Regulatory Impact Statement

ACC levies for 2013/14

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Business, Innovation and Employment (the Ministry). It provides an analysis of options for setting the ACC levies for 2013/14.

ACC levies are based on forecasts of a number of factors including injury rates, ACC performance, health care costs, wage inflation, long-term discount rates, and investment returns. Because these factors are forecasts, they are inherently uncertain. The robust actuarial process that levies go through each year aims to provide the most accurate levy rates from the available information. However, changes to the factors from year to year will change the level of funding that ACC requires (which is why ACC levies are updated annually).

A full actuarial review of ACC's liabilities and costs used in levy setting has been undertaken. This review has been independently actuarially quality assured and found to be reasonable.

The Ministry's advice to Ministers is based on consideration of ACC's funding policy and the independent actuarial review performed by the Ministry's contracted actuaries.

Ideally this regulatory impact analysis would include more details about how ACC intends to operationalise the expansion of the workplace safety discount programme (WSD) to all industries. However, ACC has not finalised the details. The analysis and recommendations in this paper are therefore based on the principle of expanding the WSD to all industries.

The policy options contained in this regulatory impact analysis are not likely to have effects which do not align with the commitments in the Government Statement on Regulation.

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Problem definition

1 ACC's Work, Earners', and Motor Vehicle Accounts are funded on an annual basis by levies set in regulations. Because claims costs and other factors that affect ACC's assets and liabilities change, levies should be updated to ensure that the Accounts are fully-funded (or on the path to achieving full-funding).

2 There are three key decisions to make in determining the appropriate levy rates for 2013/14:

a What should the levy rate for claims incurred in 2013/14 be?

b How much should be charged to move ACC toward the target funding position (what should the funding adjustment be)? This is based on what target funding position is selected, the length of time chosen to reach that target and any smoothing of levy rates.

c Are there any other factors which may impact on the rate given from the above two questions?

3 It is possible to choose any level of levy rate so long as it is consistent with the AC Act's requirement for the levies to fully-fund the Accounts.

4 The paper also considers a number of proposals to be considered alongside the 2013/14 levy rates.

Background on status quo

5 ACC is a Crown Agency providing comprehensive, no-fault personal injury cover to all New Zealand residents and visitors to New Zealand. ACC coverage is managed under five separate Accounts. The source of funding and a general description of what these Accounts fund is listed below.

- The Work Account is funded from levies on employers and self-employed and is used to meet the costs of entitlements for work-related personal injuries.
- The Earners' Account is funded from levies on earners through PAYE (or invoiced directly by ACC for self-employed people), and is used to meet the costs of entitlements for earners' non-work injuries (that is, personal injuries other than work-related injuries, motor vehicle injuries, and treatment injuries).
- The Motor Vehicle Account is financed from levies on motor vehicle owners and users and is used to meet the costs of entitlements for motor vehicle injuries.
- The Non-Earners' Account is funded from appropriation and is used to meet the costs of entitlements for non-earners' personal injuries.
- The Treatment Injury Account is funded from the Non-Earners' and Earners' Accounts and is used to meet the costs of entitlements for personal injury caused by treatment by, or at the direction of, a registered health practitioner.

6 Each year Cabinet makes decisions on ACC levies so that these can be set in regulations. The Accident Compensation Act 2001 (the AC Act) requires ACC to develop a funding policy, consult with levy payers, and provide recommended rates to the Minister for ACC as part of this process. Public consultation was carried out from 25 September 2012 to 23 October 2012 (summarised in paragraphs 70 to 76).

Consultation and analysis of submissions has been completed, and the ACC Board provided its recommendations to the Minister for ACC on 15 November 2012 [ACC BP 12-089 refers]. The AC Act also requires that these recommendations be considered by the Minister for ACC prior to recommending the making of levies regulations.[1]

7 The Ministry of Business, Innovation and Employment (the Ministry) provides the Minister for ACC with advice on the proposed levy rates and related policy. Each year the Minister for ACC, in consultation with Cabinet, makes decisions on ACC levies so that these can be set in regulations.

8 The following figure outlines the ACC levies, who pays them and how they are paid:

Figure 1: Who pays ACC levies and how

			Motor Vehicle Account levy	
Levy payer	**Work Account levy**	**Earners' Account levy***	**Licence fee levy**	**Motor spirit (Petrol) levy**
Employee	N/A	to IRD through PAYE, at flat rate	If they own a vehicle according to vehicle type	If they use a petrol vehicle, according to petrol usage
non-earner	N/A	N/A		
self-employed	Direct to ACC based on industry risk and business' experience	Direct to ACC, at flat rate		
standard employer	Direct to ACC based on industry risk and business' experience	N/A		
accredited employer	Reduced amount direct to ACC based on industry risk	N/A		

*Includes funding the Earner's Account portion of the Treatment Injury Account

9 The following figure sets out the expected funding position of the Motor Vehicle Account as at 30 June 2013 and the Earners' and Work Account as at 31 March 2013. These dates are shown because the current levy regulations are set up until these dates.

