

Regulatory Impact Statement

Road Safety (Drivers) and (Vehicles)
Amendment (Miscellaneous Fees)
Regulations 2015

REGULATORY IMPACT STATEMENT

Road Safety (Drivers) and (Vehicles) Amendment (Miscellaneous Fees) Regulations 2015

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TERMINOLOGY

Acronym / Abbreviation	Description
AMS	Appointment Management System
AustRoads	National association of road transport and traffic agencies
CPI	Consumer Price Index
DEDJTR	Department of Economic Development, Jobs, Transport and Resources
EPA	Environmental Protection Agency
ETS	Enquiry Tracking System
MCA	Multi-Criteria Analysis
NPV	Net Present Value
NTC	National Transport Commission
RACV	Royal Automobile Club of Victoria
R&L	Registration & Licensing (division of VicRoads)
RIS	Regulatory Impact Statement
RWC	Certificate of Roadworthiness
VTA	Victorian Transport Association

EXECUTIVE SUMMARY

1. VicRoads has undertaken a review of its Registration & Licensing (R&L) division and has identified a number of areas where the provision of services without charge to customers means the cost to deliver these services is not financially sustainable.
2. The cost in providing these no-fee services exceeded \$4 million in the 2013/14 financial year.
3. The cost of delivering these no-fee services has been absorbed by VicRoads, requiring the re-allocation of funds from other VicRoads purposes.
4. This is inefficient and not sustainable in the long term as the rising costs of service delivery (due primarily to population growth) create a growing funding gap.
5. In order to address the rising costs and to be more self-sustainable, VicRoads is proposing to introduce new fees in the areas of Driver Licence Exemptions, Defect Notice Clearance and Miscellaneous Registration and Licensing transactions.
6. The proposed fees, effective from November 2015, are:

Fee type	Fee Model Recommendation	Proposed New Fee Units	Est. full year revenue
Licence Exemption Fee	Customers would pay a fee with their application to seek a licence exemption. The new fee is expected to reduce demand for licence exemptions in favour of applicants who can readily produce evidence.	4.16 (\$56.50)	\$264K
Defect Notice Clearance Appointment Fee	Customers would pay an administrative fee to clear their defect notices regardless of whether a vehicle repair inspection is required. There will be a fee to clear a defect during normal operating hours and a separate fee for weekend operating hours.	1.28 (\$17.40) Standard rate 1.89 (\$25.70) Weekend rate	\$640K
Appointment Fee – Miscellaneous Registration	Customers would pay an appointment fee for the registration of new light trailers, machinery, interstate registration changeover, and same-name re-registration. Customers seeking interstate registration changeover will pay the small appointment fee to receive a Victorian registration for the duration of their remaining expiry period.	1.28 (\$17.40)	\$1.8M
Appointment Fee – Miscellaneous Licensing	Customers would pay an appointment fee for interstate licence changeover. Customers seeking interstate licence changeover will pay the small appointment fee to receive a free Victorian driver licence for the duration of their remaining expiry period.	1.28 (\$17.40)	\$1.6M
Net Present Value ¹			\$34.8M

¹ 10-year NPV includes first year implementation cost of \$110K and no additional ongoing maintenance cost. Annual Discount Rate used was 4%.

7. The above services were identified as relatively straight-forward to implement as they do not involve extensive system changes or complex process re-designs.
8. Options for fee and non-fee alternatives have been assessed against meeting the objectives of Efficiency, Equity, Effectiveness and Simplicity, and scored against a multi-criteria analysis (MCA) framework.
9. A number of recommended options have been proposed in this Regulatory Impact Statement (RIS) document.
10. The intention of the document therefore is to demonstrate that the introduction of the proposed new fees is the most preferred solution to the identified problems of some undesirable regulatory outcomes and insufficient cost recovery.
11. The RIS has been prepared in accordance with the requirements of the *Subordinate Legislation Act 1994* and the Victorian Guide to Regulation.
12. This RIS comprises:
 - a) Issues identified with current services
 - b) Summary of costs
 - c) Calculations of fee options
 - d) Recommended options
 - e) Implementation summary
13. Public comments are invited on the issues raised in this RIS.

INTRODUCTION

Purpose

14. VicRoads has identified a number of areas in its Registration and Licensing (R&L) division where the provision of no-fee services to customers has led to undesirable funding arrangements in relation to these services. The annual costs absorbed by VicRoads for the no-fee services highlighted in this RIS have exceeded \$4 million. With free services over-utilised, the demand for growth and associated service costs are forecasted to rise each year.
15. Many of VicRoads' R&L specialised services have not been charged to the requesting public due to their historically smaller transaction volumes.
16. Charges collected from annual vehicle registrations and driver licence renewals go into the Government's Consolidated Revenue, whilst administration fees are relied upon by VicRoads to fund its R&L operations. VicRoads under-recovers costs in certain of its R&L operations, necessitating the use of funds from other VicRoads sources to cover these costs.
17. These arrangements are not sustainable. In order to become more self-sufficient, VicRoads has reviewed its charging arrangements for certain low volume services and proposes to introduce new user-pay fees. The proposed fee changes to the regulations foster regulatory compliance from customers and will support desired regulatory and road safety outcomes.
18. New fees are proposed for the following Registration and Licensing services:
 - a) Licence Exemptions
 - b) Defect Notice Clearance
 - c) Appointments for Miscellaneous Registration
 - d) Appointments for Miscellaneous Licensing
19. These services were identified as the most straight-forward to implement in the shortest timeframe. The operational changes required do not involve any system changes or complex processes re-design.

Licence Exemptions

20. The current Driver regulations mandate that the minimum driver licence requirements are to be completed by probationary drivers prior to their qualification for a full driver licence.
21. VicRoads may grant exemptions to the regulatory requirements to individuals who confront exceptional circumstances. The exemptions allow individuals to attain a full driver licence sooner, without the need to undergo the full extent of the minimum licensing requirements.
22. Applying for a driver licence exemption is presently opened to all drivers. Applicants can apply at any time during their probationary period for a variety of exemptions listed in Table 1. VicRoads does not charge a fee for the entire application process, which could take up to 5 days to assess and complete.
23. VicRoads processes around 6,000 applications for driver licence exemptions annually. Table 1 depicts the volume of applications and approvals granted for each exemption type. Licence exemptions are granted on the basis of:
 - a) Undue hardship – circumstances relating to “extreme inconvenience” such as distance (e.g. no other transport is available), family related, medically related or employment related.
 - b) Recognition of overseas or interstate licences, or prior driving experiences. These exemptions are granted on the basis of prior driving experiences gained from overseas or interstate, or in the case of heavy vehicle licence exemptions, evidence of similar licence obtained from overseas or interstate.

Table 1 - Licence Exemption Types

Applications of Licence Exemptions (from July 2013 to June 2014)						
Exemption Type	Total Application Volume	Non-hardship Volume	Non-hardship % Approved	Hardship Volume	Hardship Approved Volume	Hardship % Approved
Heavy vehicle graduation licence	2,126	1,666	98%	460	53	11.5%
Learner permit minimum holding period or 120 hours supervised driving rule for learner drivers	453	Not applicable	Not applicable	453	52	11%
More than one passenger restriction rule for probationary drivers	14	Not applicable	Not applicable	14	0	0%
More than one peer passenger restriction rule for probationary drivers	23	Not applicable	Not applicable	23	0	0%
Probationary prohibited (modified) vehicles	316	Not applicable	Not applicable	316	8	2.5%
Probationary restrictions on Lower-Performance Supercharged and Turbocharged vehicles	2,614	2,614	51%	0	0	0%
Total	5,546	4,280	70%	1,266	113	9%

24. A driver is eligible for a heavy vehicle driver licence once the minimum holding period of a standard Victorian driver licence is attained. Depending on the class of the heavy vehicle, the eligibility could also include a combined minimum holding period of a smaller-class heavy vehicle driver licence. Drivers can apply for an exemption to the holding period for employment reasons, particularly if they have gained a similar licence from overseas or interstate. Prior to applying, applicants must undergo training and testing with a VicRoads-accredited provider. Table 2 compares the full licence eligibility for each heavy vehicle type with the minimum licence holding period to be eligible to apply for an exemption.

