AA Submission: ACC 2010/11 Levy Consultation (10 November 2009)

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Levy Consultation
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SUBMISSION ON 2010/11 LEVY RATES FOR MOTORISTS

The New Zealand Automobile Association (NZAA) welcomes the opportunity to make a submission on the consultation document on the proposed 2010/11 levy rates for motorists.

The NZAA represents over 1.2 million Members on issues affecting motorists. Accordingly, we continue to have a particular interest in the ACC levy because of its financial impact on all motor vehicle owners and motorists.

We make our comments on the ACC proposals, under the following headings:

- full funding of pre-1999 motor vehicle claims
- proposed increase in the 2010/11 levy
- vehicle classes
- injury prevention

Full funding of pre-1999 motor vehicle claims

The NZAA continues to oppose the legislative requirement to fully fund the pre-1999 motor vehicle claims by 30 June 2014. As this date draws nearer, the pre-1999 component of the annual levy grows ever larger, and has risen 50% in the last two years.

The closer we get to 2014, the more volatile the levy becomes. The consultation document shows an annual levy of $213 is needed each year to fund the pre-1999 claims by the June 2014 legislative deadline, but last year the ongoing annual amount was estimated at $186, and $136 the year before. The NZAA feels it is extremely unlikely that the projections will remain constant, and will likely rise further, the closer we get to 2014.

Levy payers, regardless of account category, are being asked to fund the remaining 73% balance of the pre-1999 claims within the next five years, when it has taken ten years to fund just 27%. The failure to adequately pace funding for the pre-1999 claims in the past should not subject motor vehicle owners or anyone else to unexpectedly large levies over the next five years, especially as post-1999 levies are also estimated to rise. We think there is definitely a case for lessening this impact by extending the 2014 deadline for funding pre-1999 claims through to 2019 or even beyond to an optimum funding deadline.

Consequently, we are supportive of the Minister of ACC's indications that this date will be extended at least another 5 years, and we urge that such a change to the ACC legislation be introduced. According to the consultation document, this would reduce the increase in the combined average motor vehicle levy rate from $130 per vehicle to just $30 in 2010/11.

Equally, the fickle estimates for annual pre-1999 levies is due to the claim costs being re-assessed each year, and instead the NZAA recommends they be assessed for the entire

remaining 5-year (or 5-year plus) period, so that future annual motor vehicle levies can be budgeted for with greater accuracy to avoid the wide variations experienced in the last couple of years, thus providing more certainty to vehicle owners through the legislation amendment.

Proposed increase in the 2010/11 levy

The consultation document proposes to raise the combined motor vehicle levy by $130 or 45%, and increase the petrol levy by 2.97 cents per litre. Specifically, the motor car levy is estimated to rise $68.91 to $237.37 if the petrol tax increase is adopted. This will mean the total cost of registering a car will rise from the current $248 a year to $317 (including GST and administration costs).

In the recent past, most of the levy increases have been due to the pre-1999 claims as discussed above, but much of this rise is due to an increase in the estimated cost of current claims (and lower returns on investments), and we note with concern that current-year levies are predicted to double by July 2014 when the pre-1999 funding is planned to conclude. This is so that post-1999 claims are fully funded by 2019, and if the pre-1999 deadline is extended, this funding position will also need to be postponed. Further, the NZAA suggests it be spread over a 10-year timeframe in order to smooth cost increases. Motorists shouldn't be further penalised in the current economic environment because the Motor Vehicle Account is worth less than expected.

$317 is a lot of money for some motorists to pay, especially those on low or fixed incomes like retired folk who generally travel modest annual distances. That is why the NZAA continues to support a gradual move over time for a greater proportion of the levy to be collected from petrol rather than the annual licence fee, so that increased ACC motor vehicle costs are funded by those who have a higher probability of being involved in an accident. This is because fuel consumption generally equates to distance travelled on the road, and therefore is a proxy for risk exposure. The more levy placed on petrol, the more frequent users of the road pay compared to those who travel infrequently yet (currently) still pay a significant portion via registration charges. Another advantage of this approach is that the petrol levy is more difficult to avoid with 100% compliance.

