

Chair  
Cabinet

## **BETTER VEHICLE INSPECTION AND LICENSING**

### **Proposal**

1. This paper asks Cabinet to select one of three warrant of fitness reform packages and agree to changes to the certificate of fitness system. It also asks Cabinet to note further work on improving annual vehicle licensing compliance, the scope of the transport services licensing system and the regulatory management of transport services.

### **Executive summary**

#### *Vehicle Licensing Reform*

2. Changes to the warrant of fitness, certificate of fitness, annual vehicle licensing and transport services licensing systems can achieve considerable compliance cost savings. Savings can be made without compromising the current objectives of these systems, particularly where road safety is involved.
3. The recommendations have been developed after extensive analysis that included building a cost-benefit model, safety analysis and modelling, stakeholder engagement and public consultation. Some 4,593 submissions were received on the Vehicle Licensing Reform public discussion document.

#### *Better vehicle inspection*

4. Compared to other factors, vehicle defects play a very small role in crashes in New Zealand, and in other countries.
5. The warrant of fitness and certificate of fitness systems contribute to road safety through regular vehicle inspections to identify defects for repair. However, improvements can be made to the systems that would save New Zealanders time and money, while helping to keep them safe.

#### *Warrant of fitness (light vehicles)*

6. New Zealand's warrant of fitness system has one of the highest inspection frequencies in the OECD. Light vehicles less than six years-old have annual inspections while vehicles older than six years have six-monthly inspections.

7. I propose that this inspection frequency be reduced. This would generate substantial savings for New Zealand motorists and benefit the economy.
8. Safety modelling indicates there could be a marginal increase in safety risk from reducing inspection frequency. While the modelled risk is small, it could mean more deaths and serious injuries if nothing else was done. Therefore, it is prudent to support any frequency change with additional well-proven road safety measures, such as education and advice programmes, and enforcement.
9. The paper provides Cabinet with three alternative packages:
  - 9.1. annual inspections for vehicles up to 12 years-old, older vehicles inspected 6-monthly and additional education, communication and enforcement measures
  - 9.2. annual inspections starting at three year-old vehicles first registered<sup>1</sup> on or after 1 January 2000, six-monthly inspections for vehicles registered before then, and additional education, communication and enforcement measures (under this option, the numbers of vehicles on six-monthly inspections would decrease over time as pre-2000 vehicles leave the fleet)
  - 9.3. annual inspections starting at three year-old vehicles and additional education, communication and enforcement measures.
10. All packages have positive net present values over 30 years that are significantly above zero: \$0.6 billion, \$1.8 billion and \$2.1 billion respectively. However, there is a significant difference in the size of the net present value between the first package and the other two because the first package keeps vehicles over 12 years-old on six-monthly inspections. Whether older vehicles should stay on more frequent inspections requires a judgement about the safety risks inherent with such vehicles and the impact on the benefits available to motorists.
11. While there was good support for changing the inspection frequency for newer vehicles (up to 12 years-old), the submission process did identify public concerns about older vehicles being inspected less frequently.
12. Although the safety risk increases for older vehicles, the increase is still very low. This risk is also decreasing over time as vehicle technology and manufacturing quality improve. One way of addressing the increased risk would be to retain six-monthly inspections for older vehicles. However, this would not be cost effective, as education and enforcement measures could be used to address this risk at a much lower cost.

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<sup>1</sup> In New Zealand or elsewhere.

13. The second package, which involves leaving vehicles older than 1 January 2000 on six-monthly inspections, would acknowledge concerns about older vehicles but allow a progressive shift to annual inspection, reflecting improving fleet quality.
14. There will be negative impacts on the revenue of businesses providing inspections if inspection frequency is decreased, and on employment in these businesses. The extent of this impact, and the time period over which it might be felt, differs depending on the option chosen. If an annual system is desirable over time, the second package assists the industry to better manage the transition by allowing a longer lead in time than adopting annual inspections immediately. Employment impacts would be mitigated by savings flowing into other parts of the economy and from potential efficiency gains. There are unlikely to be major impacts on inspection prices or service availability because the market is competitive.
15. In the recent public submission process, there was a relatively even split between submissions supporting some kind of reform and those favouring retention of the status quo.

*Certificate of fitness (commercial and heavy vehicles)*

16. The current inspection system involves six-monthly inspections as a default. There is discretion to vary frequency between three and nine months, but it is rarely used. There are a very limited number of certificate of fitness providers, and they are not allowed to provide repair services. The system imposes disruption costs on the operators of heavy vehicles, mainly because of the need to travel to a separate inspection facility. This means vehicles are out of service longer than they need to be.
17. Enabling more providers to carry out certificate of fitness inspections, as long as there are robust systems ensuring good quality inspections, would reduce disruption costs. This would allow some operators to benefit by being able to bundle service and inspection together. Putting this approach into place would require the New Zealand Transport Agency to review its operational policies. While the market adjusts to more agents, there could be short-term impacts on service and price levels but, overall, the demand for inspections is likely to stay about the same.
18. The opportunity to change the default six-monthly certificate of fitness inspection period is limited because the makeup of the New Zealand heavy and commercial fleet is complex. Nonetheless, making greater use of the ability to vary inspection frequency and allowing the frequency to be varied up to 12 months, rather than the current nine months, for good performing operators would enhance incentives to improve safety.

19. There was not much support in public submissions for changing the default frequency of the certificate of fitness inspection. The views of vehicle operators and the current inspection providers varied on the merits of allowing more providers to offer these inspections.
20. Officials estimate the net present value of the benefits of the certificate of fitness improvements range from \$160 to \$460 million over 30 years (\$14-41 million per annum).

### *Better vehicle licensing*

21. The annual vehicle licensing system collects revenue for the Accident Compensation Corporation (ACC) and the National Land Transport Fund. It also collects data to update the motor vehicle register, which is vital for road safety enforcement. Because it is a continuous licensing system, it is very effective in collecting revenue.
22. However, New Zealanders are slow to pay by the due date, which exposes them to enforcement action. There are around 235,000 infringement offence notices issued each year. This leads to costs for enforcement authorities. Enforcement of annual vehicle licensing needs to differentiate between those who are late, and those who are evading payment.
23. Some changes proposed involve improving the New Zealand Transport Agency's operational policies, such as improving communication with customers. However, other tools could be introduced to incentivise on-time payment, such as late payment penalties. Infringements could be tailored to target deliberate non-payment, and reflect the lateness of payment.
24. I intend to report back to Cabinet with more detail on possible changes by the end of September 2013.

### *Better operator licensing*

25. Transport services licensing controls the entry and exit of operators in various transport services. While it is debatable how well transport services licensing fulfils this role, it has become important in linking operators and vehicles for other enforcement purposes. Many in the transport industry support retention of the system because they perceive it to be a barrier to entry.
26. The system is not costly to run and does not result in a large compliance burden. Given this, and because it has industry support and provides a valuable role in identifying operators, the system should be retained. However, the system does irritate some operators, such as operators who run lighter trucks not being used for hire or reward. The scope of the licensing system could be reduced to exclude these operators.

27. The provisions for entry to transport services licensing, and managing the exiting of unsafe and poor performing operators from transport services, should also be reviewed to see if they can be improved. This review would include the fees and charges for transport service regulatory activities to ensure these reflect the regulatory management activities directed to different sector groups.
28. The New Zealand Transport Agency will report back to me on the results of this review by the end of September 2013. This may result in a legislative proposal.

## **Background**

29. Changes to the warrant of fitness, certificate of fitness, annual vehicle licensing, and transport services licensing systems have been identified. These changes could significantly reduce the overall regulatory burden faced by motorists and other vehicle operators, while achieving similar or improved road safety and environmental outcomes. Reducing this regulatory burden would support the government's economic growth and regulatory reform agendas.
30. The four licensing systems are characterised by administrative and compliance costs that cumulatively have substantial economic impact. Officials have identified that:
  - 30.1. the rationale for these regulatory systems is not always clear and the extent of the current intervention may not be justified
  - 30.2. the level of safety risk may not always justify the level of intervention
  - 30.3. there may be more efficient ways to collect revenue or achieve regulatory objectives due to changes in technologies, practices and policies
  - 30.4. the compliance and payment systems for the warrant of fitness and annual vehicle licensing systems may cause avoidable enforcement and justice system costs.
31. To reach the recommendations in this paper, officials have undertaken extensive analysis, including the development of a cost-benefit model, safety analysis and modelling, stakeholder engagement and public consultation. A wide range of options and ideas were considered. These were narrowed down to a set of options that were included in a public discussion document that was released on 19 September 2012 for a six week consultation period [EGI Min (12) 19/2 of 29 August 2012 refers].
32. Some 4,593 submissions were received. The views expressed were considered in the development of this paper.

