

# Regulatory Impact Statement

## Vehicle Licensing Reform: amendments to vehicle certification and other fees

### Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the New Zealand Transport Agency and the Ministry of Transport.

On 1 July 2014, changes to the Warrant of Fitness (WoF) and Certificate of Fitness (CoF) inspection systems will come fully into effect. The changes are expected to deliver economic benefits to New Zealanders over 30 years of \$1.8 billion and \$460 million respectively. The cost benefit analyses that informed the legislative and policy decisions are available at:

<http://www.transport.govt.nz/ourwork/land/vehiclelicensingreformconsultation/#documents>

This Regulatory Impact Statement proposes changes to WoF, COF and other certification administration fees. Adjusted and new fees are proposed to address the changes to the WoF and CoF systems, recover the cost of implementing the WoF and CoF changes, and ensure the fees reflect the actual cost of service provision.

The analysis is informed by cost and business process reviews undertaken in 2013, including consideration of efficiency opportunities, and forecasts of costs under the modified WoF and CoF systems for the three years commencing 1 July 2014. The public were provided with an opportunity to make submissions on these proposals from 13 December to 11 February 2014. It has not been necessary to change the fee recommendations as a result of consultation, however further information will be published on the New Zealand Transport Agency website on how hourly fees are applied to address concerns expressed by some stakeholders.

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

Cabinet agreement will be needed to give effect to any fee changes. Changes to the fees will require amendments to the Land Transport (Certification and Other fees) Regulations 1999. Ideally, these amendments should come into effect from 1 July 2014 to align with scheduled changes to the WoF and CoF systems that come into full effect on this date.

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## Status quo and problem definition

1. The New Zealand Transport Agency is responsible for administering and providing a variety of services related to the safety certification of road vehicles. These include:
  - a. authorising inspecting organisations to provide warrant of fitness (WoF), certificate of fitness (CoF) and other specialist vehicle safety inspection services, and the sites inspecting organisations operate from
  - b. authorising vehicle inspectors to conduct WoF, CoF and other specialist vehicle safety inspections
  - c. monitoring and reviewing the performance of vehicle inspectors and inspecting organisations
  - d. managing the database of vehicle inspections, and a contact centre to provide information to vehicle owners
  - e. issuing permits and approvals to vehicle owners whose vehicles do not comply with the requirements of a land transport rule but are covered by an exception in the rule
  - f. processing applications from vehicle owners who want an exemption from the requirements of a land transport rule for their vehicle.
2. These services are funded by fees, which are prescribed in the Land Transport (Certification and Other Fees) Regulations 1999. Revenue from fees no longer covers the cost of providing these services or the cost of changes to the services agreed by Cabinet in January 2013 [CAB Min (13) 1/17 refers].

### Vehicle licensing reform

3. Cabinet agreed to changes to the WoF and CoF systems for maintaining vehicles in a safe, roadworthy condition after an extensive review of the certification system carried out by the Ministry of Transport and the New Zealand Transport Agency, called the Vehicle Licensing Reform [CAB Min (13) 1/17 refers].
4. The major changes are that light private vehicles registered since 2000 will be inspected less frequently for WoF. Some of these vehicles will have reduced inspection requirements from 1 January 2014, with the full changes coming into force on 1 July 2014. For heavy and commercial vehicles, a greater range of providers may be able to provide CoF inspection services. These changes are expected to deliver economic benefits to New Zealand over 30 years of \$1.8 billion and \$460 million for the WoF and CoF system changes respectively, while maintaining vehicle safety.
5. The changes to the WoF and CoF systems have one-off and ongoing costs of \$7.5 million and \$0.6 million per annum respectively. This does not include the planned \$5.4 million of warrant of fitness education and enforcement measures, which have been funded using National Land Transport Funds, as the beneficiaries were considered to be all users of the land transport network.
6. In June 2013 Cabinet noted the New Zealand Transport Agency's intention to recover most of the one-off and ongoing implementation costs through third party administration fees as the changes deliver considerable benefits to vehicle owners [EGI Min (13) 12/2 refers].

