

# *Background Paper*

## Driver Licensing and Driver Testing Fees Review

January 2010

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*This document provides additional information, for the purposes of public consultation, about proposed changes to Driver Licensing and Driver Testing Fees. It should be read in conjunction with the "Information Paper" that summarises the main features of the review.*

*For continuity, some material is reprinted in both documents – for example, the Schedule of proposed fees. However, this document gives more background on a number of transactions and issues; for example, why the proposed fee increases for older drivers are less than those for other transactions.*

*The context for the review is that the fees were last reviewed in 2001 and, over the years, there has been a steady increase in the disparity between the revenue received from fees and the cost of administering and maintaining the driver licensing and testing systems.*

*In 2008/09 there was an operating deficit of \$7.82 million for Driver Licensing and Driver Testing combined; this deficit is expected to increase in the years ahead unless fees are adjusted and/or costs reduced.*

*The "Information Paper" includes details of where to send any submission you may wish to make on the proposals. The final date for submissions is **Friday 26 February 2010**.*

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## Executive summary

Driver licensing is an activity that affects almost every adult resident in New Zealand. Driver testing and licensing provide:

- a way to ensure that drivers are appropriately skilled before they are allowed to operate a motor vehicle and
- a primary means of enforcing appropriate driving behaviour.

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

The current fees were set in 2001, and no longer cover the costs of administering and maintaining the driver licensing and driver testing systems. The *combined* figures for licensing and testing over the last two financial years were:

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

Income fell in 2008/09; this is a product of lower transaction volumes. Total costs increased by around \$500,000 in the same period. The cumulative deficit in June 2009 (adding together the annual deficits of recent years) was \$13.99 million. If no action is taken, this will increase to \$21.78 million by June 2010.

Reasons for the deficit include:

1. costs imposed by legislative changes
2. transactions where no fee is payable
3. general cost increases
4. some fees set below cost.

The deficit reflects underlying problems in the funding structure, and cross-subsidisation across transactions. The NZTA is constrained in applying funds from its other activities.

The NZTA and Ministry of Transport (MoT) are conducting a joint review of Driver Testing and Driver Licensing services. It is proposed that the imbalance is addressed by:

- looking for cost savings
- increasing some existing fees (with none more than 20 percent)
- reducing some fees where over-recovery is occurring, and
- introducing new fees set at cost recovery levels.

In setting the proposed fees, no allowance has been made for the recovery of the deficit that has been accumulated to date. This is being considered separately.

# Current situation

## Context

In February 2009, there were 3.2 million licence records (with a status that entitles the licence holder to drive). As well, short-term visitors to New Zealand are entitled to drive on a valid and current overseas licence.

The licensing of drivers is the way we ensure that drivers are appropriately skilled before they are allowed to operate a motor vehicle. New Zealand was the first country in the world to introduce a graduated licensing process for novice and young drivers (which requires testing of driving skills at each stage of the process). Appropriate training and tests are also required for people who drive heavy or special-type vehicles, or undertake specified work (such as carrying passengers for hire or conducting driver testing).

Driver licensing is also the primary means of enforcing driving behaviour, and the loss of a driver licence is administered as a penalty if a driver accumulates more than 100 demerit points in any two-year period or is convicted of a serious traffic offence. Driving without a valid licence is regarded as a serious offence, with significant penalties (such as vehicle impoundment).

The NZTA is responsible for managing the driver licensing and testing system. The NZTA conducts some of these activities (such as the 0800 telephone help line and the maintenance of the Driver Licensing Register) in-house, but contracts out the counter services for licence applications and the conduct of driver testing.

It is a substantial business, with very high transaction volumes. In February 2009, the NZTA and its agents dealt with:

- 17,792 renewals
- 7,541 new learner licences
- 5,655 new restricted licences
- 5,277 new full licences
- 1,662 special-type vehicle endorsements
- 234 passenger and other “occupational” endorsements.

Another indication of volume is that the NZTA’s Contact Centre handles nearly 700,000 driver licensing related enquiries a year.

The turnover of the business is also an indication of its size. In 2008/09 the combined revenue for licensing and testing was \$41.60 million.

## Constraints on delivery

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

Some of this law is very prescriptive. For example, the Rule (clause 12) includes a requirement that, where applicable, “an applicant must allow the licensing agent to take a photographic image of the applicant and an electronic impression of the applicant's signature for use on the driver licence”. Detailed provisions such as this require people to attend in person for many applications (and, of course, for tests).

Officials have been asked to report on how some of these provisions could be appropriately changed, and costs reduced.

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

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

When the photo driver licensing system was set up in 1999, for example, some call centre functions were outsourced. When the delivery mode was reviewed in 2002, the decision was made to bring the call centre in-house (from 2004). The primary reasons were savings (over \$1 million a year) and the need to provide better training for staff dealing with questions about a complex system.

More recent reviews (in 2008) have investigated whether the NZTA should bring other services in-house. One review focused on the provision of driver testing; the other examined counter services. In both instances, the existing delivery model was found to be more cost-effective, given the NZTA's requirement to provide service across the country.

Where possible, the NZTA provides alternative facilities for managing transactions. For example, enabling telephone and on-line bookings for tests has increased the NZTA's costs, but saved considerable time for the applicant, who does not have to make a trip to the agent to book the test, then another trip to sit it.

One cost-saving change currently under investigation is the introduction of automated data entry for practical driving tests. At present, the testing officer records his or her decisions on a paper form, which is then entered by back-office staff. The use of recording devices, to capture these decisions and observations at the time, will (once the initial equipment cost is met) improve the NZTA's ability to analyse information about tests, and will reduce data entry costs.

## Recovering costs

The New Zealand driver licensing and driver testing systems are based on the principle of self-funding (commonly known as 'user-pays'). This means the costs of processing transactions, issuing licences, and managing the information technology (IT) and operational systems should be met by the fees charged to users.<sup>1</sup>

The fees that can be charged for driver licensing and driver testing are set out in the Land Transport (Driver Licensing and Driver Testing Fees) Regulations 1999 ("the Fee Regulations"). The current fees were set in 2001. The NZTA can only charge the fees that are stated in the Fee Regulations.

The current fees no longer cover the costs of administering and maintaining the driver licensing and driver testing systems, and this has resulted in an increasing gap between expenditure and revenue for both activities. In 2007/08 the revenue was \$6.34 million short of expenditure. The 2008/09 year produced a deficit of \$7.82 million. The deficit is expected to increase year by year, if no action is taken. Appendix 1 provides more detail.

The increasing deficit includes a growing range of costs that have been absorbed by the Driver Licensing system, such as activities and services that do not have regulated fees, and policy and legislative changes that require system updates and changes to operational processes.

In future, the Fee Regulations will be reviewed more frequently to ensure that the fees remain appropriate and fair. It is expected that the Fee Regulations will be reviewed on a three-yearly basis.

## Why do fees no longer meet costs?

The current driver licensing and driver testing fees have been in place since December 2001.

In that period, the cost of managing the system and undertaking transactions has increased. Legislative changes have imposed additional costs, and some have reduced income. Some transactions which have no fee set, or a fee well below the costs incurred, have significantly increased in volume.

The NZTA accounts for the year-by-year and accumulated operating deficits of the driver licensing and driver testing business, and reports these in its balance sheets. The NZTA operates an omnibus approach to managing the cash inflows and outflows from all of its business activities. This enables the driver licensing and testing businesses to continue to pay their bills even though they are running an operating deficit. This is a common practice of businesses in both the private and public sectors.

The causes of the imbalance are discussed in detail below.

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<sup>1</sup>*There are currently two exceptions to this principle. They are the contributions made by government, as explicit budget items, to fund the cost of drug and alcohol assessments for repeat drink-drivers, and to reduce the cost of renewing driver licences for older drivers (balancing the higher frequency of renewal for these drivers).*

## **General cost increases**

Costs used for the basis of calculation reflect actual expenditure, but have to be seen in the wider context of general inflation. Price level changes, as measured by the Consumer Price Index (CPI), increased by about 21.1% between December 2001 and December 2008. This represents an average inflation rate of 2.77% compounded annually, with cost impacts on driver licensing and driver testing services. The total increase in the CPI change from 2001 to July 2010 will be approximately 24% on current inflationary expectations.