## Comment

### Better vehicle inspection – warrant of fitness

#### *The role of the warrant of fitness system*

33. The warrant of fitness system contributes to road safety through regular inspections of New Zealand's light vehicles. Inspections aim to reduce the number and severity of crashes caused by vehicle defects. However, periodic inspections cannot remove all vehicle safety risk because vehicle defects can develop between inspections.
34. New Zealand's inspection frequency is one of the highest in the OECD. Light vehicles less than six years-old are inspected annually while older vehicles are inspected six-monthly.
35. This approach places large costs on motorists; around \$245 million each year is paid in warrant of fitness inspection fees and around another \$100 million is spent in time getting a warrant of fitness. Fees for inspection average between \$41 and \$44 (GST exclusive).
36. Given overseas examples of less frequent inspections, there is a question whether the current level of safety could be maintained in New Zealand by using more cost-effective measures to promote vehicle safety. A reduction in inspection frequency would result in substantial savings for motorists and benefit the economy.

#### *Vehicle defects and crashes*

37. Compared to other factors, vehicle defects play a very small role in road crashes. New Zealand crash data shows that approximately 0.5 percent of all fatal and injury crashes have vehicle factors cited as the sole cause. Of fatal and injury crashes involving light vehicles, around 2.5 percent involve a contributing vehicle defect that could have been identified by a warrant of fitness check. Defective lights, tyres or brakes accounted for 80 percent of these instances.
38. The Motor Trade Association and other inspecting organisations argue that these defect contribution rates are too low when compared to some other jurisdictions and crash rates involving vehicle defects in New Zealand are under-recorded.

39. The analysis undertaken by officials has been independently peer-reviewed to ensure the crash rates that informed the cost-benefit analysis were robust. This analysis has included sensitivity testing for under-recording. An extensive literature review also shows the identified rates to be well within the ranges found internationally<sup>2</sup>.

#### *Impact of inspection frequency change on crash risk*

40. A wide range of inspection frequency scenarios, from modest change to removing inspections altogether, were modelled to assess potential benefits and to identify any potential social cost<sup>3</sup> that might need to be addressed.
41. The discussion document, released in September 2012, included four possible warrant of fitness packages with differing inspection frequency scenarios:
- 41.1. annual up to 12 years and six-monthly thereafter
  - 41.2. annual for all vehicles after three years-old
  - 41.3. inspection according to distance travelled
  - 41.4. inspection on change of ownership.
42. Safety modelling suggested there was a small risk increase associated with these frequency reductions, so the packages in the discussion document included measures to maintain safety levels. The potential social cost of the frequency changes alone was estimated to range from \$5 million to \$63 million<sup>4</sup> per annum. The increased risk might not be realised if people monitor the safety of their vehicles and repair defects. However, it would be prudent to invest in risk mitigation, at least in the short term.
43. The impact on risk of reducing the inspection frequency varies depending on vehicle age, although the levels of risk remain low. Near new vehicles suffer few component failures that contribute to crashes, so reducing inspection frequency has less effect on risk for these vehicles. For cars and vans involved in fatal and injury crashes, the percentage with warrant of fitness related vehicle safety defects starts to increase when these vehicles are around 12 years-old.

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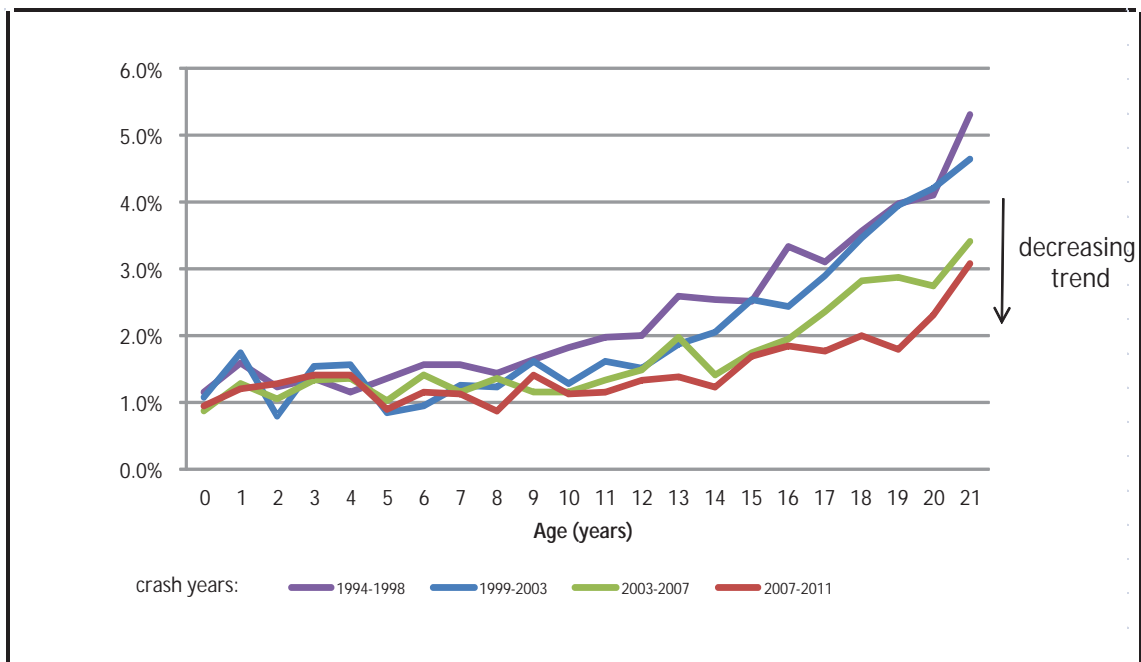
<sup>2</sup> Table 18: International comparison of vehicle defects in road crashes, *Vehicle Licensing Reform Cost Benefit Analysis Report*, Ministry of Transport and New Zealand Transport Agency, December 2012, p54.

<sup>3</sup> Social cost is a measure of the total cost that occurs as the result of crash or injury. It includes loss of life and life quality, loss of economic output, medical costs, legal costs and property damage costs.

<sup>4</sup> *Vehicle Licensing Reform Cost Benefit Analysis Report*, Ministry of Transport and New Zealand Transport Agency, December 2012, p11.

- 44. The age at which the percentage of cars and vans involved in crashes with warrant of fitness-related safety defects starts to increase seems to be moving out as vehicle quality improves. In two years time, the apparent upward turn is likely to move out to vehicles around 14 years-old and over.
- 45. Figure 1 illustrates the trend in the percentage of cars and vans involved in crashes with warrant of fitness related defects using 1994 to 2011 data.

**Figure 1: Percentage of crashed cars and vans with a warrant of fitness defect by vehicle age over time**



- 46. A number of submitters considered annual inspections may not be sufficient for older cars to ensure vehicle safety. This concern was also reflected in a telephone survey and focus group research commissioned by officials. The Automobile Association of New Zealand (AA) suggested inspection frequency could be progressively decreased for vehicles older than 12 years-old over time, provided there has been a measurable improvement in vehicle maintenance and safety for vehicles aged six to 12 years-old.
- 47. Public submissions indicated little contention with reducing inspection frequency for new vehicles. Most new vehicles are sold with warranties that entail servicing. A number of organisations support removing periodic inspections for new vehicles up to two or three years of age. This includes the AA, the Motor Industry Association and Vehicle Testing New Zealand. Views about reducing frequency for vehicles in the three to 12 year age group were mixed but there is no strong argument in favour of keeping the status quo.



48. Maintaining six-monthly inspections for vehicles over 12 years-old would be one way to address safety concerns about older vehicles. However, there are likely to be more cost effective ways of addressing any extra vehicle defect-related crash involvement for older vehicles while the fleet improves. For example, education and enforcement measures could be used, rather than using the inspection frequency to address this risk. As well, keeping six-monthly inspections for vehicles over 12 years-old would not take account of how the role of vehicle defects in crashes for these older vehicles appears to be declining over time. This suggests that the age at which six-monthly inspections start would need to be reviewed in the future.

