

## REGULATORY IMPACT STATEMENT

### REVIEW OF MOTOR VEHICLE REGISTRATION AND LICENSING AND ROAD USER CHARGES ADMINISTRATION FEES

#### Agency disclosure statement

1. This Regulatory Impact Statement has been prepared by the Ministry of Transport with assistance from the NZ Transport Agency.
2. It is informed by the NZ Transport Agency's review into administration fees, costs and funding arrangements. This review was based on a preliminary report by independent consultancy firm Martin-Jenkins.
3. The Regulatory Impact Statement provides an analysis of options to:
  - realign fee revenue with expenditure associated with the administration of the motor vehicle registration and licensing and road user charges systems
  - amend fee structures and funding arrangements to ensure the appropriate user is charged for the cost of delivering the service
4. The analysis contained within this Regulatory Impact Statement is based on the following assumptions from the NZ Transport Agency's review of administration fees:
  - Cost modelling for the three year period 2012/13-2014/15, when new administration fees are expected to be in place.
  - For motor vehicle registration and licensing, transaction volumes are expected to increase by around 1.7 percent in 2012/13 and will subsequently increase by around 1.5 percent each year (forecast transaction volumes are contained in Appendix 1).
  - For road user charges, transaction volumes are forecast to decrease by around 15.1 percent in 2012/13 and subsequently increase by around 0.58 percent each year<sup>1</sup>.
  - total administration costs in 2012/13 are forecast to decrease by about \$5.8 million (8.4 percent) and remain fairly stable in subsequent years (modelled costs are contained in Appendix 1).
5. The paper recommends introducing a subsidy within the administration fees to encourage users to switch to using the low cost internet payment option. It is intended that this subsidy will create future cost

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<sup>1</sup> Given the implementation of the new Road User Charges Act 2012 from 1 August 2012, actual purchasing behaviour is difficult to forecast. Supplementary licences and time licences (components of the current system) will be removed. The anticipated result is a significant drop in total transactions (estimated at around 15 percent).

savings for the NZ Transport Agency that can be transferred to fee payers through reductions in administration fees across all payment options. Although a reduction in costs is assumed, it is not possible to quantify the exact amount from implementing the subsidy.

6. The proposal will not impair private property rights, market competition, or the incentives on business to innovate and invest, or override fundamental common law principles (as referenced in Chapter 3 of the Legislation Advisory Committee Guidelines). The proposal is consistent with commitments in the Government's statement *Better Regulation Less Regulation*.

Helen White  
Adviser  
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Signature

Date

## **Status quo and problem definition**

### ***Existing arrangements***

7. The NZ Transport Agency is responsible for administering the motor vehicle register and the collection and refund of revenue from motor vehicle registration and licensing fees, and road user charges. The NZ Transport Agency can only charge administration fees that are set in the Land Transport (Motor Vehicle Registration and Licensing) Regulations 2012 and the road user charges Regulations.
8. Administrative fee levels have not been comprehensively reviewed since the early 1990s. Since this time there has been considerable change in the external environment, including advances in technology, changes in user requirements, transaction volumes and the regulatory environment, particularly in respect of road user charges. These changes have all impacted on the NZ Transport Agency's cost of providing administrative services.
9. Total administration fee and third party revenue is more than necessary to cover the NZ Transport Agency's administration costs. Annual

revenue is expected to be around \$68 million<sup>2</sup> for the 2011/12 financial year, while administration costs total approximately \$60 million<sup>3</sup>.

10. In 2008, the Cabinet Economic Development Committee acknowledged that administration fees were not well aligned with the costs they were intended to recover and agreed to a review of the administration fees [EDC Min (08) 11/16 refers]. As an interim measure, it was agreed that any surplus fee revenue would be directed to the National Land Transport Fund to ensure it is spent for the benefit of road users.
11. Cabinet previously agreed that the new administration fees should be implemented in mid 2012 to coincide with the planned introduction of the simplified road user charges system [Cab Min (11) 36/6 refers].

