REGULATORY IMPACT STATEMENT

# Free Licence Scheme For Young Drivers

# Road Safety (Drivers) Amendment (Driver Reward Scheme) Regulations 2015

Version: 1.0

## Consultation Period

Public comments are invited on the regulatory impact statement and accompanying Regulations. Copies may be obtained from the VicRoads webpage at vicroads.vic.gov.au (Safety and Road Rules’ then ‘Driver Safety’ then ‘Young and new drivers’ then ‘Issues and initiatives for young driver); email freelicencescheme@roads.vic.gov.au, or telephone (03) 9854 2131.

Written submissions will be received up to 5.00pm on 25 September 2015 at the following address:

Free Licence Scheme for Young Drivers

c/o Director Vehicle and Road Use Policy

VicRoads

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Or by email to [freelicencescheme@roads.vic.gov.au](mailto:freelicencescheme@roads.vic.gov.au)

All submissions will be treated as public documents.

# Executive summary

#### Introduction

In the 2014 election, the Victorian Government made clear commitment to provide a free three year licence to any driver under 25 who completed four years on P plates with no road offences. Implementing this commitment requires changing subordinate legislation.

This RIS has been prepared with intent of informing and providing context for the implementation of the Government’s election commitment, which will replace the original Driver Reward Scheme with a new, more targeted scheme.

The primary objective of the proposed regulations is to reduce the number of fatalities and serious injuries of Victoria’s most at-risk drivers and motorcyclists and to provide positive reinforcement of good driving behaviour amongst this group.

A RIS forms an important part of the regulatory development process as it ensures that regulation is only implemented where there is a justified need. The Subordinate Legislation Act 1994 emphasises the need for a RIS to clearly identify and assess all feasible regulatory approaches and other measures that could achieve the desired objective.

#### Context

Road crashes cause a significant economic, social and financial cost to society. In 2013, the total cost of road crashes in Victoria was estimated at $3.3 billion. Drivers under the age of 25 comprise only 13% of drivers on the road, however, they are overrepresented in the crash statistics with 21% of drivers killed in 2014 aged between 18 and 25 years.

#### Table 1 – Crash cost by injury level, Victoria, 2013

|  |  |  |  |
| --- | --- | --- | --- |
|  | No of persons (2013)[[1]](#footnote-1) | $/person (June 2013)[[2]](#footnote-2) | Total Cost of Crashes ($m 2013) |
| Fatalities | 243 | 2,216,000 | 538 |
| Serious Injuries | 5,215 | 499,000 | 2,602 |
| Other Injuries | 11,564 | 19,100 | 221 |
| Total | 17,022 |  | 3,362 |

Road safety is improved using a number of mechanisms that often involve applying a penalty for unsafe driving. It is appropriate to also provide an incentive to people who drive safely.

In 2005, as part of its 2005-06 State Budget Motorists Package, the Victorian Government announced the introduction of a Driver Reward Scheme (the original DRS) and six month registration renewals for concession/pension card holders. Under the original DRS, all eligible Victorian drivers and motorcyclists, would receive a 25% discount off the total cost of renewing their licence. To be eligible, a licence holder needed to remain demerit point free and not commit any serious traffic related offences for the 3 year period before their licence expiry date.

#### Nature and Extent of Problem

In Victoria, a number of complementary initiatives exist that aim collectively to improve road safety for those under the age of 25. In developing these initiatives, Victoria has taken an evidence-based approach. This has been critical in ensuring that resources are targeted towards strategies that have been found through rigorous and systematic research and best practice to yield demonstrable road safety benefits.

Road safety mechanisms have resulted in a reduction in the road toll in recent years. Despite the reduction in the youth road toll, drivers under 25 still represent a high-risk group, and road crashes continue to constitute one of the leading causes of death for young people aged 18 to 25 years.

#### Figure ES1 – Number of drivers in casualty crashes by years after licensing

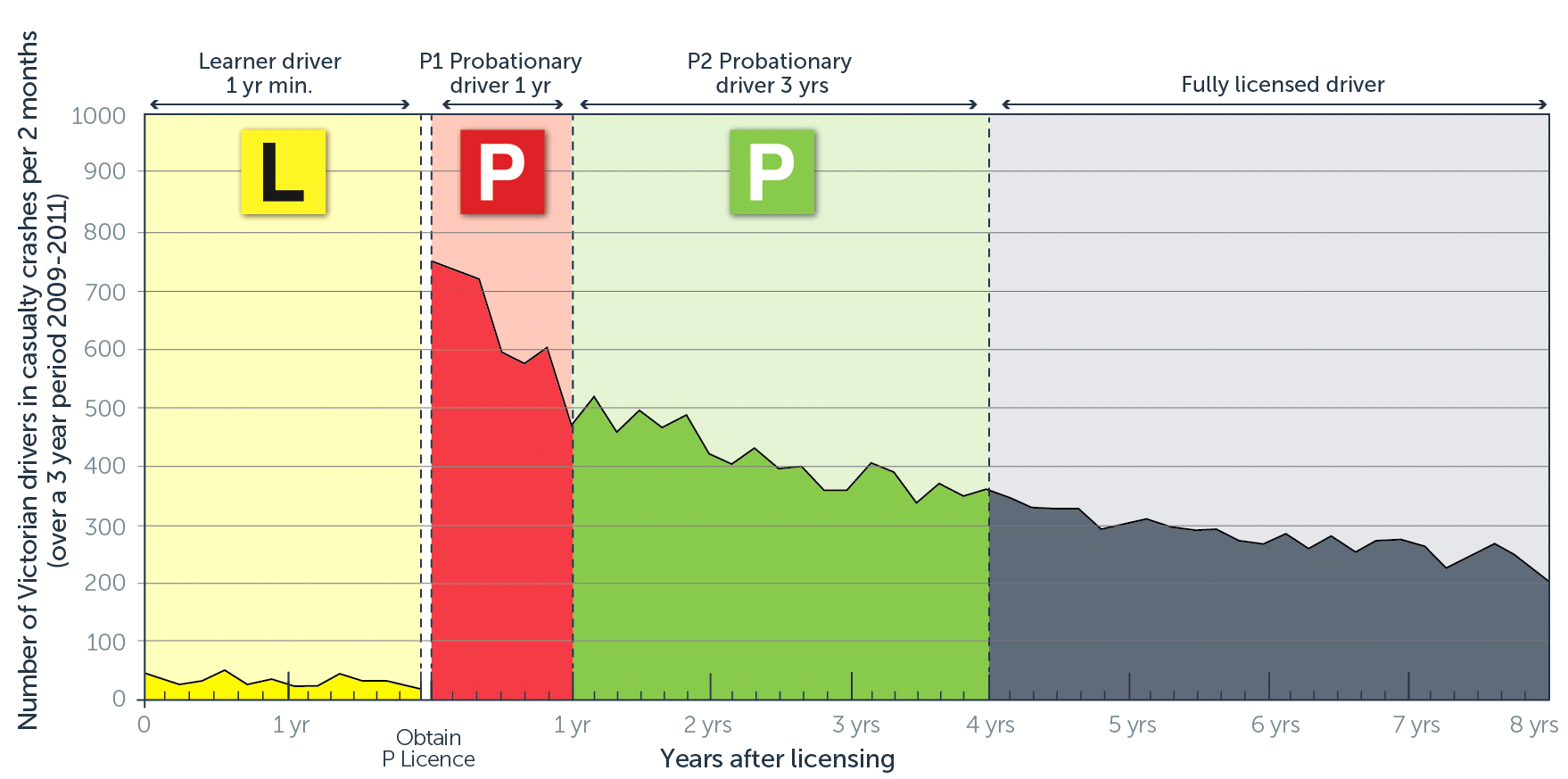


Table note: Casualty crashes include serious or fatal injury

Source: VicRoads, RCIS and Driver Licensing System data

The original DRS was not effective in addressing the problem of youth road safety. In particular:

* The scope of the original DRS was too broad and rewarded past behaviour rather than acting as an incentive to change unsafe driving behaviours
* The original DRS was poorly publicised and the broader public was unaware of the incentive scheme
* Outcomes of the original DRS were difficult to measure
* The incentive provided under the original DRS was too infrequent
* The reward for good driving behaviour was too small to be an effective incentive.

#### Options

To satisfy the objectives of the proposed regulations, a range of options were developed for analysis. Four regulatory options were assessed in detail:

* Base case – Original DRS
* Option 1 – Free Licence Scheme – free three year licence for drivers under 25 who have completed four years on P plates with no road offences
* Option 2 – Interim Scheme – 25% discount to drivers under the age of 26
* Option 3 – Non-regulatory: High reward/low probability prize for eligible drivers.

#### Options Analysis

Multi-criteria analysis was applied to assess the options to capture both the benefits and the costs of the proposed options. The preferred option was determined by assessing and comparing the options based on the following criteria:

* The implementation and administrative costs: Capturing the financial cost and ease of implementing and administering new systems or processes associated with each option
* The scale of the financial transfer: The revenue foregone by government and the discounts received by eligible drivers (subsidies)
* Effectiveness as a road safety measure: The extent to which each of the options might contribute to improved road safety outcomes by targeting high risk driver categories.

The results of analysis are shown in the table below. Based on this analysis the preferred option is option 1. This is largely due to the effectiveness of the free licence scheme as a road safety measure and low implementation costs.

