MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Carmel Sepuloni	**Portfolio**	ACC
Title of Cabinet paper	2022/23 – 2024/25 ACC Levies	**Date to be published**	22 December 2021

List of documents that have been proactively released		
Date	**Title**	**Author**
24 November 2021	2022/23 – 2024/25 ACC Levies	Office of the Minister for ACC
24 November 2021	Cabinet Economic Development Committee Minute of Decision, 2022/23 – 2024/25 ACC Levies [DEV-21-MIN-0249 refers]	Cabinet Office
17 November 2021	Stage 2 Cost Recovery Impact Statement: 2022/23 – 2024/25 ACC levies	Ministry of Business, Innovation and Employment
18 November 2021	Regulatory Impact Statement: Experience Rating – increase loading and add fatality modifier	Ministry of Business, Innovation and Employment
25 October 2021	2022/23 – 2024/25 ACC levies: Levy Scenarios and Super Rugby classification Units	Ministry of Business, Innovation and Employment
29 October 2021	ACC levies 2022/23 – 2024/25: Final ACC and MBIE recommendations	Ministry of Business, Innovation and Employment, Accident Compensation Corporation

Information redacted **YES / ~~NO~~**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld to protect confidential advice to Government and the privacy of natural persons.

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
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BRIEFING

2022/23 – 2024/25 ACC levies: Levy Scenarios and Super Rugby classification Units

Date:	25 October 2021	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2122-1138

Action sought		
	Action sought	**Deadline**
Hon Carmel Sepuloni **Minister for ACC**	**Note** information on levy scenarios. **Agree** not to change Super Rugby Classification Units.	1 November 2021

Contact for telephone discussion (if required)				
Name	**Position**	**Telephone**		**1st contact**
Hayden Fenwick	Manager, Accident Compensation Policy	Privacy of natural persons	Privacy of natural persons	✓
Jessica Lee	Policy Advisor, Accident Compensation Policy	Privacy of natural persons	N/A	

The following departments/agencies have been consulted
The Treasury, ACC.

Minister's office to complete:

- ☐ Approved
- ☐ Noted
- ☐ Seen
- ☐ See Minister's Notes
- ☐ Declined
- ☐ Needs change
- ☐ Overtaken by Events
- ☐ Withdrawn

Comments

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2022/23 – 2024/25 ACC levies: Levy Scenarios and Super Rugby classification Units

Date:	25 October 2021	**Priority:**	High
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Purpose

This paper provides you with information and context on:

- 2022/23 -2024/25 levy rates for the levied Accounts (**pages 5 – 19**) in order to prepare you to
    - consider ACC's formal recommendations on levy rates
    - have discussions with your ministerial colleagues
- the levy risk classification of New Zealand Super Rugby franchises, which arose during consultation (**page 19**).

ACC and MBIE's final advice on levy rates and levy related policy proposals will be provided in early November.

Section 331(2) of the Accident Compensation Act 2001 requires ACC to consult levy payers before recommending levy rates to you. Section 331(1) requires you to receive and consider a recommendation from ACC on levy rates before you recommend levy rates to cabinet.

ACC's board is expected to make final decisions on 28 October and provide you with its recommendations shortly afterwards. This means that in the week of 1 November you will likely be considering which levy rates to recommend to cabinet.

Executive summary

We provide you with an independent view on levies…

The Ministry of Business Innovation and Employment's (MBIE) role as your policy advisor on the Accident Compensation Scheme (the AC Scheme) includes providing you with an independent view on the 2022/23 – 2024/25 levy rates and levy related policy proposals.

In August 2021, ACC advised you on the aggregate rates required by the Funding Policy Statement, on which ACC then carried out public consultation. ACC is required to recommend rates that give effect to the Funding Policy Statement. MBIE is able to explore alternative funding paths taking into account the wider public interest.

ACC and MBIE will provide you with formal recommend levy rates in the first week of November.

Officials will be available to discuss and, once you have decided what levy rates to recommend to Cabinet, we will finalise a draft Cabinet paper seeking agreement to those rates for consultation with your colleagues. We will provide your office with an initial placeholder draft cabinet paper, without levy rate recommendations, in the week of 25 October.

…taking into account the principles of financial responsibility and the broader public interest

The alternative funding paths that take into account the wider public interest are introduced in this briefing. We have set out three potential scenarios for levy rates (including ACC's path) we and our appointed actuary have analysed, assuming ACC recommends the levy rates it consulted on.

The *Accident Compensation Act 2001* (the AC Act) requires levies to be set so that each levied Account achieves full funding, having regard to levy stability over time and forecast uncertainty. Additionally you must have regard to the public interest when making levy regulations, in particular the interests of tax payers, levy payers, claimants, and potential claimants.

ACC consulted on increasing Earners' and Motor Vehicle levies, and an initial decrease to Work levies followed by increases in the second and third year

ACC consulted on increasing the average levy rates for the Earners' and Motor Vehicle Accounts, and reducing the Work Account levy rates for 2022/23 before increasing back to the current rate in incremental steps in 2023/24 and 2024/25. MBIE's independent actuary considers ACC's proposed rates are reasonable and are consistent with the financial responsibility principles which form the basis of the funding policy statement. MBIE, and its actuary, consider a range of levy scenarios are consistent with the financial responsibility principles[1].

MBIE considers a range of scenarios are consistent with the financial responsibility principles, and has considered other options

The funding positions of the levied Accounts are all above the Funding Policy Statement's 100 per cent funding target. However, levy rates are currently set below the New Year cost of injury, which ACC advises it considers is unsustainable over the long term[2]. The Funding Policy Statement is designed to adjust the levies over time, to decrease surplus funds and avoid large changes in levies.

Given the current state of the levied Accounts and other government, economic and social priorities, MBIE notes that you should consider the following option alongside holding all levy rates and ACC's consulted rates:

- reducing the Work Account's levy rate as consulted by ACC for 2022/23 and then hold this reduced rate for 2023/24 and 2024/25
- increase the levy rates for the Earners' account as consulted by ACC
- holding the levy rates for the Motor Vehicle Account.

This option achieves the levy setting objective of returning the levied Accounts to the 100 percent funding target quicker and reduces the burden on current levy payers. However, it does risk placing a burden on future generations of levy payers for the Work and Motor Vehicle Accounts, all else being equal.

This is confirmed by MBIE's independent actuary who concluded that "Maintaining levy rates at their current levels for the 2022/25 levy period will have minimal impact on ACC's ability to pay claims. However, it can be expected to necessitate larger increases in the future, all else being equal."

Responding to NZ Rugby's levy submission (page 19)

NZ Rugby and five NZ Super Rugby Licence holders made submissions during levy consultation requesting that that their Classification Unit (CU) is reviewed.

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[1] Section 166A of the AC Act.

[2] In relation to 2020/21: Expected cost of new injuries = $4.63bn, Levies collected = $3.24bn, leaving a $1.39bn shortfall.

Confidential advice to Government [redacted]

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Note** that ACC has met the requirement to publicly consult on proposed levy rates for the three levied Accounts before making recommendations to you [CBC-21-MIN-0074] and that the ACC Board is expected to make recommendations to you on the 2022/23, 2023/24 and 2024/25 levies before 4 November 2021.

Noted

b **Note** that MBIE engaged independent actuarial consultants, Deloitte, to provide quality assurance of ACC's actuarial forecasts, assumptions, and recommendations, and that Deloitte noted:

i. ACC has applied the funding policy statement appropriately, and that

ii. There are alternative levy paths to ACC's that are also consistent with the financial responsibility principles set out in section 166A of the Accident Compensation Act 2001.

Noted

c **Note** that MBIE and ACC will provide you with their final recommendations for the 2022/23, 2023/24 and 2024/25 levies on 29 October.

Noted

d **Note** that this briefing is intended to provide you with some initial context to begin thinking about the levy rates you would like to propose to Cabinet after receiving ACC's final levy recommendations.

Noted

e **Note** that NZ Rugby and five NZ Super Rugby Licence holders made submissions during levy consultation requesting that their Classification Unit be lowered to reflect their risk profile.

Noted

f Confidential advice to Government

Agree / Disagree

Hayden Fenwick **Manager, Accident Compensation Policy** Labour, Science and Enterprise, MBIE	Hon Carmel Sepuloni **Minister for ACC**
25 / 10 / 2021	..... / ...... / ......

Upcoming decisions on ACC levies

1. MBIE's role as your policy advisor on the ACC Scheme includes providing you with independent advice on the 2022/23, 2023/24 and 2024/25 levy rates ("2022/23 – 2024/25 levies") and levy related policy proposals.

2. MBIE engaged Deloitte to undertake a quality assurance review of ACC's levy recommendations. Deloitte's review included advice on:

- the appropriateness and reasonableness of the proposed average levy rates
- the sustainability of proposed levies in the coming year, and for the future years
- implementation of the Government funding policy.

3. This briefing sets out our emerging view on levy paths you should consider, on the assumption that ACC will recommend the same levy rates it consulted on.

4. You must consider ACC's recommendations, but responsibility for setting levy rates to achieve fully funded Accounts lies with the Government of the day.

5. Following levy decisions, ACC is required to publish a report[3] detailing the effect that the prescribed levies are expected to have on the relevant Accounts, including future levy and solvency rates.

6. Key dates ahead include:

When	**What**	**Who**
29 October / 1 November 2021	ACC and MBIE's final levy recommendations. Preliminary draft Cabinet paper.	ACC Board, MBIE
1 – 4 November 2021	Discussion on levy path options with ACC and MBIE; consideration of levy rate advice and confirmation of preferred levy rates.	ACC, MBIE, Minister
4 November 2021	Draft Cabinet paper for Ministerial consultation.	MBIE
18 November 2021	Lodge Cabinet paper and Regulatory Impact Statements.	MBIE
24 November 2021	Cabinet Economic Development Committee consideration.	DEV
29 November 2021	Cabinet decision.	Cabinet

[3] Section 331(5A) Accident Compensation Act 2001.

Legislative requirements for setting 2022/23-2024/25 levies

Your levy decisions must comply with financial responsibility principles and must have regard to the public interest

7. The *Accident Compensation Act 2001* (the AC Act) requires that the cost of all claims under the levied Accounts must be fully funded. That is, the Accounts must have an adequate level of assets to meet the outstanding claims liability (OCL) of the claims.[4] However, the Act implicitly envisages that there is flexibility regarding the timing for realising these obligations.

8. When setting levy rates, you must have regard to the following legislated financial responsibility principles[5]:

    - the levies derived for each Account should meet the lifetime cost of claims in relation to injuries that occur in a particular year (fully-funded Accounts). This connects levies to the actual full cost of providing injury cover which supports equity between levy payers across generations. It also gives certainty to claimants that their injury costs will be covered. Full funding also enables scrutiny on ACC's management of underlying costs, and ensures that trends in underlying costs are not subsumed in future years' levy calculations
    - under- and over-funding should be corrected by the setting of levies at an appropriate rate for a subsequent year or years
    - large changes in levies should be avoided.

9. As the Minister for ACC, in addition to the financial responsibility considerations, you must have regard to the broader public interest including the interests of:

    - *levy payers*: As demonstrated at every levy consultation, levy payers prefer lower levies over higher levies. But they also have a preference for stable levies in the medium to long term
    - *claimants (including potential claimants):* Existing claimants desire certainty that funds will be available for their entitlements, which is more likely to result from a strong solvency position. Given the current solvency positions of the levied Accounts, there is no issue with the adequacy of the funds for existing claims.

10. You can factor in broader economic considerations and their effect on levy payers. A particular economic factor of public concern in this levy round is the economic uncertainty associated with COVID-19. Inflation and discount rates assumptions have large impacts on the solvency of the accounts, and increased uncertainty over the next few years adds to the risks associated with levy setting for a three year period. You can also take into account wider economic goals of the Government, for example the impact of levy rate changes on the Crown's overall finances.

ACC's levy recommendations must comply with the Funding Policy Statement

11. ACC's proposed levy recommendations are required to comply with the Government's *Funding Policy Statement in Relation to the Funding of ACC's Levied Accounts* ("the FPS"). The current FPS (**Annex Three**) was issued by you in March 2021.

12. Key requirements of the FPS are:

    1) **Full funding:** The average levy rate must be based on the expected lifetime costs of claims over the levy period.

[4] Section 166A(1) Accident Compensation Act 2001.
[5] Section 166A(2) Accident Compensation Act 2001.

2) **Target funding ratio:** Each levied Account has a target funding ratio of 100 per cent of the outstanding claims liability, which is the amount required to cover all the expected lifetime costs of ACC's accepted claims.

3) **Smoothing mechanism:** Levy rates must include an adjustment to return an Account's funding ratio to the 100 per cent target smoothly, over a ten year period.

4) **Cap on annual increases:** Annual levy rate increases must not exceed 5 per cent.

5) **Three sets of levy rates:** Requirements (1) – (4) must be repeated for each levy year in the period for which ACC is recommending levies.

13. After reviewing ACC's levy proposals, Deloitte have advised that:

> ACC has applied the funding policy statement appropriately and the proposed levy rates are reasonable.
>
> ACC's levy rate proposals are consistent with the financial responsibility principles set out in section 166A of the Accident Compensation Act 2001, which form the basis of the funding policy statement.

Practical levy setting considerations

14. Setting levy rates involves balancing a range of objectives and factors, including full funding, levy stability, intergenerational equity, collecting the minimum amount necessary and the public interest. It involves a trade-off between pricing expected future costs, and covering past overs and unders to maintain scheme solvency.

