



COVERSHEET

Minister	Hon Matt Doocey	Portfolio	ACC
Title of Cabinet paper	ACC Financial Sustainability – levies and performance improvement	Date to be published	13 December 2024

List of documents that have been proactively released		
Date	Title	Author
28 August 2024	<i>Consultation on 2025/26 – 2027/28 ACC levies</i>	<i>Office of the Minister for ACC</i>
28 August 2024	<i>ECO-24-MIN-0174 - 2025/26 – 2027/28 ACC Levies: Approval to Consult</i>	<i>Cabinet Office</i>
25 November 2024	<i>ACC Financial Sustainability – levies and performance improvement</i>	<i>Office of the Minister for ACC</i>
25 November 2024	<i>CBC-24-MIN-0118 – Cabinet Business Committee Minute of Decision</i>	<i>Cabinet Office</i>
25 November 2024	Appendix 5 – Cost Recovery Impact Statement 2025/26, 2026/27, 2027/28 ACC Levies	<i>MBIE</i>
25 November 2024	Appendix 6 – RIS New classification unit for home improvement stores and sports and physical recreation	<i>MBIE</i>
25 November 2024	Appendix 7– RIS Removing ACC's No Claims Discount	<i>MBIE</i>
25 November 2024	Appendix 8 – RIS Reviewing motorcycle groupings to enable levy rates to better reflect crash and claim data	<i>MBIE</i>
25 November 2024	Appendix 9 – RIS ACC's Ride Forever programme	<i>MBIE</i>
25 November 2024	Appendix 10 – RIS Levy portion for plug-in hybrids and battery electric vehicles	<i>MBIE</i>
25 November 2024	Appendix 11 – RIS ACC's Fleet Saver	<i>MBIE</i>
25 November 2024	Appendix 12 – RIS ACC interest rates and bad debt	<i>MBIE</i>

Information redacted

YES / NO (please select)

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.

In Confidence

Office of the Minister for ACC

Cabinet Economic Policy Committee

Consultation on 2025/26 – 2027/28 ACC levies

Proposal

- 1 This paper seeks:
 - 1.1 to inform Cabinet that the Accident Compensation Corporation (ACC) will publicly consult on its proposed levy rates for 2025/26 – 2027/28 (the levy period) as required under sections 330 and 331 of the Accident Compensation Act 2001 (the AC Act).
 - 1.2 Cabinet approval for ACC to publicly consult on proposals on my behalf, which will amend levy policy settings, and interest rates applicable to ACC levies, as required under the AC Act.

Relation to government priorities

- 2 The proposals in this paper are related to the Government priority of delivering better public services.
- 3 Setting levy rates for ACC is a statutory requirement under the Accident Compensation Act 2001.

Executive Summary

- 4 I propose to consult on levy policy settings as set under ACC regulations as part of my priority of ensuring ACC's regulations are efficient, effective and current.
- 5 The ACC levies collected in each year are required to cover the lifetime cost of all covered injuries in that year, less investment returns. Some injuries require payment of entitlements over multiple years.
- 6 ACC will publicly consult on proposed levy rates for 2025/26 to 2027/28, as well as other levy-related policy proposals between 11 September and 9 October 2024, so that any changes can be implemented before 1 April (Earners' and Work Accounts) and 1 July 2025 (Motor Vehicle Account).

IN CONFIDENCE

6 ACC's proposed aggregate levy rates are set out in **Table 1** below:

Levy	Current 2024/25 levy rates	Proposed levy rate			Net change over 3 years
		2025/26	2026/27	2027/28	
Average Motor Vehicle levy	\$113.94 per vehicle	\$122.84	\$131.94	\$141.69	\$27.75 ↑
Earners' levy rate	\$1.39 per \$100 of liable earnings	\$1.45	\$1.52	\$1.59	\$0.20 ↑
Average Work levy rate	\$0.63 per \$100 of liable earnings	\$0.66	\$0.69	\$0.72	\$0.09 ↑

7 These proposed consultation levy rates will inform ACC's final recommendation to me in November 2024. I have also requested advice from the Ministry of Business, Innovation and Employment (MBIE) and the Treasury on levy rates.