While it is difficult to estimate the scale of the effect the preferred option will have on driver behaviour (and therefore on driver safety), the policy will break even if it avoids 1 casualty, 3 serious injuries or 71 injuries each year.

#### Table ES2 – Summary of multi-criteria analysis

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Analysis of options | Base Case (Original DRS) | Option 1 (Free Licence) | Option 2 (Interim scheme) | Option 3 (Non-regulatory) |
|  | Weighted Score | Weighted Score | Weighted Score | Weighted Score |
| Implementation and administrative costs | 0 | -0.10 | -0.05 | -0.13 |
| The scale of the financial transfer | 0 | 4.1 | 3.7 | 4.2 |
| Effectiveness of road safety measures | 0 | 2.0 | 0 | 1.5 |
| Total Score | 0 | 6.0 | 3.7 | 5.6 |
| Ranking of options | **4** | **1** | **3** | **2** |

#### Recommendation

It is therefore recommended that Option 1 be implemented.

Free licence scheme: This Free licence scheme will reward the most responsible young drivers with a free three-year licence. Drivers under 25 who have completed four years on P plates with no road offences will be eligible for a free three year licence.

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#### Acronyms/Abbreviations

DLS Driver Licensing System

DRS Driver Rewards Scheme

GLS Graduated Licensing System

RIS Regulatory Impact Statement

RACV Royal Automobile Club of Victoria

TAC Transport Accident Commission

# 1. Introduction

## 1.1. Context

Road crashes cause a significant economic, social and financial cost to society. In 2013, the total cost of road crashes in Victoria was estimated at $3.3 billion. Drivers under the age of 25 comprise only 13% of drivers on the road, however, are overrepresented in the crash statistics with 21% of drivers killed in 2014 aged between 18 and 25 years.

Road safety is improved using a number of mechanisms that often involve applying a penalty for unsafe driving. It is appropriate to also provide an incentive to people who drive safely.

In Victoria, a number of complementary initiatives exist that aim collectively to improve youth road safety. At the core of these is Victoria’s current Graduated Licensing System (GLS). A preliminary evaluation of the Victorian GLS undertaken by VicRoads[[3]](#footnote-3) has yielded encouraging results: 23% fewer drivers in the first year of their probationary licence and aged 18 to 20 years were found to be involved in all casualty crashes compared with a control group of full licence holders.

Despite the reduction in the youth road toll, drivers under the age of 25 still represent a high-risk group, and road crashes continue to constitute one of the leading causes of death for young people aged 18 to 25 years.

In recognition of this, the Government has made a commitment to achieve further reductions in the crash rates for drivers under the age of 25, and maintain Victoria’s leadership in youth road safety through the development and delivery of a suite of education and training initiatives. These initiatives form the Young Driver Safety Package.

As part of the Young Driver Safety Package, the Government announced a scheme to reduce the number of fatalities and serious injuries of Victoria’s most at-risk drivers and motorcyclists and provide positive reinforcement of good driving behaviour amongst this group.

## 1.2. History of Regulatory Environment

In 2005, as part of its 2005-06 State Budget Motorists Package, the Victorian Government announced the introduction of a Driver Reward Scheme (the original DRS) and six month registration renewals for concession/pension card holders. Under the original DRS, all eligible Victorian drivers and motorcyclists, would receive a 25% discount off the total cost of renewing their licence. To be eligible, a licence holder needed to remain demerit point free and not commit any serious traffic related offences for the 3 year period before their licence expiry date[[4]](#footnote-4).

The original DRS commenced on 1 January 2006 following an amendment to the Road Safety (Drivers) Regulations 1999.

The objective of the original DRS was to improve road safety on the basis that if drivers with a good driving record received a monetary benefit for driving safely, they would be encouraged to continue driving safely and other drivers would change their behaviour in a positive way to become eligible for the same benefit.

In 2013, a review of the scheme found an average of about 50% of renewing drivers were eligible for a reward based on data from the scheme’s 7 years of operation (2006 – 2013). It highlighted concerns that the system was not effective as a road safety measure. These concerns are discussed in section 2.4 of this RIS.

On 1 July 2013, VicRoads implemented temporary interim regulations which revised the eligibility of the original DRS to licence holders aged below 26 at the time of their licence renewal. The intent of this change was to provide positive reinforcement of good driving behaviour amongst this high-risk group of drivers. This specific age group was selected because:

* it represented the bulk of licence holders having the highest risk of being involved in crashes causing a casualty or serious injuries; and
* the revised scope would provide positive reinforcement of good driving behaviours to novice drivers and have a greater influence of modifying behaviours.

A Premier’s Certificate was used to enact the new temporary interim regulations under s9(2) of the Subordinate Legislation Act 1994[[5]](#footnote-5). These temporary regulations have been extended three times.

The temporary interim regulations provide for a 25% discount on the cost of the driver licence renewal fee to all drivers under the age of 26 with a clear three year driving record preceding the expiry of the driving licence.

#### Figure 1 – Timeline of regulations



## 1.3. Current Regulatory Environment

The interim regulations are currently in force, providing a 25% discount to eligible drivers under the age of 26 at the time of their licence renewal. However, unless regulations supported by a RIS are introduced (or interim regulations are extended again) before 26 June 2016, the interim regulations will lapse and the original DRS will be reinstated.

## 1.4. Requirement for a RIS

A RIS is required under the Subordinate Legislation Act 1994 where any changes imposed under the proposed regulations could be considered to be a significant burden on a part of the community.

The Victorian Guide to Regulation[[6]](#footnote-6) outlines the requirements for preparing a RIS, including to facilitate public comment and provide information on:

* the nature and extent of the problem to be addressed by the proposed regulations, including relevant research and investigations;
* the policy objectives of proposed solutions to the problem;
* the authorising legislation, objectives, nature and effects of the proposed regulations;
* public consultation to date;
* alternatives to the proposed regulations;
* a cost-benefit analysis of the proposed regulations and alternative policy options; and
* the proposed Evaluation Strategy.

## 1.5. Structure and Content of this RIS

Given the above requirements, this RIS seeks to evaluate proposed regulations to introduce a more effective regulation that provides incentives for probationary drivers to drive safely. The proposed regulations will replace the original DRS and end the temporary interim regulations. More specifically, this RIS will:

* outline the nature and extent of the problem the proposed regulations intend to address (section 2)
* outline the objectives of the proposed regulations and similar programs in other jurisdictions (section 3)
* outline the options considered as part of this RIS (section 4)
* provide an assessment of the options (section 5)
* discuss the implementation of the preferred option and the impact on competition and small businesses (section 6)
* provide a conclusion and recommendation (section 7).

This RIS has been prepared in accordance with requirements of the Subordinate Legislation Act 1994 and the Victorian Guide to Regulation.

# 2. The nature and extent of the problem

## 2.1. Significant economic, social and financial cost of crashes

Road crashes cause a significant economic, social and financial cost to society. In 2013, the total cost of road crashes in Victoria was $3.3 billion. This is based on an estimated crash cost per person of $2.2 million for fatalities[[7]](#footnote-7), $499,000 for serious injuries[[8]](#footnote-8) and $19,100 for other injuries.

There were 224 fatal crashes in 2014 (equating to 249 deaths) and 5,098 serious injuries for the 12 months ending June 2014 in Victoria. This is a reduction in the number of serious injuries from the previous year, however the number of fatalities from crashes increased.

#### Table 2 – Crash cost by injury level, Victoria, 2013

|  |  |  |  |
| --- | --- | --- | --- |
|  | No of persons (2013)1 | $/person (June 2013)2 | Total Cost of Crashes ($m 2013) |
| Fatalities | 243 | 2,216,000 | 538 |
| Serious Injuries | 5,215 | 499,000 | 2,602 |
| Other Injuries | 11,564 | 19,100 | 221 |
| Total | 17,022 |  | 3,362 |

The estimates of crash costs by injury level are based on a Human Capital (HC) methodology, which estimates the impact of life loss or injury on current and future levels of output and is calculated by the present value of the income flow that would be lost by the economy. The HC approach is an ex-post (“after the fact”) method. That is, it measures the cost to the community after the event (e.g. fatality or injury) has occurred by using historical data to predict the value of the same event occurring again in the future. It involves measuring the economic output an individual produces over their productive life. The individual cost components of the crash cost estimates are shown in the table below.

