Regulatory Impact Statement

Equity of the Health and Safety levy: options

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Business, Innovation and Employment (MBIE).

On 15 July 2013 Cabinet agreed to increase the Health and Safety levy to an average of $0.08 per $100 of liable earnings for the April 2014 tax year [CAB Min (13) 24/10 refers]. It asked the Minister of Labour to report back on the best form of the levy. This Regulatory Impact Statement provides an analysis of alternative forms of the levy and considers them alongside the objectives of equity, administrative simplicity, volatility to the memorandum account, cost of implementation and the transparency of collection.

Due to the scope and timeframe of this work there are some assumptions we have made in our analysis and some gaps in the information available. Note that:

- Due to the cost of establishing a separate collection system we have based our assessment on the need to continue to collect the Health and Safety levy alongside the ACC Work Account levy because setting up an independent system would cost too much and introduce duplication.

- Because the Health and Safety levy is collected alongside the ACC levies, the changes must be aligned with the tax year and therefore must be in place by April 2014. This requires Cabinet decisions to be made by December 2013 in order to give enough time to be operationalised.

- In the time available ACC have not been able to confirm the feasibility of implementing the variable options in time for the beginning of the next tax year. It is likely that ACC would increase the fee for collecting the Health and Safety levy if it moves to a more administratively complex form. This cost would be borne by MBIE. However, ACC require further time to carry out the analysis of what this increase would be.

- Because WorkSafe New Zealand has not been established we do not have data on how the regulator would spread its attention and resources across different industries and are unable to establish the burden of cost. The current focus of resources within the Health and Safety Group does not accurately represent what the distribution of regulatory services will be once WorkSafe NZ is established. ACC's claim rates that drive the cost for the Work Account may be used as a proxy, but are not perfect as high-frequency low-cost incidents are a driver of the ACC scheme costs.

- MBIE proposes to revisit the options of a variable levy in the review of WorkSafe NZ funding in 2015/16, when there is time to sufficiently analyse the impact of a variable levy and understand where the burden of regulatory activity falls across industries.

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[*Signature of person*] [*Date*]

Executive summary

On 15 July 2013 Cabinet made decisions on a package of measures to significantly reform the workplace health and safety regime. As part of these decisions Cabinet agreed to an increase in the Health and Safety levy to an average of $0.08 per $100 of liable earnings, from 1 April 2014 to enable the new regulator to effectively fulfil its functions [CAB Min (13) 24/10 refers]. Cabinet invited the Minister of Labour to report back on whether the levy increase should be a flat rate or whether there are other more equitable and workable approaches to allocating the levy.

This report back was requested as there are concerns about different industries paying the same Health and Safety levy rate, despite receiving different levels of value from the regulator. With a flat-rate levy, lower-risk businesses are providing a disproportionate amount of the levy based on the level of benefit they receive from the regulator and businesses in higher-risk industries that require significant regulator resources have the cost of this regulatory activity subsidised by the contributions of lower-risk businesses. Following the decision to increase the Health and Safety levy by $0.03 Cabinet wanted advice on how this would affect the equity of the levy, while also considering the workability of other options.

After considering the available options we recommend retaining the flat rate form of the levy at the increased rate of $0.08. Retaining the flat rate was a finely balanced judgement as any option would have both winners and losers, however the flat rate is recommended because it provides more certainty to business, durability and is the most administratively simple and cost effective. The alternatives have drawbacks in terms of equity, the complexity of administration and potential for increased volatility in revenue. In 2015/16 Ministry of Business, Innovation and Employment (MBIE) proposes to revisit the options of a variable levy in the review of WorkSafe New Zealand funding in 2015/16, when there is time to sufficiently analyse the impact of a variable levy and understand where the burden of regulatory activity falls across industries.

Status quo and problem definition

The Health and Safety levy is provided in s59 of the Health and Safety in Employment Act 1992 (the HSE Act) to recover the expected costs of administering the HSE Act from employers and the self-employed and is currently set at $0.05.