## Current fees do not reflect the true cost of services

7. The administration fees that the New Zealand Transport Agency may charge for services relating to vehicle certification are set out in the Land Transport (Certification and Other Fees) Regulations 1999. Since 2010/11 the fees have not fully covered the cost of administering and providing vehicle certification services, and a deficit of \$3.7 million has accumulated in the vehicle certification memorandum account as at 1 July 2013. This total deficit includes \$0.6 million costs incurred in 2012/13 financial year to implement the WoF and CoF system changes.
8. Information is not available at a level of detail that would enable the factors that have affected each individual fee to be identified. However, most of the fees have not been adjusted for 12 years, so costs have increased due to inflation and cumulative small changes to legislation (e.g. GST changes) that incurred change costs. Factors like growth in demand and service efficiencies in some service areas have also had an impact, meaning many of the fees no longer reflect the cost of the individual service and there is subsidisation between vehicle certification fees. In a few cases, the original fee may also not have reflected the full cost of service provision.
9. Table 1 indicates current state, showing volumes, revenue and actual costs associated with vehicle certification services for the 2012/13 financial year. Table 2 shows the same information for other vehicle certification-related services.

**Table 1:** Volumes, revenue, and costs associated with vehicle certification services for the 2012/13 financial year

Service	Volumes	Revenue	Cost	Net Surplus (Deficit)
<b>Entry, WoF and CoF vehicle certification fees</b>				
Warrant of fitness	5,530,000	\$3,981,600	\$3,220,030	\$761,570
Certificate of fitness	360,000	\$766,800	\$269,764	\$497,036
Entry(new)	112,000	\$248,640	\$80,171	\$168,469
Entry(used)	94,200	\$159,198	\$100,482	\$58,716
Low volume vehicle	6,850	\$235,914	\$278,969	(\$43,055)
Heavy vehicle specialist	31,800	\$180,942	\$122,947	\$57,995
Repair	13,400	\$172,726	\$43,663	\$129,063

<b>Vehicle inspecting organisations and vehicle inspectors fees</b>				
Inspecting organisation applications	284	\$127,003	\$352,826	(\$225,823)
Vehicle inspector applications	1,300	\$78,524	\$551,956	(\$473,432)
Monitoring and review	1,998	\$938,153	\$2,879,993	(\$1,941,840)
<b>TOTALS</b>	<b>6,151,832</b>	<b>\$6,889,500</b>	<b>\$7,900,803</b>	<b>(\$1,011,303)</b>

**Table 2:** Volumes, revenue, and costs associated with other services for the 2012/13 financial year

<b>Service</b>	<b>Volumes</b>	<b>Revenue</b>	<b>Cost</b>	<b>Net Surplus (Deficit)</b>
<b>Other vehicle certification-related fees</b>				
Identification as an immigrant's vehicle	350	\$15,556	\$56,000	(\$40,444)
Special interest vehicle permit	251	\$33,467	\$40,160	(\$6,693)
Left-hand drive permit	427	\$56,933	\$68,320	(\$11,387)
Exemptions from vehicle-related compliance rules	3500	nil	\$560,000	(\$560,000)
Fee payable by a vehicle importer	84,000	\$1,493,520	\$461,105	\$1,032,415
<b>TOTALS</b>	<b>88,528</b>	<b>\$1,599,476</b>	<b>\$1,185,585</b>	<b>\$413,891</b>

### The fee structure is too complicated

10. The current fee structure prescribes a large number of different fees for services that are very similar. The fee review provides an opportunity to simplify and clarify the fee structure by avoiding separate fees for similar services. The benefit of simplification is the system is better able to respond to new service options proposed by suppliers, increased ability to the direct charges to the beneficiaries of services, and reduced complexity of administration.

## Objectives

11. The objectives of this review are to ensure that:

- a. those who benefit from New Zealand Transport Agency regulatory activities make a fair and reasonable contribution to the cost of these activities
- b. fees are equitable and efficient
- c. the targeting of fees at particular users is balanced with the need to have a simple fee structure, which requires minimal administration.

## Options and impact analysis

12. In December 2013, Cabinet agreed that officials could consult on proposed changes to regulated fees for vehicle certification services [EGI (13) 30/5 refers]. The proposals included recovering the implementation and ongoing costs of changes to the WoF and CoF regimes planned as part of the Vehicle Licensing Reform programme, ensuring certification fees reflect the true costs of the services being provided by the New Zealand Transport Agency, and simplifying the fee structure.