Figure 2: Funding position of ACC's levied Accounts

	Work Account[2]	**Earners' Account[3]**	**Motor Vehicle Account**
Expected cost of claims	$5.948 billion	$5.029 billion	$6.995 billion
Liabilities (incl. 13% risk margin)	$6.662 billion	$5.587 billion	$7.932 billion
Assets	$6.077 billion	$6.157 billion	$6.354 billion
Surplus (deficit)[4]	($0.585billion)	$0.570 billion	($1.578 billion)

10 The following figure sets out the funding position of the Earners' and Work Accounts[2] (as at 30 June 2012, 31 March 2013 and 31 March 2014), and for the Motor Vehicle

1 The process is set out in more detail in paragraph 88.

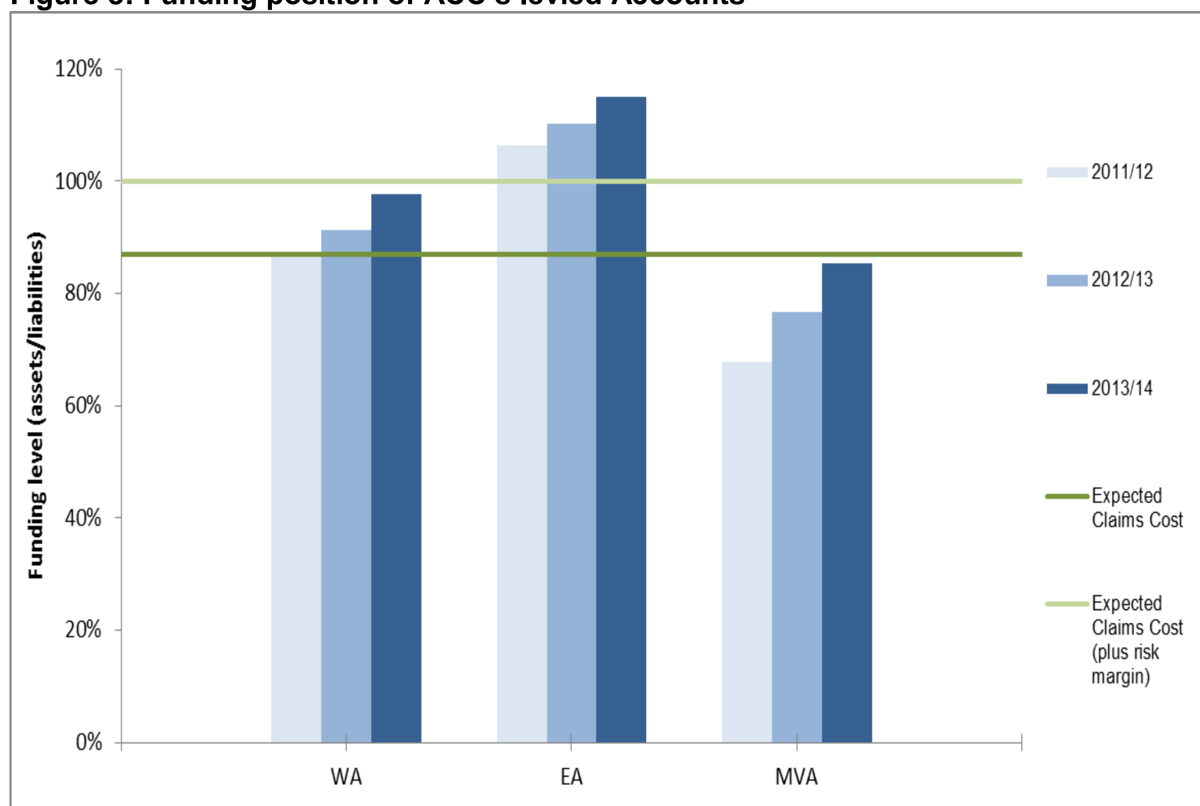
2 The Work Account figures include the costs of expected future work related gradual process, disease or infection injuries where the exposure has occurred, but the claim has not yet been reported.

3 Excludes the Earners' portion of the Treatment Injury Account.

4 Surplus or deficit is as declared in ACC's annual report (i.e. based on assets less declared liabilities rather than assets less expected cost of claims).

Account (as at 30 June of 2012, 2013, and 2014). This indicates the trend of the funding position for the three levied accounts if the 2012/13 levy rates remain in place from 1 April 2013.

Figure 3: Funding position of ACC's levied Accounts



11 It should be noted that the residual portion is a form of funding adjustment, and would continue to need to be collected. For the Work Account the rate is $0.31 per $100 of liable earnings, and this amount would remain constant regardless of what happens to the total levy. This is a significant issue for the Work Account because the current portion and the residual portion are paid by different levy payers at different rates. If the funding position gets too high (as would be the case if levies are left at current levels) then the current portion of the levy rate is likely to need to drop significantly in future years which would significantly reduce the effects of incentive programmes in the Work Account (such as experience rating), and make participation in the Accredited Employers Programme less attractive.

Current levy rates

12 Levy rates were last set in October 2011 based on the information available at 30 June 2011. Current levy rates (excl. GST) for each Account are set out below:

Figure 4: Current levy rates

	Work Account Average levy per $100 of liable earnings	**Earners' Account** Levy per $100 of liable earnings	**Motor Vehicle Account** Average levy per vehicle
Current 2012/13 rate	$1.15	$1.48	$334.52

Objectives

13 The AC Act requires levies to be set so that each Account achieves full-funding, having regard to levy stability over time and forecast uncertainty.

14 Section 300 of the AC Act requires the Minister to have regard to the public interest and in particular the interests of taxpayers, levy payers, claimants and potential claimants when exercising any functions or powers under the AC Act.

