

In Confidence

Office of the Minister of Transport

Cabinet Economic Development Committee

Changes to Land Transport Regulatory Charges and Fees

Proposal

- 1 This paper reports back on the outcome of public consultation on Waka Kotahi NZ Transport Agency's (Waka Kotahi or the Agency) 'Proposed changes to land transport regulatory fees, charges and funding' (funding review), and seeks approval to change fees and charges in October 2023.

Relation to government priorities

- 2 The proposed changes support the Government's *Policy Statement on Land Transport 2021/22 to 2030/31* as well as *Road to Zero*, New Zealand's Road Safety Strategy for 2020-2030.

Executive Summary

- 3 Waka Kotahi is undertaking a funding review to support the delivery of its new regulatory strategy (Tū ake, tū māia 2022, refer to **Appendix One**). This is the first comprehensive funding review since Waka Kotahi was established in 2008 and attempts to address deficiencies and under-resourcing identified by a Ministerial Review in 2019 that followed regulatory failure identified in 2018.
- 4 The scope of this funding review is focussed on the road regulatory function. This means the funding of other parts of the system, such as the rail regulatory function and significant investment in new or existing digital infrastructure, were not included, and will need to form part of future funding reviews or budget bids.
- 5 The funding review affects 176 fees, levies and charges that directly affect most New Zealanders and New Zealand businesses. Of these charges, 15 do not change, 39 increase, 42 decrease and the balance involve items that are not directly comparable to previous charging (for example, where parts of services are consolidated to reflect operational changes or where costs fall).
- 6 The funding review would increase the baseline funding of Waka Kotahi to \$273 million per annum (on average from 2023/24 to 2025/26). The increase in funding is approximately 65 percent greater than the baseline funding of the Agency's pre-regulatory failure in 2018 (\$165 million).
- 7 This increase purchases significantly enhanced regulatory capability and stewardship practices compared to the period prior to the regulatory failure. It addresses the compound effects of costs of inflation and population growth since Waka Kotahi was established in 2008. It also includes repayment of the crown loan facilities and related interest costs that were used to boost the level of service and reduce risks following the previous regulatory failure.

Public consultation supported the need to strengthen the regulatory function

- 8 Following advice to Cabinet in December 2021 [CAB-21-MIN-0550 refers], Waka Kotahi undertook public consultation between 21 March and 13 May 2022.

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A marketing and engagement programme targeted a cross-section of the New Zealand public and interested sector groups.

- 9 Public engagement recognised the role of Waka Kotahi and the need to strengthen regulatory services, as well as concerns about the general impact of cost-of-living challenges. However, Waka Kotahi considers that the options to reduce costs involve more trade-offs than the proposed funding model.
- 10 The Minister of Finance and I (Joint Ministers) have also approved funding under section 9(1A) of the Land Transport Management Act 2003 (Proposal 1). This supports oversight of Waka Kotahi's road regulatory function that has wider benefits and charges that are difficult to collect, and repayment of one of the Crown loans. Importantly, this has also enabled Proposals 2 - 8 to be an average of 8.9 percent lower than otherwise.
- 11 Of Proposals 2 – 8, I have accepted analysis by Waka Kotahi that the consulted form represents the best solution available for four of the proposals and that modest changes are required to address issues submitters raised in the remaining three. For a detailed analysis of the recommendations and a complete list of the new fees and charges, refer to the Cost Recovery Impact Statement (CRIS, **Appendix Two**). For a summary of the main objections raised through submissions to the consultation process, refer to **Appendix Four**.

Impacts of Final Funding Settings

- 12 Independent analysis of the impacts on households of the new Waka Kotahi funding settings has found that they would be low relative to other cost of living increases.
- 13 The impacts on different population groups range from very low (e.g. costs that may add a few cents to a taxi ride affecting higher users in the disabled community which in many cases will be mitigated by support from ACC or MSD), to neutral (e.g. gender), to positive (e.g. the impact of eliminating driver license resit fees on Māori & Pacific Peoples).

Implementation

- 14 If agreed by Cabinet, the Ministry of Transport (the Ministry) will prepare instructions for the Parliamentary Counsel Office (PCO) to draft the regulations required to implement the new funding model. Subject to Cabinet approval, the regulations would be made in the Executive Council and notified in the New Zealand Gazette with the new fees and charges targeted to take effect before the end of October 2023.
- 15 Waka Kotahi has developed a Regulatory Performance Framework (framework), underpinned by over 100 performance measures. The framework follows best practice and links to Tū ake, tū māia 2022, and the regulatory operating model. It will support Waka Kotahi reporting in its public accountability documents (Statement of Performance Expectations and Annual Report).
- 16 The Waka Kotahi Board will maintain oversight of implementation of changes through its regulatory sub-committee. The Ministry will provide performance advice to the Minister through its Crown Entity monitoring function on an ongoing basis.

