration costs per year, even though the amounts per transaction are small; the increases would be most felt by firms running large fleets in, at times, difficult operating conditions
- A few submitters noted investment in their software systems would be needed to add the proposed new fees.

Some submitters recommended technological improvements to improve RUC processing. One submitter noted many charges only existed due to Waka Kotahi's manual process.

Reasons for supporting the new fees and changes included understanding fees need to reflect the cost of the service and support for a user-pays approach. Submitters who agreed with a more sustainable and fairer cost-recovery model stated the increases would not make a material impact on costs, and the increased fees are the cost of doing business.

Submitters also considered increases would be passed on to consumers.

Waka Kotahi response to feedback

Waka Kotahi analysed all consultation feedback (through submissions, workshops and focus groups) on Proposal 4 and held technical workshops with relevant business teams to confirm understanding of the issues raised.

For the most part, the concerns raised in submissions can be mitigated, a few concerns were based on incorrect assumptions. Analysis did not lead to any proposed changes from RUC administration fees consulted on.

Specific responses to submissions are:

- the proposed new fees would be recovered via the existing transaction revenue collection processes minimising the need for additional software costs
- suggestions for improvements will be considered in any future business case for technology investment.

See *Appendix Six: Consultation overview* for further information on the consultation process undertaken and the general themes raised about the collective proposals as part of the funding and fees review.

Proposed new fee for processing corrections of hubodometer serial/make

Waka Kotahi consulted on a proposed new fee for processing corrections of hubodometer serial/make. On further investigation, Waka Kotahi now considers this proposed fee to be ineffective and inefficient to collect due to the operational realities involved. The fee is therefore, no longer presented in the table of fees, and the costs of this service (around $90,000) will not be cost-recovered.

4.8 Overall Assessment

Option 1 aligns to the cost recovery principles. While there is financial impact on businesses from increasing and introducing new fees, Option 1 would better reflect the actual costs of the services and prevent ongoing cross-subsidisation of these services.

The status quo is not a desirable option as RUC and eRUC administration fees would continue to over- and under- recover costs, and services would be provided free. This does not align to cost recovery principles as it is unfair (if cross-subsidised by other users) or unsustainable (if not).

4.9 Implementation

If agreed, the proposed rate changes under Proposal 4 would be made through amendments to the Road Users Charges (Administration Fees) Regulations 2014, and would take effect on 1 October 2023.

An implementation plan would outline actions to implement and effect the new rate changes. See *Appendix Seven*: *Implementation, Monitoring and Review* for further information on Waka Kotahi's implementation approach for the proposed changes.

4.10 Monitoring and review

The proposed service rate changes under Proposal 4 are based on forecasted service volumes which may fluctuate and change and could result in under- or over-recovery. In addition, although there is detailed data on the expected costs for the proposed changes, there is much less detailed information on the associated impacts.

Waka Kotahi will mitigate the financial risk of developing a significant surplus or deficit in response to service volume change by actively monitoring the performance of the associated memorandum account on an annual basis, specifically, that the account balance tracks towards zero over a three-year time period. Waka Kotahi will assess the service rates at least every three years, which may result in rate changes if required to ensure full cost recovery or to address significant over-recovery.

Waka Kotahi will continue regular targeted engagement with industry to better understand the ongoing impacts the progressed changes may have on the sector over time. Updated and more robust impact information will inform the development of any future funding and fees review.

Waka Kotahi will report annually on the performance of the services provided under Proposal 4 to provide transparency to industry, the public and other interested parties, and to report on actions undertaken to ensure the regime continues to operate efficiently.

See *Appendix Seven: Implementation, Monitoring and Review* for further information on Waka Kotahi's monitoring and review activities for the proposed changes.

Proposal Five – Changes to transport service licence (TSL) holder fees and charges

5.1 Background

Waka Kotahi administers over 100,000 transport service licences (TSLs) under the Transport Services Licensing Regulations 1989. Some TSL holders have more than one vehicle.

Whether you're an individual or a company, you must hold the appropriate TSL if you're operating a goods service, large or small passenger service, vehicle recovery service or rental service.

The TSL should be held by whoever is operating the licence and paying the costs of the operation and vehicle costs. Each vehicle operating under a TSL must display a TSL in its windscreen. The licence shows that TSL holders are fit to operate such a service and have the required knowledge of the laws and practices relating to the safe and proper operation of a transport service.

Services provided

Regulatory services provided by Waka Kotahi and agents (acting on behalf of Waka Kotahi) relating to TSL holders refer to services provided under the Land Transport Act 1998 and the Transport Services Licensing Regulations 1989.

These services include:

- **processing applications and issuing TSL**

  These services provide transport operators the benefit of entering and accessing the regulatory system.

  These user-facing services are provided through a variety of channels, including online, mail, email, phone, and over the counter at specified agents. Waka Kotahi provides online services through its customer service centre. Waka Kotahi also contracts a variety of agents like NZ Post, VTNZ and AA to receive TSL applications over the counter, for decisions by Waka Kotahi.

- **ongoing oversight and monitoring of the TSL system**

  These services enable Waka Kotahi to monitor and manage the risks to the land transport system and ensure that this sector of industry operates safely and fairly.

  Waka Kotahi provides standards and guidelines, industry engagement, education, compliance monitoring activities (on-site audits, fleet audits, investigations), and enforcement activities (suspensions, revocations, infringements, and prosecutions).

- **dangerous goods regulation in the TSL system**

  Waka Kotahi is one of several agencies that regulate dangerous goods handling and transportation. Dangerous goods are substances or articles with hazardous properties which, if not properly controlled during transport, present potential hazards to health, safety, the environment, and anything in it.

Regulatory services provided by Waka Kotahi relating to dangerous goods refer to services provided under the Land Transport Act 1998 and associated Rules (Land Transport Rule: Dangerous Goods 2005 (45001/1) and Land Transport (Driver Licensing) Rule 1999 (SR1999/100)). They include engaging with road users and commercial transporters, providing technical interpretation and advice around safe dangerous goods transport requirements on New Zealand roads, and engagement with enforcement agencies.

Waka Kotahi proposes to increase its audit and compliance function, which will include investing in a more sophisticated risk-based intelligence system to better understand risks and monitor performance. It plans a new standard setting framework, and a shift from prescriptive standards to outcomes-based standards. It also proposes to strengthen its regulatory services for dangerous goods transportation, in particular focusing on effective compliance monitoring and interventions.

Waka Kotahi proposes to increase its ongoing oversight and monitoring by doubling the volume of monitoring and compliance activities such as:

- increasing site visits five-fold.
- doubling the number of roadside operations
- doubling the amount of guidance and intelligence we give to the sector with the sector
- doubling our capability to deal with complaints
- increasing fleet audits and investigations
- increasing our auditing of instructors and testing officers tenfold, including providing capability to deal with complaints
- implementing the Compliance response framework, ensuring consistent regulatory activity and standards across the sector
- using better intelligence and targeting and focus on who is creating greater risk
- undertaking dangerous goods work in TSL checks for the first time

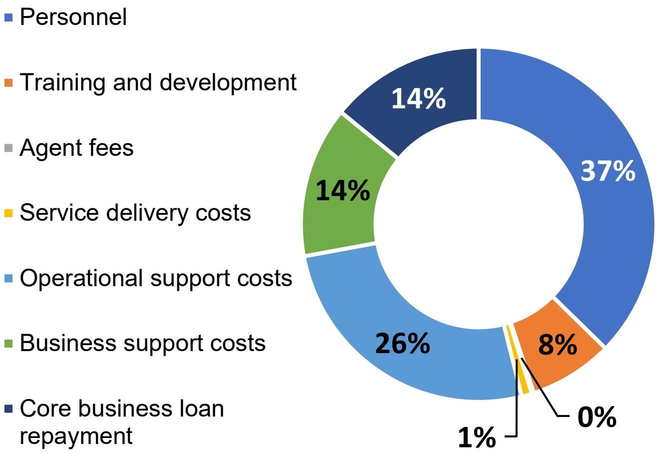
These changes will encourage greater compliance and support greater safety in the land transport system.

Cost drivers

The overall costs to provide the services in Proposal 5 is $20.47 million per annum (ex GST). Figure 5.1 shows how these costs are made up.

Figure 5.1: Composition of costs per year (average costs 2023/24 – 2025/26)

Regulatory activity	Total cost per year ($m) (ex GST)
Personnel	$7.64
Training and development	$1.56
Agent fees	$0.04
Service delivery costs	$0.19
Operational support costs	$5.32
Business support costs	$2.82
Core business loan repayment	$2.89*
Total	**$20.47**



*Driver Licencing will repay approx. 27.2% of the $80 million in regulatory loans

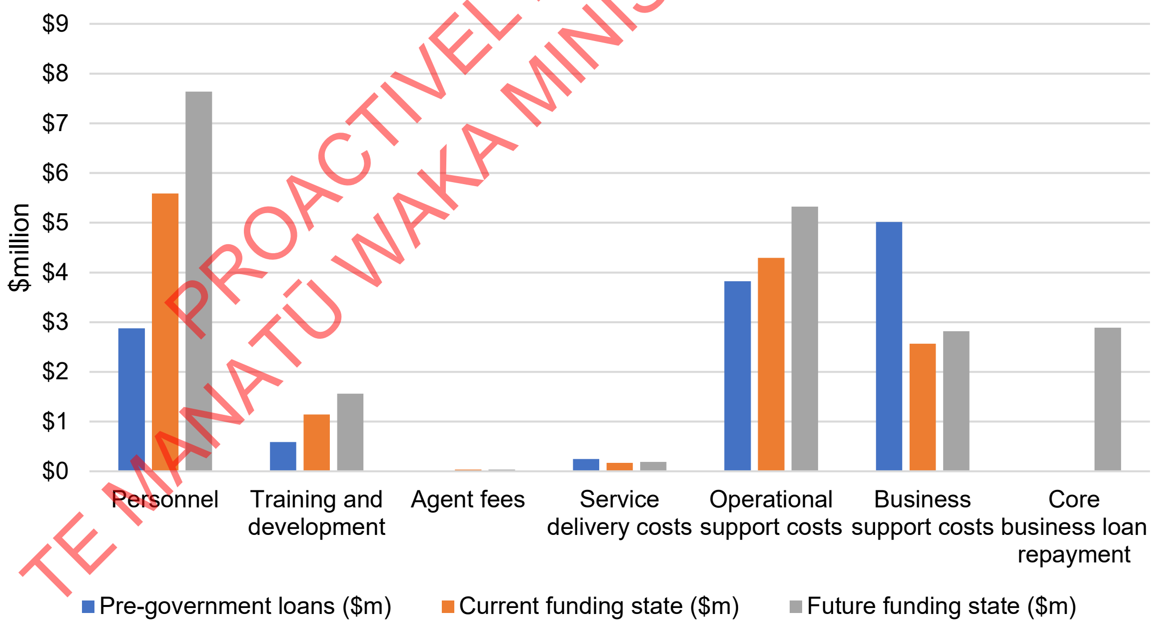
The largest costs are personnel costs (37%) and operational support costs (26%). The additional staff will focus on engagement and partnership with the industry to identify the critical risks in each area, better intelligence and targeting, focusing oversight on those who create greater risk and increasing the visibility of Waka Kotahi's compliance activities to encourage increased compliance.

Table 5.1 and Figure 5.2 show how the costs are anticipated to change over time.

Table 5.1: Change in cost over time – TSL holders

	Total Cost (GST Excl) $		
Regulatory activity	**pre-Govt loans total cost (GST Excl)**	**Current state total cost (GST Excl)**	**Future state total cost (GST Excl)**
Personnel	$2,874,186	$5,590,335	$7,639,309
Training and development	$588,689	$1,145,008	$1,564,678
Agent fees	$0	$34,642	$37,761
Service delivery costs	$245,321	$167,793	$192,152
Operational support costs	$3,819,803	$4,293,439	$5,324,100
Business support costs	$5,015,102	$2,568,053	$2,819,167
Core business loan repayment	$0	$0	$2,888,636
TOTAL	**$12,543,102**	**$13,799,271**	**$20,465,802**

Figure 5.2: Change in cost over time – TSL holders



Section 1.6 on page 23 presents a breakdown of costs that apply to all proposals from 2017/18 to the future state. There are some unique drivers for Proposal 5 as described below.

Changes in Proposal 5 personnel costs are driven by investing in more frontline staff (an additional 22 FTEs) to increase the number of audits, inspections and interactions with transport service licence holders (see above). Waka Kotahi continues to build its intelligence and standards functions to ensure staff are armed with the best tools to identify and respond to risk.

Loan repayments have been spread across the funding model. However, in this area, a proportionally higher loan repayment is built in, given the extent of immediate regulatory rebuild required to address regulatory gaps. Currently that regulatory rebuild is funded by the loans.

Nature of the goods

The nature of the goods was identified for each service, and this determined how costs should be applied across the funding model – this approach is outlined in Table 1.2 on page 17 and in *Appendix Two: Nature of the Goods.*

The proposed fees in Proposal 5 are charged for user-facing services that are considered private goods. These services provide a direct benefit to the TSL holder (by providing them with a TSL allowing them to operate in the industry). These businesses would not be able to operate and generate a profit without being licensed. The fees reflect the costs of processing the applications.

The ongoing regulatory oversight services are club goods as the services are provided to the TSL holder groups, as a whole. TSL holder groups are the main beneficiaries of these services. They also introduce risk into the transport system if regulations are not followed. The new group charges reflect the costs of regulating TSL holders as part of the land transport system .

5.2 Problem

The current TSL holder fees and charges are based on estimated rates set several years ago and do not reflect the current or projected costs to regulate and provide TSL services. Higher risk activities require greater oversight or regulation and the existing fees do not reflect the risks in this part of the land transport system. The Review identified the regulation of TSL holders as a group, is being subsidised by other fee payers.

Dangerous goods create risks that need to be minimised, and this requires strengthening compliance monitoring and interventions.

5.3 Options

Options and key features

This document analyses two options:

- Status quo – retain existing fees for TSL holders
- Option 1 – Proposal 5 (with revised approach to dangerous goods): changes to TSL application fees and new charges on all small passenger service licence (small PSL), large passenger service licence (large PSL), goods service licence (GSL), vehicle recovery service licence (VSL) and rental service licence (RSL) holders. Dangerous goods charges placed on all GSL holders, and only RSL holders leasing heavy vehicles (3.5+ tonne), as these are the TSL holders who are most likely to operate vehicles that carry the dangerous goods.

Discarded options for dangerous goods

Dangerous goods as consulted - charges placed on GSL and RSL holders

It was proposed, in the consultation document, that the dangerous goods charge be applied to all GSL and RSL holders. Submitters generally support the need for greater regulatory oversight and support to providers to meet regulatory requirements. However, there is concern about how to fairly and efficiently recover the costs of ongoing dangerous goods regulation, given the difficulties for RSL operators being able to identify whether dangerous goods are being carried for the majority of vehicle rental agreements.

Other options were identified to recover dangerous goods regulatory costs, but were discarded as inappropriate or not feasible.

These included:

- charging all RSL holders for dangerous goods regulation - this could create inconsistent and unfair costs on the majority of vehicle renters who do not necessarily carry dangerous good or create the associated risk to the safety of the system
- removing the dangerous goods charge from RSL holders and using public funding or applying the charge to all road users through motor vehicle registration. These options were not considered to meet the requirements of public goods or appropriately target the likely risk creators in the system
- limiting the application of the dangerous goods charge to a sub-group GSL holders. Although not all GSL holders carry dangerous goods, the group as a whole is a key area of risk that needs regulation and support to comply with regulatory requirements.

5.4 How will services be funded?

Waka Kotahi currently charges fees to apply to hold a TSL and annual regulatory fees for each type of TSL.

Option 1 changes fees and introduces TSL group charges to reflect the costs of regulating the TSL system and ensure that costs are recovered from those who directly benefit from Waka Kotahi's services and introduce risk to this part of the system.

The proposed TSL holder fees and charges provide sustainable funding to support the TSL regulatory services required to ensure overall safety in the system.

The level of fees and charges are determined from the costs to process applications

The following table sets out the current (status quo) and proposed (Option 1) application fees for TSL holders. The fees reflect the costs of processing the applications.

Table 5.2: Summary of proposed TSL application fees changing under this proposal

Service	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Status quo (incl. GST)
New TSL – with one controlling person	$891,177	2,334	$439.02	$449.80
New TSL – with two or more controlling people	$596,854	1,176	$583.87	$449.80

Fees would continue to be collected at the point of application for a new TSL.

Option 1 also proposes new group charges for all TSL holder groups made up of a base annual licence charge for ongoing regulatory oversight, monitoring, and regulatory services, plus a dangerous goods regulatory charge for goods service licence (GSL holders) and rental vehicle operators (RSL holders).

Table 5.3: Summary of proposed TSL charges (changing from current fees)

TSL holder group	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Status quo (incl. GST)
Passenger service licence (PSL) – small vehicles	Base oversight = $19.01m Dangerous goods oversight = $2.58m	221,130	$98.87	$56.20
Passenger service licence (PSL) – large vehicles			$98.87	$56.20
Vehicle recovery service licence (VSL)			$98.87	$56.20
Rental service licence (RSL) – light vehicles (<3.5 tonne)			$98.87	$56.20
Goods service licence (GSL)		139,431	$120.12	$56.20
Rental service licence (RSL) - heavy vehicles (3.5+ tonne)			$120.12	$56.20

These group charges replace existing fees on TSL holders and reflect the costs to regulate, averaged over the group.

The proposed charges reflect:

- a base annual licence charge for each TSL group (small PSL, large PSL, GSL, VSL and RSL), to fund general regulatory oversight- monitoring, enforcing, providing guidance etc
- recovering costs for the regulation of dangerous goods from GSL and RSL holders renting out heavy vehicles (3.5+ tonne) through a charge added onto the base charge above, as these TSL holders are most likely to operate vehicles that carry the dangerous goods.