15 On 10 October 2011, Cabinet requested a 'review of the funding policy for the ACC Accounts and the reasons for the fluctuations in the projections of the ACC's Accounts' [CAB Min (11) 37/19 refers]. As part of the terms of reference of this Review (briefing paper 12/00638), Ministers English, Joyce, Collins and Foss agreed that the core principles for the Government when considering the funding policy for ACC are:

- provide claimants with certainty that funds will be available to meet their on-going costs of rehabilitation and treatment;
- take the minimum amount necessary (having regard to the other funding policy principles) from levy payers;
- provide appropriate incentives by reflecting the true cost of injuries;
- have levy stability to allow businesses and individuals to plan better;
- minimise inter-generational transfers by each year's levy payers paying the appropriate amount;
- have regard to the public interest (as set out in s300)
- avoid detrimental effects on the Crown accounts; and
- encourage the wider economic goals of the Government, especially economic growth.

Most of these principles are also relevant for levy setting.

Regulatory impact analysis

2013/14 average levy rates

16 There are three key decisions to make for the 2013/14 ACC levies:

a What should the levy rate for claims incurred in 2013/14 be? This means anticipating the lifetime costs of claims which occur in 2013/14.

b How much should be charged to move ACC toward the target funding position (what should the funding adjustment be)? This is based on what target funding position is selected, the length of time chosen to reach that target and any smoothing of levy rates.

c Are there any other factors which may impact on the rate given from the above two questions?

17 Figure 5 shows the current levy rates, the expected cost for claims incurred in 2013/14, and three alternative options (all rates exclude GST).

Figure 5: Levy rate options

	Work Account Average levy per $100 liable earnings	**Earners' Account** Levy per $100 liable earnings	**Motor Vehicle Account** Average levy per vehicle
2012/13 rate	$1.15	$1.48	$334.52
Expected claims costs (no funding adjustment)	$0.80	$1.20	$137.00
Option A (ACC recommendation)	$1.00	$1.30	$334.52
Option B	**$0.95**	**$1.22**	**$260.00**
Option C	$0.50	$1.13	$200.00

18 Options A, B and C all use the same expected cost of claims as a base and then add, or subtract, an amount to increase, or decrease, ACC's funding level (ACC's funding level is based on current assets against the total cost of historic claims).

a Option A aims to reach a funding level of approximately 117% of the expected total cost of historic claims plus a risk margin which adds approximately 13% by 2019 (approximately 130% of the expected cost of claims).

b Option B is part way between the two options and it could either move ACC towards holding the expected total cost of historic claims but over a longer period than option C (this may involve temporarily dropping levies even lower than option C in future years), or alternatively could move ACC to a funding level with some margins, but lower than the margins used in option A.

c Option C aims to reach a funding level of the expected total cost of historic claims without a risk margin by 2015 to 2021 depending on the Account (the levy rates in the Work and Earners' Accounts would be set lower than the cost of claims for several years to return excess funds, and then would rise to the expected cost of claims) .[5]

What should the levy rate for claims occurring in the next year be?

19 The portions of the 2013/14 levy rates which fully-fund the expected cost of claims for the 2013/14 year have been set based on an actuarial review, which has been through an independent actuarial quality assurance. We consider the figures to be as robust as current information allows. This year ACC is expecting small increases in the cost of claims compared to last year.

20 Expected claims costs for ACC have continued to drop from previous years. The following graph shows that the cost of claims is expected to be slightly higher than the most recent projections of claims costs for 2012/13 (based on actual and expected costs). However this is lower than the expected cost of claims for 2012/13 when levies for 2012/13 were set (as indicated by the red diamond).

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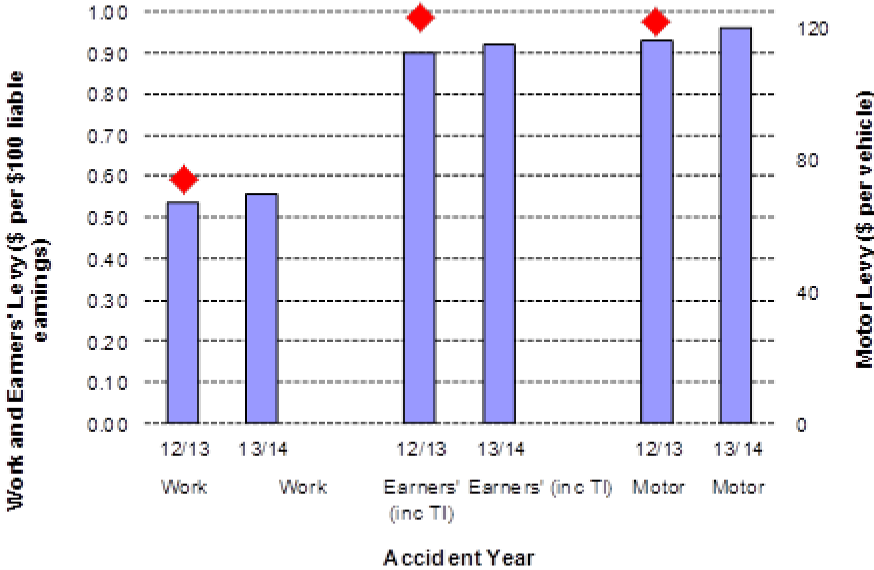
5 This would be consistent with Government decisions on funding for the Non-Earners' Account where the government has chosen to fund post-2001 claims at the expected cost of claims excluding the risk margin.