### *Warrant of fitness packages*

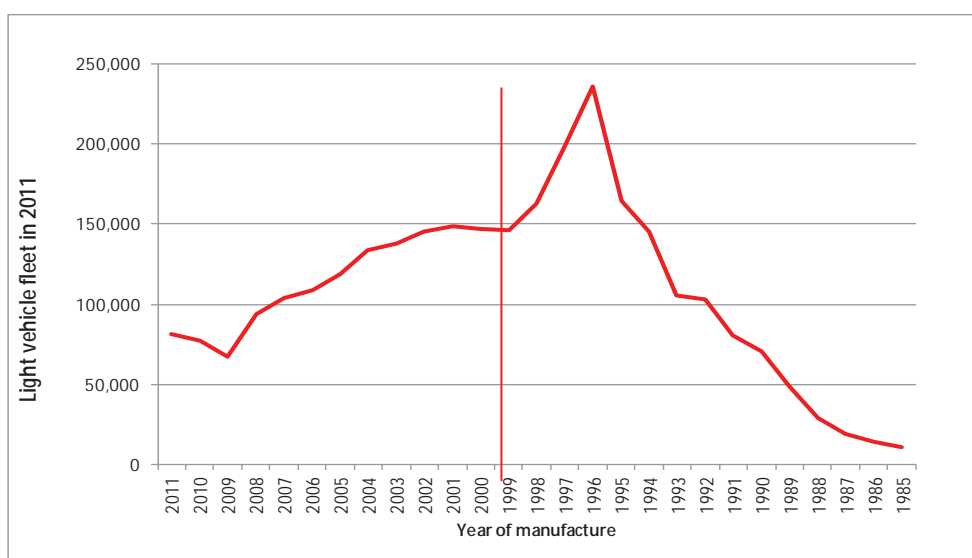
49. Of the four warrant of fitness packages canvassed in the discussion document, inspection on change of ownership had the highest net present value<sup>5</sup> of \$2.8 billion over 30 years, but also had the largest social cost to be mitigated. In my view, the higher risk excludes this package from further consideration, particularly as there are other approaches with less risk that deliver a similar level of benefits and would not involve such a large change in our approach to vehicle safety.
50. The distance-based package has merit because there are many vehicles that travel low mileages. Many of the defects contributing to accidents are often, but not always, related to distance travelled, such as tyre wear. However, I do not recommend taking this package further because of significant implementation and enforcement complexities.
51. For vehicles up to 12 years-old, less frequent inspections are clearly justified. New cars should not need an inspection until they are three years-old, as most are under warranty or servicing arrangements for that period. For vehicles older than 12 years-old, retaining six-monthly inspections is not strongly supported by the risk level, particularly given the cost involved. However, the public is concerned about older vehicles.
52. In my view, this leaves a choice between:
  - 52.1. extending annual testing to vehicles up to 12 years, with older vehicles on six-monthly inspections, along with mitigation measures
  - 52.2. annual inspections starting at three years-old for vehicles first registered on or after 1 January 2000, with six-monthly inspections for vehicles registered before then, along with mitigation measures

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<sup>5</sup> Net present value is the difference between the discounted future value of cash inflows and the discounted future value of cash outflows related to the proposal being evaluated.

- 52.3. moving to a system where vehicles would be inspected annually from three years-old, along with mitigation measures.
53. The net present values for these packages is: \$0.6 billion over 30 years for the first package (benefits of \$57 million and social costs of \$5 million per year), \$1.8 billion for the second package (benefits of \$159 million and social costs of \$13.4 million per year) and \$2.1 billion over 30 years for the third package (benefits of \$190 million and social costs of \$15 million per year). The reason for the difference between the net present values is that a much greater proportion of the fleet would benefit if annual inspections were extended to vehicles over 12 years of age. The size of the net present value associated with annual inspections is a strong reason to support it, and it would also recognise that the risk for older vehicles is declining over time. Only a small group of motorists would benefit if the first approach was adopted.
54. Basing inspection frequency on the date of first registration would take account of the situation that the risk for older vehicles seems to be declining over time. Vehicles currently 12 years-old and older (vehicles first registered before 1 January 2000) could be kept on 6-monthly inspections until they exit the fleet. Over time, annual inspections would progressively apply to more vehicles as pre-2000 vehicles leave New Zealand's fleet.
55. This package would acknowledge concerns over older vehicles by aligning the introduction of annual inspections more closely with the risk profile of the actual vehicles in the current fleet while also creating a forward looking system. Adopting this package would delay the realisation of benefits compared to moving to annual inspections at the outset but the package would still have a healthy net present value of \$1.8 billion with an annual social cost of \$13 million to mitigate. Figure 2 shows the distribution of vehicles by year of manufacture. This shows that there is a spike in the fleet of vehicles manufactured around 1996.

**Figure 2: Light vehicle fleet by year of manufacture as at December 2010**  
(source New Zealand Transport Agency)



56. One significant benefit of this approach is that it would give the inspection industry more time to adjust because the progressive change to annual inspections would be gradual. Initially, the decline in the number of inspections would be limited to vehicles under 3 years old and vehicles in the six to 12 year age group. Business impacts are discussed further below.
57. Under this option, the owners of vintage and classic vehicles and trailers and caravans would remain on six-monthly inspections despite low use. The owners of such vehicles have tended to argue for less frequent inspections. If this package is chosen, the issue is likely to be raised during consultation on amending the relevant transport rule, and could be considered then. The economic benefits generated by specific arrangements for these vehicles or any increased safety risks would be small, and making such arrangements would increase implementation costs.
58. Of the packages, the Ministry of Transport and the New Zealand Transport Agency prefer the annual inspection package because it represents large economic benefits and a modest safety risk that can be mitigated. However, the two agencies acknowledge that the fixed date package would deliver benefits approaching the annual inspection package. The three proposed packages are summarised in Table 1 below:

**Table 1: Summary of proposed warrant of fitness packages**

Current	Packages

	Annual inspections to 12 years-old	Annual inspections for vehicles first registered on or after 1 January 2000	Annual inspections
<ul style="list-style-type: none"> <li>• Annual inspections for vehicles up to 6 years-old</li> <li>• 6-monthly inspections for vehicles older than 6 years-old</li> <li>• Enforcement activities</li> </ul>	<ul style="list-style-type: none"> <li>• Annual inspections for vehicles up to 12 years-old</li> <li>• 6-monthly inspections for vehicles older than 12 years-old</li> <li>• Additional enforcement activities</li> <li>• Education</li> <li>• Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Annual inspections starting at 3 years for vehicles first registered on or after 1 January 2000</li> <li>• 6-monthly inspections for vehicles first registered before 1 January 2000</li> <li>• Additional enforcement activities</li> <li>• Education</li> <li>• Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Annual inspections for vehicles older than 3 years-old</li> <li>• Additional enforcement activities</li> <li>• Education</li> <li>• Monitoring</li> </ul>
<b>Benefits</b>	• \$0.6 billion net present value over 30 years	• \$1.8 billion net present value over 30 years	• \$2.1 billion net present value over 30 years

### *Measures to encourage safe vehicles*

59. All the packages need to include additional measures to support frequency change. Little information is currently provided to motorists about maintaining the safety of their vehicles. Information and education measures would be deployed to help mitigate any potential increase in risk. Information would be provided during the transition period between the old and new systems, and as part of an ongoing strategy to encourage vehicle owners to look after the safety of their vehicle. Initiatives could include print and web advertising, brochures for agents, raised awareness of Police enforcement activities and roadside message boards.
60. The effectiveness of information and education measures increases greatly when backed up by enforcement. For this reason, increased enforcement activities focused on light vehicle safety would be deployed to enhance awareness and support change in the first two to three years. Ongoing Police vehicle enforcement activity would continue to be targeted to road safety risk to secure the best possible outcomes.
61. The overall cost of the additional education, information and enforcement activities to support the packages is estimated in the range of \$3–6 million during the transition period of two to three years, and less than \$1 million in ongoing expenditure. The final cost will depend on the package chosen, but

most mitigation would be required for the annual inspection package. Transport officials and the Police would work together to determine the best allocation and deployment of additional resource for enforcement activities.

62. Following the transition period ongoing vehicle defect enforcement will be managed as part of the outcome-based Road Policing Programme. The ongoing performance of New Zealand's light vehicle roadworthiness system is monitored by the Ministry of Transport and the New Zealand Transport Agency who, with Police, assess the appropriate level of investment in light vehicle enforcement.
63. Overall, officials will monitor vehicle and road safety indicators to assess the impacts of the changes on roadworthiness and maintenance. Changes to these mitigation measures will be recommended if required.
64. A large proportion of vehicle owners are late in obtaining a warrant of fitness. Survey evidence and crash reports suggest that many of the vehicles with overdue warrants may still be in use, at least for a short period of time. The recommendations in this paper do not directly address this issue. However, additional enforcement activity in the first two to three years would likely offer a greater deterrent to non-compliance and result in more unwarranted vehicles being detected. A cheaper and easier system and better education could also result in higher compliance with warrant of fitness requirements.