#### Table 3 - Crash cost per person by component and injury level, 2013

| Cost Component | Fatal Injury (June 2013 Prices) | Serious Injury (June 2013 Prices) | Other Injury (June 2013 Prices) |
| --- | --- | --- | --- |
| Human Cost | **2,065,481** | **331,708** | **7,126** |
| Ambulance | 501 | 499 | 271 |
| Hospital In-Patient | 2,712 | 10,795 | 55 |
| Other Medical | 2,011 | 16,205 | 78 |
| Long Term Care | - | 122,620 | - |
| Labour in the workplace | 730,392 | 34,354 | - |
| Labour in the household | 607,591 | 28,645 | - |
| Quality of Life | 671,116 | 71,625 | 3,804 |
| Insurance claims | 18,951 | 33,221 | 1,985 |
| Criminal prosecutions | 2,445 | 703 | 87 |
| Correctional services | 13,441 | - | - |
| Workplace disruption | 12,756 | 13,041 | 845 |
| Funeral | 2,685 | - | - |
| Coroner | 881 | - | - |
| Vehicle Costs | **15,192** | **12,734** | **11,726** |
| Repairs | 13,134 | 10,917 | 10,767 |
| Unavailability of vehicles | 1,666 | 1,471 | 776 |
| Towing | 391 | 346 | 183 |
| General Costs | **135,327** | **154,559** | **248** |
| Travel delays | 75,295 | 90,651 | 118 |
| Insurance administration | 48,251 | 58,093 | 75 |
| Police | 9,708 | 3,318 | 50 |
| Property | 1,563 | 1,882 | 3 |
| Fire | 510 | 615 | 2 |
| Total | **2,216,000** | **499,000** | **19,100** |

Source: VICROADS SUBMISSION TO THE PARLIAMENTARY ROAD SAFETY COMMITTEE INQUIRY INTO SERIOUS INJURY, May 2013, Table 3-2, indexed to June 2013 prices using ABS CPI & AWE Indices, http://www.parliament.vic.gov.au/images/stories/committees/rsc/serious\_injury/submissions/31\_VicRoads\_WEB.pdf

## 2.2. Age profile of people having crashes

Road crashes are the leading cause of death for young people aged 18 to 25 years. Drivers under the age of 25 comprise only 13% of drivers on the road, however, are overrepresented in the crash statistics:

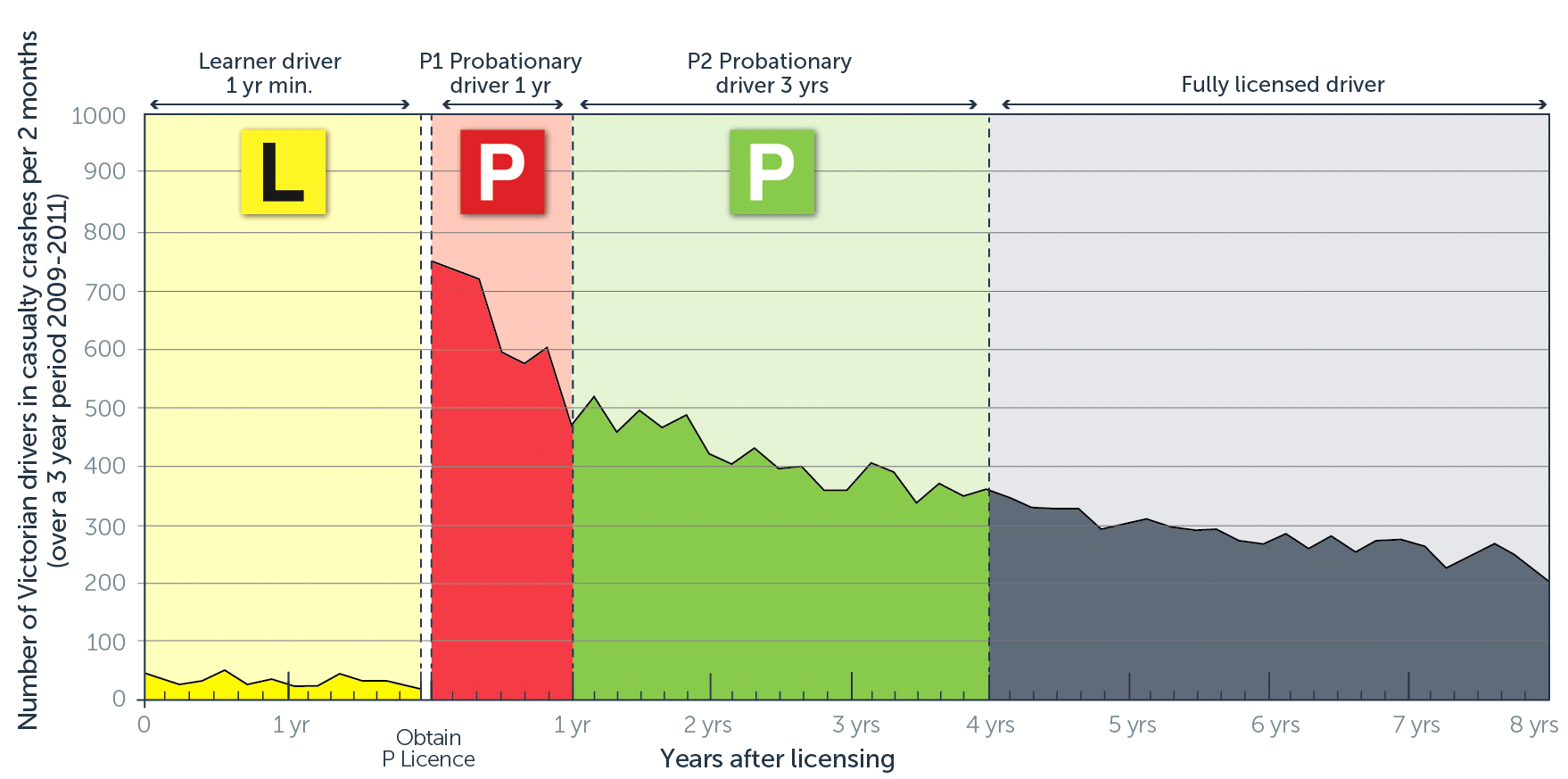
* In 2014, 21% of drivers killed were aged 18 to 25 years
* In 2013-14, 22% of drivers who were seriously injured in a crash were aged 18 to 25 years.

If we assume that approximately 20% of these crashes involving fatalities, serious injuries and other injuries involved drivers aged 18 to 25, then (given the estimated total cost of these crashes in 2013) the total cost of crashes involving drivers aged 18 to 25 would be approximately $660 million per year.

Research on crash statistics has shown that driver crash risk is at its highest during the first months of solo driving, decreasing gradually thereafter as a function of driving experience. This is shown in the graph below.

#### Figure 2 – Number of drivers in casualty crashes by years after licensing

Source: VicRoads, RCIS and Driver Licensing System data



### 2.3. Other initiatives to address the problem

In Victoria, a number of complementary initiatives exist that aim collectively to improve youth road safety. In developing these initiatives, Victoria has taken an evidence-based approach. This has been critical in ensuring that resources are targeted towards strategies that have been found through rigorous and systematic research and best practice to yield demonstrable road safety benefits.

Road safety is improved using a number of mechanisms that often involve applying a severe penalty for unsafe driving. It is appropriate to also provide an incentive to people who drive safely. The sections below outline some of the current initiatives in place to improve youth road safety.

Crash involvement rates for 18 to 20 and 21 to 25 year old groups has clearly dropped for newly-licenced drivers post the introduction of the current Graduated Licencing System in 2007-08, however crash risk continues to be at its highest during the first months of solo driving

### 2.3.1. Graduated Licensing System

The Graduated Licensing System (GLS) is VicRoads’ framework for learning to drive. Victoria’s GLS has been built on a strong evidence-base. GLS provides a developmentally appropriate framework for learning to drive as it allows beginning drivers to accumulate driving experience over an extended timeframe, and initially, under conditions of low risk. As the driver gains experience, restrictions on driving are gradually lifted.

Victoria’s GLS was implemented in 2007 and 2008. Key elements include the requirement for a minimum 120 hours of supervised practice during the learner period, and a minimum licensing age of 18 years.

#### Figure 3 – Victoria’s Graduated Licensing System



Preliminary evaluation of the Victorian GLS has yielded encouraging results: 23% fewer drivers in the first year of their probationary licence and aged 18 to 20 years were found to be involved in all casualty crashes compared with a control group of full licence holders[[9]](#footnote-9).

### 2.3.2. Young driver education programs

Victoria’s GLS is enhanced by a number of Government funded and run educational programs, which aim to support the learning to drive process, and promote and facilitate safe driving in the long term. These programs include the following:

* DriveSmart – An online, interactive program targeted at learner drivers that is designed to facilitate the development of risk preconception and attentional control skills – two skills that are known to be critical to long-term safe driving.
* P Drivers Project – Involves the development and evaluation of a behavioural change program for P plate drivers. The program is designed to increase awareness among young drivers of the factors which contribute to their elevated crash risk, and to improve safe driving behaviour among novice drivers.
* Traffic Safety Essentials – Core resource for traffic safety education in Victorian secondary schools and is linked to AusVELS. Aimed at Year 10s, it focuses on helping young people improve their decision making skills, to understand consequences of their decisions and improve the safety of themselves and their peers. It also includes information on related road safety information and resources that can also be used in secondary schools.
* Keys Please – Delivered to year 10 students, this session provides students with information, strategies and practical ideas on how to get the most out of the learner period.
* Fit to Drive – A behaviour change program delivered to year 11 students that focuses on the role and influence of peer passengers. The program aims to equip participants with strategies to empower them and to make safe decisions as peer passengers.
* Looking after our Mates – An interactive drug and drink drive presentation aimed at raising awareness of the drink and drug driving road safety problem in Victoria and to identify strategies to reduce the incidence of drink and drug driving in local communities. The presentation is delivered to year 12 students and community groups.
* L2P – Learner Driver mentor Program assists learners under 21 years of age who do not have access to a supervising driver or vehicle, to gain the driving experience required to apply for a probationary licence.

### 2.3.3. Young Driver Safety Package

Despite the reduction in the youth road toll, drivers under the age of 25 still represent a high-risk group, and road crashes continue to constitute one of the leading causes of death for young people aged 18 to 25 years.

