MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Matt Doocey	**Portfolio**	ACC
Title of Cabinet paper	ACC Financial Sustainability – levies and performance improvement	**Date to be published**	13 December 2024

List of documents that have been proactively released		
Date	**Title**	**Author**
28 August 2024	*Consultation on 2025/26 – 2027/28 ACC levies*	*Office of the Minister for ACC*
28 August 2024	*ECO-24-MIN-0174 - 2025/26 – 2027/28 ACC Levies: Approval to Consult*	*Cabinet Office*
25 November 2024	*ACC Financial Sustainability – levies and performance improvement*	*Office of the Minister for ACC*
25 November 2024	*CBC-24-MIN-0118 – Cabinet Business Committee Minute of Decision*	*Cabinet Office*
25 November 2024	Appendix 5 – Cost Recovery Impact Statement 2025/26, 2026/27, 2027/28 ACC Levies	*MBIE*
25 November 2024	Appendix 6 – RIS New classification unit for home improvement stores and sports and physical recreation	*MBIE*
25 November 2024	Appendix 7– RIS Removing ACC's No Claims Discount	*MBIE*
25 November 2024	Appendix 8 – RIS Reviewing motorcycle groupings to enable levy rates to better reflect crash and claim data	*MBIE*
25 November 2024	Appendix 9 – RIS ACC's Ride Forever programme	*MBIE*
25 November 2024	Appendix 10 – RIS Levy portion for plug-in hybrids and battery electric vehicles	*MBIE*
25 November 2024	Appendix 11 – RIS ACC's Fleet Saver	*MBIE*
25 November 2024	Appendix 12 – RIS ACC interest rates and bad debt	*MBIE*

Information redacted **YES / NO** *(please select)*

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Regulatory Impact Statement: Levy portion for plug-in hybrids and battery electric vehicles

Coversheet

Purpose of Document	
Decision sought:	*Final Cabinet decisions on the levy portion that should come from plug-in hybrids and battery electric vehicles.*
Advising agencies:	*The Ministry of Business, Innovation and Employment (with input from ACC as the operational agency)*
Proposing Ministers:	*Minister for ACC*
Date finalised:	*19 November 2024*

Problem Definition

Plug-in Hybrid Electric Vehicles (PHEVs) and Battery Electric Vehicles (BEVs) are currently being cross subsidised by petrol-powered vehicles in ACC's Motor Vehicle Account. This is because, since 2019, PHEVs and BEVs have been granted a discounted levy rate of $58.98 per annum. As a result, owners of these light Electric Vehicles (EVs) have paid $3.2 million less in Motor Vehicle levies over the last three full levy years than owners of other vehicle types. Without intervention, the problem of inequitable cross-subsidisation is projected to grow over time as the uptake of PHEVs and BEVs in new Zealand's vehicle fleet increases.

Executive Summary

The Government sought to encourage the uptake of low-emission vehicles by exempting them from Road User Charges, this exemption was put in place in 2009 and ended on 31 March 2024. A further incentive was added in 2019 when the ACC levy charged on vehicle licenses were updated to provide a discounted levy rate for fully electric vehicles.

Given that EVs as a whole now make up over 2% of the total vehicle fleet (a prior target the Clean Car Discount scheme sought to achieve), there is now a chance to ensure that EVs are levied fairly and equitably against the rest of the vehicle fleet.

MBIE and ACC both recommend a removal of the current discount to bring the ACC levy portion to that paid by other 'non-petrol' vehicles.

Limitations and Constraints on Analysis

Battery Electric Vehicles and Plug-in Hybrid Electric Vehicles have not been in the market long enough to build a sufficient, New Zealand based data source on their safety performance for the purposes of ACC risk ratings. This has affected the certainty of their risk profile, especially when compared to petrol-powered vehicles.

Responsible Manager(s) (completed by relevant manager)	
 *Bridget Duley* *Manager* *Accident Compensation Policy* *Ministry of Business, Innovation and Employment*	
Quality Assurance (completed by QA panel)	
Reviewing Agency:	Ministry of Business, Innovation and Employment
Panel Assessment & Comment:	MBIE's Regulatory Impact Analysis Review Panel has reviewed the Regulatory Impact Statement (the Statement) prepared by MBIE. The panel considers that the information and analysis summarised in the Statement meets the Quality Assurance criteria.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