## **Legislative changes**

Legislative changes can affect how the driver licensing and driver testing system operates (for example, by specifying new requirements, or providing an alternative means of gaining a new licence class). These changes usually impose costs due to changing systems and operational processes, and sometimes affect volumes, and therefore income. Over the past few years, there have been several legislative changes that have affected the cost of providing particular driver licensing or testing services. These added costs are not reflected in the current fee structure.

An example of a legislative change that affected driver licensing and testing was the change in requirements that older drivers must meet when renewing their driver licence. Prior to December 2007, drivers over 80 years of age were required to undertake an on-road practical test when renewing their driver licence. This test is now only required when recommended by a registered medical practitioner.

This change required the NZTA to update the IT systems that agents use to process renewals (since a medical certificate became the only pre-requisite for most applicants in this age group). It also resulted in an increase in renewals (where costs are balanced by a subsidy provided by government) but a reduction of about 37,000 practical driving tests each year.

This significantly reduced the income of NZTA agents and undermined their financial viability to continue to provide services in many of the smaller centres. The NZTA's contractual arrangements with its agents require it to provide financial compensation for subsequent loss of revenue. This is necessary to maintain agent outlets in outlying areas and ensure that services remain easily accessible. This issue is discussed in more detail in *Relicensing of drivers aged 75 years and over*, page 14.

Other legislative changes to the Rule or to the Act have also required extensive IT changes to enable agent counter transactions to conform to the new requirements.

Any future legislative changes, such as those that may arise from the proposals being considered for the *Safer Journeys* road safety strategy to 2020, will need to take into account any effects on costs and volumes.

### **Transactions that have no fee set**

There are some driver licensing services that do not have a fee. As there is no fee stated in the Fee Regulations, the costs of these services can't be recovered from the person who causes the cost.

The most visible example of this is the administration of driver licence suspensions. When a person has their driver licence suspended through accumulation of excess demerit points (and when they have been disqualified from driving by a court), their licence is automatically returned to them when they are entitled to drive again. However, there is a range of costs incurred in the suspension process that are not recovered from the person who caused the costs. Parliament has authorised the introduction of a licence reinstatement fee to apply to licence holders with a demerit licence suspension and a disqualification of up to 12 months.

The number of licence suspensions has greatly increased since 2001.

Other transactions without a fee that impose costs are processing refund applications and test rescheduling.

### **Fees set below cost**

Some of the fees set in 2001 were below the level needed to recover transaction costs. In many instances, the context in which they were set has changed, but the fees have not been subsequently adjusted. Please refer to the notes on:

- Renewal for less than 10 years (page 15)
- Certificate of Particulars (page 17)
- Exemptions (page 17).

## Addressing the problem

As identified, a key issue is that the costs of delivering driver licensing and driver testing services are greater than the income received from the fees. The proposed approach to addressing this issue has two elements:

- identify, and action, ways in which costs could be reduced, if necessary by changing the relevant legislation
- adjust existing fees and introduce new fees (as proposed in this review).

A benchmarking exercise has also been undertaken, where the costs incurred by New Zealand drivers were compared to those in other overseas jurisdictions. The purpose of this exercise was to help identify any areas where the costs of the New Zealand driver licensing and testing services are not reasonable. A summary of key findings is at *Appendix 7*.

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

### Options considered for fee changes

In proposing any fee changes, the NZTA is required to consider the options open to it.

This fee review considered five options. The advantages and disadvantages of each option are outlined in *Appendix 5*. The options were:

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

Option 5, with a limit on the level of increase for existing fees, is the preferred option proposed in this paper, for the following reasons:

- it adopts a user-pays approach to fees, which is consistent with the Treasury Guidelines for fee-setting (see Appendix 3)
- it ensures a fair system, where those who are responsible for incurring or causing a cost pay for the recovery of that cost
- it introduces new fees to recover costs associated with existing services for which there is no regulated fees at present, thereby removing cross-subsidisation of these services by all other drivers

- it keeps any increases for existing fees below the level of underlying inflation over the period since the last review
- it requires the NZTA to examine and reduce costs to bring revenue and expenditure into balance.

Other options were not taken up for the following reasons:

- options 1 and 2 would lead to further unsustainable increases in the current and accumulated deficits
- options 3 and 4 would impose significant increases on a wide range of drivers, at a time of economic constraint, and does not impose a requirement to review and reduce costs.

### **Net result of choosing Option 5**

Not all fees will increase under this option; the introduction of new fees means that some transactions (such as renewals) would no longer bear those (additional) costs and can be held at current levels or even slightly reduced.

Where fees are increased, the proposed fees reflect the government's concern that excessive price increases are not passed on to consumers and businesses during a period of economic constraint. Increases to existing fees are therefore set on the basis of a 20 percent increase OR cost recovery for that fee, whichever is the lesser. Some proposed fees are therefore set below cost recovery.

The proposed adjustments to existing fees are intended to better balance income against the costs of delivering driver licensing and driver testing services, and to ensure that costs are fairly distributed across transactions.

This will help restrain the forecast growth of the accumulated deficit. To help balance income and costs, the NZTA is closely examining the way the driver licensing and driver testing services are delivered, to try to reduce the costs wherever possible.

The effects of the limited fee changes proposed in this document are that, on the basis of current cost projections, the NZTA will have to make savings to bring the accounts into balance.

The breakdown figures (outlined in Appendix 1) show a projected operating deficit of \$0.55 million in a full year for driver licensing. The intention is to introduce cost savings under Option 5 to make up the shortfall. The actual shortfall is likely to be higher than this; no allowance has been made for any reduction in volumes, or cost increases. Revenue from the new fees (such as the licence reinstatement fee), will take some time to fully realise. As well, only a limited allowance (below the costs incurred in most previous years) has been made for change costs associated with legislative amendments.

## **Considering ways to reduce costs**

In adopting Option 5, the NZTA will therefore have to consider a number of options to reduce costs, in order to balance expenditure and revenue, since the fees proposed in this document are expected to produce a limited shortfall, and the NZTA also faces risks such as transaction volumes (and income) that are lower than the NZTA's projections.

One of the issues with the driver licensing and testing business today is that the delivery of services is prescribed in legislation. The ability to transform the business, by considering alternative methods of delivery for all or part of the service, is constrained.

The NZTA currently delivers its motor vehicle licensing and tolling business activities using a mix of delivery channels, such as counter-based services, web pages, or phone. Driver licensing is predominately provided as a counter-based service because of current requirements to present evidence of identity documentation, to have eyesight checked, and to have a photograph and a signature captured.

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

The NZTA has considered what changes could be made to legislation to allow it more flexibility to consider delivering the business in a different way and reduce other impediments that are placing undue compliance costs on users. The NZTA anticipates providing the government with a list of possible options for their consideration shortly.

The NZTA will also consider whether current service modes and levels can be varied to save costs while still providing reasonable access for customers. This may in time lead to a customer having a choice of how they undertake transactions with the NZTA for driver licensing purposes.

## **Benchmark comparative jurisdictions**

Another task which the NZTA was asked to undertake was to examine the costs imposed on people who apply for a licence or undertake driver testing in other jurisdictions – such as the states in Australia. The intention was to see if there are areas in which the costs in New Zealand are higher than those charged by other countries (and therefore highlight where we should examine costs more closely). Two summary tables are presented in *Appendix 7*.

One complicating factor was that many jurisdictions do not have a direct link between the costs of running the system and the fees charged. Most licensing authorities also have subsidies in place for specified groups (such as older drivers) or concessionary fees.

In Australia, only the Northern Territory (which is trying to encourage more drivers to enter their licensing system) has consistently cheaper fees than those charged in New Zealand.