### Entry, WoF and CoF vehicle certification fees

13. The New Zealand Transport Agency manages vehicle safety inspection systems for the 4.3 million registered motor vehicles in New Zealand. The IT systems that store this information are accessed and updated by vehicle inspectors for every vehicle that enters the country and each time a vehicle undergoes a WoF or CoF inspection. Inspection guidelines and manuals are updated to cover new vehicle technologies, and contact systems for members of the public and vehicle inspectors seeking information or advice on vehicle inspection and certification issues. These, and other costs related to vehicle certification, are funded by vehicle certification fees (refer Table 2) applied at the time of inspection.
14. The fee is applied to the vehicle inspection certificate (literally, the label stuck on the vehicle). The fee is paid in the first instance by the inspecting organisations, who recover the cost from vehicle owners as part of the inspection price.
15. In June 2013 Cabinet was advised that the one-off and ongoing implementation costs of the WoF and CoF system reform, would be recovered through vehicle certification fees. In-depth consideration of other funding options was not undertaken as vehicle owners have always funded certification systems through fees and a need for change to this approach was not identified. Additionally, the consideration that was given to alternative funding sources identified that a Government appropriation would not target beneficiaries of the changes, there were policy and legislative impediments to using the National Land Transport Fund for certification services, and cross-subsidising from other fee-funded services goes against Treasury and Audit Office guidelines.
16. It is proposed that both the \$7.5 million one-off implementation cost of the WoF and CoF system reform, and the increased annual cost of associated with monitoring and reviewing the new CoF service delivery model \$0.6 million, be recovered through costs applied to WoF and CoF vehicle certification fees.
17. The one-off implementation cost, which will initially result in a deficit in the New Zealand Transport Agency's vehicle certification memorandum account, would be completely recovered in a finite period. Cabinet was advised that several options would be considered for the period over which the implementation costs could be recovered.
  1. *Option 1: Cost recovery over three years, commencing 1 July 2014*

Under this option, the WoF and CoF system implementation costs would be fully recovered by 30 June 2017. Although the cost would be recovered quickly, quite a large increase in certification fees would be necessary for those three years.

2. *Option 2: Cost recovery over five years, commencing 1 July 2014*

Under this option, the WoF and CoF system implementation costs would be fully recovered by 30 June 2019, leaving the memorandum account in deficit for longer. However, a smaller increase in certification fees would be necessary.

3. *Option 3: Cost recovery over seven years, commencing 1 July 2014*

Under this option, the WoF and CoF system implementation costs would be fully recovered by 30 June 2021. This option would require even smaller increases in certification fees, but the memorandum account deficit would be carried for longer.

18. There are no decisive reasons for preferring any of these options; however, Option 2 offers a compromise between minimising certification fee increases and balancing the memorandum account in a reasonable period. We therefore propose that the \$7.5 million one-off implementation cost of the WoF and CoF system reform is recovered over five years.
19. The cost impact is \$0.18 and \$3.45 increases to WoF and CoF vehicle certification fees respectively for a period of five years. The increase for CoF is significantly higher than for WoF because far fewer vehicles are required to undergo a CoF.
20. It is also proposed to include in the vehicle certification fee cost recovery of routine monitoring of the performance of the vehicle inspecting organisations and vehicle inspectors, which secures integrity of the certification system. This results in a \$0.50 increase in all vehicle certification fees listed in Table 2 and is a change to how these regulatory services are cost recovered. The rationale for the change is to enable the use of more effective and risk targeted monitoring tools. This is discussed in more detail in the next section.
21. Most vehicle certification fees have not been changed for a number of years. Many of the fees now no longer reflect the cost of the individual service and some fees are subsidising other vehicle certification related services (refer Table 1). It is proposed to reset the fees to reflect the cost of the specific service. The impact is small increases to the WoF and CoF fees (\$0.15 and \$0.24 respectively), and decreases to entry, low volume vehicle, heavy vehicle and repair certification fees. The increases take into account that there will be fewer WoF inspections in the future as a consequence of the WoF system changes.
22. The combined impact of the changes proposed is shown in Table 2, which sets out the current and proposed fees. A projected memorandum account view is presented in Appendix 1.

**Table 2:** Current and proposed vehicle certification fees

<b>Vehicle certification fees</b>	<b>Current (\$)</b>	<b>Proposed (\$)</b>	<b>Forecast annual transactions</b>
Warrant of fitness	0.72	1.55	4,399,972
Certificate of fitness	2.13	6.50	360,000
Entry(new)	2.22	1.35	112,000
Entry(used)	1.69	1.69	94,200
Low volume vehicle	34.44	13.85	6,850
Heavy vehicle specialist	5.69	4.50	31,800
Repair	12.89	3.85	13,400

