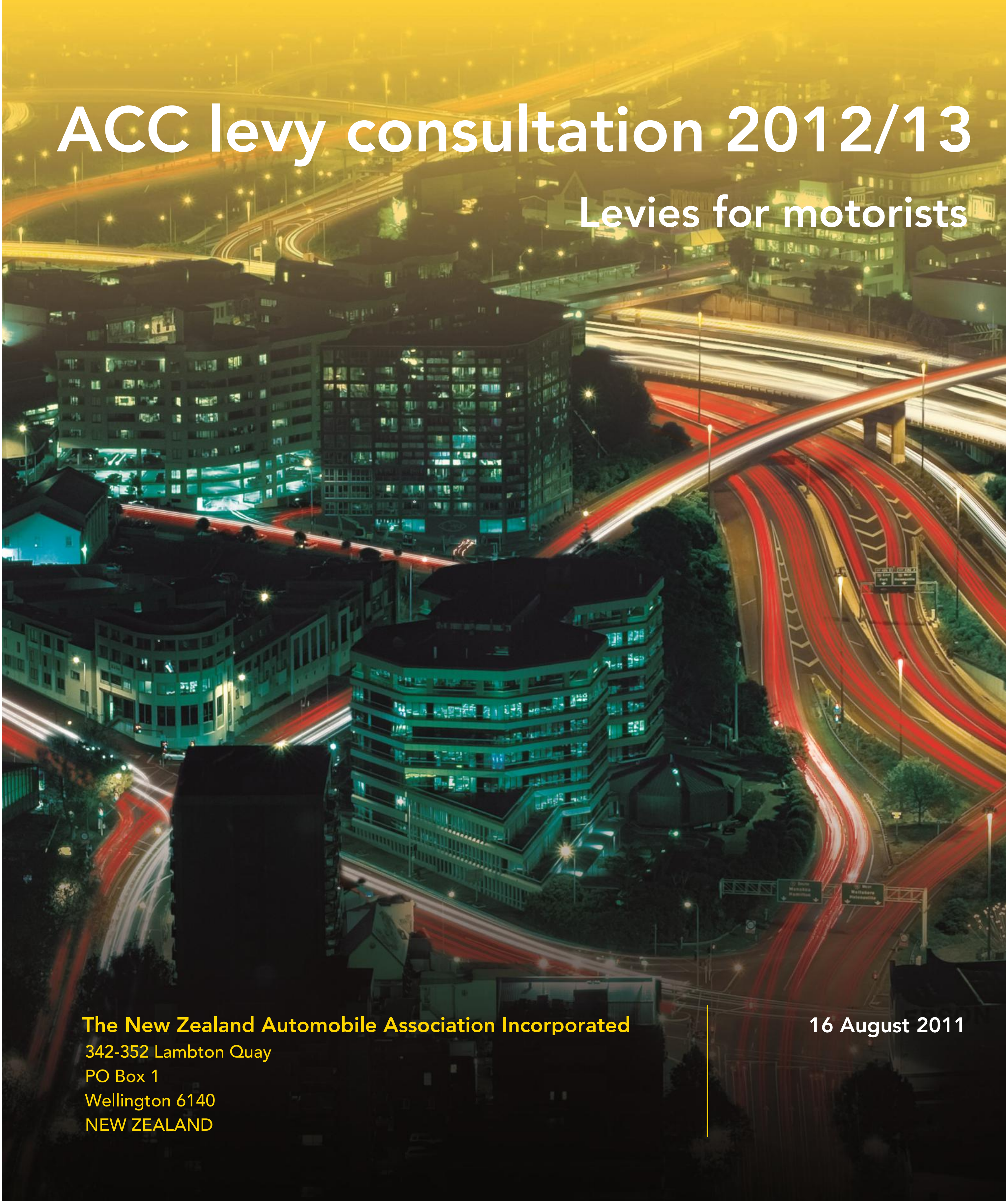
# ACC levy consultation 2012/13

## Levies for motorists



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16 August 2011

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**SUBMISSION ON 2012/13 LEVIES FOR MOTORISTS**

The New Zealand Automobile Association (NZAA) welcomes the opportunity to make a submission on the proposed 2012/13 levy rates for motorists.

The NZAA represents 1.3 million Members on issues affecting motorists. Accordingly, we have a particular interest in the ACC levy because of its financial impact on all motor vehicle owners and motorists.

As the ACC proposals for the 2012/13 combined average motor vehicle levy is the same as the 2011/12 consultation, our submission restates the key policies that we consider must be adopted for the 2012/13 motor vehicle levies in order to deliver fairness and equity to all motor vehicle owners. In particular, increasing the petrol levy and reducing the fixed licence levy, and adopting a similar distance-based levy for diesel vehicles.

