

Levy Rates for Motorists

1 Background

- 3.1 Motorists' levies are set by regulation, under the authority of section 214 of the Accident Compensation Act 2001.
- 3.2 The levy year under review is 1 July 2010 to 30 June 2011.
- 3.3 The source and amount of levy paid by each motorist depends on the type of vehicle owned and the amount of petrol consumed.
- 3.4 Owners of **non-petrol powered vehicles** provide funding through a composite levy portion of the annual vehicle licence fees (collected from motor vehicle owners by Land Transport New Zealand).
- 3.5 Owners and users of **petrol-powered vehicles** pay their motor vehicle levy through two sources:
 - when they purchase petrol (currently 9.90 cents per litre)
 - when they licence their vehicle. The amount of this funding is lower than that charged for non-petrol-driven vehicles by an amount equivalent to the average petrol levy.

2 Levy setting principles

- 2.1 ACC has a funding policy that is applied to each levy Account. These policies aim to balance the financial sustainability of the Scheme and the management of levy stability over time, taking into account equity considerations and forecast uncertainty.
- 2.2 When considering 2010/11 levy proposals ACC adopted the following guidance:
 - **Not anticipate future improvements** – it is considered financially prudent not to factor in the estimated impact that cost containment initiatives may have on scheme costs as there is considerable forecast uncertainty. Future levy proposals will include these improvements once these initiatives actually demonstrate consistent and sustainable performance.
 - **Sustainability of short-term trends and outcomes** - while recent claim number and rehabilitation outcome trends are improving, short-term gains will not be anticipated until they are proven and showing consistent results.
 - **Solvency position will not be allowed to decrease further** – given the current solvency position of the Scheme it is considered irresponsible to deliberately allow for further decreases in the solvency position.

3 Submission analysis

- 3.1 2,593 submissions have been received relating to the Motor Vehicle Account, as well as three petitions signed by a total of almost 500 people. ACC received submissions from all the major parties who contribute regularly such as the Automobile Association, NZ Federation of Motoring Clubs, Vintage Car Club, Bikers Rights Organisation of New Zealand (BRONZ), and the Motor Industry Association (motorcycle group). Many of these submissions were placed using a standard format provided by an organising club, and the issues raised have been similar.
- 3.2 Several common themes appeared in many of the submissions:
 - wholesale objection to the proposal to levy motorcycles on the basis of engine capacity, and concerns that ACC's methodology is unsound

- that single levy per vehicle penalises the owners of multiple vehicles
 - support for a system that collects levies from drivers, based on an individual assessed levy, and that discounting be available for those who undertake advanced driver or rider training
 - support for setting the petrol levy to the maximum amount possible under current legislation.
 - continued opposition to the requirement to fully fund the pre-1999 claims, but if this is an enduring policy then support extension for funding of these claims
 - concerns that the large base annual levy will place a significant burden, especially on those with low and fixed incomes, and may result in higher levels of (registration) non-compliance
 - unfair targeting of motorcycles because they are easily identifiable, in contrast to higher-risk recreational activities such as off-road cyclists, horse riders, etc
- 3.3 ACC has reviewed all submissions or issues raised that are within scope to consider while formulating its 2010/11 levy recommendations for the Motor Vehicle Account.
- 3.4 A separate document is available providing ACC's response to some of the common themes in submissions on the Motor Vehicle Account.