15. There is also a degree of uncertainty. Discount rates change and so do estimates of the true cost of new year's claims, as ACC's actuaries update their valuation of the liability.

16. MBIE considers that ACC levies have features of taxes, and as such ACC should aim to collect the lowest amount required to comply with the legislated financial responsibility principles and the funding policy statement.

17. Further, while levies are a key aspect of funding they are not the only lever Ministers should consider. ACC and AC Scheme performance must also be considered: placing expectations on ACC injury prevention, operational decision making and rehabilitation performance is a legitimate part of levy setting, in considering the interests of the government and levy payers.

18. At our request, ACC has projected the levy rates for the levied Accounts as well as their associated funding ratio. These are set in the account-by-account analysis in **Figures 1** to **7** below (**pages 12** to **18** refer).

19. Deloitte's opinion is that ACC's estimate of the required levies are reasonable. Deloitte also noted that "there are 'levy rate paths' for each account that differ from those indicated by the funding policy statement which may result in a similar long-term funding outcome and which may be consistent with section 166A of the Accident Compensation Act 2001, the purpose of which is to ensure the sustainability of the scheme."

20. This briefing outlines scenarios that consider some of these alternative levy rate paths.

Context for the levy round

21. Poorer rehabilitation rates, more claims requiring weekly compensation for longer and higher earnings have placed pressure on all of the accounts. Higher use of care hours by people

with serious injuries in the motor vehicle account and more sensitive claims in the earners' account are particular pressures for those accounts.

22. The work account, while affected by poorer weekly compensation and rehabilitation performance, is sheltered by its high solvency levels (131per cent as at June 2021), compared to the other accounts.

23. Detail on the key drivers of claims costs, and levy rates, are summarised below in **Table 1**, along with the impact that they have had on ACC's proposed levy rates:

Table 1: Drivers of claims cost and levy rates

Driver	Work Account	Earners' Account	Motor Vehicle Account
Higher claims costs	Poorer weekly compensation performance across all accounts: more claims, longer duration of payments and higher average payments.		
	More serious injury claims than expected.	Higher than expected numbers of sensitive claims. Higher expected average cost of payments for serious injury care claims (increased rehabilitation costs).	Increases in serious claims costs. Increases in bulk funded claim costs, including emergency care and Public Health Acute Services (PHAS).
	Increase in levy of $0.05 per $100 liable earnings.	Increase in levy of $0.27 per $100 liable earnings.	Increase in levy of $35.45.
Discount rates and forecast investment returns	Changes to discount rates and forecast reduced investment returns increased the expected cost of claims across all accounts.		
	Increase in levy of $0.10 per $100 liable earnings.	Increase in levy of $0.12 per $100 liable earnings.	Increase in levy of $52.76.
Recent Investment performance	In the last three years ACC's assets have grown more than the negative movement in liabilities from discount rate changes.		
	Reduction in levy of $0.16 per $100 liable earnings.	Reduction in levy of $0.12 per $100 liable earnings.	Reduction in levy of $58.58.
Funding Policy Changes	Cabinet's 2019 changes to the funding policy, removing some risk margins and reducing the funding target to 100% for all accounts.		
	Reduction in levy of $0.11 per $100 liable earnings.	Reduction in levy of $0.14 per $100 liable earnings.	Reduction in levy of $60.23.

Scenarios for 2022/23-2024/25 Levy Rates[6]

ACC's consulted levy rates

24. ACC consulted on (**Table 2** below) increases to the average levy rates charged to motorists and earners over the next three years, and an initial decrease followed by increases to the average levy rates charged to employers and the self-employed over the next three years.

Table 2: ACC's consulted levy rate proposals

	Current 2021/22 levy rates	ACC's Proposed Levy Rates			Net rate change over 3 years
		2022/23	2023/24	2024/25	
Work Account	**$0.67** per $100 of payroll	$0.63	$0.65	$0.67	**No change**
Earners' Account	**$1.21** per $100 wages	$1.27	$1.33	$1.39	**+$0.18**
Motor Vehicle Account	**$113.94** per vehicle	$120.20	$128.83	$138.08	**+$24.14**

Other levy scenarios

25. ACC is required under section 331 of the AC Act to provide you with a recommendation on levy rates which gives effect to the requirements of the FPS. MBIE is able to consider ACC's consulted rates and factor in the wider public interest. We have considered the following factors:

- Ensuring the Accounts remain as close as possible to the 100 per cent funding target. In some cases this may mean running an Account down faster to reach the target or ensuring an Account does not dip below the target too quickly.
- Impacts on businesses as a result of the COVID-19 pandemic, as well as impacts on individuals including rising inflation and costs of living (including current high petrol costs).

26. Therefore, alongside ACC's consulted rates, MBIE and its actuary Deloitte have analysed two further levy scenarios, giving you three broad options to consider for 2022/23 – 2024/25 levies:

- Option A: ACC's consulted levy rates
- Option B: Status quo: Holding all rates at 2021/22 levels
- Option C: ACC's consulted increase for the Earner's Account, reducing the Work Account, while holding the Motor Vehicle Account at 2021/22 levy rates.

27. The alternative options provided and their impacts are considered in the following sections, and in more detail in **Annexes One** and **Two**, including the impacts on households.

[6] The rates discussed below are average rates for each levied Account. With the exception of the Earners' Account levy, the actual levy paid by levy payers will vary. In the Work Account, it will depend on the employer's classification unit (industry), their claims experience and any participation in safety incentive programmes. For motorists contributing to the Motor Vehicle Account, it will depend on the type of vehicle they own.

28. In summary, each of the options reflects different weightings that could be given to the interest of current levy payers versus future levy payers, as outlined in **Table 3** below:

Table 3: Summary of options analysis

Considering…	**Means you prioritise…**
Option A: ***ACC's consulted rates*** (decrease then increase Work, increase Earners' and Motor Vehicle)	• A more **gradual return to the 100 per cent** funding position, spreading the rundown of the account surplus to benefit current and future levy payers. • **Reducing the risk of greater levy increases** in future rounds • **Reducing the risk of levy fluctuations** (certainty principle).
Option B: ***Hold current rates***	• An **earlier return to the 100 per cent** funding position for the Motor Vehicle and Earners' Accounts. • **Limiting financial pressure on current levy payers** by running down a greater proportion of the surplus to benefit these current levy payers. • **Accepting the risk that larger increases may be required** in future levy setting rounds if ACC does not meet or exceed its forecast scheme performance. • **Accepting the risk of running the Earners' Account down** below the 100 per cent funding target.
Option C: ***Decrease Work, increase Earners', hold Motor Vehicle***	• An **earlier return to the 100 per cent** funding position **for the Work and Motor Vehicle Accounts**. • **Limiting financial pressure on current Motor Vehicle and Work Account levy payers** is reasonable and that they should not be retained to subsidise the scheme costs for future levy payers. • You **do not want to take risks with the earners' account**, which is under the most pressure of the accounts. • You **accept placing a burden on future generations of levy payers for the Work and Motor Vehicle Accounts**, all else being equal.

29. Depending on the account being considered, each of the options might result in the same rates being proposed, as outlined below in **Tables 4** to **6**:

Table 4: Average levy rate options for the Motor Vehicle Account[7]

Levy rate options	**Average levy rates for each levy year**		
	2022/23	**2023/24**	**2024/25**
Option A: ACC's consulted levy rates	$120.20	$128.83	$138.08
Option B and C: Hold current levy rates	$113.94	$113.94	$113.94

[7] Per vehicle, excluding GST.

Table 5: Levy rate options for the Earners' Account[8]

Levy rate options	Levy rates for each levy year		
	2022/23	2023/24	2024/25
Option A and C: ACC's consulted levy rates	$1.27	$1.33	$1.39
Option B: Hold current levy rates	$1.21	$1.21	$1.21

Table 6: Average levy rate options for the Work Account[9]

Levy rate options	Average levy rates for each levy year		
	2022/23	2023/24	2024/25
Option A: ACC's consulted levy rates	$0.63	$0.65	$0.67
Option B: Hold current levy rates	$0.67	$0.67	$0.67
Option C: reduce the Work Account's levy rate as consulted by ACC for 2022/23 and then hold this reduced rate for 2023/24 and 2024/25	$0.63	$0.63	$0.63

[8] Per $100 liable earnings, excluding GST.
[9] Per $100 liable earnings, excluding GST.

Work Account scenarios

Table 7: Comparison of options for the work account

Average levy rate for each option considered	Option A: ACC's consulted levy rates			Option B: Hold rate			Option C: Alternative levy rate		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Current 2021/22 levy rate	$0.67			$0.67			$0.67		
New year cost rate	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91
Proposed levy rate[10]	**$0.63**	**$0.65**	**$0.67**	**$0.67**	**$0.67**	**$0.67**	**$0.63**	**$0.63**	**$0.63**
Estimated funding ratio in 2035	110.9%			111.3%			110.2%		

30. Among submitters on ACC's consultation there was support (60 per cent positive) for a decrease in the Work Account levy, with many seeing it as a significant cost to their business.

31. MBIE considers there is good reason to consider holding the proposed reduced 2022/23 rate for the 2023/24 and 2024/25 levy years, as:

- the Work Account funding ratio is expected to remain above the 100 per cent target over the next 10 years in all three options provided. Although holding the Account at the lower rate for all three years would necessitate larger increases in the following years, all else being equal, we consider this a lower priority in comparison to reducing some cost pressures for business due to the impacts of the current COVID-19 pandemic
- the Work Account cost drivers are more certain and understood. It is less susceptible to uncertainties and cost drivers that are not well understood, such as elective surgery costs.

32. The funding ratio of this Account is also substantially higher to the other Accounts: 131 per cent as at June 2021. ACC uses **risk free** discount rates when making investment return assumptions under the FPS. MBIE requested Deloitte model levy rates and solvency using discounted **expected** investment return assumptions instead.

33. Using expected investment returns the Work Account's current funding ratio would be 150.7 per cent. Given that the Work Account funding ratio is expected to remain above the 100 per cent target over the next 10 years, a levy reduction is appropriate to get the Account closer to the 100 per cent funding position over a shorter period of time (as shown by **Figures 1** to **3** below).

34. However, as the funding position is wound down, expected cost increases will be offset to a lesser extent. This means that levies will need to be increased at some point beyond the next levy round, if forecast claims experience eventuates. Given this risk, we have not recommended an even larger levy reduction in this levy round; this can be reassessed at the next levy round.

[10] Numbers may not add due to rounding.

Figure 1: Work Account solvency and levy projections 2022/23-2024/25 for ACC consulted rates

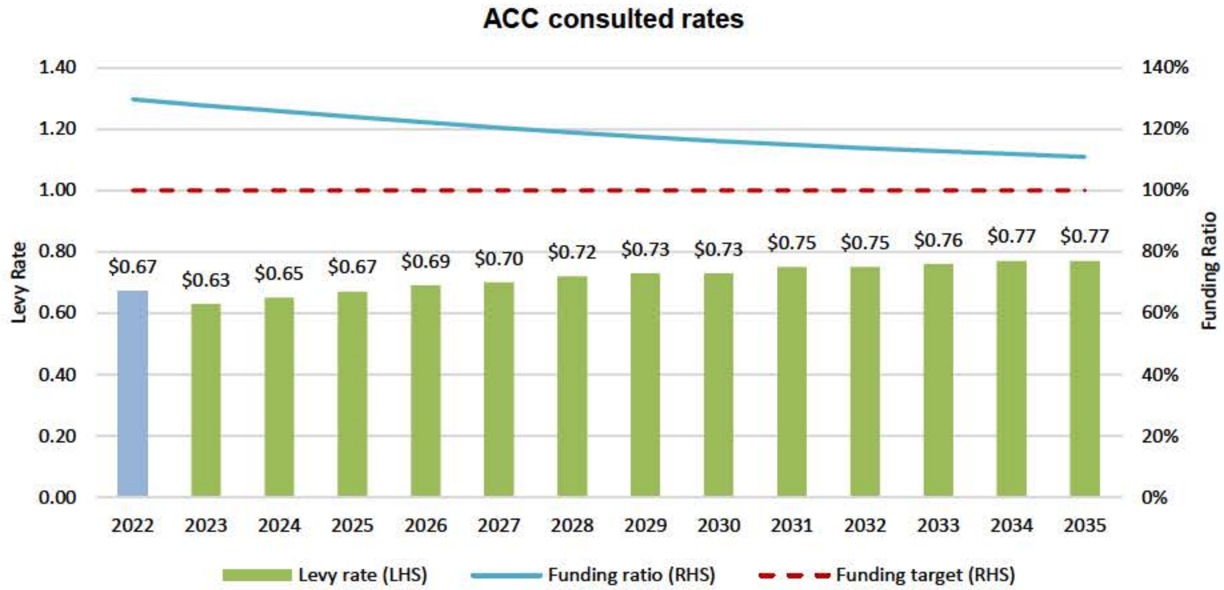


Figure 2: Work Account solvency and levy projections 2022/23-2024/25 if the Work Account levy rate is held at $0.67