In recognition of this, the Government has made a commitment to achieve further reductions in young driver crash rates and maintain Victoria’s leadership in youth road safety through the development and delivery of the Young Driver Safety Package, a suite of education and training initiatives, which includes:

* Road safety education complex (TAC): a global hub for road safety, featuring evidence based and best practice programs to extend, enhance and engage young people and the community in prevention of road trauma, consistent with the Safe System;
* Practical safe driving program (VicRoads): the development and implementation of a driver education and training program targeted at beginning drivers to help prepare them to be safer drivers;
* L2P – learner driver mentor program (VicRoads): help disadvantaged young Victorians without access to a car or supervising driver to gain their 120 hours supervised driving experience. L2P matches eligible learner drivers with trained, fully licensed volunteers who provide supervised driving experience; and
* Youth grants, communication opportunities and forums (TAC): facilitate youth initiatives and projects at the community level to help reduce road trauma.
* Free Licence Scheme (VicRoads): this is the subject of this RIS with options discussed in section 4.

## 2.4. The evaluation of the original DRS

#### **The scope of the original DRS was too broad and rewarded past behaviour**

The original DRS was too small, infrequent and unknown. The original DRS rewarded all eligible licence holders. It was not targeted to specific high-risk road users, making it extremely broad.

When the original DRS was announced in the 2005-2006 State Budget, it was framed as a means of rewarding all drivers for their past good driving behaviour, rather than acting as an incentive to change unsafe driving behaviours of a specific group of high risk drivers[[10]](#footnote-10).

The original DRS was not premised on strong road safety outcomes when compared to other more successful and measurable road safety initiatives i.e. with targeted reductions in crashes and serious injuries or to act as a deterrent in order to reduce specific high-risk offences i.e. excessive speeding.

The original DRS rewarded all eligible licence holders, including the great majority of drivers who already practised good driving and did not require any monetary incentive for continuing to do so. The original DRS also rewarded many people who had largely abandoned driving for economic or health reasons and simply continued to renew their licences for purposes of personal identification.

#### **The original DRS was poorly publicised**

For a reward incentive to be successful, participants must be aware of it from the beginning if they are to work towards achieving it. When the original DRS was announced in 2005 and commenced in 2006, minimal publicity was given to its existence, and it was not effectively promoted or publicised thereafter.

On the basis of strong anecdotal evidence, most licence holders who have been rewarded only became aware of the original DRS when they received their licence renewal notice and the letter outlining their entitlement for a reward.

Renewing drivers who were not eligible to receive rewards would remain largely unaware of the original DRS as there was no notification to these drivers that they did not receive a driver reward. This indicates that the original DRS was ineffective in incentivising good driver behaviour.

#### **The original DRS is difficult to measure**

As the original DRS eligibility extended to all Victorian licence holders, its performance cannot easily be measured. Simply comparing the number of rewards given on a year-by-year basis will not produce a meaningful result. This is because only a small proportion of total licence holders renew their licence each year[[11]](#footnote-11). It is also difficult to measure the impact that receiving the reward had on driver behaviour, as none of the drivers renewing in a year would be the licence holders measured in the previous two years.

Measuring performance by comparing year-by-year road toll statistics is equally problematic. The fact that road crashes have decreased markedly since 2006 might suggest that the DRS was successful. However, there are many other road safety initiatives that acted in parallel with the DRS during this period. It is not possible to attribute the reduction in the road toll since 2006 to an individual road safety measure.

#### **The original DRS is too infrequent**

Due to differing licence renewal periods, some drivers would only receive a benefit (if eligible) once every 10 years. VicRoads data suggest that approximately 40% of eligible drivers who renew their licences opt for a 10 year licence. This is potentially too long a period between rewards and too infrequent to encourage safe driving behaviour.

#### **The reward is too small**

As of June 2015, a three year Victorian driving licence cost $74, while a ten year Victorian driving licence cost $253.60. On current licence renewal figures, the reward for a ten year renewal is $63.40 and the reward for a three year licence renewal is $18.50, which equate to approximately $6.00 for each year of driving. These amounts are minuscule in the context of weekly driving costs.

Overseas and local studies of incentive schemes[[12]](#footnote-12) have noted modest improvements in driver behaviour when rewards have been offered. However, in most cases, the study subjects were aware that their behaviour was being monitored (necessarily to provide data for the study), which may have also been a factor in their behavioural improvement.

Studies also show that for a monetary incentive to be effective in modifying behaviour, the rewards need to be fairly significant. During the 2012 P Drivers project, an online survey conducted by VicRoads was mailed to 1,786 participants who had dropped out of a training program which required their voluntary attendance on 3 occasions in one month. Some 89.3% of the 255 respondents said that a higher reward of $250 (rather than the previous $140 reward) would have been likely to keep them in the program.

## **Conclusions**

* Road crashes continue to be an issue in Victoria, particularly for young drivers between 18 and 25
* The current initiative is not effective in addressing the problem
* A new initiative needs to complement existing initiatives and education programs targeted at the problem
* There needs to be awareness of the new initiative amongst the targeted driver group for it to be effective

# 3. The Proposed Regulations

## 3.1. Objectives

The primary objective of the proposed regulations is to reduce the number of fatalities and serious injuries of Victoria’s most at-risk drivers and motorcyclists and to provide positive reinforcement of good driving behaviour amongst this group.

## 3.2. Interstate examples

The problem of overrepresentation of young drivers in crashes is common across Australia. Other States have also implemented reward schemes to incentivise good driver behaviour. No formal evaluations of these schemes has been undertaken, limiting the ability to understand their success.

### 3.2.1. New South Wales

New South Wales (NSW) introduced the “Fair Go for Safe Drivers” in July 2012 following a major Motoring and Services Campaign by the NRMA[[13]](#footnote-13).

Under the NSW driver reward scheme, all licence holders with a 5 year driving record free of demerit points at the time of payment are rewarded with a 50% discount on the cost of their licence renewal. Similar to Victoria, the probationary period of a licence holder counts towards to their 5 year safe driving record.

NSW licence renewal fees are $52 for 1 year, $124 for 3 years and $166 for 5 years. The corresponding driver reward discounts are $26, $62 and $83 respectively. About 80% of NSW drivers renew their licence at 5 year intervals. Pensioners do not receive driver rewards in NSW because they already receive a 100% concession on their renewal fees. As at 28 December 2013, about 408,000[[14]](#footnote-14) NSW drivers had received a driver reward. It is estimated that the annual direct expenditure cost of the NSW DRS is $30m.

### 3.2.2. Western Australia

Western Australia (WA) introduced a “Safe Driver Reward” in 2006. The scheme is for probationary licence holders only. If a probationary driver does not commit a traffic offence during their two year probationary period they will receive a one-year free licence when they renew their licence. Western Australia licence fees are $33.10 for one year. The estimated annual expenditure of the Safe Driver Reward Scheme is $377,000. About 49% of Western Australian probationary licence holders are eligible for the reward.

### 3.2.3. Northern Territory

The Northern Territory introduced a 10 year free licence for safe P-plate drivers from 1 July 2015. The NT Government is rewarding P-Plate drivers with an unblemished traffic infringement history during their provisional licence period with a 10 year free licence. This initiative aims to inspire better driving practices, making Territorians safer on roads and helping to reduce the cost of living for young people. Northern Territory licence fees are $156 for a 10 year open C Class licence. The initiative is funded through $50,000 allocated in Budget 2015[[15]](#footnote-15).

# 4. Identified Options

This section presents the options assessed in this RIS.

## 4.1. Initial options development

There is a broad range of policy options available to address the problem. For this RIS, we have focused on options that incentivise good driver behaviour to complement other, existing initiatives to address the problem.

The options chosen to assess in detail for this RIS are options that can be implemented readily by VicRoads. As required for a RIS, these include both a non-regulatory option and a ‘no change’ option (base case).

### 4.1.1. Consultation to date

The proposed regulations are part of a broader road safety package, the Young Driver Safety Package, is overseen by a taskforce consisting of TAC, VicRoads, Department of Education and Training and Victoria Police.

## 4.2. Options assessed in this RIS

### 4.2.1. Base Case – Original DRS

It is important to analyse and compare options against a common baseline, or base case. For this RIS, the base case reflects the situation that will prevail from 28 June 2016 unless regulations are introduced. In that case, the temporary interim regulations will lapse, and under the requirements of the Subordinate Legislation Act 1994 the Regulations that prevailed before 1 July 2013 will be reinstated.

Under the base case, the original DRS will apply. All eligible Victorian drivers and motorcyclists, would receive a 25% discount off the total cost of renewing their licence. To be eligible, a licence holder needed to remain demerit point free and not commit any serious traffic related offences for the 3 year period before their licence expiry date. Driving records prior to and following the July 2013 curtailment of the DRS would be taken into account in assessing eligibility for rewards.

While estimating the impact on the community requires comparing options to a base case (as defined above), any change in policy will result in the community seeing a shift from the status quo (the interim regulations – option 2) to the new policy.

### 4.2.2. Option 1 – Free Licence Scheme

This option will reward the most responsible young drivers with a free three-year licence. Drivers under 25 who have completed four years on P plates with no road offences will be eligible for a free three year licence.

#### **Basis**

This option targets this specific age group because:

* it represents the bulk of licence holders having the highest risk of being involved in casualty crashes and serious injuries;
* it provides positive reinforcement of good driving behaviours to novice drivers and has a greater influence of modifying behaviours.