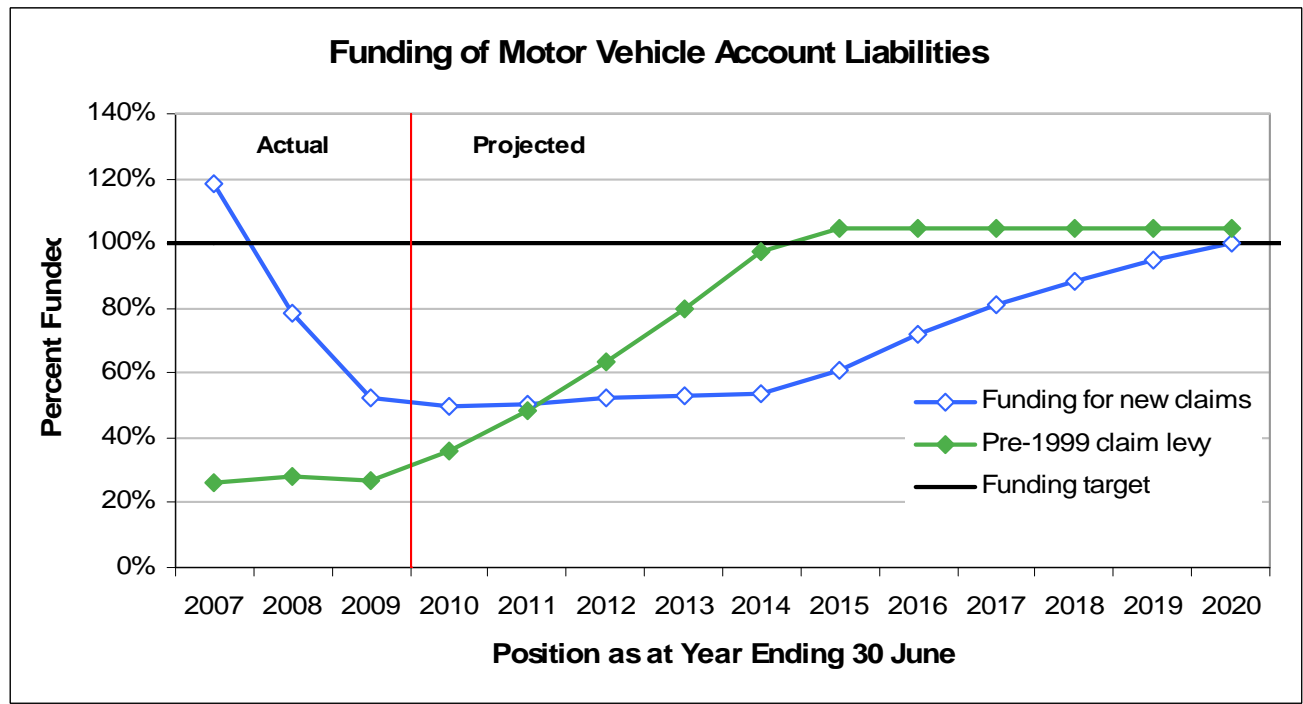
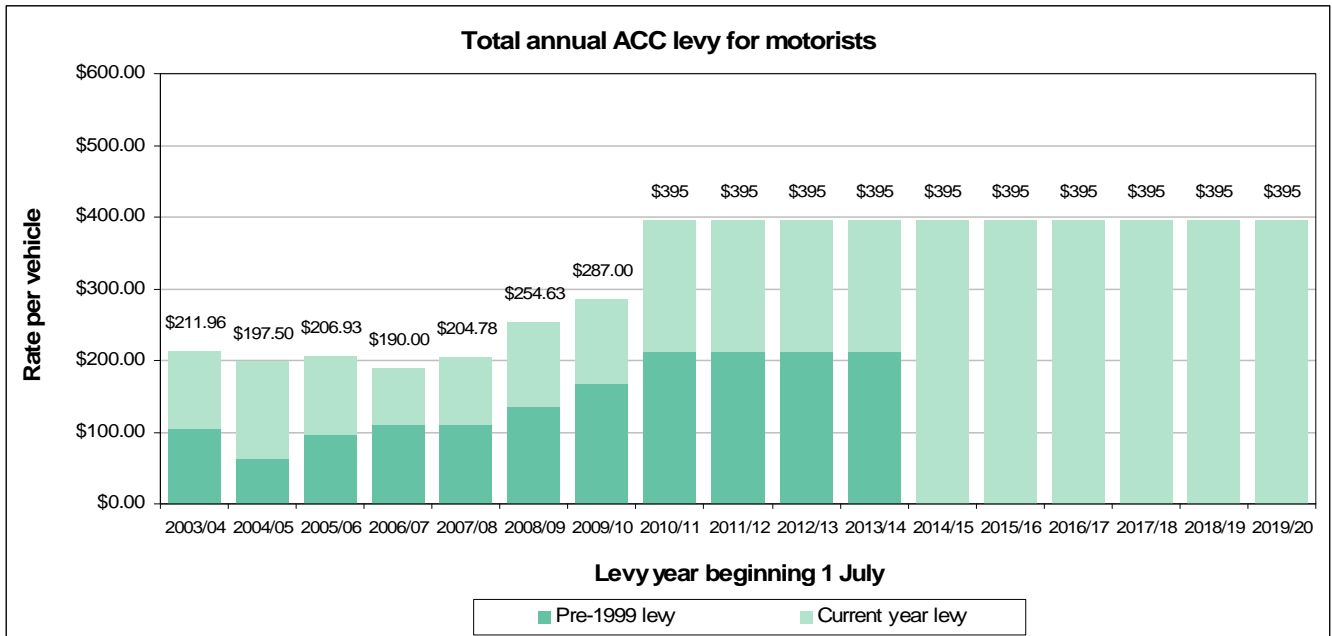
4 Motor Vehicle Account 2010/11 levy rates