MBIE is the lead agency administering the HSE Act. This role covers policy, education, standard-setting, enforcement and administration services. Maritime New Zealand and the Civil Aviation Authority provide HSE Act services in the maritime and aviation sectors.

The Health and Safety levy is collected by the Accident Compensation Corporation (ACC) alongside ACC Work Account levies for a fee of $869,000.

Working Safer reforms

In July this year, following the final report of the Independent Taskforce on Workplace Health and Safety (the Independent Taskforce), the Government announced the Working Safer package of reforms to improve the workplace health and safety system. These reforms expanded the scope and scale of the regulator, in the form of the soon-to-be established WorkSafe NZ. With the changes made to the workplace health and safety system, funding for the regulator will be progressively increased by an additional $27 million to allow the new regulator to carry out its functions effectively.

Cabinet agreed to pay for the regulator's new functions by running down the Health and Safety memorandum account during 2013/2014, and increasing the Health and Safety Levy to an average of $0.08 per $100 of wages from 1 April 2014 and for out-years [CAB Min (13) 24/10 refers].

Any change to the levy rate requires regulatory change and also needs to be synchronised with the taxpayer year (commencing 1 April), which means that Cabinet approval is needed by December of the year before.

Problem Definition

As Cabinet has already agreed to the increase this work is looking at the impact of increasing the Health and Safety levy rate to $0.08 at the current flat rate and considering if any other methods of collection would be better. The increase in the Health and Safety levy may lead businesses in lower-risk industries to question the equity of having a flat rate Health and Safety levy. Given that the distribution of regulator resources is not even with a flat-rate levy, lower-risk businesses are providing a disproportionate amount of the levy based on the level of services they receive from the regulator. However they still receive benefit from WorkSafe NZ through the development of standards and guidance to support them in not over complying and not expending unnecessary costs, the contact centre, sector engagement, investigations and education. Businesses in higher-risk industries that require more regulator resources have the cost of this regulatory activity subsidised to some extent by the contributions of lower-risk businesses (such as the five priority industries: forestry, agriculture, manufacturing, construction and fishing).

There are planned reductions to the ACC levies over the next two years. ACC levies vary considerably by industry and the proposed average reduction would equate to much larger reductions for high-risk industries and very small, or no, reductions for low-risk industries (and these are the least likely to be the target of WorkSafe NZ intervention). Increasing the Health and Safety levy in its current flat rate form will result in some low-risk employers being made worse off overall because they do not receive a reduction in the ACC levy, or the reduction is less than the $0.03 increase in the Health and Safety levy. There is a risk of businesses conflating the two levies which could cause a perception issue that is inconsistent with recent Government messages about reductions to ACC levies.

The Work Account levy reduction proposed by ACC for 2013/14 would mean that despite the average ACC levy decreasing to $0.95 there would approximately 9 percent of business units receiving ACC levy reductions of less than or equal to $0.03 (excluding those businesses that self-insure). This is because their base rate is very low or because their relative risk has increased significantly. As a result, if the Health and Safety levy increases by a flat rate of $0.03, the total amount they pay to ACC (Health and Safety, and ACC levies) would either increase or not decrease. This 9 percent equates to 47,128 businesses and 13 percent of liable earnings. The vast majority of businesses (approximately 91 percent) would still experience an overall decrease in the levies paid.

The final decision about the change in ACC levies has not yet been made and, indications from Budget 2013 show that the reduction is not likely to be as large as proposed by ACC. If Cabinet to reduce the ACC in line with this, for example to an average of $0.99 then the proportion of businesses receiving a net increase or not receiving a reduction in their overall levies would increase to approximately 14 percent of business units (excluding those businesses that self-insure), which equates approximately 68,730 businesses and 17 percent of liable earnings. In this case approximately 86 percent of businesses would still experience a decrease in overall levies being paid. If ACC levies are significantly reduced in 2015/16, as has been signalled by government, only three industries (approximately 26,000 business units) would continue to see a net increase in the levies they pay due to the increase in the

Health and Safety levy. This means that after two years approximately seven percent of businesses would be paying higher overall levies than currently[1].

