Impact Summary: Vehicle Risk Rating

Section 1: General information

Purpose
The Ministry of Business, Innovation and Employment (MBIE) is solely responsible for the analysis and advice set out in this Regulatory Impact Summary (RIS), except as otherwise explicitly indicated. This analysis and advice has been produced to inform final policy decisions for Cabinet consideration. It provides an analysis of a proposed change to the Accident Compensation (Motor Vehicle Account Levies) Regulations 2017 which prescribe rates of ACC levy payable for different types of motor vehicles. The analysis sets out options for removing the Vehicle Risk Rating (VRR), which sets different levy rates for light passenger vehicles[1] based on their safety rating and crash data, and if this is not available, their size and type or year of manufacture.

Key Limitations or Constraints on Analysis
MBIE considers that it has adequate information to reasonably estimate the impacts of removing VRR, drawing from international evidence and ACC pricing data, but the analysis is limited in some respects by imperfect information. **Data limitations** MBIE considers that there are limitations on estimating the distributional impact of VRR using New Zealand Transport Agency (NZTA) data on the distribution of safety star rated cars by community deprivation. NZTA's safety star rating data does not directly map to VRR. Therefore, the estimate of the magnitude of the impact on different communities is indicative and subject to a degree of uncertainty. An analysis by ACC of the submissions for the 2019/20 and 2020/21 consultations informed this document. Please note that the attached submissions analysis is not intended as a final document. ACC will produce a public document in early 2019. **Scope limitations** The scope of the RIS is limited. The literature points to other policy approaches for improving vehicle fleet safety, but insufficient consideration has been undertaken to include such options as feasible alternatives in this RIS.

[1] Light passenger vehicles refers to cars, vans and 4WDs, but does not include utes and light trucks.

Summary statement

On balance, there is a small net preference for removing VRR given the lack of injury prevention benefit and the small detrimental welfare effect. MBIE considers that the information from VRR should be retained for use in future road safety initiatives.

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Section 2: Problem definition and objectives

2.1 What is the policy problem or opportunity?

Context

The Motor Vehicle Account covers the cost of claims resulting from injuries on public roads involving vehicles and the cost of programmes to prevent injuries occurring on the roads.

The Motor Vehicle Account is funded from levies which are collected from two sources:

a. a petrol levy (currently 6 cents per litre) - $193 million revenue for 2017/18 (45%)
b. the motor vehicle (registration) licence fees - $243 million revenue for 2017/18 (55%).

Vehicles are grouped into different classes and subclasses for the licence fee with different levy rates to account for:

a. whether they consume petrol, and therefore pay a petrol levy. Licence levies for petrol-powered vehicles are set at lower rates to account for average petrol levy paid; and
b. different levels of risk determined by the volume of claims received from occupants of these vehicles involved in crashes and the cost of injury (eg light passenger vehicles are levied at different rates than motorcycles to go some way to reflect and signal the differences in occupant trauma and costs to the Accident Compensation scheme in the event of an accident).

The pricing does not perfectly reflect the costs of injuries associated with different vehicle types. Car levies, for instance, cross subsidise motorcycle levies to maintain levy affordability for motorcyclists. As the type of vehicle is the only factor used, the levy framework also does not account for other risk factors, such as age of driver, impairment, road quality, etc.

Status Quo

VRR was established in 2015 to introduce a further differentiation between cars with the intent to address one type of inequity that levy payers who were driving safer vehicles were subsidising those whose cars were less safe, with higher associated trauma and ACC costs. VRR was not developed as a road safety measure.

VRR groups light passenger vehicles into one of four bands based on how well vehicles are assessed to protect occupants and other road users. Vehicles are allocated based on the outcomes on crash test rating and road crashes (such as the Total Secondary Safety Index (TSSI) and Australasian New Car Assessment Programme (ANCAP) ratings), or where this information is not available, on a vehicle grouping (type, size) or their year of manufacture. Safer and newer vehicles tend to be rated in bands 3 and 4 and charged a lower licence fee compared to less safe vehicles (in bands 1 and 2) which reflects the different costs to the scheme the injuries from occupants in each band of vehicle incur.