How ACC is funded

1. ACC is funded through a mixture of levies and government appropriations, and the Accident Compensation Act 2001 (the AC Act) sets out that the Minister for ACC is responsible for setting the appropriate levy to maintain full funding of the levied accounts.
2. ACC operates five accounts: Work, Earners', Motor Vehicle, Non-Earners' and Treatment Injury. The Non-Earners' Account (NEA) and a portion of the Treatment Injury Account are funded through appropriation. The Work, Earners', Motor Vehicle, and a portion of the Treatment Injury Account (collectively referred to as the levied accounts) are funded through levies.
3. The Motor Vehicle Account is funded through a portion of the annual vehicle licensing fees and from petrol at the pump. The Motor Vehicle Account covers injuries that involve motor vehicles on public roads.
4. The levied accounts and the NEA operate on a principle of full funding. Full funding ensures that the Accident Compensation Scheme (the AC Scheme) is sufficiently funded for the lifetime costs of claims arising from that funding period (i.e., the 100-year cost of a claim). This ensures intergenerational equity meaning the costs of injuries now are not transferred on to future generations.

Current vehicle fleet classifications

5. For levying purposes, ACC splits the vehicle fleet into petrol-powered and non-petrol powered vehicles, this is based on a vehicles primary fuel type. The New Zealand Transport Agency (NZTA) is responsible for this identification and classifies each vehicle when it is first registered in New Zealand.
6. Since 2019, both diesel-powered Plug-in Electric Hybrid Vehicles (PHEV's) and Battery Electric Vehicles (BEV's) are considered to be light Electric Vehicles (EVs) and have

been identified as ‘Class 2a’ vehicles per the Accident Compensation (Motor Vehicle Account Levies) Regulations 2022 (the Motor Vehicle Account Levies Regulations).

7. At the same time, the Government lowered the levy for PHEV’s and BEV’s (with a carrying weight equivalent to that of a petrol-powered passenger vehicle) as part of a package of incentives[1] to encourage the uptake of electric vehicles in New Zealand’s vehicle fleet.

8. This decision lowered the levy charged to BEVs by 59%, a $58.99 discount for PHEV and BEV owners in 2024/25. As a result, owners of petrol-powered vehicles have had their levy rate increased to cover for the shortfall in revenue caused by this EV levy discount.

New incentives are driving electric vehicle growth

9. The introduction of the Clean Car Discount scheme and Clean Car Standard in 2021 have been successful in achieving the Government’s intention of promoting a quicker uptake of low and zero emission vehicles.

10. The Government sought to encourage the uptake of low-emission vehicles by exempting them from Road User Charges, this exemption was put in place in 2009 and ended on 31 March 2024. A further incentive was added in 2019 when the ACC levy charged on vehicle licenses were updated to provide a discounted levy rate for fully electric vehicles.

11. The Clean Car Discount scheme is a more recent initiative introduced to target the entry cost to electric vehicle ownership. Additionally, the Clean Car Standard sets the limits for the allowable emissions of all cars entering New Zealand.

12. In May 2023, the Ministry of Transport states that the uptake of low emission vehicles under the Clean Car Discount programme has exceeded government and industry expectations. The share of BEVs and PHEVs entering the fleet increased from 2% in January 2021 to 13% in December 2022. Petrol hybrids as a share of used-vehicle import have increased from 19% to 40% over the same period.

[1] Road User Charge exemptions were also part of this package.

What is the policy problem or opportunity?

Road User Charge exemption removed from 31 March 2024

13. The Government exempted light Electric Vehicles (EVs) from paying Road User Charges from 2009 with this exemption having ended on 31 March 2024. This was chosen as the end date for this exemption as it was anticipated that by this time EVs would make up 2% of New Zealand's light vehicle fleet. Ministry of Transport data from September 2023 shows that EVs make up 2.03% of New Zealand's light vehicle fleet.

Opportunities to address the levy portion for BEVs and PHEVs

14. Changes in this levy round can allow ACC to develop a regular approach to EV and injury monitoring to determine whether claim rates and claim costs for BEVs and PHEVs differ from other passenger vehicles.

15. Addressing the policy problem now can also allow ACC to consider a predominantly distance based levying approach in the future. Distance based levying would resemble the Road User Charges model that is currently in place for diesel vehicles. Introducing such a model would remove the need to classify vehicles according to motive power and would remove the inequity of only one type of motor power having access to a distanced based levy.

Cross-subsidisation of new vehicles

16. Implementing incentives in ACC's levy system to increase the uptakes of PHEVs and BEVs has led to cross-subsidisation of the targeted levy payers (i.e. those driving non-petrol-powered vehicles) by other levy payers (i.e. those driving petrol-powered vehicles).