Objectives

The main objectives of this work are:

- Equity
- Workability
- Administrative complexity
- Volatility
- Transparency of collection method, and
- Net impact of the Health and Safety and ACC levies.

The objective of equity was set by Cabinet. Ideally the equity would be addressed by taking into account how the regulator spreads its attention and resources across different industries to establish the burden of cost. Equity is a measure of the fairness of the collection and distribution of the Health and Safety levy based on how proportionate the levy is in comparison to the value an industry receives from the regulator. This includes direct interaction and other services.

Workability was another objective set by Cabinet. The workability of the options is measured by their ability to be implemented by ACC. There would be considerable costs associated with setting up a separate collection system, and this would create duplication for businesses. ACC's current costs to collect the Work Account and Health and Safety levies are approximately $35 million per annum. These costs are fixed and the cost of collecting the Health and Safety levy is small compared to the total cost. Therefore, continuing to collect the Health and Safety levy alongside the ACC levies is the best method of collection and the options presented take this into account. Another aspect of workability is the cost of implementation due to a one-off establishment costs and increased on-going costs.

Administrative complexity considers the initial and ongoing changes need to administer and collect the levy. Frequent changes to the levy require significant time and resources to complete the regulatory change process.

Another objective is limiting the volatility of the memorandum account. There is already volatility in the Health and Safety levy income due to changes in employment and wage levels at an economy level. Treasury have indicated that they are comfortable with the Health and Safety memorandum account being run down, however the management of this still needs to be taken into consideration.

Other factors to consider are the transparency of the collection method, and the overall impact of the Health and Safety levy alongside the ACC levies, which was discussed earlier.

Options and impact analysis

Option one: flat rate levy

Retain the status quo of a flat rate levy, at the increased rate of $0.08 per $100 of liable earnings.

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[1] The final decision on the changes to the ACC levies have not yet been made and indications in the Budget 2013 show that the reduction may not be as large as ACC has proposed, so more businesses may be affected by an increase in net levies.

Table 1: The change in average levy paid based on payroll.

Business Size	**Payroll total**	**Total average levy**		**Change in annual levy**	**Percentage of businesses**
		5c	8c		
Small (1-19 employees)	$100,000	$50	$80	$30	91 %
	$250,000	$125	$200	$75	
	$500,000	$250	$400	$150	
Medium (20-49 employees)	$1,000,000	$500	$800	$300	6%
	$2,000,000	$1000	$1600	$600	
Large (50+ employees)	$5,000,000	$2,500	$4,000	$1,500	3%
	$10,000,000	$5,000	$8,000	$3,000	
	$100,000,000	$50,000	$80,000	$30,000	

The benefit of this option is that it does not require any changes to the collection or calculation of the levy so it is workable, however, the equity of the levy would remain an issue. This is because those industries that have very little interaction with WorkSafe NZ would continue to subsidise the resources targeted at higher-risk industries. While lower-risk businesses would benefit from WorkSafe NZ's education, guidance and standard setting activities proportionate to their risk, but are unlikely to be the target of proactive intervention.

In terms of economic impact the important considerations are the volatility of this method, and who will bear the costs. Volatility due to changes in employment and wage levels could continue to be managed in the same way that it currently is. The costs of this option are minimal and there would be limited economic impact as this would be borne by employers.

As mentioned earlier, this option means that some employers will experience a net increase in the amount they pay in Health and Safety and ACC levies. For example, based on ACC's current levy proposals under this option a lower-risk business such as a legal services firm would see only a $0.01 reduction in their ACC levy, and a $0.03 increase in their Health and Safety levy, meaning they would pay a net $0.02 more than previously. Based on $10,000,000 liable earnings, this would mean a net increase of $2,000 per annum (excluding GST). This compares to a higher-risk industry, such as forestry, which would see a reduction of $1.02 in their ACC levy, and an increase of $0.03 in their Health and Safety levy, overall paying $0.99 per $100 of liable earnings less in levies. Based on liable earnings of $10,000,000, this would mean a reduction of $99,000 (excluding GST).