Table 2 - Heavy Vehicle Exemption Types

Heavy Vehicle Type	Licence eligibility without an exemption	Minimum requirement to apply for exemption
Light Rigid (LR)	Must hold an Australian car driver licence for at least one year.	Employment: Any category except MC. Minimum of 6 months driving experience in a car or heavy vehicle.
Medium Rigid (MR)	Must hold an Australian car driver licence for at least one year.	Primary Producer: Any category except MC. Held a car licence for at least 24 months and a lower category of heavy vehicle licence for at least 6 months.
Heavy Rigid (HR)	Must hold an Australian car driver licence for at least two years.	Motor trade/mechanic: Any category except MC. Held a car licence for at least 24 months and a lower category of heavy vehicle licence for at least 6 months.
Heavy Combination (HC)	Must hold an Australian car driver licence for two years and a licence to drive a MR vehicle or HR vehicle for one year.	Emergency Services: Any category except MC. May apply as soon as a car licence is obtained.
Multi Combination (MC)	For a period of 12 months must hold or have held a licence to drive a HR, or HC or combination of HR and HC vehicles AND complete a training course approved by VicRoads.	

25. In granting licence exemptions, VicRoads takes into account the likely effect of its decision on safe, efficient and equitable road use in Victoria, as well as the applicant's driving experience, driving record and the circumstances in which the application is obtained.

26. Since the introduction of probationary restrictions on supercharged and turbocharged vehicles for road safety purposes, there has been a volume increase in the number of applications. Over the past three years, the volume of applications for the supercharged/turbocharged vehicle category alone has increased 30% annually.

27. The increasing volume places a strain on existing VicRoads resources to efficiently process exemption applications in a timely manner and effectively provide the quality service to customers with genuine needs for licence exemptions.

28. Furthermore, non-approval rates for exemptions remain high, indicating that there are a large number of applications with non-genuine needs. For example, there is a 49% non-approval rate for exemption applications to restricted supercharged and turbocharged vehicles; and a high 97.5% non-approval rate for probationary prohibited vehicles.

29. Whilst VicRoads encourages all drivers to conform to the minimum full licence requirements, it acknowledges that it needs to consider the merits of all applications and grant exemptions where the circumstances are warranted.

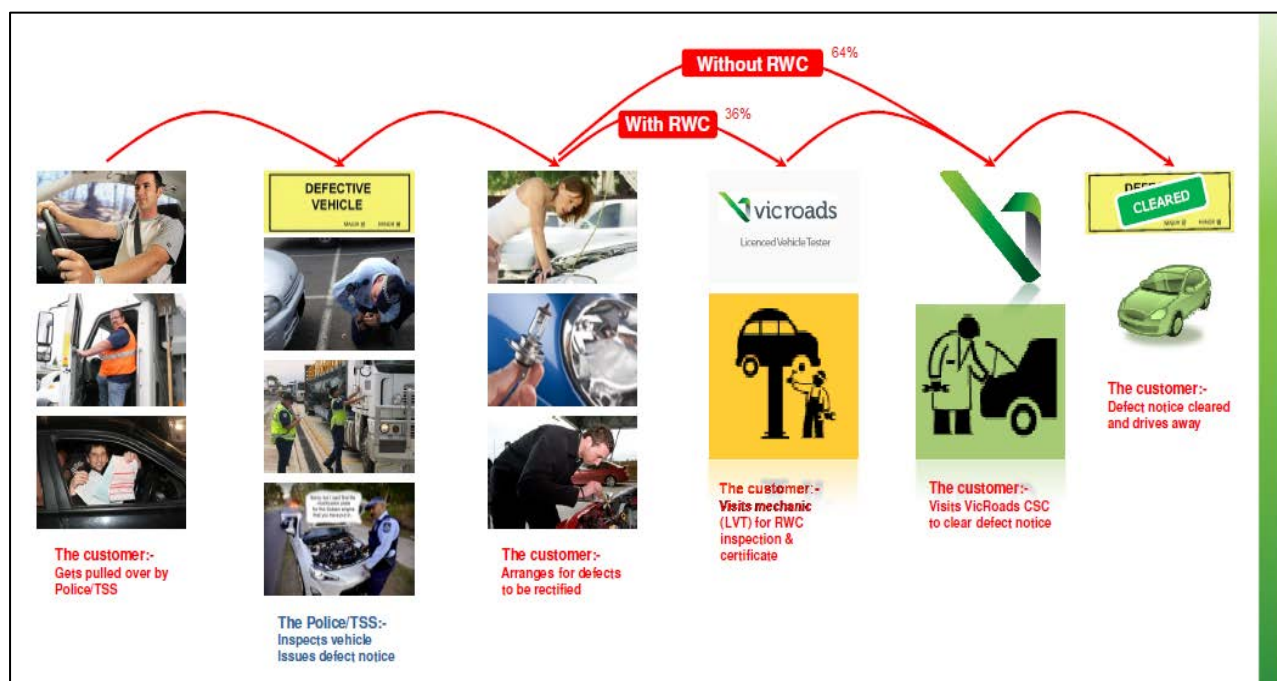
30. Therefore, in order to recover labour costs, improve service levels as well as to encourage higher levels of conformity to the minimum full licence requirements, VicRoads is proposing to introduce a driver licence exemption application fee.

Defect Notice Clearance

31. Victoria Police, Environmental Protection Agency (EPA) and VicRoads (including equivalent interstate) safety inspectors issue a defect notice when a vehicle fails to meet roadworthy requirements and registration standards (see Figure 1). The vehicle is considered a safety risk and must be repaired within the specified Notice period.

32. A vehicle issued with a defect notice must not be used on a highway (road or road related area) after the time and date specified on the Defect Notice, and its further movement to another location may be restricted in accordance with terms specified on the Defect Notice. If the compliance date on a Defect Notice has expired, the registration may be suspended.

Figure 1 - Current Defect Notice Clearance Process.



33. Depending on the severity and complexity of the defect, the Defect Notice may stipulate whether a Certificate of Roadworthiness (RWC) from an external VicRoads-licensed vehicle tester is to be issued prior to clearance at VicRoads. Approximately 36% of notices issued are to vehicles with severe defects. These defects require a RWC to be issued, involving additional inspection work from external vehicle testers with costs ranging from \$130-\$150 depending on the complexity of the defect and the repair.

34. Defect notices stipulating that a RWC is not required are issued to minor defective vehicles. Once these defects are rectified, the vehicles can be taken straight to VicRoads for clearance.

35. VicRoads processes an average of 36,000 applications per year to clear both RWC and non-RWC type defect notices, from both commercial and private vehicle owners.

36. Clearing a non-RWC type defect at VicRoads involves a visual inspection of the repair, a check of paperwork and subsequent clearance of the notice by a staff

member. Clearing an RWC type defect does not require an inspection from VicRoads, since the inspection was already carried out by a licensed vehicle tester.

37. VicRoads prefers skilled inspectors that possess an understanding of the severity of the defect and the adequacy of the repair undertaken. Training staff to acquire these skills can take years of training and experience. Whilst VicRoads foresees strengthening and even increasing the resource pool to meet the demands of defect clearance work, it is currently constrained by funding in this area, due predominantly to the services being provided at no charge.
38. Adding to the challenges of resourcing, the trucking industry has requested that VicRoads consider establishing weekend defect clearance operations to service the network of truck owners who, due to their consignment demands, are presently unable to clear defect notices during normal VicRoads operating hours.
39. VicRoads presently does not charge fees for the clearance of defect notices. VicRoads is reconsidering this practice, since it proposes to strengthen the resource base to meet service demands which in turn fosters more favourable regulatory outcomes.
40. Furthermore, based on a sample size of 192 vehicles² submitted to be cleared at VicRoad's Broadmeadows office in February 2014, there is an estimated 5% failure rate, where vehicles have been found not to have met the minimum roadworthy requirements and registration standards. Insufficiently repaired vehicles would need the issues to be addressed by the owner and returned to be cleared at VicRoads.
41. Failure rates relate mainly to non-RWC defect notices where repair work inspection by an external vehicle tester was not required. The inadequacy of the repairs could be attributed to possible misunderstandings over the level of repair work required. Some examples where clearances could not be granted include:
 - a) Claims that the defect notice was misleading or not warranted
 - b) Unrepaired or partially repaired defect.
42. Data collected by VicRoads only indicate the number of defects assessed and cleared. However VicRoads staff has indicated that there are repeat offenders who produce insufficiently repaired vehicles for defect clearance.
43. VicRoads believes that the failure rate would be reduced if a fee is introduced. Payable when the appointment is made at VicRoads, the fee sends a pricing signal, thus placing a higher perceived value on the service, prompting greater care to ensure that all conditions of the defect notice have been met prior to applying for a defect clearance. This will improve the effectiveness of roadworthy requirements and registration standards.
44. Revenue from the fee will also enable VicRoads to fund extended weekend operations to service the trucking community. This in turn fosters more roadworthy and safer vehicles on the roads and thus benefiting the broader community and the economy.

Miscellaneous Registration

45. VicRoads processed over 100,000 miscellaneous appointment registration transactions in the 2013/14 year. These are appointment transactions that are not classified under the much larger light vehicle registration volume. The volume of no-fee miscellaneous registrations processed in 2013/14 is depicted in Table 3.