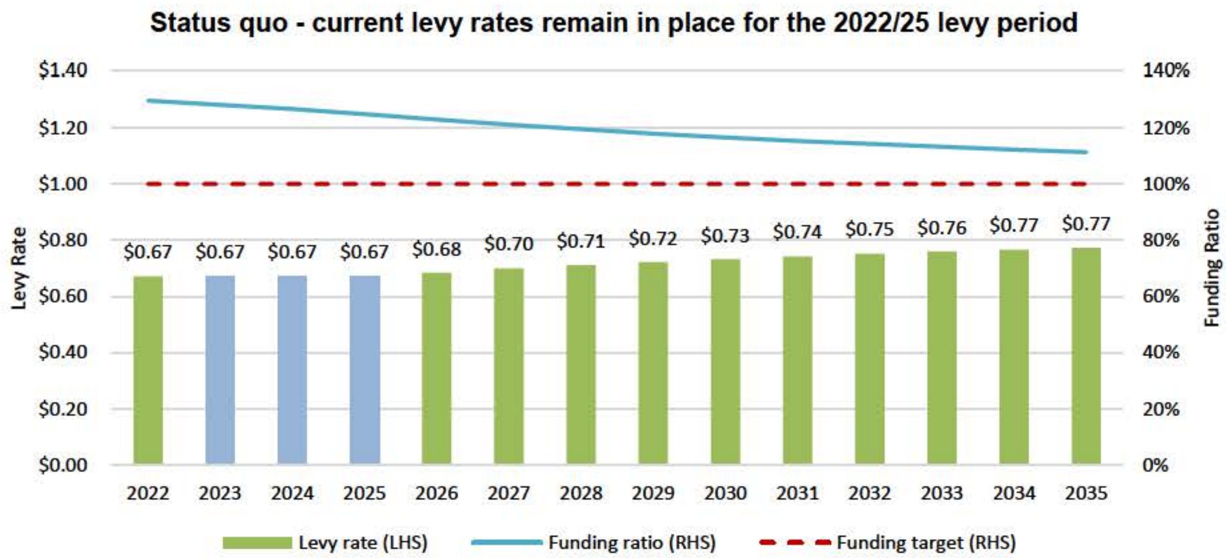
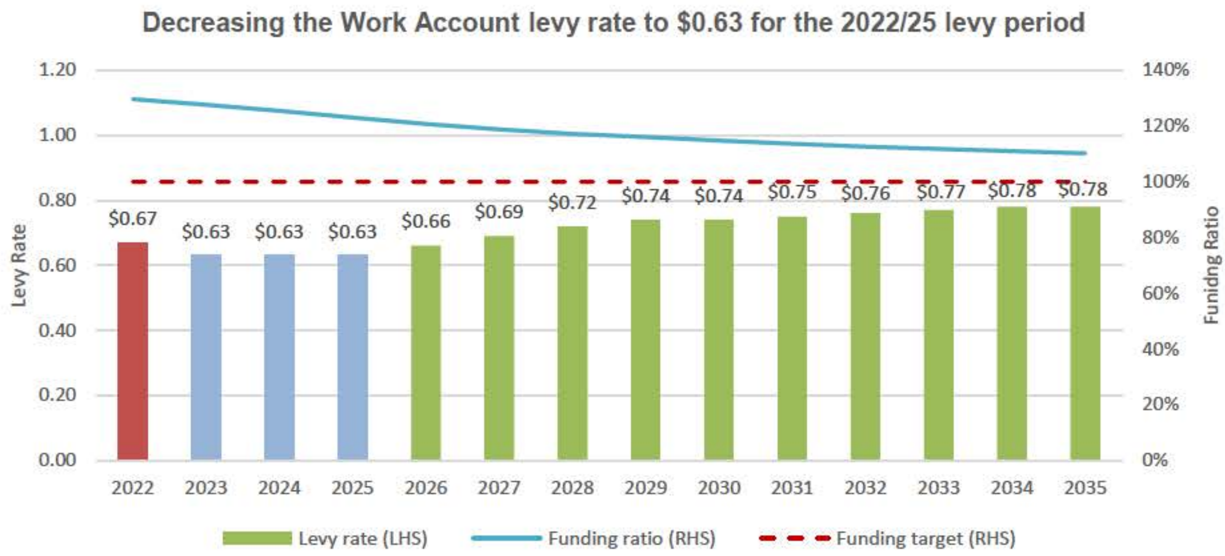


Figure 3: Work Account solvency and levy projections 2022/23-2024/25 if Work Account levy rate decreased to $0.63



Earners' Account scenarios

Table 8: Earners' Account solvency and levy projections 2022/23-2024/25 for options A and C (ACC consulted rates) and option B (status quo)

Average levy rate for each option considered	Options A and C: ACC's consulted levy rates			Option B: Hold rate		
	2022/23	**2023/24**	**2024/25**	**2022/23**	**2023/24**	**2024/25**
Current 2021/22 levy rate	$1.21			$1.21		
New year cost rate	$1.67	$1.68	$1.69	$1.67	$1.68	$1.69
Proposed levy rate[11]	**$1.27**	**$1.33**	**$1.39**	**$1.21**	**$1.21**	**$1.21**
Estimated funding ratio in 2035	100.8%			91.2%		

35. Most submitters on ACC's consultation disagreed (60 per cent) with the proposed increase in the Earners' levy. Some submitters expressed concerns about the rising cost of living, and the impact that increasing the Earners' levy rates will have on overall costs for those struggling. However, wage inflation has continued over the COVID-19 pandemic. MBIE considers that the risk of even larger levy increases in the future could have an even greater impact on the disposable income of levy payers.

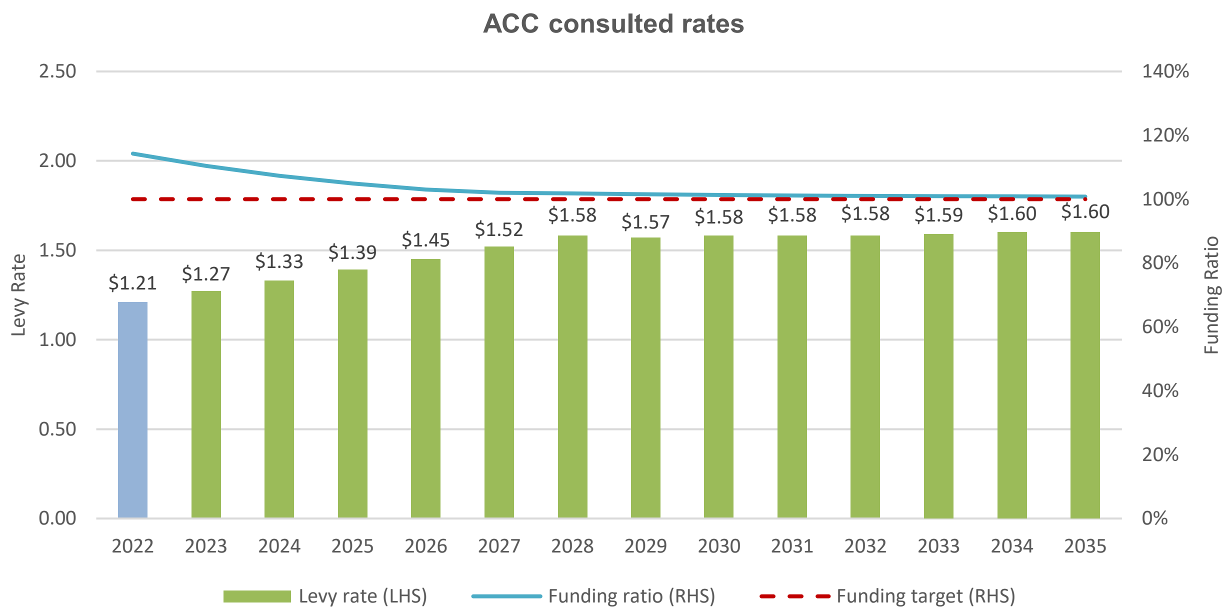
[11] Numbers may not add due to rounding.

36. MBIE considers there is a reasonable rationale for increasing average levy rates considering the Account is likely to dip below the funding target within the next three years and the inherent pressures on the Earners' Account.

37. We consider increasing the current rates for the Earners' Account could be appropriate as:

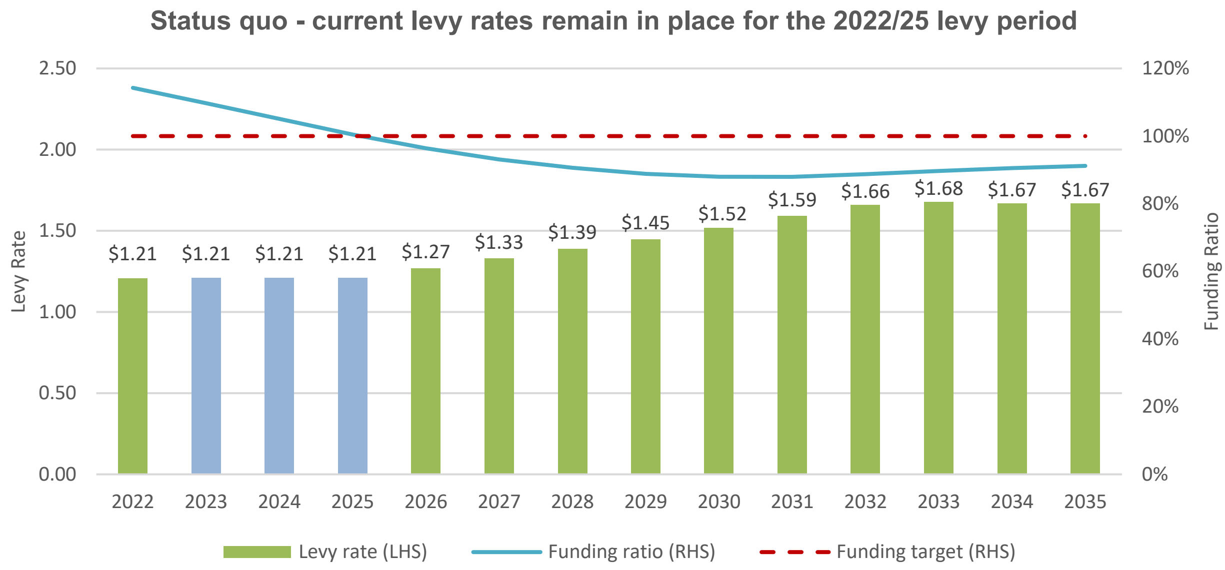
- Holding the current levy rates in place for the next three years would see the Account go below 90 per cent solvency (88 per cent) over the 10 year funding horizon, leading to larger increases in levy rates in outer years, where future levy payers would be required to fund the cost of current claims.
- Unlike the Motor Vehicle Account, the Earners' Account is expected to go below 100 percent solvency much earlier, in 2026. We consider this risk outweighs the benefit to current levy payers of maintaining the current rates, **Figures 4** and **5** refer.
- Under the FPS, levy rates are capped at five per cent to avoid large increases for levy payers. ACC's calculated levy increase, without being capped, would be $1.46 per $100 or liable earnings, meaning the proposed rates are well below the current expected New Year costs.

Figure 4: Earners' Account solvency and levy projections 2022/23-2024/25 if ACC's consulted rates adopted



38. As shown in **Figure 5** below, all things being equal, maintaining the current levy rates for the 2022/25 period would result in a significant difference in the levy increase required in future levy periods.

Figure 5: Earners' Account solvency and levy projections 2022/23-2024/25 if current rates held



39. MBIE's actuary considered several scenarios, including a 10 per cent increase in costs and discounting the claims liability (OCL) using investment return assumptions instead of risk-free rates.

40. Deloitte noted that:

> Discounting future costs at risk-free rates adds an extra level of conservatism in proposed levy rates, similar to setting a funding target above 100 per cent of requiring funding of the OCL risk margin. **Using risk-adjusted investment return assumptions to discount the OCL is, in our opinion, a more realistic assumption than using risk-free rates**.

41. However, when applying the investment return assumptions scenario Deloitte noted that discounting at the OCL risk-adjusted rates would result in only a minor reduction in the Earner's Account levy rates. A 10 per cent increase in costs saw the Account drop even further below the funding target, demonstrating the greater risk of maintaining current rates for the Earners' Account, (**Figure 5** above refers).

42. This reinforces MBIE's view that the Earners' Account is the account that presents the most solvency risk, and that a cautious approach to setting its levy is preferable.

Motor Vehicle Account scenarios

Table 9: Comparison of options for the Motor Vehicle Account

Average levy rate for each option considered	Option A: ACC's consulted levy rates			Options B and C: Hold rate		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Current 2021/22 levy rate	$113.94			$113.94		
New year cost rate	$218.58	$224.34	$231.16	$218.58	$224.34	$231.16
Proposed levy rate[12]	**$120.20**	**$128.83**	**$138.08**	**$113.94**	**$113.94**	**$113.94**
Estimated funding ratio in 2035	107.2%			97.9%		

43. Most submitters on ACC's consultation (86 per cent) disagreed with the proposed increase in the levy, citing the already high costs of car registration and petrol, and the seemingly unfair distribution of costs among motorists (namely cyclists, EV owners, and electric scooter riders not paying a fair share).

44. MBIE considers that there is scope to consider holding the levy rate for the 2022/23 – 2024/25 period. The account is projected to dip below the funding ratio of 100 per cent over the 10 year funding horizon (97.9 per cent in 2035). However, unlike the Earners' Account, which is predicted to go below the 100 per cent funding ratio by 2026, we consider there is sufficient time to correct any imbalance through the next levy round.

45. Due to the nature of injuries within the Motor Vehicle Account (more serious injuries requiring higher levels of rehabilitation and care) there is a higher risk in holding the levies over the next three years, and this risks placing a higher burden on future generations of levy payers.