<u>Option two: variable levy aligned with ACC levy rates</u>

The second option is to introduce a variable Health and Safety levy, with a fixed rate which is the same for all employers and a risk-rated variable rate which takes the levy to an average of $0.08. This would introduce complexity into how the levy is collected by ACC and would mean a one-off establishment cost to implement the new system as well as potentially higher ongoing costs for collection. ACC does not know what the additional cost would be.

Fixed rate

For this option the fixed rate is set at $0.05 with the additional $0.03 to be variable. A rate of above $0.05 would mean that some low-risk industries would still see an increase in their combined ACC and Health and Safety levy. It would also mean that the variable part of the levy would be very small. A reduction below $0.05 would not send the right signals to business given the recent increased Government focus on workplace health and safety.

Risk-rated variable rate

Ideally the variable rate would be based on how the regulator spreads its attention and resources across different industries to establish the burden of cost. However, it is not possible to use historical data because the regulator is in a state of transition, and the current focus of resources within MBIE's Health and Safety Group does not accurately represent what the distribution of regulatory services will be once WorkSafe NZ is established.

The methodology for determining where WorkSafe NZ's resources will focus in the future is expected to be informed in part by analysis of ACC's claim rates. ACC's claim rates are also the basis of ACC's levy rates and provide a reasonable proxy for a more equitable distribution of the Health and Safety levy rate. There are some limitations with this approach as high-frequency low-cost incidents drive the ACC scheme cots, but these types of accidents are not likely to be the focus of WorkSafe NZ.

If the Health and Safety levy was directly set according to ACC's levy rates it would look like this:

$$\frac{0.03\ (\textit{the variable part})}{0.64\ (\textit{the ACC current portion})} = 4.7\ \textit{percent}\ \times \text{ACC industry classification unit rate}$$

For a high risk industry such as forestry this would equate to a variable levy of: $4.7\ \textit{percent}\ \times 3.28 = \$0.15$
For a low risk industry such as legal services this would equate to a variable levy of: $4.7\ \textit{percent}\ \times 0.04 = \$0.00$

The cost of this option would be borne by employers. While WorkSafe NZ's resources will generally focus on those industries which have the highest ACC levy rates, there will be some anomalies, such as professional sport, where WorkSafe NZ is unlikely to focus attention. ACC's proposed levy for professional sports, such as horse racing, or rugby is $4.79, which means that they would pay the highest Health and Safety levy of any industry of $0.27 (including the fixed rate of $0.05). There would be an economic impact for these employers who would pay a disproportionate amount of the Health and Safety levy in relation to their interaction with the regulator so also raises equity issues.

This option can still be collected by ACC, though the increased complexity is likely to result in MBIE paying ACC a higher fee for collection. The volatility of this option would increase because it would introduce individual industry earnings as a factor in how much is collected and the total amount collected would require management. This would create additional cost through resource spent on this work.

A benefit of linking directly to this formula is that the rate would automatically adjust each year based on changes to ACC's risk rating. This would have some advantages, in that it would not require frequent adjustments to regulations.

This option would not reflect the individual risk level of each business as recommended by the Independent Taskforce; instead they reflect the cost associated with regulating the industry that they are in. Individual risk may be able to be addressed as part of the proposed Safety Star Rating scheme.

There are limitations to introducing a variable form of the levy. ACC has indicated that if the Health and Safety levy moves away from the current flat rate model, the collection fee that ACC charges would need to be reviewed (though with reducing ACC levies, and an increasing Health and Safety levy, ACC may request that the amount paid by MBIE be reviewed anyway). ACC has also indicated that they would require approximately six to eight weeks to fully assess whether they are able to deliver either of this variable option by 1 April 2014.

There is already volatility in the Health and Safety levy income due to changes in employment and wage levels at an economy level. Introducing a variable levy would result in some increase in volatility in overall Health and Safety levy income due to changes in employment and wage levels at an industry level. This would result in the memorandum account being under or over more often. However, the Treasury is comfortable with the Health and Safety memorandum account being run down. The level of volatility would not be significant, and we are confident that the increased volatility of a variable levy can be managed appropriately, as it currently is by ACC in its Work Account levies.