² VicRoads only maintains data on vehicles cleared. Vehicles not cleared are not recorded; hence monitoring activities were undertaken at the Broadmeadows branch in February 2014 to estimate the failure rates.

46. The light vehicle registration transaction type, Interstate registration changeover, involves the changeover of an interstate registration plate to a Victorian registration plate.

Table 3 - Miscellaneous No-Fee Registration Types

Miscellaneous No-Fee Registration Type	Description	Volume 2013/14
New Light Trailer registration	Registration of light trailers with aggregate trailer mass of 750kg or less.	456
New Machinery registration	Registration of tractor, agricultural machine or mobile plant.	21,930
Same-name re-registration of unregistered vehicles	Re-registration under same name for cancelled vehicle registrations.	23,025
Over-the-counter new vehicle registration by dealer	Registration of vehicles performed by motor dealer at a VicRoads centre.	1,259
Interstate registration changeover	Victorian registration of interstate vehicles.	54,548

47. In addition to interstate registration changeovers, VicRoads is experiencing a sizeable rate of “no shows” for miscellaneous registration transactions, where customers have made appointments to register and inspect their vehicles but do not attend their allocated appointments. “No shows” have been consistently high at 12% of appointments in this category. Valuable resources are held for the duration of 10-15 minutes before an appointment can be considered a “no show”.
48. The negative impacts that no-show appointments have to business operations are:
- Inefficiency – resources set aside for appointments that do not eventuate can otherwise be allocated to other customer services where needed most,
 - Inequitable – appointments that do not eventuate could otherwise have been allocated to customers that urgently need an available appointment slot,
 - Ineffective – the non-commitment to a booked appointment does not equate to an effective, workable booking system.
49. In order to reduce the volume of “no shows”, VicRoads is proposing introducing registration appointment fees for the registration of vehicles that include light trailers, machinery, same-name re-registrations and dealer transactions under the Miscellaneous No-Fee Registration category, to encourage customers to place a higher value on their appointment bookings. The fees would be charged at the time of the appointment booking.

Miscellaneous Licensing

50. VicRoads processes interstate driver licence changeover at no cost to the customer. Costs for interstate driver licence changeover are effectively subsidised by Victorian drivers.

Table 4 - Miscellaneous No-Fee Licence Types

Miscellaneous No-Fee Licence Type	Description	Volume 2013/14
Interstate (driver) licence changeover	Issuing of Victorian driver licence to interstate drivers.	79,987

51. The national agreement, which is administered by AustRoads, has been in place for decades, and is documented in *The Implementation of the National Driver Licensing Scheme Policy* issued by National Transport Commission (NTC). The agreement binds interstate road authorities into allowing drivers moving permanently from interstate to change over to respective local driver licences at no cost for the remainder of the licence validity period.
52. VicRoads has upheld the agreement and have absorbed the cost of the no-fee service over the years.
53. Along with VicRoads, road authorities from other states also recognise this inefficient effect of the agreement. Road authorities from Western Australia, South Australia and Tasmania, now charge small administration fees as well as additional service fees to recover their costs, although the actual driver licences (for the remainder of the validity period) are still granted at no cost. The fee charging practice is possible since the binding of the national agreement requires that the actual driver licence fee is not charged. The agreement does not restrict charging of a fee for services and administration.
54. In order to contain service and administration costs, VicRoads is looking to follow the lead of the above mentioned interstate road authorities. VicRoads is proposing to charge a small appointment fee for interstate licence changeovers but will still continue to waive the licence cost for the remainder of the interstate licence validity period.
55. However, road authority jurisdictions in Western Australia, South Australia and Tasmania charge small administration and service fees, as well charge for the changeover of the driver licence for the remainder of the validity period (see Table 5).
56. VicRoads is proposing to introduce an appointment fee, whilst upholding the national agreement to provide a local driver licence at no cost for the remainder of the validity period, to recover the labour costs of providing parts of this service.

Table 5 – Current interstate charges for a driver licence changeover.

State	Fee if interstate licence has expired prior to changeover	Appointment Fee	Changeover Fee	Admin Fee
Victoria	None if licence expiry is less than 5 years.	None	None	None
NSW	None if licence expiry is less than 5 years.	None	None	None
ACT	None if licence expiry is less than 5 years.	None	None	None

NT	Yes and if licence expiry is less than 5 years	None	None	None
Qld	Yes, standard licence fees apply if expired.	None	None	None
SA	If more than 6 months expired, \$22 admin fee plus licence fee.	None	\$40 for 1 year	\$17 in addition to changeover fee.
Tas	Yes and if licence expiry is less than 5 years	None	\$30.72 for 1 year through to \$106.20 for 5 years	\$10 photo fee \$37 Processing fee
WA	\$38.50 transfer fee if licence expiry is less than 5 years	None	\$25.70 for 1 year through to \$128.70 for 5 years.	None

OBJECTIVES

57. The *Cost Recovery Guidelines 2013* issued by the Department of Treasury and Finance provide a rigorous framework for use by government entities when developing and reviewing user charges and regulatory fees. When used in conjunction with their *Pricing Principles for regulatory activities, and government goods and services 2014*, the guidelines ensure that cost recovery and fee pricing arrangements in Victoria are transparent, efficient, equitable, effective and consistent with legislative requirements and government policy.
58. Through the introduction of new indexed¹ fees, the objectives of the proposed changes to the regulations are:

Table 6 - Objectives Weighting.

Objective	Importance	Weighting
Efficiency	Full cost recovery promotes the efficient allocation of resources without the need to rely on general taxation revenue. VicRoads desires to move towards a sustainable funding model based on fee-for-service and hence rates this criterion highly. Hence, increasing efficiency is the most important objective and has been given the greatest weighting. User charges for services are calculated to recover no more than the marginal (labour) and fixed (overheads) costs incurred by VicRoads in supplying the service.	30%
Equity	Current provision of no-fee services benefits a small section of the public at the expense of the broader community. The balance needs to be re-addressed with user-pay initiatives. Whilst an important objective, it is not the primary driver to introducing the new fees and thus given a lower weighting.	25%
Effectiveness	The fees will be considered effective if the results are stronger compliance with regulatory objectives which in turn foster safer drivers, safer vehicles, safer roads and ultimately a safer community. Though important, it is a by-product of the proposed fee and thus has been given the lowest weighting.	20%
Simplicity	The fee initiatives should be easy and quick to implement with the minimal administration costs. The fees are also to be easy to understand for the community. Since this objective is an implementation consideration, it has been given a lower rating to Efficiency.	25%

OVERVIEW OF COSTS TO BE RECOVERED

59. VicRoads uses best practice cost recovery arrangements that require charges to be set at a level that recovers the *efficient* (i.e. minimum) costs of providing the goods/services at the required quality, or of undertaking a necessary regulatory activity.
60. The proposed new fees are derived from activity-based costing (ABC) in order to achieve full cost recovery. An efficient cost base is used to derive the appropriate fee amount. VicRoads uses an ABC Costing Methodology³ to derive the unit cost of a full service transaction, where:

$$\text{Unit Cost} = (A_1 \text{ or } A_2)$$

$$\text{Fully loaded transaction cost} = \text{Unit Cost} + B + C + D + E$$

Input	Variable	Inclusions	Notes
A ₁	Internal service cost	<ul style="list-style-type: none"> • Branch full cost • Call centre full cost 	<p>EFFORT = Transaction times (mins) x Volume</p> <p>Inclusions are labour related costs for staff including frontline management and support staff, accommodation costs, office equipment, uniforms and staff training. The cost is defined as semi-variable.</p> <p>VicRoads uses a Queue Management System (QMS) to measure transaction times. QMS is software that tracks and measures queue traffic by the minute including wait times, service demand levels and servicing time.</p> <p>This is a packaged operating budget, regardless of how many persons are involved in a task.</p>
			<p>Back end operations such as forms processing and scanning, and data entry are outsourced.</p>
A ₂	External service cost	<ul style="list-style-type: none"> • Outsourced mail and back office processing 	
B	Materials and Material Processing cost, if applicable	<ul style="list-style-type: none"> • Number plate cost • Licence card cost 	Includes production and distribution costs for number plates and licence cards.
C	Computer systems and database maintenance support cost, if applicable	<ul style="list-style-type: none"> • Systems hosting, maintenance & support • National databases access 	Costs based on current contract with system providers and other external system vendors.
D	Operational support cost, if applicable	<ul style="list-style-type: none"> • Contracts management • Operational policies • Business management • Operations assistance 	Based on transaction volume.
E	4% Corporate support cost (mandatory)	<ul style="list-style-type: none"> • Executive services, HR, Media and Finance 	Overhead applied to all services, based on current operational corporate budgets.