#### **How would it work?**

The proposed regulations, the Road Safety (Drivers) Amendment (Driver Reward Scheme) Regulations 2015, will amend the definition of “eligible person” in regulation 107 of the Road Safety (Drivers) Regulations 2009 to limit eligibility to drivers who have completed the full four years on their red and green P plates with no road offences as at the date on which VicRoads grants the full driver licence. The proposed regulations will provide for the free 3 year full driver licence to the eligible person in the proposed regulation 109.

The proposed regulations also provide, in Schedule 4 of the Road Safety (Drivers) Regulations 2009, an updated list of offences which disqualify drivers from a licence renewal fee reduction (refer to the attached draft regulations for the full description of offences). These offences are in addition to the existing disqualifying offences in regulation 107[[16]](#footnote-16).

### 4.2.3. Option 2 – Interim Scheme (25% discount to drivers under the age of 26)

This option is to continue the interim scheme as permanent regulations. This is the regulatory environment in which the Victorian community has been operating under for over 2 years.

This option will revise the eligibility of the base case to licence holders under the age of 26 years with no road offences for the 3 year period before their licence expiry date. This scheme will provide positive reinforcement of good driving behaviour amongst this high-risk group.

#### **Basis**

The interim scheme limited eligibility of the reward to this specific age group because:

* it represented the bulk of licence holders having the highest risk of being involved in casualty crashes and serious injuries;
* the revised scope will focus the positive reinforcement of good driving behaviour specifically on this high-risk group.

How would it work?

The current interim regulations will be made permanent and included in the Road Safety (Drivers) Regulations. The proposed regulations will also provide an updated list of offences which disqualify drivers from a licence renewal fee reduction, as per option 1.

### 4.2.4. Option 3 – Non-regulatory: High reward/low probability

There has been research in behavioural studies that suggest people may respond better to a chance of obtaining a larger reward with low likelihood than a definite smaller reward[[17]](#footnote-17).

This option would allow eligible young novice drivers to be included in a pool to be drawn randomly annually to be in the chance to win a high monetary reward. The likelihood of winning this prize would be very low, compared to the base case of every eligible driver receiving a 25% discount on the cost of renewing their licence.

#### **Basis**

All offence-free young novice drivers (who had completed four years on their probationary licence) renewing their licences as they graduated to a full licence would be entered prize draw of a significant value. The rationale behind this option is that the chance of winning a significant reward might be a far more effective incentive for people to drive more carefully.

#### **How would it work?**

Eligible renewing drivers would automatically enter draw. Eligible drivers would be entered in each draw at a frequency to be determined.

In 2013-14, 17,112 drivers graduated from a four year probationary licence to a full licence offence free. If a single reward was offered, eligible drivers would have one chance in about 17,000 of winning it – in comparison to the pre-June 2013 situation of having an absolute certainty of obtaining a licence fee reduction of 25%.

For the analysis of options, it is proposed that a prize pool of $1,000,000 would be available. Under this option five eligible drivers would be randomly selected to win $200,000 each.

It is important here to note that at this stage a significant amount of work would need to be done to determine the most effective amount and frequency for any prize draw for eligible drivers.

# 5. Options Analysis

## 5.1. Evaluation Framework

The Victorian Guide to Regulation 2014 emphasises the need for a RIS to clearly identify and assess all feasible regulatory forms and other measures that could achieve the desired objective.

A multi-criteria analysis (MCA) has been applied to assess the options. MCA is a decision making tool that attempts to provide a way of judging the feasibility of various options by combining quantitative and qualitative criteria, and deciding the trade-offs between different criteria. It is highly effective where the main costs and benefits of an option cannot easily or confidently be quantified and valued. The actual measurement of indicators need not be in monetary terms, but are often based on quantitative analysis (through scoring, ranking and weighting) of a wide range of qualitative impact categories and criteria.

MCA involves:

* Specifying assessment criteria;
* Assigning a ‘weighting’ to each criterion;
* Assigning scores for each option in relation to each criterion; and
* Calculating a weighted score for each option.

For the evaluation and assessment of the options, weights have been set to ensure that the benefits and costs are equally weighted.

### 5.1.1. Assessment Criteria

The assessment criteria applied to the identified project options are outlined in the following table. For the evaluation and assessment of the options, weights have been set to ensure that the benefits and costs are equally weighted.

#### Table 4 – Assessment criteria

|  |  |
| --- | --- |
| Criteria | Weighting |
| The implementation and administrative costs | 5% |
| The scale of the financial transfer | 45% |
| Effectiveness as a road safety measure | 50% |

| Criteria | Assessment considerations | Weighting |
| --- | --- | --- |
| The implementation and administrative costs | This criterion captures the financial cost and ease of implementing and administering new systems or processes associated with each option.  The cost of implementing each option includes system changes required to implement the proposed option, administrative costs and marketing costs to keep the proposed option in the public eye.  The ease and speed of implementation relates to the difficulty of system and business rule changes and includes the effort and time required to implement the option. | 5% |
| The scale of the financial transfer | When a driver is given a discount on their licence, this represents a subsidy via general revenue raised from all taxpayers to a specific group of individuals. The cost to government of this subsidy is directly offset by the financial benefit received by drivers. In general, however, subsidies raise concerns regarding equity because a specific group is being subsidised using revenue raised from a broader group. The larger the transfer, the greater the concern regarding equity. This criteria therefore penalises options that involve larger transfers. Penalising larger transfers is also appropriate given that measures used to raise revenue are distortionary, such that larger transfers are associated with larger distortions. As all options considered involved smaller transfers than the base case, they receive positive scores reflecting the extent to which they reduce the scale of the transfer. | 45% |
| Effectiveness as a road safety measure | This criterion assesses the extent to which each of the options might contribute to improved road safety outcomes by targeting high risk driver categories. This criterion considers the likely road safety benefit and the number of young drivers that would need to change their behaviour (and in what way) in order to provide sufficient benefits in terms of reduced injury/fatalities or property damage due to crashes. | 50% |

### 5.1.2. Scoring

The multi-criteria analysis (MCA) evaluates the financial and socioeconomic impacts of the options in comparison with the Base Case.

A symmetric scoring scale ranging from -10 to +10 is simple to apply and understand and is recommended in VCEC guidance material. This scoring range allows enough scope for differences across options to be distinguished. Typically the base case is assigned scores of zero with +10 indicating the highest level of benefit compared to the base case and -10 having a significantly worse impact than that of the base case.

## 5.2. Financial cost analysis

### 5.2.1. Implementation and administrative costs

This criterion captures the financial cost and ease of implementing and administering new systems or processes associated with each option.

The cost of implementing each option includes system changes required to implement the proposed option, administrative costs and marketing costs to keep the proposed option in the public eye.

The ease and speed of implementation relates to the difficulty of system and business rule changes and includes the effort and time required to implement the option.

The table below shows the estimated implementation cost for each option. Descriptions of the costs included in the implementation costs for each option are outlined in the sections below. VicRoads have estimated these costs based on their history of operating the original and interim DRS and expertise in managing past driver reward schemes.

Under all options, VicRoads is proposing to undertake changes to current systems to ensure that drivers eligible for a discount can create a portal account through the current online process. It is expected the portal solution will guide drivers through eligibility rather than just relying on the user to manually navigate the system. This work will be undertaken under all options and is therefore not included in the incremental costs presented below.

VicRoads have estimated that there are minor additional ongoing administrative costs for Option 1 and no additional administrative costs for Option 2 as they are very similar to the Base Case. As Option 3 is a change from discounting drivers to encourage good behaviours, there is a greater change in administrative costs. Ongoing administrative costs have been calculated and included in the overall costs for Option 1 and 3.

Estimated costs include implementation costs (year 1) and three years of operations. It is proposed after four years the scheme is evaluated.

#### Table 5 – Implementation and ongoing administration costs compared with the base case (NPV 2015/16)

|  |  |
| --- | --- |
|  | Implementation and administrative costs |
| Base Case | - |
| Option 1 | $1,403,535 |
| Option 2 | $625,000 |
| Option 3 | $1,805,297 |

Note – these costs represent the costs involved for the initial year of operation for each option and ongoing administration costs over a four year period. Costs have been presented in net present value terms.

#### **Option 1 – Free Licence Scheme**

Option 1 would require only incremental changes to the current VicRoads systems to implement. Implementation costs have been estimated at $1,473,480 in 2015/16 dollars, which includes:

* Incremental changes to IT and manual processing systems to identify whether drivers are eligible at the licence renewal date (estimated at $730,290)[[18]](#footnote-18).
* Implementation costs in year 1 including marketing and communication, e.g. updating brochures and the VicRoads website, and other advertising costs (estimated at $559,071).

Option 1 involves an incremental change from the current systems and administrative procedures. This will involve minimal effort and time to implement the option. Additional ongoing administrative costs are expected to be $61,373 per year.

The net present value of these costs over four years is $1,403,535.

#### **Option 2 – Interim Scheme**

Similar to option 1, this would only require incremental changes to the current VicRoads systems to implement. Implementation costs have been estimated at $650,000 in 2015/16 dollars, which includes:

* Incremental changes to IT and manual processing systems to identify whether drivers are eligible at the licence renewal date (estimated at approximately half of the cost to implement Option 1 at $350,000)
* Implementation costs including marketing and communication, e.g. updating brochures and the VicRoads website, and other advertising costs (estimated at $300,000).

