Submission

By

Business NZ

to

Land Transport NZ

on the

Proposal for changes to transport services licensing fees and charges (Information Paper)

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PROPOSAL FOR CHANGES TO TRANSPORT SERVICES LICENSING FEES AND CHARGES INFORMATION PAPER

SUBMISSION BY BUSINESS NEW ZEALAND[1]

1.0 **Introduction**

1.1 Business New Zealand welcomes the opportunity to comment on Land Transport NZ's *Proposal for changes to transport services licensing fees and charges ("the information paper").*

1.2 Business New Zealand notes, with concern, the significant increases in charges proposed as outlined on p.2 of the information paper.

1.3 The proposals could be seen as a simple mechanism for funding an increasing bureaucracy of regulators, which in fact the information paper more-or-less states: *"The fee increase will enable Land Transport NZ to employ 30 additional regulatory services staff (taking the total number of staff to 84) to undertake up to 3,600 operator reviews each year compared to the current total of 150 reviews each)." (p.1)*

1.4 Business NZ is most concerned about the potential for regulatory creep in the transport sector, which will be funded by participants in the industry with no say on how those monies are to be used.

Recommendations

Business New Zealand **recommends** that:

a thorough independent cost/benefit analysis be undertaken of the proposed fee increases, including the likely net returns from greater regulatory enforcement, before any fee rises are considered.

[1] Background information on Business New Zealand is attached as Appendix 1.

2. General discussion

2.1 Business NZ notes that the purpose of the information paper is to consult with holders of transport service licences (licensed road transport operators) on proposals by Land Transport New Zealand to increase the current licensing fees and charges (outlined below).

2.2 The fees relate to applications for new transport service licences, applications for new approved taxi organisations, the annual licensing fee for vehicles operated under a Transport Service Licence, and charges for other specialised approval services.

Proposed fee structure:

	Chargeable activity[2]	**Proposed fee/charge (incl GST)**	**Current fee (incl GST)**
1	Application for a new Transport Service Licence	$338.30	$30.00
2	Application for a new Approved Taxi Organisation	$3,851.77	$30.00
3	Commercial licensing component of the annual licensing fee for each vehicle operated under a TSL	$81.25	$24.00

2.3 The information paper states that the current regulatory environment for licensed transport services has been in place for over 17 years and there is a need for fees to be reviewed on a regular basis to ensure that they remain relevant to the costs of the activity they are collected for, and are not under or over-recovering costs.

[2] The Information Paper states that Charges 1 and 2 reflect the actual costs of entry to the licensed road transport sector including the processing of application for new TSLs and for ATO status. Furthermore the information paper states that these increased fees will support a robust entry process to ensure only those who meet all requirements and are likely to be compliant operators will be licensed or approved.

2.4 While the information paper states that the increased fees proposed will allow for greater monitoring of behaviour and particularly identifying and removing operators who are unlicensed or do not meet regulatory requirements, there is little if any analysis as to the costs and benefits of such an approach or what is an acceptable level of risk.

2.5 The proposals could be seen as a simple mechanism for funding an increasing bureaucracy of regulators, which in fact the information paper more-or-less states: *"The fee increase will enable Land Transport NZ to employ 30 additional regulatory services staff (taking the total number of staff to 84) to undertake up to 3,600 operator reviews each year compared to the current total of 150 reviews each)." (p.1)*

2.6 Business New Zealand has two particular issues that it wishes to raise in respect to the proposed fee structure. First, concerns in respect to the provision of monopoly government provided services whereby levy payers have no ability to control the level of costs they face; second, issues surrounding the costs and benefits of greater regulatory enforcement given that there will be an optimal amount of risk.

Provision of monopoly services and recovery of costs

2.7 A significant issue which cuts across all government services/regulatory enforcement is what an appropriate charging/levy regime is where there is no contestability in service provision. In normal competitive markets, individuals will make trade-offs between price and quality of service, along with a host of other factors. This issue is significantly different when legislation provides that in order to go about daily living (or in this case running a transport business), it is necessary to meet specific standards set by Government and the only provider of those services happens to be a government department or its various agencies.