#### *Economic impacts of changing the warrant of fitness system*

65. Any reduction in inspection frequency will have an impact on inspecting organisations. These organisations include independent inspection stations and a large number of businesses, such as local garages, which deliver inspection and repair services. Whichever option is chosen, the industry will need to adjust its business models. This could be by closing sites, merging businesses, or offering new services to customers to offset lost revenue.
66. The impact on inspecting organisations would be smaller if vehicles over 12 years old were kept on six-monthly inspections. Annual testing for the majority of vehicles would involve a potential loss of inspection revenue of \$90-135 million per year. Annual inspections for vehicles first registered before or on 1 January 2000 would eventually result in a similar revenue loss to the annual testing package, but any loss would be realised over a much longer timeframe.
67. The inspection industry has argued that any reduction in inspection agents would have an impact on price and availability of services. However, the current industry is competitive.
68. Geographical analysis, attached as Appendix One, shows that most areas have a number of suppliers and, except for very few geographical cases where there is little competition, there is a good volume of inspections. Even

in the event of a closure, travel distances to alternative providers are not long, although vehicle owners in a small number of rural communities might need to travel further to access inspection services.

69. Another significant flow-on effect from reduced revenue is a possible reduction in staff. Based on current data, the first package would have the least effect where full time equivalent roles in the vehicle servicing, inspection and repairs industries could fall by around 320-490 roles over time. Annual inspections could have the largest impact with the possible loss of 1,370-2,050 roles. Annual inspections for vehicles first registered on or after 1 January 2000 would have a similar impact overall as an annual inspection system but it would be spread over a much longer period (up to 12 years). Most of these roles are likely to be in urban centres where there is a greater density of inspection agents. Many may continue to be employed as mechanics.
70. However, the net employment impact to the economy should be low. There will be an increase in the demand for labour by other industries if consumers spend the inspection charge savings on other goods and services. Furthermore, in the longer term, the change will encourage the inspection industry to improve efficiency, in order to maintain market share or commercial viability, which in turn will improve the economic productivity and efficiency at the national level.
71. The business and employment impacts on the inspection industry will take time to filter through and there will be a time lag before any adjustment starts to occur. Annual inspection for vehicles first registered on or after 1 January 2000 would have the longest lead-in time for people to shift employment if necessary.
72. The independent stations who also deliver certificate of fitness inspections have argued in submissions that reduction in their warrant of fitness revenue could lead to price and service impacts in the certificate of fitness business. The certificate of fitness proposals discussed below would help to prevent this situation developing.

### *Implementation*

73. I propose that the chosen package be implemented from 1 July 2014 or earlier if possible. This will provide lead in time for the New Zealand Transport Agency and industry to prepare. Changes to Land Transport Rule: Vehicle Standards Compliance 2002 will be required. Consequential changes to other rules and regulations may also be required.
74. The cost of implementing any of these packages will be in the range of \$4.3-7.2 million spread over 2 to 3 years, and ongoing costs in the range of \$0.1-0.4 million (excluding depreciation).

## **Better vehicle inspection – certificate of fitness**

### *Certificate of fitness system*

75. The certificate of fitness system contributes to road safety by checking the safety of New Zealand's commercial vehicle fleet. By international standards, the current system does a good job of managing safety.
76. The certificate of fitness system includes two inspection systems: 'Certificate of Fitness A' applies to light commercial vehicles such as taxis and rental vehicles, while 'Certificate of Fitness B' applies to heavy commercial vehicles.
77. Most vehicles subject to the certificate of fitness system have the default six-monthly inspection frequency, but there is an ability to vary frequency between three and nine months. There are around 465,000 inspections per annum (including re-inspections). Like warrants of fitness, certificate of fitness inspections generate costs for vehicle owners and operators in inspection fees and the time taken to get inspections.

78. Commercial transport operators indicate that much of the cost associated with getting a certificate of fitness results from the time that the vehicle is out of service. This occurs because vehicles must, in the main, travel to sites operated by independent inspection organisations and are out of service for a period. This disruption cost increases if a vehicle fails an inspection, needs repair work at another location, and then a re-inspection back at the inspection site. An estimated \$40 million is paid in certificate of fitness fees annually and around \$20 million in time is spent in getting a certificate of fitness.
79. The discussion document canvassed possible changes to enable greater choice in certificate of fitness inspection services, such as where an inspection can be done and who can do it, and accrediting operators to manage the safety of their vehicles. It also canvassed possible changes to inspection frequency.

#### *More inspection choice*

80. The inspection market is regulated by the New Zealand Transport Agency through a series of policies developed under the framework of a Land Transport Rule. To date, the New Zealand Transport Agency's operational practice has resulted in limited numbers of certificate of fitness inspection providers as part of a national coverage model. This practice has also used independence (separation of inspection and repair services) as a way of ensuring robust inspection outcomes. The result of this approach has been a market that is restricted to a small number of providers, one of which has a dominant market position. These inspecting organisations do not undertake repair work and have their own inspection sites.
81. The current regulatory approach creates disruption costs for transport operators that reduce productivity. While inspection prices are reasonable by international standards, vehicle owners face a rigid inspection market. Greater choice for vehicle owners about where vehicles are tested and by whom, and the option to bundle service and inspection together, would result in reductions in the time taken to get a certificate of fitness, saving costs.
82. There are benefits from having certificate of fitness inspections undertaken separately from repair services and transport operators as this reduces the possibility of any conflict of interest in inspection. Reducing or removing this independence could have an adverse impact on safety outcomes if sub-standard or lenient inspections were carried out as a result. Maintaining independence is a strong preference of current inspection organisations. Potentially, repairers could also be overzealous to generate work but most commercial operators would have sufficient market power and knowledge to counter this, and it would not be likely to have any safety implications in any event.



83. There are other approaches to managing conflicts of interest, which could be applied to certificates of fitness. Strong approval criteria and processes for appointing inspecting organisations and inspectors, along with effective audit and monitoring systems, would mitigate any risks of lenient inspection or higher repair costs from repairers failing vehicles unnecessarily. Effective management of conflicts of interest would continue to ensure quality inspection outcomes in a more competitive market.
84. As an alternative approach, Vehicle Testing New Zealand, Vehicle Inspection New Zealand and the AA supported inspection agents being able to certify vehicles where minor defects are picked up and allowing operators to repair such faults without needing a re-check. The AA supported inspection stations being able to perform minor repairs. Such approaches would reduce inconvenience for vehicle operators to a degree, but the benefits would not be large.
85. The Road Transport Forum supported more choice and flexibility for operators, such as inspectors travelling to operators' premises, so long as this does not impact negatively on safety outcomes.
86. The cost for entering the inspection market is not prohibitive, especially for businesses that service heavy vehicles. To enable greater choice, the New Zealand Transport Agency would need to review its policies. It would need to ensure that there are strong approval criteria and processes for the appointment of inspectors, and effective audit and monitoring systems, so inspecting organisations manage any conflicts of interest well to make sure there are quality inspection outcomes. I expect the Agency to keep me well informed of its progress in reviewing and putting the new requirements in place.

### *Accreditation*

87. Accreditation would allow operators to be approved to manage their own vehicle safety. This would provide an option for operators who already have excellent maintenance regimes and electronic monitoring systems in place.
88. Response from operators to this option was mixed. Safety concerns were a common theme. Those supporting accreditation agreed it should only be approved where an operator has demonstrated a high standard of maintenance, and auditable processes show that there is continuous compliance. The Road Transport Forum agrees that accreditation would have some attraction to a few operators, but thinks it could be a step too far at this time.
89. I propose that further work be carried out by officials in collaboration with industry to investigate the demand and feasibility of accreditation. Changes to primary legislation may well be required, which would require Cabinet agreement.

## *Frequency*

90. The default inspection frequency for the heavy and commercial vehicle fleet is six-monthly. The risk profile of the fleet does not justify changing this default. Risk varies with vehicle type, size, use and mileage. Because the makeup of the New Zealand heavy and commercial vehicle fleet is complex, the opportunity to set different default inspection periods for different categories of vehicles is limited.
91. Heavy vehicles generally travel higher kilometres carrying heavy loads that can rapidly wear out key safety components such as tyres and brakes. There are concerns around the high crash impact associated with heavy vehicle crashes, due to their larger size and weight, and the lack of control the public has over the roadworthiness of taxis or rental vehicles. Internationally, six-monthly and 12-monthly inspections for commercial vehicles are common.
92. There appears to be little support from the commercial vehicle sector and the public for a less frequent default inspection period for heavy vehicles. Stakeholders, including Vehicle Testing New Zealand and the AA, supported retention of 6-monthly default inspections, with the ability to put operators on variable inspection frequencies between 3 and 12 months (an extension from nine months currently). The Road Transport Forum supported reduced frequencies for high-performing operators.
93. A key benefit of this approach is the safety risk posed by operators with poor safety records can be managed, while rewarding operators with a good safety record. This flexibility would apply to all vehicles in the commercial fleet and could also be used for light commercial vehicles, such as rental vehicles.
94. The economic and safety impacts of making greater use of variable inspection frequencies for certificates of fitness are difficult to estimate. This is because it is difficult to predict how many vehicles might be put on an alternative frequency. Only operators with the best safety records would be approved to have fewer inspections, whilst poor operators could be required to have inspections as often as every three months. For this reason, this change has been assumed to be neutral in terms of cost and safety impacts.
95. I propose that:
  - 95.1. the current default six-monthly inspection frequency be retained
  - 95.2. the allowable range of the variable frequency be changed to 3-12 months (an extension of three months).