It is proposed that the new charges be collected at the point of motor vehicle licence renewal. It would apply to all vehicles within scope of the relevant proposed TSL charges.

5.5 Estimated financial and economic impacts

Table 5.4 summarises the impacts of the proposed TSL holder fees in Proposal 5 on different users and Waka Kotahi.

Table 5.4: Impacts of the proposed fees

Numbers affected	Waka Kotahi administers more than 100,000 transport service licences (TSLs)
For individual or family	Costs may be passed on from businesses, e.g. when moving house, or when using a taxi or rideshare service
For commercial drivers	Some costs increase, some decrease
For Transport Services Licence (TSL) holders	Costs would go up, as TSL holders would pay a new contribution to regulatory activities Dangerous goods charge collected from GSL and RSL holders renting out heavy vehicles (3.5+ tonne)
For agents	Agents would need to implement price changes
For Waka Kotahi	The costs for providing TSL regulatory services will be recovered fairly and supporting the sustainability of this part of the regulatory function. Changes to fees and charges will be affected through the implementation and communications plan.

Section 1.9 on page 29 describes the overall impacts of this review on business and households. Impacts on business and households specific to the fees and charges in Proposal 5 are described here.

Impacts on businesses

Costs for TSL holders would increase, and they would pay a new contribution to regulatory activities (through charges). The impact on vehicle renters would be more fairly aligned to the group where the risk is highest.

Figures 5.3 and 5.4 show the changes in fees and new charges collected from business, under Proposal 5. They show:

- the changes to TSL application fees are substantial (both increases and decreases) across a small volume of applications. This reflects the age of the existing TSL application fees (2010) and the increased focus of the Review on funding sustainability and avoiding cross-subsidisation
- the percentage changes from existing annual licence fees to new group charges are significant (76-114% increase). This reflects the age of the existing annual licence fees (2007)
- the larger increases in annual licence charges is due to the addition of dangerous goods regulation on GSL and heavy vehicle rental (RSL) holders, which is not currently cost recovered.

From the perspective of annual expenditure increases, small passenger vehicle operators face the largest increase in fees and charges (refer to *Appendix Five: System-wide impact analysis of the proposed changes,* which estimates the proposed fees and charges could increase annual expenditure by 2.2%).

Costs may be passed on, over time, from TSL holders to users, shifting some of the cost impacts from TSL holders to their customers. Timing of pass through of costs to consumers will be variable. It is uncertain when price changes for charges through agents and companies will be passed through to consumers, it will depend on when they review pricing their services (often annually). It is likely however that from October 2023 50% of costs will be passed through increasing to 100% by October 2025.

Figures 5.3 and 5.4: Graphs showing dollar and percentage change in fees and charges collected from businesses

Figure 5.3: Proposal 5: change in fees collected from businesses

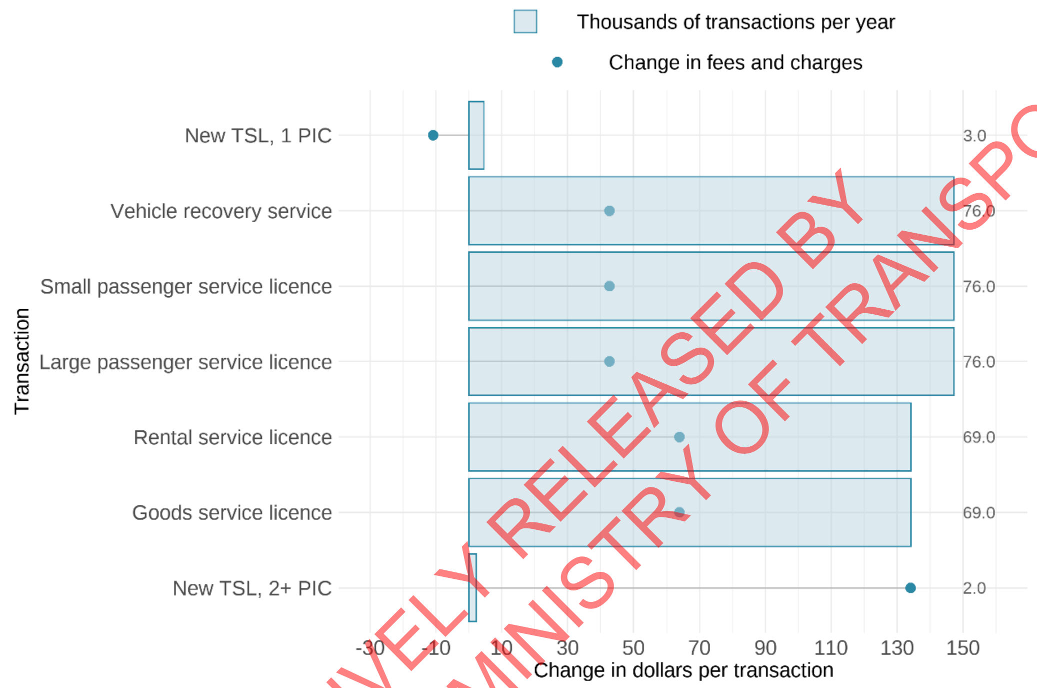
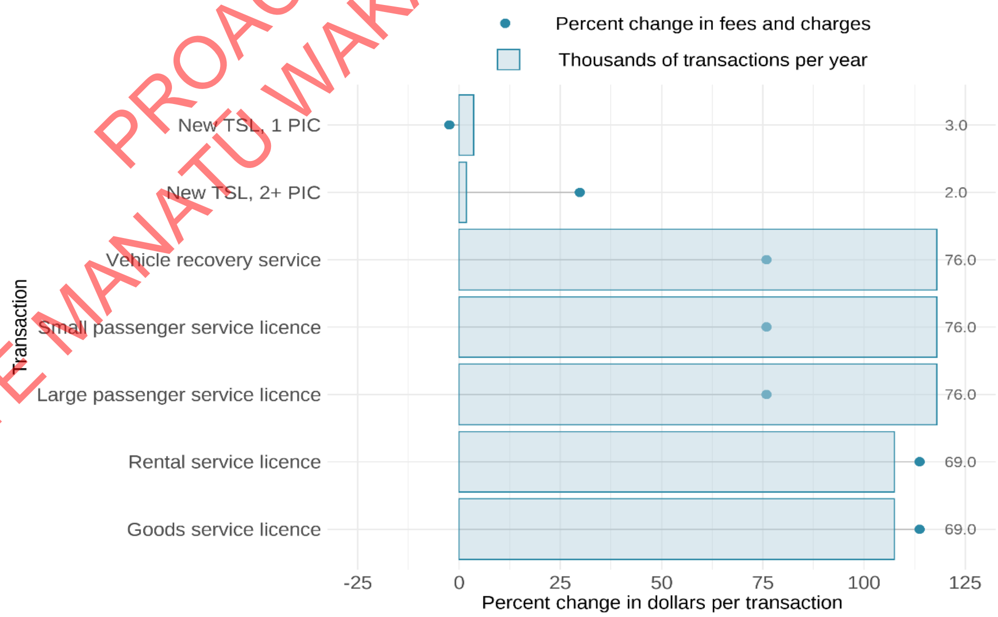


Figure 5.4: Proposal 5: percentage change in fees collected from businesses



The following personas provide case studies of the financial impacts of TSL services to businesses, with a comparison of current (status quo) and proposed (Option 1) regulatory fees and charges. All estimates include GST. The personas may show fees and charges that are in other proposals to provide a broader picture of the impacts of the costs to businesses for transactions relating to Proposal 5 (e.g. a TSL charge is applied when a vehicle licence is being renewed and those rates are set out in Proposal 3).

Paora			
Paora is just about to take over his dad's house-moving business. The business is based in Wainuiomata, but most of their clients are in Porirua and the Hutt Valley. He has a small fleet of five trucks which his team uses.			
	Proposal	**Current**	**Proposed**
Goods service licence – annual charge (per vehicle)	5	$56.20	$120.12
Renewal of a motor vehicle licence (per vehicle)	3	$392.04	$396.83
COF per vehicle (per truck)	6	$288.00	$284.69
Total (rounded to nearest dollar)		**$3,681.20**	**$4,008.16**

Maia			
Maia runs a large commercial logistics business that transports goods (sometimes dangerous goods) around the North Island. She is based in Hamilton, but the trucks drive between Auckland, Gisborne, New Plymouth, Hastings, and Wellington. Her current fleet has 15 large trucks, two of which are over 44 tonne. She has to obtain an over-length permit around once a month.			
	Proposal	**Current**	**Proposed**
Goods service licence – annual charge including dangerous goods charge (per vehicle)	5	$56.20	$120.12
Renewal of a motor vehicle licence (per vehicle)	3	$392.04	$396.83
COF per vehicle (per truck)	6	$288.00	$284.69
Application for higher mass permit exemption (per vehicle)	3	$62.73	$11.85
Application for over dimension permit (per vehicle)	3	$31.70	$21.94
Total (rounded to nearest dollar)		**$11,549.47**	**$12,311.44**

City Connector Bus Services			
City Connector Bus Services is a budget transport services company that transports people between cities nationwide. Currently, they have a fleet of 50 diesel buses but have forecasted an increase in domestic travel so are importing five additional used diesel buses to meet anticipated demand.			
	Proposal	**Current**	**Proposed**
Large passenger service licence	5	$56.20	$98.87
COF per vehicle (per vehicle)	6	$288.00	$284.69
Renewal of a motor vehicle licence (per vehicle)	3	$392.04	$396.83
Register a new vehicle with VIN (MR2A) – agent (per vehicle)	3	$234.32	$241.30
Entry into NZ for new heavy vehicle – agent (per vehicle)	3	$1,150.00	$1,184.76
New plates (After a MR2a/b) - agent (per vehicle)	3	not charged	$18.25
Total (rounded to nearest dollar)		**$45,455**	**$48,159**

The personas do not deal with any pass through of costs to customers, which would reduce costs to business but increase costs to customers.

Impacts on households

As noted above, costs may be passed on from TSL holders to their customers, e.g. when hiring a removal firm when moving house, or when using a taxi or rideshare service.

While percentage increases to the TSL charges are significant, the value of the cost increases are moderate ($43-64 per vehicle) and the cost impact across a high volume of customers over the year would be modest.

Impacts on agents

There would be a modest impact on agents who would need to implement price changes.

Impacts on Waka Kotahi

The costs for providing TSL regulatory services will be recovered fairly and support sustainable funding for this part of the regulatory function.

The proposed charges are based on the costs of providing these services and forecasted volumes. Waka Kotahi cannot accurately predict the impact the proposed charges could have on TSL holder behaviours. Should the actual volumes not align with the forecast there is a risk that charges may not adequately fund all regulatory services. All services will need to be monitored to determine whether new charges adequately recover costs.

There is less impact on changes in volumes for services recovered by application fees as each fee reflects the costs of providing the service.

Waka Kotahi has a dedicated implementation project and sufficient time to ensure a smooth transition to implementation, including communicating changes.

5.6 Assessment against cost recovery principles

This section assesses the options using the cost recovery principles endorsed by the Waka Kotahi Board (based on Transport and Treasury cost recovery principles) to guide its approach to the funding and fees review and to ensure future costs would be spread fairly and in a transparent way.

Table 5.5: Policy assessment for all of Proposal 5

Principles	Status quo (existing model)	Option 1 (proposed fees)
Supports transport system objectives	- - - Past experience shows that underfunding places risks to transport system objectives (safety). Under-resourcing the regulatory function resulted in regulatory failure, and then the Government provided loans to address regulatory gaps	+++ The proposed funding model would sustain the regulation of TSL holders, including for dangerous goods, to contribute to a safer system

Principles	Status quo (existing model)	Option 1 (proposed fees)
Users should pay for the services, but incentives are important	- Submitters generally agree that the current fees are inadequate to provide the necessary regulatory services and support to providers	++ There is a need for more regulatory activity in the TSL area and the proposed fees and group charges reflect the costs of providing this. Submitters generally support the need for greater regulatory oversight and support to providers to meet regulations. The increased costs would unlikely create disincentives to TSL holders
Users and beneficiaries should contribute to the integrity of the system	- Without continuous improvement of their systems, Waka Kotahi would not be able to increase their audit and compliance function to improve safety outcomes, which is generally supported by TSL holders	+++ The proposed fees and group charges would ensure that the regulatory function and system integrity is adequately funded overall.
Be simple and consistent	- Funding is unsustainable, meaning regulatory oversight services may not be adequately provided on par with other users	- + Fees and charges are standardised, with the exception of dangerous goods charges which will only be placed on heavy vehicle (3.5+ tonne) RSL and GSL holder groups
Focused on ensuring risk exacerbators and beneficiaries of services	- - - The current model (status quo) does not appropriately recover ongoing regulatory costs from the main groups that contribute to risks and benefit from the regulatory services	+++ The proposed fees and group charges would increase the relative proportion of the costs borne by TSL holders to minimise cross-subsidisation and to reflect benefit received. The proposed charges would ensure that the heavy vehicle RSL and GSL holder groups more fairly pay their share for the costs to regulate dangerous goods
Crown funding is limited to certain functions	N/A	
Be equitable	- - - It is not fair that other fee payers are subsidising the costs to regulate TSL holders because the current fees do not cover those costs adequately	+++ The proposed fees and charges would ensure that TSL holder groups pay their fair share for regulatory costs

Principles	Status quo (existing model)	Option 1 (proposed fees)
Is sustainable	- - - Leaving the existing fees unchanged is not sustainable, especially because Waka Kotahi intends to increase its audit and compliance function to improve safety outcomes	+++ There is a need for more regulatory activity in the TSL area and the proposed fees and group charges reflect the costs of providing this

Key

+++ much better than doing nothing/ the status quo	++ better than doing nothing/ the status quo	+ slightly better than doing nothing/ the status quo
- - - much worse than doing nothing/ the status quo	- - worse than doing nothing/ the status quo	- slightly worse than doing nothing/ the status quo
- + has an element of being slightly better but retains some element of being slightly worse so on balance is about the same as doing nothing/status quo		

5.7 Consultation / Industry feedback

Waka Kotahi undertook consultation on the changes under Proposal 5 from 21 March 2022 to 13 May 2022.

Consultation involved 29 engagement hui with industry, councils, iwi and Māori, and focus groups, including hard-to-reach community groups. The workshops and focus groups provided an opportunity for stakeholders to query the proposals and give initial feedback.

17 submissions were received on Proposal 5. In addition, two industry workshops (with passenger, rental and goods service licence holder groups) gave an opportunity for feedback and allowed clarification on key aspects of the proposed TSL holder fees and charges under Proposal 5.

Feedback was mixed on specific TSL application fees:

- most (7 of 9) submitters who commented on the fee reduction for the new fee, TSL (one controlling person), considered the fee reasonable
- most (54 of 58) submitters who commented on the increased fee for the new fee, TSL (more than one controlling person), opposed the increase due to increasing costs of living and business. Some submitters who agreed with this fee increase recognised the need to recover the costs for the time it takes to process the applications and some noted the commercial gain that applicants gain from TSL licences.

Feedback was also mixed on the proposed changes from annual licence fees to larger annual group charges to fund ongoing regulatory oversight, including oversight of dangerous goods, as follows:

- submitters do not consider charging RSL holders a dangerous goods charge is fair. Operators fed back that they have no way of knowing who will carry dangerous goods in their vehicles and so they argued it is not a fair charge. Submitters considered it unfair to charge the majority of RSL holders as they are not necessarily responsible for the transport of dangerous goods.

- taxi companies (small passenger TSL holders) would like to see more regulatory oversight – especially around health and safety. A joint submission was received from the four of the biggest taxi companies. The joint submission expressed concern that the proposed fees and charges were increasing, but they were not seeing an increase in service.

Waka Kotahi response to feedback

Waka Kotahi analysed all consultation feedback on Proposal 5 - received through submissions and workshops. Internal workshops with relevant business teams were held to confirm understanding of the issues raised.

Based on the consultation feedback, Waka Kotahi refined the application of the proposed dangerous goods charge to focus on all GSL and only those RSL holders leasing heavy vehicles (3.5+ tonne), as these are the TSL holders who are most likely to operate vehicles that carry the dangerous goods.

Following their joint submission, Waka Kotahi engaged further with the group of taxi companies to discuss how regulatory services could improve this industry and operating environment. Providing relevant and responsive regulatory services will require Waka Kotahi to work with the industry to deal with emerging issues. Waka Kotahi will collect and monitor data about levels of compliance and risk to inform allocation of resources.

On balance, Waka Kotahi considers the other concerns raised in submissions did not change the need to provide the regulatory services in Proposal 5 and fairly recover the costs of those services through the proposed fees and charges.

See *Appendix Six: Consultation overview* for further information on the consultation process undertaken and the general themes raised about the collective proposals as part of the funding and fees review.

5.8 Overall Assessment

Option 1 aligns to the cost recovery principles. While the proposed changes to the TSL fees and charges are substantial, particularly for operators that transport dangerous goods and for small passenger services, Option 1 would better reflect the actual costs of the services, the nature of the good and where risk lies. The proposed fees and charges would prevent cross-subsidisation and support the sustainability of the funding model.

The status quo is not a desirable option as the current fees are inadequate to provide the necessary regulatory services and support to providers. Other fee payers are currently subsidising the costs to regulate TSL holders because the fees currently charged do not cover those costs adequately.

5.9 Implementation

If agreed, the proposed rate changes under Proposal 5 would be made through amendments to the Transport Services Licensing Regulations 1989, and would take effect on 1 October 2023.

An implementation plan would outline actions to implement and effect the new rate changes. See *Appendix Seven*: *Implementation, Monitoring and Review* for further information on Waka Kotahi's implementation approach for the proposed changes.

5.10 Monitoring and review

The proposed service rate changes under Proposal 5 are based on forecasted service volumes which may fluctuate and change and could result in under- or over-recovery. In addition, although there is detailed data on the expected costs for the proposed changes, there is much less detailed information on the associated impacts.