### ***Problem Definition***

12. At present, fee levels do not align with the underlying costs they are intended to cover. Motor vehicle registration and licensing transactions are recovering a surplus of around \$11.7 million per annum while road user charges transactions are under-recovering around \$1.9 million per annum.
13. This has resulted in a significant net surplus that is forecast to continue. For example, in 2011/12 the over-recovery is expected to be around \$8 million<sup>4</sup>. This arrangement is inequitable as motor vehicle registration and licensing users are currently over charged, with fee revenue received being used to cross subsidise the road user charges business, and also being directed to the National Land Transport Fund. This arrangement sees some users paying fees to cover the costs of activities from which they receive no direct benefit.
14. In addition to the administration fees not being well aligned with the cost they are intended to recover, there are some administrative services for which no specific fees apply but there is a clearly identifiable user who directly benefits from the service provided. Costs related to these activities are recovered through the general vehicle licensing administration fee or road user charges administration fee and in many cases the number of transactions and hence the costs involved are significant.
15. Current administration fees also fund some activities that provide no direct benefit to the fee payer. The following costs are currently

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<sup>2</sup> Figure calculated from the 2012 March Baseline update of administration fee revenue from the motor vehicle register, road user charges and other motor vehicle licensing and registration revenue (e.g. from the sale of information).

<sup>3</sup> Figure calculated from the 2012 March Baseline update for appropriations to the NZ Transport Agency.

<sup>4</sup> This includes fee revenue received from motor vehicle registration and licensing, road user charges, and the cost associated with the Ministry of Transport's forecasting and strategy work, and administering fuel excise duty refunds.

recovered through the general vehicle licensing administration fee and road user charges administration fee:

- the cost of administering fuel excise duty and road user charges refunds
  - the cost of road user charges investigation activities
  - the Ministry of Transport's forecasting and strategy work
16. These activities cost approximately \$5.670 million per annum. This expenditure generally covers activities intended to protect the land transport tax revenue base and maintain the integrity of the revenue system overall. The costs are mostly not related to a particular transaction. In the case of refunds, it is considered unreasonable to charge users for applying for a refund they are entitled to.

### **Objectives**

17. Fee payers and other stakeholders need assurance that the administration fees are reasonable, transparent and reflect the efficient and effective conduct of underlying activities. Therefore, the primary policy objective is to eliminate, or minimise the gap between administration fee revenue and administrative costs of the related businesses.
18. The secondary policy objective is to ensure that, wherever possible, users who primarily benefit from specific activities pay the cost of the service provided.
19. The third policy objective is to encourage users to utilise the most efficient and cost effective payment option.

### **Regulatory impact analysis**

20. In addition to the retention of the status quo, three approaches to addressing the problem of the status quo have been considered. These were informed by the NZ Transport Agency's review of administration fees, costs and funding arrangements, which was based on a preliminary report by independent consultants Martin-Jenkins.

#### Option one:

- Realign administration fees with the costs they are intended to recover.

#### Option two:

- Realign administration fees with the costs they are intended to recover.

- Introduce new fees where there is a clearly identifiable user who directly benefits from the service.

Option three:

- Realign administration fees with the costs they are intended to recover.
- Introduce new fees where there is a clearly identifiable user who directly benefits from the service.
- Amend current funding arrangements so that costs which provide no additional benefit to the fee payer are met through the National Land Transport Fund.

21. The benefits, costs and risks associated with each option are tabled in Appendix 2.

**Status quo**

22. Retaining the status quo will see users continue to pay fees that are not well aligned with costs. This addresses none of the policy objectives.
23. Under this option, fee payers would continue to pay the current administration fees and would not benefit from the NZ Transport Agency's cost saving measures. Continuing this approach would be inconsistent with the Office of the Auditor General's general principle that fees should be set at no more than the amount necessary to recover costs<sup>5</sup>.
24. If fees remained unchanged, it is expected that the motor vehicle registration and licensing users would continue to accumulate an annual surplus of \$11.7 million, while road user charges users will generate an annual \$1.9 million deficit.
25. In addition, the cross-subsidisation between fee payers would continue. The motor vehicle licensing and road user charges administration fees would continue to include costs of unrelated services, even though there are clearly identifiable users who benefit from the services and have given rise to the administration cost.
26. The administration fees would also fund some activities that provide no additional benefit for the fee payer (as referenced in paragraphs 15-16). The \$5.670 million cost per annum would continue to be recovered through the general vehicle licensing fee and the road user charges administration fee.

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<sup>5</sup> Controller and Auditor General: Good practice guide: Charging fees for public sector goods and services (<http://oag.govt.nz/2008/charging-fees/docs/charging-fees.pdf>).