### *Benefits of change*

96. This changes outlined in this paper would decrease the time vehicles are out of service when getting a certificate of fitness, leading to productivity improvements for transport operators. Officials estimate that the net present value of the benefits range from \$160-460 million over 30 years (\$14-41 million per annum).

### *Economic impacts of changing the certificate of fitness system*

97. Any potential loss in inspection service coverage and increase in charges is expected to be small. It is likely that smaller repair sites, including those in remote areas, would expand their business mix or relocate to fill any unmet demand, should existing offsite services provided by existing inspecting organisations cease. As the market reform is likely to increase competition, any price changes are expected to be temporary. Entry requirements, such as site specifications for inspecting organisations, may need to be reviewed to ensure they do not create unreasonable barriers to enter the market.
98. Over time, the suggested changes are likely to have a significant impact on current providers. The combined turnover of these organisations is estimated to be around \$100 million per annum. These providers may adjust their business models, such as by offering repair services, but site closures could result. Even so, the employment effects for heavy vehicle inspectors is expected to be small as the variable frequency proposed should not result in a drastic reduction in the number of inspections required. However, there would be a transitory effect if new inspection providers are allowed to enter the market and there could be a short-term increase in the demand for inspectors.

### *Implementation*

99. I propose that these changes, together with New Zealand Transport Agency policy changes, be put in place by 1 July 2014 or earlier if possible. This is the same date the warrant of fitness frequency change would be implemented by, which would provide lead in time for the New Zealand Transport Agency and industry. Changes to Land Transport Rule: Vehicle Standards Compliance 2002 will be required.
100. The cost of implementing these changes will be in the range of \$2.2-3.6 million, with ongoing costs in the range of \$0.6-0.9 million (excluding depreciation).

## **Better vehicle licensing**

### *The annual vehicle licensing system*

101. Annual vehicle licensing fulfils multiple purposes:
  - 101.1. Collection of revenue for two government accounts: the ACC motor vehicle account and the National Land Transport Fund. In the 2011/12 financial year, \$915 million of revenue was collected. The ACC motor vehicle account received 82 percent of this revenue to cover those injured on the transport network, 17 percent went to the National Land Transport Fund for the land transport system. The remaining four percent is a fee collected to cover the cost of administering the system.
  - 101.2. Verification of data on the motor vehicle register: the register links vehicles to the people responsible for them, which is essential for law enforcement.

### *Issues with annual vehicle licensing*

102. For registered vehicles, 95-98 percent of annual vehicle licensing revenue is collected, which is a high collection rate. However, only about 40 percent of people pay for their vehicle licence on time, with 84 percent paying within one month and 94 percent within three months of the due date.
103. Compliance with the due date is very low when compared to vehicle re-licensing systems in other jurisdictions and utilities. This results in a compliance burden because late payers are subject to infringements.
104. Some 235,000 infringement notices are issued each year by local authorities and the Police for annual vehicle licensing offences. Infringement fees of up to \$200 can be incurred (or a combination of a fee and demerit points in some cases). A low willingness to pay these infringements means that enforcement agencies refer a high percentage to the Courts for collection. This has resulted in annual vehicle licensing fines being a major contributor to the backlog of unpaid fines (\$115 million, or around 15 percent, of the current backlog). This results in revenue and fiscal cost for the Crown.

### *Supporting willing compliance*

105. Slowness to pay annual vehicle licensing fees, and the low willingness to pay resulting infringement fees, strongly suggests that changes to the system are required to reduce the compliance burden and fiscal costs. The following changes could be made:

- 105.1. using market-based incentives to encourage late payers to pay on time. Examples of market based incentives are late payment penalties and loading licensing debts on credit records
  - 105.2. reforming offences and penalties to ensure these are better targeted to risk - this could include reducing or removing penalties for incorrect display of a licence label and better targeting genuine evaders by allowing the New Zealand Transport Agency (as the Motor Vehicle Registrar) to issue infringements for continuous licensing offences using payment information on the motor vehicle register
  - 105.3. using a greater range of communication tools to remind vehicle owners of the need to pay their annual vehicle licence.
106. Initial estimates of the cost to the New Zealand Transport Agency to implement these changes are \$6–11 million, with ongoing costs of \$2-2.5 million per annum (excluding depreciation). The Ministry of Transport's preliminary estimate is that around \$4-7 million per annum could be saved across the enforcement system. Social benefits have not been estimated but are likely to be moderate.
  107. The recent public consultation process showed strong support for measures that would make compliance with the existing system easier, and reduce the cost of re-licensing. This was also supported by the participants in a telephone survey and focus groups. Seventy six percent of the survey participants indicated that they would be encouraged to pay on time by a discount and 45 percent would prefer an email or text reminder as an alternative to a reminder letter. Ideas mentioned in the focus groups on how to make licensing easier included more reminders, reminders in addition to the label and letters and other payment methods.
  108. I propose to report back to Cabinet by 30 September 2013 with specific proposals to improve annual vehicle licensing compliance, including possible legislative changes. The proposals will include detailed information on the benefits and costs of change, establish the boundaries for the use of any market-based incentives such as late payment penalties, and provide an implementation path. Any measures to improve willing compliance will need to ensure that levels of revenue collection are maintained.
  109. Further development of the new compliance approach, along with analysis and discussions with enforcement and collection agencies, is required to produce more reliable estimates of potential savings and revenue impacts.

110. A suggestion that came through in a number of submissions was to remove the annual vehicle licensing system and move the ACC levy and land transport charges to other collection mechanisms, such as a distance based (road user charges) or fuel excise (petrol tax) system. Annual vehicle licensing options that involve a significant departure from the current system have not been considered as part of this review because the ACC and the Ministry of Business, Innovation and Employment are currently investigating options for the future collection of the ACC motor vehicle account levy. This includes considering whether, or how, the levy could be more appropriately aligned to safety risk and cost factors that a driver or a vehicle poses.
111. The outcome of this work may impact the way ACC wishes to collect the motor vehicle account levy in the future, and consequently the annual vehicle licensing system. Until that investigation is completed, work is focussing on how the current system can be improved to reduce compliance costs.

## **Better operator licensing**

### *Transport services licensing system*

112. The transport services licensing system is used to identify and regulate commercial transport operators. Its main purpose is to contribute to road safety. The system sits alongside other regulatory controls such as fatigue management, vehicle safety and driver licensing, all of which work to manage the harms that can result from commercial transport.
113. Commercial transport operators provide a range of services including passenger services, such as taxi and bus services, freight services, vehicle recovery services and rental services. Each transport service industry type is quite distinct in terms of its size, structure, maturity and potential harms imposed on society. The requirements of the transport services licensing system are tailored to reflect these distinctions.

### *Transport services licensing effectiveness*

114. While there are other regulatory controls, transport services licensing is unique because it focuses on the operator of an enterprise rather than the driver of a commercial vehicle. This is beneficial because the way transport businesses are operated affects fleet and driver safety.
115. However, the entry and exit provisions of the licensing system are weak. Only small numbers of applicants are declined entry. The cost of removing operators can be very high, and removal is often ineffective because the operator can rejoin under the guise of another licence holder.