## **Principles for setting the proposed fees**

The following principles were used for setting the proposed fees:

1. the system should be self-funding and recover the costs of providing each service
2. where practicable and reasonable, the person who uses the service or who is responsible for initiating the activity should pay
3. the cost to the NZTA of implementing law changes should be funded from fees
4. fees should meet the costs of ensuring the integrity of the driver licensing system
5. fees should be sufficient to maintain consistent levels of service and quality
6. fees should be efficient (i.e. the cost of administering them is low when compared to revenue), equitable and reasonable in relation to the costs incurred
7. fees should be simple and uniformly applied
8. fees should conform to the relevant guidelines for the setting of fees in the public sector set by the Treasury and the Office of the Controller and Auditor-General.<sup>2</sup>

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<sup>2</sup> Refer to Appendices 2 to 4 for details

# Proposed changes to existing fees

## Costing methodology

A cost model was used to estimate full cost recovery for delivering each of the driver licensing and driver testing services. The cost of each type of service or "product line" is determined by first examining all the activities that must be undertaken to deliver the particular service, and their associated costs. The key cost components include agents' commission, transaction-type costs (such as postage, forms, stationery, managing large volume mailouts, factsheets, licence card production, or medical consultancy), telecommunications (0800 telephone calls), information services, IT system development, computer software, consumables, staff salaries, accommodation, depreciation and corporate overhead costs (Human Resources, Finance, Legal, Audit, etc), among others.

Each of these expenses is distributed to the type of service or "product line" using the appropriate cost drivers. For example, card production cost is apportioned based on the card production volumes for each of the product lines, whereas 0800 telephone phone calls are distributed according to the type of calls the contact centre representative receives. On the other hand, staff salaries are distributed using the estimated percentage of the staff time spent on a particular type of service.

The NZTA did complete costing exercises in January and October 2009, based on the methodology described above. Estimates of the "recovery cost" for each transaction are included in the discussion points related to changes to existing fees. However, it is the government's view that excessive price increases are not to be passed on to consumers and businesses during a period of economic constraint. The proposed fees are therefore set on the basis of:

- reductions in some existing fees, where there is over-recovery
- increases to some existing fees, calculated on the basis of a 20 percent increase OR cost recovery for that fee, whichever is the lesser
- new fees, which are linked to cost recovery for that transaction.

## Cost assumptions

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

- volumes (and therefore income) are assumed to remain stable over the period
- costs remain constant at 2009/10 levels (no allowance has been made for inflation or price increases)
- no significant changes are made to the delivery mode
- no allowance is made for repayment of the accumulated deficits
- a limited allowance is made for costs incurred or income reduction arising from legislative changes.

## **Application fees**

Application fees are payable in addition to test fees when progressing through the licence stages. The application fee pays for the update and maintenance of the records on the register and the issue of the driver licence card.

The proposed increases in fees for licence applications range from \$4.20 to \$7.90. A breakdown of fees is in the *Schedule*.

The NZTA's projections indicate that an estimated 231,000 drivers will apply for a learner, restricted or full licence in the 2010/11 financial year.

## **Renewal fees**

Most driver licence holders have to renew their cards every ten years. Some commercial drivers, and persons aged more than 65, renew for lesser periods. This is the highest volume transaction (the NZTA estimate is that 206,000 people will renew in this financial year). The introduction of new fees means that these drivers have a reduced share of the costs incurred by services that do not have a fee set.

The proposed fee for a standard licence renewal is therefore a slight reduction (\$44.30 currently, with the proposed fee being \$43.00).

## **Relicensing of drivers aged 75 years and over**

The proposal is to make no change to their renewal fee, currently set at \$18.30, or to the existing fee for an old-road test (\$41.00). As explained below, this is because the existing government subsidy is now almost fully applied to renewals, and not to tests.

Since 1999, licence holders have been required to relicence at the age of 75 years, and again at age 80, 82, 84, and so on. When relicensing, these drivers incur additional costs because of additional requirements and more frequent licensing (for example, they are required to present a medical certificate from age 75 years, and renew for periods of less than 10 years).

Because these additional costs are likely to present a barrier to an older driver's decision to relicence, with likely consequences for their mobility, independence and quality of life in the community, government has provided a subsidy of \$1.445 million a year since 2001 for renewal and test fees in recognition of their limited incomes and more frequent renewal.

Following a comprehensive review of the older driver relicensing system, an amendment was made to the Rule which abolished the mandatory Older Driver Test. Since December 2006 only older drivers who are referred by a medical practitioner for an On-Road Safety Test are required to pass the driving test. This change produced two results: significantly fewer on-road tests and an increase in the rate of driver licence renewal from age 80 on.

The removal of the mandatory Older Driver Test resulted in a reduction of approximately 37,000 tests a year, which substantially reduced revenue for driver testing agents. The NZTA's contractual arrangements with its agents are based on projected transaction volumes over the contracted period, and do not envisage significant changes arising from legislative changes. The NZTA was, therefore, required to compensate its agents for the loss of revenue. Funding this compensation has since formed part of the accumulated deficit.

Government currently provides a subsidy of \$1.445 million a year for the relicensing of older drivers. It is therefore proposed to retain the current older driver testing fee of \$41.00.

Almost the entire subsidy is now applied to the greater number of older drivers who relicense each year, estimated at 57,000, compared with the approximately 660 older drivers who are required to sit the On-Road Safety Test each year. The subsidy for a test reduces the fee for a first attempt (by \$7.65), and pays for any second attempt (at a cost of \$48.65). About 20% of those referred for an on-road test take more than one test. A second (but not third or subsequent) test will remain free.

### **Licence renewal and upgrade for periods other than 10 years**

The standard licence renewal period for most drivers is 10 years. However, there are three groups of licence holders whose licence will be renewed for periods varying from 1-11 years.

Older drivers aged 75 years or over have specified validity periods, namely 5 years for those renewing at age 75 and two years for those renewing at age 80 years or over. These have specific fees as explained earlier.

Drivers aged 64-74 years who renew their licence will be issued with a licence that will expire on their 75<sup>th</sup> birthday. The 10 or 11 year fee is the same as the standard renewal fee (\$43.00 as proposed in this paper).

A smaller group of drivers who upgrade from a synthetic paper licence (after living overseas) will be issued with their first New Zealand photo licence that will expire on their next mid-decade birthday. The term of validity reflects the age of the licence holder at the time of licence upgrade. This practice was adopted in 1999 to manage the upgrade process.

As a Crown-funded subsidy of \$31 million was initially provided for the licence upgrade, these upgrade/renewal fees were set at well below cost. This subsidy ceased in 2002. A 20% increase for some of these fees, as proposed in this paper, still sets them well below cost recovery. For example, the estimated cost of the one-year renewal (age 74) is \$37.40, while the proposed fee is \$12.00.

It is important to note that regardless of the period of validity, the NZTA incurs the same costs to process the application and issue a replacement licence. These drivers are, however, being charged a lower fee, pro-rated to the length of licence validity. In addition, while the renewal fees for those aged 75 years and over are subsidised by government, the renewal fees for those aged 66-74 years, or upgrading, are not.

The proposed scale of fees is based on five steps, rather than the current 9-step process; this is in line with other changes (such as those for endorsements) where the intention is to simplify charges where possible.

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

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

Note: drivers upgrading will be charged the same fees for the equivalent renewal period.

### F, R, T, W and D endorsements

These endorsements allow a driver to operate a special-type vehicle (F, R, T, W) or carry dangerous goods (D). The fee for obtaining a D endorsement for the first time is the same as the fee for its renewal. This is because the cost incurred by the NZTA is the same for both types of transactions.

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

### P, V, I, and O endorsements

These endorsements allow a driver to undertake driving in a passenger service (P endorsement), vehicle recovery service (V), acting as a driving instructor (I) or a testing officer (O). All are issued for a term of 1 year or 5 years.