Therefore the NZAA supports adopting the optional proposal to increase the petrol levy of 2.97 cents per litre to a total 12.87c/l, which is the maximum that can presently be levied on petrol, due to the legislative barrier to funding pre-1999 claims through a petrol levy. We would also support removing or adjusting the legislative cap on the amount of ACC that can be levied on fuel tax, as proposed in the Injury Prevention, Rehabilitation, and Compensation Amendment Bill 2009.

We are also pleased to see that ACC has adopted a 30% relativity for the petrol levy for motorcycles, which recognises their reduced fuel consumption, although this has the effect of reducing their total contribution below the intended amount (discussed below).

Vehicle classes

The NZAA has previously voiced our opposition to the ongoing cross-subsidisation of motorcycle levies, which artificially covers the true cost of motorcycle accidents and sends the wrong signals to motorists by not warning new and existing motorcycle riders of their increased risk of injury (18 times more than drivers) through a price signal.

Consequently, we are pleased to see that the 2010/11 levy consultation document addresses this by proposing to increase motorcyclists' contribution. We note that even with the very large increases proposed in the discussion document, motorcycle revenue is still less than their actual share relative to motor cars.

However, we are cognisant that the rises are nevertheless substantial – for mopeds and most motorcycle classes between 200% and 300%. The NZAA has never sought full recovery, but a strong price signal to identify the increased risk of motorcycles.

We are concerned at the level of increase proposed in just one year, which appears to be counter to ACCs stated claim that *"the affordability of levies is important, as is the desire that the level of levies charged does not result in vehicle owners choosing not to licence and warrant their vehicles each year."*

The proposed ACC levies – $735 for 601+cc motorcycles, which are the most common sub-class of 'bike – may very well be unaffordable and encourage owners not to re-licence. With the fine for an un-licensed vehicle at $200, a rider would have to be caught four times a year before the cost of non-compliance outweighed the cost of compliance. Equally, bikers typically own more than one motor vehicle, so will be tempted not to register secondary vehicles like 'bikes for a full 12 months, but only for periods when it is likely to get regular use, e.g. summer. This will reduce the expected revenue from this income stream, yet it doesn't necessarily follow that owners will use their 'bikes any less and thus reduce commensurate accident risk.

Therefore, the NZAA proposes that the increase in motorcycle levies should be reduced and increases gradually phased in over a period of a few years. This will provide advance notification and send the appropriate signals, particularly to new or relatively unskilled riders, about the costs of motorcycle accidents and risk. We note also that extending the pre-1999 full-funding deadline will significantly reduce that portion of the large motorcycle levy.

There is merit in the new sub-classifications for motorcycles according to engine capacity, although this is a proxy for power/performance which would more accurately be measured by power-to-weight ratios. Not all large-capacity 'bikes are high-performance, especially older models. Given half the motorcycle fleet are over 601cc, they are the group most at risk of not paying the heavy licence fees and so it may be more equitable to merge the 126-600cc and 601+cc classes and share the levy costs across both, to reduce the cost impact on the bigger 'bikes. The NZAA accepts however, that the current moped levy grossly under-recovers the true claim costs and merging it into the 0-125cc sub-category is appropriate.

Injury prevention

The NZAA supports the ACC continuing to deliver and/or fund a number of road safety programmes aimed at preventing injury. We are supportive of an increase in spending on injury prevention, and particularly applaud plans to increase funding for: promoting a motorcycle safety culture; rider training and skills; and safer motorcycle speeds. ACC has a vested interest in preventing accidents as they pay for the consequences.

We consider there should be research into what financial incentives can be put in place to achieve road safety goals for certain ACC account sub-classes, such as discounts for owners of safer vehicles (e.g. 5-star cars) or those who have undergone advanced driver or rider training. This would particularly appease members of high-levy groups like motorcycles, if their riding skills or safety record could be positively rewarded.

The NZAA also supports funding other ongoing safety areas like road engineering, increasing the uptake of vehicles with safety technology, vulnerable road users and young drivers.

Yours sincerely

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