8 Cabinet is not obliged to accept the levy rate options provided by officials. I will consider officials' recommendations and take account of broader considerations, including whether the Accident Compensation Scheme (the AC Scheme) is fully funded and the wider public interest (including ACC's impact on the Crown balance sheet), before recommending levy rates to Cabinet, which makes the final decision.

I am seeking approval for ACC to consult on amendments to the levy policy settings on my behalf during the levy consultation period

9 I am seeking approval for ACC to consult on the following proposed changes to levy policy settings in the Work and Motor Vehicle Accounts. These are set out in **Table 2** below:

Account	Proposal
Motor Vehicle Account	<ul style="list-style-type: none"> Amend motorcycle risk groups and ACC levy portions of the annual vehicle licence fee accordingly. Increase the ACC levy portion of the annual vehicle licence fee for non-petrol-powered plug-in hybrid electric vehicles (PHEV), and battery electric vehicles (BEVs). Introduce discounted levies for participants in motorcycle safety programmes Remove Fleet Saver
Work Account	<ul style="list-style-type: none"> Ensure that the Classification Units (CU) for the Sports sector are fairly sharing the cost and risks across the sector. Introduce a new CU to comprise both retail and wholesale of home improvement products (including timber). Increase the Experience Rating Medical Cost Threshold. Set a rate of debit interest for instalment plans, as introduced by the Accident Compensation (Interest on Instalment Plans) Amendment Act 2024. Set out circumstances under which ACC may waive debit interest charges for levies paid by instalment plan. Amend the rate of penalty interest that applies if a levy payer fails to pay their levies on time (without entering into an instalment plan). Amend the credit interest rate that is applicable when levy payers unintentionally overpay their levy invoice.

ACC will consult on its proposals during the levy consultation period

- 10 ACC will consult on proposed changes to the Experience Rating Framework (ER) during the levy consultation period. Two options will be presented to levy payers:
 - 10.1 Complete removal of the No Claims Discount (NCD) and making the ER product fully self-funded; or
 - 10.2 Complete removal of NCD and reduce the degree of subsidisation of the ER product.
- 11 ACC will also consult on re-distributing the cross-subsidisation across the Motor Vehicle Account. This would mean that motorcycle owners are paying a more equitable levy portion of their expected claim costs and will see an increase to their levies.

Background

The Accident Compensation Scheme is funded by levies and Government appropriations

- 12 ACC collects levies for its levied Accounts at rates set every three years [DEV-21-MIN-0050 refers]. The rates are only required to be set for the Motor Vehicle, Earners', and Work Accounts. The Non-Earners' Account is funded by Government appropriations.¹ The Treatment Injury Account is funded through the Earners' and Non-Earners' Accounts. In **Appendix One, Table One** provides a summary of how the Accounts are funded and injuries funded.

The AC Act requires public consultation on ACC's proposed levy rates and levy-related policy proposals

- 13 The AC Act requires that I receive and consider a recommendation from ACC before recommending levy rates to Cabinet. The Act also requires that ACC has consulted levy payers before making recommendations. ACC will therefore publicly consult on its proposed levy rates and Experience Rating proposals between 11 September and 9 October 2024.
- 14 ACC's proposed levy rates must be consistent with the requirements of the 'Funding Policy Statement in Relation to the Funding of ACC's Levied Accounts' (FPS) [DEV-21-MIN-0050 refers]. The requirements contained in the FPS balance the need for ACC to remain financially sustainable while ensuring increases are affordable and only increase by incremental amounts. See **Appendix Two** for more detail on the FPS requirements.
- 15 I am seeking approval for ACC to also publicly consult on changes to Motor Vehicle levies, Classification Units and Interest-related proposals on my behalf during the levy consultation period, satisfying section 330 of the AC Act.

¹ The Government appropriations that funds the Non-Earners' Account is now treated as a forecast adjustment outside of the Budget process each year [DEV-19-MIN-0349 refers].