³ VicRoads cost model allocation methodology for registration and licensing services was derived with the assistance of KPMG in 2010-11. A Fully Loaded Transaction Cost will always include Unit Cost and Corporate Support Cost (E), but depending on the service, may not necessarily include other variables B, C and D. For the purposes of deriving the fees in this RIS, the formula excludes merchant payment processing costs, which is normally an additional input variable into the ABC costing model.

Costs: Licence Exemptions

61. The processing costs for licence exemption are calculated using VicRoad's ABC Costing formula. The breakdown of costs in the 2013/14 year is illustrated in Table 7. Since a licence exemption fee is currently not charged, the under recovered cost is absorbed by VicRoads and the broader community.

Table 7 - Licence Exemption processing cost⁴.

Licence Exemption Type	FY 13/14 volume	Average Assessment Time (mins)	Unit cost	FY 13/14 Total Cost
Internal Service Costs (\$1.50/min) (A):				
Heavy vehicle graduate licence	2,126	25	\$38	\$79,725
Minimum hold with 120hours	224	55	\$83	\$18,480
120 hrs - Supervised Driving	229	78	\$117	\$26,793
Passenger Number Restriction	14	56	\$84	\$1,176
Peer Passenger Restriction	23	56	\$84	\$1,932
Probationary Prohibited Vehicle	316	76	\$114	\$36,024
Turbo/Supercharged Vehicles	2,614	30	\$45	\$117,630
Other	17	35	\$53	\$893
Operational Support (D)			\$0.90	\$5,007
Corporate Support (E)			\$2.07	\$11,506
Total cost of service FY13/14				\$299,166
Cost per transaction⁵				\$56.96

Costs: Defect Notice Clearance

62. Derived using ABC costing formula, the costs for the defect notice process are depicted in Table 8. The costs are based on weekday operating hours.

Table 8 - Defect notice clearance - weekday costs⁶.

Defect Notice Process (Weekday Operations)	Average Transaction Time (mins)	FY 13/14 Total Volume	Unit Cost	FY 13/14 Total Cost
Back-end data processing of incoming defect notices		36,000	\$1.11	\$39,960
Data validity checking, includes error corrections of notices where applicable ⁷		3,600	\$6.15	\$22,140
Service Centre clearance processing (\$1.50/min)	7.28	36,000	\$10.92	\$393,120
National Defects Database Access (C)		36,000	\$1.65	\$59,400
Operations Support (D)		36,000	\$0.60	\$21,600
Corporate Support (E)		36,000	\$0.65	\$23,400
Total cost of service FY13/14				\$559,620
Cost per transaction⁵				\$16.46

⁴ In addition to Unit Cost, costs do not include variables B and C as they are not applicable, but will include Operational (D) and Corporate Support (E).

⁵ Indexed to Treasurer's annual rate for 2015/16. The cost may fluctuate depending on volume served.

⁶ No material costs are applicable, hence variable B is not included into calculations.

⁷ Processing error rate equates to roughly 10% of total volume.

63. As weekend services to clear defect notices are not yet operational, the anticipated costs have been derived using FY13/14 variable units from Table 8, then adding weekend loading of time and a half to labour costs, giving the anticipated total costs shown in Table 9. Assumptions include a weekend traffic volume of 10% of weekday equivalent, and the availability of operations support.

Table 9 - Defect notice clearance – weekend costs⁶.

Defect Notice Process (Weekend Operations)	Avg Trans Time (mins)	Estimated Volume	Unit Cost	FY 13/14 Based Cost
Back-end data processing of incoming defect notices		3,600	\$1.11	\$3,996
Data validity checking, includes error corrections of notices where applicable ⁷		360	\$6.15	\$2,214
Service Centre clearance processing (\$2.31/min weekend loading)	7.28	3,600	\$16.81	\$60,516
National Defects Database Access (C)		3,600	\$1.65	\$5,940
Operations Support – weekend loading (D)		3,600	\$0.90	\$3,240
Corporate Support (E)		3,600	\$0.65	\$2,340
Anticipated total cost of service				\$78,246
Estimated cost per transaction⁵				\$23.02

Costs: Miscellaneous Registration & Licensing

64. Appointments for registration can involve a visual check of the vehicle and a national database search to validate the vehicle identification. Licensing transactions can involve photography, on-the-spot printing of driver licences, as well as database searches to validate interstate and overseas driver licences.

Table 10 - Costs⁸ for Miscellaneous No-fee Registration and Licensing transactions

Miscellaneous No-fee Registration and Licensing	FY 2013/14 Volume	Avg Trans Time (mins)	Unit Cost	FY13/14 Total Cost
Internal Service Costs (\$1.50/min) (A):				
Dealer Miscellaneous Registration	1,259	10.05	\$15.08	\$18,985
Misc- Registration Changeover	54,548	5.33	\$8.00	\$436,384
Trailer Pack & Vessel Registration	456	5.61	\$8.42	\$3,839
Trailer/Machinery Pack	21,930	5.61	\$8.42	\$184,650
Victorian re-registration under same name	23,025	5.33	\$8.00	\$184,200
Combined I/S C/O of licence and registration	7,683	10.05	\$15.08	\$115,859
Misc – Licence Changeover	79,987	10.05	\$15.08	\$1,206,204
Appointment “No shows”	22,247	10.00	\$15.00	\$333,705
National Database Access and Search (C)	188,888		\$1.65	\$311,665
Operational support (D)	188,888		\$0.90	\$169,999
Corporate support (E)	188,888		\$0.58	\$109,555
Total cost of service FY13/14				\$2,741,340
Cost per transaction⁵				\$15.37

⁸ Material costs (variable B) for registration plates and licence cards are not included into these calculations since overall material costs (including material losses) are already factored into the standard fees charged for vehicle registrations and driver licences.

65. Appointment "no shows" is an issue for all transaction types in Table 10, since the volume is sourced from actual transactions served and matched against appointments made. Actual transaction volumes therefore do not include appointment "no shows".
66. Dedicated staff members are allocated to appointment bookings with actual times tracked and managed by VicRoad's Appointment Management System (AMS). This guarantees service time to customers with booked appointments. In the event of an appointment "no show", the allocated staff member will wait ten minute duration, in the expectation that the customer is running late for their appointment.
67. Consideration was given to exclude no-shows from the cost equation. However, whilst the new appointment fees will certainly reduce the rate of no-shows, it will not eliminate the event completely since there are many reasons given for no-shows.

COST RECOVERY PRINCIPLES

68. Cost-recovery is the recovery of the costs of government-provided or funded products, services or activities that, at least in part, provide private benefits to individuals, entities or groups, or reflect the costs imposed by their actions. Cost recovery is a method of recovering all or some of the cost of particular activities undertaken by government agencies from individuals or businesses, based on the beneficiary pays⁹ or user pays¹⁰ principle. The concept 'user pays' will be used in this RIS to capture both situations.
69. The task of setting cost recovery fees/charges involves determining whether to recover costs from users or others who benefit; those whose actions give rise to it; or taxpayers more generally. Whether costs should be user-pay or more generally funded by taxpayers will depend on the type of activity and the existence of any public benefits.
70. The *Cost Recovery Guidelines* apply to cost-recovery arrangements of government departments and agencies, and include the recovery of the costs incurred by the Government in providing goods and services.¹¹
71. As stated in the *Cost Recovery Guidelines*, Victorian Government policy is that regulatory fees and user charges should generally be set on a **full cost-recovery basis**.¹² However, if it is determined that full cost-recovery is not consistent with other policy objectives of the Government, it may not be appropriate to introduce a full cost-recovery regime. Consideration may be given to a regime of partial cost-recovery (if it can be demonstrated that a lower than full cost-recovery does not jeopardise other objectives) and/or to rely on other funding sources (e.g. general taxation) to finance the activity.
72. When designed and implemented appropriately, the adoption of cost-recovery has the potential to advance efficiency and equity objectives. However, the Guidelines note that "efficiency and equity considerations may need to be balanced against each other in determining the appropriate form of cost-recovery".¹³
73. As noted, the Guidelines set as the main objective full cost-recovery from the activity. While this does not preclude partial cost-recovery or no cost recovery, it does set out conditions under which less than full cost-recovery would be considered appropriate. Less than full cost-recovery may be deemed appropriate where:
- goods are being provided to or where activities generate benefits to unrelated third parties (positive externalities),
 - objectives of income redistribution or social insurance are important,
 - concessions are deemed appropriate,
 - full cost-recovery may undermine innovation and product development,
 - the government is providing goods and services on a commercial basis in competition with the private sector, and/or
 - full cost charging could undermine other objectives.