Figure 6: Comparison of Actual and Expected Claims Costs



What should the funding adjustment be?

21 The key question that should be considered in setting levies this year is what funding position ACC should be in, and over what time period ACC should reach this position (the funding horizon).

22 The funding position aimed for does not affect the cost of claims, or how much is collected (though this would be indirectly affected); it is about when the funding is collected. In theory aiming for a higher funding position means collecting more money in the short-term to build up assets, and having lower levies in the long-term, because returns on these assets cross-subsidise future levy rates. Having a lower funding target means holding fewer assets, and therefore charging levies closer to the cost of claims.

23 This points us to what funding adjustments (the portion of the levy used to increase or decrease ACC's funding position) to apply for the upcoming year. It is possible to choose any level of funding adjustment (so long as it is consistent with the AC Act's requirement for the levies to fully-fund the Accounts).

24 The level to fund ACC at is a balance between the effects on the economy, the public, ACC, and the government. The merits of having a higher (consistent with the status quo, or option A) or a lower funding target band (consistent with option B and C) are assessed against the funding policy principles in the following figure.

Figure 7: Comparison of funding options

Principles	Lower funding level	Higher funding level
Funding certainty	Not a significant factor, as both options have very large reserves when compared to annual costs, and any underfunding outside target bands can be remedied through annual process	
Collect the minimum necessary	**Better meets this principle**	Inclusion of additional margins above central estimate means collecting more than needed in the short-term
Appropriate incentives	**Marginally better** as represents best estimate of claims costs	Some distortion of levies as buffers built up in the short-term and levies subsidised in the long-term.

Principles	Lower funding level	Higher funding level
Levy stability	The funding level does not impact on levy stability. Levy stability is however significantly affected by the time period over which ACC reaches the funding position and the level of smoothing.	
Minimise inter-generational transfers	Collecting expected cost of claims means **lower likelihood of intergenerational transfers** based on current information	Holding additional margins means today's levy payers subsidising future levy payers based on current information
Avoid detrimental effects on Crown accounts *(discussed in more detail in following paragraphs)*	Would make ACC's and the Crown's accounts appear underfunded, and income in the short term would be lower	Would make ACC's and the Crown's **accounts appear overfunded, and income in the short term would be higher**
Support Government's economic goals*(discussed in more detail in following paragraphs)*	**Would reduce levy rates leaving an additional $5.5 billion in the economy**	Significant opportunity cost and revenue transfer from levy payers to ACC

Impact on the Crown accounts

25 Option A is set to achieve a funding position which has two margins: the risk margin which equates to approximately 13%, or approximately $2.25 billion, and an additional margin over and above that, of 15.5% to 17.5% or approximately $3.25 billion.

26 The risk margin is added to the liabilities so funding it would avoid a negative effect on the Crown accounts. The additional margin over and above the risk margin means that ACC would target to hold more assets than it has in liabilities. If ACC was at the midpoint of its target funding band, this would have a $3.25 billion positive effect on the Crown accounts.

27 If a lower funding target is used (consistent with option B and C), this would mean aiming to fund $2.25 billion less than the liabilities on ACC's, and therefore the Crown's, accounts.[6]

28 While this would appear as a deficit on the Crown's accounts, there may not be any adverse market reaction to a decision not to fund the risk margin. It is likely that markets would assume that if funding levels proved to be too low, Ministers would increase levies to ensure sufficient funding to cover liabilities, making it unlikely that this would translate into higher borrowing costs for the Crown.

Impact on the wider economy

29 As mentioned above, a higher funding policy consistent with option A would see ACC targeting a funding position $5.5 billion higher than the amount it expects to pay out in claims. This would represent a significant opportunity cost and revenue transfer from levy payers. Higher levies required by this option are likely to negatively impact on the Government's priorities for economic growth and reducing costs for business.

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[6] ACC already aims for approximately $1 billion less than liabilities because the Government has decided not to fund the risk margin for the Non-Earners' Account and the non-earners' portion of the Treatment Injury Account that it funds. ACC also aims for approximately $3.9 billion less than liabilities for pre-2001 non-earner liabilities which are funded on a PAYG basis.

30 It should be noted that excess funds taken from levy payers are not lost to today's economy. ACC plays a significant role in the New Zealand economy through its investment portfolio. At 30 June 2012, ACC held approximately $25.5 billion in assets, including $2.1 billion in New Zealand equities and $11.6 billion in bonds.

31 With a lower funding target (consistent with option B and C), a lower Earners' Account levy would reduce effective marginal tax rates on wage income, which would generally have positive impacts for labour supply, employment and consequently economic growth. However, the effects would be modest. Reduced levies on businesses would also provide a modest improvement in the investment climate.

32 The changes could reduce headline inflation through the reduction in the Motor Vehicle levy, although this would not be expected to have much impact on monetary policy as it is a one-off impact.

Funding horizon and smoothing

33 Another significant factor in addition to the target level of funding is the time period over which to reach the target level of funding and any smoothing of the rates over this time. Achieving funding targets over a short time period means large changes in levies. Extending the time to reach the funding target means that the funding adjustment (either positive or negative) gets smaller. Smoothing of levies, means moving levy rates incrementally over time to avoid large fluctuations in the levies.

Are there any other factors which may impact on the rate given from the above two questions?

34 As mentioned above, when Ministers are considering levy rates, they must have regard to the public interest and in particular the interests of taxpayers, levy payers, claimants and potential claimants.