Following public consultation, I will recommend levy rates and levy-related policy changes for Cabinet consideration

- 16 ACC's levy rate recommendations will be reviewed by independent actuaries on behalf of MBIE for quality assurance. MBIE and Treasury will provide me with independent advice on levy rates, which may include levy rate options. I will then recommend levy rates to Cabinet. I do not have to accept the options provided by officials. I must, however consider whether the Accident Compensation Scheme is fully funded, and the wider public interest.
- 17 ACC and MBIE will also analyse public submissions on levy-related policy proposals and inform me of the results. I will then recommend levy-related policy changes to Cabinet. Cabinet makes final decisions on levy rates and levy-related policy changes.

ACC's proposed levy rates for consultation

- 18 **Appendix One, Table Two** provides an overview of ACC's proposed levy rates for consultation for each levied Account, which are in line with the FPS.
- 19 ACC is consulting on increases to the average levy rates charged to levy payers over the next three years. Declining rehabilitation performance, changes in expected claim volumes, cost pressures in the health system and high inflation have contributed to the need to increase the levies charged by ACC. These increases are proposed in line with the requirements of the FPS.

I am seeking approval to consult on changes to policy settings in the Work and Motor Vehicle Accounts

Changes to specific Classification Units

- 20 Businesses pay levies to the Work Account based on the Classification Unit (CU) they are part of. Businesses are grouped with other businesses with similar activity and risk profiles. Levy rates vary between CUs, depending on the nature and risk of their activities.
- 21 I am seeking approval for ACC to consult on my behalf on proposed changes to CUs during the levy consultation period. The changes are intended to ensure businesses pay levies fairly reflecting the risk of their activities. The proposed changes are:
 - 21.1 Ensuring that the CUs for the Sport sector are fairly sharing the cost and risks across the sector; and
 - 21.2 Introducing a new CU to comprise both retail and wholesale of home improvement products (including timber).

Increase to Experience Rating Medical and Treatment Costs Threshold

- 22 One of the ways ACC calculates Experience Rating (ER) for individual businesses is the number of claims made where medical and treatment costs exceed a threshold. The threshold is a proxy for the severity of the injury.
- 23 I am seeking approval to consult on changing the threshold from \$500 to \$750, reflecting inflation since 2011.

Changes to Motorcycle Risk Groups

- 24 Motorcycles are categorised into three groups based on engine size. ACC data shows direct correlation between engine size and cost of an injury.
- 25 I am seeking approval to consult on introducing a new motorcycle risk group, making the groupings fairer by reducing the amount that smaller motorcycles are subsidising larger motorcycles.
- 26 **Appendix One, Table Three** shows the proposed new levy groupings, alongside other changes being made to annual vehicle registration fees.

ACC levy portion of annual vehicle licence fees for electric vehicle

- 27 Battery electric vehicles (BEVs) and non-petrol-powered (diesel) PHEVs are classed as 'petrol' vehicles, providing a discount of \$58.99 in 2024/25 compared to a non-petrol vehicle.
- 28 I am seeking approval to consult on a proposal that these vehicles are recategorised as 'non-petrol' vehicles, with the higher levy rate of \$101.07.

Discounted levies for participants in Ride Forever Programme

- 29 Ride Forever is ACC's motorcycle safety programme and includes rider training courses. Over the past 10 years ACC data shows the programme reduces the risk of injury by at least 26%.
- 30 I am seeking approval to consult on replacing the current cashback scheme with a discount on levies of 25% for motorcycle owners who have successfully completed advanced rider training equivalent to ACC's Ride Forever Gold course. The amount of discount will vary depending on engine size.
- 31 This would be introduced from 1 July 2026, providing time for the NZ Transport Agency to undertake required system changes.

Removal of Fleet Saver

- 32 Fleet Saver participants are audited against ACC safety and vehicle management practice standards, with three levels offering varying levy discounts. It is meant to encourage owners of heavy vehicle (3,500kg or more) fleets (five or more vehicles) to improve truck safety.