Option 2 involves an incremental change from the current systems and administrative procedures. This will involve minimal effort and time to implement the option. No additional ongoing administrative costs are expected.

The net present value of these costs over four years is $625,000.

#### **Option 3 - Non-regulatory: High reward/low probability**

There will be a substantial outlay to VicRoads to develop the necessary systems to operate a prize draw, as it is not an incremental change to current systems. Additional costs/requirements under this option include:

* Develop a new IT system that can operate a prize draw
* Implement audit systems required to audit and monitor the prize draw/s
* Implement administrative processes to run the prize draw/s
* Implement a marketing campaign to keep the proposed option in the public eye on an ongoing basis

The total cost to VicRoads of this option will ultimately depend upon the amount of revenue that would be dedicated to its ongoing operation, in particular around the amount and frequency of the prize. As noted in section 4.2.4, a significant amount of work will need to be undertaken to determine the amount and frequency of the prize or prizes that would deliver the most effective road safety outcome.

For the purposes of this evaluation, it was estimated this option would cost $1.6 million in the initial year of operation, consisting of $1 million to develop the capacity to run the prize draw, $500,000 in market costs and $0.1 million per year in ongoing costs.

The net present value of these costs over four years is $1,805,297.

This estimate is based on the following assumptions:

#### Table 6 – Assumptions for implementation cost (option 3)

|  |  |
| --- | --- |
| Cost component | Assumption |
| IT system development | This would require the development of a new IT system that is capable of running prize draws, and is compliant with the relevant regulations around the operation of prize draws. A high level estimate of what this could cost is $1 million. |
| Administrative and audit costs | The prize draws include ongoing administration and audit costs. We have estimated these at $100,000 per annum. |
| Marketing and communication costs | To have any chance of being successful as an incentive, VicRoads would need to develop and fund a marketing campaign to keep this proposed option in the public eye on an ongoing basis, and to publish the results of the prize draws. This would possibly cost a minimum $500,000, but would also need to be determined through the work identified above. |

A possible consequence of introducing this option could result in a substantial increase in the number of persons seeking information from VicRoads regarding if they qualify for the prize draw and when the draw will be taking place during the year potentially increasing administrative costs.

Option 3 involves a significant change to systems and administrative procedures to implement, as it involves the development of new IT systems and audit and administrative processes to implement and is not an incremental change to VicRoads current operations. There will also be development work involved in determining the reward framework (in terms of amount and frequency of prizes) that is most effective in delivering the road safety message.

Timing is a concern for this option, given the significant amount of time VicRoads would require to identify the most effective amount and frequency of the prize draws, it would not be possible to launch this scheme in February 2016.

#### 5.2.2. Summary of implementation and administrative costs

The table below summarises the total financial impact to Government of the proposed options in comparison to the base case, and the scoring for the financial component of the integrated analysis. Option 3 has been allocated a score of -2.5 as the cost is not considered extremely significant. Scores for Option 1 and 2 are proportionate to Option 3.

#### Table 7 – Summary of financial cost analysis (criteria 1)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Option | Estimated cost (NPV) | Weighting | Raw Score | Weighted Score |
| Option 1 | $1,403,535 | 5% | -1.9 | -0.10 |
| Option 2 | $625,000 | 5% | -0.9 | -0.05 |
| Option 3 | $1,805,297 | 5% | -2.5 | -0.13 |

### 5.3. The scale and nature of the financial transfer

When a driver is given a discount on their licence, this represents a subsidy via general revenue raised from all taxpayers to a specific group of individuals. The cost to government of this subsidy is directly offset by the financial benefit received by drivers.

In general, however, subsidies raise concerns regarding equity because a specific group is being subsidised using revenue raised from a broader group. The larger the transfer, the greater the concern regarding equity. This criteria therefore penalises options that involve larger transfers[[19]](#footnote-19).

As all options considered involved smaller transfers than the base case, they receive positive scores reflecting the extent to which they reduce the scale of the transfer. In each case, the number of drivers eligible for a 25% discount will fall.

The main impact is that certain drivers will no longer be eligible under each option in comparison to the base case and will have a 25% increase in the cost of their licence renewal.

The tables below shows the estimated number of drivers eligible for a reward under each option, and the number of drivers that will no longer be eligible for a reward under each option in comparison to the base case.

#### Table 8 – Drivers eligible for a reward under each option

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Eligible drivers | 2015-16 | 2016-17 | 2017-18 | 2018-19 | Total |
| Base Case (all eligible drivers) | 346,103 | 351,641 | 357,267 | 362,983 | 1,417,994 |
| Option 1 (eligible drivers under 25) | 17,664 | 17,947 | 18,234 | 18,525 | 72,370 |
| Option 2 (eligible drivers under 26) | 58,116 | 59,046 | 59,991 | 60,950 | 238,103 |
| Option 3 (eligible drivers under 25) | 17,664 | 17,947 | 18,234 | 18,525 | 72,370 |

Table note: eligible drivers are growing in line with population growth [[20]](#footnote-20)

#### Table 9 – Drivers no longer eligible in comparison to base case

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2015-16 | 2016-17 | 2017-18 | 2018-19 | Total |
| Base Case | - | - | - | - | - |
| Option 1 | 328,439 | 333,694 | 339,033 | 344,458 | 1,345,625 |
| Option 2 | 287,987 | 292,595 | 297,276 | 302,033 | 1,179,892 |
| Option 3 | 328,439 | 333,694 | 339,033 | 344,458 | 1,345,625 |

The table below shows the size of the transfer in each case and the reduction in transfers under each option in comparison to the base case.

#### Table 10 – Transfer from the Government to driver under each option (level of subsidy provided)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2015-16 | 2016-17 | 2017-18 | 2018-19 | Total ($2015/16) | NPV |
| Base Case | $13,637,391 | $14,236,618 | $14,862,175 | $15,515,219 | $58,251,402 | $52,750,323 |
| Option 1 | $1,342,461 | $1,401,449 | $1,463,029 | $1,527,314 | $5,734,253 | $5,192,728 |
| Option 2 | $2,289,926 | $2,390,546 | $2,495,586 | $2,605,242 | $9,781,301 | $8,857,585 |
| Option 3 | $1,000,000 | $1,000,000 | $1,000,000 | $1,000,000 | $4,000,000 | $3,629,895 |

#### Table 11 – Reduction in transfers from Government to drivers in comparison to base case (reduction in subsidies provided)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2015-16 | 2016-17 | 2017-18 | 2018-19 | Total ($2015/16) | NPV |
| Base Case | $0 | $0 | $0 | $0 | $0 | $0 |
| Option 1 | $12,294,930 | $12,835,169 | $13,399,146 | $13,987,905 | $52,517,149 | $47,557,594 |
| Option 2 | $11,347,465 | $11,846,072 | $12,366,589 | $12,909,976 | $48,470,102 | $43,892,737 |
| Option 3 | $12,637,391 | $13,236,618 | $13,862,175 | $14,515,219 | $57,251,402 | $49,120,427 |

These estimates of transfers from drivers to the Government are based on the following inputs and assumptions:

#### Table 12 – Assumptions for estimated sizes of transfers

|  |  |
| --- | --- |
| Input | Assumption |
| Licence costs | 2015/16: 3 year licence – $76 (full)/$57 (discounted)  10 year licence – $260.40 (full)/$195.30 (discounted)  2016/17 onwards – escalated by the Treasurer’s annual rate for 2015-16 of 2.75 per cent |
| Population growth | 1.6% p.a. based on VICTORIA IN FUTURE 2014 Population and household projections to 2051 |
| Treasurer’s indexation | 2.75% p.a. |
| Discount rate | 4% real |
| Eligible drivers (base case) | Number of drivers receiving rewards in 2012-13 (330,008), escalated by population growth |
| Eligible drivers (options 1 and 3) | Number of drivers receiving rewards in 2013-14 with a 4 year probationary licence (17,112), escalated by population growth |
| Eligible drivers (option 2) | Number of drivers receiving rewards in 2013-14 (56,300), escalated by population growth. Note, this figure is based on 9 months of data extrapolated out to 12 months. |
| Driver behaviour | The analysis has not assumed an increase in eligible drivers due to modified behaviours, given the difficulty in estimating the effectiveness of the policy. In reality, if Options 1 or 2 are effective in changing behaviour then the size of the transfer will be larger. |

#### **Base Case – Original DRS**

Under the Base Case, all drivers with a clear driving record in the three year period preceding their licence expiry date are eligible for a 25% discount on their licence fees.

Based on the above assumptions, and a weighted average licence cost (based on the proportion of renewing eligible drivers over the period of the original DRS selecting a 10 year or 3 year licence), the net present value of the total cost to government of the original DRS over a 4 year period from 1 July 2015 is approximately $52.8 million.

#### **Option 1 – Free Licence Scheme**

Under the proposed Free Licence Scheme, all drivers under 25 who have completed four years on P plates with a clear driving record are eligible for a free three year licence. Based on the above assumptions, the net present value of the total cost to government of the proposed scheme over a 4 year period from 1 July 2015 is approximately $5.2 million. Compared to the base case, this is reduction in the net present value of the transfer of approximately $47.6 million, or 90%. This option is therefore given a score of 9.0 for the scale of the transfer.

#### **Option 2 – Interim Scheme**

Under this option, all drivers under 26 with a clear driving record are eligible for a 25% discount on their licence fees.