*Impact of the proposed changes to vehicle certification fees*

23. Inspecting organisations will pay more for each WoF and CoF vehicle inspection certificate but less for other types of vehicle certificates.
24. Inspecting organisations pass on the cost of certification fees to their customers. If the WoF and CoF fee increases are passed directly on to motorists in the form of higher prices for vehicle inspections, the increases will be \$0.83 (excluding GST) for a WoF inspection, which costs about \$50.00, and \$4.37 (excluding GST) for a CoF inspection, which costs about \$150.
25. For owners of private light vehicles registered on or after 1 January 2000, this increase would be offset by the reduced frequency of WoF inspections. Owners of light vehicles registered prior to 1 January 2000 will remain subject to 6-monthly inspections. Only applying the WoF system change implementation costs to vehicles registered after 1 January 2000 was considered, however this added implementation complexity and cost, and the increase was not of a size that would motivate service providers to create differential market prices for pre and post 1 January 2000 vehicles without legislative direction to do so. Such a step was not considered justified given the small size of the increase and the fact that all vehicle owners are able to access the benefits of the WoF changes through future vehicle purchases.
26. For the owners of commercial and heavy vehicles, the increase is offset by savings enabled by the availability of more flexible CoF inspection options.

**Fees for entry and oversight of vehicle inspecting organisations and vehicle inspectors**

27. The cost of processing applications for inspecting organisations and vehicle inspectors is recovered through fixed fees charged to the applicant, which are differentiated by the type of inspection (e.g. WoF, CoF, low volume vehicle). The current fees do not reflect the cost of processing an application.
28. Over 90% of applications relate to WoF and CoF inspection services, and both types of application take a similar time to process.
29. All applications usually include a 'fit and proper person' check to ensure the integrity of the applicant. This is prescribed in a separate regulation.
30. Once an inspecting organisation or a vehicle inspector has been appointed, they are currently required to undergo planned performance reviews (about once every two

years). These reviews incur a fixed fee, usually charged to inspecting organisations, which partly covers the cost of the review. This fee currently ranges from \$516.89 to \$793.78 (excluding GST) depending on the class or classes of vehicle inspected by the inspecting organisation. The regulations also make provision for spot reviews which can be charged at an hourly rate.

31. Officials considered retaining the current fee structure, with adjustments to reflect the current full cost of each service (Option 1), and simplifying the fee structure, with fee levels set to recover the full cost of each service and to exclude routine performance monitoring costs (Option 2). Reducing levels of service around monitoring & review was not considered a viable option, as it would be contrary to the Vehicle Licensing Reform objective of maintaining or improving safety outcomes.

*Option 1: Retain the current fee structure, with the fees adjusted to meet the full costs of the respective services*

32. Retaining the current fee structure, with the fees adjusted to meet the full costs of the services would have the advantage of minimising change and the costs associated with this – but it would also have the following disadvantages.
- The current fees structure is unnecessarily complex. Some fees are never, or only rarely, applied; most of the fees have substantially similar underlying costs.
  - The current fee structure is unduly prescriptive. If a new inspection type is created, the fee regulations have to be amended to accommodate it.
  - Charging inspecting organisations for scheduled reviews of their capabilities makes it difficult to apply review methods (such as random reviews or mystery shoppers) that would potentially be more effective in securing a consistent and robust inspection service for vehicle owners.
  - Given that the cost of scheduled reviews is a cost of business ultimately passed on to customers, charging inspecting organisations directly also means organisations with few customers pay the same fee as inspecting organisations with many customers. This may disadvantage the customers of smaller, often remote, organisations in a way that is not appropriate for a mandatory purchase.

*Option 2: Simplify the current fee structure, with fees set to meet the full cost of each service and to exclude performance monitoring costs*

33. The 20 existing fees would be reduced to the following 3 fees:
1. a generic inspecting organisation application fee, with a standard hourly rate applied for additional regulatory services (e.g. additional sites, additional vehicle certification services)
  2. a generic vehicle inspector application fee, with a provision for part charging (e.g. in the event that some aspects of the process are outsourced, or an existing vehicle inspector wishes to expand his or her scope of practice)
  3. a standard hourly rate applied for non-routine monitoring and review of an organisation's or inspector's performance.