⁹ Those who benefit from the provision of a particular good or service should pay for it (Productivity Commission, 2001, p. XXI).

¹⁰ This is where user meets the full costs of their actions, based on the view that those who create the need for a service should incur these costs.

¹¹ Government of Victoria, 2013, *Cost Recovery Guidelines*, Department of Treasury and Finance, Melbourne.

¹² *Cost Recovery Guidelines*, 2103, p. 7.

¹³ *Cost Recovery Guidelines*, 2013, p. 6.

How cost recovery principles apply to VicRoads

74. In terms of vehicle registration and driver licensing, a case can be made that provision of services with fees will need to be subjected to concessionary considerations, given the broad spectrum of the public that VicRoads serves, and hence should be provided at less than full cost recovery.
75. VicRoads provides concessions to core registration and licensing services, where concessionary provisions do not impact when taken as a whole, the ability to fully recover the underlying costs that are incurred in providing those services. This is due to the higher volume nature of those core services.
76. The provision of the registration and licensing services presented in this RIS however, clearly has “private good” characteristics (in that the “goods” are likely to be of more use to those making the specific request than to other parties) and therefore a strong case for “user pays” can be made.¹⁴
77. The provision of licence exemptions, defect notice clearances and miscellaneous registration and licensing activities are extended services that are provided in addition to the core registration and licensing services. They are of historically lower volumes and are utilised by smaller sections of the community. As a consequence, if the services were provided in a partial-cost recovery manner, VicRoads will not have any other efficient means to fully recover the extended services costs, without resorting to fee increases in other areas.
78. It is therefore proposed that licence exemption, defect notice clearance and miscellaneous registration and licensing service activities be conducted in a fully cost-recovered manner. In this case, a departure from full cost-recovery would result in the broader Victorian community providing a subsidy to individuals or organisations who request these services.

ALTERNATIVE OPTIONS

Non-regulatory options

79. A Regulatory Impact Statement must contain a statement of other practicable options of achieving the objectives and reasons why the other options are not appropriate.
80. The *Victorian Guide to Regulation* states that, in the case of RISs prepared for fees and charges, the range of different options will be narrower than for other types of regulations, and is likely to include consideration of different levels of service provision that are to be funded through fees and charges; different types of fee structures; and different levels of cost sharing.
81. Given the limited discretion provided by the Act, this RIS will focus on alternative fee design options rather than considering alternative non-regulatory options for achieving government objectives.
82. Removing the service entirely and thus removing the need to implement a fee was not considered a feasible option.

¹⁴ “Private goods” are those where consumption by one party conflicts with its use by another, and where benefits of consumption only accrue to the consuming party.

Alternative fee and non-fee options

83. In summary, the following alternative fee and non-fee options were considered:
- a) Fee cap in lieu of indexed fees,
 - b) Fixed fee versus different fee levels for each licence exemption type,
 - c) Invest into technologies to reduce costs rather than introduce fees on existing costs,
 - d) Charging a flat fee to clear defect notices on the weekdays and weekends,
 - e) Charging different fees for RWC and non-RWC type defect notices,
 - f) Charging different fees for low-cost and high-cost miscellaneous transactions, and
 - g) Applying different treatments to appointment "no-shows".
84. Imposing a fee cap may lead to undesired outcomes from an operational perspective, however the pattern of requests and fees over the first two years will be monitored and the need for a fee cap may be considered in the future.
85. Technology advancements that could be used to lower or eliminate existing costs while fulfilling regulatory requirements without the need to introduce fees were assessed, such as:
- a) *Automated Licence Exemptions*: Not feasible since manual assessment of applications is still needed.
 - b) *Automated Defect Notice*: Given the relatively low volume, the high investment required in automating the defect notice creation process and upgrading of systems at Victorian law enforcement agencies as well as VicRoads, is not feasible.
 - c) *Miscellaneous registration and licensing*: Digitisation of registration and licensing processes is a long 5-10 year term commitment at VicRoads but is not currently feasible without substantial investment required in existing technology systems infrastructure. For this reason, it is not appropriate to undertake further analysis for the purposes of this RIS.
86. Charging a flat fee for weekday and weekend defect notice clearances was given consideration. However given the higher volume for clearances during weekdays, the flat fee (if charged at the weekend rate or at a rate which is the midpoint of a weekday and weekend rate) could result in over-recovery of costs. This conflicts with the principles of full-cost recovery guidelines and hence is not appropriate for this RIS.
87. A variety of treatment options for appointment "no shows" were considered including applying an additional "commitment" fee in addition to the appointment fee charged when the appointment booking is made. The "commitment" fee is then refunded if the person presents for their appointment. This proposed process however, would place an additional strain onto the existing costly refund process since all refunds are sent as cheques. Customers would also have to wait for their refunds leading to a poorer customer experience.

PREFERRED FEE OPTIONS

88. The proposed indexed fees are outlined in Table 11. Full details of cost/benefit options assessed are discussed further in sections to follow.

Table 11 - Preferred Fee Options

Fee type	Fee Model Recommendation	Proposed New Fee Units	Est. full year revenue
Licence Exemption Fee	Customers would pay a fee with their application to seek a licence exemption. The new fee is expected to reduce demand for licence exemptions in favour of applicants who can readily produce evidence.	4.16 (\$56.50)	\$264K
Defect Notice Clearance Appointment Fee	Customers would pay an administrative fee to clear their defect notices regardless of whether a vehicle repair inspection is required. There will be a fee to clear a defect during normal operating hours and a separate fee for weekend operating hours.	1.28 (\$17.40) Standard rate 1.89 (\$25.70) Weekend rate	\$640K
Appointment Fee – Miscellaneous Registration	Customers would pay an appointment fee for the registration of new light trailers, machinery, interstate registration changeover, and same-name re-registration. Customers seeking interstate registration changeover will pay the small appointment fee to receive a Victorian registration for the duration of their remaining expiry period.	1.28 (\$17.40)	\$1.8M
Appointment Fee – Miscellaneous Licensing	Customers would pay an appointment fee for interstate licence changeover. Customers seeking interstate licence changeover will pay the small appointment fee to receive a free Victorian driver licence for the duration of their remaining expiry period.	1.28 (\$17.40)	\$1.6M
Net Present Value ¹⁵			\$34.8M

89. The Net Present Value (NPV) calculation over 10 years on implementation costs produced a benefit of \$34.8M. This is a benefit to the community.

Table 12 - Net Present Value

Year	1	2	3	4	5	6	7	8	9	10
Benefit (\$M)	-0.907 ¹⁶	4.295	4.464	4.638	4.820	5.008	5.205	5.409	5.622	5.845
Net Present Value (\$M)	34.8									

¹⁵ 10-year NPV includes first year implementation cost of \$110K with no ongoing additional maintenance cost. Annual Discount Rate used was 4%.

¹⁶ Fees for services are expected to only recover costs part way through Year 1.

OPTIONS ASSESSED INCLUDING COST/BENEFITS

Base Case

90. The “base case” describes the regulatory position that would exist in the absence of the proposed fees. The base case of not doing anything (or maintaining status quo) is not considered a practical alternative, given that VicRoads has identified problems that need to be addressed. However, it is necessary to establish this position in order to make a considered assessment of the costs and benefits of the viable options.
91. For the purposes of comparing with the options assessments, the base case scores are ranked zero for all objectives – Efficiency, Equity, Simplicity and Effectiveness.

Multiple Criteria Analysis (MCA)

92. A multi-criteria analysis (MCA) is a decision making tool that can be used where judgement is required about how proposed options will contribute to a series of criteria that are chosen to reflect the benefits and costs associated with the proposal. The MCA involves:
- a) Specifying assessment criteria
 - b) Assigning a “weighting” to each criterion
 - c) Assigning scores for each option in relation to each criterion; and
 - d) Calculating a weighted score for each option.
93. Options are given a score, from -10 to +10 against each criterion. The base case (no fee) has a zero score in relation to all criteria. Options are then scored by reference to whether the expected outcome resulting from the option represents a positive or negative change relative to the base case.
94. The weighting for each objective is depicted in Table 6. In order to give weighted scores for each objective, their raw scores are multiplied by their allocated weighting to give a “weighted” score. For example, the weighting for Effectiveness is 20%, so its raw score is multiplied by 0.20 to produce its respective weighted score.