116. Over time, transport services licensing has been leveraged by a number of other regulatory processes. The system provides a reliable unique identifier for commercial operators, and many other regulatory processes and controls link to it. For example, the identifier allows regulators, such as the New Zealand Transport Agency and the Police, to accurately link events involving transport service vehicles to an operator, regardless of whether the operator is the registered owner of the vehicle or not. This allows regulators to monitor and target compliance activity to operators that represent different levels of risk. It also supports systems, such as the work time and logbook regimes, road user charges and the operator safety rating system.
117. Annually, potential new licensees could save approximately \$1.5 million in licensing application fees if transport services licensing was removed. However, much of this cost would be transferred to government agencies and to the industry to maintain a reliable way of linking events involving transport service vehicles to operators.
118. The transport services licensing regime is referred to widely within primary, secondary and tertiary legislation. Removing transport services licensing would require its many connections with other parts the regulatory framework to be rebuilt, and may also generate further risk and cost.
119. The major industry representative bodies opposed the complete removal of the transport services licensing system. It is seen as a barrier to entry and a means to exit substandard operators, even though these functions are weak. These bodies have suggestions for improving the existing system, such as tightening up entry requirements and strengthening exit requirements. The public were generally concerned about commercial transport operators being properly licensed.

*Preferred option and its benefits*

120. I propose leaving the system in place given its value in identifying operators, the low regulatory burden it represents, and industry support for the system.
121. However, the system may not be as effective as it could be and it represents an irritation to some of the operators it captures, such as the owners of single trucks that are used for moving their own gear, who receive few benefits from the system. Therefore, my preferred option is to refocus and refine the transport services licensing system to better target operators who present the greatest risk to the transport system and the general public.
122. I propose that the New Zealand Transport Agency reviews:
  - 122.1. whether farmers and trades people who use only one goods vehicle with a gross vehicle mass of less than 15,000 kg, and do not use that vehicle for hire and reward, should be exempted from the need

to obtain or hold a transport services licence and from the need to pay the levy for regulatory management

- 122.2. the relatively weak provisions for managing and exiting unsafe and poor performing operators from transport services and report back to me on whether they can be streamlined or improved to better manage risks.
123. The New Zealand Transport Agency will need to review its fees and charges for its regulatory management of transport services as a result. The New Zealand Transport Agency's regulatory management activity is currently paid for through a uniform fee imposed on operators with a transport service licence. The New Zealand Transport Agency will also explore whether fees and charges for transport service regulatory activities should vary to reflect the regulatory management activities directed to different sector groups.
124. The review may result in a further legislative proposal.
125. The net benefits of reforms to the transport services licensing system are likely to be modest. For example, exempting owners of single trucks used for moving their own gear would remove an estimated 13 percent of current operators from the transport services licensing system and reduce the number of new entrants who would have to register by about the same proportion. This would save \$0.35 million annually.
126. Further detail on benefits and costs will be provided as part of the review report back.

### **Stakeholder engagement and public consultation**

127. There has been extensive engagement with key stakeholders since March 2012. As well, a public discussion document was released on 19 September 2012. Submissions closed on 31 October 2012. There were 4,593 submissions received. Of these, 4,489 came from members of the public and 104 from organisations.
128. There was a high level of public engagement through the public consultation process, as shown by the number of submissions received. The Motor Trade Association's "Hands off the WoF" advertising campaign had a large impact on the number of submissions received, with the daily number increasing by 500 percent after it began.
129. The warrant of fitness proposals received the most comment. The main themes raised by submitters who favoured warrant of fitness reform were that modern vehicles are more durable and that a decreased frequency better reflected the right balance between cost savings and safety. Also, they thought that inspection regimes overseas were appropriate models for reform in New Zealand.



130. After the launch of the Motor Trade Association's campaign, a new theme that arose was private individuals urging that the government not be swayed by those parties with a vested interest in keeping the current regime.
131. The main theme raised by submitters who favoured keeping the warrant of fitness status quo was that New Zealanders lack the knowledge and ability to properly maintain a vehicle. Thus, the warrant of fitness is the only time a vehicle is inspected. There were concerns about the higher average age of the New Zealand vehicle fleet, the unsafe nature of New Zealand roads and the effect of decreased inspections on vehicle parts, such as tyres, that are already common reasons for vehicles failing a warrant of fitness.
132. The other areas of vehicle licensing reform received significantly fewer submissions.
133. There appears to be little support from the commercial vehicle sector and the public for reducing the default inspection frequency for heavy and other commercial vehicles. Responses from transport operators to the accreditation option were mixed. Safety concerns were a common theme whilst those supporting accreditation agreed it should only be approved where an operator has demonstrated high standards, and where there are auditable processes to show there is continuous compliance.
134. There was strong support for measures that would make compliance with annual vehicle licensing easier, and for reducing the cost of licensing. One suggestion that came through in a number of submissions was to move the ACC levy and land transport charges to other collection mechanisms, such as a distance based (road user charges) and fuel excise (petrol tax) system.
135. The majority of submissions from transport operators on transport service licensing highlighted the benefits of the system in identifying operators and linking vehicle events to them. This is perceived to be important for a successful operator safety rating system. Submitters also made suggestions for improving the system, such as tightening up entry requirements and strengthening exiting requirements.
136. An extended Summary of Submissions is attached as Appendix Two.

## **Consultation**

137. The Minister of Transport has approved the submission of this paper.
138. The following departments and agencies have been consulted on this paper: Treasury, Ministry of Business, Innovation and Employment, Ministry of Justice, Department of Internal Affairs, ACC, ECCA, and the Police. The Ministry of Education, Consumer Affairs, and the Ministry of Tourism were consulted on the transport services licensing aspects of this paper.

139. The Department of the Prime Minister and Cabinet was informed.

*Police comment*

140. The current Road Policing Programme funding of \$4.9 million for light vehicles recognises that light vehicle safety forms part of Police's activities, but Police note that it is generally not a stand-alone activity. The checking of warrants of fitness is largely incidental to vehicle stops for other more high-risk offending, such as speed or alcohol, and when undertaken by constables, it is usually limited to obvious defects, such as bald tyres.
141. Police will work closely with the Ministry of Transport to consider additional Police enforcement to help transition motorists to annual warrant of fitness inspections. Police note that limited resources require Police to target these to high-risk offending and would not be supportive of any proposal that would divert current resources away from these areas.
142. Police consider there are options for additional enforcement that could be explored, such as additional funding to increase the number of vehicle safety officers within the Commercial Vehicle Investigation Unit. This would enable increased inspection of light vehicles (currently inspections are targeted at high-risk offending, such as illegal street racing and illegal modification of vehicles). However, this option would require more detailed consideration of the practical implications (particularly as additional enforcement is proposed as a transitional measure only), and cost benefit analysis.

*ACC comment*

143. ACC supports relaxing the need to inspect new vehicles up to three years-old and extending annual inspections to vehicles up to 12 years old. ACC prefers the first package (annual inspections to 12 years) because it has the lowest risk to mitigate but is also supportive of the second package that would require vehicles registered before 1 January 2000 to remain on 6-monthly inspections.
144. ACC's view is that mitigation measures, including education alongside enforcement, will be required to manage any increase in risk until it is clear that it is no longer required.

**Financial implications**

145. The financial implications arising from warrant of fitness and certificate of fitness changes will be outlined in more detail in a report-back to Cabinet by the end of April 2013. Financial implications for annual vehicle licensing and transport services licensing will be included in later report-backs. The following information summarises estimated benefits and costs, and provides an indication of potential funding sources (see Table 2).

*Cost of implementation*

146. The estimated cost of implementing all the changes foreshowed in this paper, including the warrant of fitness and certificate of fitness changes, is \$16-25 million over three years. This cost incorporates regulatory change, changes to information systems and business processes, and transition activities by the New Zealand Transport Agency and the Police, which includes education, social marketing and enforcement activity.

**Table 2: Estimated costs and potential funding sources**

<b>Cost Type</b>	<b>Estimated Costs (nearest \$0.5m)</b>	<b>Potential Funding Source</b>
<i>For warrant of fitness, certificate of fitness and transport services licensing proposals</i>		
New Zealand Transport Agency information system changes	\$2.5–5.0 million	New Zealand Transport Agency capital equity
New Zealand Transport Agency business process changes	\$4.0 million	Third party fees (spread over 5-10 years)
Warrant of fitness enforcement and education activities	\$3.0–6.0 million	National Land Transport Fund

147. For annual vehicle licensing, implementation costs are yet to be determined and will be subject to a report-back to Cabinet. Preliminary estimates are in the order of \$6–11 million.
148. This funding approach reflects the current understanding of where benefits will be realised, and where current service costs and funding lie:
- 148.1. For warrant of fitness, certificate of fitness and transport services licensing changes, the benefits are primarily to the public and the relevant service costs sit with the New Zealand Transport Agency. The New Zealand Transport Agency considers a mix of equity, third party fee and funding from the National Land Transport Fund funding is appropriate.
- 148.2. For annual vehicle licensing, the benefits are primarily to the public but relevant current service costs are spread across New Zealand Transport Agency, the Ministry of Justice, the Police and local government. Decreased service delivery costs are expected as a result of the changes for local government, the Ministry of Justice, and the Police, while New Zealand Transport Agency costs are expected to increase.

