

# Regulatory Impact Statement

## Road user charges administration fees

### Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the NZ Transport Agency with assistance from the Ministry of Transport.

On 1 August 2012 the Road User Charges Act 2012 came into force. The new system was based on an Independent Review into the Road User Charges System which considered the merits of collecting revenue by way of road user charges, compared to potential alternative methods. The Regulatory Impact Statements that informed the implementation of the system can be found at:

<http://www.transport.govt.nz/about/regulatory-impact-statementsbusiness-compliance-cost-statements-risbccc/>

The options in this Regulatory Impact Statement are informed by a 2013 review of road user charges (RUC) administration fees which was conducted at the request of the Minister of Transport. The review resulted in proposals to change a number of RUC administration fees.

The public were provided with an opportunity to make submissions on these proposals from 13 December 2013 to 11 February 2014. The proposals were further modified in response to public feedback.

The proposals are intended to continue to encourage online purchasing of road user distance licences, respond to new cost pressures, and to reduce some fees to reflect the underlying cost of their associated services.

The preferred option in this paper will not impair private property rights, or the incentives for businesses to innovate and invest, or override any of the fundamental common law principles (as referenced in Chapter 3 of the Legislation Advisory Committee's Guidelines on Process and Content of Legislation).

Cabinet agreement will be needed to give effect to any fee changes. Changes to the fees will require amendments to the Road User Charges (Administration Fees) Regulations 2012. Cabinet has been advised of the Minister of Transport's intention to make RUC administration fees third party fees of the NZ Transport Agency [EGI Min (12) 6/7 refers]. Ideally, any fee adjustments will enter into force with this change.

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## Status quo and problem definition

Approximately 650,000 of the 4 million vehicles currently listed on the Motor Vehicle Register are subject to Road User Charges (RUC). Vehicles with a gross vehicle mass of more than 3.5 tonnes, or vehicles that use diesel or other fuels not taxed at source must pay RUC.

The NZ Transport Agency is responsible for administering the RUC system, which includes the collection and refunding of revenue from RUC. The costs of collecting RUC are met through fees prescribed in the Road User Charges (Administration fees) Regulations 2012.

In April 2012, Cabinet approved a schedule of 13 new and amended RUC administration fees, in conjunction with a simplified RUC regime, and discounts for purchases via the internet. In particular, the internet payment option was discounted by \$1.07 and recovered by a margin of \$0.42 applied to public counter agency fees. These changes took effect from 1 August 2012.

Due to some uncertainty around the future volumes and mix of purchase channels and payment options, the Minister of Transport asked officials to report back to him in December 2013 with any revised administration cost forecasts.

The review found that there are problems with the status quo, in particular:

- The fee structure could be simplified, with continued emphasis placed on driving purchasing through internet-based channels, consistent with the Government ICT Strategy and Action Plan to 2017.
- Fees applied to some undiscounted purchase channels is less than the cost of providing the service option.
- Fees applied to some RUC services are more than the cost of providing the service option.
- The current approach to bank charges (e.g. credit card charges) is a barrier to directing costs to the beneficiaries of some payment options to meet customer preferences.
- Additional credit card charges of \$0.3 million annually are likely to be incurred in the three years commencing 1 July 2014 as a result of larger amounts of RUC being purchased using credit cards.
- The current fees do not make provision for system improvements scheduled for implementation during the three years commencing 1 July 2014 (costed at \$0.8 million per year over five years).
- The average annual RUC collection costs during the next three year period would amount to \$10.5 million (including bank charges and system improvements). Under the current fees regime, annual average projected revenue for this period amounts to be about \$10 million, leaving a shortfall of about \$0.5 million per annum.

Fees relating to RUC exemption applications were excluded from the scope of the review because this service has just recently been established and volumes have yet to fall into a stable pattern.

## Objectives

The NZ Transport Agency needs to continue to recover the cost of administering the RUC system from those who use the system, while simultaneously driving down costs and improving customer experiences.

Options for achieving this outcome were assessed against the following objectives:

- Fees consolidate efforts to drive more purchasing behaviour into cost effective, internet-based RUC collection channels.
- Fee structures are simplified where possible and generally reflect the costs of the purchase methods to which they apply, and promote smart customer choice.
- Fees and fee structures allow for the development of efficiencies and improved customer experience.