## Options one and two

27. Options 1 and 2 realign administration fees with costs they are intended to recover. However, they are not preferred as they do not fully achieve the stated objectives.
28. Administration fees in Option 1 would not be fully transparent for users. The cross subsidisation referenced in paragraph 25 would continue. The cost of activities that do not provide additional benefit to the fee payer would continue to be funded through the administration fees (see paragraph 26).
29. Under this option, when compared to the preferred option, most road user charges fees would be around \$2.18 higher and three of the motor vehicle licensing fees would be \$0.18 higher (when compared to the preferred option).
30. Administration fees in Option 2 remove most cross subsidisation to ensure that, where applicable, users pay for services that directly benefit them. However, some activities that provide no additional benefit for fee payers would continue to be funded through the general administration fees.
31. Under this option, when compared to the preferred option, most road user charges fees would be around \$2.00 higher and three of the motor vehicle licensing fees would be \$0.17 higher (when compared to the preferred option).

## Preferred option

32. The preferred option is option 3 as it best achieves all objectives. This option would implement transparent and equitable administration fees that are aligned with the administrative costs they are intended to recover. The fees remove current cross subsidisation between fee payers to ensure that users pay the related cost of a service if they directly benefit from it.
33. This option consists of four streams of action:
  - Adjust existing administration fees to better align with the costs they are intended to recover.
  - Introduce variable fees for motor vehicle licensing transactions to reflect the different costs associated with each payment option (payment options include: over the counter; by an industry agent; or through the internet)<sup>6</sup>.

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<sup>6</sup> The road user charges administration fee structure already distinguishes between the different costs associated with the road user charges payment options.

- Introduce new fees<sup>7</sup> for services where there is a clearly identifiable user who directly benefits from the provision of the service and/or who gives rise to administration cost.
- Meet, from the National Land Transport Fund, the annual \$5.670 million cost associated with transactions that largely provide benefit for all users of the transport system.

### ***Incentivising internet payment***

34. Within this option, an incentive to encourage users to switch to using the low cost internet payment option can be introduced. At present, the forecast transaction volumes through the internet payment option are around 31 percent and 11 percent of the respective total motor vehicle licence and road user charges transactions.
35. If internet based transaction volumes increased, the NZ Transport Agency would be able to further reduce the fixed and overhead costs of the system. This is expected to confer benefits to all users in the longer term. All other things being equal, savings would be expected to be passed to users through reductions in administration fees across all payment options.
36. It has not been possible to quantify the benefits associated with a subsidy. As a result, it is not possible to determine the most efficient subsidy level. Without this information, we have considered the possibility of, and level of, any subsidy in terms of:
  - the price differential the subsidy would create for the internet payment option, relative to the other payment options
  - the impact on other fees which would subsidise the cost, and whether this is reasonable
37. It is recommended that the administration fee for purchasing a motor vehicle licence or road user charges licence using the internet be set at 70 percent of the forecast transaction cost. The discount on the internet payment option would amount to \$1.35 for the motor vehicle licence transaction, or 38 percent of the revised fee and \$1.07 for the road user charges transaction, or 26 percent.
38. To ensure the system remains self funded, the subsidised amount (30 percent) would be recovered through the motor vehicle licence and road user charges counter/agent administration fees.
39. Implementing this subsidy will attribute an additional cost of \$0.72 and \$0.42 for each motor vehicle licence and road user charges counter/agent transaction respectively. In both instances the

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<sup>7</sup> The introduction of new fees is only proposed for circumstances where the number of transactions and hence the costs involved are significant.

counter/agent administration fees will still reduce from their current rates.

40. Overall, the level of subsidy results in a price differential between the internet channel and the counter/agent payment options of \$2.69 for motor vehicle licensing and \$2.61 for road user charges.
41. For someone licensing their motor vehicle 6-monthly (and not subject to road user charges) the subsidy cost will be about \$1.54 a year. This represents 0.5 percent of the total cost paid for a typical petrol passenger vehicle licence.
42. The impact for road users purchasing road user charges licenses will vary according to the frequency of purchase. However, assuming the owner of a light diesel vehicle purchases road user charges licences in 5000 kilometre increments, and does so three times per year, the subsidy cost is expected to be \$1.26, representing about 0.2 percent of the total value of the transactions.
43. It is intended that the NZ Transport Agency review the subsidy and propose any necessary changes when administration fees are next reviewed. See the 'arrangements for monitoring, evaluation and review' section for additional detail.
44. The following sections in this paper outline the changes proposed under the preferred option, with the assumption that the incentive will be implemented.