35 Levy stability is an objective set out in the AC Act which allows business and individuals to plan future costs. Having levies closer to the 2012/13 levy rate gives the most stability. However, the levy path must be sustainable to avoid large adjustments in future years. Choosing a levy rate which is too high (or too low) may require large changes in levies in future years.

36 Any reduction in levies would have a detrimental effect on the Operating Budget Excluding Gains and Losses (OBEGAL). Option A would have approximately a half a billion dollar reduction, option C would have approximately a two billion dollar reduction and option B would be part way between the two options at around one billion dollars for 2013/14. The importance of returning to surplus in OBEGAL is outlined in the Budget 2012 Fiscal Strategy Report: "structural fiscal deficits and rising debt are not sustainable, nor conducive to the medium and long-term goals of rebalancing the economy towards tradable activity and lifting potential growth".

37 The Ministry considers that one should also take into account the impact that compulsory ACC levies place on the economy. Lower rates would mean reducing the costs to the levy payers, by the following amounts:

Figure 8: Effect on the economy of proposed reductions in levies

	Work Account		Earners' Account[7]		Motor Vehicle Account	
Effect on the:	**Individual**	**Economy**	**Individual**	**Economy**	**Individual**	**Economy**
Option A	0.15% of	$121	0.20% of liable	$ 211	No change	No change

7 Effect from Earners' Account changes includes GST.

	liable payroll	million	earnings	million	proposed	proposed
Option B	0.20% of liable payroll	$161 million	0.30% of liable earnings	$316 million	$74.52 per vehicle	$232 million
Option C	0.65% of liable payroll	$524 million	0.35% of liable earnings	$422 million	$134.52 per vehicle	$419 million

38 However, as noted above these funds are not lost to the economy. ACC is a significant investor in the New Zealand economy.

Modelling of the economic effect of changes to levies

39 Modelling the effects of decreases in levies was only done for the Earners' Account because ACC did not propose any change to the MVA, and the Work Account decrease does not directly affect equality levels for individuals.

40 The Treasury has run the changes to the Earner's Account through their tax models and believe that the proposed changes to levy rates have no discernible distributional effect. Though there would be an increase of $26 million in the cost of NZ Superannuation due to the proposed changes in the ACC settings.

Specific to the Work Account

41 Reducing the Work Account rate to $0.50, (or even to $0.95 or $1.00) may reduce the value of some accredited employers remaining in the Accredited Employers' Programme (AEP). Because this reduces the current portion of the Work Account levy to a rate lower than the expected cost of claims, it may become financially advantageous for some accredited employers to temporarily leave the AEP and pay full ACC levies instead and then re-join the AEP when the current portion of the levy returns to a level closer to the expected cost of claims.

42 It is very difficult to estimate how many accredited employers are likely to leave the AEP because of the falling Work Account levy. Accredited employers' decisions depend not only on their specific claims costs and the ACC levy that would apply, but also on the non-financial benefits they get from being in the AEP (for a large number of current accredited employers it is not currently financially beneficial to be in the AEP if based only on their direct costs).

43 Those businesses that leave the AEP would need to redesign their injury management and health and safety processes, and third party administrators (TPAs) would lose clients, and it may not be viable for some of them to continue. These outcomes are of concern because the reductions in levies would only be temporary. Once overfunding in the Account is returned to levy payers it is very likely that the AEP would again become viable, and employers that rejoined would again need to redesign their processes, and there would again need to be a market for TPAs. In addition, if employers left the AEP, the fixed costs of running the programme would have to be spread over a smaller number of participants and this would raise costs to those remaining in the scheme.

44 Reducing participation in the AEP would remove incentives to reduce injuries and improve rehabilitation amongst those employers.

Other Policy Changes

45 The following proposals to alter current levy regulations do not affect the high level decision on average levies discussed above.

Change to the goods service vehicles (GSV) categories

46 The levy rate for GSVs is currently set based on whether the GSV is petrol-powered or not. The available data shows that this does not present a homogenous risk class for levy setting and there is a significant cross-subsidy between trucks and smaller GSVs. The current classifications split by fuel type result in owners of light GSVs subsidising the owners of heavy GSVs by $12 million per annum.

47 ACC's analysis of the New Zealand Transport Associations Crash Analysis System and claims experience shows that splitting GSVs by vehicle type (i.e. trucks, vans, and utes) more accurately reflects risk than splitting GSVs by fuel type. Vehicle weight can be used as a reasonable proxy for vehicle type. Trucks (over 3.5 tonnes) have higher ACC costs than vans and utes (under 3.5 tonnes) within the GSV classifications. Claims experience from 2006 to 2011 shows that:

a trucks are more likely to be involved in an accident than vans and utes

b the average cost of claims for trucks is 76% higher than vans and utes.

48 The relativities for GSVs should be based on indicative experience for the new sub-classes, with light vehicles set at 104% of a standard vehicle and heavy vehicles at 220%. The impact on levy rates of such a change is set out below:

Figure 9: Levy rates for goods service vehicle class split by weight (based on current and consulted on average levy rate)

GSV type	Estimated number	Current total levy (includes petrol levy)	ACC's indicative total levy (includes petrol levy)[8]	Impact of indicative total levy (includes petrol levy)	
Petrol-powered – light	108,000	$383.02	$355.59	$27.43	decrease
Petrol-powered – heavy	2,000	$383.02	$643.18	$260.16	increase
Non-petrol – light	233,000	$467.08	$355.59	$111.49	decrease
Non-petrol – heavy	109,000	$467.08	$643.18	$176.10	increase

49 As far as whether this is cost neutral, the reassessment and updating of relativities means that goods service vehicles would pay approximately $10 million less. This means that other vehicle classes would have to pay slightly more (less than $10 for a motorcar).