46. The Motor Vehicle levy is split between an "at pump" petrol levy and motor vehicle registration charges. Current petrol vehicle owners pay a petrol levy of 6 cents per litre. Considering the current elevated cost of petrol, we agree with ACC and consider that if the motor vehicle levy is increased, the petrol levy component should not be increased for this levy round for public interest considerations. The benefits of maintaining the average petrol levy and increasing the registration fee portion include minimising cross-subsidisation of unsafe short-distance drivers and unsafe fuel efficient vehicles (such as motorcycles) by safe long-distance drivers and safer, but less fuel efficient vehicles.

47. As **Figures 6** and **7** below show, by holding levy rates constant for the next three years, the Account's funding position would dip below the 100 per cent solvency target by 2033, in comparison to ACC's consulted rates which would see the solvency be maintained above 100 per cent.

[12] Numbers may not add due to rounding.

Figure 6: Motor Vehicle Account funding ratio and levy projections 2022/23-2024/25 for ACC consulted rates (option A)

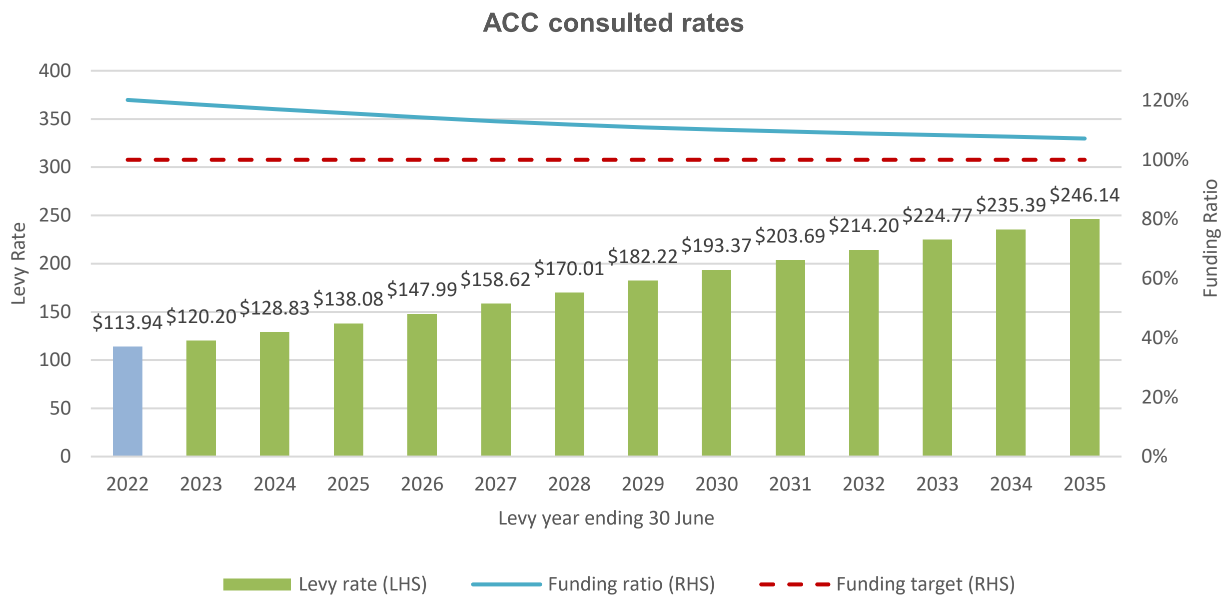
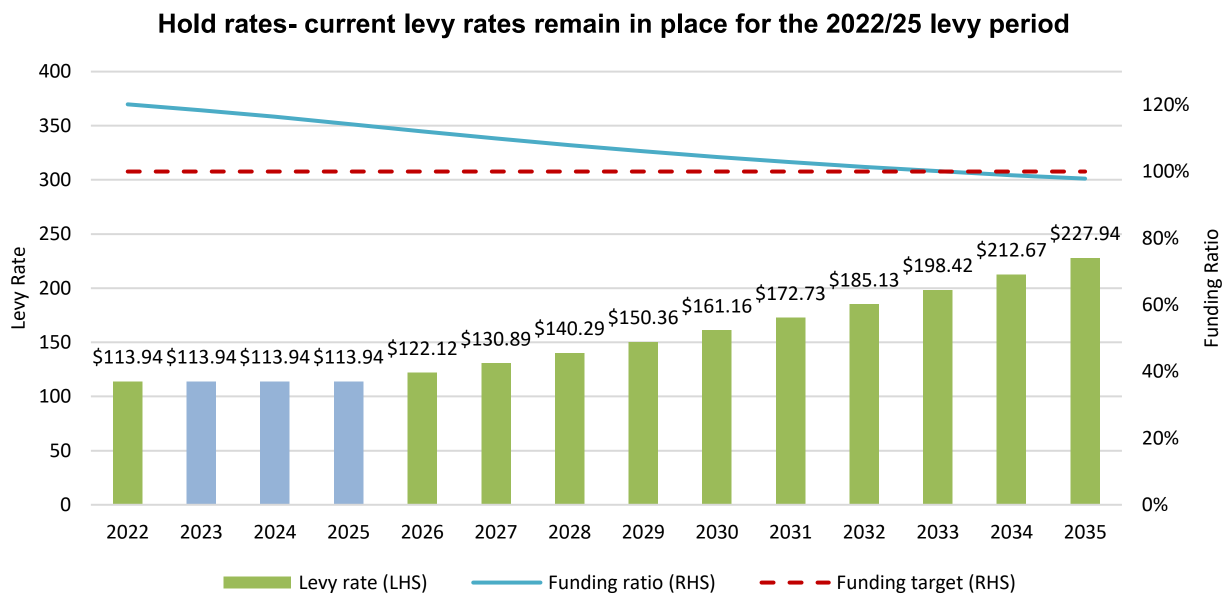


Figure 7: Motor Vehicle Account funding ratio and levy projections 2022/23-2024/25 if rates held (options B and C)



48. MBIE's actuary has advised that "maintaining levy rates at their current levels for the 2022/25 levy period will have minimal impact on ACC's ability to pay claims. However, it can be expected to necessitate larger increases in the future, all else being equal."

49. MBIE is of the view, however, that while maintaining current rates for another three years increases the likelihood that a levy increase will be required the next time levy rates are reviewed in 2025, there are choices on the magnitude of any increase. These choices depend on judgements on the funding policy and other public interest considerations.

50. We consider maintaining current rates for the Motor Vehicle account is reasonable because:

- reaching 100 per cent solvency is a target, meaning that Accounts are expected to fluctuate over time, while continuously heading towards 100 per cent. Future levy reviews will allow for the chance to increase levy rates to make up for any under-collection over the short-term.

- As stated above, we consider there is sufficient time to correct any under collection in the Motor Vehicle Account in comparison to the Earner's Account where there is a much greater risk.
- the amount of levies collected should aim to fund necessary costs, and no more.

Responding to NZ Rugby's levy submission

51. NZ Rugby and five NZ Super Rugby Licence holders have made submissions during levy consultation, requesting that ACC review their Classification Unit (CU).

52. Currently, ACC classifies these six organisations under CU 913180 "Sports and physical recreation – professional rugby". These organisations currently pay a work account levy rate of $6.43 per $100 of liable earnings, and this applies to players as well as administrative and support staff[13].

53. These organisations argue that this levy rate is too high given that the risk profile of their administrative and support staff is substantially lower than players.

[redacted] Confidential advice to Government [redacted]

[redacted]

[redacted]

Annexes

Annex One: Economic impacts of levy scenarios

Annex Two: Impact analysis of options

Annex Three: Funding Policy Statement

[13] The definition of CU 913180 explicitly includes this wider view.

Annex One: Economic impacts of levy scenarios

Overview of Year 3 (2024/25) total cost

Household/Business	Current (2021/22)	Option A	Option B	Option C
Family with a household income of **$129,000** and *three vehicles* (2 x petrol driven cars, 1 x diesel driven ute)	$1,891	$2,195	$1,893	$2,125
Family with a household income of **$85,000** and **two vehicles** (1 x diesel driven car, 1 x diesel driven ute)	$1,254	$1,461	$1,259	$1,412
A retired couple with **one vehicle** (1 x electric vehicle)[14]	$46	$64	$42	$42
A retired couple with **one vehicle** (1 x petrol/non-petrol vehicle)	$105	$123	$101	$101
Single parent with an income of **$31,000** (approx. 30hrs/week on minimum wage) and **1 car**	$480	$553	$476	$532
Small house construction business with 8 employees each earning $70,000 and a small fleet (3x diesel driven ute/van, 3x petrol driven car)	$10,028	$9,238.29	$9,109	$8,591
Medium sized architecture business with 35 employees (average income of $81,000 each) and 5 petrol driven cars	$4,492	$4,014.72	$3,907	$3,704

Assumptions – for all options

- No change in liable earnings for earners and businesses over the three years.
- Average petrol consumption, remains constant over three years.
- Risk relativities are updated for a change in claims experience since the 2018 consultation, per ACC's business rules.

Caveats

The estimated levy payable from the alternative scenario of holding rates at $0.63 for 2022/23 through to 2024/25 are indicative only.

The underlying final CU rates may be subject to small movements as a result of rounding of rates or capping changes either within their own CU or as a result of rounding or capping changes impacting other CUs.

Where a CU increase or decrease is capped, or the final rate is rounded, the expected income lost or gained through capping or rounding must be spread, where possible, across the other CUs, therefore capping or rounding on one CU can affect the rates for all CUs.

[14] Includes EV subsidy as consulted on (i.e. no petrol levy) – noting significant feedback was received on this approach. The impact perspective is agnostic of fuel type (as it assumes consumption is comparable and the rate stays the same) so this variance only affects the total levy payable.

Option A: ACC's consulted levy rates under the Funding Policy Statement

Based on ACC's consulted levy rates under the Funding Policy Statement.

	Recommended levy rates		
Levy	**2022/23**	**2023/24**	**2024/25**
Average Work levy rate per $100 payroll	$0.63	$0.65	$0.67
Earners' levy rate per $100 wages	$1.27	$1.33	$1.39
Average Motor Vehicle levy rate per vehicle	$120.20	$128.83	$138.08

Option A: Total household levy

Household	Current	2022/23	2023/24	2024/25
Family with a household income of $129,000 and three vehicles (2 x petrol driven cars, 1 x diesel driven ute)	$1,891	$1,989	$2,091	$2,195
Family with a household income of $85,000 and two vehicles (1 x diesel driven car, 1 x diesel driven ute)	$1,254	$1,323	$1,392	$1,461
A retired couple with one vehicle (1 x electric vehicle)[15]	$46	$46	$55	$64
A retired couple with one vehicle (1 x petrol/non-petrol vehicle)	$105	$107	$114	$123
Single parent with an income of $31,000 (approx. 30hrs/week on minimum wage) and 1 car	$480	$500	$527	$553

Option A: Total business levy

Business	Current	2022/23	2023/24	2024/25
Small house construction business with 8 employees each earning $70,000 and a small fleet (3x diesel driven ute/van, 3x petrol driven car)	$10,028	$8,634.68	$8,906.66	$9,238.29
Medium sized architecture business with 35 employees (average income of $81,000 each) and 5 petrol driven cars	$4,492	$3,652.16	$3,690.33	$4,014.72

[15] Includes EV subsidy as consulted on (i.e. no petrol levy) – noting significant feedback was received on this approach. The impact perspective is agnostic of fuel type (as it assumes consumption is comparable and the rate stays the same)

Option B: Hold current rates

Based on no change to the aggregate levy rates for the next three years. **Assumes updates to risk relativity** for the Motor Vehicle and Work Accounts to reflect changes in claims experience since 2018.

Levy	2022/23	2023/24	2024/25
Average Work levy rate per $100 payroll	$0.67	$0.67	$0.67
Earners' levy rate per $100 wages	$1.21	$1.21	$1.21
Average Motor Vehicle levy rate per vehicle	$113.94	$113.94	$113.94

Option B: Total household levy

Household	Current	2022/23	2023/24	2024/25
Family with a household income of $129,000 and three vehicles (2 x petrol driven cars, 1 x diesel driven ute)	$1,891	$1,893	$1,893	$1,893
Family with a household income of $85,000 and two vehicles (1 x diesel driven car, 1 x diesel driven ute)	$1,254	$1,259	$1,259	$1,259
A retired couple with one vehicle (1 x electric vehicle)	$46	$41	$41	$42
A retired couple with one vehicle (1 x petrol driven, hybrid)	$105	$101	$101	$101
Single parent with an income of $31,000 (approx. 30hrs/week on minimum wage) and 1 car	$480	$476	$476	$476

Option B: Total business levy

Business	Current	2022/23	2023/24	2024/25
Small house construction business with 8 employees each earning $70,000 and a small fleet (3x diesel driven ute/van, 3x petrol driven car)	$10,028	$9,120	$9,086	$9,109
Medium sized architecture business with 35 employees (average income of $81,000 each) and 5 petrol driven cars	$4,492	$3,822	$3,720	$3,907

Option C: Decrease Work, increase Earners', hold Motor Vehicle

Based on alternative proposed rates to:

- **2022/23 decrease** to the aggregate Work levy, but no increases to **the aggregate** in out years. Detailed rates refreshed to reflect changing risk relativities since 2018 and capping over the three years, within the constraints of the set aggregate rate.
- **Increase** the Earners' levy per FPS requirements
- **No change** to the **aggregate** Motor Vehicle levy. Detailed rates refreshed to reflect changing risk relativities since 2018, within the constraints of the current aggregate rate.