#### ***Adjust existing administration fees and introduce variable fee structure***

45. Tables 1 and 2 below summarise the changes to existing motor vehicle registration and licensing and road user charges administration fees.
46. The proposed administration fees take into account four main changes.
  - Fee levels are adjusted to align with the NZ Transport Agency's forecast costs.
  - Fee levels are reduced to take into account the impact of introducing new fees and meeting \$5.670 million of costs from land transport revenue.
  - Separating the existing motor vehicle licence administration fee into three distinct fee levels reflecting the cost difference between the alternative payment options through which licensing transactions are undertaken.
  - Fees for the internet based payment option for motor vehicle licensing and road user charges are set at 70 percent of forecast cost to incentivise users to switch to the cheapest administrative option.



**Table 1 Current and proposed motor vehicle license and registration administration fees**

Category of fees	Volume	Existing fee (excl GST)	Proposed fee (excl GST)
<b>Motor vehicle license administration Fees</b>			
Counter Agent/NZTA	4,024,247	6.40	6.26
Industry Agent	172,461		2.43
Internet	1,857,428		3.57
Registration Reversal	250	50	50
Change of Ownership (Buyer)	813,519	8.18	7.83
Change of Ownership (Dealers)	195,000	2	0.78
Labels	6,048,712	0.22	0.17
Duplicate Certificates	1,628	8.18	7.91
Request for Information MR31	3,000	13.04	13.04
Request for Information MR32	400	10	13.04
<b>Total administration fee revenue</b>		<b>\$47.2 million</b>	<b>\$39.9 million</b>

**Table 2 Current and proposed road user charges administration fees**

Category of fees	Volume	Existing fee (excl GST)	Proposed fee (excl GST)
<b>Road user charges administration Fees</b>			
Agent (Counter)	625,045	8.50	6.78
Agent (Industry)	45,010	3.00	1.83
Agent (BP)	47,280	4.50	5.39
Agent (Direct Connect)	612,690	3.00	1.83
Agent (eRUC)	270,110	3.00	1.83
Internet	231,437	8.50	4.17
NZTA (Phone/Fax)	182,700	6.20	5.13
<b>Total administration fee revenue</b>		<b>\$11.4 million</b>	<b>\$8.1 million</b>

47. As illustrated in Table 1, at present a uniform \$6.40 administration fee is charged to users irrespective of the payment option used. Implementing variable fees allows the fee to be set at a level that better reflects the associated cost of a particular payment channel.

### ***Introduce new fees***

48. Six main categories of motor vehicle registration and licensing transactions currently have no fee and are funded by the general vehicle licensing administration fee. Table 3 shows the new administration fees proposed for the motor vehicle licence and registration business.

**Table 3 Proposed new motor vehicle administration fees**

Category of motor vehicle license administration Fees	Volume	Proposed fee (excl GST)
Registration	220,304	6.43
Plates - Replacement	71,109	4.09
Plates -Personalised/Duplicate/Supplementary	19,333	1.91
Trade Plates	792	28.09
Cancellation of registration	91,009	7.91
Exemptions - Agent	252,841	4.78
- NZ Transport Agency	80,583	9.04
- Internet	186,583	0 <sup>8</sup>
Administration Replacement Label	216,701	3.57
<b>Total administration fee revenue</b>		<b>\$5.2 million</b>

49. Table 4 below shows the three new fees proposed for the road user charges transactions that currently do not have a specific fee.