34. Applications for inspecting organisations and vehicle inspectors must be made in the name of an individual. Before authorisation is granted, the named individual is subject to a 'fit and proper person' check by the New Zealand Police. The fee for this check is currently regulated at \$25.07 (excluding GST). It is proposed to revoke this fee, and recover the costs through the generic inspecting organisation and vehicle inspector fees. The simplified fee structure would have the following advantages better able to respond to new service options proposed by suppliers, increased ability to the direct charges to the beneficiaries of services, and reduced complexity of administration.:
- It would be easier to explain and apply
  - new inspection service options can be considered and approved, where appropriate, without having to amend the fee regulation
  - It would be easily scalable to take into account instances where costs can vary (upwards and downwards), therefore charges will be better directed to the beneficiaries of the regulatory services.
35. It is also proposed to revoke the fees for scheduled reviews of inspecting organisations and inspectors and recover the cost of routine monitoring (which may or may not be scheduled) through the vehicle certification fees (refer para 22 above).
36. Infrequent, scheduled reviews do not provide a robust assessment of the quality of the service being provided to vehicle owners as efficiently as other quality assurance options, and cannot be targeted to risk. Under this proposal, a wider range of monitoring tools would be enabled, such as mystery shopping and post certification inspections, and these could be risk targeted. Vehicle owners, who are the beneficiaries of a high quality vehicle inspection system, would contribute more directly and proportionately to the monitoring of vehicle inspecting organisations and inspectors.
37. Responses to non-performance detected through monitoring, for example, remedy-focused reviews, would still be charged directly to inspecting organisations or inspectors via the hourly charge fee. Direct charging for non-performance management services is considered appropriate as it creates an incentive on inspecting organisations and inspectors to comply with service requirements to avoid additional costs.
38. Option 2 is recommended because the advantages outweigh any short-term costs associated with the proposed changes.
39. Table 3 provides a comparison of current and proposed fees for inspecting organisation applications. Table 4 provides a comparison of current and proposed fees for vehicle inspector applications. The fees for reviewing the performance of inspectors would be revoked and replaced by a levy, incorporated within the fee for each vehicle certification, as set out in Table 2 (above).

**Table 3:** Comparison of current and proposed application fees for inspecting organisations

Service	Current fees (\$)	Proposed fees (\$)	Forecast annual transactions
Warrant of fitness site	442.67	1,250.00	258
Certificate of fitness site	725.33		
Entry (used) site	455.56		
Low volume vehicle site	459.11		

**Table 4:** Comparison of current and proposed application fees for vehicle inspectors

Service	Current fees (\$)	Proposed fees (\$)	Forecast annual transactions
WoF certifier	59.73	430.00	959
CoF certifier	59.73		
Entry (used) certifier	59.73		
Low volume vehicle certifier	277.33		
Heavy vehicle certifier	277.33		
Repair certifier	515.56		
Entry (new ) certifier	59.73	revoke	0-1

*Impact of the proposed changes to fees applied to entry and oversight of vehicle inspecting organisations and vehicle inspectors*

40. The difference between the current and proposed fees for inspecting organisations and vehicle inspector applications is large (e.g. an additional \$807.33 for an application for a WoF inspecting organisation).

41. However, these are one-off fees paid by businesses or individuals entering the vehicle inspection market. It is possible that the increased fees could present a barrier to new providers wishing to enter the vehicle inspection market, but any effect is expected to be small as the increase is not a large sum compared to the overall cost of establishing an inspecting organisation or training as an inspector. The New Zealand Transport Agency proposes to monitor numbers of applications to assess this.

42. Where more than one service is applied for, it is proposed that the New Zealand Transport Agency have discretion to waive set fees or charge at an hourly rate for additional services – for example, where an organisation wants a site approved for both WoF and CoF.

**Other vehicle certification services**

43. The Land Transport (Certification and Other Fees) Regulations 1999 also prescribe fees for the following vehicle certification services:

- application for the identification of a vehicle as an immigrant’s vehicle for the purposes of exception from the Land Transport Rule: Frontal Impact 2001

- application for a special interest vehicle permit for the purposes of exception from the Land Transport Rule: Frontal Impact 2001
- application for a Category A left-hand drive vehicle permit
- fee payable by a vehicle importer for collection of information about the vehicle.

44. The New Zealand Transport Agency also receives about 3500 applications a year for exemptions to vehicle compliance rules. There is no fee prescribed for recovering costs associated with processing these applications. Currently, therefore, there is poor alignment between fee revenue and the costs of providing these vehicle certification services.

45. Officials considered retaining the current fees for this set of vehicle certification services or aligning the fees with costs.

*Option 1: Retain current fee schedule*

46. The memorandum account for fees payable by vehicle importers currently registers a surplus of \$2.3 million. A \$12.28 rebate applied to the fee has already been implemented to avoid further surplus accumulating. Other vehicle certification services are under-recovering by about \$0.620 million per year.