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Background

New Zealand requires an effective risk-based regulator to promote a safe land transport system

- 17 Waka Kotahi exercises regulatory functions to contribute to a safe, efficient, and effective land transport system in the public interest. In 2018, a road fatality revealed systemic regulatory failure. The fatality was directly connected to a Warrant of Fitness (WoF) inspection provider with a history of non-compliance.
- 18 A Ministerial Review in 2019 concluded that since the establishment of Waka Kotahi, significant deficiencies in its regulatory capability had developed over time, resulting in the regulatory failure. Under-investment in regulatory capability and resourcing played a significant role. Waka Kotahi had not undertaken a comprehensive funding review since its formation in 2008, contributing to imbalanced revenue and costs.

Director of Land Transport established to enhance regulatory powers, accountability, and independence

- 19 In response to the Ministerial Review, Cabinet sought immediate regulatory improvements in governance, the development of a regulatory strategy, and the addressing of urgent rectification of compliance issues and specific regulatory gaps.
- 20 The Director of Land Transport, a new statutory office, was established, effective from April 2021. The Director of Land Transport is an independent function, which allows for better mitigation of risk and conflicts of interest. The Agency now has broader legislative responsibilities to monitor the performance of the land transport regulatory system.

Repayable Crown loans enabled an immediate capability uplift until a review of regulatory fees, charges and funding was completed

- 21 To rectify the urgent compliance issues, Cabinet approved repayable Crown loan funding of \$45 million [CAB-19-MIN-0500 refers]. Of this, \$15 million was tagged to rectification costs for 850 non-compliant cases that were identified, and \$30 million was tagged to immediate capability uplifts in some critical risk areas.
- 22 In March 2021, Cabinet approved a further \$50 million repayable loan (\$95 million in total loans) to maintain the increased regulatory function of Waka Kotahi until a funding and fees review was fully implemented [CAB-21-MIN-0034 refers].

Waka Kotahi has undertaken a comprehensive review of its regulatory services and associated funding requirements to be an effective regulator

- 23 Waka Kotahi developed a new regulatory strategy (now updated: Tū ake, tū māia 2022), supported by an operating model which is enabled by a new cost recovery funding model. The funding review affects 176 fees and charges that directly affect most New Zealanders and New Zealand businesses. Of these charges, 15 do not change, 39 increase, and 42 decrease. The balance involves mainly items that have been replaced or consolidated with other changes and are not directly comparable.
- 24 Waka Kotahi developed a coherent set of eight funding proposals articulated in a consultation document: *Proposed changes to land transport regulatory fees, charges and funding*. In December 2021, Cabinet provided a delegation to the Minister of Finance and Minister of Transport (Joint Ministers) to approve the final form of the

consultation document and commencement of public consultation [CAB-21-MIN-0550 refers].

Proposed funding level to enable an effective regulator

- 25 The funding review proposes an increase to baseline road regulatory funding for Waka Kotahi to \$273 million per annum (on average from 2023/24 to 2025/26). I note that this is a significant increase of 65 percent (\$108 million) from the pre-regulatory failure funding level in 2018 of \$165 million.
- 26 However, this increase purchases significantly enhanced regulatory capability and stewardship practices under the Director of Land Transport to ensure the lack of resources and imbalances in funding that were identified as part of the regulatory failure review do not reoccur. It addresses the compound effects of costs of inflation and population growth since Waka Kotahi was established in 2008. Refer to the CRIS in **Appendix Two** for more context. It also includes the repayment of an estimated \$95 million in loans as well as related interest costs, over 10 years.
- 27 Altogether this will enable Waka Kotahi to build and sustain a comprehensive, modern, effective, and high-performing regulatory function and begin repaying the loans. This will improve land transport safety and reduce the risk of regulatory failure in the future.

A robust process has been followed for developing the cost recovery model

- 28 The eight funding proposals rebalance the funding system and address under-funding and anomalies that had built up since the formation of Waka Kotahi in 2008. For example, a number of services were not being charged for, and there was significant cross-subsidisation of some industry-focussed services by households (refer to the CRIS in **Appendix Two** for more context).
- 29 Waka Kotahi followed Transport Sector Funding Principles¹ and Treasury best practice guidance in developing the funding model. I am satisfied that it is fair and efficient, and responds adequately to the requirements to uplift performance arising from the regulatory failure.