Table 13 - Criteria Scoring

Outcome	Weak	Small	Moderate	Significant	Extreme
Negative change	-1	-3	-5	-7	-10
No change	0	0	0	0	0
Positive change	+1	+3	+5	+7	+10

95. To assist in identifying the appropriate, equitable level of cost recovery, two levels of cost recovery (100 percent and 50 percent) were assessed using an equity and efficiency criteria framework (Table 14). The scores may be positive or negative, relative to the base case (i.e. no fee, zero cost recovery).
96. The equity and efficiency criteria used in the framework assessment in terms of costs recovery are:
- a) Horizontal equity (efficiency) – the extent to which the fee option reflects the most efficient use of resources and minimises cross-subsidisation.
 - b) Vertical equity – the extent to which the fee option impacts an individual or a business’s ability to pay.

Table 14 - Cost Recovery Equity and Efficiency Criteria Framework

Level of Cost Recovery	Criteria	Description
Full Cost Recovery (100%)	Horizontal Equity (Efficiency)	Full cost recovery promotes the efficient allocation of resources without the need to rely on general taxation revenue.
	Vertical Equity	A fee for full cost recovery is likely to affect an individual's ability to pay, noting that in absolute terms the fees are not significant. The criteria will need to be balanced against other alternatives available to the individual, as well as the outcome received as a result of the paid good/service.
Partial Cost Recovery (50%)	Horizontal Equity (Efficiency)	A partial 50% cost recovery will require reliance on taxation revenue and will not allow a full, self sufficient allocation of resources.
	Vertical Equity	The subsidised option provides a cheaper alternative to the paying individual. However as fees are not significant a partial cost recovery may provide only a marginal improvement to vertical equity.

97. The equity criterion in some cases also takes into account the degree to which under an option the user pays for the services they privately benefit from. In other words, a fee structure that involves a greater level of cross subsidisation across services against the base case would be reflected negatively in the equity criterion.
98. For simplicity, VicRoads prefers to minimise where possible, costs that might be incurred in implementing the new fees, as well as ongoing maintenance costs that might arise as a result of introducing a new fee or process. The impact to the community is also considered such as, how the charge is applied is easy to understand.
- a) Where available, determine similar fee amounts currently in use at VicRoads that can be reused and applied to the transaction cost, so that the fee amount can be remembered by frontline staff and fee maintenance is minimised.
 - b) Where available, benchmark with similar and comparable fee activities in use by other interstate road authorities, so that the fee structure is more acceptable by the public.
99. The effectiveness of a proposed fee amount is also derived using a series of steps.
- a) Determine whether the proposed option meets the stated objectives.
 - b) Consider the ability of the proposed option in reducing the level of "no shows", reducing non-approval rates or improving service levels.
 - c) Determine if the proposed option helps promote safer drivers, safer vehicles and safer roads.

Licence Exemptions

Base Case Scenario

100. There is presently no fee charged for the assessment of applications for licence exemptions, making this the base case scenario.
101. The Base Case scenario generates an undesirably high application volume, with increases of 30% year on year, placing considerable strain on existing resources.

102. Processing applications for licence exemptions presently cost VicRoads approximately \$294K per year. Continuing with the base case trajectory would see costs rise to \$497K within 3 years. This is a cost that would be absorbed by VicRoads and the broader community.

Assessment of Options

103. The new proposed Licence Exemption fee will primarily affect learner and probationary drivers, overseas and interstate drivers, comprising the largest group at over 3,400 applicants. In addition, the Heavy vehicle exemption category comprises over 2,500 applicants with a mix of backgrounds including overseas, interstate, primary producers, motor trade and emergency services. These applicants are seeking exemptions for the purposes of quicker employment or as part of a business trade requiring the use of heavy vehicles.

104. Customer observations at customer service branches estimate a 25% potential reduction in application submission rates for licence exemptions as a result of the imposition of a full-cost recovery fee. The volume reduction has been factored into full-year revenue projections.

105. Based on the above prediction by the service branches, introducing a fee would achieve higher compliance with minimum licence attainment requirements, contributing to a high score for Effectiveness.

106. The cost to seeking licence exemption for applicants is the once-off fee, payable for each application. There is a high exemption approval success rate for overseas and interstate applicants who can produce evidence of a similar licence attained for the exemption category that they are seeking (as is the case for Heavy Vehicle Graduate Licence).

107. Based on the scoring of fee options in Table 15, Option 1 is the preferred fee.

Table 15 - Licence Exemption Fee and Non-Fee Options

Options	Objectives	Score	Weighted Score	Analysis of option
Option 1 Implement a full cost recovery model for licence exemption applications by charging a fee unit of 4.16 per application.	Efficiency	10	3	Quickest full cost recovery. Full cost passed to user in need of activity, easing fiscal pressure to the broader community (Horizontal equity).
	Equity	5	1.25	The least affordable fee option to applicant (Vertical equity).
	Effectiveness	7	1.4	The price signal from the fee would encourage the greatest level of customer conformance to minimum licence attainment requirements.
	Simplicity	-1	-0.25	Easy to administer and understand as it is a fee per application.
Option 1 Total Weighted Score			5.4	The best option to foster greater compliance to regulations and to recover full costs.

<p>Option 2 Implement a partial (50%) cost recovery model whereby a lesser fee unit of 2.27 is charged for each licence exemption application.</p>	Efficiency	5	1.5	A partial 50% cost recovery will still require reliance on taxation revenue and will not allow a full, self-sufficient allocation of resources.
	Equity	7	1.75	The subsidised option provides a cheaper alternative to the paying individual. However – while fees are not significant - there is still the possibility of a negative impact to some individual's ability to pay.
	Effectiveness	5	1.0	May encourage regulatory conformance but not as effective as a full fee.
	Simplicity	-1	-0.25	Easy to administer and understand.
Option 2 Total Weighted Score			4.0	Not an efficient and effective option.
<p>Option 3 Implement different fee for each licence exemption type.</p>	Efficiency	10	3	Leads to full cost recovery.
	Equity	7	1.75	Individual's ability to pay would differ depending on the exemption type. This option would mean fees for specific services would be either higher or lower than the single fee proposed in option 1 or 2 , depending on the complexity of the exemption process.
	Effectiveness	3	1.0	May encourage regulatory conformance but it could also lead to undesirable bundling and submission of many different applications as a single, cheaper application.
	Simplicity	-5	-1.25	More complex to administer given the varying fee levels for six types of exemptions.
Option 3 Total Weighted Score			4.5	More equitable option but scores lower in effectiveness and simplicity.

Defect Notice Clearance

Base Case Scenario

108. There is presently no fee charged for clearing defect notices, making this the base case scenario.
109. Under the Base Case scenario an undesirably high number of vehicles are currently failing clearance. VicRoads believes that the no-charge service enables customers to take a chance on clearing insufficiently repaired vehicles rather than commit to the expenses and inconvenience in repairing the vehicle.
110. Clearing defects cost VicRoads approximately \$554K per year. The low value placed by applicants on the defect clearance process does not foster greater regulatory compliance and safer vehicles on the roads.

Assessment of Options

111. The new Defect Notice Clearance fee for weekday and weekend services will affect a mix of private and commercial vehicle owners (including motor vehicle dealers, the trucking industry and motor mechanics) that would require clearance of defect notices.
112. Clearing defect notices is a vital process in ensuring that defective vehicles are repaired to a satisfactory state in accordance to regulatory requirements. Removing the process is not an option.
113. VicRoads currently charges a standard across-the-board 1.28 fee units for appointments. For the purposes of simpler financial administration, the standard VicRoads appointment fee will be applied to clear defect notices during weekdays.
114. VicRoads will introduce the appointment booking process. This means that defect notices cannot be cleared without an appointment booking. The new fee will be applied at the time the appointment is made – whether online or over the phone. VicRoads does not provide concessions or waivers on appointment bookings.