**Table 4 Proposed new road user charges administration fees**

Category of road user charges administration fees	Volume	Proposed fee (excl GST)
Administration Replacement Label	96,477	3.57
Assessment Invoices	82,000 <sup>9</sup>	6.09
Application to change RUC vehicle type	200	43.91
<b>Total administration fee revenue</b>		<b>\$2.6 million</b>

50. Based on projected volumes, \$58.6 million per annum would be received through administration fees over the modelled three year period. Under the proposed option it is expected that the NZ Transport Agency will receive \$55.8 million per annum (including the revenue enumerated in Tables 3 and 4). This corresponds to a net reduction of 4.8 percent which aligns with cost reductions forecast in both the motor vehicle registration and licensing and road user charges businesses.
51. A new fee is proposed for transactions where no specific fee is currently in place and there is a clearly identifiable user who directly benefits from the provision of the service and/or who gives rise to administration cost. New fees are only implemented where the number of transactions, and hence the costs, involved are significant.
52. Some of these fees represent agent commissions paid without a revenue source to fund them. For example, providing replacement labels costs just under \$400,000 a year and would otherwise be

<sup>8</sup> An exemption application made prior to the existing licence expiring or within the regulated grace period after the expiry of the last licence does not attract a fee of any kind. Given the low dollar value of the cost of the internet channel (\$1.04), and that this would be the only fee payable for many internet exemption applications it is recommended that no fee be introduced.

<sup>9</sup> This volume would be if all hubodometer and over-run transactions were dealt with by way of invoice. If only over-runs (i.e. mileage is higher than the licence end point) then volumes are around 20-30,000.

charged on all transactions. Other fees are proposed to cover new activities with an administrative cost to the NZ Transport Agency, for example, the fee to cover the change of road user charges vehicle type.

53. There does not appear to be any significant risk of creating perverse or unintended outcomes from implementing the new fees.

### ***Adjust funding arrangements***

54. At present, administration fees cover the costs associated with:
- the cost of administering fuel excise duty and road user charges refunds
  - the cost of road user charges investigation activities
  - the Ministry of Transport's forecasting and strategy work
55. These costs are generally not related to a particular transaction, or in the case of refunds, it is considered unreasonable to charge users for applying for a refund they are entitled to apply for.
56. Because these activities protect the land transport tax revenue base and maintain the integrity of the land transport system, it would be more equitable if they were funded by the Crown from land transport revenue contained in the National Land Transport Fund.
57. It is proposed that the following activities be funded from the National Land Transport fund, at a cost of approximately \$5.670 million per annum.

#### The cost of administering fuel excise duty refunds (\$0.441 million per year).

- It is not cost effective to introduce an administration fee with fuel excise duty transactions, but equally not appropriate that costs associated with the fuel excise duty system be met, in part, by users of unrelated administrative services.
- In meeting this cost from the National Land Transport Fund it is intended that it will be offset against fuel excise duty revenue paid into the Fund.

#### The cost of administering road user charges refunds, investigations and reviews (\$4.229 million per year).

- Meeting the cost of refunds through administration fees would directly recover the cost of administering refunds from users who, by definition, are entitled to receive a full refund of all charges paid in respect of off-road travel. Charging an

administrative fee would impair this entitlement, and meeting this cost from the National Land Transport Fund would be consistent with the recommended approach for funding fuel excise duty refunds.

- Road user charges investigations cover the NZ Transport Agency's investigations and audits of outstanding road user charges, and efforts to recover any amounts owing. There is an indirect benefit to all road users as the investigations maintain the integrity of the road user charges system, and any revenue recovered delays the need for future increases in charges. However, this benefit is unrelated to the use of administrative services for which fees are charged and, because the expenditure is essentially about protecting the tax revenue base.

The Ministry of Transport's forecasting and strategy work (\$1.0 million per year).

- This activity is essentially an overhead cost of the land transport system and relates to all revenue streams – motor vehicle registration and licensing, road user charges and fuel excise duty.
- It is therefore appropriate that all road users contribute to meeting the cost. It would not be cost effective to introduce an administration fee on fuel excise duty transactions, and to ensure all land transport users pay their fair share, it is proposed to meet this cost from the National Land Transport Fund.

**Impacts of preferred option**

58. The proposed changes will affect much of the population. There are currently about 4 million vehicles on the motor vehicle register which must be licensed each year. Some 650,000 of these vehicles are subject to road user charges.
59. As the majority of fees would decrease, most users are expected to benefit from the proposal. The size of the benefit will vary according to the services used.
60. Comparing the proposed changes to the status quo, the preferred option has the following impacts:
  - Existing motor vehicle registration and licensing administration fees will decrease on average by \$0.60 per transaction.
  - Existing road user charges administration fees will decrease on average by \$1.40 per transaction.
  - Where new fees are introduced, some users will now directly pay for services that benefit them.