Waka Kotahi will mitigate the financial risk of developing a significant surplus or deficit in response to service volume change by actively monitoring the performance of the associated memorandum account on an annual basis, specifically, that the account balance tracks towards zero over a three-year time period. Waka Kotahi will assess the service rates at least every three years, which may result in rate changes if required to ensure full cost recovery or to address significant over-recovery.

Waka Kotahi will continue regular targeted engagement with industry to better understand the ongoing impacts the progressed changes may have on the sector over time. Updated and more robust impact information will inform the development of any future funding and fees review.

Waka Kotahi will report annually on the performance of the services provided under Proposal 5 to provide transparency to industry, the public and other interested parties, and to report on actions undertaken to ensure the regime continues to operate efficiently.

See *Appendix Seven: Implementation, Monitoring and Review* for further information on Waka Kotahi's monitoring and review activities for the proposed changes.

Proposal Six – Changes to fees and charges for motor vehicle certifier activities

6.1 Background

Inspecting organisations and vehicle certifiers (referred to in this document collectively as certifiers) must be appointed by the Director of Land Transport. Certifier activities include entry certification for vehicles entering New Zealand, issuing warrants of fitness (WoF) and certificates of fitness (CoF), certification of modified light or heavy vehicles, vehicles powered by liquid petroleum gas or compressed natural gas, and vehicles that need repairs to fix structural damage.

This is the area where regulatory failure occurred in 2018 and which triggered the two independent reviews.

In an average year:

- More than 3,000 inspecting organisations inspect 4.7 million vehicles subject to WoF and 500,000 vehicles subject to CoF
- 5 border inspecting organisations and 6 entry certification organisations certify between 130,000 and 146,000 vehicles entering New Zealand
- 180 heavy vehicle certifiers certify over 42,000 vehicles
- 49 low volume vehicle certifiers who deal with over 8,000 vehicles
- 44 repair certifiers who deal with over 17,000 vehicles.

Services provided

Motor vehicle certifier services are provided under the Land Transport Act 1998 and fees to become a motor vehicle certifier are specified in the Land Transport (Certification and Other Fees) Regulations 2014.

Waka Kotahi carries out compliance activity related to certifiers. Waka Kotahi also provides ongoing regulatory oversight, monitoring and other stewardship services to the motor vehicle certifiers area.

Regulatory failure has highlighted the importance of increasing the coverage of compliance activity for Waka Kotahi.

Border and entry certifiers, along with specialist heavy vehicle, low volume and repair certifiers were not being regulated. Proposal 6 intends to fund the full suite of regulatory activities in these areas including reviewing complaints, revoking, or suspending any non-performing sites, engaging, and educating the industry, and conducting inspections, assessments, and investigations.

Regulation of vehicle inspectors and vehicle inspecting organisations will see a 200% increase in existing regulatory activity.

Overall Proposal 6 intends to fund increasing our activity, focusing on certification and on-site visits and random vehicle inspections by:

- undertaking 800 more on-site visits with an emphasis on Vehicle inspectors, border and entry and specialist certifiers
- six-fold increase in rectification activity

- increasing our capability to deal with complaints five-fold
- increasing our interaction with the sector by 20%
- increasing assurance through audit and compliance standards.

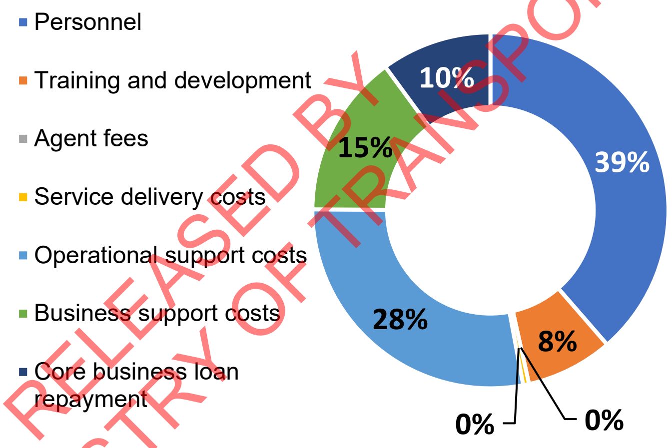
Cost drivers

Section 1.6 on page 23 presents a breakdown of costs that apply to all proposals from 2017/18 to the future state. There are some unique drivers for Proposal 6 as described below.

The average overall costs to provide the services in Proposal 6 is $28.38 million per annum (ex GST). Figure 6.1 shows how these costs are made up.

Figure 6.1: Composition of costs per year (average costs 2023/24 – 2025/26)

Regulatory activity	Total cost per year ($m) (ex GST)
Personnel	$10.96
Training and development	$2.24
Agent fees	$0.00
Service delivery costs	$0.15
Operational support costs	$7.96
Business support costs	$4.22
Core business loan repayment	$2.85*
Total	**$28.38**



*Driver Licencing will repay approx. 26.9% of the $80 million in regulatory loans

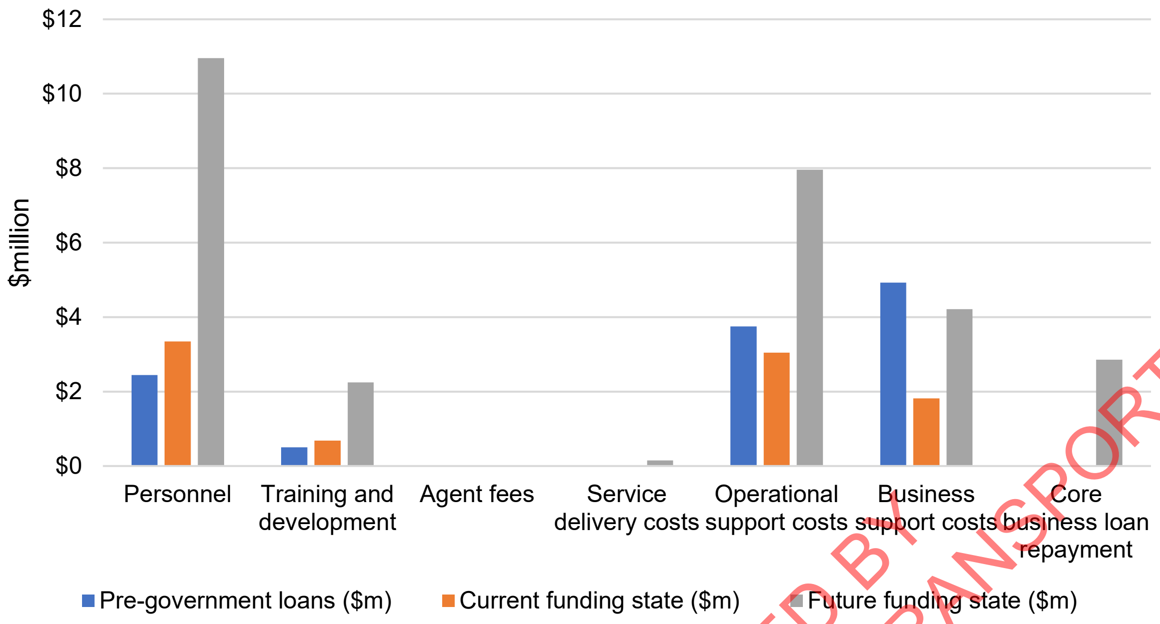
The highest costs are personnel (39%) and operational support costs (28%). See comments on growth of staff below.

Table 6.1 and Figure 6.2 show how the costs are anticipated to change over time.

Table 6.1: Change in cost over time – certifier services

	Total Cost (GST Excl) $		
Regulatory activity	**pre-Govt loans total cost (GST Excl)**	**Current state total cost (GST Excl)**	**Future state total cost (GST Excl)**
Personnel	$2,447,035	$3,347,567	$10,957,285
Training and development	$501,200	$685,646	$2,244,263
Agent fees	$0	$0	$0
Service delivery costs	$0	$0	$149,609
Operational support costs	$3,752,696	$3,041,393	$7,956,294
Business support costs	$4,926,995	$1,819,162	$4,215,822
Core business loan repayment	$0	$0	$2,852,742
TOTAL	**$11,627,926**	**$8,893,768**	**$28,376,016**

Figure 6.2: Change in cost over time – certifier services



Proposal 6 is where regulatory failure occurred. To respond to the urgent public safety issues identified through the independent reviews Waka Kotahi has already invested in an additional 28 frontline personnel to increase the number of audits, inspections and interactions with vehicle certifiers, particularly for vehicles coming into the country and are proposing to invest in another 44 staff.

Waka Kotahi will continue to also invest in additional staff to build its intelligence, standards, operational policy and practice and risk management functions to ensure frontline staff have good tools to identify and respond to risk.

Nature of the goods

The nature of the goods was identified for each service and this determined how costs should be applied across the funding model – this approach is outlined in Table 1.2 on page 17 and in *Appendix Two: Nature of the Goods*.

The services in this proposal create a mix of private and club goods. Registration as a certifier is a private good that applies only to the applicant, while other services include monitoring and compliance which are club goods that benefit everyone in the club. The certifiers are the main beneficiaries of these services and introduce risk into this part of the system if regulations are not followed. The new group charges reflect the costs of regulating this part of the transport industry given the higher risk associated with certifiers.

6.2 Problem

Waka Kotahi monitoring and auditing of certifiers reduces the risk of unsafe motor vehicles being driven on New Zealand's roads. Vehicle certification was the area where regulatory failure occurred in 2018. This area had not been adequately regulated and monitored by Waka Kotahi. In response, Waka Kotahi has broadened the regulatory services it provides to the certifiers group to respond to the regulatory failure. In addition, Waka Kotahi proposes to remove a barrier to entry, by removing the application fee for certifiers, which would help support the maintenance of the certifier workforce and its critical role.

The funding and fees review identified that the regulation of certifiers as a group is being subsidised by other fee payers. The proposed changes to fees and charges are needed to ensure the sustainability of these regulatory services and to prevent cross subsidisation.

The current fees and charges are based on estimated rates set several years ago and do not reflect the current cost to regulate and provide services to certifiers. Proposed charges would ensure Waka Kotahi does not under-recover the costs of regulation.

6.3 Options

This document analyses two options:

- Status quo – retain existing fees for motor vehicle certifier activities
- Option 1 – proposed fees as consulted on – changing six groups of certifier fees into seven group charges, amending the group charges to increase and decrease to reflect the cost to provide the services to ensure that costs are not over or under-recovered, and removing application fees to become a vehicle certifier or inspection organisation and incorporating them into the certifier group charges.

6.4 How will services be funded?

Waka Kotahi is proposing some existing fees are disestablished and incorporated into various user group charges. The proposed charges reflect the costs of regulating the certifier industry and ensure costs are recovered from those who directly benefit from Waka Kotahi's services and introduce risk to the system.

The proposed charges would affect all vehicle certifiers – in-service (WoF/CoF) certifiers, heavy vehicle certifiers, low volume vehicle certifiers, repair certifiers, border inspectors and entry certifiers.

The level of charges is determined by the costs to regulate the certifier industry

Proposed changes include- a group of six fees into seven group charges and amending the group charge rates (increases and a decrease) to reflect the cost to provide the services to ensure that costs are not over or under-recovered. The new group charges replace existing fees for certifiers and inspecting organisations, and reflect the costs to regulate each new certifier group.

Table 6.2: Proposed certifier group charges (changing from current charges)

Certifier group	Costs of service (ex GST)	Volume	Option 1 (incl. GST)	Status quo (incl. GST)
In-service certifiers group - CoF	$1,941,770	536,464	$4.16	$7.48 ↓
In-service certifiers group - WoF	$18,406,413.81	5,085,246	$4.16	$1.78 ↑
Border inspector organisations (per inspection)	$1,001,750.14	123,249	$9.35	$6.33 ↑
Entry certifiers group (per inspection)	$5,284,988.35	162,942	$37.30[1]	$1.55 - $1.94 ↑
Specialist heavy vehicle certifiers group (per certification)	$1,897,398.74	45,089	$48.39	$5.17 ↑
Specialist low volume certifiers group (per certification)	$306,783.05	9,048	$38.99	$15.92 ↑
Repair certifiers group (per certification on LT307 and LT308)	$630,488.64	19,174	$37.82	$4.42 ↑

[1] Consultation feedback identified an issue with the volume assumption used to develop the consulted rate of $34.10 for entry certifiers groups. This issue has been corrected and resulted in the new proposed rate of $37.30.

Waka Kotahi also currently charges fees to become a certifier or inspecting organisation and locate certification services. Proposal 6 removes these application fees and incorporates them into certifier group charges. Removing application fees reduces the entry barrier into the system and is expected to help the industry grow.

Table 6.3: Charges to be recovered in a different way

Service	Volume	Status quo (inc. GST)	Incorporation into proposed fee or group charge
Application to become a WoF/ CoF, border or entry inspecting organisation	246	$1,437.50	In-service certifiers group WoF In-service certifiers group CoF Entry certifiers group Border inspectors group
Application to become a border inspecting organisation, heavy vehicle, low volume vehicle or repair certifiers organisation	15	$1,437.50 - $1,644.50	Specialist low volume vehicle certifiers group Repair certifiers group Specialist heavy vehicle certifiers group
Application to add additional premises, change inspection groups, relocate inspection site to an inspecting organisation	255	$184.00 per hour	All certifier groups
Application to become a low volume vehicle certifier, specialist certifier heavy vehicle, repair certifier, WoF/CoF inspector	3,404	$494.50- $1,644.50	Specialist low volume vehicle certifiers group Repair certifiers group Specialist heavy vehicle certifiers group In-service certifiers group WoF In-service certifiers group CoF
Application to add inspection group to an existing WoF/CoF, e.g., WoF, CoF, agricultural machines, tractors, forklifts, heavy vehicles exempt from CoF and alt fuels	188	$184.00 per hour	In-service certifiers group WoF In-service certifiers group CoF
Application to add used entry inspection group to an existing WoF/CoF		$184.00 per hour	Entry certifiers group

6.5 Estimated financial and economic impacts

Table 6.4 summarises the impacts of the proposed certifier charges in Proposal 6 on different users and Waka Kotahi. The primary impacts of the proposed charges are on business – vehicle certifiers and inspecting organisations.

Table 6.4: Impacts of the proposed fees

Numbers affected	More than 3,000 inspecting organisations inspecting 4.7 million vehicles subject to WoF and 500,000 vehicles subject to CoF Five border inspecting organisations and six entry certification organisations who deal with between 130,000 and 146,000 vehicles 180 heavy vehicle certifiers who deal with over 42,000 vehicles 49 low volume vehicle certifiers who deal with over 8,000 vehicles 44 repair certifiers who deal with over 17,000 vehicles.
For individuals or families	Businesses may pass on costs to people buying new cars or obtaining a WoF or CoF for their vehicle
For businesses that own a fleet of vehicles	Costs may rise as changes in charges could be passed on
For commercial drivers	For owner-operators, costs may rise as increases in charges could be passed on
For transport services licence (TSL) holders	Costs may rise as increases in charges could be passed on
For certifiers	Charges rise
For other parties	Importers would pay more
For Waka Kotahi	Waka Kotahi will continue to build its intelligence, standards, operational policy and practice and risk management functions to ensure frontline staff have good tools to identify and respond to risk. Waka Kotahi will implement changes through a communications and implementation plan

Impacts on businesses

Costs on certifier businesses would increase as they would pay more for the cost of significantly increased compliance activity, with the exception of CoF certification, where the fee would decrease. Figures 6.3 and 6.4 below show the changes in fees to charges collected from certifiers:

- the highest percentage increase in costs per transaction is for entry certifiers, however the volume of transactions is relatively low. This reflects the specialist nature of the activity, the age of the existing fees (struck in 2014) and the significant increase in compliance activity needed to effectively regulate the industry
- the warrant of fitness certifications volumes are highest at 5,086 and the certificate of fitness certification are a relatively low volume and fees decrease by 44%. The percentage change in fees for the warrant of fitness is one of the lowest of the certifier groups at approximately 130 percent. Certifier costs are likely to be passed on to customers who purchase certifications services, shifting some of the cost impacts from certifiers to their customers.

