Submission

By

Business NZ

To

Accident Compensation Corporation

On the

Consultation Document on 2003/04 Levies for Employers

10 October 2002

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CONSULTATION DOCUMENT ON 2003/04 LEVIES FOR EMPLOYERS

SUBMISSION BY BUSINESS NEW ZEALAND

10 OCTOBER 2002

1. Introduction

1.1 This submission is made on behalf of Business New Zealand, incorporating regional employers' and manufacturers' organisations. The regional organisations consist of the Employers and Manufacturers Association (Northern), Employers and Manufacturers' Association (Central), Canterbury Manufacturers' Association, Canterbury Employers' Chambers of Commerce, and the Otago-Southland Employers' Association. Business New Zealand represents business and employer interests in all matters affecting them.

1.2 Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD in per capita GDP terms. It is widely acknowledged that consistent, sustainable growth in real GDP per capita of well in excess of 4% per annum is required to achieve this goal in the medium term. Continued growth of around 2% (our long-run average) will only continue New Zealand's relative decline.

1.3 The Government shares this goal, and it was most recently articulated in the Speech from the Throne, where the Governor General said:

"My Government sees its most important task as building the conditions for increasing New Zealand's long-term rate of economic growth."

1.4 While Business New Zealand is pleased that the Government is now talking about the need for higher economic growth, there has been little evidence to date that the Government is moving to implement or prioritise a credible growth strategy and policy direction that would spur the economy onto such a higher growth path. To date, a number of key policy decisions have at best merely confirmed the low-growth status quo or at worst have been in the wrong direction and damaged New Zealand's growth potential.

1.5 ACC is a classic example of the latter type of decision. The Government's decision to renationalise ACC and remove the choice for employers to seek workplace accident insurance from private providers was extremely disappointing considering the promising outcomes during the brief period of competition. We consider that re-imposing the public monopoly has resulted in costs remaining higher than they would otherwise have been under a competitive model and that this higher cost environment has inevitably impacted upon business investment and profitability as well as employment creation.

1.6 ACC is also a significant business compliance cost. In 2001, the Government's own Ministerial Panel on Business Compliance Costs made 162 recommendations, of which 20 pertained to accident insurance legislation.

The Government subsequently rejected 25% of those ACC recommendations, a rate that compares unfavourably with the overall 15% of recommendations that were 'not agreed'. Unfortunately though, it is consistent with the Government's responses to the other most significant areas of concern to business, such as resource management, tax, employment relations, health and safety, and hazardous substances legislation.

1.7 Overall, Business New Zealand submits that if the Government is serious about creating a favourable environment for a higher rate of economic growth and reducing business compliance costs, then much more should be done to contain and reduce accident insurance claims and costs.

1.8 Business New Zealand welcomes the opportunity to comment on the *Consultation Document on 2003/04 Levies for Employers*. The remainder of this submission concentrates mainly on the content of the Employers consultation document, but also briefly touches on some of the key issues relating to the Self-Employed, Earners, and Motorist consultation documents.

2. Executive Summary and Recommendations

2.1 While welcoming the progress ACC is making in its attempts to improve workplace safety, contain costs and reduce levies, Business New Zealand remains concerned that costs of claims are continuing to rise faster than the rate of inflation; that the frequency of claims has ceased falling after the promising decline under the competitive model; and that levies remain higher than they ought to be.

2.2 In particular, ACC should be firmer and more proactive in managing the tail and containing the costs of claims, and it should reduce its prudential margin from 15% to a figure more in keeping with its status as a monopoly provider with the power to tax.

2.3 While ACC's accident prevention and workplace safety management programmes are useful, their coverage needs to be extended to smaller firms and there needs to be recognition by way of incentives provided to reward those employers who have good safety records. A complaint from many small firms of fewer than 10 employees is that they are not being rewarded for good safety management practices or claims records. Due to economies of scale, the ability to pursue a discount under the Workplace Safety Management Practices Programme is prohibitive for them.