17. Upon initial classification as 'Class 2a' vehicles for the Motor Vehicle Account Levies Regulations, there were around 10,900 BEVs in New Zealand's fleet, and the degree of cross-subsidisation of the levy by other vehicle types was $0.64 million. By the mid-point in the 25/26 year, it is expected that there will be 40,200 BEVs in this class and the cross-subsidisation will be $2.73 million.

18. Over the last three full levy years, BEV owners have paid $3.2 million less in levies, as they have been cross subsidised by owners of other vehicle types. This will grow over time as BEVs continue to be purchased ahead of higher emitting vehicles.

19. Between January to October 2023 85.5% of BEVs entering the fleet were new. The current incentive settings in the Motor Vehicle Account mainly shifts costs from new vehicle owners to owners of other (often older and cheaper)[2] vehicles.

20. Analysis from the Ministry of Transport shows that the primary driver of uptake in BEVs was the Clean Car Discount scheme which has been discontinued as of 31 December 2023. The efficacy of the Clean Car Discount scheme has called into question whether

[2] With the average age of light passenger vehicles in New Zealand being 14.8 years old, per the Ministry of Transport Annual Fleet Statistics 2021: https://www.transport.govt.nz/statistics-and-insights/fleet-statistics/sheet/2021-annual-fleet-statistics

the value of a lower ACC levy for PHEVs and BEVs outweighs the policy problem of cross-subsidisation.

What objectives are sought in relation to the policy problem?

21. The following objectives are sought in relation to the policy problem of the Motor Vehicle levy portion for PHEVs and BEVs:
    - Ensuring that the levy collection for the Motor Vehicle Account is affordable and has an equitable levy collection across the community, and
    - Minimises unintended consequences and perverse outcomes.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

22. The options have been assessed against the following criteria:
    - **Risk aligned and affordable –** fair risk alignment and equitable collection across community.
    - **Cost-effectiveness and implementation –** minimise the cost to ACC and be easy to implement.
    - **Risks –** risks of unintended consequences and perverse outcomes is minimised.

What scope will options be considered within?

23. The scope of the options being considered are those which directly address the policy problem of cross-subsidisation of BEVs and PHEVs by petrol-powered vehicles; and to contribute towards the policy opportunity of developing a regular approach to EV and injury monitoring, and remove unnecessary vehicle classifications.

What options are being considered?

Option One – *Status Quo*

24. BEVs and PHEVs are currently classed together as light EVs (Class 2a) with a discounted levy rate of $58.98 per annum compared to standard petrol-powered vehicles.
25. This option would retain the cross-subsidisation of PHEVs and BEVs by owners of petrol-powered vehicles and would keep the current discounted levy rate.
26. Owners of PHEVs and BEVs would continue to have the costs of their newer vehicles offset by older, petrol-powered vehicles.
27. No changes to NZTA's licensing system would be required as Class 2a would continue to be operationalised and current tracking for PHEV and BEV growth in New Zealand's vehicle fleet can be maintained.

Option Two – Recategorise PHEVs and BEVs as petrol-powered and non-petrol powered vehicles respectively

28. This option would remove the cross-subsidisation of BEVs by removing the definition of light EVs from the Motor Vehicle Account Levies Regulations and removing Class 2a

from the schedules. PHEVs will be recategorised as Class 2 vehicles (petrol-powered)[3] and BEVs will be recategorised as Class 6 vehicles (non-petrol-powered). This returns PHEVs and BEVs to their pre-2019 vehicle classifications.

29. This removes the currently ineffective incentive aimed at increasing the uptake of EVs in New Zealand. This will have a minimal impact on achieving the reduction targets, but will enable a more equitable approach to collecting the Motor Vehicle Account Levies by removing the current approach which utilises cross-subsidisation for owners of PEHVs and BEVs by owners of other vehicle types.

30. Removing the cross-subsidisation of EVs would save other vehicle owners around $10.8 million over the next three levy years (2025/28). For the 2.8 million light passenger vehicles, the change represents a license levy decrease of approximately $1.00 per annum. ACC anticipates that there will be 50,000 BEV owners who will experience at least a $58.98 increase in their annual vehicle registration costs.