Average motor vehicle levy rate

- 4.1 The following table compares the current 2009/10 rates with those used during the 2010/11 levy setting consultation and those now recommended. These recommended rates comply with ACC's funding policy.
- 4.2 These rates do not include any impacts from the introduction of the IPRC Amendment Bill 2009. ACC's 2010/11 levy recommendations to the Minister for ACC must be based on the legislation currently in force and can not anticipate changes being passed.

	<i>Current 2009/10 rates</i>	<i>Proposed 2010/11 rates for consultation</i>	<i>Recommended 2010/11 rates</i>
Average motor vehicle levy for current claims	\$119.08	\$204.60	\$182.27
Average motor vehicle levy for pre-1999 claims	\$167.92	\$212.68	\$212.68
<i>Combined average motor vehicle levy rate (per vehicle)</i>	\$287.00	\$417.28	\$394.95

- 4.3 The current claims levy has reduced from the average \$204.60 used during consultation to the recommended average of \$182.27 as ACC has adopted a "flat rate" profile to the next ten year levy projections as compared with a "decreasing" profile used to develop the consultation proposals.
- 4.4 The following graphs show the historic and projected levy rates and resulting solvency position for the Motor Vehicle Account based on the recommended 2010/11 levy rates and projected path to full funding.



5 Petrol levy for petrol-driven vehicles

Recommendation under current legislation

- 5.1 The petrol levy can only be applied to fund the current post-1999 claims (i.e. can not be used to fund residual pre-1999 claims). For 2010/11 the maximum petrol levy that can be applied is 11.40 cents per litre. This rate has changed from the maximum 12.87 cents per litre set out in the levy consultation documents.
- 5.2 ACC did not express a preference during consultation between the current rate of 9.90 cents and the maximum 12.87 cents per litre. The focus for consultation was to ask levy payers where in the range of 0.00 cents and 12.87 cents they would like the petrol levy to sit.

- 5.3 A higher petrol levy (not exceeding the maximum) results in owners of vehicles that are used frequently on the road paying a higher total levy to ACC in line with their higher exposure to the risk of having an injury in a road crash. ACC supports maximising the 'user pays' component of the total levy.
- 5.4 ACC has recommended that the petrol levy be set at the maximum of 11.40 cents per litre. This is an increase of 1.50 cents per litre from the current rate.