Figures 6.3 and 6.4: Graphs showing dollar and percentage change in fees and charges collected from businesses

Figure 6.3: Proposal 6: change in fees collected from businesses

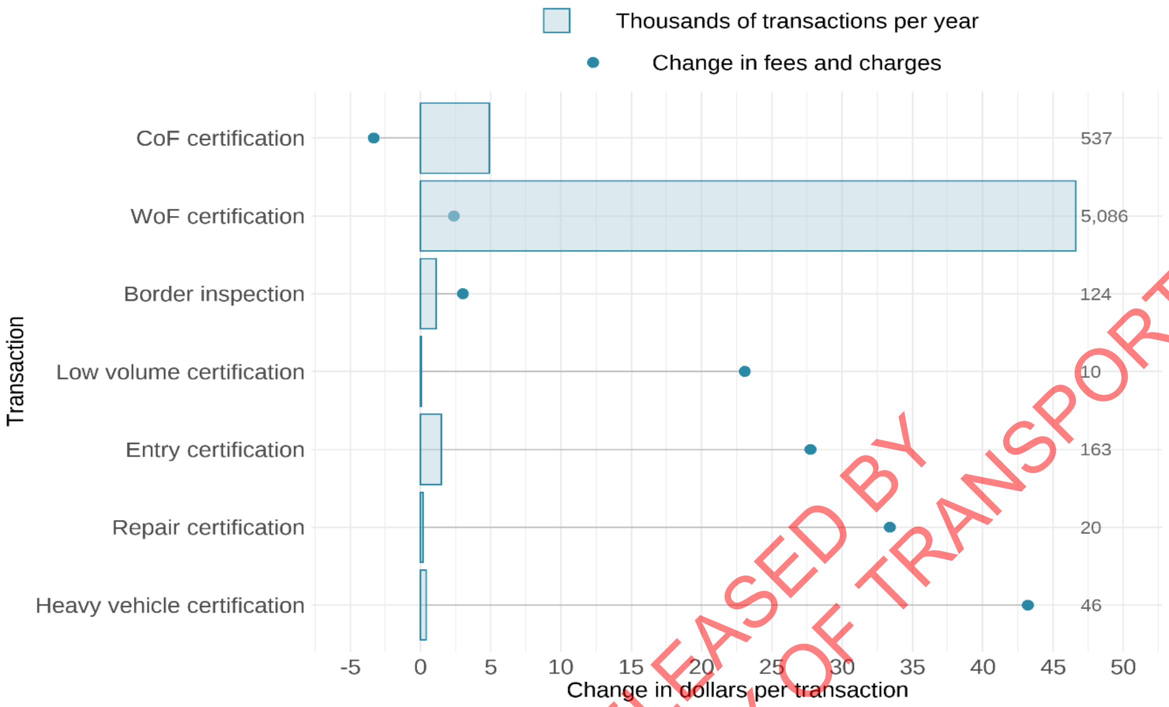
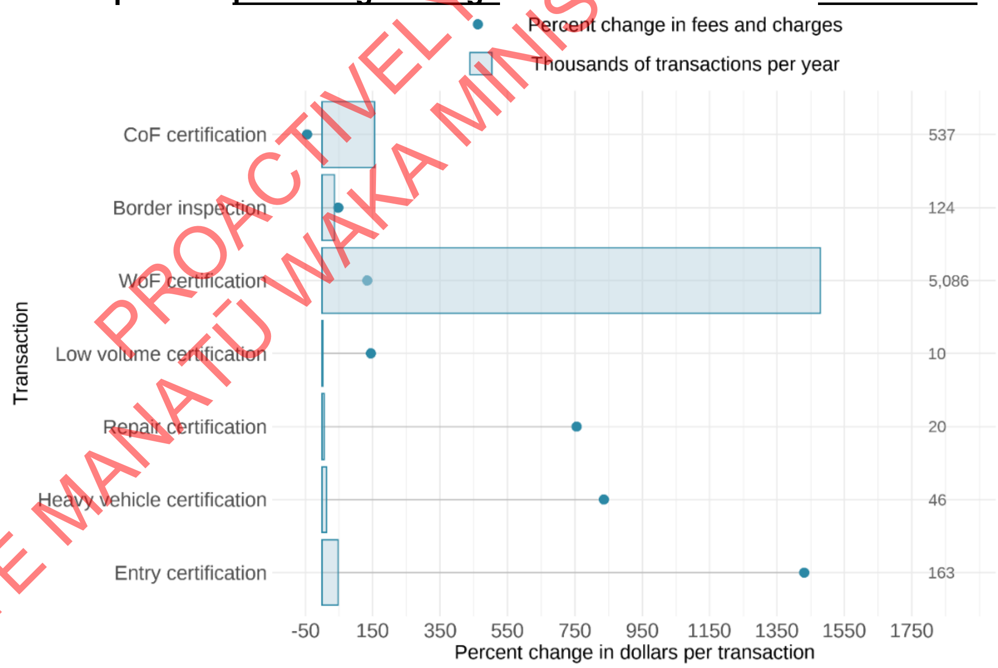


Figure 6.4: Proposal 6: percentage change in fees collected from businesses



The following personas provide case studies of the financial impacts of certifier charges to businesses offering various certification and inspection services, with a comparison of current (status quo) and proposed (Option 1) regulatory fees and charges. All estimates include GST.

High Street Autos

High Street Autos is a small, family-owned mechanic in Hokitika. They provide WoF and CoF certifications to local customers as well as completing repairs as required on vehicles. On average they certify 644 WoF and 520 CoF per year. They have recently added a new technician and want to start inspecting motorcycles.

	Status quo	Option 1
In-service certifiers charge per WoF issued	$1.78*	$4.16*
In-service certifiers charge per CoF issued	$7.48*	$4.16*
Application to add inspection group to an existing WoF authority (motorcycle)	$552.00	Included in in-service certifiers group charge (above)
Total (rounded)	**$5,586.93**	**$4,845.16**

HH certifiers

HH Certifiers are one of a small number of border certifiers looking at vehicles coming into New Zealand. They process 24,650 certifications each year coming primarily from Japan.

	Status quo	Option 1
Charge for entering an entry into border inspection system (BIS)	$6.33*	$14.41*
Total (rounded)	**$156,034.50**	**$355,133.13**

WW Engineering

WW Engineering is based in Auckland and specialises in heavy vehicle engineering. They have a number of qualified heavy vehicle specialist certifiers on their team and certify 207 vehicles each year, on average. They are about to relocate into a larger workshop, which will require certification by Waka Kotahi.

	Status quo	Option 1
Heavy vehicle certifiers group charge (per certification)	$5.17*	$48.39*
Application for relocation of inspection site	$460.00	Included in heavy vehicle certifiers group charge (above)
Total (rounded)	**$1,53.19**	**$10,017.51**

*Note: *These are currently certification fees, not charges. The proposed charge replaces these fees and excludes the production price of the label.*

Impacts on households

As noted above, customers may be impacted by certifier costs being passed on by certifiers. Timing of pass through of costs to consumers will be variable. It is uncertain when charges will be passed through to consumers as these costs are often added/included when agents and companies review their costs annually. It is forecast that from October 2023 50% of costs will be passed through, increasing to 100% by October 2025.

Impacts on Waka Kotahi

The costs to regulate all vehicle certifiers will be recovered fairly and support sustainable funding for this part of the regulatory function.

New group charges are replacing some fees which are based on projected volumes. The proposed charges are based on the costs of providing these services and forecasted volumes. Waka Kotahi cannot accurately predict the impact the proposed charges could have on certifier or customer behaviours. Should the actual volumes not align with the forecast there is a risk that charges may not adequately fund all regulatory services. All services will need to be monitored to ensure that new charges adequately recover costs.

Waka Kotahi has a dedicated project and sufficient time to ensure a smooth transition to implementation.

6.6 Assessment against the cost recovery principles

This section assesses the options using the cost recovery principles endorsed by the Waka Kotahi Board (based on Transport and Treasury cost recovery principles) to guide its approach to the funding and fees review and to ensure future costs would be spread fairly and in a transparent way.

Table 6.5: Policy assessment for all of Proposal 6

Principles	Status quo (existing model)	Option 1 (proposed fees)
Supports transport system objectives	- - - Past experience shows that underfunding places risks to transport system objectives (safety). Under-resourcing the regulatory function resulted in regulatory failure, and then the Government provided loans to address regulatory gaps	++ Option 1 proposed funding model would sustain the regulation of certifiers to contribute to a safer land transport system
Users should pay for the services, but incentives are important	- - Certifiers do not currently pay for some services and do not pay the real costs of other services. The administration costs of certification transactions are cross subsidised by other fee payers	+ User pays for existing certifiers and various groups charges are targeted to risk and benefit
Users and beneficiaries should contribute to the integrity of the system	- - The current fees are based on rates set in 2014. Current fees do not fund and do not reflect the current cost to provide certifier administration services and regulate, including increased regulatory oversight and increased audit and compliance services	+++ All users contribute to Integrity of the system

Principles	Status quo (existing model)	Option 1 (proposed fees)
Be simple and consistent	- + Simple and consistent but not transparent about where costs fall	++ Easy to follow and consistently applied. Promotes transparency of where costs fall and where revenue is spent
Focused on ensuring risk exacerbators and beneficiaries of services	- - - The status quo does not appropriately recover ongoing regulatory costs from the main groups that contribute to risks and benefit from the regulatory services	++ All users that create the most risk pay the associated costs of maintaining effective regulatory oversight
Crown funding is limited to certain functions	N/A	
Be equitable	- - - Unless the changes are made, some groups are not paying their fair share for services provided	+ The proposed fees would ensure everyone is paying their fair share of these costs
Is sustainable	- - - Not charging for services and not recovering the costs of other services is not sustainable	+++ The proposed fees would ensure the required funding to effectively regulate the sector

Key

+++ much better than doing nothing/ the status quo	++ better than doing nothing/ the status quo	+ slightly better than doing nothing/ the status quo
- - - much worse than doing nothing/ the status quo	- - worse than doing nothing/ the status quo	- slightly worse than doing nothing/ the status quo
- + has an element of being slightly better but retains some element of being slightly worse so on balance is about the same as doing nothing/status quo		

6.7 Consultation / Industry feedback

Waka Kotahi undertook consultation on the changes under Proposal 6 from 21 March 2022 to 13 May 2022.

Consultation involved 29 engagement hui with industry, councils, iwi and Māori, and focus groups, including hard-to-reach community groups. The workshops and focus groups provided an opportunity for stakeholders to query the proposals and give initial feedback.

24 people and organisations submitted on Proposal 6. In addition, participants in 8 industry workshops attended by 64 people commented on proposal 6 (i.e., data users, border and entry, Transport Service Licence (goods and rental) holders, industry agents, key service delivery partners, heavy engineer and manufacturing, Low Volume Vehicles, and WoF and

CoF). Two focus groups attended by 8 people also discussed Proposal 6 (i.e., disabled people, disability advocates).

The most significant policy issue raised through consultation was the impact of removing the application fee to become a certifier. Submission feedback was mixed on removing application fees to becoming vehicle certifiers (8 agreed and 9 disagreed):

- those supporting the change cited the need to increase the number of certifiers in sectors with shortages. In addition, simplifying the application process would make the process easier for small operators to become certifiers
- those opposing the change appreciated the need to increase the number of vehicle certifiers. However, they had concerns that removing the application fee may reduce the quality of applicants and certifiers.

Most submitters opposed fees that change to a charge and increases:

- those supporting the change noted that using charges instead of fees will simplify the fee structures for certification, will support regulatory functions, and the change will not significantly impact the industry
- submitters identified general reasons for opposing the changes to charges reflected concerns about the impact on non-compliance, the unfair weighting of costs and risk, and the adverse impact on their business.

Response to feedback

Waka Kotahi analysed all consultation feedback and held workshops with relevant Waka Kotahi regulatory teams to confirm an understanding of the issues raised in the context of the removal of application fees for vehicle certifiers, changing fees to charges, increased and decreased fees. Through those discussions it confirmed the following. Proposal 6 fees and charges stand, and no changes are proposed. Rationale is outlined below.

Removal of application fees for vehicle certifiers

The removal of the application fee for vehicle certifiers does not reduce the requirements for applicants to pass and sit certifier exams to qualify. Applicants will still need to meet the required standards and pass the required certifier exams.

There is a significant work programme underway working with Engineering NZ (the multiyear contract started in 2022) to increase the supply of certifiers. Removal of this fee barrier is one initiative, along with working with industry groups to ensure a robust certification regime.

Increased and decreased fees

As an area that was largely unregulated by certifiers, certifier activities required significant increased investment to manage the risk in the system, and proposed charges reflect the costs of providing this, and avoids cross-subsidisation.

Waka Kotahi acknowledges the impact of increased regulatory costs. Submitter feedback advised that any additional costs would be passed on to customers who derived individual benefit from their services.

No changes are proposed. Changes in fees, both increases and decreases, are based on Waka Kotahi's cost recovery principles and reflect the need for increased regulatory oversight.

Waka Kotahi proposes to keep charges as consulted on

Waka Kotahi reviewed how we had categorised and applied charges for certifiers. The Review included a stocktake of all regulatory services to understand its true costs. The costs of regulating certifier activity were assessed as a charge where the service specifically benefits groups of users or where groups of users create specific risks to the land transport system, it is more appropriate to recover those costs from across groups than individually. This is done through averaged charges.

Waka Kotahi provides certifiers with exclusive rights to operate within the land transport system which provides them with business benefits, and regulates them, auditing and monitoring to make sure they are doing their job properly and that their work is safe. Waka Kotahi believes the whole group should contribute to paying these costs through group charges.

See *Appendix Six: Consultation overview* for further information on the consultation process undertaken and the general themes raised about the collective proposals as part of the funding and fees review.

6.8 Overall assessment

Option 1 aligns best to cost recovery principles. Waka Kotahi proposes to increase charges where the cost of providing the service is greater than the charge paid for it, and decrease charges where the cost of providing the service is less than the charge paid for it. Each of these changes reflects the need to accurately recover the costs of providing regulatory services. Waka Kotahi also proposes to change charges so they accurately reflect the actual costs of the regulatory services provided and prevent ongoing under-recovery or over-recovery of costs for these services.

The status quo is an undesirable option as current fees are inadequate to provide the necessary regulatory services and support to certifiers. The status quo would see costs to regulate certifiers under-recovered and also service at the level of previous regulatory failure.

The proposed changes (Option 1) more accurately reflect the actual costs of the regulatory services provided by Waka Kotahi and avoid cross-subsidisation. With the significantly increased regulatory focus and resourcing for this part of the system post regulatory failure, Option 1 ensure better financial sustainability for these regulatory services.

6.9 Implementation

If agreed, the proposed rate changes under Proposal 6 would be made through amendments to the Land Transport (Certification and Other Fees) Regulations 2014 and would take effect on 1 October 2023.

An implementation plan would outline actions to implement and effect the new rate changes. See *Appendix Seven*: *Implementation, Monitoring and Review* for further information on Waka Kotahi's implementation approach for the proposed changes.

6.10 Monitoring and review

The proposed service rate changes under Proposal 6 are based on forecasted service volumes which may fluctuate and change and could result in under- or over-recovery. In addition, although there is detailed data on the expected costs for the proposed changes, there is much less detailed information on the associated impacts.

Waka Kotahi will mitigate the financial risk of developing a significant surplus or deficit in response to service volume change by actively monitoring the performance of the associated memorandum account on an annual basis, specifically, that the account balance tracks towards zero over a three-year time period. Waka Kotahi will assess the service rates at least every three years, which may result in rate changes if required to ensure full cost recovery or to address significant over-recovery.

Waka Kotahi will continue regular targeted engagement with industry to better understand the ongoing impacts the progressed changes may have on the sector over time and to monitor and discuss compliance, given the previously identified regulatory failings in this area. Updated and more robust impact information will inform the development of any future funding and fees review.

Waka Kotahi will report annually on the performance of the services provided under Proposal 6 to provide transparency to industry, the public and other interested parties, and to report on actions undertaken to ensure the regime continues to operate efficiently.

See *Appendix Seven: Implementation, Monitoring and Review* for further information on Waka Kotahi's monitoring and review activities for the proposed changes.

Proposal Seven – Changes to charges for commercial users and councils that access Waka Kotahi data

7.1 Background

Users pay for approximately 76 million data transactions per year, including:

- around 7 million data transaction requests for the driver licence verification service (DLR) from commercial users (finance companies, banks, insurers, data solution providers, vehicle history sellers) and councils
- around 69 million data transaction requests for the motor vehicle register (MVR) from commercial users and councils.

All decisions about providing information are made in accordance with the criteria set out in the Land Transport Act 1998.

Services provided

Waka Kotahi recovers the costs of providing this data through fees and charges made under the Land Transport Act 1998, and specifically set in the Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011 and the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999.

Waka Kotahi collects, maintains, and provides data in a safe, secure way that meets privacy standards for motor vehicle and driver data on two registers – motor vehicle register (MVR) and driver licence register (DLR).

The MVR records information about vehicles used on New Zealand roads and the persons responsible for their use. The primary purposes of the motor vehicle register are:

- enforcement of the law
- maintenance of the security of New Zealand
- collection of charges imposed or authorised by an act
- administration and development of transport law and policy.

The DLR records driver licence personal details including drivers' terms and conditions of their licence. Users access the DLR for purposes such as validating people's identity, age, and checking that they can drive the appropriate classes of vehicles.

Waka Kotahi maintains the accuracy of this data and accessibility of both MVR and DLR registers. Every time a driver or motor vehicle or data user enters the system, leaves the system, or changes details, there is a service to validate and process the data. Waka Kotahi also processes applications for specific reports and documents from the data.

In accordance with criteria set out in the Land Transport Act 1998, only Waka Kotahi authorised individuals and companies can access the motor vehicle and driver licence registers. It is not wholesale access to all information on the registers for commercial use. Access to Waka Kotahi data:

- provides approved commercial, council data users, individuals, and businesses with the commercial and individual benefits of secure data for commercial use
- and provides central government agencies with information for law enforcement.

None of the proposed changes would affect central government agencies, the wider state sector and entities acting on their behalf using data for law enforcement purposes, nor are there any changes to Waka Kotahi connections enabling open data, or to data privacy standards.

Waka Kotahi cannot charge the New Zealand Police, statutory entities (within the meaning of the Crown Entities Act 2004), or public service agencies (as defined in Schedule 2 of the Public Service Act 2020) for access to MVR data.

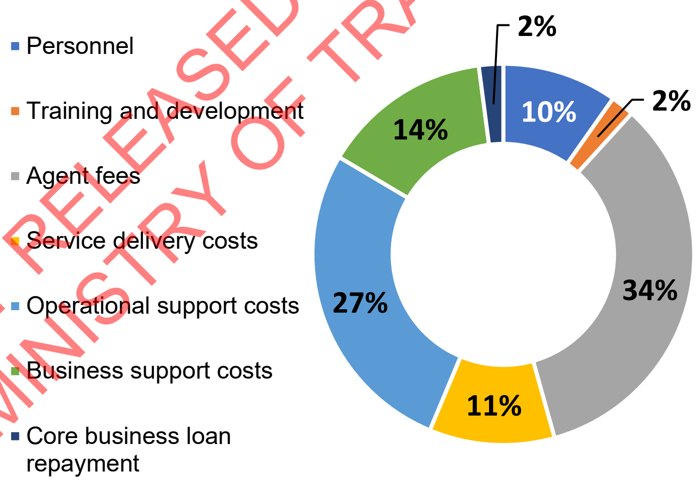
Cost drivers

Data charges relate to the cost of validating, processing and managing data. As the volumes of transactions increase or decrease over time so do the costs. Section 1.6 on page 23 presents a breakdown of costs that apply to all proposals from 2017/18 to the future state. Unique drivers for Proposal 7 are described below.