50 There may be some concerns around the increased costs for heavy vehicles. Offsetting these factors is the fact that the cost increases are not significant when considered as part of the total costs of a business (ACC have estimated that for a firm with three trucks it would add 0.07% to its costs[9]) In addition, the increase in levies for heavy goods service vehicles would allow reductions for light goods service vehicles, i.e. increased levies for trucks would be offset by reductions for vans and utes.

51 Submissions in previous years have suggested differentiating light and heavy GSVs and a number of submissions this year supported this change if the fleet safety incentive programme was also introduced.

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8 These rates are indicative. Final rates would need to be confirmed by ACC's actuaries.

9 ACC's levy consultation 2013/14, levies for motorists, September 2012.

Introducing a fleet safety incentive programme (FSIP)

52 Heavy truck-involved crashes pose a significant cost to ACC and represent a sizable portion of the fleet of high-risk vehicles. Heavy trucks account for roughly $1 billion of the $7 billion outstanding claims liability of the Motor Vehicle Account.

53 There is currently no levy differentiation within the class of heavy GSVs (trucks). This means that safer truck owners are subsidising the costs of risker truck owners and Motor Vehicle Account levies do not provide incentives for truck owners to invest in injury prevention.

54 ACC has proposed the introduction of a FSIP to improve levy fairness and incentives for safety. The programme would involve auditing truck owners on their safety management systems and performance, providing a basis for ACC to charge different levy rates to truck owners who meet different audit standards. ACC has proposed a non-audited rate, and three audited rates tied to increasing audit standards.

55 The benefits of introducing the programme are:

a *Effectiveness* – Similar programmes in Australia have been found to improve safety and reduce crash rates[10]. Fleets in New South Wales, Victoria, and Queensland that are in accreditation programmes have annual crash rates between 1.8% and 3.4% compared to 6.6% for non-accredited fleet trucks. Management practices have also been shown to reduce crash rates in the United States and Canada

b *Fairness* – the resulting levy rates would better reflect the level of risk and cost that these fleets are expected to pose to the MVA, removing an estimated cross-subsidy of higher risk trucks by lower risk trucks to the value of $24.85 million over the next ten years.

c Value for money[11] - the FSIP is expected to reduce scheme costs by $14.31 million over ten years (discounted to present value) this is made up of $29.51 million reduction in claims costs offset by $15.2 million to administer the programme.[12]

56 Figure 10 shows the levies heavy GSVs would pay under the FSIP. This figure uses the average levy rate for heavy GSVs of $643.18 updated in line with the previous section. The levy rate would increase for 111,000 petrol and non-petrol heavy GSVs except for non-petrol heavy GSVs at the platinum level.

57 The levy differentials are based on overseas information on similar programmes and would be adjusted to align with the New Zealand experience as data becomes available.

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10 Austroads research report: Analysis of the Safety Benefits of Heavy Vehicle Accreditation Schemes.

11 These figures are higher than ACC's calculations because they use the 10 year bond rate as the cost of capital which differs to ACC's internal calculations.

12 Includes development costs, audit costs, system maintenance costs, and other running costs.

Figure 10: Levy impact of the FSIP (based on current and consulted on average levy rate and including GSV weight split)

Fuel type	Vehicle Type		Number of vehicles	2012/13 levy rate	Total levy with proposed FSIP[13]	Change	
Petrol	heavy GSVs	non-participant	2,000	$383.02	$ 667.11	$ 284.09	increase
		silver			$ 600.40	$ 217.38	increase
		gold			$ 500.33	$ 117.31	increase
		platinum			$ 400.27	$ 17.25	increase
Non-petrol	heavy GSVs	non-participant	109,000	$467.08	$ 667.11	$ 200.03	increase
		silver			$ 600.40	$ 133.32	increase
		gold			$ 500.33	$ 33.25	increase
		platinum			$ 400.27	$ 66.81	decrease

58 The modelling commissioned by ACC assumes an initial participation rate of 15,000 heavy GSVs (around 15% of the heavy fleet). This assumes 4,000 vehicles in silver, 7,000 vehicles in gold and 3,000 vehicles in platinum. If all 15,000 participants joined at platinum level, this would reduce ACC's income by $1.6 million in the short run, if all 15,000 participants joined at silver level, this would increase ACC's income by $1.6 million in the short run. If the participation level is higher by 20,000 vehicles (assuming silver level) this would result in a levy short fall of around $1.3 million per annum in the short run. This is not significant when considered against the $1.05 billion received annually in Motor Vehicle Account levy. All of these figures are short run effects because the relativities would be adjusted annually to rebalance the average levy for heavy GSVs to $643.18.

59 ACC proposes to target the programme to larger fleets of five or more trucks. While all 111,000 heavy GSVs would be eligible to participate in the programme. ACC would only fully fund the cost of audits for the fleets of businesses that are larger than five or can enter the workplace safety management practices programme. Smaller fleets are also eligible to enter the FSIP at their own cost (yet to be determined by ACC), it would be a decision for individual businesses whether it is cost-effective for them to do so.