Changes to the calculation of the petrol levy

- 5.5 The proposed levy rates correct a flaw in the calculation of petrol levy for petrol driven vehicles applied in previous levies. The effect of the flaw was to undercharge classes of vehicles that do not travel large distances and overcharge those that do.
- 5.6 For previous levy periods the amount each class of vehicles travelled on average each year was not accounted for. Therefore each class of vehicle was assumed to provide the same amount of levy from petrol use. Data that has been recently made available from the Ministry of Transport shows that motorcycles travel around 30% the distance of light passenger vehicles each year and that light commercials travel around 50% more than light passenger vehicles¹.
- 5.7 In addition, the previous calculation did not calculate the licence levy for each class separately; instead it applied the class relativity factors to the licence levy for passenger vehicles (Class 2 vehicles) to determine that paid by other classes of vehicles.
- 5.8 ACC has introduced a new methodology that produces the expected petrol levy for each class of vehicle by weighting each class by the average travel the class of vehicle undertakes compared to the average travel across the entire fleet of vehicles.
- 5.9 Implementation of the new methodology has had a significant impact on the motorcycle licence levy and a smaller impact on that paid by goods service vehicles. The lower amount of travel undertaken by motorcycles suggests that between 60-70% of the anticipated petrol levy from motorcycles was not collected in the past. The new methodology corrects for the lower distance travelled and ensures that ACC will collect the total levy agreed by Government from motorcycle owners.

6 Levy classifications and relativities

- 6.1 ACC uses a vehicle classification system based mostly on vehicle type. Motor vehicle owners pay a levy based on the type of vehicle owned.
- 6.2 ACC has recommended changes to the following classes and types of vehicles and their relativities:
- remove hearses from the exempt vehicle class and instead charge the full standard vehicle rates from the 2010/11 levy year
 - group mopeds and motorcycles together to ensure the same pricing rules can be applied across these vehicles. This proposal moves mopeds
 - from class 3 (petrol-driven vintage, veteran, mopeds and tractors) to class 4 (petrol-driven motorcycles) and
 - from class 7 (non-petrol driven vintage, veteran, mopeds and tractors) to class 8 (non-petrol driven motorcycles)
 - introduce three sub-classes of motorcycles by engine capacity. The proposal changes the distribution of the levy from a flat rate for all motorcycles (150% of a passenger vehicle) to a

¹ ACC Motor Vehicle Account 2010/11 Technical Report on Levy Setting Methodology

differential rate based on the relative cost per vehicle in each sub-class. The proposed sub-classes are for 0-125cc, 126-600cc and 601+cc.

- introduce new relativities for goods service vehicles, to remove existing cross-subsidisation:
 - class 5 – petrol driven goods service vehicles – change the relativity from 100% to 120%, and
 - class 9 – non-petrol driven goods service vehicles – change the relativity from 121% to 150%.
- re-align the pre-1999 residual claim relativity factors with those used for the current year levy.

6.3 The proposed changes to class relativities and the makeup of classes support ACC’s intention to progressively increase the user pays across the whole Motor Vehicle Account.

6.4 The table below shows the changes to the total levy and the licence levy to be paid by owners of motor vehicles in 2010/11, if the Minister accepts the recommended changes outlined above.

	Proposed vehicle class	Vehicles	2009/10 levy (\$287.00 aggregate rate and 9.90 cents per litre)	2010/11 levy (\$394.95 aggregate rate and 11.40 cents/litre petrol levy)	Licence levy (\$394.95 aggregate rate and 11.40 cents/litre petrol levy)
Petrol driven vehicles	2	Passenger vehicles	\$287.02	\$369.66	\$233.97
	3	Vintage/veteran vehicles and tractors	\$100.46	\$129.38	\$81.89
	4a	Mopeds	\$100.46	\$277.25	\$236.54
		0-125cc motorcycles	\$430.54	\$277.25	\$236.54
	4b	126-600cc motorcycles	\$430.54	\$517.52	\$476.81
	4c	601+cc motorcycles	\$430.54	\$739.32	\$698.61
	5	Goods service vehicles	\$287.02	\$443.59	\$240.05
Non-petrol driven vehicles	6	Passenger vehicles	\$279.09	\$369.66	\$369.66
	7	Vintage/veteran vehicles and tractors	\$97.68	\$129.38	\$129.38
	8a	Mopeds	\$97.68	\$277.25	\$277.25
		0-125cc motorcycles	\$392.09	\$277.25	\$277.25
	8b	126-600cc motorcycles	\$392.09	\$517.52	\$517.52
	8c	601+cc motorcycles	\$392.09	\$739.32	\$739.32
	9	Goods service vehicles	\$302.32	\$554.49	\$554.49