The average overall costs to provide the services in Proposal 7 is $12.07 million per annum (ex GST). Figure 7.1 shows how these costs are made up.

Figure 7.1: Composition of costs per year (average costs 2023/24 – 2025/26)

Regulatory activity	Total cost per year ($m) (ex GST)
Personnel	$1.18
Training and development	$0.24
Agent fees	$4.09
Service delivery costs	$1.28
Operational support costs	$3.29
Business support costs	$1.74
Core business loan repayment	$0.25*
Total	**$12.07**



*Driver Licencing will repay approx. 2.4% of the $80 million in regulatory loans

The largest cost drivers for Proposal 7 are agent fees (34%) and operational support costs (27%). The Agent fees assist and maintain the integrity of the data and provide a significant input into the MVR and DLR data service.

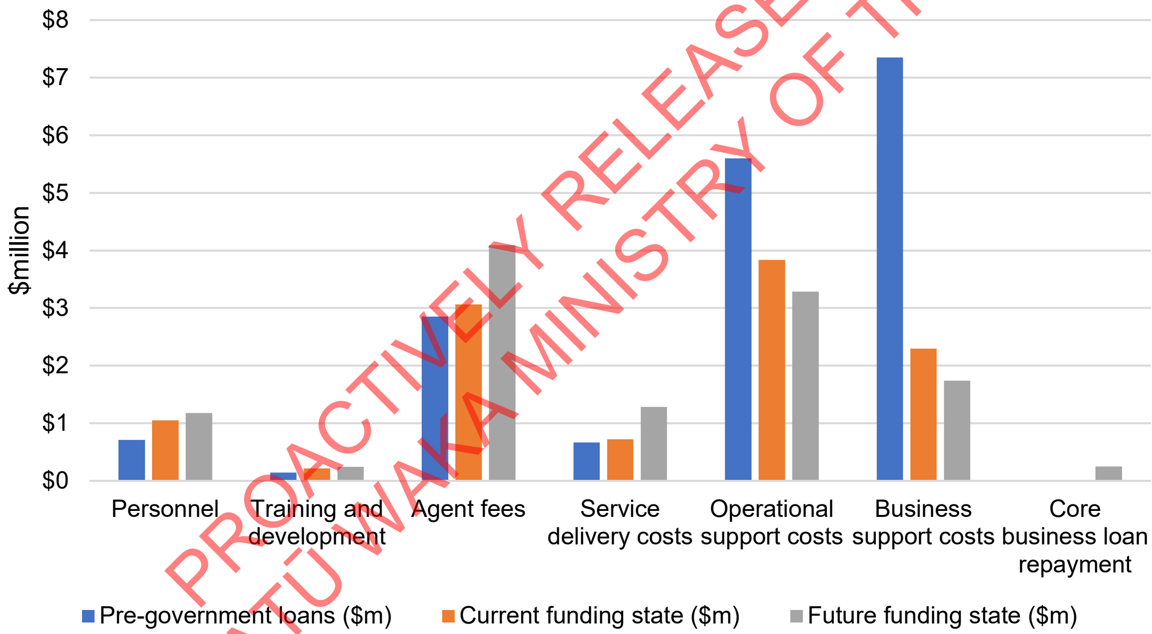
Data request volumes are predicted to increase for both registers (MVR and DLR) by 15% per year between 2023 and 2026.

Table 7.1 and Figure 7.2 below, show how the costs are anticipated to change over time.

Table 7.1: Change in cost over time – providing data for commercial use

	Total Cost (GST Excl) $		
Regulatory activity	**pre-Govt loans total cost (GST Excl)**	**Current state total cost (GST Excl)**	**Future state total cost (GST Excl)**
Personnel	$710,857	$1,047,785	$1,177,002
Training and development	$145,597	$214,607	$241,073
Agent fees	$2,851,829	$3,061,791	$4,093,116
Service delivery costs	$665,786	$724,503	$1,282,897
Operational support costs	$5,598,416	$3,834,302	$3,285,412
Business support costs	$7,350,282	$2,293,427	$1,739,947
Core business loan repayment	$0	$0	$248,820
TOTAL	**$17,322,766**	**$11,176,416**	**$12,068,266**

Figure 7.2: Change in cost over time – providing data for commercial use



Operational and business support costs have markedly decreased as a result of changes to the accounting methodology used by Waka Kotahi. The revised accounting method, more accurately apportions costs to specific activities.

Nature of the goods

The nature of the goods was identified for each service, and this determined how costs should be applied across the funding model – this approach is outlined in Table 1.2 on page 17 and in *Appendix Two: Nature of the Goods*.

The services in Proposal 7 relate across a group of users and therefore Waka Kotahi is proposing charges, as these are club goods. The MVR and DLR data user groups are the main beneficiaries of these services. The people who use their data are also beneficiaries. The group charges reflect the costs of regulating this part of the land transport system.

7.2 Problem

Waka Kotahi data systems are not fit for purpose to fund the level of service data users expect, nor can Waka Kotahi currently pay for minor system improvements to keep pace with changing technology. As a result, Waka Kotahi is experiencing an increasing number of complaints.

The current pricing is variable across channels and services and many users that should pay do not pay as there is no collection mechanism set up to collect a fee. Waka Kotahi has also been under-recovering costs that stem from increased requirements for IT security standards and privacy and the need to scale the system up to keep pace with increased demand.

In total there are approximately 110 million MVR transactions per annum. Of this, approximately 76 million have been categorised as suitable for cost recovery (the remaining 34 million transactions are either lawfully exempt or are classified as public goods). Two of the highest data users request approximately 70% of all data requests yet they currently pay for only 51% of the total costs to provide these services.

Existing payers cross subsidise users who access the data free. It costs Waka Kotahi staff time to provide and maintain portals to make sure the data is accurate and usable and to provide the data, and the user groups that benefit from the data should contribute to the actual costs of supplying the data.

7.3 Options

This document analyses two options:

- Status quo – retain existing charge structure for data services
- Option (1) – new charges as consulted on – everyone pays a fixed amount for Waka Kotahi's data services and introduces an individualised charge for future new commercial users who wish to connect to Waka Kotahi data systems.

Status quo (retain existing fees) was considered as an option but is unsustainable. It would not address the existing issue of some users (fee payers) cross-subsidising others (including those benefitting from data access), which does not meet our cost recovery principle of fairness.

7.4 How are services funded?

Waka Kotahi currently charges fees and a charge to request data from the MVR and DLR. Waka Kotahi is proposing to establish a new group charge for MVR data users and incorporate some existing driver licence fees into the DLR data user group charge to ensure that costs are recovered from those who directly benefit from Waka Kotahi's services. These services are set out in Tables 7.3 to 7.5. The new charges reflect the costs of providing the services.

The level of charges is determined by the costs to maintain the integrity of motor vehicle and driver licence registers

The following table sets out the old and new charges for MVR and DLR data user groups. The charges reflect the costs of processing the requests.

Table 7.3: Summary of new MVR changes which are changing from fees to a single group charge under this proposal

Service	Costs to process applications (ex GST)	Volume	Option 1 (incl. GST)	Current fees/charges
MVR data users group (per access) setting a charge for MVR data users where previously some of these services were free or had a charge- this now includes councils who are not currently charged.	$11,399,971.42	68,999,827[1]	$0.19[1]	From no charge to $11.25

[1]Following consultation, the growth rate assumption used to inform the cost of materials associated with this charge was updated, which resulted in a minor adjustment to the proposed Option from a charge of $0.18 to $0.19 per transaction.

This group charge replaces existing fees for MVR data users and reflects the costs to regulate, averaged over the group charge. The charges would continue on invoice for each data request.

Proposal 7 also clarifies that the regulations (as they stand) enable Waka Kotahi to charge councils and council-controlled organisations for accessing the MVR for commercial gain.

The following table sets out the new charges for DLR data users group.

Table 7.4 – Summary of new DLR charge

Service	Costs of ongoing regulatory oversight (ex. GST)	Volume	Current charge (incl. GST)
Set charge for DLR data users group (per access)	$859,746	7,027,265	$0.14

This group charge remains the same price and reflects full cost recovery in the motor vehicle licencing area. This charge changes existing DLR data users fees to a set charge that includes fees from Proposal 2. The charge will continue to be collected when invoiced for each data request.

Proposal 7 also introduces an individualised charge for any new commercial users who wish to connect to Waka Kotahi data systems (case-by-case, at assessed cost).

7.5 Estimated financial and economic impacts

Table 7.5 summarises the impacts of the proposed certifier charges in Proposal 7 on different users and Waka Kotahi.

Table 7.5: Impacts of the proposed fees

Numbers affected	68,999,827 data access transactions by finance companies, banks, insurers, data solution providers, vehicle history sellers and local councils 7,027,265 requests a year for DLVS and eIDV data.
For vehicle buyers	Costs to agencies accessing data for commercial purposes may be passed on
For approved commercial data users, new commercial entities who wish to connect to our data systems, councils and council-controlled organisations	Costs for MVR access would increase Costs for DLR access would decrease Councils and council-controlled organisations would be charged for access to Waka Kotahi MVR data, currently they are not charged
For Waka Kotahi	Funding to maintain systems and provide for the accuracy of registers and data. Changes to charges that will be affected as part of the implementation plan. Dialogue with data users to inform of changes

Impacts on businesses

Timing of pass through of costs to end point users of commercial data entities may be immediate (October 2023) or may take time (until up to 2025), dependent upon how, and when, those commercial data entities price their services.

In total there are approximately 69 million MVR transactions that would incur a charge, however the overall additional costs on businesses are low in cost per transaction. The overall financial impacts may be significant for some businesses that access high volumes of MVR data, especially those that do not currently pay for the data.

Two of the highest data users request approximately 70% of all data requests yet they currently pay for only 51% of the costs. Under the new proposed charge these data users would be paying for what they use, that is, 70% costs to cover 70% requests. The business impact for these two data users may be significant in terms of absolute dollars, going from no charge for most of their data requests to a set charge of $0.19 per request.

There is no change to the DLR data charge.

Impact on councils and council-controlled agencies

Councils and council-controlled agencies may pass on costs. Costs for administrative services to charge for MVR data can be deducted from enforcement fine revenue. Under section 141(3) of the Land Transport Management Act 2003 councils that provide statutory services such as ticketing for an expired warrant of fitness can recover their costs to provide that service.

Councils are relatively low data users and the impact of the new set charge would be relatively low. Councils make up approximately 4% of the total number of MVR. Under the proposed charge $0.19 the total costs to councils would be $532,328 based on 10 months of data usage. Auckland City Council would pay approximately 50% of the charges for councils.

Impacts on Waka Kotahi

The proposed charges are based on the costs of providing these services and forecasted volumes. Waka Kotahi cannot accurately predict the impact the proposed charges could have on data user behaviours. Some commercial users have indicated their usage may decrease considerably. Waka Kotahi will monitor behaviour. See further commentary in the feedback section.

Waka Kotahi has a dedicated project and sufficient time to ensure a smooth transition to implementation.

7.6 Assessment against the cost recovery principles

This section assesses the options using the cost recovery principles endorsed by the Waka Kotahi Board (based on Transport and Treasury cost recovery principles) to guide its approach to the funding and fees review and to ensure future costs would be spread fairly and in a transparent way.

Table 7.6: Policy assessment for all of Proposal 7

Principles	Status quo (existing model)	Option 1 (proposed charges)
Supports transport system objectives	- - - Past experience shows that underfunding places risks to transport system objectives (safety). Under-resourcing the regulatory function resulted in regulatory failure, and then the Government provided loans to address regulatory gaps	++ Option 1 would sustain Waka Kotahi's data systems and ensure the data held and provided is accurate
Users should pay for the services, but incentives are important	- - Data users do not currently pay the actual costs associated with the services they receive, some pay nothing. The administration costs of data transactions are cross subsidised by other fee/ charge payers	+++ User pays for data users are targeted to risk and benefit
Users and beneficiaries should contribute to the integrity of the system	- - - Current fees do not fund and do not reflect the current cost to provide data	+++ All users contribute to Integrity of the system

Principles	Status quo (existing model)	Option 1 (proposed charges)
Be simple and consistent	- + Simple and consistent but not transparent about where costs fall	+++ Easy to follow and consistently applied. Promotes transparency of where costs fall and where revenue is spent
Focused on ensuring risk exacerbators and beneficiaries of services	- + The status quo does not appropriately recover ongoing regulatory costs from all groups that benefit from the regulatory services	+ The services are provided at the request of the applicant, who receives private benefits from the service. All users pay and targeted to those that receive the most benefit
Crown funding is limited to certain functions	N/A	
Be equitable	- Unless the changes are made, data users are not paying their fair share for services provided	+ The proposed fees would ensure data users pay their fair share of these costs
Is sustainable	- - - Not charging for services and not recovering the costs of other services is not sustainable	+ The proposed charges would ensure that the system is adequately funded overall

Key

+++ much better than doing nothing/ the status quo	++ better than doing nothing/ the status quo	+ slightly better than doing nothing/ the status quo
- - - much worse than doing nothing/ the status quo	- - worse than doing nothing/ the status quo	- slightly worse than doing nothing/ the status quo
- + has an element of being slightly better but retains some element of being slightly worse so on balance is about the same as doing nothing/status quo		

7.7 Consultation / Industry feedback

Waka Kotahi undertook consultation on the changes under Proposal 7 from 21 March 2022 to 13 May 2022.

Consultation involved 29 engagement hui with industry, councils, iwi and Māori, and focus groups, including hard-to-reach community groups. The workshops and focus groups provided an opportunity for stakeholders to query the proposals and give initial feedback.

23 people and organisations submitted on Proposal 7. In addition, 4 industry workshops (44 attendees and participants at 7 events with 30 local authorities also discussed Proposal 7. Submitters did not always specify whether their comments were about the MVR or DLR data charge. Although most qualitative feedback is likely to relate to the MVR data charge as this charge increase significantly affects data users.

10 submitters supported the proposed data charges to maintain Waka Kotahi's data system. Of these, 8 supported the MVR data charge, and 7 supported the DLR charge.

Submitters supported the proposed changes because they accepted the data costs that Waka Kotahi incurs, noted data users profit from Waka Kotahi data, were not significantly affected by the cost increases, or were exempt from the data cost increases.

12 submitters commented on Proposal 7 disagreed with the proposed data charges. Of these, 7 opposed the MVR data charge, and 5 opposed the DLR charge. Submitters argued:

- data supporting public good outcomes should be exempt (e.g., reducing stolen vehicle sales). This was raised by a significant commercial data provider who would be significantly impacted by the proposal
- data for compliance purposes should be exempt from data charges (e.g., local authorities who use data to manage parking services and enforce regulations). Local councils specifically raised this as an issue
- data charges will make the cost prohibitively expensive for data users and costs will be passed on to consumers and ratepayers.

Other feedback

Three large commercial data service providers submissions noted that they would be significantly financially impacted by the increased costs for data, and they may no longer provide that service. One data provider expressed the view that Waka Kotahi would be charging for a public good through the MVR data charge for stolen vehicle information. They believed that the Police data on stolen vehicles and cars of interest is insufficient compared to their service, putting the public at risk of purchasing a stolen vehicle that is being passed off as safe to buy. See response below.

Local authority feedback

Key concerns raised in 7 submissions from councils included:

- concerns about increased costs would impact on their operating expenses and rate payers would need to fund the difference
- being charged for undertaking enforcement activities on behalf of the Crown
- charging local authorities to access data does not align with the partnership established through the Heads of Agreement between the Crown and Local Government New Zealand. This submitter considered that charging local authorities to access Waka Kotahi data as commercial users treats local authorities as customers rather than partners in delivering public services.

Waka Kotahi Response to feedback

Waka Kotahi analysed all consultation feedback and held workshops with relevant Waka Kotahi regulatory teams to confirm an understanding of the issues raised. Discussion included whether Waka Kotahi would be potentially charging for a public good for stolen vehicle information; and whether Waka Kotahi would potentially be charging councils to undertake enforcement action.

Consideration of concerns raised about Waka Kotahi potentially charging for public information

Stolen vehicle information provided by the NZ Police provides:

- the authoritative source of stolen data information for NZ
- free public access to their master stolen vehicle data on their website
- the critical information on the stolen vehicle – registration, VIN, engine chassis numbers.

Given that Police freely provide both the authoritative source data, a higher quality feed of that data, and all key data fields required for legal identification of stolen vehicles, Waka Kotahi considers there is no public good aspect for provision of data by commercial entities under Proposal 7. Therefore, no change is proposed to the MVR data charge.

Consideration of concerns raised about some significant data providers exiting the market

Waka Kotahi cannot assess whether any of the commercial data user entities will cease to access the MVR data service. A change in behaviour may occur, such as a commercial data user entity reconfiguring their business model and product configurations, conversely their competitors could take over more of the market.

Waka Kotahi considers that cross-subsidisation of commercial data user entities, who benefit from the data, does not align to cost recovery principles. Therefore, no change is proposed to the MVR data charge.

The main impact on Waka Kotahi's funding review is that if usage decreases then while the public good is met through the Police system, Waka Kotahi's fixed costs would continue with a shortfall in forecast revenue, which would have to be met in some other way. Monitoring will occur in this area of revenue risk.

Charging councils for MVR data

How are councils likely to deal with the additional MVR data charges?

Councils collect enforcement fines on behalf of the Crown as an adjunct to their parking operations. Councils rely on MVR data to fulfil this function. Council parking enforcement activity is a commercial operation that produces revenue. Refer to *Estimated financial and economic impacts - Impact on councils and council-controlled agencies.*

Will Waka Kotahi charge councils to undertake enforcement activity?