Public consultation has been undertaken systematically

- 30 In March 2022, Joint Ministers approved the commencement of the public consultation process. Waka Kotahi undertook public consultation over an eight-week period, from 21 March to 13 May 2022. A marketing and engagement programme targeted a broad spread of the New Zealand public and interested sector groups.
- 31 Attendance levels at public meetings, the number of website views, downloads of the consultation document, and submissions levels were all consistent with other agency funding review processes (refer to **Appendix Three** for more context). For these reasons, I am satisfied that there was a reasonable level of awareness and public engagement.

Consistent Themes from Consultation

- 32 From the submissions and through workshops, the key themes identified were:

¹ The *Transport Funding Principles* guide funding reviews and advice on the appropriate funding sources for regulatory activities carried out within the transport regulatory system. The principles build on, and are consistent with, the practice guidance issued by the Treasury and the Office of the Auditor-General (OAG).

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- recognition of the role of Waka Kotahi and the need to strengthen regulatory services
- questions around which services were public goods that should be funded by the government rather than users of the transport system
- the general impact of cost-of-living challenges, and the fact that businesses would generally pass on increased costs to households.

Options considered to address broad affordability theme

- 33 Given the cost-of-living challenge, and general feedback about recovery of fees and public goods, consideration was given to any scope to reduce the funding requirements for the proposals as a whole. Three options were identified, none of which were found to be viable:
- funding ongoing regulatory operating costs long term through loans – this would be unsustainable, ultimately making future fees and charges higher to repay additional loans and bringing into question whether the existing and new loans could ever be repaid
 - reducing services – this would not have a material effect on the level of fees and charges unless services were taken back to below regulatory failure levels (as there are now loans to pay back)
 - using more Land Transport Revenue – this is already under significant cost pressure, and would lead to trade-offs which would negatively impact other parts of the land transport system.
- 34 In addition to these downsides, these options would not meet the goals and requirements of the funding review² nor sustain the proposed future funding model. Therefore, I have accepted the advice from Waka Kotahi that there are no options to reduce the cost of the proposals overall without undermining the important safety objectives of its regulatory function or the Transport Funding principles.

Final Recommended Proposals from Consultation

Proposal 1 sought Land Transport funding and received public support

- 35 Joint Ministers have approved funding of up to \$34.9 million per annum under section 9(1A) of the Land Transport Management Act 2003. This will support oversight of Waka Kotahi's regulatory function that has wider benefits, a range of charges that cannot be effectively collected or are merit goods, and repayment of the rectification loan. We are satisfied that the funding meets requirements for use of land transport revenue. This funding will be phased in according to the pace at which services can be implemented (e.g. recruitment), as shown in **Table One** below:

Table One Funding from Land Transport revenue approved under section 9(1A)

| S9(1A) Funding | 22/23³ | 23/24 | 24/25 | 25/26 | Outyears |
|-----------------------|--------------------------|--------------|--------------|--------------|-----------------|
| \$ (millions) | 3.85 | 31.35 | 34.87 | 34.87 | 11.67 |

² i.e. to support the new regulatory operating model, which implements Tū ake, tū māia 2022

³ Part year

36 Due to Proposal 1 being approved, together with other funding sources⁴, the scope of the decision in this Cabinet paper focuses on changes to fees and charges that equate to an increase of \$65.7 million. This has also enabled the cost of Proposals 2 - 8 to be an average of 8.9 percent lower than would have been otherwise. The consultation document was transparent on this option, so the public were fully informed when responding to the impacts of supporting Proposal 1. Joint Ministers considered their feedback when making this decision.

From consultation, Proposals 2, 3, 4 and 6 remain substantively unchanged

37 I have accepted analysis by Waka Kotahi on changes to the proposals following consultation, as summarised in **Table Two** below:

Table Two: Final Recommended Proposals from Consultation

| Proposal | Recommendation | Who is impacted |
|--|---|---|
| Proposal 2 - Changes to class 1-6 driver licence and testing fees, including no resit fees (but no automatic entitlement to a refund if the initial test is postponed) | Proceed unchanged, as consulted | Learner and restricted drivers |
| Proposal 3 - Changes to motor vehicle licence and registration fees | Proceed unchanged, as consulted | All vehicle owners |
| Proposal 4 - Changes to fees for RUC administration | Proceed unchanged, as consulted | All RUC and eRUC ⁵ providers, and users |
| Proposal 5 - Changes to Transport service licence (TSL) holder fees and charges | Charge goods service licence holders and only heavy vehicle rental service license holders for transportation of dangerous goods, instead of all goods service licence holders and vehicle rental operators | Passenger Service Licence (PSL) holders (buses, taxis, ride-share, etc) Vehicle recovery Service Licence (VSL) holders (tow-trucks), GSL holders (goods transporters), RSL holders - heavy vehicles - truck rental operators), RSL holders -small vehicles – (AVIS, etc) |