47. The current situation is sustainable in the short (3 year) term – the services in deficit are offset by the existing surplus in the vehicle importers service area – but it has three significant disadvantages:

1. recipients of the vehicle certification services in deficit are not fully contributing to the costs of services from which they benefit
2. vehicle importers are subsidising beneficiaries of other vehicle certification services
3. planned use of the vehicle importers fee surplus to deliver benefits to vehicle importers in the form of improved functionality of the IT system they interact with would not be possible

*Option 2: Align fees with costs*

48. Aligning fees with costs would entail the following changes to fees for other vehicle certification services:

1. an increase in the fixed fees to meet the full cost of processing applications for the identification of a vehicle as an immigrant's vehicle, and for left-hand drive and special interest vehicle permits
2. the introduction of a standard hourly rate to recover the costs of exemptions from vehicle compliance rules, with waiver provisions where exemption applications arose from anomalies in the rules
3. a reduction in the fee payable by vehicle importers to align with the current cost of providing this service.

49. We recommend Option 2. The current and proposed fees for this option are presented in Table 5.

**Table 5: Cost recovery for other vehicle certification services (excluding GST)**

Service	Current fees (\$)	Proposed fees (\$)	Forecast annual transactions
Identification as an immigrant's vehicle	44.44	160.00 (fixed fee)	350
Special interest vehicle permit	133.33	160.00 (fixed fee)	251
Left-hand drive vehicle permit	133.33	160.00 (fixed fee)	427
Fee payable by vehicle importer	17.78	5.50 (per used vehicle entering the country)	84,000
Application for exemption from vehicle-related land transport compliance rules	None	160.00 (per hour)	3,500

### Replacement labels

50. Certification labels (e.g. WoF and CoF window stickers) are issued as evidence that certification has occurred. Duplicate labels can be provided by any inspecting organisation to replace damaged labels. The Land Transport (Certification and Other Fees) Regulations 1999 prescribe fees for the issue of duplicate certification labels (\$6.66) and duplicate certificates of loading (\$14.22) under Regulation 7. Since the fee covers the cost to the inspecting organisation of providing the service, rather than a cost to the New Zealand Transport Agency, it is proposed that inspecting organisations should be allowed to determine this price, rather than apply a regulated fee.

51. Having a regulated fee places a limit on what customers can be charged for the mandatory purchase of a duplicate label. However, market pressures may be sufficient to control prices. It is also proposed to provide consumer protection by including the supply of duplicate labels in Regulation 8 of the Land Transport (Certification and Other Fees) Regulations 1999, which prescribes a test of reasonableness for inspection fees charged by inspecting organisations.

### Consultation

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

53. A total of 20 submissions were received. The main concern of submitters was the size of the change where fee increases are proposed. Fee increases are due to the recovery of the costs of significant change to the WoF and CoF systems and to the increased cost of providing services since the last review more than 12 years ago. The New Zealand Transport Agency has scheduled another review of vehicle certification fees for 2017 to reduce the likelihood of significant change in the future and to schedule fee reductions after the Vehicle Licensing Reform costs have been recovered.

54. For inspecting organisations, the impact of the proposed fee changes can be minimised by passing the costs of the WoF and CoF system changes on to vehicle owners (i.e. an increase of \$0.83 for a WoF inspection and \$4.37 for a CoF inspection), as noted above. Vehicle owners are the direct beneficiaries of the WoF and CoF system changes and the increase is small.
55. The fees proposal makes provision for charging a number of services on an hourly rate basis (extending inspecting organisation's authority, vehicle rule exemptions, non-routine audits of inspecting organisations). A number of submissions requested more detail as to how these rates would be applied. The New Zealand Transport Agency has agreed to publish guidance on this prior to the introduction of any fee changes.
56. No changes to the fee proposals were considered necessary as a result of public consultation.

## Conclusions and recommendations

57. The following proposals are recommended in order to support major changes to the WoF and CoF systems of benefit to private and commercial vehicle owners, and to ensure that users of vehicle certification services contribute to the services they use.
- One-off costs of \$7.5 million associated with Vehicle Licensing Reform will be recovered over a five year period through a margin included within WoF and CoF certification fees.
  - The structure of fees for the entry and oversight of inspecting organisations and vehicle inspectors will be simplified, made more generic, and set to recover the full costs of the relevant services from users. Routine monitoring and review will be paid for by a margin applied across all of the certification fees.
  - Application fees for permitted exceptions from vehicle compliance rules, and the fee payable by vehicle importers, will be adjusted to recover the current costs of these services. This would result in fee increases for applications for exceptions, and a decrease in vehicle importers fees.
58. A summary of the recommendations, which includes the structure and dollar value of the current and proposed fees, is provided in Appendices 2 and 3.

## Implementation

59. Any changes agreed by Cabinet will require amendment to the Land Transport (Certification and Other Fees) Regulations 1999. Ideally these can be brought into effect from 1 July 2014 to align with changes to the WoF and CoF inspection systems. No major changes are required to fee collection processes. The New Zealand Transport Agency will communicate the new fees to service providers and the public and change relevant communication material.