Data charges for MVR data can be deducted from enforcement fine revenue. Under section 141(3) of the Land Transport Management Act 2003 councils that provide statutory services such as ticketing for an expired warrant of fitness can recover their costs to provide that service through their existing mechanism. So, there is no financial loss from the introduction of a charge for councils. Rate payers should not have to subsidise the cost of the charge, as some councils suggested. No change is proposed to the MVR data charge.

Future potential benefit for councils to extend the use of MVR data

There are potential benefits to some (particularly large) councils from using MVR data for activity over and above statutory services (and local parking enforcement/revenue), such as for toll roads and potentially also for congestion charging.

See *Appendix Six: Consultation overview* for further information on the consultation process undertaken and the general themes raised about the collective proposals as part of the funding and fees review.

7.8 Overall assessment

Option 1 aligns best to cost recovery principles. Two new charges are proposed to replace a range of fees as well as recover costs for some services that are currently not cost recovered. The impacts on data users ranges from minor to significant (the latter for high volume MVR transactions).

The status quo is an undesirable option as the current fees are inadequate to provide the necessary services and support for data requests. Other fee payers are currently cross subsidising data users because the current Waka Kotahi fees do not cover associated costs.

The new MVR and DLR data user charges better reflect the costs to provide data access services and ensure sustainable funding across the system. The proposal avoids cross-subsidisation of costs by other users (fairness) and ensures that all users that benefit fund that service (sustainable funding). In addition, provides more price certainty to the data user.

Establishing an individualised mechanism to recover costs from future commercial entities who wish to connect to Waka Kotahi data systems will best ensure fair pricing given the highly varying nature of these applications.

7.9 Implementation

If agreed, the proposed rate changes under Proposal 7 would be made through amendments to the Land Transport Act 1998, specifically the Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011 and the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999 and would take effect on 1 October 2023.

An implementation plan would outline actions to implement and effect the new rate changes. See *Appendix Seven*: *Implementation, Monitoring and Review* for further information on Waka Kotahi's implementation approach for the proposed changes.

7.10 Monitoring and implementation

The proposed service rate changes under Proposal 7 are based on forecasted service volumes which may fluctuate and change and could result in under- or over-recovery. In addition, although there is detailed data on the expected costs for the proposed changes, there is much less detailed information on the associated impacts.

Waka Kotahi will mitigate the financial risk of developing a significant surplus or deficit in response to service volume change by actively monitoring the performance of the associated memorandum account on an annual basis, specifically, that the account balance tracks towards zero over a three-year time period. Waka Kotahi will assess the service rates at least every three years, which may result in rate changes if required to ensure full cost recovery or to address significant over-recovery.

Waka Kotahi will continue regular targeted engagement with industry to better understand the ongoing impacts the progressed changes may have on the sector over time. Updated and more robust impact information will inform the development of any future funding and fees review.

Waka Kotahi will report annually on the performance of the services provided under Proposal 7 to provide transparency to industry, the public and other interested parties, and to report on actions undertaken to ensure the regime continues to operate efficiently.

See *Appendix Seven: Implementation, Monitoring and Review* for further information on Waka Kotahi's monitoring and review activities for the proposed changes.

Proposal Eight – Changes to fees and charges for eRUC providers

8.1 Background

Electronic road user charges (eRUC) are regulated under Road User Charges Act 2012 and the Road Users Charges (Administration Fees) Regulations 2014.

RUC is paid by owners of vehicles that use diesel, and these charges are collected by Waka Kotahi. Waka Kotahi currently process approximately 3.7 million RUC transactions annually.

Waka Kotahi is working to increase RUC compliance and shifting users to electronic systems is a key intervention in increasing RUC compliance and gaining more accurate data:

- there is evidence that RUC compliance is four times higher for heavy vehicles using electronic RUC systems than other transactions
- eRUC providers monitor vehicles and RUC licences, engage with customers, and help reduce debt
- for off-road capability, they provide accurate GPS info versus hand-written logs.

A small number of approved eRUC providers – ERoad Ltd, Cortex Ltd, Picobyte Solutions Ltd and Navman Wireless Ltd – act as intermediaries between RUC customers and Waka Kotahi, processing around 1.6 million RUC transactions annually. eRUC providers help their customers to more easily meet their RUC obligations. This is a relatively new and growing industry.

Approach to Proposal 8

The approach to Proposal 8 has changed since consultation. Table 8.1 summarises the change in approach.

Table 8.1: Revised Proposal 8

Service	Costs	Volume	Current fees/charges	Cost recovery approach consulted on	Revised cost recovery approach
An eRUC provider modifications and requests for approval using new technology and innovation – complex	Variable	3	Not charged	Set fee reflecting average costs $2,939.80	Individualised mechanism enabling actual costs to be recovered
B eRUC provider modifications and requests for approval using new technology and innovation – simple	Variable	2	Not charged	Set fee reflecting average costs $357.98	Individualised mechanism enabling actual costs to be recovered
C eRUC provider applications and approvals	Variable	1	Not charged	Set fee reflecting average costs $6,943.82	Individualised mechanism enabling actual costs to be recovered
D eRUC provider charge (for ongoing regulatory oversight, monitoring and review etc)	Approx $165,000 per year	1,620,521	Not charged	Set group charge per RUC licence purchased $0.11	Funded as a public good by all road users (land transport revenue)

Waka Kotahi consulted on new fees for processing applications and approvals (described in section 8.1.2) as well as a new charge to eRUC providers to recover the costs of increasing Waka Kotahi's regulatory oversight, monitoring and other stewardship services in the eRUC area.

On analysis of consultation feedback, Waka Kotahi considered the ongoing regulatory oversight services (as in D above) should be funded in the same way as the ongoing regulation of other agents. In December 2022, the Minister of Finance and Minister of Transport agreed to the use of land transport revenue for various regulatory purposes that are public goods, including funding regulation of a group of agents (eRUC providers were added to this group of agents post consultation) as the benefits of these services to the whole system outweigh the specific benefits to the eRUC providers. The funding approach to funding these agents through land transport revenue will be reviewed in the next funding and fees review process.

The cost recovery of application and approval processing services is assessed below.

Services provided (A to C in the table)

Waka Kotahi processes applications for new eRUC providers, approvals to use new eRUC technology and innovation to connect to Waka Kotahi systems, and approvals for modifications of eRUC technology. These services involve assessing and authorising individual and business access to Waka Kotahi systems.

These Waka Kotahi services are provided at the request of the applicant (eRUC provider), who receives commercial benefit through charging organisations and individuals a fee for the RUC services they provide to industry.

Currently the costs of providing these services are not recovered from eRUC providers and are cross-subsidised by others in the land transport system.

Cost drivers

Cost drivers are not included for the services described in A to C above in this proposal, given that the proposed individualised mechanism would cover different activities, dependent on the nature and scale of the application or approval. In other words, the inputs for each individualised service would differ. For instance, some applications may be routine assessments provided by Waka Kotahi, some may require technical expertise contracted by Waka Kotahi, affecting the inputs and costs. Every application and approval would be undertaken and charged at cost.

The few transaction volumes for issuing new eRUC applications and approvals are very low and hard to forecast, and are variable, depending on the scale and nature of the eRUC provider's operation. The overall costs of processing eRUC applications and approvals are primarily made up of personnel costs and overheads.

This is a relatively new and growing activity, with a small number of new eRUC providers entering the market. Waka Kotahi has developed its capability in this area to adequately service these providers and develop regulatory activities to monitor activity, engage with providers, and process provider applications.

Nature of the goods

The nature of the goods was identified for each service, and this determined how costs should be applied across the funding model – this approach is outlined in Table 1.2 on page 17 and in *Appendix Two: Nature of the Goods*.

The proposed individualised mechanism would recover costs of providing services to eRUC providers. These services are considered private goods because they provide a direct benefit to eRUC providers.

8.2 Problem

Waka Kotahi is working to increase RUC compliance and shifting users to electronic systems is a key intervention. Waka Kotahi needs a fair, effective and sustainable regulatory system to achieve this shift.

Waka Kotahi is not currently recovering the costs of processing provider applications and technology approvals. Without cost recovery the sustainability of these services is at risk or will continue to be cross subsidised.

Without maintaining their systems, Waka Kotahi will not be able to fund the level of service expected. The emerging technology requires a substantial level of consideration and assessment by Waka Kotahi to approve eRUC provider applications. This comes at a cost to Waka Kotahi and currently other fee payers are subsidising these costs.

8.3 Options

This document analyses two options:

- Status quo – retain existing fees
- Option 1 – full recovery of application and approval processing cost through an individualised charge (case-by-case, at assessed cost). This would not be a regulated fee.

Discarded option

Proceeding with three proposed set fees (consulted on)

The proposed fees reflects the average costs of providing these services. They would ensure that the system is adequately funded overall. However, the set (averaged) fees may significantly under- or over-estimate the actual costs of applications and approvals which are highly variable in scale and nature. This would create a substantial subsidisation issue within the eRUC provider group.

8.4 How will services be funded?

Currently there are no fees or charge recovering regulatory costs from the eRUC provider group so the sustainability of these services is at risk. Waka Kotahi intends to fully recover the costs of processing applications for new eRUC providers and new and modified technology developed to service eRUC providers.

Waka Kotahi proposed three set fees in the consultation document which were based on average estimated times to process eRUC provider and technology applications and approvals. Consultation feedback highlighted variable scale and nature of these applications and approvals and the risk that a set average fee could lead to Waka Kotahi significantly under- or over-recovering costs.

Acknowledging these concerns, Proposal 8 has been refined to take a pure user pays approach to providing these services. The refined proposal (Option 1) is to recover costs using an individualised charge (case-by-case, at assessed cost). This would avoid cross-subsidisation and better provide for cost recovery than set fees. A similar approach is taken in Proposal 7 for varying scale applications to connect to Waka Kotahi's data systems.

The proposed mechanism enables the most responsive approach by Waka Kotahi to a new eRUC market entrant, avoid financial barriers to market entry, and allow Waka Kotahi to scale and bring in additional expertise.

8.5 Estimated financial and economic impacts

Table 8.2 summarises the impacts of the proposed eRUC fees in Proposal 8 on different users and Waka Kotahi.

Table 8.2: Impacts of the proposed fees

Numbers affected	Current and future eRUC providers, including four eRUC electronic service providers who deal with over one million eRUC transactions each year
For eRUC providers	Individualised costs for eRUC providers when they apply to be an eRUC provider or request modifications to technology
For businesses using eRUC providers	Costs of application and modification fees may be passed on, increasing costs for business using eRUC providers
For Waka Kotahi	The costs for processing eRUC applications and approvals will be recovered fairly and supporting the sustainability of this part of the regulatory function. Waka Kotahi will establish an individualised mechanism to charge reasonable costs to eRUC providers when they apply to be an eRUC provider or request modifications to technology

8.6 Assessment against cost recovery principles

This section assesses the options using the cost recovery principles endorsed by the Waka Kotahi Board (based on Transport and Treasury cost recovery principles) to guide its approach to the funding and fees review and to ensure future costs would be spread fairly and in a transparent way.

Table 8.3: Policy assessment for all of Proposal 8

Principles	Status quo (existing model)	Option 1 (proposed fees)
Supports transport system objectives	- - - Past experience shows that underfunding places risks to transport system objectives (safety). Under-resourcing the regulatory function resulted in regulatory failure, and then the Government provided loans to address regulatory gaps	+++ The proposed individualised charging mechanism would ensure that new eRUC providers meet the required standards to ensure the ongoing integrity of the RUC system
Users should pay for the services, but incentives are important	- Users do not currently pay for these services, creating delays to processing times due to funding prioritisation	++ The proposed individualised charging mechanism would ensure that the fair costs of application and approval services are recovered, without cross-subsidisation, and will appropriately fund Waka Kotahi to provide a suitable level of service.
Users and beneficiaries should contribute to the integrity of the system	- - - Not recovering the costs of services means that cross-subsidisation from other groups is relied on to fund the level of service expected	+++ There are benefits to the system integrity in regulating the eRUC area and ensuring the system is safe and reliable to encourage more online RUC transactions
Be simple and consistent	- If costs are not recovered, then these services will need to be cross subsidised from other user groups	- + The proposed individualised mechanism would better provide for cost recovery than a set fee. The risk with this approach is less cost certainty for applicants and providers seeking approvals – given the volumes and the group of eRUC providers is very small, Waka Kotahi considers this risk can be managed
Focused on ensuring risk exacerbators and beneficiaries of services	- The current model does not appropriately recover regulatory costs from eRUC providers that benefit from the regulatory services	++ Option 1 would recover actual regulatory costs from eRUC providers that benefit from the regulatory services

Principles	Status quo (existing model)	Option 1 (proposed fees)
Crown funding is limited to certain functions	N/A	+ Waka Kotahi recommended to Ministers that ongoing regulatory oversight of the eRUC system is funded from land transport revenue (under section 9(1A)). Those oversight services are public goods or merit goods, where the public benefit outweighs any private benefit. Waka Kotahi considers that the public interest in a sustainable and fair eRUC system outweighs the private benefit, supporting the use of public funds to pay for these regulatory services. Aligning the cost recovery approach to other agents (in Proposal 1) provides a level playing field across agents
Be equitable	- The new and innovative nature of emerging technology requires a substantial level of consideration and assessment to approve. This comes at cost to Waka Kotahi, and it is not fair that other fee payers are subsidising these costs	- + The proposed individualised charging mechanism would ensure that the fair costs of application and approval services are recovered
Is sustainable	- - - Not charging for applications and approvals is not sustainable	+++ The proposed individualised charging mechanism would ensure that these services are financially sustained

Key

+++ much better than doing nothing/ the status quo	++ better than doing nothing/ the status quo	+ slightly better than doing nothing/ the status quo
- - - much worse than doing nothing/ the status quo	- - worse than doing nothing/ the status quo	- slightly worse than doing nothing/ the status quo
- + has an element of being slightly better but retains some element of being slightly worse so on balance is about the same as doing nothing/status quo		

8.7 Consultation / Industry feedback

Waka Kotahi undertook consultation on the changes under Proposal 8 from 21 March 2022 to 13 May 2022.

Consultation involved 29 engagement hui with industry, councils, iwi and Māori, and focus groups, including hard-to-reach community groups. The workshops and focus groups provided an opportunity for stakeholders to query the proposals and give initial feedback.

An industry workshop with eRUC providers gave an opportunity for feedback and allowed clarification on key aspects of the proposed fees A to D in table above.

15 submissions were received on Proposal 8.

Consultation feedback, including from industry and users, was generally supportive of this part of the system having regulatory oversight. However, there were differing views on how these services should be funded.

Application and approval processing services

Six submitters supported the proposed new application and approval processing fees consulted on. These submitters would be less affected by the proposed new fees. They considered charging providers for these services is fairer than cross subsidising these services.

Some submitters noted the need to remove barriers for eRUC providers to conduct business with industry.

There was strong feedback from eRUC providers, who are directly affected, opposing the new fees. eRUC providers considered the proposed fees:

- would negatively impact their business – they challenged the assumption in the proposal that eRUC providers derive a lot of commercial benefit from providing the service
- did not adequately consider the cost savings eRUCs provide Waka Kotahi and the public interest in shifting more users to electronic RUC transactions
- did not acknowledge the risks electronic service providers carry to provide eRUC
- would need to be passed on and this could disincentivise users to shift to electronic RUC transactions.

eRUC providers suggested alternatives for funding eRUC fees, including land transport revenue. They also suggested systems improvements.

Proposed group charge

Five submitters supported the new set charge, payable by eRUC providers. These submitters would be less affected by the proposed set charge. They considered charging providers for these services is fairer than other fees or cross subsidising these services.

There was strong feedback from eRUC providers, who are directly affected, opposing the new set charge to fund regulatory services for similar reasons outlined above for the new fees, as well as considering the new charge unfair and not recognising that eRUC providers act as agents for Waka Kotahi. One eRUC provider (EROAD) provided a lot of analysis supporting their view that Waka Kotahi should treat eRUC providers as agents and showing the inequity of the proposed charge.

Waka Kotahi response to feedback

Waka Kotahi considers that:

- systemic benefits accrue by enabling the collection of eRUC
- eRUC providers derive commercial benefit for their customers from using its system.

Given additional information provided in submissions, Waka Kotahi went back to a first principles analysis of Proposal 8.

Waka Kotahi analysed all consultation feedback and held workshops with relevant Waka Kotahi regulatory teams to confirm understanding of the issues raised in the context of the three proposed fees for application and approval processing services. Through those discussions it was confirmed that the processes were so variable in scope and nature that a set fee risks over- or under-recovering costs. Waka Kotahi considers that an individualised mechanism (charging based on reasonable cost of doing the work to process these applications) would be a fairer approach.

Waka Kotahi considers that charging eRUC for ongoing regulatory services could create an uneven playing field between electronic and other RUC transactions through industry agents who are not charged.

The updated analysis resulted in Waka Kotahi aligning the funding for ongoing oversight and regulation of eRUC providers with the funding approach for similar oversight services of other agents – using land transport revenue.

See *Appendix Six: Consultation overview* for further information on the consultation process undertaken and the general themes raised about the collective proposals as part of the funding and fees review.

8.8 Overall Assessment

Option 1 aligns best to cost recovery principles. Waka Kotahi needs a fair, effective and sustainable system to support eRUC providers to shift consumers to an electronic platform.

Waka Kotahi is not currently recovering the costs of processing provider applications and technology approvals. Without cost recovery the sustainability of these services is at risk.

The proposed individualised mechanism would better recover the actual cost to process new eRUC provide applications and technology approvals and would avoid the existing cross-subsidisation. This is a fairer and more sustainable approach than the status quo which requires cross subsidisation from others in the system.

8.9 Implementation

If agreed, the proposed individualised charging mechanism under Proposal 8 would be established through amendments to the Road Users Charges (Administration Fees) Regulations 2014, and would take effect on 1 October 2023.