## Options and impact analysis

### RUC collection fees

The single greatest cost in RUC administration is associated with the collection of revenue from the purchase of road user distance licences. There are currently seven fees associated with different RUC collection channels. These are intended to reflect the costs of different payment methods. Public counter agent (face-to-face) channel fees and internet transactions are an exception to this principle, due to the deliberate introduction of cross-subsidisation to incentivise greater use of the internet channel (referred to in the problem definition).

The review conducted in 2013 for the Minister of Transport identified that additional costs of \$0.3 million in bank charges and \$0.8 million in IT system improvements would be incurred annually during the next three year fee cycle (1 July 2014 – 30 June 2017), and that average annual RUC collection costs during the same period would amount to \$10.5 million. Under the current fees regime, annual average projected revenue for this period amounts to about \$10 million, leaving a shortfall of about \$0.5 million per annum.

Officials considered three options for recovering these costs:

1. Retaining the status quo (Option 1).
2. The three channel RUC collection framework presented as part of public consultation in December 2013 – February 2014 (Option 2).
3. A modification to the three channel RUC collection framework in response to public feedback (Option 3).

### ***Option 1: Retaining the status quo***

Option 1 is retaining the current seven purchase fees. This option will not address the issues that are outlined in the problem definition.

As described above, the review has considered the likely costs incurred to be \$10.5 per annum for the three years commencing 1 July 2014. If fees are retained at their current level, revenue is estimated to be \$10 million per annum over the same period. Option 1 will leave a shortfall of \$0.5 million per annum.

While efforts to drive more purchasing through internet based channels have been modestly successful, the review found that the structure could be simplified, with greater focus placed on driving purchasing through cost effective internet-based channels.

**Option 2: The three channel RUC collection framework presented as part of public consultation**

Option 2 is a three channel approach which was presented as part of the public consultation process conducted from 13 December 2013 to 11 February 2014.

Option 2 combined all over the counter transactions within a common ‘face-to-face’ channel fee. Similarly, all internet-based transactions were combined under a single ‘digital self-service’ channel fee. The ‘telephone or fax’ option was renamed ‘digital assisted’ given that some parts of the process involve internet communications (e.g. e-mail), but other parts are conducted manually through the NZ Transport Agency Contact Centre.

As part of this, commercial fuel stop agents were classified into the channel in which they best align (shown in Table 1 below). This would see purchases conducted at a services station counter move to the face-to-face channel. This change was canvassed during public consultation. Purchases at commercial fuel stop (truck stop) kiosks would align with the digital self-service channel and would retain their current fee of \$5.39, due to their high underlying cost.

The digital self-service channel fee was calculated by combining a number of underlying, internet-based purchasing methods and reflects the average cost of making an online payment. This is shown in Table 1.

**Table 1:** Underlying transaction costs, current fees and fees proposed as part of public consultation.

Current fee structure	Underlying cost (\$)	Current fees (\$)	Option 2 fees (\$)	Transaction volumes	Approach (new three channel fee structure)
Public counter agents	6.20	6.78	6.20	921,514	Face-to-face
Commercial fuel stop agent (service station portion only)	7.42	5.39	6.20		
Industry agent	1.80	1.83	2.95	1,367,649	Digital self-service
Commercial fuel stop agent (Truck Stop portion only)	6.22	5.39	2.95		
Self-service agent	1.80	1.83	2.95		
Electronic system provider	1.80	1.83	2.95		
Purchased over internet	6.65	4.17	2.95		
Purchased by telephone or fax	7.50	5.13	7.50	98,283	Digital assisted

In particular, lower cost online transactions associated with industry agents, self-service agents and electronic system providers (i.e. \$1.80 per transaction) were combined with

the higher cost online 'purchased over internet' option (\$6.65 per transaction). This resulted in a proposed digital self-service fee of \$2.95 which reflects the average cost of a digital self-service transaction.

A number of submissions opposed a single digital self-service fee on the grounds that it increased the price of the lower cost online options significantly above their underlying cost. The preference of these submitters was to retain a distinction to more closely reflect the cost differences between different online purchase methods.

Officials agree with this observation. As can be seen from Table 1, the difference in underlying cost between low and high cost online transactions is \$4.85. Bank charges associated with credit card usage are responsible for much of this difference in cost. Purchases taking place via the NZ Transport Agency's Transaction Centre ('purchased over internet') usually involve credit cards which create additional costs of about 1.5% of the dollar value of the transaction.