A significant amount of the cost incurred in obtaining or renewing one of these endorsements is the requirement to undergo a "Fit and Proper" person assessment. The NZTA, in conjunction with NZ Police, is actively examining ways to reduce the time taken to complete such checks. There is no proposal to change the cost of the vetting fee, which is set by regulations and is paid to NZ Police. The vetting fee varies with the frequency of checks. For example, an annual check is made on taxi drivers, while bus drivers are checked every five years.

The proposal is to decrease all P, V, I and O fees and bring them into a simple set of one-year and five-year charges. The one-year fee (for application or renewal) is proposed as \$63.00, with the five-year equivalent being \$241.00. The rate of decrease across fees varies, because the current charges are different for applications and renewals, and across types. Having a simple, consistent scale will make it easier to administer these fees.

## **Driver testing**

The proposed increases in the various driver testing fees that relate to the learner, restricted and full licence test, are in line with the estimated costs associated with driver testing. As noted earlier, the fee for the on-road test for drivers over 80 years will not be changed. There will still continue to be one free re-test for older drivers who are required to sit the on-road safety test.

The volumes for driver testing reduced significantly in 2007, following the removal of the mandatory practical road test for older drivers. Costs, however, did not reduce at the same rate. The proposed increases bring revenue and costs into approximate balance for testing services.

## **Fee for a Certificate of Particulars**

A Certificate of Particulars is an extract from the Driver Licence Register, in the same way as a Birth Certificate is an extract from the Register of Births. The Certificate of Particulars is an authoritative document, and may include details such as the name of the person requesting the certificate, the name of licence holder and various details about the licence record. It is proposed to raise the current fee of \$9.10 to \$10.90.

Neither the current nor proposed fees reflect the average time taken to process each Certificate, given the requirement to check and ensure the accuracy of details. Our estimate of the cost for processing each certificate is \$20.74.

## **Exemption fee**

The proposal is to raise the fee from \$22.20 to \$26.70 (a 20 percent increase).

Drivers can apply for an exemption from any requirement specified in the Rule, unless there is a specific legislative provision preventing an exemption being granted. This fee covers the cost of assessing and processing the application, and is payable irrespective of whether or not the application is successful.

The current exemption fee does not reflect the time taken to process an application. When it was initially set, the only exemptions permitted were for persons holding learner or restricted licences – so the fee was set below cost. Subsequently, the ability to apply for an exemption has been extended to all aspects of the Driver Licensing Rule, adding considerable complexity and increasing volumes.

The processing of each application requires a significant amount of work on the part of NZTA employees, given that it must be considered on an individual case basis. Additionally, successful applications usually require the issuing of another photo driver licence with the exemption recorded on the new licence card.

If an exemption application is declined, section 106 of the Land Transport Act 1998 provides that the applicant has the right of appeal to a district court. The NZTA incurs costs when an appeal is defended, but the fee does not meet even the costs of the initial processing.

Our estimate of the cost for each exemption transaction is \$74.52.

## Overseas licence conversion fees

It is proposed that the cost of the overseas licence conversion application fee be increased from \$44.30 to \$51.00, slightly more than the full licence application fee. However, the conversion process is more complex and time-consuming.

Holders of an overseas driver licence are allowed to drive in New Zealand using their overseas licence for a continuous period of up to 12 months. If they wish to continue driving after the 12-month period, they must convert their overseas licence to a New Zealand driver licence. When converting their licence, holders of licences issued in a number of specified countries are now exempt from sitting the theory and practical driving tests and (if they meet specified criteria) the mandatory minimum time periods that apply to novice drivers under the graduated driver licensing system (GDLS).

Applications for the conversions of overseas driver licences are processed by driver licensing agents. In the 2007/08 financial year, 34,400 overseas licence conversion applications were processed for licences issued in more than 180 overseas jurisdictions. The format, variety and classification system used by licensing authorities around the world vary considerably, adding complexity to the licence conversion process. Considerable resources are required to provide direction and support to licensing agents for determining licence conversion requirements and equivalent entitlements in New Zealand. Many applications for licence conversion have required the scrutiny of additional supporting documentation to establish the validity of an overseas licence.

If the licence being converted is not in English, it must be accompanied by a translation prepared by a diplomatic representative at a high commission, embassy or consulate, the overseas issuing authority, or a translation service acceptable to the NZTA. The NZTA has established a process for approving and auditing translators.

These additional costs are not currently reflected in the overseas licence conversion application fee.

## Other fees

A few additional low-volume transactions are included in the current fee regulations. These are listed below for completeness where they have not been already discussed in this document.

Transaction	Current	Proposed
Basic Motorcycle handling skills test	\$41.00	No change
Test fee for I, P, V endorsement	same as full Class 1 test (\$70.80)	Align to full Class 1 test fee (proposed as \$84.70)
Certification fee for O endorsement	\$466.00	No change
Police vetting fee	\$28.20 per year	No change
Fees to approval course providers	\$38.00 for provider \$186.50 for course	No change; not part of this review

## **Proposed new fees**

It is proposed that three new fees be introduced. They would recover the costs associated with activities and services that are not covered by the current fees. The introduction of these fees will ensure those who cause the costs to be incurred, or benefit from the activity, pay for that activity. At present, these costs are met by all licence holders.

### **Test booking rescheduling fee**

It is proposed to introduce a new test booking rescheduling fee of \$16.00 to reflect the fact that the NZTA incurs direct costs each time a licence applicant decides to reschedule a practical driving test booking.

The costs of rescheduling a test booking, estimated at \$26.00 per transaction, include telephone calls to the NZTA's 0800 telephone help desk number and staff costs in processing these calls, and processing fees paid to the NZTA's agents for the rescheduling of tests.

Currently, many drivers telephone the NZTA, use the internet, or visit an agent to reschedule a test. The number of tests that are rescheduled has increased in recent years; in the 2007/08 financial year, 14,500 tests were rescheduled.

In the absence of a booking fee for rescheduling tests, the costs associated with this activity are currently borne by all licence holders. Introducing a test booking rescheduling fee would allow for the costs to be met by those creating the cost, and would be likely to reduce the number of tests that cannot be reallocated. The NZTA would also make savings if the volume of rescheduled tests reduced.

Many overseas licensing jurisdictions set a fee to recover the various costs involved in rescheduling test bookings, regardless of how far in advance the test is rescheduled.

The proposed fee is set below the estimated cost per transaction to keep the fee proportional to the cost of sitting a driving test. The proposed test booking rescheduling fee is designed to recover, over three years, most of the estimated cost of \$530,000 associated with this activity. Based on the current volume of rescheduled tests, this will involve a total of approximately 33,000 licence holders in the next 3 years.

### **Refund fee**

It is proposed to set a refund fee of \$16.00.

The Fee Regulations provide for the NZTA to refund fees and authorise the NZTA to deduct from the amount to be refunded the costs incurred in processing the refund. For some licence application types, the Fee Regulations specify the exact amount to be refunded (i.e. a refund processing fee is already included). However, for other application types, the Fee Regulations do not specify the amount to be deducted. The NZTA must calculate (and justify) such costs. In these cases, the NZTA's standard practice has been to refund the entire amount.

Prescribing a refund fee would allow the NZTA to recover the costs already incurred for processing the application and/or arranging the original test. It would also provide clarity for the NZTA and the public by stating the exact amount to be deducted.

The refund fee would not apply to all transactions. There is no refund, for example, if an exemption application is declined, and it would be pointless to refund very small fees (such as that for a Certificate of Particulars). The Fee Regulations also currently prescribe refund amounts for an unsuccessful application for a PVIO endorsement, as being 80% of the relevant fee. The expectation is that these refunds would change to reflect the new (lower) fees for PVIO applications.

### **Cancelling a test at short notice**

Currently, the Fee Regulations provide for the NZTA to make a partial refund if a person gives at least two days' notice of their intention to withdraw from a scheduled test. If the two-day cancellation notice is not given, the NZTA is required to pay for the time of the testing officer for the cancelled test. The only exception to this is where the test can be reallocated at short notice. In addition, each cancelled test booking carries a risk that the time-slot will not be able to be reallocated to another candidate at short notice.