A variable levy with annual reviews would provide uncertainty for business (a common complaint with the ACC levy by business), would require ongoing engagement and would require more funding for policy advice to implement.

<u>Option three: variable levy groups based on ACC levy rates</u>

The basic form of option three is similar to option two, but the method to set the variable rate is different. This option uses the risk rating of ACC industry classification units as a basis for varying the levy but also allows the regulators to adjust the magnitude of variability. This option would involve splitting industries into groups based on ACC's levy rates, as illustrated below.

Table 2: Example of possible variable levy groups and rates

Group	**Fixed rate**	**Variable rate**	**Total rate**
Less than half the average ACC rate	$0.05	$0.00	$0.05
Between half the average and the average ACC rate	$0.05	$0.02	$0.07
Between the average and double the average ACC rate	$0.05	$0.05	$0.10
Between double and triple the average ACC rate	$0.05	$0.08	$0.13
Over triple the average ACC rate	$0.05	$0.11	$0.16

This option would have the advantage of allowing Ministers to directly control the level of variability, and mean that those in the highest risk industries that are not a focus of the regulator could be moved to lower groups and therefore would not end up paying disproportionately high levies. This option recognises that ACC levy rates are only a proxy, and should not be treated as a highly accurate measure of where WorkSafe NZ will concentrate its resources.

This option would also allow for adjustments to be made as WorkSafe NZ improves its intelligence capability and changes its focus accordingly. However, the system is more complex, and the final levy rates and bands would need to be actuarially calculated each year with subsequent variation to regulations to ensure that an average of $0.08 is collected.

By grouping different industries into broad groups this option would introduce inequity within groups. The groups would contain industries that have different ACC levy rates and may receive different levels of value from WorkSafe NZ. This could mean that there is cross-subsidisation within groups, with lower-risk industries subsidising higher-risk industries in the same group.

Option three introduces the same limitations as option two due to its variable nature. It would also result in higher collection costs due to an increase in administrative activity for ACC, and would increase the volatility of the memorandum account.

In order to make this regulatory change and synchronise it with the 2014/15 taxpayer year (commencing 1 April) Cabinet decisions are needed by December 2013. As with the other variable option ACC have advised they need at least a further six weeks to carry out analysis of this option to confirm the cost and feasibility of implementing it within this timeframe.

Option	*Administrative simplicity*	*Equity*	*Volatility to Crown*	*Cost of implementing*	*Net impact of HSE levy and ACC levy*	*Transparency of collection*
Status quo: flat rate levy at $0.08	✓✓✓ This option requires no change to the current form of the levy except for a change in the regulations to reflect the increase to $0.08.	✓ The existing inequities will be exacerbated. However, low risk businesses will still receive more services as the scope and scale of WorkSafe NZ increases.	✓✓✓ There would be limited volatility as it would continue to be managed as it currently is which ensures durability.	✓✓✓ Administrative changes would be minimal.	✓ Depending on government decisions approximately 9 or 14 percent of businesses will notice a small increase, based on ACC's proposed rates or the indications from Budget 2013 respectively. Approximately 5% of liable earnings would see a net increase in the levies due to the increase in the Health and Safety levy.	✓✓✓ The administration of this option will be easy for businesses to understand, but they may question the reasoning behind the levy rate.
Variable levy: directly related to ACC levy rates	✓✓ This option can still be collected by ACC and is based on their approach. This option provides little opportunity to control the level of variability.	✓✓ Increases equity by ensuring that low-risk businesses do not pay a disproportionately high Health and Safety levy. May introduce inequity for industries that are considered high risk by ACC (such as professional sport), if they are not a high priority for WorkSafe NZ. Based on industry average so equity issues for high performers within industries	✓✓ Increased volatility in the total amount collected would require manageme nt.	✓✓ Additional complexity would likely increase cost of collection. Increased collection cost which either requires new funding or funding to be taken away from other core WorkSafe NZ	✓✓✓ The changes would be directly scaled against ACC levy reductions. The increase in Health and Safety levy for higher-risk industries would be balanced by the reduction in ACC levies.	✓✓ This option is more complex than the flat rate levy but the reasoning is easy for businesses to understand. Transparency is limited as the levy collected is targeted using ACC rates as a proxy, rather than the HSE spend.