⁴In 2021 joint Ministers approved a S9(2) allocation of the Land Transport Management Act (LTMA) 2003 of up to \$8 million, to increase funding of Fuel Excise Duty (FED), RUC refund functions and recovering unpaid RUC charges

⁵ Road User Charges and Electronic Road User Charges – the latter enables high users (mainly heavy commercial vehicles) to keep their coverage up to date through in vehicle devices.

| Proposal | Recommendation | Who is impacted |
|---|--|---|
| Proposal 6 - Changes to fees and charges for motor vehicle certifier activities | Proceed unchanged, as consulted | Inspecting organisations or vehicle inspectors for low volume vehicles, heavy vehicles, repair certifiers and WoF and Certificate of Fitness (CoF) agents |
| Proposal 7 - Changes to charges for users that access Motor Vehicle Register and Driver Licence Register data | Recover costs for applications to connect to registers case-by case on a reasonable cost basis (fee) | Commercial users, local councils, and council-controlled organisations |
| Proposal 8 - Changes to fees and charges for eRUC providers | Recover costs for applications and approvals case-by case using a reasonable cost basis (fee). Recover the cost of ongoing regulatory oversight from Proposal 1. | eRUC providers |

Despite best efforts to adjust proposals after consultation, there are likely to be some opposing viewpoints

- 38 While broadly, there was support for the goals of the funding review and many of the proposals, consultation highlighted opposition from groups (or within groups) to specific changes. Some certifiers may continue to oppose charges, despite this being the core area of regulatory failure. Waka Kotahi has made changes in response to submissions from eRUC providers that should meet most of their concerns.
- 39 Motor Vehicle and Driver License data users are likely to continue to express strong opposition to meeting the costs of accessing data. The Automobile Association may continue to be concerned with the trade-off using Land Transport Revenue to fund activities in Proposal 1, and the impacts of cost-of-living challenges for those charges that rise.
- 40 For a summary of the main objections raised through submissions to the consultation process, refer to **Appendix Four**. For a detail analysis of the recommendations and a complete list of the new fees and charges, refer to the CRIS in **Appendix Two**.

Impacts of final funding settings

- 41 Overall, the funding review will lead to significantly lower revenues being recovered from learner drivers (Proposal 2), and greater revenues being recovered through other proposals, reflecting:
- increased costs as a result of addressing capability and capacity issues identified through the regulatory failure
 - cost pressures (both inflation and specific cost drivers such as increased Agency costs from the Automobile Association, NZ Post etc) and;

- significant cross subsidisation issues that have evolved since 2008 in the existing funding regime.

42 Waka Kotahi commissioned independent analysis of the impacts of the new funding settings on households. This was based on increased and decreased fees and charges faced directly by households, or that businesses will eventually pass on over the 12 – 18 months following implementation. The analysis indicated that overall, the impact of Waka Kotahi's funding changes would be low relative to other cost-of-living changes that households are experiencing. For a detailed analysis of the impacts on households, refer to the CRIS in **Appendix Two**.

43 Most proposed increases in fees and charges are by less than \$10, and many decrease. The highest increases represent few transactions overall. These include extending the expiry date of a licence (increasing by \$47.92 or 125 percent - 2100 transactions per year), and licence exemptions (increasing by \$72.86 or 268 percent - 6170 transactions per year).

Resit fees end for the graduated driver licensing system

44 Resit fees for the graduated driver licensing system (GDLS) will be eliminated. This change will benefit the 47 percent of learner drivers who require more than one attempt to obtain their license, removing a significant cost barrier. In addition, (with the exception of restricted class 1 licenses⁶), all license stages for all classes will also benefit from reductions in upfront costs.

45 Because there is a cost to assess applications for driver license class endorsements whether they are successful or not, and given that there will be no resit fees, automatic entitlement to a refund will be removed. However Waka Kotahi will retain the ability to apply discretion for waivers, rebates or refunds on a case by case basis where special circumstances apply.

Power to recover costs not provided for in specific fees and charges

46 Waka Kotahi provides access to information on the Motor Vehicle Register and Driver Licence Register under the Land Transport Act 1998, and also operates a Driver Licence Verification Service. Parties can approach Waka Kotahi to connect to these systems electronically, which makes their use more efficient. Likewise, successful applications to become an 'electronic system provider' under the Road User Charges Act involve the creation of a connection between the electronic systems of the provider and Waka Kotahi.

47 Establishing and, where necessary, modifying each connection may have bespoke characteristics, making it impractical to provide for every eventuality through specific fees and charges (for example, the request may entail third-party costs charged by IT suppliers).

48 Consequently, Waka Kotahi requires the power to recover its actual and reasonable costs. This will affect a small group of commercial parties who are capable of assessing the cost of such services against the commercial benefit they expect to receive from them.