An implementation plan would implement and effect the new rate changes. See *Appendix Seven: Implementation, Monitoring and Review* for further information on Waka Kotahi's implementation approach for the proposed changes.

8.10 Monitoring and review

Waka Kotahi will continue regular targeted engagement with eRUC providers to better understand the impacts the progressed changes may have on the sector over time. Updated and more robust impact information will inform the development of any future funding and fees review.

Waka Kotahi will assess the service rates at least every three years, which may result in rate changes if required to ensure full cost recovery or to address significant over-recovery. In addition, the user of land transport revenue for funding regulation of eRUC providers will be reviewed in the next funding and fees review process.

Waka Kotahi will report annually on the performance of the services provided under Proposal 8 to provide transparency to industry, the public and other interested parties, and to report on actions undertaken to ensure the regime continues to operate efficiently.

See *Appendix Seven: Implementation, Monitoring and Review* for further information on Waka Kotahi's monitoring and review activities for the proposed changes.

Glossary

Agent	Waka Kotahi agents include AA, VTNZ, VINZ and NZ Post, and deliver services to customers, including driver licensing services, vehicle certification (warrants and certificates of fitness), and counter service for access to Waka Kotahi data like the Motor Vehicle Register (MVR)
Baseline funding	The annual amount of funding Waka Kotahi receives from various revenue sources to provide regulatory services (Waka Kotahi's annual budget)
Business support costs	Wider shared corporate costs associated with Waka Kotahi, including human resources, IT platforms, financial services, communications and information services
Charges	Charges are applied where services provide benefits to groups of users (or club goods). Charges represent costs of an overall service (e.g. safety systems) averaged across a group of users (e.g. all people who hold a Transport Service Licence, or all vehicle certifiers)
Club goods	A club good has the property that people can be excluded from its benefits at low cost, but its use by one person does not detract from its use by another
Compliance	Complying with a regulation or other requirement (following a rule or order)
Core business loan	The $80m government loan to rebuild the regulatory function in Waka Kotahi to address identified regulatory gaps (increased compliance and enforcement in critical areas), hire additional staff to fill critical frontline roles, and strengthen governance and leadership through the development of Waka Kotahis' regulatory strategy Tū ake, tū māia
Cost driver	Any factor which causes a change to the cost of an activity
Cost recovery	Ensuring revenue received covers the costs of delivering a service (breaking even)
Cross-subsidisation	Cross-subsidisation occurs when the fees or charges collected for a service in one user group cover some of the costs of providing a service in another user group. As a result, the cost of some services might be over-charged and others under-charged
DLR	Driver Licence Register
eRUC	Electronic Road User Charges (for diesel vehicles)
FED	Fuel Excise Duty
Fees	Fees are applied where services provide benefits to individual people and/or individual companies/organisations and are categorised as private goods (e.g. driver licences, motor vehicle licence registration)
Frontline regulatory (FR)	Regulatory safety activities such as compliance, auditing and monitoring. A group of people or businesses (club) benefit from these services so they are categorized as group services, and the costs of providing these services is proposed to be collected mainly through (averaged) charges
FTE	Full-time equivalent employee
Goods Service Licence (GSL) holder	A Transport Service Licence holder for services to deliver or carry goods, whether or not for hire or reward, using a motor vehicle that has a gross vehicle mass of 6000kg or more

Land transport revenue	All road users contribute to land transport revenue through road user charges (RUC), fuel excise duty (FED), and motor vehicle licensing. Land transport revenue currently funds the National Land Transport Fund (NLTF), as well as some maritime safety activity under section 9(1) of the Land Transport Management Act (LTMA) and revenue management activities under section 9(2) of the LTMA. The NLTF is allocated to many activities including state highway maintenance, public transport, and walking and cycling improvements
LTMA	Land Transport Management Act 2003
Memorandum accounts	Memorandum accounts record and account for any profit (surplus) or loss (deficit) that accumulates from providing services that are fully cost recovered
MVR	Motor Vehicle Register
NLTF	Funded from land transport revenue, the National Land Transport Fund (NLTF) is allocated to many activities including state highway maintenance, public transport, walking and cycling improvements
Non-compliance	Not complying with a regulation or other requirement (not following a rule or order)
Operational support costs	Organisational overheads including non-frontline regulatory support functions required to ensure the regulatory system is and remains fit for purpose. Operational support costs include executive managers, project management, administrators, change, risk and assurance, and intelligence functions
Opportunity cost	The cost of spending for an activity or service where the money could have been spent on another activity or service
Passenger Service Licence (PSL) – large vehicles	A Transport Service Licence holder for a large passenger service who uses vehicles that are designed or adapted to carry more than 12 people (including the driver) as passengers (e.g., buses)
Passenger Service Licence (PSL) – small vehicles	A Transport Service Licence holder for a small passenger service who uses vehicles that carry 12 people or less (including the driver) as passengers
Personnel costs	Waka Kotahi staffing costs
Private goods	Private goods are when an individual receives direct benefit from the service provided (e.g., a New Zealand driver licence)
Public goods	Public goods are provided to all members of New Zealand without a specific charge to any one person. In transport, public goods are likely to be funded by land transport revenue and/or the government
Rate card	A list of all fees and charges with their descriptions for each of the regulatory services provided by Waka Kotahi (these fees and charges are prescribed in regulations)
Regulation	A rule or directive made and maintained by an authority, in this case, the Ministry of Transport and Waka Kotahi
Regulator	An agency that supervises a particular industry, in this case, transport. As New Zealand's lead land transport regulator, the role of Waka Kotahi is to improve safety and reduce the risk of harm by checking that people and organisations follow the land transport safety rules
Regulatory activities	The activities Waka Kotahi undertakes in it's role as the land transport safety regulator (e.g., monitoring the performance of vehicle certifiers)

Regulatory capability	The ability of the regulator to do its job properly, having the right people with the right skills, and the right platform (the right technology, the legislative mandate, the right governance, insights etc.) to be effective in its role
Regulatory capacity	Staffing numbers at the regulator – Waka Kotahi
Regulatory participants	People and businesses who benefit from, and are a part of, the land transport regulatory system (e.g., drivers, vehicle owners, vehicle importers)
Regulatory platform (RP) **/** **Regulatory institution**	Activities necessary for Waka Kotahi to operate as a robust regulator with accountability and governance, such as policy and strategy. All users benefit from these services, so they are categorised as public goods, and the cost of providing these services is to be collected mainly from land transport revenue
Regulatory services	The services Waka Kotahi provides as the land transport regulator to ensure compliance with land transport safety regulations and rules
Regulatory system integrity costs	Systemic costs that ensure regulatory activities like compliance, auditing, and monitoring happen. An example is the cost of developing rules and standards
Rental Service Licence (RSL) holder	A Transport Service Licence holder for a vehicle rental service. These services can provide for renting or leasing of small vehicles up to heavy vehicles (truck hire)
RUC	Road User Charges (for diesel vehicles)
Service delivery costs	Direct costs to deliver a service that aren't staff time or agent fees. Service delivery costs include postage and printing, the manufacture of registration plates, credit card and Poli fees etc
Subsidisation	Subsidisation occurs when the fees or charges collected from a group of users cover some of the costs that would be incurred by others within the same user group
TSL	Transport Service Licence. You must have a transport service licence (TSL) to operate a goods service, large or small passenger service, vehicle recovery service or rental service (see definitions above)
User	People who use, operate, or receive a benefit from a service. In the context of cost recovery, users are charged fees or charges to recover the cost of the service they use, operate or receive benefit from
User facing services (UFS)	Transactional activities where individuals directly benefit from the services, for instance getting a driver licence or warrant of fitness. As individuals benefit from these services, they are categorised as private goods, and the cost of providing these services is proposed to be recovered mainly through fees
Vehicle recovery Service	A Transport Service Licence holder for a vehicle recovery service (e.g., tow truck and vehicle transportation services)

Appendix One – Waka Kotahi's cost recovery principles

Waka Kotahi's cost recovery principles are equally applied when developing and considering changes to fees and charges. Waka Kotahi's cost recovery principles, and their application, are set out in the table below.

Table 1: Waka Kotahi's Cost Recovery Principles

Principle	Description	How the principle is applied
Supports transport system objectives	The cost recovery regime must support the role, purpose and objectives of the land transport regulatory system as set out in Tū ake, tū māia (Waka Kotahi's regulatory strategy)	The funding proposal and associated charge and fee proposals have been mapped to our legislative framework, which contributes to the transport system objectives
Sustainable	The regulator, Waka Kotahi, needs to be funded to be self-sufficient and not rely on government loans. Waka Kotahi should carry out its regulatory and other functions in a financially sustainable, efficient and transparent manner to meet the government's desired outcomes from the transport regulatory system	Fees and charges, to the extent possible, reflect the true cost to regulate the service or function The cost recovery regime will be regularly reviewed to ensure it is still efficient and sustainable
Focuses on ensuring risk exacerbators and beneficiaries of services pay	Users that create the highest risk in the system pay their fair share to regulate that risk and those that benefit the most pay for the benefits they receive	Waka Kotahi analysed the risks of individuals or groups to understand the nature of the risk posed by that activity and the benefits they receive from the service or function Charges and fees have been developed taken this assessment into consideration
Users should pay for the services, but incentives are important	When users use a regulated transport service (for example, licensing and registration, or access to dispute resolution or adjudication), the user should pay the cost of the service. In addition, encouraging compliance is built into the system to demonstrate to drivers and transport operators how increased safety on roads reduces harm	Waka Kotahi took all reasonable steps to apply the 'user pays' principle. Waka Kotahi has determined the proposed fees and charges through our cost model and adopted the specific figure calculated as the appropriate amount for that particular fee or charge to reflect the true cost to regulate the service or function This has meant changes to some fees and charges (increased or decreased) to reflect the cost to provide the service or the change in the nature of the charge for that service. It has also resulted in the introduction of new fees and charges for services that have not previously incurred a cost The exception to pure cost recovery is subsidisation across re-sit charges to incentivise and provide access to the Graduated Driver License System

Principle	Description	How the principle is applied
Crown funding is limited to certain functions	From time to time, the land transport regulatory system may seek government funding to cover the cost of being a modern regulatory institution	Waka Kotahi has assessed all services against the cost recovery principles, and land transport revenue has been secured for regulatory functions that benefit all road users and are considered 'public goods'
Users and beneficiaries should contribute to the integrity of the system	Safety requires regulation, and regulation costs money. The people who use and benefit from a safe land transport system should contribute to the costs of regulating it	Waka Kotahi has undertaken a robust and in-depth process to ensure all activities and services are necessary to achieve a robust level of system integrity, and to enable Waka Kotahi to be an efficient and effective regulator. Waka Kotahi has also ensured to the extent possible, full transparency of the required funding to support these activities and services
Regularly review regime efficiency	Charges and fees should be set at a level that is economically efficient, fair, and will deliver government transport priorities	Waka Kotahi will review its cost recovery regime every three years to ensure it is operating efficiently and offering regulatory services at reasonable charges
Equitable	Charges and fees should be as fair as possible. This means ensuring the cost of the system is spread fairly	Waka Kotahi has methodically itemised and categorised (public, club or private good) each service according to the type of activity. Waka Kotahi has analysed where costs sit under the current funding model and where they should sit in a fairer funding model. Waka Kotahi has also identified some activities that are not charged for currently and that are considered eligible for cost recovery, and taken steps to ensure appropriate cost recovery
Simple and consistent	Charges and fees need to be kept as straightforward as possible. This will help ensure it is relatively easy for those who pay charges and fees to understand which fees they should pay, and when. Transparent and consistent charges and fees allow businesses to plan more effectively	The proposed fees and charges would be specified in both amended regulation and an updated rate card

Appendix Two: Nature of the goods

When determining who should pay and how charges should be designed, Waka Kotahi considers the economic nature of the service. In economic terms, services can generally be characterised as public, club, or private goods[1]:

- *public goods* are often Crown-funded because it is either impractical or costly to exclude people from their benefits (non-excludable), and their use by one person does not preclude use by others (non-rival). However, even if a service has the characteristics of a public good, it may still be appropriate to charge parties that give rise to risks that the service is designed to manage.

- *private goods* are generally recovered via fees directly charging the user of the service, where Waka Kotahi can limit access to the service to a defined user or users (excludable), and the benefit of the service is received only by that user (rival). Direct charging is also appropriate where individual users create risks that Waka Kotahi's services are designed to manage ('risk exacerbators').

- *club goods* are generally recovered via levies on groups of users, where Waka Kotahi can limit access to the service to a defined user or users (excludable), but any user's access to the service does not limit others' access to the same service (non-rival). Levies are also appropriate where a defined group of users create risks that Waka Kotahi's services are designed to manage, but the risks cannot be attributed to a single identifiable user.

[1] There is also a category of merit goods – services which the community as a whole desires more of than would be provided if charged for at full cost. None of the proposals in this document include services that meet the definition of a merit good.

Appendix Three: Source reports

Title	Document	Focus	Date	Author	Document embedded
NZTA Funding and Fees Review Programme – IQA interim report	DRAFT Funding and Fees IQA Report v0.91 Final Draft.pdf	Independent Quality Assurance	April 2020	PWC	Draft Funding and Fees IQA Report v0.91 Final Draft (2).pdf
Value-for-money of funding and fees changes	NZTA Fee and Funding Review Assessment - October 2020 FINAL.pdf	High-level evaluation of changes to funding of NZTA's regulatory activities	October 2020	Sense Partners	NZTA Fee and Funding Review Assessment - October 2020 FINAL (1).pdf
Analysis feedback	Litmus Report	Consultation feedback	August 2022	Litmus	Proofread FINAL_ Submission Analysis funding and fees report_18 08 22.pdf
Triage policy issues	Triage and Tracking Spreadsheet for Consultation		August 2022	Waka Kotahi	Funding and fees triage policy register – see sub-folder called appendix
Rate cards		Rate cards	Latest version (as in third briefing) October 2022	Waka Kotahi	Rate Card v8.0 Comparison - Post consultion.xlsx -see sub-folder called appendix Post Consultation rate card update 20221020.pptx – see sub-folder called appendix
Impacts assessment	Road transport regulatory fee and funding changes – impacts on road users	Impact assessment	July 2021	Sense Partners	Impacts of fee and funding changes (1).pdf

Appendix Four: Waka Kotahi rebuild – cost drivers and funding arrangements

The table below provides a summary overview of the phases of Waka Kotahi's rebuild, including the cost drivers and funding arrangements required for Waka Kotahi to become an efficient and effective regulator. The table is presented in three phases: 1) Status quo – immediately after the independent review findings; 2) Following receipt of the Government loans; and 3) Future state – the proposed changes required to achieve Waka Kotahi's regulatory strategy *Tū ake, tū māia*.

Table 1: Cost drivers and funding arrangements required for Waka Kotahi's rebuild

Phase	Description	Funding
Status quo – post independent reviews		
Immediate attention (2018)	476 FTEs 45 FTE immediately funded to fill identified regulatory gaps	Pre-loans base of $165.3 million per year and accumulated surplus
Government loans provided		
Rectify	Address the historic backlog of 850 vehicle non-compliant cases as well as re-certification cases	Cabinet agreed to a capital injection of up to $15 million (approved in September 2019)
Rebuild	Address regulatory deficiencies as follows: • develop a back-to-basics plan to build the core regulatory function of Waka Kotahi • fund regulatory project costs, including a compliance and assurance safety system • hire 114 additional FTEs to fill critical frontline roles (for example: certifiers, licensing assessors, staff to carry out vehicle border and entry compliance, and learning and development staff) • establish Waka Kotahi Regulatory Board Committee	Cabinet agreed to a capital injection of $30 million (approved in September 2019)

Phase	Description	Funding
Maintain and progress	Maintain the regulatory function while the Funding and Fees Review (the Review) is completed to: • continue to support and maintain additional staff hired and to maintain regulatory project costs • supplement Review implementation costs • provide additional funds to refresh regulatory strategy, manage regulatory safety and compliance in the certification sector • appoint Director of Land Transport	Cabinet agreed to a capital injection of up to $50 million (February 2021)
Proposed funding of Future State		
Proposed Future State to fully implement *Tū ake, tū māia* – our regulatory strategy 2020-2025	Minister of Transport agreed to fund an increase in regulatory compliance and enforcement resource up to 20 FTE to tackle Road User Charges debt from NLTF S9(2) Joint Ministers of Finance and Transport agreed to use land transport revenue for Waka Kotahi functions that benefit all road users Proposal to increase fees and charges (as described in this CRIS), and utilise additional funding streams (above) to build compliance and assurance systems to achieve a balance of activities (education, engagement and enforcement): • an additional 79 FTE to address regulatory gaps and high-risk areas, and to enable better regulation (e.g., staff in the intelligence function, operational policy and practice, risk management) • a reduction of 17 FTE to address changes in volume of transactions • an additional 24 FTEs support staff to allow for best practice including data, analytics, intelligence, technology, finance, financial resource and risk management, research and evaluation, and regulatory culture • further $10 million per year for regulatory projects to improve processes and systems and industry support, such as improving guidelines and standards (for better user experience), and better management of border and entry certification Meet increased business costs such as postage and agent commissions Initiate repayment of capital injections Initiate programme to increase efficiency and effectiveness across Waka Kotahi and wider system	Uplift of approximately $108 million per year from the pre-capital loan annual budget, funded from: • Additional $10m from NLTF (Section 9(2) of the LTMA) • $34m from Land Transport Revenue Section 9(1A) of the LTMA) • $66m in additional fees and charges • $2m from other sources Proposed total funding of $273.2m million per year is required for regulatory function (average over 2023/24 to 2025/26) A total of 741 FTEs (an additional 265 FTEs from the 476 FTEs in 2018)