The lack of a definition of what constitutes "two days" has resulted in a number of complaints and disputes. To provide clarity for the NZTA and the public, it is proposed that the Fee Regulations define "two days" as meaning two full business days, and excluding weekends, public holidays, and the day of the test. This would also align the Fee Regulations with the NZTA's current business practice, without incurring further IT development costs.

### **Licence reinstatement fee**

Please note: this fee has already been authorised by Parliament, although it is not yet in effect. The discussion below is therefore to explain the context of that proposal, and not to invite further comment.

A new fee of \$65.00 will be introduced for 'licence reinstatement' for persons who have had their licence suspended, or who have been disqualified from driving, for up to 12 months. Payment of the licence reinstatement fee would be a prerequisite for a person to have their licence reinstated. The fee is to be set at a level that reflects the costs incurred by the NZTA to administer the suspension and disqualification processes and to reinstate the licence.

The introduction of photo driver licences and the requirement to carry the licence while driving has significantly aided roadside traffic enforcement. However, improved enforcement has resulted in an increasing number of drivers being served with demerit suspension notices. The number of demerit licence suspensions has greatly increased since 2001.

New initiatives may further increase the volume of demerit suspensions, since these are seen as more effective sanctions than fines alone. Government has, for example, increased demerit points for breaches of the GDLS.

Although there are severe penalties for continuing to drive while suspended (e.g. immediate vehicle impoundment for 28 days), the courts require proof that the person knew of the suspension action. The use of the postal service is not a legally robust method for serving licence suspension notices. Accordingly, imposing a demerit licence suspension requires that the suspension notice be personally served on the driver.

The NZTA incurs a cost for each successful and unsuccessful attempted service of demerit licence suspension documents. There is also a range of other costs associated with enforcing licence suspensions and disqualifications, including:

- personnel and information technology resources required to manage and administer the demerit point system
- stationery and postage costs associated with demerit warning letters
- contact centre telephone and personnel costs to handle related enquiries
- handling and recording of surrendered licences and updating licence records on the Driver Licence Register
- manufacturing and postage of a licence card when the licence is reinstated.

At present, there is no fee in place to recover the direct costs incurred by the NZTA for the service of demerit licence suspension notices and the subsequent re-issuing of a licence. As a result, these costs are being met from general licensing fees. This means that fees from all licensed drivers (including those without any demerit points) are used to pay these costs.

Drivers who are disqualified from driving for more than 12 months are already required to pay fees as part of the licence re-qualification process, which includes passing appropriate tests. The licence reinstatement fee would not apply to these drivers.

The licence reinstatement fee would also not be applied to the 28-day suspension imposed under section 95 of the *Land Transport Act 1998*. This is because these offenders will also be subject to further court-imposed penalties. The most likely sentence where any driver is found guilty of an offence under this section will be a period of disqualification from driving. Any subsequent disqualification will result in the driver being required to pay fees as part of any reinstatement or re-qualification process.

As well as suspensions incurred through demerit points, there are approximately 55,000 Court-ordered disqualifications per year. The NZTA incurs costs to update licence records at suspension and reinstatement, handle licensing enquiries from disqualified drivers and for each replacement licence card produced and mailed to the licence holder when the suspension period expires.

The proposed licence reinstatement fee of \$65.00 is intended to recover the estimated costs of administering demerit suspensions and disqualifications, for a total of \$8 million over a three-year period.

## Schedule of proposed fees

### New fees

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

### Application fees

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

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

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

### Drivers aged 75 years and over

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

³ This is the estimated recovery cost for this transaction

## Application fees: Endorsements

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

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

## Fees: Miscellaneous

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

## Test fees

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

## Appendix 1 Cost components and deficit projections

### Summary figures

The cumulative (historical) deficits by 30 June 2010 are forecast to be:

Driver Licensing	-\$16.60 M
Driver Testing	-\$5.18 M
Total Deficit Balance	-\$21.78 M

### Full year (2010/2011) costs and income, assuming no change <sup>4</sup>

<b>Driver licensing</b>	<b>\$M</b>	<b>Driver testing</b>	<b>\$M</b>
Revenues	26.26	Revenues	15.41
Revenues: Older Driver Subsidy	1.43	Revenues: Older Driver Subsidy	0.02
Expenditures	32.84	Expenditures	18.07
<b>Net deficit</b>	<b>- 5.15</b>	<b>Net deficit</b>	<b>- 2.64</b>

There are several contributing factors to the increased driver licensing and driver testing costs which have resulted in the existing (and projected) deficit between revenue from fees and cost of providing driver licensing and driver testing services. They are:

- one-off costs from implementing legislative changes governing driver licensing
- increases in the operating costs of delivering driver licensing and driver testing services
- transactions for which no direct fee is payable
- fees which have never recovered costs.

The one-off costs are associated with changes to IT systems and operational process changes resulting from legislative changes made since 2001, such as amendments in 2006 and 2007 to the Rule.

In this review, only a limited provision has been made for costs associated with changes from any future Driver Licensing Amendment Rule or other legislative changes. While implementation of the Road Safety Strategies may require amendments that relate to sustainable speed management, wider use of demerit points, young and novice drivers, motorcycle safety, and changes to the penalty regime, these are potential costs and not actual projects that have a quantifiable effect.

The NZTA's contracted suppliers and Agents have been able to pass some of their increased costs onto the NZTA, as part of the regular renewal/review of those contracts. However, the NZTA has not been able to recover these additional costs through increased driver licensing fees. Without the proposed fee changes, the existing deficit will continue to compound.

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<sup>4</sup> The NZTA Statement of Intent for 2009/10 shows the \$M1.44 subsidy as applying to testing only.

The key totals for the period 2010 – 2012 are estimated as:

Table 1 Projected Costs (in Million \$)

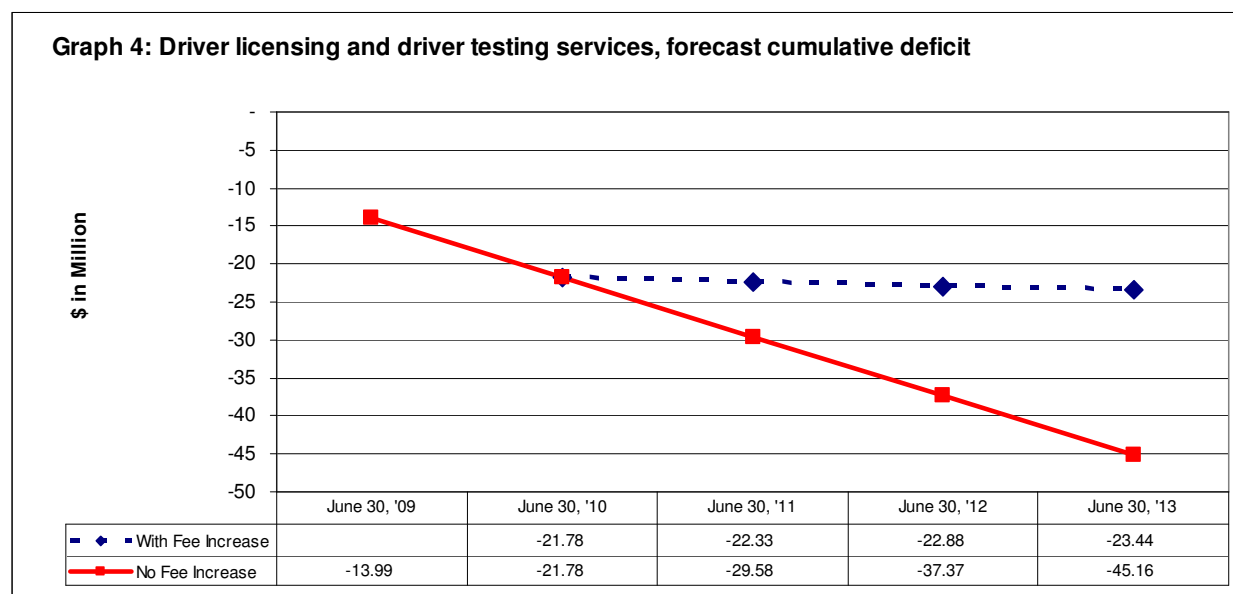
Costs	2008/09	2009/10	2010/11	2011/12
Agents	17.55	20.70	20.70	20.70
Transaction and admin	17.47	15.44	15.44	15.44
Information technology	8.68	9.00	9.00	9.00
Corporate	5.71	5.77	5.77	5.77
Total	49.42	50.91	50.91	50.91