Based on the above assumptions, and a weighted average licence cost (based on the proportion of renewing eligible drivers over the period of the original DRS selecting a 10 year or 3 year licence), the net present value of total cost to government of the interim scheme over a 4 year period from 1 July 2015 is approximately $8.8 million. Compared to the base case, this is reduction in the net present value of the transfer of approximately $43.9 million, or 83%. This option is therefore given a score of 8.3 for the scale of the transfer.

#### **Option 3 – Non-regulatory: High reward/low probability**

Under this option there is no discount on licence fees for eligible drivers.

Instead, the transfer from government to eligible drivers is in the form of a prize pool of $1,000,000 per year. The net present value of the total cost to government of this option is approximately $3.6 million. Compared to the base case, this is reduction in the net present value of the transfer of approximately $49.1 million, or 93%. This option is therefore given a score of 9.3 for the scale of the transfer. Summary and scoring for transfer of revenue between Government and drivers

The following table provides an overview of the scoring allocated to each option and the scoring rationale related to the transfer of revenue from the Government to drivers. Under the base case there is a significant subsidy given to eligible drivers. All options considered represent a reduction in the size of the total transfer, and so are scored positively against the base case.

#### Table 13 – Scoring and rationale (criteria 2)

| Option | Weighting | Raw Score | Weighted Score | Assessment Rationale |
| --- | --- | --- | --- | --- |
| Option 1 | 45% | 9.0 | 4.1 | Under the base case there is a significant subsidy given to eligible drivers.  Under option 1, when compared to the base case, drivers over the age of 25 with a good driving record will no longer be eligible to receive a reward for good driver behaviour and the subsidy reduces significantly.  Drivers who were not issued a probationary licence between the age of 18 and 20 and have a good driving record will no longer eligible, again reducing the subsidy being paid by Government.  Based on the assumptions for eligible drivers outlined above, this will impact 1.3 million drivers over four years from 1 July 2015. For these drivers, the 25% subsidy will be removed.  This option also has an impact on drivers that remain eligible for a reward. In 2013-14, 17,112 drivers under 25 graduated from a four year probationary licence to a full licence offence free. These drivers will receive a larger reward (subsidy) through receiving a free 3 year licence (current fee for a 3 year licence is $76). This is a greater reward (subsidy) than the base case. |
| Option 2 | 45% | 8.3 | 3.7 | Under the base case there is a significant subsidy given to eligible drivers.  Under option 2, drivers over the age of 26 with a good driving record will no longer be eligible to receive a reward for good driver behaviour. Based on the assumptions for eligible drivers outlined above, this will impact 1.2 million drivers over four years from 1 July 2015. For these drivers, the 25% subsidy will be removed.  This option has no impact on drivers that remain eligible for a reward, as they continue to receive a 25% discount on the licence fees, similar to the base case. |
| Option 3 | 45% | 9.3 | 4.2 | Under this option, drivers over the age of 25 with a good driving record will no longer be eligible to receive a reward for good driver behaviour.  Drivers who were not issued a probationary licence between the age of 18 and 20 and have a good driving record will no longer eligible. Based on the assumptions for eligible drivers outlined above, this will impact 1.3 million drivers over four years from 1 July 2015. For these drivers, the 25% subsidy will be removed.  This option also has an impact on drivers that remain eligible for a reward. In 2013-14, 17,112 drivers under 25 graduated from a four year probationary licence to a full licence offence free. If a single reward was offered per year, eligible drivers would have minimum of one chance in about 17,000 of winning it, in comparison to the base case situation, where they would have a certainty of obtaining a 25% discount on their licence fee. It would also be expected that the odds of winning the reward would decrease over the life of the scheme as you would expect more drivers would be eligible each year as a result of the incentive to be a more responsible driver. |

## 5.4. Effectiveness of the road safety measures

This criterion assesses the extent to which each of the options might contribute to improved road safety outcomes. In the absence of objective, definitive evidence regarding the ultimate efficacy of a reward scheme like this one, this criterion considers the likely road safety benefit and the number of young drivers that would need to change their behaviour (and in what way) in order to provide sufficient benefits in terms of reduced injury/fatalities or property damage due to accidents.

As noted in section 4.2.1, the complexity of the timeframes around introducing new regulations and the interim nature of the current regulations means that the base case needs to be the original DRS. However, the community has been exposed to the interim regulations (option 2) for over 2 years.

### 5.4.1. Effectiveness as a road safety measure

The scheme has been developed to target a high risk driving group, namely, young novice drivers who are at risk of offending. In general, there is compelling research evidence demonstrating the relationship between a driver’s prior offences and subsequent crash involvement[[21]](#footnote-21). The logic of introducing the scheme is based on the following assumptions:

* the policy creates an incentive for P-platers to avoid committing offences
* a reduced number offences will in turn reduce the number of crashes
* the reduced number of crashes will result in lower costs to the community.

In the absence of objective, definitive evidence regarding the precise impact of a reward scheme like this one, it is necessary to estimate the likely or expected behavioural responses of the different groups of drivers to each option. In light of this, the following factors were considered to indicate the potential effectiveness of the options as a road safety measure:

* the number of injury causing crashes (including type of injury) to be avoided in order to provide sufficient benefits in terms of reduced injury or property damage due to crashes to cover the implementation and administration costs of the option over a four year period (compared to the base case)
* the extent of incentive offered and likely behaviour changes in young drivers.

The following table provides an overview of the scoring allocated to each option and the scoring rationale.

#### Table 14 – Scoring and rationale (criteria 2)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Option | Weighting | Raw Score | Weighted Score | Assessment Rationale |
| Option 1 | 50% | 4 | 2.0 | Option 1 is likely to be more effective than the base case and Option 2. The reward provided for eligible drivers is a free licence (a higher reward than the base case), which is a more enticing reward than a discount, and is likely to result in more young drivers modifying behaviour than the base case. |
| Option 2 | 50% | 0 | 0 | The reward provided to eligible drivers under Option 2 is the same as the base case, and so is not likely to be any more effective than the base case. |
| Option 3 | 50% | 3 | 1.5 | Option 3 is likely to be more effective than the base case and option 2. This option provides a significantly higher reward to eligible drivers than the base case, which is likely to result in more young drivers modifying behaviour than the base case and option 2. However, not all eligible drivers will receive a reward, and the actual outcomes on driver behaviour will depend on the frequency and size of the reward on offer and the perceived likelihood of winning the prize. Limited research has been done on the effectiveness of a high reward/low probability scheme on driver behaviour. Therefore, limited information is available to support the score for the effectiveness of the scheme as a road safety measure compared to Option 1. The lower score for this option reflects this uncertainty. |

## 5.5. Summary of multi-criteria analysis

Based on the above analysis, the preferred option is Option 1.

#### Table 15 – Summary of integrated analysis

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Analysis of options | Base Case (Original DRS) | Option 1 (Free Licence) | Option 2 (Interim scheme) | Option 3 (Non-regulatory) |
|  | Weighted Score | Weighted Score | Weighted Score | Weighted Score |
| Implementation and Administrative Cost | 0 | -0.10 | -0.05 | -0.13 |
| The scale and nature of the financial transfer | 0 | 4.1 | 3.7 | 4.2 |
| Effectiveness of road safety measures | 0 | 2.0 | 0 | 1.5 |
| Total Score | 0 | 6.0 | 3.7 | 5.6 |
| Ranking of options | **4** | **1** | **3** | **2** |

These results are primarily driven by the effectiveness of each scheme as a road safety measure.

The costs of the preferred option can also be considered from the perspective of the benefits that would be required to break even. As shown in Table 2, car crashes in Victoria in 2013 resulted in 243 fatalities, 5,215 serious injuries and 11,564 injuries.

The estimated implementation and administration costs (see Table 7) of $1,403,535, imply that the policy will break even if it avoids 1 casualty, or 3 serious injuries, or 71 injuries each year.

Notwithstanding that the cost to Government of paying the subsidy is directly offset by the financial benefit to those receiving the subsidy, it is also possible to estimate the break even point for the policy in terms of total costs to Government. If the cost to Government of paying the subsidy is included, the average cost of the policy is estimated to be $6,596,263 over four years. On this basis, the policy will break even if it avoids 1 casualty, or 4 serious injuries, or 90 injuries each year[[22]](#footnote-22).

# 6. Implementation

## 6.1. Implementation

There are a number of incremental changes to VicRoads systems required to implement the preferred option. The changes will update VicRoads systems to reflect the new eligibility requirements to qualify for the free licence. Required changes include:

* Update the IT system to enable it to identify eligible drivers for the free licence scheme
* Develop the system to automate notifying eligible drivers that they qualify for a free licence and send them their licence
* Develop the business rules for Registration and Licensing to reflect the proposed free licence scheme
* Document work instructions for staff within Registration and Licensing to enable them to deal with enquiries about the proposed free licence scheme
* Ensure online content and publications are updated to reflect the free licence scheme
* Ensure system changes are complete.

Cost and timing issues have been considered in the analysis.

## 6.2. Enforcement

If there is an offence while driving, VicRoads system, the Driver Licensing System, will be notified. The timing of the notification varies depending on the nature of the offence and if subsequent actions are required (for example it has to go to court, or a payment is required). From an enforcement point of view, this process will not change when the free licence scheme is implemented.

