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NZ Automobile Association submission on:
**Proposed changes to land transport
regulatory fees, charges and funding –
consultation document, March 2022**



SUBMISSION TO: Waka Kotahi

REGARDING: Proposed changes to land transport regulatory funding

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Executive Summary

The New Zealand Automobile Association (AA) welcomes the opportunity to provide comment on *Proposed changes to land transport regulatory fees, charges and funding – consultation document, March 2022* (the consultation document).

The consultation document is structured around 8 proposals:

- Proposal 1: new allocation of land transport revenue to fund Waka Kotahi regulatory work
- Proposal 2: overall decrease in driver licencing and testing fees
- Proposal 3: overall increases in vehicle licence and registration fees
- Proposal 4: increase to Road User Charges (RUC) administration fees
- Proposal 5: overall increases to fees and charges for transport service licence (TSL) holders
- Proposal 6: overall increases to fees and charges for vehicle certifiers
- Proposal 7: new charges for data use
- Proposal 8: increased fees and charges for eRUC providers.

Not discussed as one of the 8 proposals, but a feature of most of the proposals is that fees and charges are set at a level so that Waka Kotahi can repay the loan it took out in 2018 to address its regulatory failures. The AA strongly opposes this approach. Polling of our AA Districts shows 100% oppose the transport industry and motorists being compelled to repay Waka Kotahi's loan.

The other main concern we have is with the proposal to use FED and RUC revenue to fund Waka Kotahi's regulatory work, given the significant pressure the NLTF is under, and the opportunity cost of redirecting further revenue. 94% of AA Districts oppose the use of FED and RUC to fund Waka Kotahi regulatory services.

The AA generally supports the proposed fees for driver licencing (provided the loan repayment component is removed), including the policy intent behind "free" resits to encourage people to move through the licencing system. However, we have identified three potential unintended consequence of these changes – less preparation and training being undertaken, more "no shows" for tests, and increasing driving instructor shortages – and propose measures to mitigate these adverse consequences.

Against a backdrop of already high transport costs, proposals 3 through 6 overall increase direct fees motorists pay and increase fees and charges for businesses which will be passed on to customers in the form of higher prices. We support these proposals, if the loan repayment component is removed, and provided a robust fees and charges review is completed no later than three years after the proposals are implemented. However, we note that there is significant cost pressure already on transport users; this is one of a number of policy proposals that would further increase costs.

1. Opposed to motorists and transport industry repaying Waka Kotahi loan

After regulatory failures became apparent in early 2018, Waka Kotahi sought and received a Crown loan of \$95m to rectify its failings and act upon some of the recommendations from the subsequent reviews in 2018 and 2019.

The consultation document proposes this loan be repaid through the fees and charges paid by TSL holders and motor vehicle certifiers, with a small amount coming from the fees charged to licence and register a motor vehicle and the charges for data use, as well as from RUC and Fuel Excise Duty revenue (which would have gone into the NLTF).

The AA disagrees with this proposal (though it is not stated as one of the 8 proposals). A one-off Crown appropriation should be used to repay this loan. The 'bad' operators responsible for sub-par practices pre-2018 have left the industry, so it is unjustified to charge the 'good' operators and general motorists (through the use of NLTF revenue, vehicle licencing fees, and increased business costs that will be ultimately transferred to motorists) to pay off this loan.

Waka Kotahi has failed to regulate the system adequately in the past, but that does not justify asking future users to pay for these shortcomings.

This proposal does not sit well with the AA's sense of reasonableness. The Automobile Association is the largest membership organisation in NZ. We have 18 AA District Councils (made up of community volunteers) throughout New Zealand to represent AA Members in their local areas. Polling of our AA Districts has revealed 100% oppose the transport industry and motorists being compelled to repay Waka Kotahi's loan.

2. Opposed to FED and RUC funding regulatory work

The funding document proposes using \$35m a year from the revenue generated through Fuel Excise Duty and RUC (which would have been paid into the NLTF) to fund WK regulatory activities.

This proposal (proposal 1 in the consultation document) mitigates some of the cost increases faced by individuals and businesses in the form of increases in fees and charges required to generate the extra approximately \$100m additional funding WK has assessed it requires per annum. But the approach suggested in proposal 1 is not the only way to achieve this, and it comes with a trade-off. Put another way, dipping into the NLTF has an opportunity cost.

The NLTF is already over-stretched. Core activities like road maintenance that are funded from the NLTF are underfunded, compromising road safety. A range of investments which would significantly improve road safety are not proceeding because the NLTF is oversubscribed (changes in recent years mean the NLTF now also funds rapid transit, coastal shipping, and subsidises KiwiRail's freight business).