60 Participants would be responsible for getting vehicles, drivers, and systems to standards that meet audit requirements.

Expanding the Workplace Safety Discount to all industries

61 The Workplace Safety Discount (WSD) was introduced in 2006, offering a discount of 10% on the current portion of the work levy to small employers (less than 10 employees or less than $519,000 liable earnings in 2012/13) and the self-employed in seven high risk industries who either undertake industry specific training, or can demonstrate adequate experience in health and safety systems, and complete a self-assessment based audit. In considering the future of the WSD Programme ACC has proposed to expand it to cover all industries.

62 The Ministry has not seen the details of ACC's proposal to expand the WSD, and therefore cannot comment on the specific costs and benefits of the proposal.

63 From a general perspective, expanding the WSD to all industries would allow ACC to engage with more small businesses and provide a reward to employers who have good health and safety systems in place. In addition, an expanded WSD is a key aspect in

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13 These rates are indicative. Final rates would need to be confirmed by ACC's actuaries.

the proposal to introduce the workplace Safety Star Rating system, which is due to be introduced on 1 April 2013.

64 The uptake of the current WSD has been very poor (2.1% of eligible businesses). Its involvement in the Safety Star Rating system may increase its uptake.

65 The Ministry is, however, unaware of any evaluation evidence that the WSD has had any effect on the incidence or severity of injuries. International evidence on the effectiveness of this type of scheme is equivocal.

66 ACC believes that its proposed changes will raise the standard of safety management practices in small businesses. The Ministry expects that the costs of operationalising the expansion of the WSD to all industries would not be significant when considered against total costs in the ACC Work Account.

67 The Ministry considers the key implementation risks of expanding the WSD are:

a The process becomes too generic and does not lead to reductions in injuries or costs, but compliance costs for both ACC and employers remain

b The process is targeted to each industry and ACC directs costs and resources developing a large number of audit tools but limited participation means that costs are incurred by ACC (which are passed on to levy payers through higher average levies) without any benefits.

Other proposals

68 A number of more minor proposals are contained in the recommendations section in Figure 13.

Results of public consultation

69 Section 331 of the AC Act requires ACC to consult on levy changes with levy payers. Public consultation was carried out from 25 September 2012 to 23 October 2012.

70 Levy submissions were received from all the major parties who contribute regularly during consultation.

71 Many of the significant representative groups (Business New Zealand, NZ Council of Trade Unions, and Federated Farmers) do not support the high level of ACC's proposed funding bands (option A), with a number stating that funding at such a high level is inappropriate for a government monopoly.

ACC's analysis of public consultation

72 Submissions received were predominantly from significant stakeholders (employers' representatives and unions), and major employers. The number of submissions received this year and last year for each account are set out in figure 11:

Figure 11: Number of submissions received during public consultation

	2012/13	2013/14
Work Account	29	69
Motor Vehicle Account	25	32
Earners' Account	5	8

73 Key themes in the Work Account submissions were:

a general support for the proposed reduction in the Work Account levy (including Federated Farmers, Meat Industry Association, Employers & Manufacturers' Association, Tourism Industry Association (TIA))

b concern from several major stakeholders that the current funding policy will produce excessive levels of reserves, taking account of the unique position of ACC as a Crown Entity (including Federated Farmers, MTA and Business NZ)

c mixed comments relating to the proposed changes to workplace programmes

d some requests for the limits on levy movements arising from capping rules to be expanded or removed. (including Federated Farmers)

74 Significant matters raised Earners' Account submissions were:

a general support for the proposed reduction in the levy rate (including Federated Farmers and TIA)

b some concern that the assumptions underlying the levy rate reductions might be optimistic (including the New Zealand Council of Trade Unions)

c Business New Zealand repeated their proposal that residual claims be funded from general taxation, and suggested that the level of funded risk margin be re-examined.

75 Key themes raised in the Motor Vehicle Account submissions were:

a positive response from key stakeholders for introducing a safety-related fleet discount programme (including the New Zealand Automobile Association (AA), the Road Transport Forum (RTF),TIA, Federated Farmers and Bus and Coach Association New Zealand)

b support for the proposal to introduce separate classes for light and heavy Goods Service Vehicles (some different views as to whether 3,500kg or 6,000kg is the appropriate demarcation), (including AA, RTF, Federated Farmers, TIA, MTA, New Zealand Motor Caravan Association, and Bus and Coach Association New Zealand)

c support for further investigation of options for risk-based levy setting (including Business NZ, MTA and Federated Farmers)

d some preference for collecting a higher proportion of the total levies on a mileage basis (including the AA)

e several stakeholder groups were concerned that other vehicle types are cross-subsidising motorcycles (including Business NZ and MTA)

Recommendations

76 As discussed above, setting the ACC levy rate involves balancing a range of objectives and factors including levy stability, full funding, uncertainty in forecasting and the public interest.

77 The Ministry recommends Option B which reflects the Ministry's assessment of the funding position of the ACC Accounts and the Ministry's view of the expected volatility in ACC's performance and economic conditions.