⁶ Class 1 (motor vehicle) restricted licenses will increase by \$32.77 (24.3 percent) from \$134.80 to \$167.57.

Future Funding Reviews

The current funding review scope was limited to the road regulatory function

- 49 The funding review focuses on the road regulatory function. This means the funding of other parts of the system (e.g., the rail regulatory function) were not included and may form part of other future funding reviews or budget bids⁷. In addition, significant investment in new or existing digital infrastructure for the land transport regulatory system has not been accounted for and will be addressed in a future funding review.
- 50 The scale and complexity of the digital systems mean that replacement of the Motor Vehicle or Driver Licence registers (if necessary) in future, would be a significant undertaking. However major efficiencies could be achieved through moving from paper-based to digital systems.
- 51 Waka Kotahi intends to maintain a regular review cycle going forward to address funding needs and ensure that cost recovery settings remain appropriate, relevant, and sustainable.

Implementation

- 52 The Ministry will prepare instructions for the Parliamentary Counsel Office (PCO) to draft the relevant regulations required to facilitate the new funding model. Amendments would be published in the New Zealand Gazette with the new fees and charges targeted to take effect before the end of October 2023.
- 53 In recognition of the broad range of stakeholders that will be affected by the new fees and charges, Waka Kotahi will develop a communications plan to notify the public and industry about the changes using direct stakeholder engagement and other channels such as the Waka Kotahi website and social media.
- 54 In the interim, Waka Kotahi will finalise the design (based on final Cabinet approvals) and begin the establishment of frontline, finance and technology system changes required to implement the cost recovery function for the new funding model and the increased operational delivery capabilities that it funds. **Table Three** provides a timeline for implementation:

Table Three: Implementation Timeline

| Action | Timeframe |
|--------------------------------------|----------------------|
| DEV approves funding model | March 2023 |
| PCO drafting regulations | April – July 2023 |
| Waka Kotahi delivery build | May – September 2023 |
| Cabinet approval of legislation/regs | August 2023 |
| Gazette notice | End August 2023 |
| Go live | October 2023 |

⁷ There is a significant cost and time impost in carrying out a fees and Funding Review that would be disproportionate to the changes to funding sought.

Ongoing performance management, monitoring and reporting

- 55 The Waka Kotahi Board will continue to oversee the implementation of changes through its regulatory sub-committee. The Ministry will provide performance advice to the Minister through its Crown Entity monitoring function. The Director of Land Transport has a statutory role to maintain a view on the ongoing suitability and effectiveness of the funding regime to contribute to the Agency's objectives.
- 56 Waka Kotahi has developed a Regulatory Performance Framework (framework), underpinned by over 100 performance measures. The framework follows best practice and links to its regulatory strategy, Tū ake, tū māia 2022, and the regulatory operating model. Waka Kotahi will select financial and non-financial performance measures in the framework to report on through its public accountability documents (Statement of Performance Expectations and Annual Report).
- 57 Waka Kotahi will also manage fee and charge accounts (known as memorandum accounts) to minimise cross-subsidisation and to retain financial information that will also inform the next funding review. Due to the number of fees and charges and their volume, in the short term there is a degree of variability in costs and revenues. These accounts provide a means to smooth under and over recoveries over a three-to-six-year period. All memorandum accounts have been reset to zero and restart under the new regime. They were all in (or forecast to be in) deficit and some have been changed and amalgamated making a reset the most transparent and equitable outcome.

Risks

- 58 There is a fundamental risk that funding of the regulatory function becomes unsustainable through any delays in approving the funding review proposals, or only achieving partial approval. This could lead to a reduced regulatory function with resourcing levels below those that led to regulatory failure, or particularly in the case of delays, the need for further Crown funding or financing while existing Crown loans need to be repaid. Waka Kotahi forecasts that the remaining loan balance is sufficient to fund the regulatory function until 31 December 2023, however an October 2023 start date would reduce the risk of exhausting existing finance or reduce the level of debt requiring repayment.
- 59 There is also the risk that ongoing cost-of-living pressures mean the public and industry response to changes in fees and charges is unfavourable. However, commercial parties are not expected to fully pass on increased costs for up to 12 – 18 months, due to competitive activity and a preference to align with the timing of other cost increases.
- 60 The formation of the proposals has been a large and complex process predicated on a number of assumptions. In addition, uncertainties about inflation and any potential economic recession mean that it is possible recoveries could be less than forecast.

Financial Implications

- 61 The funding review would increase baseline funding for Waka Kotahi to \$273 million per annum on average from 2023/24 to 2025/26 based on forecast volumes. The increase in funding is approximately 65 percent (\$108 million) greater than the baseline funding of the Agency pre-regulatory failure in 2018 (\$165 million).
- 62 Waka Kotahi has been reliant on Crown loans since 2019 to fund the uplift in its regulatory capability following the regulatory failure. Successful implementation of the

fees and charges would significantly reduce the likelihood that further Crown loans will be required and would enable Waka Kotahi to begin repaying existing lending, with a forecast for full repayment within 10 years.