2.4 We also note that the Health and Safety in Employment Amendment Bill, which is currently before the House, will provide for 'big stick' penalties for those employers who get it wrong and have unsafe workplaces. In order to provide a sense of balance and fairness, ACC should reward those who get it right and have safe workplaces and good accident records.

2.5 Furthermore, some larger accredited employers who are members of the ACC Partnership Programme have expressed concerns to us that the benefits to ACC that arise from their excellent risk management practices are not being passed back to them through lower premiums or administration costs. They are concerned that if this situation is not remedied there will be less incentive in the future for them to remain in the ACC Partnership Programme, which could ultimately affect its viability.

2.6 We are strongly opposed to moves to increase the coverage and the cost of ACC, particularly suggestions that co-payment of medical costs should be abolished without any firm commitment that amounts payable to medical practitioners will be subject to a contracted maximum amount. It is also very important that in the event of ACC recommendations on premium levels being rejected or modified by the Minister there is a clear and public explanation of the reasons why.

2.7 Business New Zealand recommends that:

(a) The average employer levy should be reduced from $0.90 per $100 payroll to $0.75 per $100 payroll;

(b) ACC should be firmer and more proactive in its efforts to contain the cost per claim for all Accounts, but particularly the Employers' and Motor Vehicle Accounts;

(c) The prudential margin should be set at a level more in keeping with ACC's status as a monopoly insurer with the power to tax, say 5% rather than 15%;

(d) Non-work residual claims from pre-1992 (currently representing approximately 32% of the outstanding claims liability) should either be moved to the Earners' Account or funded from general taxation;

(e) Firm and proactive management of the 'tail' of residual claims should continue to ensure that both of the following occur:

  (i) A consistent annual reduction in the residual claims levy; and
  (ii) Residual claims are completed at or prior to 2014 and the Residual Claims Account is closed.

(f) The co-payment of medical costs should be retained, although it would be appropriate to review payment levels;

(g) Direct contracting initiatives for accident and medical services and the endorsed provider framework should continue and ACC should actively seek the co-operation of medical providers to ensure that treatment costs are kept at reasonable and affordable levels;

(h) Any move to abolish co-payment must include a contractual cap on the maximum amount payable to medical practitioners;

(i) The existing Employer risk groups should be retained, with those falling below the required minimum size being combined with others that share similar characteristics, so that any reduction occurs progressively and gradually over time;

(j) Optional cover programmes should be made more accessible for small and medium sized enterprises and those with good safety records should be better rewarded;

(k) The proposed increases in the Partnership Programme public health care levy and administration costs should not occur and ACC should instead more proactively and effectively manage its costs;

(l) Workplace Safety Evaluations should proceed;

(m) Experience rating should be re-introduced to provide stronger incentives for firms to improve their accident performance;

(n) Small employers and the self-employed who have not made claims over a cumulative period should be provided with a discount or a no-claims bonus;

(o) ACC should more actively promote its CoverPlus and CoverPlus Extra to the self-employed;

(p) The levy for non-petrol powered vehicles should be funded solely through the ACC portion of the motor vehicle licence;

(q) The increased levy for petrol-powered vehicles should be funded through an increase in the ACC portion of the vehicle licence, with petrol excise duty remaining unchanged (Option 1);

(r) Vehicle classification groups should be retained to provide differential levy rates in line with the cost of injuries allocated to vehicle type (Option 1);

(s) ACC should investigate other options for setting premiums for the Motor Vehicle Account that would take into account all aspects of risk, including driver, vehicle and road characteristics; and

(t) In order to provide transparency in the decision-making process, the Minister should provide a clear and public explanation why any ACC recommendations on premium levels have been rejected or modified.

DISCUSSION

3. Reduction in Average Employer Levy

3.1 While Business New Zealand welcomes the proposed 3% reduction in the average employer levy for 2003/04 (from $0.90 per $100 payroll to $0.87), there is a strong argument that the average premium rate should be even lower. The Financial Performance Forecasts (Section F) show that the Employers' Account is running up very large surpluses, with a premium margin of over 30% for 2001/02, double the ACC's 15% target for a prudential margin.