- Revenue available to the National Land Transport Fund will reduce by \$5.670 million per annum.
61. The proposed changes to the fees and funding arrangements will result in fee revenue being more closely aligned with the costs they are intended to recover. The changes to existing fees will mean that the fee for each service will better reflect the cost of delivering the service.
62. Based on projected volumes the NZ Transport Agency will receive \$55.8 million per annum through administration fees over the modelled three year period. This corresponds to a 4.8 percent reduction when compared to fee revenue currently received.

### **Consultation**

63. The NZ Transport Agency has consulted stakeholder groups representing a wide cross section of New Zealand road users on the proposed changes. The following groups were provided with the consultation document:
- Road Transport Forum
  - New Zealand Automobile Association
  - Bus and Coach Association New Zealand
  - Federated Farmers of New Zealand
  - The Accident Compensation Corporation
64. Feedback received from consultation has been positive, with stakeholder groups largely supporting the changes proposed under the preferred option.
65. Feedback was received from some stakeholder groups that opposed the direct subsidisation of the internet payment channel. These stakeholders would prefer if the internet channel was priced at actual cost, removing the proposed cross-subsidy between payment options. It was argued that the payment option would be increasingly used, without the subsidy, if it provided value to users.
66. In addition, stakeholders commented on current limitations for payment through the internet channel (irrespective of the administration fee). It was noted that:

- for some users, the internet channel will not be practical because there is a maximum payment amount (currently \$900 for online purchase of road user charges)<sup>10</sup>
  - some households may have limited access to the internet, impairing their ability to use this payment method
67. The NZ Transport Agency reviewed stakeholder feedback but consider that, on balance, the subsidy will benefit the majority of users. It believes that although in the interim implementing the subsidy will attribute an additional cost of \$0.72 and \$0.42 for each motor vehicle licence and road user charges counter/agent transaction respectively, users will still benefit as:
- in both instances the counter/agent administration fees reduce from their current rates
  - in the longer-term, it is anticipated that the NZ Transport Agency will achieve additional cost savings and will pass these savings to users through reductions in administration fees across all payment options
68. The NZ Transport Agency will promote the subsidy to ensure users can make an informed decision of what payment option to use.
69. It will also investigate the effect of the subsidy when it reviews motor vehicle registration and licensing and road user charges administration fees. Advice will be provided to the Minister of Transport and Ministry of Transport on whether the subsidy should continue. It is intended that this review be carried out in 2013 with a report on findings prepared by December 2013.

### **Conclusions and recommendations**

70. To remove cross-subsidisation in the current system and create equitable administration fees that are aligned with the administrative costs they are intended to recover, it is necessary to modify existing arrangements. The following changes are proposed:
- Adjust existing administration fees to better align with the costs they are intended to recover.
  - Introduce variable fees for motor vehicle licensing transactions to reflect the different costs associated with each payment option.

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<sup>10</sup> The NZ Transport Agency notes that this maximum is unlikely to impact large transport vehicle users as many purchase their road user charges through the direct connect payment option.

- Where applicable, introduce new fees for services where there is a clearly identifiable user who directly benefits from the provision of the service and/or who gives rise to administration cost. This removes the cost from the general licensing administration fees.
  - Fund the annual \$5.670 million cost associated with activities that protect the land transport tax base and maintain the integrity of the land transport system from the National Land Transport Fund. This removes the cost from the general licensing administration fees.
71. To generate additional cost savings, it is recommended that a subsidy be introduced for internet transactions. Setting the administration fee component for internet payments at 70 percent of the forecast transaction cost is expected to incentivise users to purchase a motor vehicle license or road user charges licence using the internet payment.

### **Implementation issues/risks**

72. There are risks in relation to volume assumptions. Should predicted volumes not be achieved there will be a corresponding over or under-recovery of administration fee revenue.
73. The NZ Transport Agency will monitor transaction volumes and inform the Minister of Transport and the Ministry of Transport if volumes diverge from forecast values. If necessary the administration fees can be adjusted to ensure they are aligned with costs.