Table 2 Breakdown of cumulative deficits (in Million \$)

Account	Cumulative as at 30 June 2009	2009/10 projection	Cumulative as at 30 June 2010
Driver licensing	-11.45	- 5.15	- 16.60
Driver testing	- 2.54	- 2.64	- 5.18
Total	- 13.99	- 7.79	- 21.78

### Projection of deficits

The graph below shows (as a solid line) the negative progression of the driver licensing and driver testing accumulated deficit, if no action is taken. In comparison, the dotted graph line shows the forecast operating deficit if the new and amended fees proposed are introduced.



## Appendix 2 Independent review by Audit New Zealand

The former Land Transport New Zealand commissioned Audit New Zealand to carry out an independent assurance review in 2008 of the driver licensing and driver testing fee costing methodology).

In Phase 1 of the review, Audit NZ has expressed an opinion that the cost allocation and apportionment bases used in the model appear broadly reasonable. It has not identified areas where the development of the costing model is inconsistent with Treasury guidelines.

In Phase 2 of the review, Audit NZ:

- conducted interviews with members of the Land Transport NZ Finance and Operational teams responsible for the development of the costing model and supporting material
- reviewed the key items of documentation explaining the components and workings of the costing model
- examined the explanations of the costing model provided through the interviews and associated documentation to ascertain their conformity to recognised good practice in the subject area of costing and charging for Public Sector Goods and Services
- carried out test checking of various calculations used in the costing model
- agreed the base budget to the Land Transport NZ general ledger system
- reviewed the basis of apportionments from cost centres to result areas
- reviewed the costing model for completeness and reasonableness.

The key sources of recognised good practice standards used in the review were:

*Guidelines on Costing and Charging for Public Sector Goods and Services, Office of the Controller and Auditor-General, May 1989 and June 2008; and*

*Guidelines for Setting Charges in the Public Sector, the Treasury, December 2002.*

Audit NZ concluded that - “Based on our review of the documentation and information provided during our interviews, nothing came to our attention to indicate that the costing model did not comply with recognised good practice”. Furthermore, Audit NZ “considered and found reasonable the assumptions made in the Costing Model in relation to:

- estimating the cost of carrying out activities relevant to driver licensing and testing
- allocating the costs to various services
- forecasting the volumes of services that will be delivered.”

## Appendix 3 Guidelines for setting charges in the public sector

*Guidelines for Setting Charges in the Public Sector*, published in December 2002 by the Treasury (the Treasury Guidelines), provides a general framework for preparing and evaluating future department fee proposals. The Treasury Guidelines make it easier to implement individual decisions and give them credibility.

Costs could be recovered from users or others who benefit from the service, or those whose actions give rise to it, or from tax payers. The Treasury Guidelines do not set out to be definitive, but provide a checklist of issues on which to base a sound analysis.

### Objectives for user charges

The Treasury Guidelines provide the framework for evaluating the options for setting fees on the basis of the following objectives:

- encouraging the decisions on the volume and standard of services demanded and supplied that are consistent with:
  - (a) the efficient allocation of resources generally, and
  - (b) the outcomes the government is seeking in providing the service
- minimising the cost of supply over the short term, and over the long term when capital costs are significant
- keeping transaction costs low, and evasion at acceptable levels
- reducing reliance on funding from general taxation (with its associated costs)
- dealing equitably with the taxpayer, those who benefit from the output, and/or those whose actions give rise to it
- looking for new ways to lower costs and find appropriate providers.

## Appendix 4 Public sector guidelines on costing and charging

*Guidelines on Costing and Charging for Public Sector Goods and Services*, published in 1989 (and reissued in June 2008) by the Office of the Controller and Auditor-General, sets out the framework for cost recovery and charging policies and the procedures needed in the costing of all outputs.

The first step in the charging process involves identifying the outputs and the costs. The second step involves forecasting the volume of these outputs to be produced during a period. This information is used to determine the volume of resources, or costs, required to produce the output. The final step is the calculation of the cost for each unit of output.

### Conformity of driver licensing and driver testing charges with *Guidelines on Costing and Charging for Public Sector Goods and Services*

Framework	Comments
<b>A. Identifying costs of resources</b>	
1. Identification of outputs	Under this Driver Licensing and Driver Testing Fees Review, NZTA outputs, as identified in the Schedule of Fees section, are driver licensing and driver testing activities.
2. Definition of costs	Operating expenses are recognised in the period to which they relate.  Depreciation is calculated on a straight-line basis at rates that will write-off the cost of the assets over their estimated useful lives.
3. Direct and indirect costs	Business units (Cost Centres) are defined as work areas that produce outputs. Where possible, costs incurred by a business unit are directly coded to outputs. Direct or indirect costs of business units, including salaries and their share of indirect and corporate overhead, are assigned to outputs based on the proportion of direct staff time spent on each output.  Corporate indirect costs and corporate overheads are assigned to business units based on a number of cost drivers. The cost drivers include staff in terms of full-time equivalents (FTEs), floor space, expenditure budget, transaction volume and volume of effort associated with its activity.
4. Types of cost	Direct costs are costs incurred by a business unit that are directly coded to outputs, e.g. commissions paid to agents, card productions, etc.  Indirect costs include (1) Personnel cost (like salaries, leave, ACC levies and other salary-related expenses); (2) Operating expenses (like travel, phones, rent, IT and computer costs, supplies and others); (3) Depreciation; and (4) Capital charges.
5. Social policy costs	Subsidy for older drivers is assumed to continue in the following years.  Crown funding of drug and alcohol assessments (section 65 of the Act) will continue in the following years.

<b>B. Estimating future costs</b>	
1. Volume of output	The forecast volume for each of the services has been based on a combination of historic trends, cyclical renewal patterns and demographic profiles.
2. Volume of resources	With the information from the transaction volume forecast, required resources were estimated and budget projections for 2008 to 2012 were prepared. Variable costs that are dependent on the transaction volume include commissions to agents, card production costs, credit card fees, vetting fees and document investigations.
3. Purchase prices of resources used	General operating expenses forecasts for the next three years (2009 to 2012) are assumed to increase with inflation.
4. Use of budgeting	Currently, there is an existing budget format for the driver licensing and driver testing activities in the FRX system (financial system).
<b>C. Calculating charges</b>	
1. Basis of charging	<p>The cost model is based on the principle of fair and full allocation and apportionment of costs to each service. The model involves allocation of costs to activities or outputs and then the costs of these activities are allocated to each of the services based on cost drivers specific to each of the cost centre involved.</p> <p>Charges (fees) are expressed for each unit of output (service). Fees reflect the total of all direct and indirect costs (overheads) of providing the service divided by the estimated number of transactions issued.</p>
2. Prospective setting of charges	Driver licensing and driver testing fees are to be reviewed every three years.
3. Goods and Services Tax	The proposed driver licensing and driver testing fees are inclusive of GST.
<b>D. Administrative aspect</b>	
1. Consultation	Public consultation is scheduled in January 2010.

## Appendix 5 Options considered

The fee review considered the following options:

### **Option 1: Retain status quo, with no fee increase**

Advantage

- It does not impose a fee increase on users.

Disadvantages

- It does not meet the legal requirement for the NZTA to recover from licence holders the costs it incurs in providing driver licensing and driver testing services.
- The current and accumulated deficits will grow, and may impact on delivery of the National Land Transport Programme.
- It requires significant Crown-funding to pay for cost increases and the accumulated deficit.
- It will require significant reductions in the quality and availability of services.
- It continues the cross-subsidisation of some services by all drivers in general, where no set fees exist for those services.