## Monitoring, evaluation and review

60. The numbers of applications for inspecting organisations and vehicle inspectors will be monitored to ensure that the new fees are not creating undue barriers to entry.

61. Any complaints by vehicle owners about large price movements for WoF and CoF inspection services will be followed up to ensure that inspecting organisations are making any adjustments to their prices responsibly, in light of the modest increases to certification fees.
62. The proposed fees are a reflection of costs and cost recovery needs for a 3 year period commencing 1 July 2014. The fees will be reviewed again in the final year of this period, with a view to making any necessary adjustments to reflect costs and cost recovery needs for the 3 years commencing 1 July 2017.

Appendix 1: Projected memorandum account for certification fees and fees for the entry and oversight of inspecting organisations and vehicle inspectors

Memorandum accounts	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening balance:</b>	<b>(3,667)</b>	<b>(6,364)</b>	<b>(5,414)</b>	<b>(3,985)</b>	<b>(2,556)</b>	<b>(1,127)</b>	<b>343</b>
Revenue:	7,400	10,522	10,522	10,522	10,522	10,522	10,522
Expenditure:	10,097	9,571	9,093	9,093	9,093	9,052	8,619
Closing balance	<b>(6,364)</b>	<b>(5,414)</b>	<b>(3,985)</b>	<b>(2,556)</b>	<b>(1,127)</b>	<b>343</b>	<b>2,246</b>

## Appendix 2: Summary of current and proposed fees for vehicle certification and for the entry and oversight of inspecting organisations and vehicle inspectors

Current fees		Proposed fees	Description of proposed fees	Rationale	Likely impact
<b>Application fees for inspecting organisations</b>		<b>\$ 1,250.00</b>			
COF Site	\$ 725.33	<b>Revoke</b>	Single generic vehicle inspection organisation fee set at the full cost of the application, including fit and proper person.	Users meet the full cost of the application. Simpler, more flexible fee structure.	No impact on existing organisations. Inspecting organisations entering the system from 1 July 2014 would pay more. Generic fee allows for variety of new service models. Could deter some new entrants to the market, but this is unlikely.
Entry (used) site	\$ 455.56	<b>Revoke</b>			
Low volume site	\$ 459.11	<b>Revoke</b>			
WOF site	\$ 442.67	<b>Revoke</b>			
<b>Fit and proper person fee</b>	\$ 25.07	<b>Revoke</b>	Revoke and recover through new inspecting organisation and vehicle inspector application fees.	This service is integral to vehicle inspector and inspecting organisation applications. Charging it separately to these applications creates unnecessary transaction costs Simplifies fees structure.	Reduces transaction costs. Simplifies the application process from a payment processing perspective.
<b>Application fees for vehicle inspectors</b>		<b>\$ 430.00</b>			
COF certifier	\$ 59.73	<b>Revoke</b>	Single generic vehicle inspector fee set at the full cost of the application, including fit and proper person. The fee for entry (new) certifiers would not be included in the proposed fee, and therefore this service would not incur a charge.	Users meet for the full cost of the application. Simpler, flexible fee structure.	No impact on existing inspectors. Inspecting organisations entering the system from 1 July 2014 would pay the new rate. Generic fee allows for variety of new service models. Could deter some new entrants to the market, but this is unlikely.
entry (new) certifier	\$ 59.73	<b>Revoke</b>			
entry (used) certifier	\$ 59.73	<b>Revoke</b>			
Low volume vehicle certifier	\$ 277.33	<b>Revoke</b>			
Heavy vehicle certifier	\$ 277.33	<b>Revoke</b>			
Repair certifier	\$ 515.56	<b>Revoke</b>			
WoF certifier	\$ 59.73	<b>Revoke</b>			
<b>Planned review fees</b>					
COF site	\$ 790.67	<b>Revoke</b>	Revoke all planned review fees and recover through a \$0.50 margin on all certification fees.	Allows for more flexible, risk-based approach to performance reviews Volume-based levy reflects the scale (and risk) associated with each inspecting organisation Broad-based levy approach reflects public benefit in having a robust vehicle inspection system Reduces transaction costs associated with invoicing, late payments, bad debts, and payment processing.	Providers no longer charged on a direct fee for service basis The full costs of routine reviews can be recovered through relevant label fees with minimal impact on providers or the public.
Entry(new) certifier - site	\$ 793.78	<b>Revoke</b>			
Entry(used) site	\$ 654.67	<b>Revoke</b>			
Low volume vehicle certifier	\$ 541.78	<b>Revoke</b>			
Heavy vehicle specialist certifier	\$ 541.78	<b>Revoke</b>			
Repair certifier	\$ 516.89	<b>Revoke</b>			
WOF site	\$ 516.89	<b>Revoke</b>			
<b>Hourly rate for spot reviews</b>	\$ 126.70	<b>\$ 160.00</b>	A standard hourly rate, with broader application adjusted to current full cost Broadened application to cover non-routine reviews, land transport rule exemptions, applications for expanded scope of practice for inspecting organisations (alternative fuels, new Certificate of Fitness service delivery options etc).	Allows costs to be recovered for non-routine review activity Recovers costs for land transport rule exemptions that are processed annually by the Transport Agency Allows costs to be recovered for a variety of additional Transport Agency work generated by inspecting organisations.	Ensures that those who generate additional review work pay for it. Discourages opportunistic applications for exemptions.
<b>Certification (label) fees</b>					
Certificate of fitness	\$ 2.13	<b>\$ 6.50</b>	Retain with expanded scope to recover:	Minimal transaction costs	Cost recovery is spread over 4-5 million inspection transactions per annum, which means that individual contributions are very small. Minimal impact on all those affected.
Entry(new)	\$ 2.22	<b>\$ 1.35</b>		The use of differentiated label fees reflects the underlying costs of various services.	
Entry(used)	\$ 1.69	<b>\$ 1.69</b>	Certification infrastructure costs (IT systems, call centre etc)		
Low volume vehicle	\$ 34.44	<b>\$ 13.85</b>	Relevant Vehicle Licencing Reform implementation and ongoing costs		
Heavy vehicle specialist	\$ 5.69	<b>\$ 4.50</b>	All routine review costs.		
Repair	\$ 12.89	<b>\$ 3.85</b>			
Warrant of fitness	\$ 0.72	<b>\$ 1.55</b>			