- 33 As of February 2024, 37 businesses use Fleet Saver, with 11,360 heavy vehicles receiving a total of \$2.15 million in discounts over three years (using 2021 pricing). Over half (56%) of these vehicles are owned by one business.
- 34 The programme does not have a satisfactory return on investment. To maintain the programme there is a minimum technology investment required equivalent to \$8,200 per participant, but little to no evidence that it has reduced ACC's claim costs.
- 35 I am seeking approval to consult on a proposal to remove Fleet Saver.

ACC will consult on its proposals during the levy consultation period

Experience Rating Framework

- 36 The experience rating (ER) framework (the framework) is intended to incentivise employers to improve workplace safety. It modifies an employer's Work Account levy to reflect their recent claims history. Businesses with low claim rates receive a levy discount, while businesses with high claim rates have their levies increased.
- 37 The framework includes two products. ER is only for larger businesses (with at least \$10,000 of work levy paid for three years in a row). It offers discounts of up to 50% or increases of up to 100%, based on businesses' performance relative to others in their Levy Risk Group (LRG).
- 38 The No Claims Discount (NCD) product is for micro, small and medium businesses. NCD provides a 10% levy discount (or a 10% increase if the business' injuries total more than 70 days off work).
- 39 ER and NCD require additional levies to be collected from ineligible employers to fund the discounts. These employers are generally very small businesses, self-employed people or new operators (less than 3 years old).
- 40 ACC intend to consult on two options to either:
 - 40.1 Complete removal of NCD and making the ER product fully self-funding; or
 - 40.2 Complete removal of NCD and reducing the degree of subsidisation of the ER product.

Cross-subsidisation of the Motor Vehicle Account

- 41 Currently, levies on motorcycles only contribute to 28% of the cost of injuries, with the remaining 72% being cross-subsidised by other vehicles.
- 42 Some cross-subsidisation is necessary as it keeps motorcycle levies affordable for motorcyclists.

- 43 ACC will consult on raising the contribution of motorcyclists from 28% to 37%. This is illustrated in **Appendix One, Table Four**.
- 44 The final rate that motorcyclists pay will differ, depending on the size of their motorbike and (if progressed) whether they have completed a rider safety training course.

I also intend to consult on proposals impacting various interest rates

Interest on instalment plans and ability to waive debit interest

- 45 The Accident Compensation (Interest on Instalment Plans) Amendment Act 2024 introduced the ability to prescribe:
- 45.1 the rate of interest payable on any levy collected by instalment plan, and the method of calculation for the rate; and
- 45.2 circumstances under which the payment of the whole, or any part of the interest, may be waived.
- 46 I am seeking approval to consult on using the Reserve Bank of New Zealand's floating first mortgage new customer housing rate (8.62% as at July 2024) plus 250 basis points (2.5%). This is consistent with the Inland Revenue Department's use of money interest rates.
- 47 I am also seeking approval to consult on instances where debit interest charges can be waived. Circumstances include: the debtor being insolvent, if debt is over ten years old or there is no address for service.

Changes to penalty interest

- 48 Changes to debit interest charges, as outlined above, would make it cheaper for levy payers to not pay their levies and be charged penalty interest at 1% per month, compounding, rather than use an instalment plan.
- 49 To address this, I am seeking approval to consult on replacing the penalty interest rate with the interest rate applicable to instalment plans, plus an additional 1% per month compounding monthly.

Changes to credit interest

- 50 Each levy year, ACC issues a provisional Work levy invoice to employers, based on an estimate of the levy payable. At the end of the levy year, ACC issues a final Work levy invoice to employers. If the provisional Work levy is more than \$20 higher than the final Work levy, ACC refunds or credits the employer for their overpayment.
- 51 Credit Interest is applied if the provisional Work levy is more than \$1000 higher than the final Work levy.

- 52 I am seeking approval for ACC to consult on a proposal to update the Credit Interest rate payable for the levy period to align with the three-year Government Bond Rate. This rate is currently 4.05%.