As it is extremely unlikely that government will approve the necessary funding for paying cost increases and the accumulated deficit, the NZTA will not be able to continue providing the same level of driver licensing and driver testing services.

In line with government requirements, the NZTA currently out-sources a significant proportion of its driver licensing and driver testing services to commercial service providers (agents). Given that agents' contracts are already subject to rigorous competitive tendering process, any re-negotiation of these contracts with a view to lower agents' commissions and, thereby, reduce costs to the NZTA, will necessarily result in lower levels of services being provided to the public.

Cost-cutting measures are not readily achievable, given that existing laws require licensing transactions to be carried out "over-the-counter", with requirements for agents to capturing of a photograph and signature, and to physically sight essential evidence of identity documents to minimise fraud, and for eyesight tests to be done. Reducing the number of agent counters, e.g. closing those with relatively lower transaction volumes in provincial and rural areas, or closing counters in main centres where there is another agent within, say, a radius of 20 km, will reduce the geographical coverage and availability of licensing and testing services.

Reducing costs through staff reduction (e.g. at the NZTA Contact Centre) will have negative impacts on the level of services provided (through the 58,000 telephone phone calls handled each month), and the speed at which legal requirements are administered by the NZTA.

Critical law changes requiring IT system enhancements to ensure that licences are issued to entitled individuals would need to be deferred or progressed in stages.

### **Option 2: Delay any fee changes until cost savings are made, then adjust them**

This option will delay fee changes for at least 18 months.

#### Advantages

- There will be no immediate increases in fees paid by users.
- It provides an opportunity to make a single adjustment, rather than anticipating a further adjustment in a further two to three years.
- It requires the NZTA to examine and reduce costs, which could potentially reduce the level of fee changes required.

#### Disadvantages

- The deficit (both current and accumulated) continues to grow without immediate mitigation.
- Changes to legislation will be linked to the *Safer Journeys* proposals, and are likely take up to three years to fully implement.
- It necessitates a reduction in the quality and availability of services.
- There is a potential impact on other NZTA activities.

### **Option 3: Adjust fees for all users to reflect the true cost of the services, by adopting a full 'user-pays' principle**

This option seeks to recover from all 'users' (i.e. licence holders) all current costs of driver licensing and driver testing services.

#### Advantages

- It allows the NZTA to fully recover the current costs of providing the driver licensing and driver testing services.
- It promotes equity, by ensuring that all users pay for the costs they incur.
- It ensures fee increases are uniformly applied.

#### Disadvantages

- It imposes a higher fee on all licence holders who are expected to pay for their share of the increasing costs (in a few cases, more than double the existing fee).
- It does not introduce new fees which are required to remove the cross-subsidisation of some existing services by drivers in general for greater equity.
- It does not allow for cost savings, or any legislative changes as a result of the *Safer Journeys* proposals.

**Option 4: Adjust existing fees to achieve full cost recovery and introduce new fees where there is no cost recovery mechanism**

This option reduces the current imbalance, but:

- requires some cost savings to be made
- makes no allowance for repayment of the accumulated deficit.

**Advantages**

- It provides for full recovery of all costs of providing the driver licensing and driver testing services.
- It promotes equity, by ensuring that all users pay for the costs they incur.
- It provides for new fees for some services, where no regulated fee exists at present, and reduces cross-subsidisation of these services by drivers in general.
- It brings the revenue and costs into better balance.

**Disadvantages**

- It imposes a higher fee on all licence holders who are expected to pay for their share of the increasing costs of driver licensing and driver testing services.

**Option 5: Adjust fees to match the true cost of providing the service (with a maximum of 20% increase) and introduce new fees where there is no cost recovery mechanism**

This option seeks to recover a proportion of current costs of driver licensing and driver testing services from all licence holders (by limiting fee increases to a maximum of 20 percent), and introduces new fees to recover costs associated with existing services for which there are no fees at present.

**Advantages**

- It provides for increases in existing fees, while keeping them to a minimum.
- It provides for new fees for some services, where no regulated fee exists at present, and removes cross-subsidisation of these services by drivers in general.
- It promotes equity, by ensuring that all users pay for the costs they incur.
- It brings the revenue and costs into better balance, while requiring the NZTA to examine and reduce its costs.
- While some fees will not meet full recovery of costs, it avoids significant increases for a few users.

**Disadvantages**

- Some new fees do not fully recover the cost of providing the services.
- A further review may be required in two to three years' time if significant changes are made to the driver licensing and driver testing systems.
- It makes no allowance for the repayment of the accumulated deficit.

## Appendix 6 Glossary of terms

**Certificate of Particulars** - An extract from the Driver Licence Register which confirms the person's details on the Register, and includes name of the person requesting the Certificate, name of licence holder and various details about the licence record.

**Class 1** - A holder of a Class 1 (car or light vehicle) learner, restricted or full licence can drive a motor vehicle with a Gross Laden Weight (GLW) or Gross Combined Weight (GCW) of up to 4500 kg (this includes mopeds, all-terrain vehicles, tractors and combination vehicles, but excludes motorcycles).

**Class 2** - A holder of a Class 2 (medium rigid vehicle licence) learner or full licence can drive any rigid vehicle (including any tractor) with a GLW of more than 4500 kg but less than 18,001 kg, or any combination vehicle with a GCW of not more than 12,000 kg.

**Class 3** - A holder of a Class 3 (medium combination vehicle) licence can drive any combination vehicle with a GCW of more than 12,000 kg but less than 25,001 kg, and any vehicle covered in Classes 1 and 2.

**Class 4** - A holder of a Class 4 (heavy rigid vehicle) licence can drive any rigid vehicle (including any tractor) with a GLW of more than 18,000 kg, and any combination vehicle consisting of a rigid vehicle with a GLW of more than 18,000 kg towing a light trailer (GLW of 3500 kg or less), and any vehicle covered by Classes 1 and 2, but not Class 3.

**Class 5** - A holder of a Class 5 (heavy combination vehicle) licence can drive any combination vehicle with a GCW of more than 25,000 kg, and any vehicle covered by Class 1, 2, 3 or 4.

**Class 6** - A holder of a Class 6 (motorcycle) licence can ride any motorcycle or moped, or drive an all-terrain vehicle.

**D endorsement** - A Dangerous Goods (D) endorsement is required for driving a motor vehicle that is transporting dangerous goods (e.g. explosives).

**Exemption fee** - A fee paid when a driver applies for an exemption from any requirement of the Rule. Exemptions will only be granted under special circumstances, and are assessed on a case-by-case basis.

**F endorsement** - A forklift (F) endorsement is required for those who drive a special-type vehicle that is a forklift on the road.

**Full licence** - A full licence is obtained after a restricted licence has been held for the minimum requisite period - 18 months at present, or 12 months for someone who has successfully completed an approved course, such as the defensive driving course or the Street Talk programme; applicants aged 25 or over must have held a restricted licence for at least six months before they can apply for a full licence, or for at least three months with the completion of an approved course. The driver must pass a one-hour driving test. Full licence holders are not subject to any GDLS restrictions.

**Full licence test** - The full licence test is a one-hour practical driving test to assess if an applicant has the necessary skills to drive without any restrictions.

**I endorsement** - A Driving Instructor (I) endorsement is required for teaching people how to drive on a road for financial or commercial gain.

**Learner licence** - A learner licence is obtained after passing a multiple-choice theory test relating to road rules. Once gained, it allows the holder to drive provided they display an L-plate (depending on vehicle class) and are accompanied by a "supervisor" (i.e. a person who holds, and has held for at least two years, a full licence).