2.8 Where an agency seeks to recover some or all of the costs of service/regulatory provision from the users or direct beneficiaries of that service, the public or individuals paying for the service need to be assured that the charges set are not excessive in relation to the costs incurred and take proper account of efficiency and equity considerations.

2.9 The danger with monopoly rights provided to government departments in respect to service provision appear to be threefold and are similar to the case of potential monopolies in the private sector.

2.10 First is the concern that price of service set by the private business or in this case, government, will exceed that which would occur had the provision of service been made contestable.

2.11 The second is the potential for the government department to provide a sloppy service in the knowledge that there are no other competitors in the market.

2.12 The third (the corollary of the second), is the potential for the government department to provide a "gold-plated" service in the knowledge that any increased costs can be simply passed on to private sector businesses and individuals.

2.13 The incentives on government departments (namely public sector employees) to provide a gold-plated service may well be driven by their desire to protect their own current employment prospects in a particular sector. This is similar to the incentives that may be evident for departmental employees in charge of large regulatory burdens. It may be in their own interests to ensure those regulatory burdens remain in force to protect their own employment prospects and current status.

2.14 Moreover, it should be noted that regulators generally have strong incentives to minimise their own risk by imposing higher standards than might arguably be justified. Because regulators do not bear the costs associated with their decisions (costs will ultimately fall on consumers), they may well "over-regulate" rather than be aware of, or adequately consider, the cost/quality trade-offs consumers are willing to make.

2.15 It should be noted that the above is in no way intended to be critical of the current New Zealand public service or indeed to infer that such activity is widespread. What it *is* intended to do is show that there must be incentives on employees in government departments with large regulatory responsibilities (and the ability to pass on the costs associated with those regulatory responsibilities to the private sector) to ensure that the burdens imposed remain reasonable.

Costs and benefits of greater regulatory compliance

2.16 Business New Zealand appreciates that the general intent behind the proposed fee regime outlined in the information paper is to ensure compliance with the transport regulatory regime is maximised.

2.17 While the above objective might appear laudable, it is not a sound basis for finding current provisions inadequate.

2.18 There is an "optimal" amount of compliance, just like there is an optimal amount of resources that should be spent on crime prevention etc. Non-compliance cannot be completely eliminated, not at least without great cost. Non-compliance may be able to be reduced, but beyond a certain point the marginal cost of taking action to minimise non-compliance becomes progressively higher, while the potential returns from taking action become less.

2.19 Before coming to any decisions as to the merits or otherwise of the new fee structure and proposed greater monitoring of the sector through increased regulatory personnel, it is crucial that policymakers take a step back and ask some fundamental questions. These include – but are not limited to:

- Is there a problem with current regulatory systems (i.e. are there issues of "market failure" which need to be addressed)?
- If there is a problem, is the problem significant?
- What are the costs and benefits (including unintended costs) of the proposed new fee structure?
- What are the potential options to improve outcomes which don't impose significant costs (e.g. by improving information to market participants)?

2.20 At minimum, before proceeding any further, Land Transport NZ should commission a thorough and independent costs/benefit analysis, including investigating the proposed net benefits (if any) in taking an increasingly hands-on approach to regulatory enforcement of the transport sector.

Business New Zealand **recommends** that:

a thorough independent cost/benefit analysis be undertaken of the proposed fee increases, including the likely net returns from greater regulatory enforcement, before any fee rises are considered.

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 60 member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). An increase in GDP of at least 4% per capita per year is required to achieve this goal in the medium term.

The health of the economy also determines the ability of a nation to deliver on the social and environmental outcomes desired by all. First class social services and a clean and healthy environment are possible only in prosperous, first world economies.