Levy	2022/23	2023/24	2024/25
Average Work levy rate per $100 payroll	$0.63	$0.63	$0.63
Earners' levy rate per $100 wages	$1.27	$1.33	$1.39
Average Motor Vehicle levy rate per vehicle	$113.94	$113.94	$113.94

Option C: Total household levy

Household	Current	2022/23	2023/24	2024/25
Family with a household income of $129,000 and three vehicles (2 x petrol driven cars, 1 x diesel driven ute)	$1,891	$1,970	$2,048	$2,125
Family with a household income of $85,000 and two vehicles (1 x diesel driven car, 1 x diesel driven ute)	$1,254	$1,310	$1,361	$1,412
A retired couple with one vehicle (1 x electric vehicle)	$46	$41	$41	$42
A retired couple with one vehicle (1 x petrol driven, hybrid)	$105	$101	$101	$101
Single parent with an income of $31,000 (approx. 30hrs/week on minimum wage) and 1 car	$480	$495	$513	$532

Option C: Total business levy

Business	Current	2022/23	2023/24	2024/25
Small house construction business with 8 employees each earning $70,000 and a small fleet (3x diesel driven ute/van, 3x petrol driven car)	$10,028	$8,601	$8,569	$8,591
Medium sized architecture business with 35 employees (average income of $81,000 each) and 5 petrol driven cars	$4,492	$3,624	$3,528	$3,704

Annex Two: Impact analysis of options

	Option A	Option B (Hold rates)	Option C
Criteria[16]			
Meeting the lifetime costs of claims each year			
Intergenerational equity (Minimise intergenerational transfers through each year's levy payers paying appropriate amount and not subsidising future claimants)	✓✓	✓	✓✓
Fair share of costs – reflecting true cost of injuries – best estimate of current claim costs	✓✓	✓	✓✓
Maximise injury prevention incentives by sending the right price signals	✓✓✓	✓	✓✓
Correcting for any surplus or deficits			
Return to target solvency	✓✓	✓	✓✓✓
Confidence in solvency adequacy	✓✓✓	✓✓	✓✓✓
Avoiding large changes in levies			
Levy stability (ability to plan future costs + sustainable levy path)	✓✓✓	✓✓	✓✓
Public interest considerations			
Broader economic and social considerations (interest groups are potential future claimants and future levy payers)	✓✓	✓	✓✓✓

✓ Low

✓✓ Medium

✓✓✓ High

[16] The criteria are formed from section 166A of the AC Act.

Annex Three: Funding Policy Statement in Relation to the Funding of ACC's Levied Accounts

This statement has been issued under section 166B of the Accident Compensation Act 2001 ("Act").

In accordance with section 331(3) of the Act, the Accident Compensation Corporation (ACC) must give effect to this statement when recommending the making of regulations prescribing the rates of levies to the Minister for ACC.

Purpose

The purpose of this statement is to set out the Government's policy with respect to the funding of ACC's levied Accounts:

- the Earners' Account (including any part of the Earners' Account required to fund the Treatment Injury Account in accordance with section 228 of the Act);
- the Work Account; and
- the Motor Vehicle Account.

Accident compensation is by nature a long-term activity with liabilities that stretch over decades. In setting levies, it is necessary to consider the long-term nature of the claims they will fund as well as provide levy payers with reasonable stability of levy rates over time. This statement informs ACC of the Government's expectations with regard to these two factors. In particular, the statement is intended to improve:

- transparency around funding decisions, by making it clear how today's funding decisions will impact the scheme over future periods; and
- consistency and stability in decisions over time, by imparting a longer-term focus.

Principles of Financial Responsibility in Relation to Accounts

This policy statement is consistent with the principles of financial responsibility outlined in section 166A of the Act. Specifically, section 166A requires the cost of all claims under the levied Accounts to be fully funded. This means adequate assets must be maintained to fund the costs of claims. To achieve full funding when setting levies, section 166A requires the Minister for ACC to have regard to the following principles:

- the levies derived for each levied Account should meet the lifetime costs of claims in relation to injuries that occur in a particular year;
- if an Account has a deficit or surplus of funds to meet the costs of claims, that surplus or deficit is to be corrected by setting levies at an appropriate level for subsequent years; and
- large changes in levies should be avoided.

It is acknowledged that there may necessarily be trade-offs between the principles of financial responsibility. The statement below reflects the Government's weighting of those principles.

Funding Policy Statement

Consistent with the principles of financial responsibility, ACC must recommend levies for each levied Account according to the following requirements:

- ACC must base the aggregate levy rate for a year on the expected lifetime cost of claims in relation to injuries occurring in that year ("expected lifetime cost of claims in the levy year").
- Each Account must target a funding ratio of 100%. The funding ratio is calculated by dividing the assets by the liabilities. The assets are defined as the total assets reported in the annual report less:
  - payables
  - accrued liabilities
  - investment liabilities
  - provisions

- unearned levy liability
- and any assets for the accredited employers programme (AEP)

The liabilities are defined as the balance sheet Outstanding Claims Liability (OCL) but:

including:

- off balance sheet work-related gradual process claims not yet made

and excluding:

- liability for the AEP
- the OCL risk margin.

- ACC must include an adjustment to the aggregate levy rate that takes the Account's funding ratio to the target defined in b. smoothly over a ten-year horizon. This is to be achieved by setting the adjustment at a fixed proportion of expected lifetime injury costs in the levy year, and for each year over a ten-year horizon.
- Any annual increase to the aggregate levy rate for each Account must not exceed 5% (in addition to inflation adjustments for the Motor Vehicle Account).
- Steps a. to d. are repeated for each levy year in the period for which ACC is recommending levies.

Dated this 10th day of March 2021.

HON CARMEL SEPULONI, Minister for ACC.

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

ACC levies 2022/23 – 2024/25: Final ACC and MBIE recommendations

Date:	29 October 2021	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2122-1331/ GOV-014803

Action sought		
	Action sought	**Deadline**
Hon Carmel Sepuloni **Minister for ACC**	**Discuss and provide feedback** on the advice in this paper and the levy rates that you wish to recommend to Cabinet. **Authorise the lodgement** of the attached Cabinet paper by 10am, Thursday 18 November 2021 for consideration by the Cabinet Economic Development Committee on Wednesday, 24 November 2021	4 November 2021 18 November 2021

Contact for telephone discussion (if required)				
Name	**Position**	**Telephone**		**1st contact**
Hayden Fenwick	Manager, Accident Compensation Policy	Privacy of natural persons	Privacy of natural persons	✓
Paul Gimblett	Head of Levies, ACC	Privacy of natural persons	Privacy of natural persons	✓

The following departments/agencies have been consulted
The Treasury, Ministry for Pacific Peoples, Te Puni Kokiri, NZ Customs, Ministry of Transport, Waka Kotahi, Ministry of Social Development, Inland Revenue, Ministry for Women, Ministry of Justice, WorkSafe

Minister's office to complete:

- ☐ Approved
- ☐ Declined
- ☐ Noted
- ☐ Needs change
- ☐ Seen
- ☐ Overtaken by Events
- ☐ See Minister's Notes
- ☐ Withdrawn

Comments

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

ACC levies 2022/23 – 2024/25: Final ACC and MBIE recommendations

Date:	29 October 2021	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2122-1331/ GOV-014803

Purpose

This briefing provides:

- ACC and MBIE's final advice on levy rates for the years 2022/23, 2023/24 and 2024/25
- advice on proposed changes to the Experience Rating programme, Classification Units, and Credit Interest.

It also seeks your agreement to lodge the attached Cabinet paper by 10am,18 November 2021 for consideration at the Cabinet Economic Development Committee (DEV) meeting on 24 November 2021. The Cabinet paper seeks Cabinet decisions on your proposed future levy rates, Experience Rating changes, and Classification Unit and Credit Interest changes.

Executive summary

ACC consulted on increasing Earners' and Motor Vehicle levies, and an initial decrease to Work levies followed by increases in the second and third year (paragraph 24, page 12)

ACC has a statutory responsibility to consult levy payers and make recommendations to you on the levy rates necessary to give effect to the Funding Policy Statement.

ACC consulted on increasing the average levy rates for the Earners' and Motor Vehicle Accounts, and reducing the Work Account levy rates for 2022/23 before increasing back to the current rate in incremental steps in 2023/24 and 2024/25. ACC has confirmed its recommendations to you (Option A), and following consideration of all public feedback has confirmed its recommended changes to detailed rates and amounts, recommended changes to the Experience Rating programme, and revised its recommendation for the electric vehicle levy.

MBIE recommends Motor Vehicle levies should be held, Earners' levies increased, and Work levies reduced in 2022/23 and then held for 2023/24 and 2024/25

The Ministry of Business Innovation and Employment's (MBIE) role as your policy advisor on the ACC Scheme includes providing you with independent advice on the 2022-25 levy rates and levy related policy proposals. MBIE previously provided you with alternate levy pathways for consideration in advance of our final joint advice (2122-1138 refers), this briefing sets out MBIE's recommended levy rates, in conjunction with ACC's recommended levy rates.

Given the current state of the levied Accounts (all above the 100 per cent funding target at present) and other governmental, economic and social priorities, MBIE recommends that you hold the levy rates for the Motor Vehicle Account, increase the levy rates for the Earners' account as recommended by ACC, and reduce the Work Account's levy rate as recommended by ACC for 2022/23 and then hold this reduced rate for 2023/24 and 2024/25 (Option C). This option achieves the levy setting objective of returning the levied Accounts to the 100 percent funding target quicker for the Motor Vehicle and Work Accounts, while ensuring stability in the Earners' Account.

As well as ACC and MBIE's recommended levy rates, a further option of 'the status quo' no change scenario has been added for comparison

A further option to hold all current levy rates at 2021/22 levels for the next three years is included alongside ACC's and MBIE's recommended rates. This gives you three broad options to consider for 2022/23 – 2024/25 levies:

- Option A: ACC's recommended levy rates
- Option B: Status quo: Holding all rates at 2021/22 levels
- Option C: ACC's consulted increase for the Earners' Account, reducing the Work Account, while holding the Motor Vehicle Account at 2021/22 levy rates (MBIE recommended).

The following tables outline the three options, you will note that for simplicity, where options recommend the same rates, we have combined them.

Average levy rate options for the Motor Vehicle Account[1]

Levy rate options	Average levy rates for each levy year			
	Current (2021/22)	2022/23	2023/24	2024/25
Option A: ACC's recommend levy rates	$113.94	$120.20	$128.83	$138.08
Option B: Maintain current levy rates; and Option C: MBIE's recommended rates - Maintain current levy rates	$113.94	$113.94	$113.94	$113.94

Table 2: Levy rate options for the Earners' Account[2]

Levy rate options	Levy rates for each levy year			
	Current (2021/22)	2022/23	2023/24	2024/25
Option A: ACC's recommended levy rates and Option C: MBIE's recommended rates	$1.21	$1.27	$1.33	$1.39
Option B: Maintain current levy rates	$1.21	$1.21	$1.21	$1.21

[1] Per vehicle, excluding GST.
[2] Per $100 liable earnings, excluding GST.

Table 3: Average levy rate options for the Work Account[3]

Levy rate options	Average levy rates for each levy year			
	Current (2021/22)	2022/23	2023/24	2024/25
Option A: ACC's recommended levy rates	$0.67	$0.63	$0.65	$0.67
Option B: Maintain current levy rates	$0.67	$0.67	$0.67	$0.67
Option C: MBIE's recommended rates - reduce the Work Account's levy rate as consulted by ACC for 2022/23 and then hold this reduced rate for 2023/24 and 2024/25	$0.67	$0.63	$0.63	$0.63

Option C would translate into a total OBEGAL decrease of $91m-$408m per annum, as compared with a decrease of $38m-$97m per annum, under ACC's consulted rates, over the forecast period.

Officials will be available to discuss and, once you have decided the levy rates to recommend to Cabinet, we will update the draft Cabinet paper seeking agreement to those rates for consultation with your colleagues.

ACC and MBIE recommend increasing the maximum penalty that can be applied through the ER programme (paragraphs 64-66, page 19)

MBIE and ACC propose increasing the maximum penalty that can be applied through the Experience Rating programme (ER) from 75 per cent to 100 per cent as this will strengthen the consequences for employers with poor claims experience. Public consultation showed a 57 per cent agreement with the increase.

ACC recommends increasing the impact of a fatal claim through the ER programme, while MBIE recommends no change (paragraphs 67-74, page 20)

ACC has consulted on two options for increasing the impact of a fatal claim through ER. This impacts the Accident Compensation (Experience Rating) Regulations 2019. These regulations adjust a medium to large sized business' Work Account levy in line with their claims experience.

We have considered three options on how a fatality could impact a business' experience rating adjustment:

1. status quo with no changes – retain current settings (MBIE's preferred approach).
2. impose a 20% levy loading in the first year after a fatal injury followed by a 10% loading in the second year (ACC's preferred approach)
3. treat each fatal injury like a serious injury requiring a year or more away from work, which would increase the levy by between zero and 80% depending on the size of the business.

[3] Per $100 liable earnings, excluding GST.