Table 16 - Defect Notice Clearance Fee Options

Options	Objectives	Score	Weighted Score	Analysis of option
Option 1 Implement a full cost recovery model, charging the standard VicRoads appointment fee of 1.28 units to clear a defect notice on weekdays. In addition, extend services by opening weekend inspection centres to	Efficiency	10	3	Quickest full cost recovery. Full cost passed to user in need of activity, easing fiscal pressure to the broader community (Horizontal equity).
	Equity	5	1.25	While the fee may affect some individuals ability to pay, the fee is not expected to be perceived as a significant amount for applicants.

provide greater convenience to customers with a weekend fee of 1.89 units.	Effectiveness	9	1.8	The extended weekend service will provide convenience to those who cannot attend inspection centres during the week. The fee would encourage the greatest level of customer conformance to minimum licence attainment requirements and reduce the number of vehicles currently failing clearance through the perceived value in the fee.
	Simplicity	-3	-0.75	Easy to administer but with added complexity of weekend fee.
Option 1 Total Weighted Score			5.3	Is the most effective option to fully recover costs, with the weekend extended service offering convenience to customers, encouraging higher volume of defect clearances and hence higher conformance to regulatory requirements.
Option 2 Implement a full cost recovery model, charging the standard VicRoads appointment fee of 1.28 units to clear a defect notice on weekdays only.	Efficiency	10	3	Quickest full cost recovery. Full cost passed to user in need of activity, easing fiscal pressure to the broader community (Horizontal equity).
	Equity	5	1.25	While the fee may affect some individuals' ability to pay, the fee is not expected to be perceived as a significant amount for applicants.
	Effectiveness	3	0.6	Encourages a greater regulatory conformance but lack of weekend service does not give every customer a chance to conform to regulations easily.
	Simplicity	-1	-0.25	Easy to administer with one standard VicRoads appointment fee.
Option 2 Total Weighted Score			4.6	Viable option, however the lack of weekend services do not encourage greater regulatory compliance from customers (e.g. trucking community) who would benefit from extended services from VicRoads.
Option 3 Implement a different fee structure to charge more for defect notices not requiring a RWC and less to notices with RWC on	Efficiency	10	3	Consideration was given to add an additional fee to non-RWC notices since this type of defect requires a visual inspection by a VicRoads staff member. This would lead to full cost recovery.

weekdays and weekends.	Equity	7	1.75	An individual's ability to pay would differ depending on the inspection, although fee amounts are not expected to be perceived as significant. This option would mean the fees for different services would be either higher or lower than the single fee proposed in option 1 or 2, depending on the complexity of the inspection.
	Effectiveness	9	1.8	The fee would encourage a high level of customer conformance to minimum licence attainment requirements and reduce the number of vehicles currently failing clearance through the perceived value in the fee.
	Simplicity	-7	-1.75	Most complex to administer with multiple levels of fees for both weekday and weekend services and added difficulty in using a non-standard appointment fee.
Option 3 Total Weighted Score			4.8	Full cost recovery however the imposition of an additional fee for non-RWC notices could be administratively burdensome
Option 4 Implement a partial (50%) cost recovery model whereby a lesser fee of 0.64 units is charged to clear defect notices on weekdays only.	Efficiency	5	1.5	A partial 50% cost recovery will still require reliance on taxation revenue and will not allow a full, self-sufficient allocation of resources. The loss incurred would not justify the effort needed to implement the fee.
	Equity	7	1.75	While the lower fee may increase some individuals' ability to pay, this is limited as the full fee is already expected to be perceived as a small amount for applicants.
	Effectiveness	3	0.6	May encourage regulatory conformance but not as effective as a full fee.
	Simplicity	-3	-0.75	VicRoads does not administer a cheaper appointment fee so is one extra fee to maintain.
Option 4 Total Weighted Score			3.1	Not an efficient or effective option to justify effort in implementing.

115. Based on the scoring of fee options in Table 16, option 1 is the highest scoring fee scenario. The level of success for the preferred option will be monitored over the course of 12 months and any future needs for different fee levels may be re-considered.
116. It is anticipated that weekend labour costs of time-and-a-half would apply for extended hour's services, bringing an increase in weekend appointment fees to clear defect notices to 1.89 fee units.
117. The cost of 1.28 fee units to clear a vehicle defect notice on weekdays (and 1.89 units on weekends) is comparatively small when the alternative is a registration suspension (applied if a vehicle defect is not rectified within the notice period).
118. The defect notice clearance fee is supported by the Victorian Transport Association (VTA), an organisation representing a number of freight transport groups. Work schedules are cited as making it difficult for members of the truck driving community to visit VicRoads centres during the weekdays to clear defects. The new fee will help VicRoads fund extended weekend opening times at its inspection centres to service the truck driving community.
119. The community benefits with more vehicle defects cleared over the weekends as the initiative will help foster safer vehicles and safer drivers.

Miscellaneous Registration & Licensing

Base Case Scenario

120. There is presently no fee charged for administering miscellaneous registration and licensing transactions, making this the base case scenario.
121. In providing a no-fee service for these licensing transactions, VicRoads does not promote equitable treatment of customers since a sizeable section of the community enjoys the benefits of no-fee registration and licensing services.
122. VicRoads believes that the Base Case scenario causes appointment “no shows” as customers place a lower value on no-charge appointments compared to their other personal priorities, cost of travel or cost of lost time as a result of travelling to a VicRoads service centre.
123. Miscellaneous registration and licensing transactions cost VicRoads approximately \$2.7 million per year. This is a significant shortfall that is absorbed by VicRoads, costing the broader community to service a small section of the public.

Assessment of Options

124. The new Appointment fees for Miscellaneous Registration will affect members of the general public who would require registrations for new light trailers or the re-registration of registration expired vehicles, as well as primary producers who would require registrations of new machinery (tractors, agricultural machines). The largest impacted group (comprising 64,000 transactions) is interstate migrants to Victoria who would require interstate changeover of registrations. The total volume of miscellaneous registration transactions is approximately 112,000 per year.
125. Similarly, Miscellaneous Licensing will affect interstate migrants into Victoria who would require interstate changeover of driver licences. This group comprises 90,000 transactions.
126. VicRoads currently charges a standard across-the-board 1.28 fee units for registration and licensing appointments. In line with full cost recovery and for the purposes of simpler financial administration, the standard fee will be applied to miscellaneous registration and licensing appointments.
127. VicRoads will revise the existing appointment booking process for miscellaneous transactions to enable the booking fee charge. The new fee will be applied at the time the appointment is made – whether online or over the phone. VicRoads does not provide concessions or waivers on appointment bookings.

Table 17 - Miscellaneous Registration & Licensing Fee and Non-fee Options

Options	Objectives	Score	Weighted Score	Analysis of option
Option 1 Implement a full cost recovery model, charging the standard VicRoads appointment fee of 1.28 units.	Efficiency	10	3	Quickest full cost recovery. Full cost passed to user in need of activity, easing fiscal pressure to the broader community (Horizontal equity).
	Equity	5	1.25	The least affordable fee option to applicant (Vertical equity).
	Effectiveness	7	1.4	The fee would reduce the rate of “No shows” by placing a higher value on appointments.

	Simplicity	-1	-0.25	Easy to administer and understand.
Option 1 Total Weighted Score			5.4	Most effective option to fully recover costs and reduce the volume of "No shows".
Option 2 Implement a partial (50%) cost recovery model whereby a lesser fee of 0.64 units is charged.	Efficiency	5	1.5	A partial 50% cost recovery will still require reliance on taxation revenue and will not allow a full, self-sufficient allocation of resources.
	Equity	7	1.75	The subsidised option provides a cheaper alternative to the paying individual. However there is still the possibility of a negative impact to some individual's ability to pay.
	Effectiveness	5	1	May reduce the rate of "No shows" but not as effective as a full fee.
	Simplicity	-3	-0.75	VicRoads does not administer a cheaper appointment fee so is one extra fee to maintain.
Option 2 Total Weighted Score			3.5	Not the most efficient and effective option. Not as simple to implement.
Option 3 Implement different fees for low- and high-cost miscellaneous transactions.	Efficiency	10	3	Leads to full cost recovery,.
	Equity	7	1.75	Option has less cross-subsidisation across transactions than option 1 and 2 since users would pay higher fees for more complex transactions.
	Effectiveness	8	1.6	The fee would reduce the rate of "No shows" and also place a higher value on more complex appointments.
	Simplicity	-5	-1.25	Multiple fee levels are complex to administer and are more confusing to customers.
Option 3 Total Weighted Score			5.1	More viable than Option 2 but not as simple to implement and multiple fees are potentially confusing to customers.

128. Based on the scoring of fee options in Table 17, option 1 is the preferred fee scenario.

129. There is no expected negative impact in demand as a result of introducing the new fee since there are already customer expectations that there are costs associated with acquiring Victorian registrations and licences.

Risks and Social Impacts As A Result Of New Fees

130. There is a risk that the introduction of the defect notice clearance fee could result in the likelihood of more vehicle registration suspensions occurring and ultimately more unregistered, un-roadworthy vehicles on the roads. The percentage impact is hard to predict and quantify particularly on a relatively small fee (compared to the cost of a vehicle repair). It is more likely that the costs of vehicle repairs are the prime causes of vehicle owners taking suspension risks.

131. The introduction of the Licence Exemption fee is not expected to increase any likelihood of drivers breaching learner and probationary rules, given the existing rigid exemption assessment process in place.

PROGRAM LEVEL IMPLEMENTATION AND ENFORCEMENT

132. Amendments to Regulations, VicRoads brochures, website and communication paraphernalia will be undertaken by existing VicRoads resources. There are additional costs in legal and policy support, communication of the new fees, project management, development and revision of materials/programs. The following table provides a summary of the one-off business costs associated with the introduction of the new fees. There are no system development costs.