- 63 There are some services the Crown currently purchases from Waka Kotahi that are not recovered through the funding model (for example the older driver license subsidy and drug and alcohol assessment costs). The total Crown funding for these services is \$8.173 million in 22/23. To the extent that the full costs of these functions are not met, Waka Kotahi may address this through a future budget bid or funding review, or cross-subsidisation.

Legislative Implications

- 64 Regulations will be required to implement the changes to fees and charges proposed in this paper. The fees and charges impacted by the proposals are contained within five sets of regulations. Some of these regulations were made under legislation now repealed and preserved by the Land Transport Act 1998. The regulations that will be changed and rationalised (as appropriate) through the setting of fees and charges are:

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

- 65 We anticipate that as part of the implementation process, the PCO will rationalise the secondary legislation covering land transport fees and charges. There is scope for this in the Land Transport Act, permitting regulations to set fees and charges for land transport legislation generally.

Impact Analysis

Regulatory Impact Statement

- 66 A panel comprised of representatives from the Ministry and Maritime NZ has reviewed the cost recovery impact statement that Waka Kotahi provided (refer to **Appendix Two**) and considers that the information and analysis summarised in it meets the quality assurance criteria.

Climate Implications of Policy Assessment

- 67 A Climate Implications of Policy Assessment (CIPA) is not required because the funding proposals do not have direct emissions impacts or objectives.

Te Tiriti o Waitangi Assessment

- 68 The proposals interact with the government's obligations under Te Tiriti o Waitangi, particularly the principles of active protection and partnership. A focus group consisting of Iwi representatives was held as part of public consultation. There was consistent support for Proposal 2 (the elimination of resit fees) because barriers to obtaining a driver's license harm Māori disproportionately, with flowon effects in employment opportunities and as a gateway into the justice system.

Population Implications

69 The funding review will affect the majority of New Zealanders, given there are 3.5 million driver licence holders and 5.2 million registered motor vehicles. Impacts on the following population groups have been considered, as described in **Table Three** below.

Table Three: Impacts on Population Groups

| Population group | How the proposal may affect this group |
|------------------------------|--|
| Māori & Pacific Peoples | Small cost increases modelled at the household level nationally are likely outweighed by the reduction in cost barriers to obtaining a driver's licence overall, given the younger demographic in Māori & Pacific households. There may also be positive flow-on impacts for rangatahi around employment, health and safety, and reduced involvement with the justice system as a result of better access to driver licences. |
| Ethnic Communities | Impacts on ethnic communities are likely to be similar to those identified for Māori & Pacific Peoples |
| Women | No specific or substantive difference in the impacts of the Review on women have been identified. |
| Disabled people | There is a small increase in the administration fee for certifying a modified vehicle. If certifiers fully pass the increase on, it could add under \$5 per annum to a representative disabled person's costs. This is a very small percentage relative to the costs of modifications, and in many cases ACC and MSD provide support to mitigate the costs of modifications. The disabled rely on taxi or ride share services more than many other people. Taxis and ride share providers face small increases in license endorsement costs. If they fully pass these costs on, spread over a year the impact per journey would typically average a few cents per ride, limiting impacts on the disabled. |
| Retirees | Any overall impact on retirees is expected to be modest and proportionate. |
| Rural and remote Communities | No specific or substantive difference in the impacts of the funding review on rural and remote communities have been identified. |

Human Rights

70 There are no human rights implications arising from the funding proposals.

Consultation

71 The following agencies have been consulted on this paper:

Accident Compensation Corporation, Te Arawhiti, Ministry of Business, Innovation and Employment, Department of Corrections, Ministry of Defence, New Zealand Defence Force, Ministry of Foreign Affairs and Trade, Health and Disability

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Commissioner, Ministry for Disabled People, Department of Internal Affairs, Ministry of Justice, Ministry for Pacific Peoples, Parliamentary Counsel Office, New Zealand Police, Te Puni Kōkiri, Ministry of Social Development (and separately, the Office for Disability Issues at the Ministry), The Treasury, Ministry for Women, WorkSafe New Zealand, The Department of Prime Minister and Cabinet, Department of Conservation, Education Review Office, Inland Revenue Department, Land Information New Zealand, Ministry for Culture and Heritage, Ministry for Primary Industries, Ministry for the Environment, Ministry of Health, Ministry of Housing and Urban Development, New Zealand Customs Service, Ministry for Children, Public Service Commission, Serious Fraud Office, Stats NZ, Ministry for Ethnic Communities.