Of the three options proposed, MBIE does not support options 2 and 3 they both have the potential in some circumstances to produce inequitable results. Based on consultation feedback ACC recommends proceeding with option 2. A more thorough analysis of the three options is provided below, in the main body of the briefing.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Note** that ACC must recommend levy rates to you (in line with the Funding Policy Statement) before you make any further recommendations to Cabinet, and these recommendations are attached at **Annex One**

Noted

b **Note** that MBIE engaged independent actuarial consultants to provide quality assurance of ACC's actuarial forecasts, assumptions, and recommendations

Noted

c **Note** that the 2021 levy consultation report, (attached at **Annex Two**) presents you with the feedback from levy payers that ACC received during consultation

Noted

d **Agree** to discuss the briefing with officials, including providing feedback by 4 November 2021 on the levy rates that you wish to recommend to Cabinet; we will incorporate this in the Cabinet paper seeking decisions on levy rates, which we expect will be provided to you on Thursday, 4 November 2021

Agree / Disagree

e **Indicate** your preference on the average levy rates for the Work, Earners', and Motor Vehicle Accounts

Work Account (per $100 liable earnings excluding GST)	**2022/23**	**2023/24**	**2024/25**	√**Preferred**
Option A: ACC's recommended rates	$0.63	$0.65	$0.67	
Option B: Status Quo - Maintain 2021/22 rates	$0.67	$0.67	$0.67	
Option C: MBIE's recommended rates - reduce the Work Account's levy rate as consulted by ACC for 2022/23 and then hold this reduced rate for 2023/24 and 2024/25	$0.63	$0.63	$0.63	

				√**Preferred**
Earners' Account (per $100 liable earnings excluding GST)	**2022/23**	**2023/24**	**2024/25**	
Option A: ACC's recommended rates (**MBIE recommended**)	$1.27	$1.33	$1.39	
Option B: Status Quo - Maintain 2021/22 rates	$1.21	$1.21	$1.21	

				√**Preferred**
Motor Vehicle Account[4] (per vehicle excluding GST)	**2022/23**	**2023/24**	**2024/25**	
Option A: ACC's recommended rates	$1.27	$1.33	$1.39	
Option B: Status Quo - Maintain 2021/22 rates (**MBIE recommended**)	$1.21	$1.21	$1.21	

f **Agree** that, under any funding path, ACC may adjust detailed levy rates for the Motor Vehicle and Work Accounts (including the rates and discounts for CoverPlus Extra and the Accredited Employers Programme) across the levy period to reflect their changing risk profiles based on their claims experience

Agree / Disagree

[4] Note that Motor Vehicle Account levies are expressed as dollars per vehicle, while Work and Earners' levies are a percentage of earnings. Motor Vehicle Account levies should be expected to increase each year at least in line with wages.

g **Agree** the following changes to the minimum and maximum liable earnings

	From (current amount)	Proposed for 2022-2023 levy period	Proposed for 2023-2024 levy period	Proposed for 2024-2025 levy period	**Agree / Disagree**
Maximum for everyone	$130,911	$136,544	$139,384	$142,283	*Agree / Disagree*
Minimum for everyone	$36,816	$42,465	$43,349	$44,250	*Agree / Disagree*

h **Indicate** your preference on the detailed levy rate for class 2a, light electric vehicles

Class 2a, light electric vehicle levy (per vehicle excluding GST)	**2022/23**	**2023/24**	**2024/25**	**√Preferred**
Option A: Subsidised rate, as consulted on (MBIE preferred)	$46.16	$54.52	$63.56	
Option B: ACC's revised recommendation, so electric vehicles would pay the same rate as other non-petrol powered vehicles by 2024/25 (ACC preferred)	$71.54	$97.04	$122.54	

i **Note** that we have drafted a Cabinet paper for you to take to DEV seeking approval on the proposed changes to the 2022/23, 2023/24 and 2024/25 levies

Noted

j **Indicate** your preference on the following levy policy proposals

Experience Rating Enhancements (Maximum penalty)	**Agree / Disagree**
Increase the maximum levy penalty in the Experience Rating Programme (ER) from 75 per cent to 100 per cent	*Agree / Disagree*

Experience Rating Enhancements (Fatality Modifier)	✓**Preferred**
Option 1: No change **[MBIE preferred]**	
Option 2: Treat each fatal injury the same as a severe injury requiring a year or more away from work (the maximum impact one injury can have in ER)	
Option 3: Separate fatal claims from medical claims in the ER calculation. A fatal claim within the last two ER years would trigger a final adjustment to that employer's Work levy of a 20 per cent increase in the first year and a 10 per cent increase in the second year. **[ACC preferred]**	

Changes to specific Classification Units (CUs) for the Work Account	**Agree / Disagree**
Group all retail businesses into different CUs based on the products they sell	*Agree / Disagree*
Reclassify retail and wholesale commission-based business into the same CU, with a lower levy rate	*Agree / Disagree*
Group all professional cricket players (both international and domestic) into the professional cricket CU, and reduce the levies paid by organisations in the community cricket CU	*Agree / Disagree*
Implement a number of CU changes to enable prime contractors in the construction sector to pay a flat levy rate	*Agree / Disagree*

Change the rate of Credit Interest	✓**Preferred**
Option 1: Retain status quo (6 per cent)	
Option 2: Change to align with the three-year Government Bond Rate **[ACC and MBIE recommended option]**	

k **Note** that we have provided the period Thursday 4 November to Thursday 18 November for your Ministerial consultation on the draft DEV Cabinet paper

Noted

EITHER

l **Provide feedback** on the attached DEV paper by Monday 15 November 2021

Agree /Disagree

OR

m **Authorise for lodgement** the attached DEV paper, which seeks confirmation on the proposed changes to the 2022/23, 2023/24 and 2024/25, by 10am on 18 November 2021 for consideration by the Committee on 24 November 2021

Agree /Disagree

H.C. Fenwick

Hayden Fenwick
Manager, Accident Compensation Policy
Workplace, Relations & Safety Policy, MBIE

29 / 10 / 2021

Hon Carmel Sepuloni
Minister for ACC

..... / ...... / ......

Paul Gimblett
Head of Levies
ACC

29 / 10 / 21

Background

1. ACC must recommend levy rates to you before you make recommendations to Cabinet (section 331 of the *Accident Compensation Act 2001* (the AC Act)). ACC's recommendations are attached at **Annex One**. ACC's levy rate recommendations must also give effect to the Government's Funding Policy Statement.

2. MBIE's role as your policy advisor on the ACC Scheme includes providing you with independent advice on the 2022/23, 2023/24 and 2024/25 levy rates ("2022/23 – 2024/25 levies") and levy related policy proposals. MBIE provided you with alternate levy pathways for consideration on 25 October 2021 (2122-1138 refers), this briefing builds on that advice alongside ACC recommendations.

3. ACC also consulted on levy-related policy proposals, on your behalf, including changes to specific Classification Units (CUs) for the Work Account and changing the rate of Credit Interest. Feedback on these proposals is incorporated in our discussion of these proposals. An analysis of the consultation submissions is at **Annex Six**.

4. You must consider ACC's recommendations, but responsibility for setting levy rates to achieve fully funded Accounts lies with the Government of the day.

5. Following levy decisions, ACC is required to publish a report[5] detailing the effect that the prescribed levies are expected to have on the relevant Accounts, including future levy and solvency rates.

Legislative requirements and context for setting 2022-25 levies

ACC's levy recommendations must comply with the Funding Policy Statement

6. ACC's proposed levy recommendations are required to comply with the Government's *Funding Policy Statement in Relation to the Funding of ACC's Levied Accounts* ("the FPS"). The FPS determines how ACC calculates the average levy rates. The current FPS was issued by you in March 2021.

7. MBIE engaged Deloitte to undertake a quality assurance review of ACC's levy recommendations. After reviewing ACC's levy proposals, Deloitte has advised that:

> ACC has applied the funding policy statement appropriately and the proposed levy rates are reasonable.
>
> ACC's levy rate proposals are consistent with the financial responsibility principles set out in section 166A of the Accident Compensation Act 2001, which form the basis of the funding policy statement.

Your levy decisions must comply with financial responsibility principles and must have regard to the public interest

8. Under the AC Act, when setting levy rates you must have regard to the following legislated financial responsibility principles[6]:

   - the levies derived for each Account should meet the lifetime cost of claims
   - under- and over-funding should be corrected by the setting of levies at an appropriate rate
   - large changes in levies should be avoided.

[5] Section 331(5A) Accident Compensation Act 2001.
[6] Section 166A(2) Accident Compensation Act 2001.

9. In addition to the financial responsibility considerations, you must have regard to the broader public interest, in particular the interests of taxpayers, levy payers, claimants, and potential claimants[7].

Setting levy rates involves balancing financial stability and wider public interest, while accounting for a certain level of uncertainty in future estimates

10. Setting levy rates involves balancing a range of objectives and factors, including full funding, levy stability, intergenerational equity, collecting the minimum amount necessary and the public interest. It involves a trade-off between pricing expected future costs, and covering past overs and unders to maintain scheme solvency.

11. There is also a degree of uncertainty. Economic factors change and so do estimates of the true cost of new years' claims, as ACC's actuaries update their valuation of the liability.

12. Further, while levies are a key aspect of funding they are not the only lever Ministers should consider. ACC and AC Scheme performance must also be considered: placing expectations on ACC injury prevention, operational decision making and rehabilitation performance is a legitimate part of levy setting, in considering the interests of the government and levy payers.

Higher claims costs and economic factors have placed pressure on the levied Accounts

13. Poorer rehabilitation rates and more claims requiring weekly compensation for longer and higher earnings have placed pressure on all of the Accounts. Higher use of care hours by people with serious injuries in the Motor Vehicle Account and more sensitive claims in the Earners' Account are particular pressures for those accounts.

14. The Work Account, while affected by poorer weekly compensation and rehabilitation performance, is sheltered by its high solvency levels (131 per cent as at June 2021), compared to the other accounts.

15. Detail on the key drivers of claims costs, and levy rates, are summarised below in **Table 1**, along with the impact that they have had on ACC's proposed levy rates:

[7] Section 300 of the AC Act.

Table 1: Drivers of claims cost and levy rates

Driver	Work Account	Earners' Account	Motor Vehicle Account
Higher claims costs	Poorer weekly compensation performance across all accounts: more claims, longer duration of payments and higher average payments.		
	More serious injury claims than expected.	Higher than expected numbers of sensitive claims. Higher expected average cost of payments for serious injury care claims (increased rehabilitation costs).	Increases in serious claims costs. Increases in bulk funded claim costs, including emergency care and Public Health Acute Services (PHAS).
	Increase in levy of $0.05 per $100 liable earnings.	**Increase** in levy of $0.27 per $100 liable earnings.	**Increase** in levy of $35.45.
Discount rates and forecast investment returns	Changes to discount rates and forecast reduced investment returns increased the expected cost of claims across all accounts.		
	Increase in levy of $0.10 per $100 liable earnings.	**Increase** in levy of $0.12 per $100 liable earnings.	**Increase** in levy of $52.76.
Recent Investment performance	In the last three years ACC's assets have grown more than the negative movement in liabilities from discount rate changes.		
	Reduction in levy of $0.16 per $100 liable earnings.	**Reduction** in levy of $0.12 per $100 liable earnings.	**Reduction** in levy of $58.58.
Funding Policy Changes	Cabinet's 2019 changes to the funding policy, removing some risk margins and reducing the funding target to 100% for all accounts.		
	Reduction in levy of $0.11 per $100 liable earnings.	**Reduction** in levy of $0.14 per $100 liable earnings.	**Reduction** in levy of $60.23.

MBIE and ACC's recommended 2022-25 Levy Rates[8]

ACC's recommended levy rates

24. Section 331 of the Accident Compensation Act (AC Act) requires ACC to provide you with its recommended levy rates before you make any recommendations to Cabinet. ACC's recommendations give effect to the Funding Policy Statement and are attached at **Annex One**. **Table 2** below provides a quick overview.

Table 2: ACC's recommended levy rate proposals

	Current 2021/22 levy rates	ACC's Proposed Levy Rates			Net rate change over 3 years
		2022/23	2023/24	2024/25	
Work Account	**$0.67** per $100 of payroll	$0.63	$0.65	$0.67	No change
Earners' Account	**$1.21** per $100 wages	$1.27	$1.33	$1.39	**+$0.18**
Motor Vehicle Account	**$113.94** per vehicle	$120.20	$128.83	$138.08	**+$24.14**

25. While each of the Accounts are currently reporting surplus funds, levies are currently set $1.39 billion below the costs of new injuries each year. The Funding Policy Statement is designed to balance the challenge of fluctuating solvency positions due to changes in the economy and closing this under-levied gap to provide a smooth path for levy payers.

26. MBIE provided a further analysis of ACC's recommendations for your consideration on 25 October (2122-1138 refers). MBIE recommends that this briefing is read in conjunction with the 25 October briefing.

Other levy scenarios

27. ACC is required under section 331 of the AC Act to provide you with a recommendation on levy rates which give effect to the requirements of the FPS.

28. MBIE is able to consider ACC's consulted rates and factor in the wider public interest. MBIE has considered the following factors:

    - Ensuring the Accounts remain as close as possible to the 100 per cent funding target. In some cases this may mean running an Account down faster to reach the target or ensuring an Account does not dip below the target too quickly.

    - Impacts on businesses as a result of the COVID-19 pandemic, as well as impacts on individuals including rising inflation and costs of living (including current high petrol costs).