The table below outlines the distribution of cars by band by year of manufacture:

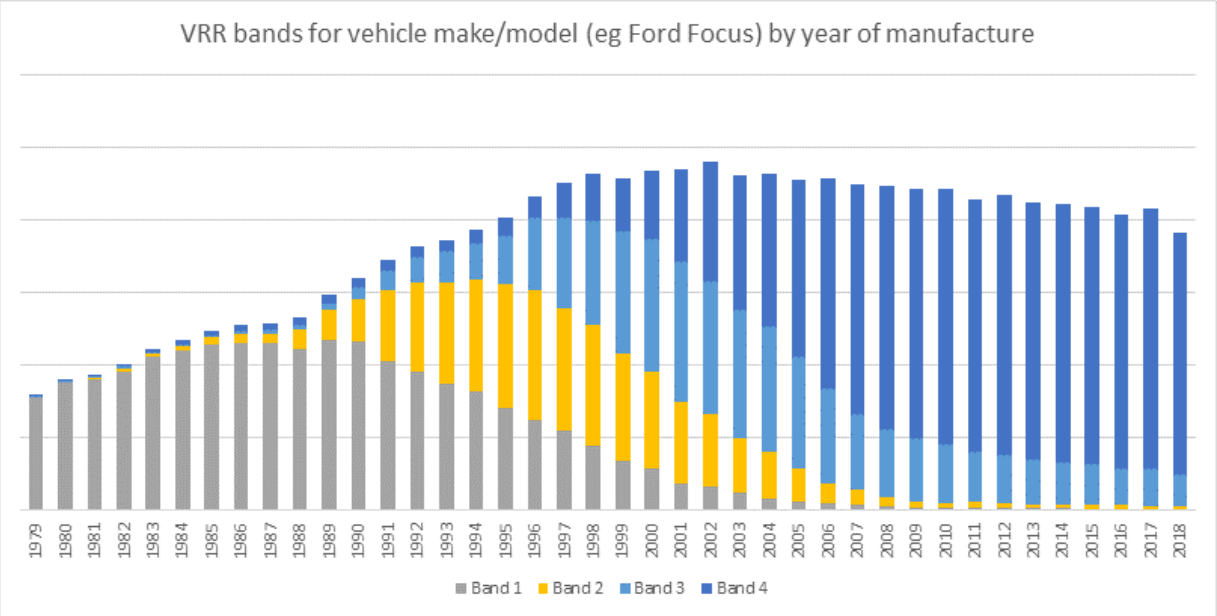

Figure 1: VRR bands for vehicle make/model by year of manufacture

It costs around $500,000 per year to administer VRR. $50,000 to maintain the data and $450,000 to license and maintain the software to interface with the NZTA licensing system.

The following table shows the composition of the light passenger vehicle fleet, the current VRR rates and those proposed for 2019/21:

Table 1: Vehicle numbers and pricing by VRR band for 2019/20 and 2020/21

Band	Number of Vehicles	% in each	Current petrol VRR	2019/21 petrol VRR	Current non-petrol VRR	2019/21 non-petrol VRR
1	550,000	17%	$80.64	$96.28	$149.14	$163.73
2	487,000	15%	$53.53	$67.05	$122.03	$132.83
3	809,000	25%	$37.22	$51.30	$105.72	$116.18
4	1,377,000	43%	$18.00	$30.26	$86.50	$93.94

Data source: ACC

Problem Definition

The ACC scheme is predicated on a no-fault community responsibility principle where the cost of injury is shared broadly. The levy framework also however recognises that levies can communicate important information on risk and levies can be differentiated where this can contribute to injury prevention outcomes.

The current situation is problematic because the starting point for VRR is imperfect, in that car levies cross subsidise other vehicle types. Motorcycles, for example, only contribute a

small fraction of the costs of injuries related to motorcycling. Motorcycle accidents are projected to cost over $129 million for 2019/20, but only around $34 million will be collected from motorcycle levies. The rest of the cost is collected from other vehicle types, including cars. Within the broader motor vehicle levies context, the current VRR policy allocates a greater proportion of the cross-subsidisation to band 1 cars.

It also raises another form of equity issue, whereby people with less safe cars, who may not have choice, are charged more. VRR could be justified if it could be shown to inform vehicle choices that meaningfully improve the safety of the vehicle fleet. To do so, VRR would for instance need to either accelerate the removal, or reduce the importation of unsafe cars. If VRR has an effect, it is expected that it will redistribute vehicles within the fleet, rather than change the fleet composition, having a net neutral effect.

Safe cars available at a range of price points (eg 80% of vehicles priced between $5,001 and $10,000 would be classified band 3 and 4). Revealed preference indicates however that people in high deprivation communities tend to have fewer of the safer cars. Using NZTA data which breaks down the ownership of cars by community deprivation it is estimated that high deprivation communities have 19% of the safest cars whereas communities with low deprivation have around 44% of the safest cars. The following table outlines the proportion of the least safe and safest cars in each group of communities.

Table 2: Distribution of least safe and safest cars by community deprivation

	Least deprivation (Deprivation Index 1-3)	Medium deprivation (Deprivation Index 4-7)	Most deprivation (Deprivation Index 8-10)
Least safe cars (safety star 1)	24%	32%	35%
Safer cars (safety star 2-4)	51%	50%	52%
Safest cars (safety star 5)	25%	18%	13%

Data source: NZTA

Research indicates that annual taxes are not an effective tool in influencing vehicle purchase decisions (Brand et al., 2013; Gallagher and Muehlegger, 2011), particularly where the cost is small (Brand et al. 2013), such as with VRR.