On the date on which VicRoads gives the licence holder notice granting the young novice driver a full driver licence, the system will assess the driver to see if they are eligible for a free three year drivers licence. Eligibility means that the driver has committed no driving offences (including demerit points) that have hit the driver licensing system (DLS) on the date of assessment.

## 6.3. Impact on competition and small business

The guiding principle under the Competition Principles Agreement is that legislation should not restrict competition unless it can be demonstrated that:

* the benefits of the restriction to the community as a whole outweigh the costs; and
* the objectives of the legislation can only be achieved by restricting competition.

The main forms of regulation that may affect competition are barriers to entry and restrictions on competitive conduct. Neither of these is relevant in the context of the DRS, with the proposed Regulatory changes are not expected to have any substantial impact on small business.

None of the options examined will have any appreciable effect on small business.

# 7. Recommendation and evaluation strategy

## 7.1. Recommendation

It is therefore recommended that Option 1 be implemented.

#### **Option 1 – Free licence scheme**

This Free licence scheme will reward the most responsible young drivers with a free three-year licence. Drivers under 25 who have completed four years on P plates with no road offences will be eligible for a free three year licence.

## 7.2. Evaluation strategy

Ascribing improved road safety outcomes to this specific scheme will be a challenge. Proper evaluation may also be difficult until the policy has been in operation for at least four years, as this is the length of time young drivers are on P plates. A much longer period might be needed to identify any real trend towards overall improvement in driver safety.

Nonetheless, VicRoads will monitor quantitative data relating to the young driver reward scheme, including:

* Number of rewards provided to eligible young drivers as a proportion of total young drivers
* Novice diver road safety statistics (including accidents, injuries and fatalities)

These data will be compared to baseline data prior to the introduction of this policy, and to rates of offences and accidents in other age groups within Victoria and young drivers in other states.

The number of rewards provided and improvements to novice driver road safety statistics can be monitored through existing VicRoads systems. As noted above, the Driver Licensing System tracks all driving offences for individual drivers and can also identify the number of drivers annually who receive rewards.

Given concerns regarding a lack of awareness of the original Driver Rewards Scheme, VicRoads may also obtain qualitative data.

This will help evaluate the effectiveness of the targeted media campaign aimed at addressing the issue of a lack of awareness surrounding driver rewards schemes.

An appropriate review period would be four years from the implementation date. VicRoads will provide $80,000 to undertake a full review of the Free Licence Scheme in four years. This time period will allow for VicRoads to collect data to measure the impact of the free licence scheme for young drivers that completed the full GLS with the free licence scheme in place.

In addition, VicRoads will monitor the effectiveness of the NSW, WA and NT driver reward schemes and also keep abreast of overseas licensing jurisdictions’ driver rewards with the intention to continually review and improve upon the Victorian free licence scheme for young drivers.

# Appendix 1 Government Policy Checklist

The purpose of this checklist is to demonstrate that consideration has been given to relevant Government policies in the evaluation of options in this RIS.

##### Objectives

To ensure that decisions are made in accordance with the following:

* Subordinate Legislation Act 1994
* Transport Integration Act 2010
* Charter of Human Rights and Responsibilities Act 2006
* Victorian Guide to Regulation 2014
* Victoria’s Road Safety Strategy 2013-2022.

|  |  |  |
| --- | --- | --- |
| Relevant legislation/Policy | Considered | Outcome or evidence of consideration |
| Subordinate Legislation Act 1994 and the Subordinate Legislation 1994 Act Guidelines | Yes | Considered the economic, social and environmental impacts on sectors of the community by consultation on a Discussion Paper, Public Forums and this RIS. The proposed regulations represent the most balanced, cost effective and least intrusive solution to the problem. |
| Transport Integration Act 2010 | Yes | Had regard to the objectives and decision making criteria by consultation on a Discussion Paper, Public Forums and this RIS. |
| Charter of Human Rights & Responsibilities Act 2006 | Yes | The proposed regulations do not exceed the powers conferred by an Act and do not unduly trespass on rights and freedoms. |
| Victorian Guide to Regulation 2014 | Yes | Through consultation, it has been demonstrated that the proposed regulations represent the most balanced, cost effective and least intrusive solution to the problem. |
| Victoria’s Road Safety Strategy 2013-2022 | Yes | The proposed regulations represent the most balanced, cost effective and least intrusive solution to improve novice driving behaviour. |
| Impacts on small business | Yes | The proposed Regulatory changes are not expected to have any substantial impact on small business. |
| Assessment of Competition Impacts | Yes | The proposed Regulations do not contain any restrictions on competition. |

1. From VicRoads Road Crash Information System as at 23 May 2014. [↑](#footnote-ref-1)
2. Austroads unit rates based on AP-R238 Table 5 and indexed to June 2013 prices using ABS CPI and AWE indices. [↑](#footnote-ref-2)
3. Victoria’s Graduated Licensing System Evaluation Report, VicRoads, 2012 [↑](#footnote-ref-3)
4. The offences which disqualify drivers from licence renewal fee reductions are listed in schedule 4 of the Road Safety (Drivers) Regulations 1999. [↑](#footnote-ref-4)
5. S.9(2) of the *Subordinate Regulations Act 1994*  states in part: “(a) The Premier must not issue an Exemption Certificate unless the proposed statutory rule is to expire on or before the day which is 12 months after the first day on which any provision of the statutory rule is to come into operation.” [↑](#footnote-ref-5)
6. Government of Victoria (2014) Victorian Guide to Regulation, Department of Treasury and Finance, Melbourne. [↑](#footnote-ref-6)
7. VicRoads has used its own independent methodology to determine the cost of a fatality in a road accident. This estimate of 2.2 million is lower than the conventionally used ‘value of a statistical life’ of $4.2 million (<http://www.dpmc.gov.au/sites/default/files/publications/Value_of_Statistical_Life_guidance_note.pdf>). Using a lower value results in a conservative estimate for the cost of road accidents in Victoria. [↑](#footnote-ref-7)
8. Serious injury is defined as being admitted to hospital. [↑](#footnote-ref-8)
9. Victoria's Graduated Licensing System Evaluation Interim Report, prepared for VicRoads, prepared by David Healy, David Healy Road Safety Consulting, John Catchpole, ARRB Group, Warren Harrison, Eastern Professional Services. [↑](#footnote-ref-9)
10. Refer p. 11 of the Treasurer’s Budget Speech – *“The Government will also reward safe driving by providing a 25 per cent discount on driver’s licence fees to motorists who have not lost any demerit points in the three years prior to renewing their licences*”.

    <http://www.dtf.vic.gov.au/files/2fd5432b-4724-47af-ae92-a34000c3b2d4/2005-06BP1Speech.doc>. [↑](#footnote-ref-10)
11. Out of a total of about 4m driver and motorcycle licence holders, only 667,766 renewed their licences in 2012-13. [↑](#footnote-ref-11)
12. SWOV factsheet - Rewards for safe road behaviour;

    The effects of external motivation and real time automated feedback on speeding behavior in a naturalistic setting, Ian J. Reagan, James P. Bliss, Ron Van Houten and Bryan W. Hilton, Human Factors: The Journal of the Human Factors and Ergonomics Society 2013 55: 218;

    Analysis of a financial incentive to encourage safer driving practices, Stephen Greaves and Simon Fifer; Institute of Transport and Logistics Studies, The Australian Key Centre in Transport and Logistics Management, the University of Sydney, September 2011. [↑](#footnote-ref-12)
13. The National Roads and Motorists’ Association. [↑](#footnote-ref-13)
14. Source: NSW Roads and Maritime Services Media Release. [↑](#footnote-ref-14)
15. <http://chiefminister.nt.gov.au/news/ten-year-free-licence-safe-p-plate-drivers> [↑](#footnote-ref-15)
16. Note, the list of offences has been updated to delete exhausted or revoked offences and add new offences included in the schedules since the original DRS. [↑](#footnote-ref-16)
17. See discussion in s 2.4 for discussion on responding to incentives. For an overview of the literature exploring the influence of reward size on behaviour (compared to the effect of a change in the likelihood), see the *Oxford Handbook of the Economics of Gambling*, edited by Leighton Vaughan Williams and Donald S. Siegel and published in 2013. [↑](#footnote-ref-17)
18. Delivery of a semi-automated, non-portal process whereby Notices are prepared and sent by HP to the customer. In order to accept this and get the updated licence, the customer needs to call VR or go into a CSC & Validate their address. This is a manual process by the VR operator. Once validated, there will be a "button" on DLS screens that converts them to the new, free product and triggers the remaining process at $0. [↑](#footnote-ref-18)
19. Penalising larger transfers is also appropriate because where measures used to raise revenue can distort efficient market outcomes, larger transfers are associated with larger distortions. [↑](#footnote-ref-19)
20. VICTORIA IN FUTURE 2014 Population and household projections to 2051 (http://www.dtpli.vic.gov.au/\_\_data/assets/pdf\_file/0009/223110/VIF-2014-WEB.pdf) [↑](#footnote-ref-20)
21. Diamantopoulou, K., Cameron, M., Dyte, D., & Harrison, W. (1997). *The relationship between demerit points accrual and crash involvement* (Report No. 116). Monash University Accident Research Centre, Clayton, Victoria. [↑](#footnote-ref-21)
22. These are calculated after inflating the estimated 2013 costs to 2015 dollars using CPI. [↑](#footnote-ref-22)