3.2 Business New Zealand supports the fully funding of the various ACC accounts, but the Employers' Account is clearly being more than fully funded through 'over-charging' of employers. The concern businesses have is that rather than reduce the reserves that have built up by returning part of them to employers through reducing the average premium level, the Government will instead choose to expand the scope and therefore cost of ACC, such as by abolishing co-payment of medical costs. The Government's rejection last year of ACC's proposed 11% reduction in the average employer levy for 2002/03, and its decision instead to retain the average levy at the 2001/02 level, heightens this concern and damages the credibility and integrity of the scheme in the eyes of the business community.

3.3 Considering the extent to which the Employers' Account has been over-charged, and the high prudential margin ACC has built into its levies, a reduction in the average rate from $0.90 to around $0.75 per $100 payroll would be, in our submission, appropriate and sustainable under current policies.

Recommendation: the average employer levy should be reduced from $0.90 per $100 payroll to $0.75 per $100 payroll.

4. Claim Frequency Rate and Cost per Claim of Entitlement

4.1 We are encouraged that the claim frequency rate is forecast to remain at a relatively low level (0.61 per $million payroll), but note that the encouraging downward trend under the competitive model has ceased. We are also concerned by the continued increase in the average cost per claim of entitlement. For 2003/04 the average claim cost is forecast to rise to $10,979, up 7% on 2002/03. In particular, large increases are expected for weekly compensation (+11%), medical treatment (+14%), hospital treatment (+20%) and social rehabilitation (+16%).

4.2 The magnitude of these increases is totally unacceptable to the business community, particularly when one considers that CPI inflation has been running at between 2-3% per annum on average for the past three years and is predicted to continue to do so. Business New Zealand submits that ACC must be more firm and proactive in its efforts to contain the cost per claim.

Recommendation: ACC should be firmer and more proactive in its efforts to contain the cost per claim.

5. Prudential Margin

5.1 Business New Zealand and one of its predecessor organisations, the New Zealand Employers' Federation, have consistently argued that a 15% prudential margin is inappropriate for ACC, a monopoly insurer that has the power to tax employers if a forecasting mistake is made. We note that over recent years the level of actual costs has been consistently below forecast, and we consider that building in a high margin on such forecasts is highly inappropriate in that forecasting could be treated less seriously and there are fewer incentives for ACC to be proactive in ensuring that claim costs are minimised.

5.2 While a 15% margin might indeed be comparable to insurance practices worldwide, New Zealand's state monopoly is hardly comparable and ACC has the ability (that must be the envy of private insurers worldwide) to simply tax employers in the event of a shortfall. We therefore submit that if a prudential margin is considered necessary, a much lower margin should be considered – say, 5% rather than 15%.

Recommendation: the prudential margin should be set at a level more in keeping with ACC's status as a monopoly insurer with the power to tax, say 5% rather than 15%.

6. Residual Claims Levy

6.1 Business New Zealand welcomes the reduction in the Residual Claims average levy for 2003/04 (from \$0.35 per \$100 payroll to \$0.30). However, we note that 32% of the Residual Claims Account's outstanding liability is for non-work accidents that occurred prior to 1992, with employers funding these old non-work claims. Employers continue to find it hard to understand why they should remain liable for non-work accidents over which they had absolutely no control and Business New Zealand submits that these claims should either be moved to the Earners' Account or funded from general taxation.

Recommendation: non-work residual claims from pre-1992 should either be moved to the Earners' Account or funded from general taxation.