133. Calculations of business resource cost are based on an estimated number of man days expected to implement the fees. The team is comprised of Project Manager, Business Analyst, Legal Representative, Financial Analyst, Communication Analysts and Trainers (see Appendix for rates used and salaried costs based on VicRoads salaries).

Table 18 - Business Implementation Costs

Cost type		Daily rate	Implementation Cost (Ex GST)
<u>Business Resources</u>			
• R&L Project Resources	48 days	\$640	\$31,000
○ (Project Manager VRO5-4)			
• R&L Project Resources	100 days	\$510	\$51,000
○ (Business Analyst VRO4-4)			
Financial resource for new fee uploads and testing	20 days	\$640	\$13,000
○ (Financial Analyst VRO5-4)			
• R&L communications & training resources	30 days	\$510	\$15,000
○ (Communication and training analysts VRO4-4)			
Total Program cost with contingency			\$110,000

134. There are no additional ongoing maintenance costs.

135. In enforcing the new fees, the Road Safety (Drivers) Regulations and the Road Safety (Vehicles) Regulations will be amended:

- a) Road Safety (Drivers) Regulations 2009, for new fees relating to licensing,
- b) Road Safety (Vehicles) Regulations 2009, for new fees relating to registration.

136. The new fees will be communicated to customers on the VicRoads website and existing brochures will be amended accordingly. Front line VicRoads staff will be briefed on the new fees with work instructions updated accordingly.

137. Calculation of regulatory fee units is derived using the base fee unit¹⁷ for the 2014/15 financial year. The resulting fee units will be specified in Schedule 5 of the respective Drivers and Vehicles regulations.

CONSULTATION, MONITORING, REVIEW AND EVALUATION

138. In considering the types of costs to be recovered and the comparison to similar fees charged, preliminary communications occurred at a bi-monthly meeting at AustRoads, the national association of road transport and traffic agencies. Present at the meeting were representatives of interstate road and transport authorities. Preliminary communications have also occurred with Victorian Transport Association (VTA) and the RACV where discussions have helped contributed to the development of fee options.

139. Post Implementation Review will be carried out to determine the benefits realised in regulatory compliance, financial terms as well as the traffic volume impacts the new fees will have on overall management of customer services. This is carried out annually by multiple departments within VicRoads:

- Monitoring of traffic volume impact and monetary tracking will be carried out by VicRoads' R&L Business Services.
- Reporting of benefits will be carried out by R&L Business Services.
- VicRoads Finance (Management & Accounting) will make changes to fee tables and demand management to enable monitoring of the new fees charged.
- VicRoads Finance (Management & Accounting) will report to Department of Economic Development, Jobs, Transport and Resources (DEDJTR) on the revenue realised from the Increased Revenue and Cost Recovery Program.

140. There are a number of indicators that will be used to monitor the effectiveness of the fees implemented, as illustrated in the table below.

Table 19 - Indicator monitoring methods.

Indicator	How monitored?
Net cost of operations	Determined from fee revenue minus process cost. Monthly data for fee revenue is compiled and compared with service costs on an annual basis. The data is compiled by VicRoads' payment systems.
Level of demand for licence exemptions	Data for the number of exemption applications received and successfully processed is manually compiled on a monthly basis by the exemption assessment team. Monthly volume trends will be charted for pattern shifts and reviewed annually.

¹⁷ As specified by the Treasurer.

Level of demand to clear defect notices	Data for the appointment volume for defect clearances and the volume cleared are captured by two systems to be monitored on a monthly basis. Monthly volume trends will be charted for pattern shifts and reviewed annually.
Level of demand for appointments	The appointment system captures data on the type of appointment made and the time made. Monthly data will be charted and reviewed annually.
Reduction of No Shows	Appointment no-show data is compiled by the appointment system. Annual data will be compared to previous years for pattern shifts.
Public feedback on new fees	Public feedback is collected by VicRoad's Enquiry Tracking System (ETS). With this system, public sentiment can be heard and addressed by relevant staff members. Feedback collected can be compiled to gauge the public perception on the fees and general effectiveness of the fees.
Level of suspended vehicles	VicRoads currently does not monitor this activity and it does not keep track of causes of suspensions. However as a result of the Defect Notice Clearance fees, more attention could now be paid to the general trends in the number of suspended vehicles over time from the number of suspension letters issued, to determine if new initiatives could be created in the future.

141. Fees are reviewed and revised annually prior to end of each financial year and normally at the time when the Treasurer's annual rate for the next financial year is released. It is anticipated that the fees will continue to be in place as an ongoing part of VicRoads operations.
142. A primary function of the RIS process is to allow the public and stakeholders to comment on the proposed Regulations before they are finalised. Public input provides valuable information and perspectives and improves the overall quality of regulations. Accordingly, feedback on the proposed Regulations is welcomed and encouraged. The consultation period for this RIS will be 28 days, with written comments required by no later than 5:00pm, on the advertised due date.

APPENDIX

Business Implementation Staff Costs

The following staff costs have been used in the calculation of costs to implement the project within the business.

The daily rate has been calculated by multiplying 7.6 hours per day by the hourly rate. The hourly rate has been calculated on the basis that the total annual costs cover 46.2 weeks per year (52.2 weeks minus 4 weeks annual leave and 2 weeks for other leave (including public holidays), and 38 hours worked each week (as per the VPS Workplace Determination). This is to ensure the fees capture the true incremental staff cost of the activity. Therefore the hourly rate is:

$$\text{Hourly rate} = \frac{\text{(Total annual cost of staff member)}}{(46.2 \text{ weeks} \times 38 \text{ hours})}$$

Table 20 - Staff salary rates

Team Member	Staff Level	Salary	Hourly Rate	Activities
Project Manager	VRO5-4	\$148,010	\$84.30	Project management, Stakeholder and Team management.
Project business analyst	VRO4-4	\$117,922	\$67.20	Stakeholder liaison, business impact analysis, business process impact analysis and design.
Legal representative	VRO6-4	\$187,124	\$106.60	Regulatory development and legal advice.
Financial analyst	VRO5-4	\$148,010	\$84.30	Fee implementation, financial systems testing, accounting.
Communication analyst	VRO4-4	\$117,922	\$67.20	Departmental and external communications.
Trainers	VRO4-4	\$117,922	\$67.20	Staff training.

Salaries are based on 2014 rates.

10-year Cost and Revenue Projections

Table 21 - 10-year Projections

Year	1	2	3	4	5	6	7	8	9	10
Costs (\$million)										
Defect Notice	0.601	0.616	0.632	0.649	0.666	0.673	0.702	0.721	0.740	0.760
Licence Exemptions	0.245	0.251	0.257	0.264	0.271	0.278	0.286	0.293	0.301	0.309
Misc Reg'n & Licensing	2.956	3.370	3.512	3.661	3.817	3.979	4.147	4.323	4.507	4.698
Systems implementation	0	0	0	0	0	0	0	0	0	0
Business implementation	0.110	0	0	0	0	0	0	0	0	0
Total Cost (projected)	3.912	4.237	4.401	4.574	4.754	4.930	5.135	5.337	5.548	5.767
Benefit (\$million)										
Defect Notice	0.481	0.640	0.657	0.675	0.693	0.711	0.730	0.749	0.769	0.791
Licence Exemptions	0	0.264	0.272	0.279	0.286	0.294	0.302	0.310	0.318	0.327
Misc Reg'n & Licensing	2.524	3.391	3.535	3.684	3.841	4.003	4.173	4.350	4.535	4.727
Total Benefit (nominal)	3.005	4.295	4.464	4.638	4.820	5.008	5.205	5.409	5.622	5.845
Net Benefit (\$million)										
Net benefit (nominal)	-0.907	0.058	0.063	0.064	0.066	0.078	0.070	0.072	0.074	0.078
Net Present Value (NPV)	34.8									

Note: the Net Present Value (NPV), using the formula, assumes that all costs are incurred at the end of each time period and are discounted using an annual discount rate of 4%, in accordance with the Victorian Guide to Regulations.

Based on a three-year volume fluctuation pattern of -0.51% (2011-12), 6.38% (2012-13) and 6.85% (2013-14), increases for miscellaneous registration and licensing volumes are based on average yearly rise of 4.24%. Also included is an assumed 50% reduction in the volume of appointment "no shows" in absolute terms (on 2013/14 volume). Volumes for Defect Notices and Licence Exemptions fluctuate yearly and their volume projections are based on an average yearly rise of 2.65%.

The above calculations indicate a net benefit with an NPV of \$34.8M. This includes a first year implementation cost of \$110K. The fee initiatives are planned for release in the second quarter of the first year, with the exception of the Licence Exemption fees (where current plans are for a second year release). The fees are expected to fetch long term benefits to the community.