Figure 12: Ministry's recommended rates

	Work Account Average levy per $100 liable earnings	**Earners' Account** Levy per $100 liable earnings	**Motor Vehicle Account** Average levy per vehicle
The Ministry's recommended 2013/14 rate	$0.95	$1.22	$260.00

78 The Ministry recommends:

a differentiating the goods-service vehicle classifications by weight (above and below the 3.5 tonnes) because this better reflects risk and is therefore fairer, and would improve incentives for uptake of the FSIP

b introducing a Fleet Safety Incentive Programme because this should lead to reduced injuries amongst a relatively high-risk group of road users

c expanding the Workplace Safety Discount programme to all industries because this will allow ACC to design a programme that encourages small businesses to improve their health and safety systems. We expect that the benefits from improved focus on workplace health and safety would outweigh the costs of operationalising the expansion, and we will continue to work with ACC to ensure that this is the case.

79 The following changes are largely technical in nature. For the change in petrol levy vs licence fees levy, these only become an issue if the levies in the Motor Vehicle Account are reduced.

Figure 13: Other changes to levies policy

Proposed change consulted on	Ministry's comments	Comments
Increasing the maximum and minimum liable earnings for the Work and Earners' Accounts	The Ministry supports this update for wage inflation so that levies match up with income-related benefits	Technical change in line with previous Cabinet decisions
Capping the impact of classification unit changes on Work Account levies +10% or 0.04 cents, whichever is the greater, or -25%	**Cap should be set with a balance between levy stability and charging the appropriate levy rate. The Ministry does not support this change and recommends cap should be + 25% or $0.04 whichever is the greater, or - 25%.**	Current cap +10% or 0.02 cents, whichever is the greater, or -25%
Splitting a current classification unit into two in the Work Account	The Ministry supports this update to improve risk pools	Change as part of regular review of appropriateness of current risk pools. Levy reduction for tourist industries
Changes to two classification unit descriptions in the Work Account	The Ministry supports this update to improve risk pools	Change as part of regular review of appropriateness of current risk pools
Revising six levy risk group classifications in the Work Account	The Ministry supports this update to improve risk pools	Change as part of regular review of appropriateness of current risk pools

Proposed change consulted on	Ministry's comments	Comments
Increasing the maximum liable earnings for the Workplace Safety Discount Programme	The Ministry supports this update for wage inflation	Technical change in line with previous Cabinet decisions
Increasing the minimum liable earnings for entry to the No-Claims Discount programme (under experience rating)	The Ministry supports this update for wage inflation	Technical change in line with previous Cabinet decisions
Removing the trade plate exemption	The Ministry supports this change to be consistent with transport regulations	Exemption only put in place due to oversight in 2003 Transport legislation which has now been amended
No change to the motorcycle relativity	If the average Motor Vehicle Account levy per vehicle is reduced the Ministry would support keeping the dollar figure for the motorcycles at current levels which would increase the relativity of motorcycles. This would more appropriately reflect injury costs.	Unlike other vehicle classes, the levy relativity for motorcycles was set largely due to affordability.
No change to the petrol levy rate of 9.9 cents per litre	The Ministry supports no change because the Ministry is in the process of reviewing options for collecting the Motor Vehicle Account levy. If the average Motor Vehicle Account levy per vehicle is reduced the Ministry would still support no change – which would mean increasing the proportion collected through petrol, with a corresponding decrease in the proportion collected through the licence fee.	
Clarifying ACC's powers under Regulation 21 of Experience Rating Regulations.	At this stage the Ministry does not support clarifying the Regulations to allow ACC to use and disclose liable earnings information, and claims information relating to former employees of the previous owner of their business to the current owner of a business.	This proposal was pre-emptive, and no concerns have been raised by employers.

Implementation

80 There are no proposals that would significantly change levy collection mechanisms, so implementation of these changes would be business as usual for ACC.

81 New levy regulations are required to be set by 31 March 2013 for the Work and Earners' Accounts. Otherwise the 2012/13 levy rates will remain in place from 1 April 2013.

82 If changes to the Earners' Account levy rates are to be in place on 1 April 2013 the Inland Revenue Department processes would require notification of approved Earners' Account rates by mid-December 2012 so that payroll software developers can update, test, and distribute their systems updates.

83 New levy rates are required to be set by 30 June 2013 for the Motor Vehicle Account. Otherwise the existing levy rates will remain in place from 1 July 2013.

84 ACC will work with the Ministry to develop audit standards for the WSD. ACC will submit these to the Minister for approval.

85 If changes to the Motor Vehicle Account levies are to be in place on 1 July 2013, the New Zealand Transport Agency and the New Zealand Customs Service would require decisions on any changes to the classification structure before the end of the calendar year in order to make the necessary system changes.

86 ACC is working with NZTA on the implementation of FSIP and expects the programme to be available from 1 July 2013.

Monitoring, evaluation, and review

87 ACC levies are reviewed on an annual basis using the following process, this is in effect a monitoring, evaluation and review process:

- The review of levies begins with the ACC commissioned independent actuarial assessment of ACC's liabilities as at 30 June This assessment is then reviewed by the Ministry's independent actuaries
- ACC's internal actuaries then apply the assumptions and methodologies used in the independent actuarial review, along with other material, to make assumptions about claims costs for the upcoming year
- The ACC Board reviews its funding policies, with the key goal of ensuring that the levies set will mean that ACC is fully-funded (or on the right path to achieving full-funding)
- ACC then publicly consults on proposals and provide recommendations to the Minister for ACC both on levy rates and on other changes to levies (such as changes to classification unit groupings or maximum liable earnings)
- The Ministry commissions an independent actuarial review of the recommended levy rates and provides advice to the Minister for ACC
- The Minister for ACC presents her recommendations to Cabinet.