6.2 Firm management of the 'tail' (those individuals claiming for non-work accidents that occurred prior to 1992 and for workplace accidents that occurred prior to 1999) is critical. ACC has forecast a continued steady decline in the number of 'tail' claimants and the ongoing cost of these long-term claims. In order to achieve these targets ACC must continue to proactively rehabilitate claimants more rapidly and ensure its processes enable those who (for whatever reason) should no longer receive ACC are quickly removed from the system. Ultimately, this involves ensuring that there is both a consistent, annual reduction in the residual claims levy and that all residual claims are completed at or prior to 2014 and the Residual Claims Account closed.

Recommendation: Firm and proactive management of the 'tail' of residual claims should continue to ensure that both of the following occur:

- ***(i) A consistent annual reduction in the residual claims levy; and***
- ***(ii) Residual claims are completed at or prior to 2014 and the Residual Claims Account is closed.***

6.3 Legislation requires the Residual Claims Account to be fully funded by June 2014. The consultation paper forecasts that a levy of $0.30 per $100 payroll would achieve this target. However, while we welcome the proposed levy reduction, it would also have been useful for ACC to have provided some analysis of when full-funding would have been reached had the existing $0.35 levy been retained (maintaining the higher levy would presumably make the Account fully funded earlier and would presumably hasten the demise of the levy). Arguably, it is also unfair on new employers to be hit with a residual claims levy when they were not in business prior to 1999.

7. Medical Treatment Costs

7.1 The consultation document states that since 1989 ACC contributions to medical treatment costs have been regulated at levels resulting in medical practitioners often charging their patients a co-payment to cover the shortfall between their charge and ACC's contribution. The rationale behind regulated ACC contributions is that they act as a control against increasing medical costs.

7.2 Those in favour of abolishing co-payment justify their argument on the basis that it is necessary for New Zealand's compliance with ILO Convention 17 (Workmen's Compensation for Accidents). However, Article 9 of the Convention states that such aid "…as is recognised to be necessary" is to be provided, with the cost of such aid to be "defrayed" by the employer or insurance company.

7.3 New Zealand legislation has always provided a qualification to the level of payment provided for medical treatment. The Convention was ratified in 1938, at which time the 1922 Workers' Compensation Act provided for the payment of "reasonable" medical expenses to a capped monetary amount. This provision was continued in the Consolidated Workers' Compensation Act 1956.

7.4 The Accident Compensation Act 1972 expressed the limitations to the amount to be paid by the Commission as being "reasonable by New Zealand standards" – a definition continued in the consolidating 1982 Accident Compensation Act. Regulations were permitted pursuant to the Accident Compensation Acts of 1972 and 1982, which could (and did) provide for payment limits. So too, the Accident Rehabilitation and Compensation Insurance Act 1992 merely continued to determine, by way of Regulations made pursuant to it, maximum amounts in certain circumstances that were determined to be reasonable in the context of New Zealand's overall health provision services.

7.5 To expect either the ACC or indeed employers to meet the full cost of any amount the medical providers might choose to impose would be quite unacceptable. There would be little accountability in such a system and, if it were only applied to injuries arising from the workplace, it would create inequities dependent on where a particular accident occurred and could create an incentive for injuries to be wrongly coded.

7.6 Abolition of the co-payment would be likely to significantly increase the costs of claims and therefore employer levies. The information provided by ACC (page A-5) suggests that removing co-payments for new and existing claims would be very costly ($200 million additional medical costs for new claims and $130 million for existing claims) and would require increases in both the employer and residual claims levies.

7.7 The ACC estimates assume that existing claims levels would be maintained and that medical provider charges would remain stable. These are naïve assumptions. In reality, more people are likely to take out claims if they do not have to pay anything towards the cost of their treatment, and medical providers will have no incentive to contain their charges if they no longer have to provide the patient with a bill at the end of the consultation and that any amount that they stipulate will be met unquestioned by ACC. It seems highly likely therefore that the real costs would be much higher than forecast if co-payment were to be abolished.

7.8 Employers absolutely reject an open chequebook approach, and Business New Zealand therefore strongly submits that the system of co-payment for medical costs should be maintained. ACC medical payments have remained fixed at $29 per consultation since 1992, so we acknowledge that it would be appropriate to review the level of medical payments by ACC to ensure that they are at reasonable levels.