### *Ongoing annual benefits and costs*

149. The various changes will reduce public sector operating costs by a conservatively estimated \$1-5 million annually. This net reduction consists of:
  - 149.1. an estimated increase in ongoing service delivery costs for the New Zealand Transport Agency (across the four licensing areas) of \$3.0-4.0 million dollars per annum (excluding depreciation)
  - 149.2. a conservatively estimated \$4-7 million reduction in annual operating costs for the Police, the Ministry of Justice and local government arising from reduced administration and management of annual vehicle licensing and warrant of fitness related infringements.
150. The New Zealand Transport Agency proposes that its ongoing costs be funded through third party administration fees charged to customers utilising these services (for example, the proposed late penalty fee).

### **Human rights implications**

151. There are no human rights implications arising from the proposals contained in this paper.

### **Legislative implications**

152. The change to inspection frequency for both warrant of fitness and certificate of fitness will involve a change to the Land Transport Rule: Vehicle Standards Compliance 2002. During implementation work, consequential changes to other rules or, possibly, regulations may become apparent. For any consequential changes to regulations, I seek agreement to instruct Parliamentary Counsel, as necessary.

### **Regulatory Impact Analysis**

153. The Regulatory Impact Analysis requirements apply to the proposals in this paper and a Regulatory Impact Statement (RIS) has been prepared and is attached. The Regulatory Impact Analysis Team has reviewed the RIS prepared by the Ministry of Transport and associated supporting material, and considers that the information and analysis summarised in the RIS meets the quality assurance criteria.
154. The RIS does not cover annual vehicle licensing or transport services licensing because Cabinet is not being asked to make policy decisions at this time. Following further reviews, separate regulatory proposals relating to annual vehicle licensing and transport services licensing will be prepared in 2013 along with RISs.

155. I have considered the analysis and advice of my officials, as summarised in the attached RIS and I am satisfied that, aside from the risks, uncertainties and caveats already noted in this Cabinet paper, the regulatory proposals recommended in this paper:

155.1. are required in the public interest

155.2. will deliver the highest net benefits of the practical options available

155.3. are consistent with our commitments in the Government statement: "Better Regulation, Less Regulation".

### **Gender implications**

156. There are no gender implications arising from this paper.

### **Disability perspective**

157. There are no disability implications arising from this paper.

### **Publicity**

158. I plan to release a media statement announcing Cabinet's decisions if it agrees to my recommendations. A question and answer fact sheet will also be prepared for public release.

159. I propose to publish a copy of this paper, and its accompanying RIS, on the Ministry of Transport's website after a public announcement has been made.

## Recommendations

160. It is recommended that Cabinet:

### Better vehicle inspection

#### *Warrant of fitness*

1. **agree**, subject to the report on options for funding referred to in recommendation 17 below, to:

#### Either

- 1.1. a warrant of fitness package with frequency based on age that comprises:
  - a. annual inspections for light vehicles up to 12 years-old
  - b. 6-monthly inspections for light vehicles over 12 years-old
  - c. additional education and communication measures
  - d. additional enforcement activities
  - e. Ministry of Transport and New Zealand Transport Agency monitoring to assess any effects on safety indicators (and additional measures to be considered if necessary)

#### Or

- 1.2. a warrant of fitness package with inspection frequency based on first registration date that comprises:
  - a. after an initial inspection, no further inspection for light vehicles until they are 3 years-old
  - b. annual inspections for light vehicles first registered on or after 1 January 2000 (if more than 3 years old)
  - c. six-monthly inspections for light vehicles first registered before 1 January 2000
  - d. additional education and communication measures
  - e. additional enforcement activities
  - f. Ministry of Transport and New Zealand Transport Agency monitoring to assess any effects on safety indicators (and additional measures to be considered if necessary)

Or

- 1.3. an annual warrant of fitness package that comprises:
  - a. after an initial inspection, no further inspection for light vehicles until they are 3 years-old
  - b. annual inspections for light vehicles 3 years and older
  - c. additional education and communication measures
  - d. additional enforcement activities
  - e. Ministry of Transport and New Zealand Transport Agency monitoring to assess any effects on safety indicators (and additional measures to be considered if necessary)
2. **note** that the net present values over 30 years for the three packages proposed are: \$0.6 billion for the first package, \$1.8 billion for the second and \$2.1 billion for the third
3. **note** that any of the packages selected is estimated to cost in the range of \$4.3-7.2 million to implement over 2 to 3 years that includes costs of mitigation measures, and ongoing costs in the range of \$0.1-0.4 million (excluding depreciation)
4. **agree** that the selected package be implemented from 1 July 2014 or earlier subject to appropriate implementation steps being completed

*Certificate of fitness*

5. **agree**, subject to the report on options for funding referred to in recommendation 17 below, that the variable certificate of fitness inspection frequency range be extended to 3-12 months
6. **note** the New Zealand Transport Agency is reviewing its policies to make greater use of variable inspection frequency to incentivise good safety performance
7. **note** that the New Zealand Transport Agency will review its policies relating to approving and managing certificate of fitness providers to enable inspections to take place at a wider range of sites, including bundling inspection and repair together, and will explore whether operators could be accredited to robustly manage their own vehicle safety
8. **note** that the changes to the certificate of fitness system will result in estimated net social benefits of between \$160 and \$460 million over 30 years (\$14-\$41 million per annum), and cost in the range of \$2.2 million to implement, and involve \$0.6 million in ongoing costs (excluding depreciation)

9. **agree** that the change be implemented from 1 July 2014 or earlier subject to appropriate implementation steps being completed
10. **note** the New Zealand Transport Agency will provide regular updates to the Associate Minister of Transport on its progress in putting in place new criteria and processes for certificate of fitness providers, applying variable inspection frequencies to incentivise safety performance, and exploring possible accreditation of operators
11. **note** that the Ministry of Transport and the New Zealand Transport Agency will monitor road safety and sector productivity indicators to assess the results of the package and will propose changes if required

#### *Better vehicle licensing*

12. **note** that the New Zealand Transport Agency intends to take a willing compliance approach for annual vehicle licensing to:
  - 12.1. make it easier for motorists to remember to pay on time through the use of modern communication tools, such as email and text alerts
  - 12.2. encourage on time payment through the use of payment incentives, such as late payment penalties and credit rating impacts for debtors
  - 12.3. better target the annual vehicle licensing offences and penalties regime
13. **note** that the package is expected to have moderate social benefits, reduce net enforcement costs, and is estimated to cost in the range of \$6-11 million to implement depending on the measures chosen
14. **invite** the Associate Minister of Transport to report back to Cabinet by 30 September 2013 with specific proposals to improve annual vehicle licensing compliance, including any funding implications and proposed changes to legislation

#### *Better operator licensing*

15. **note** that the New Zealand Transport Agency will review:
  - 15.1. whether the scope of transport services licensing should be reduced to exclude goods vehicles of a gross vehicle mass of less than 15,000 kg where the service involves a single vehicle and is not for hire or reward (e.g. farmers and vehicles used to carry tools of trade and own goods)
  - 15.2. whether the provisions relating to entry, management and exiting of transport operators can be improved



15.3. whether fees and charges for its transport service regulatory activities need adjusting to ensure they reflect the regulatory management activities directed to different sector groups

16. **invite** the Associate Minister of Transport to report back to Cabinet by 30 September 2013 with specific proposals to improve transport services licensing, including any funding implications and proposed changes to legislation

#### *Financial implications*

17. **agree** that the Associate Minister of Transport submit options and recommendations for funding warrant of fitness and certificate of fitness changes by 30 April 2013
18. **note** it is anticipated that any costs arising from implementation of warrant of fitness and certificate of fitness changes will be funded from third party charges, with education, communication and enforcement mitigation measures funded from the National Land Transport Fund

#### *Legislative implications*

19. **invite** the Associate Minister of Transport to amend the Land Transport Rule: Vehicle Standards Compliance 2002 to:
- 19.1. provide for any agreed change warrant of fitness inspection frequency to be implemented from 1 July 2014 or earlier
- 19.2. provide for a 3-12 month variable certificate of fitness inspection frequency from 1 July 2014 or earlier to allow the New Zealand Transport Agency to reward good safety performance or mitigate poor safety performance
20. **invite** the Associate Minister of Transport to instruct Parliamentary Counsel Office to draft any amendments to regulations needed to put in place any warrant of fitness and certificate of fitness changes

*Publicity*

21. **note** I plan to issue a media release announcing Cabinet's Vehicle Licensing Reform decisions
22. **note** I plan to publish a copy of this paper, and its accompanying Regulatory Impact Statement, on the Ministry of Transport website after the media release announcing Cabinet's Vehicle Licensing Reform decisions.