Cost-of-living Implications

- 53 It is likely that these proposals will have an impact on New Zealanders' cost of living, particularly where levies will impact the portion of their take-home pay. Some businesses will see an increase to their levies and interest rates, which could be passed on to consumers.
- 54 I will consider these impacts when I make my final recommendation on levy rates to Cabinet.

Financial Implications

- 55 The Minister of Finance pre-approved this paper for Cabinet consultation. The actions sought in this paper do not have direct fiscal impacts, Cabinet will make final decisions on levies in December.
- 56 ACC's contribution to the Treasury's Budget Economic and Fiscal Update (BEFU) 2024 reflected an assumption that levy uplifts of approximately 5% per annum will be granted (plus inflation for the Motor Vehicle Account). If levies are set at a different level than assumed in the BEFU forecast, this could have material impacts on fiscal indicators.

Legislative Implications

- 57 There are no legislative implications at this stage of the levy setting process.

Impact Analysis

Regulatory Impact Statement

- 58 There are no regulatory implications at this stage of the levy setting process. A Regulatory Impact Statement will be prepared in late 2024 following the public consultation process.

Population Implications

- 59 The public consultation is not expected to impact specific population groups more than other population groups.

Human Rights

- 60 The proposals contained in this paper appear to be consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993. Any possible human rights implications will be reassessed following public consultation.

Use of External Resources

- 61 As part of MBIE's role in providing independent actuarial advice, consultants from Finity Consulting Limited have been appointed to undertake work. This will include providing advice on levy rates, outside of the FPS, and providing scenario analysis on the Work and Motor Vehicle Accounts.
- 62 Further information on the use of external resources, including hours and costs will be available once final reports are provided to MBIE to support policy approvals being sought in December.

Consultation

- 63 The following government agencies were provided an opportunity to comment: Accident Compensation Corporation, Inland Revenue, NZ Transport Agency, Sport New Zealand, Department of Internal Affairs, and Ministry of Transport.
- 64 The Treasury and Department of Prime Minister and Cabinet have been informed.

Communications

- 65 ACC has prepared a comprehensive communication strategy to engage the public and key stakeholders. I have asked that ACC take an educative approach to their communications strategy to help the public understand what the levy proposals mean for them. The proposed consultation package is attached as **Appendix Three**.

Proactive Release

- 66 This paper will be made available on the MBIE website within 30 business days of Cabinet's decision, subject to redactions as appropriate.

Recommendations

I recommend that the Cabinet Economic Policy Committee:

- 1 **note** that ACC will consult on its proposed 2025/26 – 2027/28 levy rates between 11 September and 9 October 2024 before it makes recommendations to the Minister for ACC in October 2024, as set out in **Appendix One, Table Two**;
- 2 **note** that ACC must give effect to the Funding Policy Statement set by the Government when recommending the making of regulations prescribing the rates of levies;
- 3 **note** that, following consultation and receiving recommendations from ACC and MBIE, I intend to seek Cabinet decisions on the 2025/26 – 2027/28 levy rates for the three levied Accounts in December 2024;

IN CONFIDENCE

- 4 **note** that the Government is not obliged to adopt ACC or MBIE's levy recommendations, as it can take account of broader considerations, including the overall public interest;
- 5 **approve** public consultation on:
 - 5.1 proposed changes to specific Classification Units;
 - 5.2 an increase to the Experience Rating Medical and Treatment Costs Threshold;
 - 5.3 new motorcycle risk groups and the associated ACC levy portions payable during the annual vehicle licensing process;
 - 5.4 increasing the ACC levy portion payable for non-petrol-powered plug-in hybrid electric vehicles and battery electric vehicles;
 - 5.5 introducing a 25% discounted levy for motorcycle owners who have completed advanced rider training equivalent to the Gold Ride Forever course; and
 - 5.6 the removal of Fleet Saver.
- 6 **approve** public consultation on proposals to update interest rates for:
 - 6.1 debit interest charged on instalment plans;
 - 6.2 penalty interest; and
 - 6.3 credit interest.
- 7 **approve** public consultation on the circumstances under which ACC may waive debit interest charges on instalment plans;
- 8 **note** that I have asked ACC to undertake this consultation on my behalf;
- 9 **note** that ACC will consult on its proposed changes to the Experience Rating Framework and the level of cross-subsidisation in the Motor Vehicle Account;
- 10 **note** that ACC's historic input into Budget Economic and Fiscal Update was based on 5 percent levy rate increases, plus inflation for the Motor Vehicle Account;
- 11 **note** that levy rates provided for final decisions in December 2024 will take into account Operating Balance Before Gains and Losses fiscal indicators.