### ***Initial implementation***

74. The Road User Charges Act 2012 is expected to be in-force from 1 August 2012. To coincide with this date, the proposed changes to administration fees and related funding arrangements will be implemented from 1 August 2012.
75. To amend and introduce new administration fees the Land Transport (Motor Vehicle Registration and Licensing) Regulations 2012 will require amendment. It is possible to amend these regulations before the in-force date of 1 August 2012.
76. Cabinet approval is required to enable some costs (those described in paragraph 57) to be met from the National Land Transport Fund.
77. If Cabinet does not agree to the proposed arrangement, the preferred option is not achievable and option 2 will be the next best alternative. This would result in users continuing to pay an administration fee component for which they receive no additional benefit, therefore not achieving an objective of the review.

## **Arrangements for monitoring, evaluation and review**

78. The planned simplification of the road user charges system creates significant uncertainty for transaction volumes and associated administration costs. In addition, as discussed above, implementing the internet subsidy also creates uncertainty relating to the over or under-recovery of administration fees.
79. It is therefore intended that the NZ Transport Agency review motor vehicle registration and licensing and road user charges administration fees to incorporate:
- any medium term cost savings
  - changes to the internet payment subsidy
  - any changes into the road user charges administration fees
80. It is expected that the findings from this subsequent review will be reported to the Minister of Transport and the Ministry of Transport in December 2013, and be implemented from 1 July 2014/15.
81. In addition, the Ministry of Transport is developing a fee review programme for all regulated transport fees. The land transport administration fees will be reviewed on a 3-yearly basis as part of this programme.



## APPENDIX 1 –TRANSACTION VOLUMES AND COST OF ADMINISTRATION

### Transaction volumes

Table 5 Forecast motor vehicle registration and licensing and road user charges transaction volumes

	Actual 2009/10	Actual 2010/11	Forecast 2011/12	Modelled 2012/13	Modelled 2013/14	Modelled 2014/15
000's						
Motor vehicle registrations	218	228	218	220	220	221
Motor vehicle licensing	5,633	5,815	5,622	5,724	5,819	5,915
Motor vehicle change of ownership	816	811	805	814	821	828
<b>Total</b>	<b>6,667</b>	<b>6,854</b>	<b>6,645</b>	<b>6,758</b>	<b>6,860</b>	<b>6,964</b>
<i>Increase</i>	<i>na</i>	2.80%	-3.05%	1.72%	1.49%	1.52%
<b>Total road user charges licences</b>	<b>2,161</b>	<b>2,282</b>	<b>2,355</b>	<b>1,999</b>	<b>2,010</b>	<b>2,022</b>
<i>Increase</i>	<i>na</i>	5.60%	3.20%	-15.12%	0.55%	0.60%

### Costs of administration

Table 6 motor vehicle registration and licensing cost breakdown (\$ million)

	Actual 2009/10	Actual 2010/11	Forecast 2011/12	Modelled 2012/13	Modelled 2013/14	Modelled 2014/15
Fixed Costs	19.961	20.388	20.585	17.922	17.779	17.942
Variable costs	33.020	33.360	31.288	30.611	31.398	32.032
<b>Total Costs</b>	<b>52.981</b>	<b>53.749</b>	<b>51.873</b>	<b>48.603</b>	<b>49.177</b>	<b>49.974</b>
Annual percentage change	na	1.45%	-3.49%	-6.30%	1.18%	1.62%
Cost per transaction				\$5.48	\$5.48	\$5.50

Table 7 road user charges cost breakdown (\$ million)

	Actual 2009/10	Actual 2010/11	Forecast 2011/12	Modelled 2012/13	Modelled 2013/14	Modelled 2014/15
Fixed costs	11.244	8.660	10.583	9.112	8.352	8.423
Variable costs	6.207	6.222	6.152	5.144	4.637	4.592
<b>Total Costs</b>	<b>17.451</b>	<b>14.882</b>	<b>16.735</b>	<b>14.256</b>	<b>12.989</b>	<b>13.015</b>
Annual percentage change	na	-14.72%	12.45%	-14.81%	-8.89%	0.20%
Cost per transaction				\$6.66	\$6.03	\$6.01