Industry agent, self-service agent and electronic system provider purchase methods, on the other hand, are transacted directly with the NZ Transport Agency's databases, with RUC payments made via direct bank transfer which is a lower cost option.

Option 3 (described below) was developed in response to feedback on the digital self-service channel.

**Option 3: Modify the fee structure proposed during public consultation to retain the current fee levels for all types of digital self-service transaction**

Option 3 retains the proposed three channel structure but divides the digital self-service channel into three sub-channels:

1. digital self-service (electronic service provider)
2. digital self-service (Truck Stop)
3. digital self-service (internet)

This approach is set out in Table 2.

**Table 2:** Underlying transaction costs, current fees and preferred fees associated with Option 3

Current fee Structure	Underlying cost (\$)	Current fees (\$)	Option3 fees (\$)	Transaction volumes (average annual)	Option 3 fee structure
Public counter agent	6.20	6.78	6.78	921,514	Face-to- face (now including service station)
Commercial fuel stop agent (service station portion)	7.42	5.39	6.78		
Industry agent	1.80	1.83	1.83	1,040,277	Digital self-service (electronic service provider)
Electronic service provider					
Self-service agent					
Commercial fuel stop agent (Truck Stop portion)	5.39	5.39	5.39	7,808	Digital self-service (Truck Stop), now excluding service station
Purchased over internet	6.65	4.17	4.17	319,564	Digital self-service (Internet)
Purchased by telephone or fax	7.50	5.13	7.50	98,283	Digital assisted

Most of the current fee levels have been retained, until a solution to the credit card bank charge issue is implemented in July 2015, but with changes to two collections fees to more accurately reflect their underlying costs. In particular, it is proposed that the collection fee for purchases via telephone or fax (the digital assisted channel) increases to \$7.50 (from \$5.13), as proposed during public consultation.

While most of the fees remain the same, Option 3 retains much the same channel structure associated with Option 2, as this has a more general application than the current structure (i.e. it can accommodate new purchase methods<sup>1</sup>) and is consistent with the NZ Transport Agency's goal to direct higher numbers of transactions through digital self-service channels.

Unlike Option 2, however, Option 3 continues the practice of subsidising the digital self-service (internet) from the face-to-face channel. This is continued for two reasons:

- It continues to provide the general public with a digital online purchasing solution.
- It continues to provide a price differential between this type of online purchase solution and face-to-face and digital assisted methods, and therefore is of assistance in directing purchasing behaviour into digital self-service methods.

The NZ Transport Agency is currently working on solutions to improve the management of bank charges, which will be implemented from 1 July 2015. The solutions under consideration by the NZ Transport Agency include on-charging credit card costs directly to credit card users (as does the Inland Revenue Department and the New Zealand Police) and alternative payment solutions such as user-friendly options for payment by online direct credit methods.

When implemented, these solutions will enable fee reductions to face-to-face and digital self-service (internet) channels and the removal of cross-subsidisation between these two channels. The cost of making these changes will be absorbed within existing provisions for systems maintenance and upgrades.

Implementing credit card surcharges will also reduce the risk to the NZ Transport Agency of uncontrolled bank costs. About \$1 billion is collected by the NZ Transport Agency in any one year. If half of all RUC customers elected to use credit cards for RUC transactions, the NZ Transport Agency would incur bank charges of about \$7.5 million per annum. Current provisions allow for about \$0.7 million in credit card bank charges.

Under Option 3, the proposed administration fees will recover \$10.265 million per annum of the expected costs of \$10.5 million per annum. The NZ Transport Agency will absorb the additional credit card costs in the period leading up to the implementation of credit card surcharging.

The options are compared against the assessment criteria in Table 3 below. Option 3 is preferred due to the fee structure better reflecting the true cost of delivering the product while continuing a refinement and simplification of the fee structure into and encouraging the purchasing through digital self-service channels.

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<sup>1</sup> The NZ Transport Agency is currently considering a purchase option using smart phones.