Recommendation: the co-payment of medical costs should be retained, although it would be appropriate to review payment levels.

7.9 Last year the Government instructed ACC to continue its rollout of contracts to purchase accident and medical clinical services. Business New Zealand supports the direct contracting initiatives by ACC and considers the endorsed provider network framework to be the most appropriate in meeting the needs of those injured as well as those funding the accident compensation scheme. ACC should also actively seek the co-operation of medical providers to ensure that treatment costs are kept at reasonable and affordable levels, so that the portion of the medical provider's charge that is not covered by the co-payment is kept under control.

Recommendation: direct contracting initiatives for accident and medical services and the endorsed provider framework should continue and ACC should actively seek the co-operation of medical providers to ensure that treatment costs are kept at reasonable and affordable levels.

7.10 If the Government is determined to do away with medical co-payments, then there must be strong contractual arrangements between ACC and medical providers to fix maximum medical payment amounts and therefore contain costs. Contractual arrangements are standard business practice, and should therefore be easily understood by medical practitioners. We also believe that pilot schemes should provide ACC with guidance and experience on how contracts can be implemented more effectively.

Recommendation: any move to abolish of co-payment must include a contractual cap on the maximum amount payable to medical practitioners.

8. Employer Risk Group Options

8.1 The consultation document proposes two options for rationalising Employer Risk Groups:

(a) Option 1 – maintaining the existing 130 risk groups.
(b) Option 2 – reducing the existing 130 risk groups to 55.

8.2 The rationale behind Option 2 is that some of the existing 130 risk groups no longer meet the minimum size criteria (250 claims per annum or $400 million payroll). Having a minimum size is important as one serious injury could potentially cost millions of dollars and so adversely affect the next year's levy for the entire industry. A reduction of risk groups would result in larger pools of injury risk experience being available for the prediction of future costs and the calculation of levy rates, and ACC suggests that this should result in more consistent and stable levy rates over the longer term.

8.3 However, maintaining the current 130 risk groups has advantages in that the increased differential provides improved responsiveness in rates of injury prevention and disability management initiatives and minimises cross-subsidisation between industry groups.

8.4 Under Option 2, some industries would be clearly better off and others would be clearly worse off. ACC has estimated that if Option 2 were to be adopted 55% of industry classification units would experience less than a 5% increase or decrease in employer work levy rate. At the other extreme 4% would experience a levy reduction of more than 25% and 6% a levy increase of more than 25%.

8.5 Also under Option 2, a number of the existing risk groups would be combined with others that may, on the face of it, have little in common. For example, the following existing risk groups would be combined into one of the 55 proposed risk groups on the basis that they are manufacturing sectors that have 'similar' risk:

- Textile Manufacturing and Community Ventures;
- Clothing Manufacturing;
- Paper Product and Stationery Manufacturing;
- Petroleum, Gas and Inorganic Chemical Products;

- Petroleum and Chemical Products (lower risk group); and
- Aviation, Electronic and Electrical Manufacturing.

8.6 Even within this proposed risk group there would be big winners and big losers. Large levy reductions would occur for Paper Product and Stationery Manufacturing (-17%); Clothing Manufacturing (-16%); and Textile Manufacturing and Community Ventures (-13%). On the other hand, large levy increases would occur for Petroleum and Chemical Products – lower risk group (+33%); and Aviation, Electronic and Electrical Manufacturing (+18%).

8.7 Similar outcomes would result across many other risk groups. ACC has given an assurance that the sectors have been combined into the proposed new risk groups according to the best information it has available. Clearly, however, the narrowing down in the risk groups would result in cross-subsidisation and therefore some industries being faced with significantly higher (or lower) levies than they would have been based purely on their safety record. There may also be diminished responsiveness to injury and rehabilitation rates.