**APPENDIX 2 – BENEFITS, COSTS, AND RISKS**

	<b>Status Quo</b>	<b>Option one – realign fees with the costs</b>	<b>Option two – realign fees with the costs they are intended to recover, introduce new fees to remove cross subsidisation between users. Meet additional costs (that provide no additional benefit to the fee payers) through the administration fees</b>	<b>Option three – realign fees with the costs they are intended to recover, introduce new fees to remove cross subsidisation between users and amend the funding arrangements to meet additional costs from the National Land Transport Fund</b>
<b>Benefits</b>	<p>The administration fees will continue to produce an annual surplus of around \$8 million (based on 2011/12 estimates) which will be directed to the National Land Transport Fund.</p> <p>Surplus revenue will benefit transport users generally through projects that receive funding in the National Land Transport Programme. However, the level of benefit received by individual users will be unrelated to any contributions they have made through the administration fees.</p>	<p>The administration fees are better aligned with the costs they are intended to recover.</p>	<p>Addresses the problem of fees not aligning with the costs of delivering an activity</p> <p>New fees are introduced to remove most cross subsidisation between users. This ensures that most users pay for services that directly benefit them.</p> <p>Variable administration fees can be introduced to better reflect the cost of the service used.</p> <p>The NZ Transport Agency can utilise the variable fees to incentivise use of a lower cost payment method (e.g. the internet) in order to enable future cost savings.</p> <p>Provisions for new services (e.g. application for change of vehicle type) as set out in the Road User Charges Act 2012 and related regulations are covered by specific administration fees</p>	<p>Addresses the problem of fees not aligning with the costs of delivering an activity</p> <p>New fees are introduced to remove cross subsidisation between users. This ensures the user who directly benefits from a service pays the related cost.</p> <p>Variable administration fees can be introduced to better reflect the cost of the service used.</p> <p>The NZ Transport Agency can utilise the variable fees to incentivise use of a lower cost payment method (e.g. the internet) in order to enable future cost savings</p> <p>When compared to the status quo and all the other options, the majority of users will benefit from reduced administration fees. For example</p> <ul style="list-style-type: none"> <li>Existing motor vehicle registration and licensing administration fees would decrease on average by \$0.60 per transaction.</li> <li>Existing road user charges administration fees will decrease on average by \$1.40 per transaction.</li> </ul> <p>Costs totalling \$5.670 million per annum (where the service is unrelated to any specific administrative process or the introduction of a new administration fee is not practical) are met by all transport users through the National Land Transport Fund. This ensures that users of specific administrative services are not contributing disproportionately to the cost of services that provide benefit to all transport users.</p>
<b>Costs</b>	<p>Administration fees remain poorly aligned with the associated costs of the service</p> <p>Users will continue to contribute to services that do not provide a proportionate benefit for them</p> <p>Administration fees do not allow users to realise the benefits associated with the NZ Transport Agency's cost reduction measures</p> <p>No new fees are introduced so the existing cross-subsidisation between users will continue</p>	<p>Administration fees are not transparent:</p> <ul style="list-style-type: none"> <li>no new fees are introduced so the existing cross-subsidisation between users will continue</li> <li>activities that provides no additional benefit to fee payers will continue to be funded through the administration fees</li> </ul> <p>This would result in administration fees being higher than the direct cost of the service users receive.</p> <p>Provisions for new services (e.g. change in vehicle types) as set out in the Road User Charges Act 2012 and related regulations will need to be included in general administration fees or not be provided</p>	<p>Some activities that provide no additional benefit for the fee payers will continue to be funded through general administration fees. A total cost of \$5.670 million will be spread across the administration fees.</p> <p>When compared to the preferred option (option 3) this increases the majority of road user charges fees by around \$2.00 and three motor vehicle charges by around \$0.14.</p>	<p>The National Land Transport Fund will reduce by \$5.670 million per annum.</p>
<b>Risks</b>	<p>If further cost savings are realised the disparity between fee levels and costs would increase.</p> <p>In the development of the Road User Charges Act 2012, the potential for additional cost savings was communicated to users. If the administration fees remained static the suggested cost savings may not be delivered.</p> <p>Not amending or introducing new fees would also impair the delivery of certain provisions set out in the Road User Charges Act.</p>		<p>By incentivising one payment option there is a risk that administration fees will over or under recover. If the predicted volumes are not achieved (or over achieved) there will be a corresponding under (or over-recovery) of administration fee revenue to meet costs.</p>	<p>By incentivising one payment option there is a risk that administration fees will over or under-recover. If the predicted volumes are not achieved (or over achieved) there will be a corresponding under (or over-recovery) of administration fee revenue to meet costs.</p>