31. Reverting the categorisation of BEVs and PHEVs to a previous setting removes a simple way of tracking BEV and PHEV fleet growth using monthly ACC levy transaction data. However, it does allow for the development of a regular approach to EV and injury monitoring to determine whether claim rates and claim costs for BEVs and PHEVs differ from other passenger vehicles.

32. This option will require a change in NZTA's licensing system. However, this is expected to be financial unsubstantial with a projected one-off cost between $30,000-$50,000.

[3] PHEVs would be recategorised as petrol-powered vehicles as petrol is their primary fuel source.

How do the options compare to the status quo/counterfactual?

	Option One – *Status Quo*	Option Two – *Recategorise PHEVs and BEVs as petrol-powered and non-petrol powered vehicles respectively*
Risk aligned and affordable – fair risk alignment and equitable collection across community.	0 Maintains the cross-subsidisation of BEVs and PHEVs by owners of petrol-powered vehicles with this expected to increase in alignment with the uptake of EVs in New Zealand's vehicle fleet.	+ Removes cross-subsidisation of BEVs and PHEVs by owners of petrol-powered vehicles, increasing the equitability of Motor Vehicle levy collection across New Zealand's vehicle fleet.
Cost-effectiveness and implementation – minimise the cost to ACC and be easy to implement.	0 No change to NZTA licensing system would be required if the status quo is maintained. 'Class 2a' under the Motor Vehicle Account Levies Regulations would be maintained and no legislative drafting or operational changes would be required.	+ A small change to NZTA's licensing system will be required with an expected one-off cost between $30,00-$50,000. Provides the opportunity for ACC develop a regular approach to EV and injury monitoring and to consider a predominantly distance-based levy approach in the future. This option would see the removal of 'Class 2a' from the Motor Vehicle Account Levies Regulations, but this is expected to involve minimal drafting work and operational change to ACC (as this will revert the vehicle class structure to a previous model).
Risks – risk of unintended consequences and perverse outcomes is minimised	0 Maintaining the levy discount for BEVs and PHEVs will have little-to-no impact on the uptake of EVs in New Zealand's vehicle fleet. This also means that maintaining the status quo will have minimal impact on achieving emission reduction targets.	+ Recategorising BEVs and PHEVs is aligned with ACC's risk appetite rating of 'cautious.' As this option predominantly impacts new car owners who are currently being cross-subsidised, it is understood that any risk will be low and will be managed as part of the ordinary course of business. Removal of the levy discount for BEVs and PHEVs will have little-to-no impact on achieving emission reduction targets.
Overall assessment	0	+++

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

33. Option Two is the preferred option as it enables ACC to remove the currently regressive approach to levy setting caused by shifting the cost from new vehicle owners to owners of older and cheaper vehicles. This will also limit the need for cross-subsidisation of the EV vehicles by petrol-powered vehicles, improving the equity in levy collection across the community.

34. This option also provides ACC with the opportunity to future-proof elements of Motor Vehicle Levy Collection through the consideration of a predominantly distanced based approach in the future to remove the need for classification of vehicles by primary motor power.

35. Upon implementing this change, ACC can also develop a regular EV and injury monitoring programme to build up data on the risk profile of these vehicles.

Consultation feedback

36. ACC's consultation on the varying levy proposals allowed feedback to be given in a variety of ways, including an indication of sentiment for each proposal by giving a thumbs up or thumbs down.

37. The general sentiment on the proposal to recategorise BEVs and PHEVs was mixed with a slightly higher number agreeing with the proposal (58%) than disagreeing with it (42%).

38. Submissions were divided in their support for the proposal due to differing perceptions of the risk posed by BEVs and PHEVs, support (or lack of support) for continued Government incentives to increase uptake of BEVs and PHEVs for environmental and health reasons, and concern about the potential economic impacts on BEV and PHEV owners and retailers.

39. Those who agreed with the proposal felt that all vehicles should contribute to levy collection equally, and that the existing levy discount was unfair and supported its removal.

40. Some supporters of this proposal shared their concerns that BEVs and PHEVs may even pose higher levels of risk than other vehicles due to their weight, fire risk, and issues with battery and tyre disposal. This was contrasted with the opinions of those opposing the proposal who view BEVs and PHEVs as safer vehicles. Some submitters stated that the levy discount was fair as BEVs and PHEVs are more modern cars with higher safety ratings than older, petrol-powered vehicles. The lack of data on whether low-emission vehicles are safer or riskier than petrol-powered vehicles was also highlighted by submitters both in support and opposition to the proposal.