The transport network is of national importance for our economy and society. General taxation should be used to fund this additional \$35m per annum of regulatory work, rather than the NLTF revenue as proposed. Furthermore, if funded from general taxation, an annual appropriation

through the budget process would place a higher level of scrutiny on the efficiency and effectiveness of WK's regulatory work, incentivising value for money, compared to the relatively automatic nature of the NLTF funding flows proposed.

94% of AA Districts oppose the use of FED and RUC to fund Waka Kotahi regulatory services.

3. Driver licencing

3.1 AA supports proposal 2 overall

We support the overall reduction in fee levels proposed for driver licencing, including the policy intent behind "free" resits to encourage people to move through the licencing system. Reducing the fees for driver licencing and removing re-sit fees should help increase compliance and improve road safety. Beyond the safety benefit, the AA agrees with the equity policy goal acknowledging the value of a driver licence for access to work, education and training, and social connections.

We have not assessed the technical modelling and accounting assumptions behind the numbers proposed, but trust Waka Kotahi's analysis. The AA supports the licencing fees at the level proposed (except for the increase to I endorsements discussed below), provided the loan repayment component is removed.

3.2 Mitigating unintended consequences

The AA has identified three potential unintended consequences:

1. The removal of resit fees could encourage "having a go" multiple times to scrape through rather than thorough training and practice. If this was the case, outcomes may not be consistent with the Road to Zero strategy. Behaviour changes as a result of this policy change need to be monitored. Robust information on this point will be an important input for periodic fees reviews. As an immediate mitigation measure, we suggest a cross-government policy promoting free or heavily subsidised driver education to manage repeated testing, directing drivers to free or low cost education providers.

2. No resit fees could lead to more "no shows", resulting in wasted test slots and increased wait times for all applicants. The AA suggests a small fee (or deposit) be considered to incentivise people to show up. ACC takes a similar approach to what we suggest for its "free" Ride Forever sessions.

3. The modelling has the new I endorsement fee increasing 171% and the renewal fee is up 35%. Given the shortage of qualified instructors, and the foundational role they play in the safe system approach, these fees should decrease to reduce entry barriers and encourage longevity.

3.3 Actual re-licencing fee reduction unclearly communicated to public

In the consultation document the re-licencing fee was presented as dropping from \$60.02 to \$31.45 (showing a decrease of almost \$30). In fact, \$60.02 is the maximum stated in the regulations that can be charged but the current level charged is \$43.90 (the decrease is actually little more than \$10).

This presentation, while partially clarified by Waka Kotahi to the AA, created the impression the licence fee reduction proposed was greater than it was, as a consequence, distorting the amount increases across the other proposals were offset by this headline decrease.

4. Other proposals increase costs on AA Members

Proposal 3 (vehicle licence and registration) and proposal 4 (RUC administration fees) overall increase direct fees motorists pay, while proposals 5 (TSL holders) and 6 (vehicle certifiers) overall increase fees and charges for businesses which will be passed on to customers in the form of higher prices.

These increases come at the wrong time for AA Members, therefore, at a minimum we call for the removal of loan repayments (as per section one of our submission) and a stronger commitment to value for money. AA Research Foundation research shows, “Transport costs for New Zealanders have risen dramatically in the past 15 months with a 19.2% increase for South Island drivers and a 17.1% increase for North Island drivers. This brings the average cost of operating a car to a five year high of \$10,306 a year in the South Island and \$9,367 in the North Island.”

At the same time we are aware of other policies being considered that would increase RUC and FED to include ‘externalities’, increases to RUC and FED as part of a funding review, the introduction of congestion charges and continued growth in the price of carbon. We have already seen the introduction of the clean car discount scheme and next year clean car standards will add further costs. The cumulative impact of these policy decisions is considerable.

4.1 Value for money

It is not realistic for the technical modelling and accounting assumptions behind these proposed fees and charges to be verified by the AA during this consultation process, but we trust Waka Kotahi has conducted robust work and engaged a number of external experts to assess the cost of the level of regulatory services it proposes.

On the back of this work broadly, much of the increases proposed are justified by Waka Kotahi on the basis that costs of services have increased over time. This argument certainly has validity, however, the consultation document does not provide a lot of information about how technology and/or general efficiency improvements have in the past or will in the future curtail Waka Kotahi’s cost increases.