Authorised for lodgement

Hon Matt Dooney
Minister for ACC

IN CONFIDENCE

Appendix One: Tables

Table One: Summary of ACC Accounts

Account	Funded by	Pays for
Motor Vehicle	Levies on motor vehicle owners through registration fees and users at the petrol pump	Accidents on public roads involving moving vehicles
Earners'	Levies on earners through PAYE (or invoiced directly by ACC for self-employed people)	Earners' non-work injuries (not including motor vehicle and treatment injuries)
Work	Levies on employers and the self-employed (based on information from Inland Revenue)	Work-related injuries
Non-Earners'	Government appropriation	Non-earners' injuries (not including motor vehicle and treatment injuries)
Treatment Injury	Levies from the Earners' Account and Government appropriation from the Non-Earners' Account	People injured as a result of medical treatment

Table Two: Proposed ACC average levy rates for public consultation

Levy	Current 2024/25 levy rates	Proposed levy rate			Net change over 3 years
		2025/26	2026/27	2027/28	
Average Motor Vehicle levy rate	\$113.94 per vehicle	\$122.84	\$131.94	\$141.69	\$27.75 ↑
Earners' levy rate	\$1.39 per \$100 wages	\$1.45	\$1.52	\$1.59	\$0.20 ↑
Average Work levy rate	\$0.63 per \$100 of payroll	\$0.66	\$0.69	\$0.72	\$0.09 ↑

Table Three: Proposed new levy groupings

Motorcycle class	ACC portion (motorcycle risk group proposal)	ACC portion (aggregate levy increase spread over three years)	ACC portion (cross-subsidisation proposal)	National Land Transport Fund (NLTF) portion (spread over two years)	Net impact
Mopeds	Reduction of \$32.99	Increase of \$24.19	Increase of \$25.19	Increase of \$16.50	Increase of \$32.89
0-250cc	Reduction of \$53.43	Increase of \$72.54	Increase of \$81.28	Increase of \$28	Increase of \$128.39
251-600cc	Increase of \$45.37	Increase of \$72.54	Increase of \$112.38	Increase of \$28	Increase of \$258.29
601-750cc	Reduction of \$53.90	Increase of \$96.72	Increase of \$112.38	Increase of \$28	Increase of \$183.20
751cc+	Increase of \$88.80	Increase of \$96.72	Increase of \$157.31	Increase of \$28	Increase of \$370.83

*Note that these figures do not include a 25% levy discount for motorcycle owners that complete a motorcycle safety programme, which is proposed to be in place from 1 July 2026 and are based on petrol-driven motorcycles.

Table four: Projected impact of changing level of cross-subsidisation

	Status quo	ACC proposed change to cross-subsidisation
Levy contribution required from motorcyclists to cover their injuries	\$440.3m	\$440.3m
Amount collected from motorcyclists	\$123.9m	\$162.9m
Amount funded from other vehicle levies	\$316.4m	\$277.4m
Percentage of contribution from motorcycles	28%	37%
Average subsidy per vehicle	\$24.91	\$21.84

Appendix Two: Requirements under the Funding Policy Statement

1. **Full funding:** The average levy rate must be based on the expected lifetime costs of claims over the levy period.
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 (in addition to inflation adjustments for the Motor Vehicle Account).
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.

Appendix Three: ACC's Consultation Package