		or those who do not have as much focus from the regulator. Would result in a significant spread of rates paid, approx. 5c to 27c per $100 of liable earnings.		functions.		
Variable levy: group approach based on ACC levy rates	✓ This option can still be collected by ACC and is based on their administrative data. Setting the final levy rates and groups would be complex and need to be actuarially calculated each year with subsequent amendments to regulations to ensure that an average of $0.08 is collected.	✓✓✓ Increases equity and allows Ministers to directly control the level of variability, meaning that those in the highest risk industries that are not a priority for WorkSafe NZ would not end up paying disproportionately high levies. It recognises that ACC levy rates are only a proxy, and should not be treated as a highly accurate measure of where WorkSafe NZ will concentrate its resources. There would be a limitation to the increase in equity as there would still be cross-subsidisation within groups.	✓✓ By adjusting groups we can manage volatility; however, there is a bigger risk from miscalculation.	✓ Increase in cost due to more complex collection method; the need to contract in actuaries and policy work for the yearly changes to regulations. Increased collection cost which either requires new funding or funding to be taken away from other core WorkSafe NZ functions.	✓✓ Adjustments can be made to allow for the net impact of both the Health and Safety and ACC levies on businesses.	✓ There will be some discretion around how industries are grouped which will decrease transparency.

Consultation

MBIE has consulted with the following groups and agencies; the Accident Compensation Corporation, Civil Aviation Authority, Maritime New Zealand, Ministry of Pacific Island Affairs, Ministry of Transport, State Services Commission, Te Puni Kokiri, and the Treasury. The Department of Prime Minister and Cabinet were also informed.

All agencies have agreed that the retention of the flat rate levy is the best option at this time, taking into account the constraints in timing and analysis.

ACC, Treasury and SCC saw the potential of a variable rate to increase equity and think that the 2015/16 review of funding will provide an important opportunity to explore the options for the Health and Safety levy further. This review will evaluate the funding of WorkSafe NZ, and will report back to Cabinet with its findings. This review will provide an opportunity to evaluate the form of the Health and Safety levy when there is more time to fully analyse the options and their impacts. This will include an analysis of the administrative costs associated with a variable form of the levy. By this time WorkSafe NZ will be running to full capacity and officials will have a better understanding of where the regulator is targeting its resources.

The Independent Taskforce gave submitters the opportunity to comment on financial incentives during the development of their report to the government on a package of measures to improve workplace health and safety in New Zealand. This consultation process was open to the public. In the development of the suite of Cabinet papers that responded to the Independent Taskforce's report, MBIE consulted with a range of agencies and key stakeholders on issues including the level of the health and safety levy, as an increase to the flat rate levy.

The submissions to the Independent Taskforce and subsequent consultation with business groups as part of the development of the Government's response showed that there was interest from businesses for financial incentives to be used more strongly and for businesses to pay costs that are proportionate to the regulatory activity they receive. Incentives that address individual risk will be included in other parts of the government's response, such as the proposed Safety Star Rating scheme which is part of the system of changes. Feedback from businesses also showed that they wanted more guidance on their obligations and how to comply, and that there is a willingness to pay for this increased guidance. For example, the Business Leaders Health and Safety Forum expressed that they were comfortable with an increase in the Health and Safety levy to ensure a sustainable level of funding as part of a comprehensive and balanced approach.

Business New Zealand has been consulted on the form of the levy rate. They support the flat rate levy if the variable rate cannot be done simply and transparently. They were concerned that the ACC data may not be an accurate measure of risk or regulatory activity. They also reiterated the need for the system to have adequate incentives, but noted that given the size of the increase, the levy was probably not the right instrument for this.