Appendix Five: System-wide impact analysis of the proposed changes

Impact of changes on cost of living

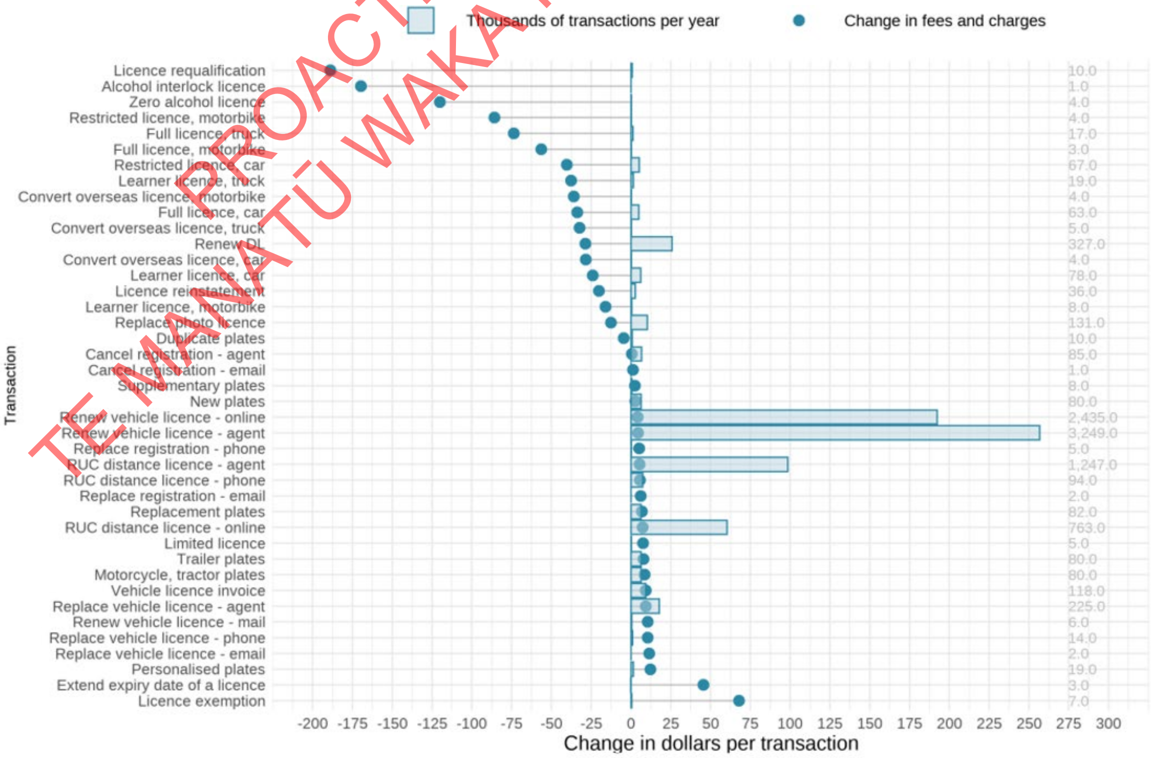
Of charges proposed to stay the same or increase, most are proposed to increase by less than $10, including cancelling registrations, supplementary and new plates, renewing vehicle licences through an agent (3.2 million transactions) or online (2.4 million transactions), RUC distance licences, and trailer plates. The greatest proposed increases (very few transactions) are for extending the expiry date of a licence (increasing by less than $50 or 125% - 3000 transactions per year), and licence exemption (increasing by just over $60 or 260% - 7000 transactions per year).

Twenty fees and charges collected from households are proposed to reduce, some significantly. The charge to renew a driver's licence (327,000 transactions per year) is proposed to reduce by over $25 (50%).

Some other examples follow: overall licence requalification charges are proposed to reduce by over $175 (65%), alcohol interlock licences are to reduce by over $170 (70%), zero alcohol licences are to reduce by over $100 (75%), full truck licences are to reduce by $75 (60%), full motorbike licences are to reduce by over $50 (50%), and restricted car licences are to reduce by over $30 (15%).

Figure 1 below sets out the proposed changes in fees and charges to be collected from households.

Figure 1: Proposed fees and charges (in dollars ($)) to be collected from households.



Overall, the proposed changes are considered modest. Figure 2 below demonstrates the potential portion of household spending on Waka Kotahi's proposed fees and charges:

Figure 2: Relative household spend on the proposed fees and charges.

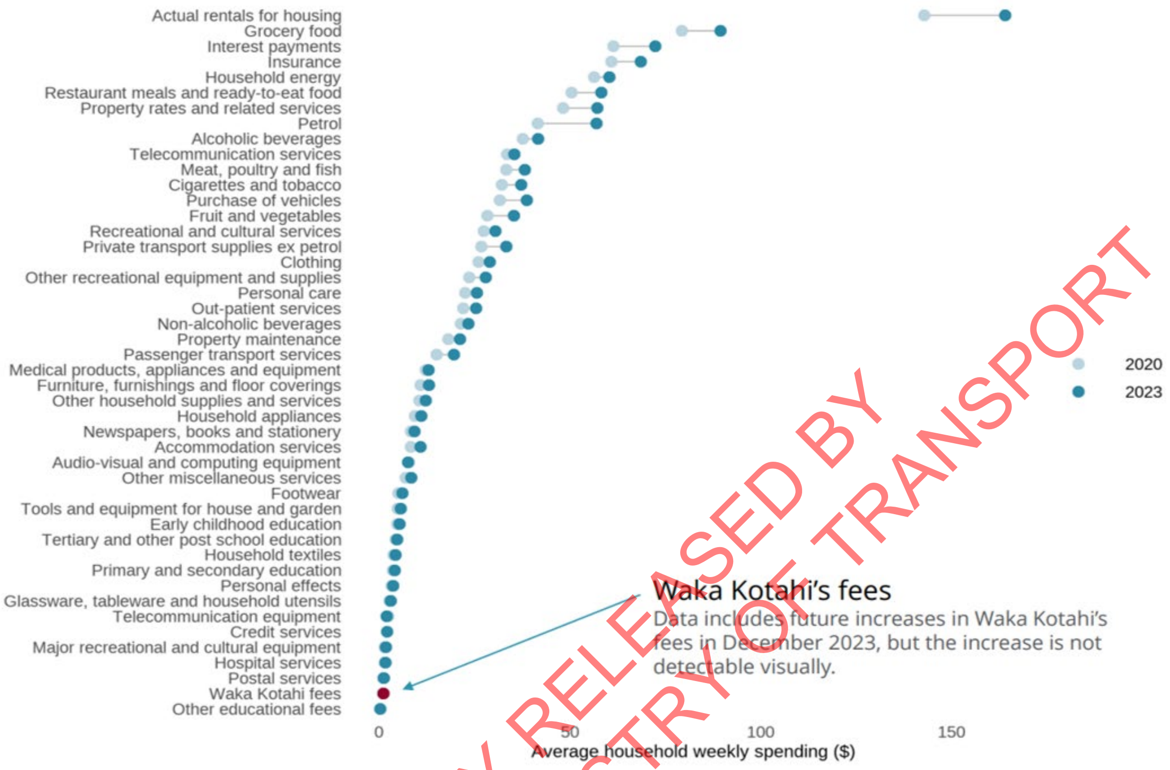


Table 1: Impact Analysis for Future Funding State (from July 2021 Sense Partners report, not updated to current fees and charges where adjustment for higher inflation has been made).

Group	Assumptions	Macroeconomic analysis	Note
• Households • 3.5 million licenced drivers • 5.2 million motor vehicles	Households spend $11.3 billion per annum	If 50% of the increase to transport fees and charges is passed on to end users, the impact of the proposed change is an estimated increase in average household spend on transport ranging from $6.30 per annum (for lower income households) to $26.80 (for higher income households). If 100% of the increase to transport fees and charges is passed on, the increase in average annual household spend on transport ranges from $10.30 to $43.80.	Decrease in licensing and testing fees sees positive impact, particularly for Graduated Driver Licence System (youth)
• Transport Firms • 38,000 Transport Service Licence holders • 42,230 heavy vehicles • 3174 certifiers • 146,000 imported car	Operating surplus of transport industry (the difference between all revenue and all expenditure) is $685 million	If 50% of the increase to transport fees and charges is passed on to end users, there is an estimated 6% per annum decrease in operating surplus (operating income less operating expenses) for the transport industry. If 100% of the increase to transport fees and charges are passed on to end users, there is no change to the operating surplus for the transport industry. However, within this average impact, there are variable impacts for participants.	Transport Service Licence holder charge Seven certifier charges, including for imported cars May exacerbate recruitment and retention issues in the certifier sector
• Other firms across NZ including construction, sales, service providers, others		Impact is estimated as minimal for those businesses that run a fleet of vehicles, such as the construction sector.	
• Entities that access Waka Kotahi data and registers • 263 data users generating 110 million access requests per annum	Increased charges will be passed on to end users	Impact on data entities is estimated as minimal given the relatively large size of most of these entities	Two charges for data Charge to obtain RUC refunds (for ERUC providers)

Proposed changes in fees and charges collected from businesses

By volume, most transaction fees have a modest change. By far the greatest volume of transactions is for RUC distance licences, RUC additional licences, and renewing vehicle licences (industry agent) and these fees are proposed to increase by less than $10 or between 100% and 200%.

Of the proposed increases to fees and charges collected from businesses, WoF certifications are by far the greater volume (5.085 million transactions per year) and are proposed to increase $2.38 per transaction (134%). Entry certification, with 163,000 transactions, is proposed to increase significantly in percentage terms, but in dollar terms by around $27 per transaction.

Thirty-eight fees and charges collected from businesses are proposed to reduce or remain the same. These include Five-year renewals of P/O/I/V endorsements (all reducing by ~$150 to $165 or around 60%), special interest vehicle and left-hand drive permits (reducing by ~$160 or ~90%), exemption from Land Transport rules (~$315 or ~90%), left hand drive light vehicles, border check exemptions (~$150 or ~90%). Certificate of Fitness certification, with 537,000 transactions, is also proposed to reduce.

Appendix Six: Consultation overview

Public consultation process

Consultation on the proposed changes to land transport funding fees and charges was undertaken from 21 March 2022 to 13 May 2022.

Consultation involved 29 engagement hui with industry, councils, iwi and Māori, and focus groups, including hard-to-reach community groups. The workshops and focus groups provided an opportunity for stakeholders to query the proposals and give initial feedback. Around 180 people attended the industry and council workshops.

An inquiry service available during the consultation period also received and responded to questions and requests for further information on the proposals from the public and industry. A dashboard system that quantified the number of responses received and responded to during the consultation period was used to regularly update the Minister.

In addition to the feedback received from this engagement, Waka Kotahi received 145 written submissions from industry, councils, iwi and Māori, and members of the public. Internal workshops with relevant business teams were held to confirm Waka Kotahi's understanding of the issues raised by stakeholders.

General themes

There were common themes in consultation feedback (received through both engagement and written submissions) across all proposals reflecting the current economic climate and users' experience of the services that Waka Kotahi provides.

Comments received on the cost of living and the cost of running a business were prevalent, including increased transport fees and charges being passed through to households. This was the most frequent concern raised in feedback from both the public and focus groups. Many industry-related submitters also expressed an inability to absorb increased fees and charges, and a need to pass them on to customers. They also highlighted rising costs adversely impacting their businesses, mainly due to the impact of COVID-19 and on-going inflationary pressures.

Submitters and industry participants appreciated the importance of Waka Kotahi as a strong regulator and recognised more funding is needed, as well as seeing the link between regulation and road safety. There was also acknowledgement that the Waka Kotahi leadership and regulatory function has strengthened over time and there was general agreement of the need to rebalance fees and charges across the system.

Other themes included whether services were public goods which should be funded by the government rather than users, the efficiency of recovering specific fees and charges, and whether a level playing field is being applied across services, users, and providers.

All feedback received during consultation was taken into consideration during the development of the final proposals. Specific detail on the feedback received is outlined in the 'consultation' section under each proposal.

Rōpū and tangata Māori

Submissions were received from one Iwi (Waikato Tainui) and feedback was received from whānau Māori and rangatahi Māori in the focus groups.

Common to these submissions and feedback was discussion of the wider costs and other barriers in enabling vehicle and licence compliance for Māori. Waikato Tainui in particular recommended *"Waka Kotahi review the full eco-system that are the beneficiaries and contributors to land transport and how this can create a value proposition for funding models across sectors rather than in isolation to the transport."*

They also explained that someone holding the right licence and driving a road-worthy vehicle benefits the whole community. Waikato Tainui and the whānau and rangatahi Māori focus group participants suggested decreasing vehicle licencing and registration fees to further lower the financial barriers. They also wanted further implementation of driver education in schools. Waikato Tainui called for more iwi members to be endorsed as driving instructors and assessors to allow Māori to see themselves in the sector and increase their engagement ability.

Waikato Tainui generally supported the intent of the funding and fees review to find sustainable and equitable options for households and businesses. They also noted the Crown's obligation to co-design with iwi any regulatory changes which directly or indirectly affect their settlement legislation Co-design was not pursued for this review but Waka Kotahi is building its working relationships with iwi and Māori through its Māori Strategy – *'Te Ara Kotahi'* which aims to engage with iwi and Māori throughout the development of future models and reviews.

These submissions have not only informed the consideration of specific proposed fees and charges in this review, but they are helpful to the refresh of Waka Kotahi's regulatory strategy '*Tū ake, tū māia'*. Waka Kotahi is engaging with Iwi and Māori on the strategy refresh, which will provide opportunity to address the concerns and opportunities raised in these submissions that are broader than cost recovery.

Consultation with other government agencies

The following agencies were consulted on the proposals prior to the consultation document being considered by Cabinet for release: Accident Compensation Corporation, Te Arawhiti, Ministry of Business, Innovation and Employment, Department of Corrections, Ministry of Defence, New Zealand Defence Force, Ministry of Foreign Affairs and Trade, Health and Disability Commissioner, Department of Internal Affairs, Ministry of Justice, Ministry for Pacific Peoples, New Zealand Police, Te Puni Kokiri, Ministry of Social Development (MSD) (and separately, the Office for Disability Issues at the Ministry), the Treasury, Ministry for Women and WorkSafe New Zealand. The Department of Prime Minister and Cabinet was informed.

The Office of Disability Issues facilitated engagement with the disability community, and Waka Kotahi provided an additional focus group with disability advocates. Waka Kotahi with support from Te Arawhiti undertook two workshops focused on hearing the perspectives of rangitane and whānau Māori. Ministry of Pacific Peoples assisted Waka Kotahi in reaching its Pacific network during the consultation period.

Initial agency feedback on the proposals prior to formal public consultation was generally supportive or neutral feedback was provided.

Specific feedback from agencies included:

- The move to reduce the costs (and therefore barriers) to obtaining a driver's license found specific support for its potential to increase the number of younger and disadvantaged drivers becoming licensed. MSD saw employment and justice system benefits to this change

- Some departments cautioned that proposed changes that increased costs could impact disadvantaged groups more, including the disabled

- Te Arawhiti supported targeted engagement with Treaty of Waitangi partners.

Appendix Seven: Implementation, monitoring and review

Implementation plan

If agreed, the proposed rate changes would be made through amendments to the:

- Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011
- Land Transport (Certification and Other Fees) Regulations 2014
- Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999
- Transport Services Licensing Regulations 1989
- Road User Charges (Administration Fees) Regulations 2014.

The new amendments would be published in the New Zealand Gazette. The new fees and charges would take effect from 1 October 2023.

An implementation plan will articulate changes to allow Waka Kotahi, its agents, industry, councils, and all those people affected to understand, prepare, and ready their systems and processes.

A communications plan will be developed to:

- communicate decisions by Ministers and Cabinet
- communicate final fees and charges
- reassure industry agents, partners, and other key stakeholders that Waka Kotahi will work closely with them during the implementation phase.

The communications plan will align closely with the implementation plan.

Waka Kotahi will use similar channels and approaches to those used during consultation to update external stakeholders on decisions and the implementation process as it moves forward. The approach will include in person meetings or phone calls with key stakeholders, industry, councils and iwi submitters, as well as written updates, social media, website and media releases.

Performance reporting

Performance reporting is critical to:

- provide transparency to industry, the public and other interested parties about the performance of the regulatory services Waka Kotahi provides

- ensure the regulatory system continues to operate efficiently.

Waka Kotahi will report on the financial and non-financial performance of cost-recovered services, as well as its repayment of the government loans, in our annual report.

Performance will be reported against measures that are linked to the regulatory strategy, *Tū ake, tū māia*, and the operating model. Where objective metrics are not possible, evidence-based estimates will be used to inform meaningful performance assessments.

Waka Kotahi will manage fee and charge accounts (known as memorandum accounts) to avoid cross subsidisation and retain financial information. The aim is for these accounts to not result in a surplus (profit) or deficit (loss) over a three-to-six-year period.

Ongoing programme of review

In accordance with Waka Kotahi's Cost Recovery principle "Regularly Review regime efficiency", annual performance reporting and Waka Kotahi's financial results will inform our next funding and fees review, which is scheduled for at least every three years (the next review will be three years after the new funding model has been implemented). Any future review, which may result in service rate changes, will ensure regulatory cost recovery settings (including the fee and charge rates) remain appropriate, relevant, and prevent the accumulation of significant surpluses or deficits.

Fees and charges may also be reviewed outside the review cycle if a forecast or a material surplus or deficit accumulates in a memorandum account. The status of memorandum accounts will be monitored monthly through standard reporting and forecast at least annually. Waka Kotahi is also taking action to improve its monitoring processes, including the development of a policy defining thresholds beyond which Waka Kotahi will begin addressing a deficit or surplus, and that sets out expectations for how quickly a deficit or surplus should be eliminated. In part this is to address the lengthy time frame to revise fees and charges.

Waka Kotahi will consult affected users on any new policy developed outside a review, particularly on the costs and impacts of any changes to fees and/or charges.

Waka Kotahi is also undertaking a system-wide Stewardship Project to strengthen and maintain its functions as a sustainable and effective regulator. A part of this work will involve the establishment of overarching policies that will be used to complement and strengthen Waka Kotahi's capability and financial and business decision-making.