We make our comments on the ACC proposals under the following headings:
- increasing the petrol levy
- introducing a distance-based levy for diesel-driven vehicles
- goods service vehicles and work-related motor vehicle accidents
- funding policy

## 1. Increasing the petrol levy

The NZAA has long supported collecting a greater proportion of the ACC levy from petrol rather than the annual licence fee, in order that ACC motor vehicle costs are funded by those who have a greater exposure to being involved in a road crash. Because fuel consumption relates to distance travelled on the road, it is a proxy for risk exposure, and so the more levy collected from petrol, the more frequent users of the road pay compared to those who travel infrequently or own more than one vehicle yet still pay a significant portion via licence fees.

The 11-18% increase in passenger vehicle levies from the 2010/11 year has led to increased complaints from motorists, not only to the NZAA but also to ACC, and the Minister and Associate Minister for ACC. This illustrates that motorists are increasingly unhappy about the high cost of licensing their vehicles. Anecdotally, there are increased reports of people choosing not to relicence their vehicles and this is not only limited to diesel vehicles which have even higher licence fees. There have also been increases in applications for exempt “Class B” (farm vehicle) licenses and vehicles illegally registered as ambulances or hearses, which incur lower licence fees. The Government must have had sufficient grounds for concern about the reported increase in the number of unlicensed or unregistered vehicles being driven on public roads to have recently introduced demerit points for these offences.

This abuse would decline if licence fees were lowered in favour of higher petrol levy, and another advantage of this approach is that fuel tax is difficult to avoid with 100% compliance.

Lowering the annual licence fee would also send the right message to motorists in light of well-publicised improvements in ACC accounts, including the Motor Vehicle account. While the NZAA would not favour raising motorcycle levies, it would be acceptable to maintain current rates if passenger vehicle levies were reduced in favour of a higher petrol levy, in recognition of the lower petrol tax contribution by motorcycles due to their superior fuel economy, and the failure to account for this previously over several years when the petrol tax component of aggregate motor vehicle levies rose.

While the ACC Board's proposal to raise the petrol levy by 3 cents per litre for the 2011/12 financial year was not adopted due to concerns about increased fuel taxes during 2010 and rising fuel prices, the NZAA on behalf of its 1.3 million Members would support raising the petrol levy by 3 cents per litre, even though a 2 cent per litre increase in petrol excise has also been signalled for 2012. As a result of such an increase, the annual licence levy for petrol-engined passenger vehicles would fall by approximately $35, which will be welcomed by vehicle owners who travel average, or below-average annual mileages, and those who own multiple vehicles.

## 2. Introducing a distance-based levy for diesel-driven vehicles

Increasing the petrol levy and correspondingly lowering the licence levy for petrol vehicles will however further increase the obvious difference between petrol and diesel vehicle licence fees, which will only serve to frustrate and confuse diesel vehicle owners further. Hence it is important that work to develop an equivalent distance-based levy on Road User Charges be undertaken as a priority so that it can be introduced with any increase in the petrol levy in the 2012/13 financial year.

This incompatibility between equivalent petrol and diesel-engined vehicles has been a common complaint by AA Members who own diesel vehicles, and who perceive diesel licence fees to be substantially higher (this problem is exacerbated for private owners of light diesel Goods Service Vehicles). According to Motor Vehicle Register data, diesels now make up 17% of the light vehicle fleet, and it is high time the ACC motor vehicle levy model was amended to incorporate a distance-based component for this large group of motorists.

The general public do not understand the difference in levies and collection methods for equivalent petrol versus diesel vehicles and consider diesels are being discriminated against. As an aside, this lack of understanding could be partially addressed by providing more information with the annual re-licence notice, which could compare total average ACC fees for vehicles in the same class (including petrol tax), according to fuel type, and simple explanations about the accident relativities between classes. However, the real issue is not a lack of information, but primarily, the lack of a distance-based ACC levy for diesel-powered vehicles, and secondarily, the lack of classification between private and commercial GSVs (see section 3 below).

Provided the distance-based diesel levy is approximately equivalent to the petrol tax, the same fixed licence fees will resolve these public misperceptions and help consumers to fairly compare the annual ACC levies of similar petrol and diesel models, which should assist in encouraging people to make accurate safe vehicle choices.