[8] The proposed rates discussed below are average rates for each levied Account. With the exception of the Earners' Account levy, the actual levy paid by levy payers will vary. In the Work Account, it will depend on the employer's classification unit (industry), their claims experience and any participation in safety incentive programmes. For motorists contributing to the Motor Vehicle Account, it will depend on the type of vehicle they own.

29. Therefore, alongside ACC's recommended rates, MBIE and its actuary Deloitte have analysed two further levy scenarios, giving you three broad options to consider for 2022/23 – 2024/25 levies:

- Option A: ACC's consulted levy rates
- Option B: Status quo: Holding all rates at 2021/22 levels
- Option C: ACC's consulted increase for the Earners' Account, reducing the Work Account, while holding the Motor Vehicle Account at 2021/22 levy rates [MBIE recommended].

30. The alternative options provided and their impacts are considered in the Cost Recovery Impact Statement, and in more detail in **Annex Five**, including the impacts on households.

31. In summary, each of the options reflects different weightings that could be given to the interest of current levy payers versus future levy payers, as outlined in **Table 3** below:

Table 3: Summary of options analysis

Considering…	Means you prioritise…
Option A: ***ACC's consulted rates*** (decrease then increase Work, increase Earners' and Motor Vehicle)	• A more **gradual return to the 100 per cent** funding position, spreading the rundown of the account surplus to benefit current and future levy payers. • **Reducing the risk of greater levy increases** in future rounds • **Reducing the risk of levy fluctuations** (certainty principle).
Option B: ***Hold current rates***	• An **earlier return to the 100 per cent** funding position for the Motor Vehicle and Earners' Accounts. • **Limiting financial pressure on current levy payers** by running down a greater proportion of the surplus to benefit these current levy payers. • **Accepting the risk that larger increases may be required** in future levy setting rounds if ACC does not meet or exceed its forecast scheme performance. • **Accepting the risk of running the Earners' Account down** below the 100 per cent funding target.
Option C: ***Decrease Work, increase Earners', hold Motor Vehicle***	• An **earlier return to the 100 per cent** funding position **for the Work and Motor Vehicle Accounts**. • **Limiting financial pressure on current Motor Vehicle and Work Account levy payers** is reasonable and that surplus funds should not be retained to subsidise the scheme costs for future levy payers. • You **do not want to take risks with the Earners' Account**, which is under the most pressure of the Accounts. • You **accept placing a burden on future generations of levy payers for the Work and Motor Vehicle Accounts**, all else being equal.

Work Account scenarios

Table 7: Comparison of options for the work account

Average levy rate for each option considered	Option A: ACC's consulted levy rates			Option B: Hold rate			Option C: Alternative levy rate		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Current 2021/22 levy rate	$0.67			$0.67			$0.67		
New year cost rate	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91
Proposed levy rate[9]	**$0.63**	**$0.65**	**$0.67**	**$0.67**	**$0.67**	**$0.67**	**$0.63**	**$0.63**	**$0.63**
Estimated funding ratio in 2035	110.9%			111.3%			110.2%		

32. ACC's recommended Work Account levy rates align with the FPS, initially decreasing the Work Account levy to $0.63 per $100 of liable earnings, and gradually increasing to $0.67 over three years.

33. MBIE considers there is good reason to consider holding the proposed reduced 2022/23 rate for the 2023/24 and 2024/25 levy years, as:

- the Work Account funding ratio is expected to remain above the 100 per cent target over the next 10 years in all three options provided. Although holding the Account at the lower rate for all three years would necessitate larger increases in the following years, all else being equal, we consider this a lower priority compared to reducing some cost pressures for business due to the impacts of the current COVID-19 pandemic

- the funding ratio of this Account is also substantially higher to the other Accounts: 131 per cent as at June 2021. Given that the Work Account funding ratio is expected to remain above the 100 per cent target over the next 10 years, a levy reduction is appropriate to get the Account closer to the 100 per cent funding position over a shorter period of time.

9 Numbers may not add due to rounding.

Earners' Account scenarios

Table 8: Earners' Account solvency and levy projections 2022/23-2024/25 for options A and C (ACC consulted rates) and option B (status quo)

Average levy rate for each option considered	Options A and C: ACC's consulted levy rates			Option B: Hold rate		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Current 2021/22 levy rate	$1.21			$1.21		
New year cost rate	$1.67	$1.68	$1.69	$1.67	$1.68	$1.69
Proposed levy rate[10]	**$1.27**	**$1.33**	**$1.39**	**$1.21**	**$1.21**	**$1.21**
Estimated funding ratio in 2035	100.8%			91.2%		

34. The majority of submitters on ACC's consultation disagreed (60 per cent) with the proposed increase in the Earners' levy. Some submitters expressed concerns about the rising cost of living, and the impact that increasing the Earners' levy rates will have on overall costs for those struggling. However, wage inflation has continued over the COVID-19 pandemic. MBIE considers that the risk of even larger levy increases in the future could have an even greater impact on the disposable income of levy payers.

35. MBIE considers there is a reasonable rationale for increasing average levy rates considering the Account is likely to dip below the funding target within the next three years and the inherent pressures on the Earners' Account.

36. We consider increasing the current rates for the Earners' Account could be appropriate as:

- Holding the current levy rates in place for the next three years would see the Account go below 90 per cent solvency (88 per cent) over the 10 year funding horizon, leading to larger increases in levy rates in outer years, where future levy payers would be required to fund the cost of current claims.
- Unlike the Motor Vehicle Account, the Earners' Account is expected to go below 100 percent solvency much earlier, in 2026. We consider this risk outweighs the benefit to current levy payers of maintaining the current rates.
- Under the FPS, levy rates are capped at five per cent to avoid large increases for levy payers. ACC's calculated levy increase, without being capped, would be $1.46 per $100 or liable earnings, meaning the proposed rates are well below the current expected New Year costs.

37. MBIE's view is that the Earners' Account is the Account that presents the most solvency risk, and that a cautious approach to setting its levy is preferable.

[10] Numbers may not add due to rounding.

Motor Vehicle Account scenarios

Table 9: Comparison of options for the Motor Vehicle Account

Average levy rate for each option considered	Option A: ACC's consulted levy rates			Options B and C: Hold rate		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Current 2021/22 levy rate	$113.94			$113.94		
New year cost rate	$218.58	$224.34	$231.16	$218.58	$224.34	$231.16
Proposed levy rate[11]	**$120.20**	**$128.83**	**$138.08**	**$113.94**	**$113.94**	**$113.94**
Estimated funding ratio in 2035	107.2%			97.9%		

38. Most submitters on ACC's consultation (86 per cent) disagreed with the proposed increase in the levy, citing the already high costs of car registration and petrol, and the seemingly unfair distribution of costs among motorists (namely cyclists, EV owners, and electric scooter riders not paying a fair share).

39. MBIE considers that there is scope to consider holding the levy rate for the 2022/23 – 2024/25 period. The account is projected to dip below the funding ratio of 100 per cent over the 10 year funding horizon (97.9 per cent in 2035). However, the levied Accounts are expected to fluctuate over time, while continuously heading towards the 100 per cent target funding ratio. Unlike the Earners' Account, which is forecast to fall below the 100 per cent target funding ratio by 2026, MBIE considers that future levy rounds will provide the opportunity to set levy rates that make up for any under-collection in the Motor Vehicle Account over the short-term.

40. Due to the nature of injuries within the Motor Vehicle Account (more serious injuries requiring higher levels of rehabilitation and care) there is a higher risk in holding the levies over the next three years, and this risks placing a higher burden on future generations of levy payers.

41. MBIE considers maintaining current rates for the Motor Vehicle account is reasonable because:

- Reaching 100 per cent solvency is a target, meaning that Accounts are expected to fluctuate over time, while continuously heading towards 100 per cent. Future levy reviews will allow for the chance to increase levy rates to make up for any under-collection over the short-term.
- Given the impact of the COVID-19 pandemic on levy payers, and the rising cost of petrol and general living expenses, MBIE considers that the benefit of maintaining the current levy rate for current levy payers outweighs the risk that the Motor Vehicle Account levy rates will be required to increase in the next levy round.

[11] Numbers may not add due to rounding.

ACC Comments

42. In assessing whether to maintain the current rates, ACC recommends you consider the following:

- In addition to the funding position, the gap between the levy rates and the new year claim costs is important, as this determines the level of growth in levy rates that motorists will have to absorb over time. At present the levy rates cover 57% of the true cost of claims. This gap will have to close over time.
- Under the no change option, the underfunding of the new year claim cost would worsen to just over half the cost of the claims it receives. This increased underfunding of new year claim costs raises the risk of larger increases in future levies.
- The Motor Vehicle Account has a significant proportion of long-term claims which increases its susceptibility to the current volatility in economic and market conditions. Should these conditions deteriorate from the projections the funding paths are based on the Account could be in a position that significant increases in levies is required to ensure full funding is maintained.
- The aggregate Motor Vehicle Account levy has not changed since July 2017. ACC believes the recommended levy rate increases are reasonable in the context of price growth over a 8 year period.

Petrol levy

43. The Motor Vehicle levy is split between an “at pump” petrol levy and motor vehicle registration charges. Current petrol vehicle owners pay a petrol levy of 6 cents per litre. Considering the current elevated cost of petrol, we agree with ACC and consider that the petrol levy should be maintained at 6 cents per litre for this levy round for public interest considerations, and any necessary adjustments be made to the vehicle licensing levy. The benefits of maintaining the average petrol levy and increasing the registration fee portion include minimising cross-subsidisation of unsafe short-distance drivers and unsafe fuel efficient vehicles (such as motorcycles) by safe long-distance drivers and safer, but less fuel efficient, vehicles.

Electric vehicles

44. Currently, light electric vehicles are levied through vehicle registration at the same rate as petrol-driven vehicles, despite not being liable to pay a petrol levy. This is to help incentivise the uptake of electric vehicles.

45. In consultation ACC proposed maintaining this approach which would result in a 57% lower levy in 2022/23 for pure electric vehicles compared to other non-petrol powered vehicles (**Table 4** below refers).

46. This was met with significant feedback from levy payers around whether this was fair, and suggesting that electric vehicles should be charged the same rate as other passenger vehicles.

47. ACC has therefore revised its recommendation, to remove this subsidy over the next three years. MBIE recommends waiting until the next levy round in 2024, giving MBIE and ACC the opportunity to determine what impact New Zealand’s changing vehicle fleet will have on future ACC levies.

Table 4: Revised EV rates

	Levy rates for each levy year[12]			
	Current (2021/22)	2022/23	2023/24	2024/25
Subsidised rate, as consulted on (MBIE preferred)	$46.04	$46.16	$54.52	$63.56
ACC's revised recommendation	$46.04	$71.54	$97.04	$122.54

48. ACC notes this as an example of where ACC's levy system is not fit-for-purpose and responsive to New Zealand's changing needs. This was a common theme through consultation feedback. ACC proposes to work with MBIE and Treasury to scope a fundamental review of ACC's levy system and expects to engage further with the Minister on these opportunities in 2022.

Applying risk relativities to the Work and Motor Vehicle Accounts

49. Under each of the funding options for the Work and Motor Vehicle Accounts ACC will continue to redistribute costs to reflect the relative risk profiles between levy payers to reflect changes in their claims profile. This will mean that levy rates for some businesses or vehicles will increase when the aggregate rate is decreasing or decrease when the aggregate rate is increasing.

50. Managing risk relativities in this way avoids large changes for levy payers, while ensuring that businesses and vehicle owners are paying a fair levy rate, according to their risk.

- Section 170 of the AC Act requires ACC to separately account for the amounts collected from each levy risk group or classification unit (Work Account) to ensure everyone pays a fair rate. To achieve this, ACC applies a risk relativity weighting to detailed levy rates so that individual classification units pay a rate that reflects any changes in their claims patterns over the last seven years.
- Section 216 of the AC Act allows differential levies to be set for each vehicle class to most accurately reflect their risk rating. This ensures that all road users are paying a fair rate. To achieve this, ACC applies a risk relativity weighting to detailed levy rates so that individual class rates are set at a level that reflects any changes in their claims patterns over the last seven years.

51. Once the aggregate levy rates have been confirmed, the detailed rates for the Work and Motor Vehicle Accounts will be calculated in recognition of any changes in the claims experience. This means that individual levy rates for businesses and vehicles will change each year, even if no changes are agreed to the aggregate rate.

Levy-related policy proposals

We propose that you consider changes to levy policy framework including …

52. We set out our advice on proposals that ACC consulted on (including your proposals), incorporating consideration of public submissions.

[12] These detailed rates reflect the aggregate rate proposed by ACC under the Funding Policy (option A).

Changes to specific CUs

53. Businesses pay levies to the Work Account based on the Classification Unit (CU) they are allocated alongside other businesses that have similar risk profiles. Levy rates vary between CUs, depending on the past claims made by businesses within them. As we previously advised you, we propose changes to specific CUs [2021-3619/GOV-011003 refers], which aim to ensure that businesses pay levies that accurately reflect the risk of their activities. These changes include:

Proposed changes to simplify CUs relating to retail and wholesale trade

- Group all retail businesses into different CUs based on the products they sell.
- Reclassify retail and wholesale commission-based business into the same CU, with a lower levy rate.

Proposed changes to the way cricket players are classified

- Group all professional cricket players (both international and domestic) into the professional cricket CU, and reduce the levies paid by organisations in the community cricket CU.

Proposed changes to remove inconsistencies in the classification of prime contractors

- Implement a number of CU changes to enable prime contractors in the construction sector to pay a flat levy rate.