**Table 3:** Comparison of Option 1, Option 2, and Option 3 against assessment criteria

Assessment criteria	Option 1	Option 2	Option 3
Fees consolidate efforts to drive more purchasing behaviour into cost effective, internet-based RUC collection channels	No	Yes	Yes
Fee structures are simplified where possible	No	Yes	Yes – the digital self-service has been split into 3 sub-channels. Although this fee structure is not simplified to the extent of Option 2, it better reflects underlying costs and maintains simplicity.
Fees generally reflect the costs of the purchase methods to which they apply and promote smart customer choice	No	No – the digital self-service proposal was not reflective of different underlying costs	Yes
Fees and fee structures allow for the development of efficiencies and improved customer experience	No	Yes	Yes

### ***Other fees related to road user distance licensing***

The Road User Charges (Administration Fees) Regulations 2012 also prescribe fees for activities related to road user distance licence purchasing. These activities are:

- road user distance licence replacements (due to damaged or lost labels).
- distance overrun assessments (computer-generated assessments conducted by matching recorded odometer readings with road user distance licence records).
- applications by vehicle owners to change the RUC vehicle type assigned to their vehicle (where changes to a vehicle result in it falling into a different RUC classification).

The review conducted in 2013 found that the costs of these services were marginally less than the currently prescribed fees. Officials considered whether it was worth making corresponding changes to the fees, as the magnitude of the changes would be small.

However, in principle, any reduction in fees is a positive step. While the savings generated by these changes alone would be insufficient to offset the regulatory costs involved in a fee change, these fees could be adjusted for little additional cost should

Cabinet agree to changes in the RUC collection channel fees, referred to in the previous section. The current and proposed fees are presented in Table 4 with their respective volumes.

**Table 4:** Proposed changes to other fees related to road user distance licensing

Services	Current fees (\$)	Proposed fees (\$)	Volumes (average annual)
Replacement RUC licence	3.57	3.55	60,000
Assessment issued by RUC collector for distance overrun	6.09	5.95	60,000
Application by owner or operator to change RUC vehicle type assigned to vehicle	43.91	40.00	3,940

## Risks and mitigations

There is a risk that the public may confuse proposed changes to road user charges administration fees with road user charges. To minimise this risk, the difference will be clearly explained in communications which make announcements to any changes in the administration fees.

A number of submissions criticised the increase in administration fees for lower cost internet-based transactions from \$1.83 to \$2.95. In response, officials divided this channel into two subcategories, with fees to reflect higher and lower cost online purchasing options, and retained these fees at their current rates.

The preferred option (if approved) will result in the continued subsidisation of the internet channel, to allow all RUC customers access to a cost-effective online RUC purchasing option and to continue to incentivise online purchasing. The need for cross-subsidisation will be eliminated when the New Zealand Transport Agency introduces a solution to improve the management of bank charges associated with internet-based RUC transactions.

The risk to the NZ Transport Agency of high volumes of RUC customers electing to use credit cards for RUC transactions will be eliminated when credit card surcharging is implemented from 1 July 2015.

## Consultation

Public consultation opened on 13 December 2013 and closed on 11 February 2014. The public consultation process was advertised in the public notices section of major New Zealand newspapers. Inspecting organisations and other interested parties were also e-mailed with an invitation to comment on the proposals and a link to the consultation document.

A total of 13 submissions were received. In general, submitters supported the simplification of the RUC administration collection fees structure. The proposal to introduce a separate credit card surcharge was also supported.

However, six submissions raised the proposed aggregation of internet-based purchasing methods as a key concern due to the upward averaging effect on administration fees payable by lower cost electronic service providers. Officials have responded by



proposing the splitting of the digital self-service channel into two sub-channel fees to reflect the difference in costs between the two internet-based purchase methods.

One submitter, the New Zealand Automobile Association, raised a concern that private motorists were paying for RUC vehicle type changes to correct errors in the original classification of their vehicles. It is proposed that this be dealt with through the introduction of an appropriate waiver provision.

Nothing else in the feedback raised fundamental concerns about the proposed fees.

## **Implementation and monitoring**

Cabinet will be asked to agree with the proposed changes to road user charges administration fees.

Any changes agreed by Cabinet will require amendment to the Road User Charges (Administration Fees) Regulations 2012. Ideally, these would be brought into effect from 1 July 2014 to align with the new financial year and with the intention to define road user administration fees as third party fees of the New Zealand Transport Agency.

## **Conclusions and recommendations**

### **Recommendation**

Option 3 is recommended for the following reasons:

- It responds to public feedback regarding high and low-cost digital self-service fees.
- It continues to provide a cost effective online solution for all owners of RUC vehicles (not just large commercial fleet operators).
- It reflects both current fees and those that were proposed during public consultation, and is unlikely to require further public consultation.
- The NZ Transport Agency's solution for credit card charges will be implemented within the next financial year within current expenditure budgets.