**Learner licence test** - This is a theory test that assesses knowledge of the road rules.

**Licence reinstatement fee** - A proposed new fee for people who have had their licence suspended for demerit points or who have been disqualified from driving for up to 12 months when they apply to reinstate their licence. Drivers who have lost their licence through these processes are legally required to surrender their licence to the NZTA. This licence reinstatement fee will be a prerequisite for a person to have their licence reinstated.

**Limited licence** - A driver who has been disqualified from driving or whose licence has been suspended (due to accumulation of demerit points) can apply to a court for a limited licence if the driver can show that losing their licence will have a serious effect (e.g. cause the person to lose their job or cause a great deal of hardship for other people). A limited licence allows that person to drive, but only under very strict conditions (e.g. at certain times, in certain vehicles or along specified routes). Applications for a limited licence are considered by the courts on a case-by-case basis. Limited licences may not be issued under certain specified situations.

**O endorsement** - A Testing Officer (O) endorsement is required for conducting tests of practical driving skill and work for an approved testing agent.

**Older driver renewal** - Drivers must renew their driver licence at age 75, 80 and every two years thereafter. Renewal process includes health and vision checks that will determine whether applicants are (a) medically fit to drive without restrictions; (b) medically fit to drive - with conditions (such as corrective lenses, time-of-day restriction, distance restriction); (c) medically fit to drive - but referred for an on-road safety test due to uncertainty about ability to drive safely; (d) to be referred to a specialist (such as an optometrist or occupational therapist driving assessor) for further assessment; (e) not medically fit to drive, in this case the doctor is required to advise the NZTA. Unless notified otherwise, licence will expire on the applicant's birthday, as indicated on the photo driver licence.

**On-Road Safety Test** - The On-Road Safety Test is only required of an older driver if recommended by the driver's medical practitioner, who is unsure of their ability to drive safely; this test was previously known as the older driver test.

**Overseas conversions** - Holders of an overseas licence who wish to drive in New Zealand for a continuous period of more than 12 months must obtain a New Zealand driver licence. The test requirements for an overseas licence conversion vary depending on the country of licence issue and length of time the licence has been held. Currently, applicants converting their car or motorcycle licence issued in Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, South Africa, Spain, Sweden, Switzerland, the United Kingdom or the United States of America are exempt from the theory test, and the practical driving test (if they have held that licence for at least two years). All other applicants must pass these tests.

**P endorsement** - A Passenger (P) endorsement is required for driving a motor vehicle that is used in a passenger service, e.g. when driving a bus, taxi or shuttle, unless specifically exempt by the Rule.

**R endorsement** - A Rollers (R) endorsement is required for those who drive a special-type vehicle that runs on rollers on a road.

**Refund fee** - A proposed new fee which sets the amount to be deducted from a refund when a person cancels a scheduled driving test. Refunds will be granted where the test can be reallocated.

**Renewal (at age 66)** - Licence that is valid for more than eight years but not more than nine years.

*Note: renewals at ages 67 to 74 have corresponding validity periods finishing at age 75.*

**Renewal licence** - Photo driver licences were initially issued for a period of between one year and 10 years. A licence holder needs to renew their licence on or before its expiry date in order to continue to be entitled to drive legally. The expiry date is item 4b on the front of the driver licence. Renewed licences are usually issued for 10 years.

**Replacement licence** - A licence holder can apply for a replacement licence if their licence is lost, stolen, destroyed, defaced, mutilated, or becomes illegible, or if the holder's name has changed, or if the NZTA believes the holder's appearance has changed significantly. Replacement licences are usually issued with the same expiry date as the licence being replaced.

**Restricted licence** - A restricted licence for Class 1 or Class 6 is obtained after a learner licence has been held for the minimum requisite period (six months at present) and passing a half-hour practical driving test. This allows a driver to drive without L-plates, or a supervisor, between 5am and 10pm. Drivers (in cars) are only allowed to carry certain passengers, unless accompanied by a "supervisor".

**Restricted licence test** - The restricted licence test is a 30-minute practical driving test to assess if a restricted licence applicant has the necessary skill to drive unsupervised in low risk situations.

**T endorsement** - A Tracks (T) endorsement is required for those who drive a special-type vehicle that runs on self-laying tracks.

**Test booking rescheduling fee** - A new fee to be paid each time a licence applicant decides to reschedule a test booking, with more than two days' notice. Note: Tests cannot be rescheduled with less than two days' notice; instead the person must cancel the test and apply for a refund.

**V endorsements** - A Vehicle Recovery (V) endorsement is required for driving a vehicle recovery service vehicle (e.g. tow truck).

**W endorsement** - A Wheels (W) endorsement is required for those who drive a special-type vehicle that runs on wheels, but is not a passenger vehicle, a tractor, a fire engine, a trade vehicle or a vehicle recovery service vehicle.

## Appendix 7 Benchmarking exercise: Comparisons

Currency conversion was done on the basis of rates prevailing in early September 2009.

\$A 0.80	\$HK 5.50
€ 0.475	£ 0.42
\$C 0.75	

### A. Cost of acquiring and holding a full (car) driver licence for 10 years

	Local currency	Converted to \$NZ
<b>New Zealand</b>	\$282.30 (Current fees) \$330.90 (Proposed fees)	282.30 (Current fees) 330.90 (Proposed fees)
<b>New South Wales</b>	A\$602.00	752.50
<b>South Australia</b>	A\$505.00	631.25
<b>ACT</b>	A\$502.10 (student in ACT school system) A\$657.10 (LL applicant outside school system)	627.60 821.40
<b>Western Australia</b>	A\$410.50	513.10
<b>Tasmania</b>	A\$357.95	447.40
<b>Victoria</b>	A\$333.90	417.40
<b>Queensland</b>	A\$294.80	368.50
<b>Northern Territory</b>	A\$224.40	280.50
<b>Ireland</b>	€150.60	317.05
<b>United Kingdom</b>	£143.00	347.60
<b>British Columbia</b>	C\$200.00	266.70
<b>Quebec</b>	C\$304.00	405.30
<b>Hong Kong</b>	HK\$2,048.00	372.40

In calculating the total cost to acquiring and holding a first full licence (valid for 10 years), the following assumptions have been made:

1. Applicants pass all the required tests at first attempt and thus incur only one fee for each required test.
2. Applicants are below 25 years of age (some jurisdictions have varying fees based on age in terms of issuing a learner or provisional licence with a longer validity period for younger applicants who must meet minimum time requirements).
3. Applicants complete each licence stage within the mandatory minimum period, without the need to renew either their learner or provisional licence(s) for whatever reasons (including the incurring of demerit points resulting in licence regress).

4. Where applicants have the choice of passing tests or undertaking competency-based training and assessment (CBT&A), as in SA and ACT, applicants choose the former which costs less.

5. Where no 10-year licence fee exists, the fee for a 10-year licence is estimated (eg, by doubling the current 5-year licence fee, where there is a fee for a 5-year licence). In relation to Australian jurisdictions, the estimated 10-year licence fee excludes annual CPI-rated increases.

## B. Renewal Costs

Jurisdiction	Fee in local currency	Fee in \$NZ	Period	Per Year
<b>New Zealand</b>	Current: \$44.30  Proposed: \$43.00		10	Current: \$4.43  Proposed: \$4.30
NSW	151.00	188.75	5	37.75
Victoria	158.60	198.25	10	19.83
South Australia	285.00	356.25	10 <sup>5</sup>	35.63
West Australia	116.00	145.00	5	29.00
Tasmania	95.40	119.25	5	23.85
Queensland	73.30	91.63	5 <sup>6</sup>	18.33
ACT	145.00	181.25	5	36.25
NT	72.00	90.00	5	18.00
UK	20.00	47.62	10	4.76
Ireland	25.00	52.63	10	5.26
Quebec	30.00	40.00	4	10.00
British Columbia	75.00	100.00	5	20.00
Hong Kong	900.00	163.63	10	16.36

<sup>5</sup> Fee is A\$27.00 per year plus A\$15.00 administration fee, for up to 10 years.

<sup>6</sup> Fee is A\$11.20 per year plus A\$17.30 administration fee, for up to 5 years.