2.2 Who is affected and how?

The impact is small but widespread as VRR is one part of the motor vehicle licence fee of some 3.2 million light passenger vehicles (estimated for 2019/21).

Removing the differential pricing aspect of VRR would result in a transfer of around $30 million per year for 2019/20 and 2020/21 between motorists with less safe and safer vehicles.

The key issue is that this is estimated to result in a transfer of around $4m from high and medium income communities to low income communities based on NZTA and ACC data. This redistribution from more deprived to less deprived communities results in a small net detrimental effect to overall welfare, as a given amount would tend to represent a higher proportion of a low income households' budget.

With current rates at historic lows, the level of transfer could be expected to increase over time given ACC's projection that motor vehicle levies will increase by 35% between the 2021 and 2028. VRR could exacerbate pressure on low income road users, potentially creating greater inequity and non-compliance with registration obligations. Based on customer feedback to NZTA the key reasons for licensing non-compliance relate to cost and a lack of understanding of the need to be continuously licensed.

A number of submitters have said that VRR has impacted their buying behaviour and that they feel that it is effective in impacting road safety. However, it is unlikely that such purchasing changes will lead to an accelerated removal, or reduction in the importation of unsafe cars, as opposed to a redistribution of cars within the fleet with no overall safety impact.

Removing VRR would make levy rates more affordable for those with cars in lower bands and improve equity in respect of the ACC community responsibility principle. VRR is also inequitable as it carries through cross-subsidisation from the broader levy framework disproportionately onto the band 1 car owners.

The removal of VRR would lead to a small increase in disposable income for low-income communities and households which would provide a net benefit in wellbeing (given the transfer would represent a greater proportionate increase in a low income household's budget, compared to a high income household).

Major industry groups such as the Automobile Association (AA), Motor Trade Association (MTA), Motor Industry Association (MIA), and Federated Farmers support maintaining the VRR.

2.3 Are there any constraints on the scope for decision making?

The proposal to remove VRR is proceeding in advance of the development of the Government's new road safety strategy which will consider a broad range of options to encourage the uptake of safer vehicles.

Section 3: Options identification

3.1 What options have been considered?

Options

- Maintain the status quo.
- Option 1: Remove VRR but maintain information for other driver safety initiatives. (Recommended Option)
- Option 2: Remove VRR.

Criteria

The criteria used for the proposal was:

a. Injury prevention – differing risks are visible to inform choices, which improve injury prevention outcomes

b. Community responsibility – costs are spread across the communtiy reflecting the scheme's no fault and community responsibility principles

c. Administrative efficiency – administration is cost efficient for ACC and levy payers

Criteria for Assessment	Status Quo	Option 1 – Remove VRR, retain information	Option 2 – Remove VRR, remove information
Injury prevention – levies make differing risks visible	Neutral (0)	Neutral (0)	Negative (-)
Fairness – levies are spread across the community in a consistent fashion	Neutral (0)	Positive (+)	Positive (+)
Administrative efficiency – administration is effective for ACC and levy payers	Neutral (0)	Neutral (0)	Neutral (0)
Net impact	**Neutral (0)**	**Positive (+)**	**Neutral (0)**

Analysis

Maintain the status quo:

A small inequity of the current policy would remain for low income communities with no improvement in injury prevention.

Option 1: Remove the VRR but maintain information for other driver safety initiatives

The removal of VRR would more evenly distribute levies, reflecting the no fault principle and result in an increase in low income communities' budgets and a small overall welfare gain.

This option would allow the information to be utilised in other programmes as part of the forthcoming Road Safety Strategy.

Option 2: Remove VRR

Same impacts as for Option 1. However, the information from the programme would not be retained.

Summary:

There is a benefit to moving away from the status quo as there is no injury prevention benefit attributable to the programme, and it would simplify and improve the fairness of the levy framework. Option 1 has the added benefit of continuing to maintain and use the information that is gathered by the programme for other safety initiatives.

3.2 Which of these options is the proposed approach?

Preferred Option

The removal of VRR while retaining the programme's information is the best option. There is no evidence VRR reduces injuries, but it is estimated to load a disproportionate amount of the Motor Vehicle Account cost onto low-income communities, which can be expected to rise over time as levies are expected to increase.