54. During the public consultation on the 2022-25 ACC levies, 33 submissions were received on CUs[13]. Submissions were 100 percent positive, with all respondents indicating agreement with the proposals.

Changes to the rate of Credit Interest

55. For each levy year, ACC issues employers a provisional invoice with an estimated Work levy. At the end of each levy year, ACC refunds or credits employers if the provisional Work levy is more than $20 higher than the final Work levy invoice. Credit Interest is applied if the provisional Work levy is $1000 or more than the final levy assessment.

56. The current Credit Interest rate is six per cent. Given current low interest rates in New Zealand, this rate is no longer representative of the wider market.

57. You previously agreed in principle to the design of the proposal to change the rate of Credit Interest to align with the three-year Government Bond Rate [2021-3619/GOV-011003 refers]. This new rate of Credit Interest would remain consistent for the levy period, and be reviewed in 2024 for the 2025/26 levy year.

58. 12 submissions were received during consultation on the 2022-25 ACC levies. Public submissions were mostly positive with 83 precent agreeing with the proposal.

59. **Annex Six** contains a more detailed submissions analysis on the proposed changes to CUs and the rate of Credit Interest.

[13] 14 submissions were received on retail and wholesale trade, 11 on community cricket associations, and eight on prime contractors.

Experience rating enhancements

60. ACC's experience rating programme aims to provide a financial incentive to employers to reduce the number and severity of workplace injuries and improve return to work outcomes. It applies to medium and large businesses (and groups of businesses) who pay annual ACC levies of $10,000 or more (i.e. approximately 15,000 out of 550,000 businesses in New Zealand).

61. Experience Rating assesses the claims experience of businesses over the last three years, with a greater weighting on the most recent claims. Employers with very good claims experience may receive levy discounts of up to 50 per cent, while those with negative claims experience may receive a loading of up to 75 per cent. The majority of employers (62%) in Experience Rating receive a discount.

62. The ER programme is funded through a surcharge of just under 3 cents per $100 of liable earnings in the Work Account levy, and is payable by all businesses. The discounts or loadings are rounded to the nearest 10th percentile using a system of bands.

63. ACC proposed two changes to experience rating to strengthen the consequences for employers that have poor claims experience. These changes are increasing the maximum loading from 75 per cent to 100 per cent and introducing a fatality modifier as a final step in the experience rating calculation. These changes would reduce the surcharge to 2 cents per $100 liable earnings.

Proposal to increase the maximum loading applied through ER

64. The proposal to increase the maximum ER loading from 75 per cent to 100 per cent aims to ensure that employers with the poorest health and safety records receive a stronger pricing signal to invest in safety to reduce the incidence of injury in their workplace. It also makes their levy more fairly reflect the costs that these employers impose on the accident compensation scheme.

65. This proposal would result in approximately 14 per cent of the 15,000 businesses in ER paying a higher Work levy. However, only one per cent of businesses would have a levy increase of greater than 10 per cent.

66. ACC received a total of 44 public submissions relating to this proposal, of which 57 per cent were supportive. Both ACC and MBIE support this proposal coming into effect from 1 April 2022.

Proposal to increase the impact of a fatal claim through ER

67. The adjustment applied to an employer's Work levy through ER is based on two factors:

- the number of weekly compensation days taken by employees
- the number of claims of over $500 and the number of employee fatalities.

68. This means that currently a fatal injury and a severely sprained ankle (requiring $500 of medical treatment, but no weekly compensation) have the same impact in the experience rating calculation.

69. ACC considered two options for increasing the impact of a fatal claim:

    1. Treat each fatal injury the same as a severe injury requiring a year or more of weekly compensation (the maximum impact one injury can have in ER).

2. Add a final adjustment for fatal claims so a fatal claim within the last two ER years triggers a 20 per cent increase in the Work levy in the first year after the claim and 10 per cent increase in the second year. This approach aligns to the No Claims Discount programme (for businesses with an annual levy less than $10,000 who have operated for 3+ years).

70. Option 1 would mean the largest employers might not get any levy increase at all from a fatal injury and smaller businesses could incur a loading of up to 80%.

71. Option 2 would mean an employer paying $1 million a year in levies, a 20% loading would, add $200,000 to their levy and for an employer paying $15,000 a year in levies, a 20% loading would add $3,000 to their levy.

72. ACC received 45 public submissions concerning the fatality modifier proposal. Around half of submitters (47%) supported increasing the impact of a workplace fatality in the ER Programme. Some respondents commented that while they support and encourage systems that improve workplace safety, they are concerned that the proposal could result in penalties for employers for factors outside of their control. There was little engagement with option 1 of treating each fatal injury the same as a severe injury for the experience rating calculation.

73. ACC recommends option 2 with the 20 per cent loading for a fatal injury in the first year and a 10 per cent loading in the second year. This would provide a visible pricing signal to reflect the responsibilities employers have to take all practicable steps to avoid loss of life in the workplace.

74. MBIE considers both options have the potential in some circumstances to produce inequitable results that do not provide an extra incentive that more fairly reflects the extra costs a business with a fatal injury imposes on the AC Scheme. MBIE therefore recommends no change is made to the treatment of fatal claims in Experience Rating.

Next steps

75. The table below outlines the next steps of the levy setting process:

When	What	Who
4 November 2021	Draft Cabinet paper for Ministerial consultation	MBIE
4 – 17 November 2021	Ministerial consultation	Your office
18 November 2021	Lodgement of Cabinet paper and Regulatory Impact Statements	MBIE
24 November 2021	Cabinet Economic Development Committee consideration	DEV
29 November 2021	Cabinet decision	Cabinet

76. The levy rates will be publicly announced based on Cabinet's decisions in mid-December. The Cabinet paper will be proactively released once the decisions have been announced.

77. Regulations for the Work and Earners' levies will go to Cabinet in February 2022 take effect on 1 April 2022.

78. Regulations for the Motor Vehicle levies will go to Cabinet in April 2022 to take effect on 1 July 2022.

Annexes

Annex One: ACC's levy recommendations per s331 of the AC Act

Annex Two: 2021 levy consultation report

Annex Three: Submissions analysis on Ministerial consultation

Annex Four: Draft Cabinet paper

Annex Five: Draft Cost Recovery Impact Statement

Annex Six: Draft Regulatory Impact Statement on updating the Experience Rating Regulations

Annex Seven: Financial implications of the three options

Annex One: ACC's levy recommendations

Based on the Funding Policy Statement, ACC recommends the following aggregate levy rates:

Levy	Current 2021/22 levy rates	Proposed levy rates		
		2022/23	2023/24	2024/25
Average Motor Vehicle levy rate	$113.94 per vehicle	$120.20	$128.83	$138.08
Earners' levy rate	$1.21 per $100 wages	$1.27	$1.33	$1.39
Average Work levy rate	$0.67 per $100 of payroll	$0.63	$0.65	$0.67

Based on feedback from the public, ACC recommends:

- Detailed rates for the Work Account, including CPX rates and the fees and discounts associated with the Accredited Employers Programme, are updated to give effect to changing claims profile, as consulted on.
- Detailed rates for the Motor Vehicle Account are updated to give effect to changing claims profile, as consulted on.

with the exception of the class 2a motor vehicle levy for light electric vehicles. ACC consulted on the continuation of a rate that maintained a lower levy than required for electric vehicles (a proposed reduction of 57% in 2022/23). The current levy rate was set to support uptake of electric vehicles rather than a reflection of a lower risk of injury in these vehicles. ACC received 27 submissions discussing whether this levy rate was fair, raising concerns that these vehicles are still involved in accidents.

With the introduction of an improved incentive regimen to encourage uptake of electric vehicles there is no longer a strong rationale to set aside consideration of the normal risk parameters when setting vehicle class levies in favour of providing a weak incentive for uptake.

ACC therefore recommends the following change to the detailed rates for the class 2a motor vehicle levy to align to the levy payable by other non-petrol powered passenger vehicles. This change does not impact other recommended class rates.

	Levy rates for each levy year[14]

[14] These detailed rates reflect the aggregate rate proposed by ACC under the Funding Policy (option A)

	Current (2021/22)	2022/23	2023/24	2024/25
Class 2a – light electric vehicles	$46.04	$71.54	$97.04	$122.54

ACC also recommends:

- the following changes to the minimum and maximum liable earnings:

	From (current amount)	Proposed for 2022-2023 levy period	Proposed for 2023-2024 levy period	Proposed for 2024-2025 levy period
Maximum for everyone	$130,911	$136,544	$139,384	$142,283
Minimum for everyone	$36,816	$42,465	$43,349	$44,250

- raise the maximum adjustment to levy increases from 75% to 100% for businesses in the Experience Rating Programme
- increase the impact of workplace fatalities on levies for businesses in the Experience Rating Programme. A fatal claim within the last two experience rating years would trigger a final adjustment to that employer's levy of a 20% increase in the first year and 10% increase in the second year.

Annex Two: 2021 levy consultation report

Annex Three: Submissions analysis on Ministerial consultation

Minister's Proposals

Retail and wholesale trade CU proposal

100 per cent of submissions on this proposal were positive. There were no significant themes to note out of the feedback received.

Submissions from representative groups	Submitter(s)	Comment
MIA supports the proposal for ACC to classify non-store retailers based on the type of products they sell, the same way as store-based retailers. There is an element of fairness in classifying retailers on the basis of the products or services they sell, rather than the channel they use. However, they note that online-only retailing is growing and this is also an emerging business model for the motor vehicle sector, with two car marques now being sold in NZ this way. They think this business model will need to continue to be monitored as there are potential differences in risk with online-only retailers not having a physical shop with staff and customers mingling amongst stock and equipment.	Motor Industry Association (MIA)	Noted. Will consider for future change in next levy round.
Foodstuffs NZ expressed strong support for this proposal, noting that it will "…lead to greater fairness and equity between online-only retail businesses who compete with brick and mortar business that sell the same or similar product(s)."	Foodstuffs NZ	Noted.

Cricket CU proposal

100 per cent of submissions on this proposal were positive. There were no significant themes to note out of the feedback received.

Submissions from representative groups	Submitter(s)	Comment
NZC's response noted support for this proposal and the lower levy rates	New Zealand Cricket (NZC)	Noted.

Prime contractors CU proposal

100 per cent of submissions on this proposal were positive. There were no significant themes to note out of the feedback received.

Submissions from representative groups	Submitter(s)	Comment
Manage Group expressed support for this proposal, as it will provide a more accurate reflection of the risk carried by a business that subcontracts out all of the trade work, and recommend that ACC introduce the new levy classification and either modify or remove the incumbent levy classifications.	Manage Group	Noted. Will consider for future change in next levy round.

Credit Interest proposal

83 per cent of submissions agreed with this proposal. There was a comment, noting the requirement to set a fixed rate for three years would limit responsiveness. There were no significant themes to note out of the feedback received.

Submissions from representative groups	Submitter(s)	Comment
Manage Group suggested ACC reconsider its position on this proposal and made two specific recommendations: • ACC revert back to the interpretation it held pre 2019 and recognise that when it has the use of client's money, it pays for this use. Leave the rate at the current 6%. ACC is forthright in promoting that its investment division is one of the top performers and consistently achieves returns well over 6% (by a substantial margin). ACC has no negative financial impact in this space.	Manage Group	Noted. We consider that credit interest should reflect the current market rate.
MIA supports this proposal to benchmark the credit interest rate to the three-year Government Bond Rate, and to lock it in for the 3-year cycle of levies.	Motor Industry Association (MIA)	Noted.

Annex Four: Draft Cabinet Paper

Annex Five: Draft Cost Recovery Impact Statement

Annex Six: Draft Regulatory Impact Statement on updating the Experience Rating Regulations

Annex Seven: Financial implications of the three options

Financial Implications

The tables summarise the expected changes to OBEGAL due to the change in levy rates. The total levy revenue is expected to decrease in all forecast years under the proposed levy rates when compared to the rates used in BEFU2021. This impact, along with the consequential changes to the URL, results in annual decreases to OBEGAL between $38m-$97m over the forecast period.

Table 1: Forecast impact on OBEGAL due to ACC proposed levy rate changes (Option A)

	2021/22	2022/23	2023/24	2024/25
Change in Levy revenue due to rate movement	($9.7)m	($43.8)m	($53.5)m	($75.9)m
URL movement due to change in levy rates	($32.2)m	$5.6m	($19.3)m	($21.6)m
OBEGAL impact due to levy rate movement	($41.9)m	($38.2)m	($72.8)m	($97.5)m

Table 2: Forecast impact on OBEGAL due to Option B No changes in current levy rates

	2021/22	2022/23	2023/24	2024/25
Change in Levy revenue due to rate movement	($21.9)m	($143.2)m	($325.2)m	($540.3)m
URL movement due to change in levy rates	($68.9)m	(105.6)m	($144.8)m	($159.7)m
OBEGAL impact due to levy rate movement	($90.8)m	($248.8)m	($470.0)m	($700.0)m

Table 3: Forecast impact on OBEGAL due to Option C - MBIE recommended rates

	2021/22	2022/23	2023/24	2024/25
Change in Levy revenue due to rate movement	($9.7)m	($67.2)m	($137.8)m	($259.6)m
URL movement due to change in levy rates	($32.2)m	(24.2)m	($55.1)m	($149.0)m
OBEGAL impact due to levy rate movement	($41.9)m	($91.4)m	($192.9)m	($408.6)m