Hon Simon Bridges  
**Associate Minister of Transport**

Dated: \_\_\_\_\_

## Appendix One: Impacts on warrant of fitness providers

Information withheld because it would unreasonably prejudice the commercial position of providers.  
(Section 9 (2) b (ii) of the Official Information Act).

## **Appendix Two: Highlights of feedback received through public consultation**

This document provides a high level summary of the public consultation, including the process and the key themes from submissions. Responses from officials on the key issues raised are provided in the Cabinet paper. A more detailed summary and analysis of submissions has been provided to the Minister of Transport and the Associate Minister of Transport.

### **Background information**

A public discussion document was released on 19 September 2012 for a six-week consultation period. 4,593 submissions were received in total: 4,489 from individuals and 104 from organisations. Many individual submitters identified themselves as part of the transport sector. All age groups of the driving public were represented.

Submissions from organisations included the Automobile Association of New Zealand (AA), Bike Riders Organisation NZ, Bus and Coach Association, Business NZ, Federated Farmers of NZ, Grey Power Federation, NZ Federation of Motoring Clubs, NZ Taxi Federation, Institution of Professional Engineers NZ, Insurance Council of NZ, Motor Industry Association, Motor Trade Association (MTA), , NZ Local Authority Traffic Institute, NZ Motor Caravan Association Inc., NZ Post Group, Rental Vehicle Association, Road Transport Forum NZ, Rural Contractor NZ Inc., Transport Engineering Research NZ (TERNZ), Truck Rentals (TR) Group Ltd., Vehicle Inspection NZ and Vehicle Testing NZ (VTNZ).

The majority of submissions (4,524) focussed on warrant of fitness reform. The other areas of vehicle licensing reform received significantly fewer submissions. There were 1,900 submissions on certificate of fitness, 1,543 submissions on annual vehicle licensing and 448 submissions on transport services licensing reform.

The electronic submission form on the Ministry of Transport website was the most common way people submitted. There were 2,532 electronic submission forms in total.

A number of submissions contained views about ways of improving safety on New Zealand's roads but this was not in the scope of the Vehicle Licensing Reform project. These submitters felt that instead of reforming vehicle licensing, a greater focus is required on drunk driving, reckless driving, youth driving and drivers who continue to disregard cell phone and seatbelt laws. Some submitters suggested changes to the way vehicles are classified and changes to the Road User Charges system. Various submitters also had views about how congestion could be reduced in New Zealand.

### **Warrant of fitness**

Submitters supporting reform of the warrant of fitness system were evenly split with those against it. Overall, 2,262 submitters were in favour of some sort of reform (the proposed options in the discussion document or an alternative option) and 2,266 in favour of keeping the status quo. Of the submissions:

- 1,376 that supported the status quo were received using a MTA template. The MTA's advertising campaign against changes to the warrant of fitness system ('Hands off the WoF') ran during the consultation period. The campaign had a large impact on the number of submissions received, with the daily number increasing by 500 percent after it began

- 1,951 of the electronic submission forms received were in favour of reform and 538 were in favour of keeping the status quo.

A common theme raised by submitters favouring reform was that modern vehicles are more durable now and that reform is needed to reflect a more appropriate balance between cost savings and safety. A large proportion of these submitters felt that a change in system would bring New Zealand into line with other international jurisdictions. After the launch of the MTA's campaign, a new theme that arose was private individuals urging that the government not be swayed by those parties with a vested interest in keeping the current system.

Of the four reform packages covered in the discussion document:

- the option for annual inspections up to 12-years old was preferred by 495 submitters
- the option for no periodic inspections for 3 years and annual inspections thereafter was preferred by 660 submitters
- the option for inspection frequency based on distance travelled was preferred by 412 submitters
- the option for inspection at change of ownership was preferred by 262 of the submissions received.

One of the main themes raised by submitters who favoured keeping the status quo was that the average New Zealander lacks the knowledge and ability to properly maintain a vehicle and the warrant of fitness is the only time a vehicle is inspected. These submitters also had concerns about the high age of the vehicle fleet, the perceived unsafe nature of New Zealand's roads and the effect of decreased inspections on vehicle parts, such as tyres. Amongst these submitters was a feeling that these risks would be more prevalent if the frequency of inspection is decreased.

Some submitters raised the stringency of the current warrant of fitness inspection. Others noted the inspection currently addresses a range of vehicle safety items, including lights, tyres and brakes, which are factors in most crashes caused by vehicle defects.

The MTA and inspecting organisations argued that the defect contribution rates used in the safety analysis are too low when compared to some other jurisdictions and that crash rates involving vehicle defects in New Zealand are under-reported.

A number of organisations, including the Motor Industry Association and VTNZ supported less frequent inspections for new vehicles up to two or three years of age.

The AA and a number of other submitters considered that the level of testing on new vehicles (such as those less than 12 years-old) is too frequent, but believed a higher frequency of inspections may still be needed for older vehicles to ensure vehicle safety. The AA noted, however, there is scope in their view to progressively decrease the frequency for vehicles older than 12 years over time, provided there has been a measurable improvement in vehicle maintenance and safety for vehicles aged 6 to 12 years.

The warrant of fitness package based on the distance travelled was seen as a fairer approach by many because inspection duration would be more closely aligned to need. As vehicles age, the average distance travelled falls quickly.

Independent inspection stations argued that a reduction in revenue from less warrant of fitness inspections could lead to price and service impacts in the certificate of fitness business. The certificate of fitness proposals discussed below would help to prevent this situation developing.

### **Certificate of Fitness**

There were 1,900 submissions on certificate of fitness reform with 1,209 in favour of the current system (1,049 of these used the MTA's template), and 691 in favour of some sort of reform. Of the three reform packages covered in the discussion document:

- the option for 6-month inspections and better certification flexibility was preferred by 293 submitters
- the option for 12-month inspections and greater inspection choice was preferred by 245 submitters
- the accreditation option was preferred by 63 submitters.

There appears to be little support from the commercial vehicle sector and the public for reducing the default inspection frequency for heavy and other commercial vehicles. Stakeholders including VTNZ, and the AA supported the retention of 6-monthly inspections, but with the ability to put operators on variable inspection frequencies between three and 12 months (an extension from nine months currently). The Road Transport Forum supports reduced frequencies for high-performing operators.

VTNZ, Vehicle Inspection New Zealand and the AA all supported inspection agents being able to certify vehicles even where minor defects are picked up and allowing operators to repair such faults without needing a recheck. The AA supported inspection stations being able to perform minor repairs. Such approaches would reduce inconvenience for vehicle operators to a degree, but the benefits would not be large.

The Road Transport Forum supported more choice and flexibility for operators, such as inspectors travelling to operators' premises, so long as this does not impact negatively on safety outcomes.

Response from operators to the accreditation option was mixed. Safety concerns were a common theme whilst those supporting accreditation agreed it should only be approved where an operator has demonstrated a high standard of maintenance, and auditable processes show that there is continuous compliance. The Road Transport Forum agrees that accreditation would have some attraction to a few operators, but thinks it could be a step too far at this time.

## **Annual vehicle licensing**

There was strong support for measures that would make compliance with the existing system easier, and reducing the cost of licensing.

Of the 1,543 submissions on the suggested annual vehicle licensing ideas for change:

- 570 submissions supported direct debit
- 986 supported early payment incentives
- 636 supported choosing to receive reminders by email or text message
- 211 supported late payment penalties
- 286 supported the use of fleet management tools through an account system.

One suggestion that came through in a number of submissions was to move the ACC levy and land transport charges to other collection mechanisms, such as a distance based (road user charges) and fuel excise (petrol tax) system.

## **Transport Services Licensing**

There were 448 submissions on transport services licensing reform, with 388 submitters in favour of some sort of reform and 60 in favour of the current system.

Of the reform options covered in the discussion document:

- option one (removing transport services licensing) was chosen by 101 submitters
- option two (targeted management of transport services )was selected 282 times.

The major industry representative bodies are all opposed to completely removing the transport services licensing system. The system is perceived as being a barrier to entry and a means to exit operators, even though these functions are weak.

The majority of submitters highlighted the benefit of the transport service licence as a means of identifying operators and linking vehicle events to operators, which is important for a successful operator safety rating system. Despite its weaknesses, submitters recognised the value of the system, but they made suggestions for improving it (such as tightening up entry requirements and strengthening exiting requirements).

The public were generally concerned about commercial transport operators being properly licensed.