In 2015/16 funding review MBIE will work with WorkSafe NZ, ACC and conduct further consultation with external stakeholders.

Conclusions and recommendations

After considering the available options we recommend retaining the flat rate form of the levy at the increased rate of $0.08. Retaining the flat rate is a finely balanced judgement as any option would have both costs and benefits, however the flat rate is recommended because it provides more certainty, durability and was the most administratively simple and less costly.

The alternatives have drawbacks in terms of equity, the complexity of administration and potential for increased potential for volatility in revenue.

The increase in flat rate Health and Safety levy would have a relatively small impact on firms, with only three percent of larger employers (businesses with a payroll higher than $3.3 million) paying more than an additional $1,000 per annum. Approximately 9 to 14 percent of business units will see an increase in the net levies that they pay (excluding those businesses that self-insure).

If ACC levies are significantly reduced in 2015/16 as has been signalled by government, only three industries (approximately 26,000 business units) would continue to see a net increase in the levies they pay due to the increase in the Health and Safety levy. This means that after two years approximately seven percent of businesses would be paying higher overall levies than currently.

The flat rate levy is the most simple and transparent in terms of administration. Both variable options introduce additional complexity to the collection mechanism and would likely result in ACC requesting additional resources for implementation and maintenance.

The flat rate is also the least volatile option, while introducing a variable levy would result in some increase in volatility in overall Health and Safety levy income due to changes in employment and wage levels at an industry or economy-wide level.

ACC have advised that they require at least six weeks to assess the feasibility of the variable options, and given that the Cabinet decisions are needed by December 2013 in order to synchronise the changes with the tax year this creates a timing issue. This limits our ability to confirm costs and therefore analyse the costs and benefits of the variable options.

Option three would require annual actuarial support and annual changes to regulations. The flat rate option avoids this uncertainty and the cost of an annual setting process for minor regulatory amendments. More policy resource would be required to implement this option.

We do not have the data required to do a full assessment of the costs and benefits of moving to a variable levy within the timeframe in order to implement the changes by the deadline of 1 April 2014. Further work will be undertaken in the 2015/16 review which will allow MBIE to reach a more definitive view. This will include an assessment of the costs of introducing and maintaining a variable levy. By this time WorkSafe NZ will be running to full capacity and officials will have a better understanding of where the regulator is targeting its resources and how good a proxy ACC data is for this. This will mean that other approaches can be considered at that time. The review will also provide time to undertake consultation with external stakeholders.

Implementation plan

The implementation of this policy will require regulatory change and will require ACC to make administrative and invoice changes to its collection of the Health and Safety levy.

This will be supported by publicity to communicate to businesses the changes in the Health and Safety levy ahead of the introduction of the levy increase in April 2014. It will be important to communicate to employers that while some of them may see a net increase in the levies being collected by ACC, this is only due to an increase in the Health and Safety levy, not an increase in the ACC levies. This will help to communicate to the 9 to 14 percent of businesses who may see an increase in their net levies, the reason behind this increase.

The ACC levies change frequently, while the rate of the Health and Safety levy is more stable. These two processes are coinciding this year and may create a perception issue for businesses who experience a net increase and conflate the two issues. This can be mitigated through communications to explain that the increase to the Health and Safety levy agreed to by Cabinet is not to be correlated with the variable ACC levy rates. MBIE will work with ACC on the communications strategy for this.

There will be no financial implications for MBIE, dependent on whether ACC seeks to increase the cost for collecting the Health and Safety levy. There will be limited financial implications for employers. The increase in flat rate Health and Safety levy would have a relatively small impact on firms, with only larger employers (businesses with a payroll higher than $3.3 million) paying more than an additional $1,000 per annum.

Monitoring, evaluation and review

In 2015/16 MBIE will carry out a review of the funding of WorkSafe NZ that will give an opportunity to work with WorkSafe NZ, stakeholders and ACC to assess the Health and Safety levy and analyse the impacts and how it is working. The Minister of Labour will report back to Cabinet with the findings of this review.