Director of Land Transport supports the final funding proposals

- 72 The Director of Land Transport (the Director) has a statutory responsibility to ensure regular reviews of the land transport regulatory funding system. The Director has been engaged throughout the funding review and supports the changes made to address public consultation. The Director is satisfied that the funding proposals will enable the delivery of Tū ake, tū māia (2022) and a comprehensive, modern, effective, and high performing land transport regulatory function.

Communications

- 73 I will issue a media statement confirming that Cabinet has agreed to the funding proposals, amended through public consultation with an expected go-live for new fees and charges of October 2023. This will be supported by information on the Waka Kotahi website and social media, and notices in industry publications.

Proactive Release

- 74 I intend to release the Cabinet paper, in whole, proactively within 30 business days of Cabinet's decision.

PROACTIVELY RELEASED BY TRANSPORT
TE MANATŪ WAKA MINISTRY OF TRANSPORT

Recommendations

The Minister of Transport recommends that the Committee:

- 1 **Note** that Waka Kotahi has now undertaken a comprehensive funding review to:
 - i) address the findings from the 2019 Ministerial Review into regulatory failure in 2018;
 - ii) fund and sustain an effective and efficient regulatory function for the land transport system which is modern, intelligence-led, and risk-based;
 - iii) ensure regulatory participants pay in a fair and transparent manner;
 - iv) repay, within ten years from draw-down, Government loans provided to build the Agency's regulatory capability in the short term.
- 2 **Note** that public consultation was undertaken between 21 March and 13 May 2022 and that public feedback was on balance supportive, but there were some common themes around the cost-of-living impacts of any increases in fees and charges.
- 3 **Note** that independent analysis of the impacts on households of the new funding settings has found that they would be low relative to other cost-of-living increases.
- 4 **Agree** to the new fees, charges and proposals specified in the CRIS (refer to **Appendix Two**) affecting 176 services across the land transport system.
- 5 **Agree** that Waka Kotahi be empowered to charge actual and reasonable internal and third-party costs for the provision of specialist services related to the creation of electronic connections, applications to be an electronic service provider, and modifications to the electronic connections of electronic service providers.
- 6 **Invite** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to the relevant recommendations, including any necessary consequential amendments, savings and transitional provisions, and scope to simplify and consolidate regulations.
- 7 **Authorise** the Minister of Transport to make final decisions consistent with the overall policy intent on any issues that arise during the drafting process, without further reference to Cabinet.
- 8 **Note** that Waka Kotahi will exhaust regulatory loans and may require further funding or financing support from the Crown if the funding review has not been implemented by 31 December 2023.

Authorised for lodgement

Hon Michael Wood
Minister of Transport

Appendices

Appendix One: Waka Kotahi Regulatory Strategy - Tū ake, tū māia 2022)

Appendix Two: Cost Recovery Impact Statement

Appendix Three: Further Detail on Public Consultation

Appendix Four: Further Detail on Main Submissions through Consultation

PROACTIVELY RELEASED BY
TE MANATŪ WAKA MINISTRY OF TRANSPORT

Appendix Three: Further Detail on Public Consultation

- 1 Joint Ministers approved consultation taking place over an eight-week period, from 21 March to 13 May 2022. This included a comprehensive marketing and engagement programme aimed to reach a broad spectrum of the New Zealand public and interested sector groups. Awareness and promotion of the consultation was developed through a number of channels, including direct engagement, multi-media, and workshops with key stakeholder groups.

There is evidence for a reasonable level of public awareness and engagement

- 2 Statistics from the consultation webpage and workshops provide evidence that there was a reasonable level of engagement in the community. The webpage received over 38,000 individual visits, and over 1,800 copies of the consultation document were downloaded. In addition, Waka Kotahi undertook 29 engagement hui with industry and stakeholders attended by around 180 people, comprising:

- seven workshops with local councils from across the country and Local Government New Zealand
- six focus group sessions with representatives of key vulnerable population groups (e.g., people with mobility issues, rangatahi Māori, and over 65s on low incomes)
- four individual stakeholder hui with specific industry associations and entities (e.g., Automobile Association, Low Volume Vehicle Certifiers Association)
- ten stakeholder group workshops with individual businesses and entities (e.g., Border and Entry certifiers, Heavy Vehicle Engineers and Manufacturers)
- two workshops with Waikato Tainui and CCS Disability Action, respectively.

- 3 Workshop follow-up surveys had a 51 percent response rate, with 62 percent agreeing the event had helped them to understand the proposed changes and 38 percent agreeing strongly. Public engagement levels were consistent with other funding review consultations.