Table 3: Removal of VRR for 2019/20 and 2020/21

Band	Number of Vehicles	% in each	2019/21 VRR Remove (Petrol)	Change per vehicle (Petrol)	2019/21 VRR Remove (Non-Petrol)	Change per per vehicle (Non-petrol)	Approximate change per grouping per year
1	550,000	17%	$52.36	-$43.92	$110.97	-$52.76	-$24m
2	487,000	15%	$52.36	-$14.69	$110.97	-$21.86	-$7m
3	809,000	25%	$52.36	$1.06	$110.97	-$5.21	$1m
4	1,377,000	43%	$52.36	$22.10	$110.97	$17.03	$30m

Data source: ACC

The change per vehicle shows the difference between the removal of VRR and the VRR rates for 2019/20 and 2020/21 as listed in section 2.1.

Removing VRR is estimated to result in a transfer of around $4 million from high and medium income communities to low income communities.

Lastly, this option allows the information collected over the course of the programme to be utilised in other driver safety initiatives.

Section 4: Impact Analysis (Proposed approach)

4.1 Summary table of costs and benefits

Affected parties	Comment:	Impact
Additional costs of proposed approach, compared to taking no action		
Owners of band 3 and 4 cars	Those with band 3 and 4 cars will see an increased cost in their licence fee. The increased cost for band 3 is marginal. Those in less socio-economically deprived areas (deprivation index 1-7) own proportionally more band 3 and 4 vehicles. The removal of VRR would have a net cost of $4 million for these communities.	$31 million
Total Monetised Cost		$31 million
Non-monetised costs		Nil
Expected benefits of proposed approach, compared to taking no action		
Owners of band 1 and 2 cars	Those with band 1 and 2 will see a decreased cost in their licence fee. Those in more socio-economically deprived areas (deprivation 8-10) own proportionally more band 1 and 2 vehicles. The removal of VRR would have a net benefit of $4 million for these communities. The monetary transfer is roughly equivalent to the cost on high income communities; however, this would represent a higher welfare gain to low income communities given the higher proportion of a low income household's budget. This transfer could rise over time given ACC's projected levy increases of 35% between 2021 and 2028.	$31 million
Regulators	ACC will see reduced costs due to removal of database cost.	$50,000
Wider government – transport sector	Data can contribute to development of effective injury prevention initiatives.	Low
Wider government – justice sector	VRR could amplify the levy increases expected over the coming years, and exacerbate registration non-compliance.	Low
Total Monetised Benefit		$31.05 million
Non-monetised benefits		Low

Section 5: Stakeholder views

5.1 What do stakeholders think about the problem and the proposed solution?

Public Consultation

The proposed change was included in the 2019/20 and 2020/21 levy round consultation which took place from 27 September to 25 October 2018.

There were 139 public submissions received during the consultation period that referred to VRR.

Most submissions (68%), including major submitters Automobile Association (AA), Motor Trade Association (MTA), Motor Industry Association (MIA), and Federated Farmers supported maintaining the VRR. Major themes in the consultation were:

- The MTA, MIA and AA see that the programme increases public awareness and education around vehicle choice, improving car purchase decisions, road safety and reducing ACC's injuries costs.
- Many saw that VRR helped to encourage and reward the use of safer vehicles and impacts driver purchasing behaviour.
- Some considered that it would be unfair to remove VRR for owners of safer cars to cross subsidise owners of less safe cars.
- Some felt that VRR had a disproportionate impact on low-income motorists as they are unable to afford vehicles in higher bands.
- Some saw that the programme should be intensified to further drive the perceived benefits of it.

Departmental Consultation

ACC, The Ministry of Transport and NZTA were involved in the policy process and their feedback has informed this document.

Concerns have been raised by NZTA and the Ministry of Transport that removing VRR could risk sending an unintended message that vehicle safety is not important, and has the potential to weaken the case for differential vehicle charging initiatives to be implemented in the broader transport system in the future. The VRR scheme has not so far been used to actively promote road safety but its effectiveness as an education tool would be enhanced if it was accompanied by a broader publicity campaign. NZTA also consider that removing VRR could risk sending an unintended message that vehicle safety is not important.

The Ministry of Health stated that if the VRR is removed, it would be important to institute alternative and more effective vehicle and road safety initiatives.

Section 6: Implementation and operation

6.1 How will the new arrangements be given effect?

If the change is agreed, it will be implemented as part of the 2019/20 and 2020/21 levy round process via the Accident Compensation (Motor Vehicle Account Levies) Regulations 2017 which will come into force on 1 July 2019.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

ACC provides direct monitoring of the Motor Vehicle Account levy.

MBIE and Treasury will provide oversight of the changes as part of their stewardship roles.

7.2 When and how will the new arrangements be reviewed?

The removal of the VRR will not be reviewed specifically. However, monitoring, evaluation and review is built into the biennial review of the ACC levies and the impact may be assessed as part of this process.

The consultation period during future levy rounds provides an avenue for stakeholders to raise concerns.