Nothing undermines public support for regulatory regimes more than obvious unfairness in charging and recovery of costs through inequitable collection systems. The increasing need for the NZAA, ACC, the Minister and Associate Minister for ACC's offices to respond to public complaints demonstrates that the current methodology is flawed and poorly understood by the public. The lack of action in this area is bringing the ACC scheme into disrepute and the level of public frustration will only continue to grow unless it is addressed for the 2012/13 financial year. The NZAA's suggestions here and later in this submission are aimed to restore fairness and equity for all motor vehicle owners.

## 3. Goods Service Vehicles and work-related motor vehicle accidents

While a RUC levy would largely address the charging inequity between petrol and diesel-engined vehicles, it could be partly resolved in the interim by separating the Goods Service Vehicle class into heavy (commercial) and light GSVs (which capture non-commercial utes and vans). It is a significant omission that the consultation document does not propose to investigate this, which the NZAA and others proposed in the last consultation round.

Due to the substantial design differences, fleet age profile, use and distance travelled between light GSVs and heavy commercials, the accident costs are likely to differ. We understand ACC has identified that the accident costs for heavy GSVs are higher than light GSVs and that suggests owners of utes and vans are cross-subsidising the heavy commercial sector. Consequently splitting the GSV class will reduce ACC levy costs for owners of diesel (and petrol) utes and vans, and this will also help address the inequity for private owners of such vehicles travelling moderate annual mileages yet paying the same fixed ACC levy as GSVs that travel higher mileages.

As with diesel vehicles generally, the NZAA has also received a large number of complaints from private owners of light diesel GSVs about the high ACC levies in comparison to petrol-engined vehicles, following the 42-55% increase in GSV motor vehicle levies from July 2010.

Again, this matter should be reviewed with urgency and independently of work on a RUC levy. In the absence of both, one or the other must be adopted in 2012/13 to provide greater equity to private diesel GSV owners.

The NZAA also considers there is a case for work-related vehicle trips to be funded from the Work account rather than the Motor Vehicle account, and would like ACC to investigate the merits of this in their work programme for 2012/2013. Approximately 14% of the vehicle fleet is directly involved in work-related business, for example heavy freight, light commercial vehicles and sales-oriented journeys. Effectively these vehicles are places of work, and the safety of the occupants should have the same incentives and payment systems as any other place of work.

## 4. Funding policy

It is becoming increasingly untenable with a lower fatal and serious accident rate, and a growing fleet of safer passenger vehicles, that ACC passenger vehicle levies remain high. While the reasons for the lower road toll are varied, improved vehicle safety is a major factor. Although ACC are undertaking work to look at further differentiating ACC levies on the basis of vehicle and driver attributes, a key reason for the high passenger vehicle levy remains the cross-subsidisation to the motorcycle class.

While the AA would not support raising motorcycle levies due to affordability and equity issues, if a decision has been taken to cross-subsidise the motorcycle class for reasons outside cost recovery then it should be funded from an outside source. There is no reason other motor vehicle owners should be burdened with cross-subsidising another vehicle class to the tune of $70 per vehicle per year (35% of the petrol-powered passenger vehicle levy).

There is an argument that as much motorcycle activity is recreational in nature, the current cross-subsidy should instead be funded from a combination of the Earners' and Non-Earners' accounts rather than the Motor Vehicle account. This would lower other motor vehicle levies to reflect their true ACC costs, and more accurately reflect the true risk-rating of different transport modes which is one of the stated goals of the levy-setting process. It

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The ACC document also states that the funding ratio target has been raised to a mid-point of 116% of liabilities so that there will be enough assets to meet future claim costs. The NZAA does not support raising the funding ratio to 116% for 2012/13. As we stated in our submission on the 2011/12 review, the anticipated future liabilities are based on a number of variables which are subject to change. For example, we should not build in a projected increase in costs for potential technological improvements in medical treatment. There is also an inter-generational equity issue, with current levy payers funding the increased costs of future medical treatments. The levy should be set to cover the claims expected to arise under the present accounting and medical system, with a target of 100% of whatever the net liability is calculated to be at the time. While the NZAA does support some certainty or consistency of levies from year to year, a target of 116% does not change the variability of the net liabilities, and in the end only 100% of liabilities will ever need to be funded.

We note that the cost of new motor vehicle claims during 2011/12 is lower than the projected cost, and we are concerned that what would otherwise amount to a $33 per vehicle decrease in the aggregate levy is being hidden by a large (20%) increase in the funding adjustment to achieve a funding ratio target of 116%, up from 105% last year. If the funding target remained at 105%, this saving, combined with a petrol tax increase, would enable the annual licence levy to be reduced by a sizeable $68 per motor vehicle, while still being on target to fully-fund motor vehicle claims by 2019.

Yours sincerely

**Mike Noon**
**General Manager Motoring Affairs**