Careful and considered analysis of public consultation submissions

- 4 Submissions were analysed by an independent party. The Ministry and Waka Kotahi worked collaboratively to consider the appropriate treatment of each issue raised in submissions. Factors included the salience of points, other policy issues impacted, or the volume of respondents to each point. Issues that screening identified received further analysis.

Appendix Four: Further Detail on Main Submissions through Consultation

A limited range of substantive objections on specific proposals

- 1 Most proposals received at least some dissenting feedback in the consultation process. A reasonable number did not raise issues or nominate solutions that were actionable. Substantive objections were received for proposals 2, 5, 6, 7 and 8, and subject to significant analysis, summarised below.

Objections to Proposal 2: free resit costs for driver's licence tests

- 2 For restricted class 1 (motor vehicle) tests only, Proposal 2 would trade off free resits for the practical component of driver licensing by moderately increasing the cost of the first attempt (the flat fee), itself marginally increasing the barrier for learners. The upfront cost would fall for every other class. Some submitters were concerned that a free resit policy would be unfair to, and a disincentive for well-prepared learners. It was argued that they would be cross-subsidising less-prepared learners, and learners might use the tests as 'lessons' through multiple attempts, congesting access to the system.
- 3 However, on balance I believe that the social gains from removing the cost of resitting for the large number of learners who require them outweigh these other impacts. This is also consistent with work across portfolios developing pathways to help more learners obtain driver licences as a pathway to better job, road safety and justice system outcomes.

Objections to Proposal 5: costs of regulating dangerous goods

- 4 Proposal 5 seeks to address the cost of regulating dangerous goods, including the proportion that is carried in rental vehicles. Because it cannot be determined which specific rentals involve dangerous goods, it is not practical to charge firms for individual situations (i.e., a vehicle rented out to a customer for a particular journey with dangerous goods on a given day).
- 5 For this reason, as consulted Proposal 5 incorporated a charge across all rental vehicle providers. However, submissions highlighted that this would capture a high volume of rentals that were unlikely to carry dangerous goods or generate costs (risks) to the regulator function. Analysis confirmed that was a fair criticism. As an alternative I have accepted limiting the levy to heavy rental vehicles (above 3.5 tonnes), which are far more likely to carry dangerous goods (even if a proportion do not) than light rental vehicles. I believe this significantly addresses this concern in the most feasible way available.

Objections to Proposal 6: changes to fees and charges for motor vehicle certifiers

- 6 For Proposal 6, vehicle certifier industry submissions strongly opposed the removal of application fees for certifiers being replaced with group charges. Concerns ranged from a potential lowering of the calibre of applications to the fairness of existing certifiers subsidising future certifiers. However, there is no intention to change the standard to become a certifier.
- 7 However, removal of the certifier application fee barrier is one part, along with working with industry groups, of ensuring a healthy certification regulatory environment in an area that has had significant regulatory failure. I have accepted the recommendation from Waka Kotahi to not change this proposal.

Objections to Proposal 7: a new charge for accessing registers

- 8 Proposal 7 instigates a 19 cent cost to access the Motor Vehicle and Driver Licence registers, each time they are accessed. Some private and council submitters argued they were undertaking a public good and should not have to pay. The private providers offer a vehicle checking service to the public that they claim would not be viable if a charge was added by Waka Kotahi.
- 9 However authoritative vehicle checking data is available to the public on the Police website. Councils argued that they provide statutory services (i.e., registration and WoF checks) through their parking enforcement work. However, they are able to net off costs for fine collection for statutory services. For council's own parking services they benefit from motor vehicle registration data, and it is a net revenue stream for which the proposed 18 cent charge will have limited impact compared to the size of parking fines.
- 10 Cost recovery for new connections to the Motor Vehicle and Driver Licence registers (and consistency with an equivalent change considered for Proposal 8) has also been changed. This will now be implemented on the basis of recovering the reasonable costs incurred instead of applying only an hourly rate, to enable Waka Kotahi to pass on third party costs where these are entailed, which would otherwise be subsidised by other system users.

Objections to Proposal 8: costs of eRUC connections

- 11 For Proposal 8, Waka Kotahi consulted on proposals for three new application, approval and modification fees to reflect the costs of creating bespoke connections to its systems for new and existing eRUC providers who directly benefit from the service. However, there was strong feedback from eRUC providers opposing the proposal, on the basis they were unfair and inconsistent with the way the funding model treated agents.
- 12 They expressed concern that charging them would not adequately consider the cost savings that eRUC providers afford Waka Kotahi and the public, in shifting more users to electronic RUC transactions, and could disincentivise users from shifting to electronic RUC transactions. Due to the limited number of such applications and the variability of their complexity, implementing cost recovery based on reasonable costs incurred was assessed as an improved solution with greater fairness, also enabling the recovery of third-party costs that would otherwise be subsidized by other system users.