8.8 Business New Zealand acknowledges that reducing the number of risk groups may be inevitable in the longer term if the risk group 'pools' are to remain above their required minimum sizes. However, we submit that making such a significant immediate reduction from 130 to 55 risk groups would be undesirable. The feedback we received from our members was consistently in strong opposition to Option 2 – they want levies to be as responsive to their individual claims records as possible[1], a point of view driven largely by the removal of experience rating and the responsiveness it provided.

8.9 We consider that re-introducing experience rating would better address these concerns but more fundamentally, a return to a competitive market would remove the need for a bureaucratic decisions on levy classifications, which encourage lobbying behaviour and the notion of sectors being 'winners' and 'losers'.

8.10 On balance, and in the absence of either a competitive market or experience rating, Business New Zealand would prefer the greater responsiveness and clearer signals that Option 1 (i.e., the status quo) provides. We recognise though that groups that fall below the threshold will need to be combined with others that are of a similar risk, so would support an 'Option 3' where this rationalisation is made progressively and gradually over time, rather than immediately, as would be the case under Option 2.

Recommendation: the existing Employer risk groups should be retained, with those falling below the required minimum size being combined with others that share similar characteristics, so that any reduction occurs progressively and gradually over time.

[1] An example of this depth of feeling is evident from the results of a survey of employers undertaken by Employers and Manufacturers (Northern) in October 2002. The survey found that 87% of respondents were opposed to ACC reducing the number of risk groups from 130 to 55, with 83% wanting the existing 130 risk groups maintained.

8.11 A similar approach has been proposed for the Residual Claims Account, reducing from the current 123 risk groups to 41. This account has been closed off for new claims and over time it will run down. There will therefore be a need for a reduction in risk groups to ensure that the pools remain large enough for statistical credibility. However, there would also be the same disadvantages as discussed with the Employer Account above, with some industry sectors having large increases and decreases in their residual claims levies as a result of such a change. Again, on balance we would prefer a more gradual 'Option 3' approach discussed above.

Recommendation: the existing Residual Claims risk groups should be retained, with those falling below the required minimum size being combined with others that share similar characteristics, so that any reduction occurs progressively and gradually over time.

9. Optional Cover Programmes

9.1 Under the ACC Workplace Safety Management Programme an average loading of $0.05 per $100 of payroll is applied to fund levy discounts of between 10% to 20% for participants in recognition of meeting and maintaining workplace standards. We have previously expressed concern that the compliance costs in meeting the audit requirements mean that only a small proportion of (very large) enterprises are in a position where the level of discount available will be greater than the cost of meeting the audit requirements. As a result, the vast majority of companies are effectively excluded from the Programme.

9.2 We consider that small to medium sized enterprises should have better access to discounts through the development of standards and programmes more suited to small businesses. Small firms would be interested in suitable tools that help them to assess risks in their workplace but find the current programmes to be inappropriate for their circumstances. For example, more could be done to 'pool' groups of small and medium sized businesses for ACC purposes and tailor programmes for such groups of businesses. Industry sector groups could play a useful role in assisting with such programmes.

Recommendation: Optional cover programmes should be made more accessible for small and medium sized enterprises and those with good safety records should be better rewarded.

9.3 Some larger accredited employers who are members of the Partnership Programme have expressed concerns to us that the benefits to ACC that arise from their excellent risk management practices are not being passed back to them through lower premiums or administration costs. They are concerned that if this situation is not remedied there will be less incentive in the future for them to remain in the Programme, which could ultimately affect its viability.

9.4 We are also concerned about the proposed increase in the public health care services levy (from 3.6% to 4.7% of the standard levy) and administration costs (from 2.7% to 3.0% of the standard levy) for Partnership Programme employers. We submit that these increases should not occur and that ACC should instead more proactively and effectively manage its costs, particularly for health care, which seem to have increased significantly for 2003/04.

Recommendation: The proposed increases in the Partnership Programme public health care levy and administration costs should not occur and ACC should instead more proactively and effectively manage its costs.