41. A key theme of submitters who disagreed with the proposal did so because they support the continued incentives to increase the uptake of EVs. These submissions said that BEVs and PHEVs should pay lower ACC levies to encourage a greater uptake in New Zealand's vehicle fleet. This was contrasted by submitters in support of the proposal stating that it is not ACC's responsibility to influence consumer choices and instead should focus on costs and scheme sustainability.

42. Five significant submissions were provided on this proposal with the NZ Automobile Association, Ia Ara Aotearoa Transporting New Zealand, and Chartered Accountants Australia and New Zealand in support; and Tesla and Drive Electric in opposition.

What are the marginal costs and benefits of the option?

Affected groups *(identify)*	**Comment**	**Impact**	**Evidence Certainty**
Additional costs of the preferred option compared to taking no action			
BEV and PHEV owners	The removal of the existing levy discount will impact around 75,000 BEV owners.	An estimated $58.98 increase in the annual vehicle registration cost for BEVs.	High Data from the Ministry of Transport supports this.
Petrol-powered vehicle owners	No additional costs.	N/A.	High. Figures prepared for ACC's Levy and Insurance Management Policy Governance Group supports this.
Regulators (eg, NZTA and ACC)	This option would require a change to NZTA's licensing system to update the vehicle classes.	A minor one-off cost estimated to be between $30,000 to $50,000.	High. Figures prepared for ACC's Levy and Insurance Management Policy Governance Group supports this.
Others (eg, wider govt, consumers, etc.)	It is expected that removing the discount for BEVs and PHEVs will have little-to-no impact on the uptake of EVs.	Low. There are new incentives encouraging the uptake of EVs in New Zealand (i.e. the Clean Car discount).	High. Data from the Ministry of Transport supports this.
Total monetised costs		*Low*.	*High.*
Non-monetised costs		*Low.*	*High.*
Additional benefits of the preferred option compared to taking no action			
BEV and PHEV owners	No additional benefit.	N/A	High. Figures prepared for ACC's Levy and Insurance Management Policy Governance Group supports this.

Petrol-powered vehicle owners	This option would remove the cross-subsidisation of BEVs and PHEVs by owners of petrol-powered vehicles. This is particularly beneficial as those driving older petrol-powered vehicles are less likely to be cross-subsidising newer EVs.	A saving of $10.8 million over the next three levy years and a license levy decrease of $1.00 per annum for 2.8 million light passenger vehicle owners.	High. Figures prepared for ACC's Levy and Insurance Management Policy Governance Group supports this.
Regulators (eg, NZTA and ACC)	ACC can develop a regular approach to EV and injury monitoring to determine whether claim rates and claim costs for BEVs and PHEVs differ from other passenger vehicles. ACC will be able to consider a predominantly distance based levy approach in the future.	Medium benefit for ACC.	Medium. Content prepared for ACC's Levy and Insurance Management Policy Governance Group supports this.
Others (eg, wider govt, consumers, etc.)	Minimal ongoing benefits for most of the wider government and consumers.	Low additional benefit.	Medium. Content prepared for ACC's Levy and Insurance Management Policy Governance Group supports this.
Total monetised benefits		*Medium.*	*Medium-high.*
Non-monetised benefits		*Medium.*	*Medium-high.*

Section 3: Delivering an option

How will the new arrangements be implemented?

43. ACC is responsible for implementing the preferred option. ACC is confident it can deliver the preferred option within the timeframes.

44. ACC will work with NZTA to remove ‘Class 2a’ from the vehicle registration database and return PHEVs, BEVs and Diesel-electric vehicles to their new vehicle class. Class 2a will also be removed from the Motor Vehicle Account Levies Regulations.

45. Vehicle owners have already been consulted on this change as part of levy consultation. ACC will update their website with the new levy rates for vehicles and notify key stakeholders (such as the AA) once Cabinet make their final decisions. NZTA will notify customers via the vehicle licensing renewal notices; these are sent to customers 6 weeks before their vehicle registrations expire.

How will the new arrangements be monitored, evaluated, and reviewed?

46. Existing monitoring arrangements by the Treasury and stewardship of the legislation and regulatory scheme by MBIE will suffice to ensure that implementation of the new arrangements are monitored, evaluated, and reviewed as required.

47. ACC’s actuarial team will monitor the new arrangements to ensure that future claims data support this change. If the data shows that the new arrangements are not achieving the aforementioned policy objectives, ACC will recommend changes to the Motor Vehicle Account Levies Regulations as part of the next levy consultation process.