### Appendix 3: Summary of current and proposed fees for duplicate labels, exemption-related services and the fee payable by a vehicle importer

Current fees		Proposed fees	Description of proposed fees	Rationale	Likely impact
<b>Fee for issue of duplicate certificates</b>  Paid by vehicle owner to certifier for a duplicate vehicle inspection certificate	\$6.66 - \$14.22	<b>Revoke</b>	Would allow inspecting organisations to set their own prices.	Current provision may be unnecessary because of market competition.	Minimal as vehicle owners have choice of providers to purchase from. Continued protection provided by applying same test as that applied to inspection fees.
<b>Fees payable for purposes related to the Land Transport Rule Frontal Impact 2001 and Land Transport Rule Vehicle Exhaust</b> Identification as an immigrant's vehicle	\$ 44.44	<b>\$ 160.00</b>	Replace with a fixed fee which reflects usual time taken to conduct the work (i.e. one hour).	Service has a clearly identifiable user who captures the full benefits of the service, so should be charged at full cost	Moderate; the cost increase is moderate in absolute terms.
Special interest vehicle permit	\$ 133.33	<b>\$ 160.00</b>	Replace with a fixed fee which reflects usual time taken to conduct the work (i.e. one hour).	Service has a clearly identifiable user who captures the full benefits of the service, so should be charged at full cost.	Little impact; the cost increase is minor in absolute terms.
<b>New fee</b> <b>Application for exemption from vehicle-related land transport rules</b>		<b>Standard hourly rate (\$160.00)</b>	Exemptions from vehicle-related land transport rules charged at a standard hourly rate for the period of the work performed.	Service has a clearly identifiable user who captures the full benefits of the service, so should be charged at full cost. These exemptions are highly variable in terms of time taken, which makes fixed fees impractical. Waiver provisions would be made available for instances where exemption applications are driven by anomalies in the vehicle compliance rules.	Moderate impact on users. Applications for vehicle standards compliance exemptions are currently free to applicants. Imposing a charge will deter any opportunistic applications, and recover costs from users.
<b>Left Hand Drive Vehicle Permit fee</b>	\$ 133.33	<b>\$ 160.00</b>	Retain fixed fee, but set at current full cost.	Retention of a fixed fee is recommended, as this is generally a standard process No justification for any cross-subsidisation.	Applicants will pay the full costs of the service they receive. The proposed fees are higher than current (subsidised) rates.
<b>Fee payable by vehicle importer</b>	\$ 17.78	<b>\$ 5.50</b>	Retain fixed fee, but set at current full cost.	Provides for recovery of costs associated with collection and management of information related to imported used cars.	The regulated fee will be aligned with the rebated fee currently charged to vehicle importers.