The consultation document emphasises, increases to the level of regulatory activity and revenue collected from road users and the transport sector will improve safety. Safety is of greatest importance to the AA, but the document has not provided information about the magnitude of the safety benefit forecast. For example, what is the safety benefit of money spent on regulatory work compared to investment in road safety infrastructure or road maintenance? Modelling for *Road to Zero* indicates that an additional \$2B over the ten-year period of the strategy, if spent on direct road safety investments, would reduce DSI by 50% instead of the anticipated 40% at the level of current investment. Over a 10-year period the proposed regulatory funding arrangements will generate approximately \$2.7B revenue (an additional \$1B additional revenue), justified squarely on the basis of safety. But what is the DSI reduction expected?

4.2 Keeping costs down

Removing the repayment of the loan Waka Kotahi took out in 2018 following its regulatory failure from the future fees and charges in proposals 3 through 6 will reduce the licencing and registration fees and RUC admin fees marginally, but will bring about a bigger decrease for TSLs and certifiers (and the costs they transfer on to customers).

4.3 Monitoring and calibrating response to regulatory failure (proposals 5 and 6)

Proposals 5 and 6 address the areas of the industry where the regulatory failures occurred, with the increase in fees and charges for this group largely driven by the need to fund greater Waka Kotahi oversight. A potential drawback of this approach is that 'good operators' are charged extra to cover the cost of 'poor performing operators'. The consultation document also notes the poor performing operators responsible for the 2018 regulatory failure have exited the industry. Therefore, it is important that resources directed at these operators remain appropriate for the current state and the state of the industry in the future. The level of resources required to effect change, and restore a level of performance that has lapsed, may not be the same as what is required in the future to maintain performance. A review of these fees, within three years of implementation as proposed, must happen.

4.4 Our position on proposals 3 through 6

The AA supports proposals 3 through 6, provided:

- the loan repayments are removed from these fees and charges
- transport officials have completed work confirming the magnitude of the safety benefit
- a robust review of these fees and charges is completed no later than three years after implementation, focusing on value for money, Waka Kotahi's efficiency, as well as whether the approach and resources required to restore performance following a significant Waka Kotahi failure in 2018 is still appropriate.

About the New Zealand Automobile Association

The NZAA is an incorporated society with over 1.8 million members, representing a large proportion of New Zealand road users.

The AA was founded in 1903 as an automobile users' advocacy group, but today our work reflects the wide range of interests of our large membership, many of whom are cyclists and public transport users as well as private motorists.

Our advocacy takes the form of meetings with local and central government politicians and officials, publication of research and policy papers, contributing to media on topical issues, and submissions to select committees and local government hearings.

We are guided in our advocacy by our extensive network of activities across New Zealand, which helps the AA to develop a comprehensive view on mobility issues. The motoring public regularly come into contact with the AA through our breakdown officers, 36 AA Centres and other AA businesses. Meanwhile, 18 volunteer AA District Councils around New Zealand meet each month to discuss local transport issues, supported by our professional policy and research team based in Wellington and Auckland. We regularly survey our Members on transport issues, and Members frequently contact us unsolicited to share their views. We also commission original research into current issues in transport and mobility via the AA Research Foundation.

Motorists pay over \$4 billion in taxes each year through fuel excise, road user charges, registration fees, ACC levies, and GST. Much of this money is reinvested by the Government in our transport system, funding road building and maintenance, public transport services, road safety work including advertising, and Police enforcement activity. On behalf of AA Members, we advocate for sound and transparent use of this money in ways that improve transport networks, enhance safety and keep costs fair and reasonable.

Total Membership

1.8+ million members

Over 1 million are personal members

0.7 million are business-based memberships

% of licenced drivers

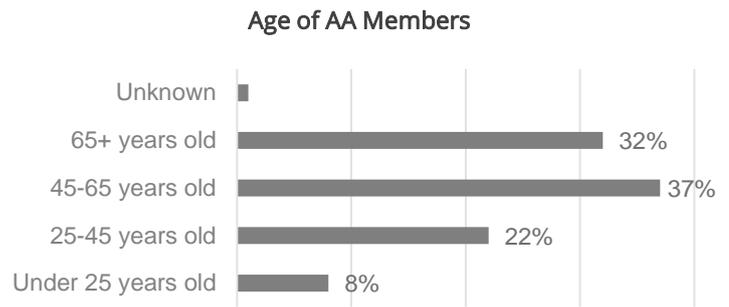
Around 29% of licensed drivers are AA Members

Gender split

54% Female

46% Male

Age range & Membership retention



Half of AA Members have been with us for 10 years or more.