10. Workplace Safety Evaluations

10.1 Business New Zealand supports the implementation of Workplace Safety Evaluations, which would enable ACC to increase an employer's levy for particularly unsafe workplaces. We also welcome the processes proposed with the focus on education first and the auditing of employers before any penalty is imposed. We note that ACC estimates that around 150 employers would be subject to these evaluations, with only around 15 likely to be subject to an upward levy adjustment.

Recommendation: Workplace Safety Evaluations should proceed.

10.2 Business New Zealand continues to support the re-introduction of experience rating as it had been shown to provide a strong incentive for firms close to the industry average to improve their accident performance and rewarded those who consistently maintained a low (or no) accident claims rate. Experience rating and no-claims bonuses are also strongly supported within the wider business community[2]. While Workplace Safety Evaluations and higher levies will provide a useful discipline for a small hardcore group of poor performers, they will not by themselves have much impact on the overall performance of the business sector.

Recommendation: experience rating should be re-introduced to provide stronger incentives for firms to improve their accident performance.

11. Other Consultation Documents

11.1 Three other consultation documents have also been released by ACC for comment, and we comment briefly on each of these documents below:

- 2003/04 Levies for Earners;
- 2003/04 Levies for Self Employed; and
- 2003/04 Levies for Motorists.

<u>2003/04 Levies for Earners</u>

11.2 ACC is proposing no change to the Composite Earner Levy, despite a 6% increase in claim frequency and higher average claim costs. These increases can (at least for now) be absorbed within the required rounding adjustment, where the levy must be a multiple of 10 cents on a GST inclusive basis – currently $1.20 per $100 earnings.

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[2] A survey of employers undertaken by Employers and Manufacturers Association (Northern) in October 2002 found that 71% of respondents support the reintroduction of experience rating.

11.3 Business New Zealand has no comment on this document other than to warn that there must be no cross-subsidisation between accounts and that each Account must meet its own costs regardless of any potentially adverse political reaction to increases to all employees.

2003/04 Levies for Self Employed

11.4 ACC is proposing to reduce the average self-employed levy from $3.17 to $3.09 per $100 liable earnings, broken down as follows:

- Self-employed average work levy reduced from $1.75 to $1.72 per $100 liable earnings;
- Residual claims average levy reduced from $0.35 to $0.30 per $100 liable earnings; and
- Earners' non-work levy unchanged at $1.07 per $100 liable earings.

11.5 Business New Zealand welcomes the reduction in the average self-employed levy, but reiterates the points made with respect to the Employers' Levy discussed above, particularly that:

- ACC's prudential margin is set too high – 15% is inappropriate for a state monopoly with the power to tax employers;
- There must be firm and proactive management of the 'tail' to ensure residual claims are contained and reduced quickly; and
- Reducing risk groups from 130 to 55 could result in large changes to industry levies and reduce responsiveness.

11.6 A further major concern of self-employed people is the lack of any recognition in premiums for periods for which they have not made any claims. We acknowledge that the vast majority of self-employed people are unlikely to have made a claim in any single 12-month period but consider that it would be appropriate to provide discounts for cumulative periods without a claim.

Recommendation: self-employed who have not made claims over a cumulative period should be provided with a discount.

11.7 Business New Zealand supports the ability for the self-employed to purchase specific cover through ACC CoverPlus and CoverPlus Extra. While we have no comment on the proposed simplified pricing structure for CoverPlus Extra, ACC should do more to actively promote these schemes to the self-employed.

Recommendation: ACC should more actively promote its CoverPlus and CoverPlus Extra to the self-employed.

2003/04 Motor Vehicle Account

11.8 Due mainly to a significant increase in the average cost of claims for motor vehicle accidents (from $27,523 to $34,049), ACC is proposing to increase the average 2003/04 motor vehicle composite levy from $170 to $207 per vehicle, a 22% increase.

11.9 Non-petrol (mainly diesel) powered vehicles pay the ACC motorist levy by way of a portion of the annual motor vehicle licensing fee, with the amount depending on the type of vehicle. For example, cars pay $166, motorcycles pay $249, and trucks, vans and utilities pay $176. Unlike petrol-powered vehicles, there is no charge on fuel as diesel is free of excise taxes. This is wholly appropriate as a significant amount of the diesel consumed in New Zealand is used for industrial and off-road transport purposes.

11.10 ACC has proposed that the levy increase for non-petrol powered vehicles will be added to the existing licence fee – i.e., cars would pay $201, motorcycles $377, and trucks, vans and utilities $210. The particularly large increase for motorcycles recognises their higher risk.

Recommendation: the levy for non-petrol powered vehicles should continue to be funded solely through the ACC portion of the motor vehicle licence.

11.11 For petrol-powered vehicles the composite levy is also made up of a portion of the annual motor vehicle licence, again with the amount depending on the type of vehicle. For example, cars pay $141, motorcycles $212, and trucks, vans and utilities $141. However, in contrast to non-petrol powered vehicles, there is an ACC excise duty on petrol, with the balance of the composite levy coming from a duty of 2.3 cents per litre.

11.12 ACC has proposed alternative scenarios to fund the petrol-powered composite levy, based on a mix of options around the relative levels of the licence fee portion and petrol excise duty. These range from retaining the petrol tax at 2.3 cents per litre and increasing the licence fee to $177, to abolishing the ACC portion of the licence fee altogether and increasing the petrol tax to 15.9 cents per litre.

11.13 Before commenting on what approach would be best for collecting levies from petrol-powered vehicles, it is first necessary to comment on the magnitude of the proposed levy increase for the Motor Vehicle Account.

11.14 Business New Zealand accepts that motor vehicle accidents by their very nature result in significantly more severe injuries on average than the 'average' workplace or other accident. This is borne out by the average cost of claims for motor vehicle accidents being around three times that of workplace accidents in the Employers Account.

11.15 It is also true that while road deaths have fallen significantly over the past 15 years, the number of injuries has not fallen to the same extent – in fact they have hardly fallen at all. This perhaps explains to some extent why the cost of claims has been rising (treatment of injuries is more expensive on an ongoing basis than a fatality). By the same token though it is hard to understand why estimated death related entitlements are estimated to rise from $1,977 per motor vehicle claim in 2002/03 to $3,439 in 2003/04 (a 74% increase), particularly when the average death related entitlement for workplace accidents in the Employers Account is forecast to fall over the same period (from $205 to $191). We are also very concerned about the large forecast increase in social rehabilitation costs (up 30% to $13,487 per claim).

11.16 We have said throughout this submission that ACC must be firmer and more proactive in containing the costs of claims. This is particularly true for the Motor Vehicle Account, where there is a danger that costs could be spiralling out of control.

Recommendation: ACC should be firmer and more proactive in its efforts to contain the cost per claim and managing residual claims.

11.17 Turning back to options on collecting the motor vehicle levy, Business New Zealand is concerned about pressures to increase the price of petrol, particularly when taxes already make up a large proportion of the price of petrol at the pump and when there are other government proposals that would also impact on petrol prices. Examples include implementation of the Kyoto Protocol (through a carbon charge) and the policy direction signalled by the Draft New Zealand Transport Strategy, which seems intent on having motorists paying the full environmental and health costs of vehicle use. Not only would such government imposed price hikes be inflationary, they would also impact on business and export competitiveness and could make driving unaffordable for those on lower or fixed incomes.

11.18 While there are compelling arguments that it is fairer for people to pay on the basis of the use they make of their vehicle, it is difficult to justify claims that the risk of an accident is purely a result of the distance travelled (for which petrol consumption is a rough proxy). The age, gender, competence and behaviour of the driver, the time and day for travel, the type and quality of road travelled on, and the type of vehicle are also important. For example, why should a young 'boy racer' pay the same ACC levy as the elderly woman who only drives to and from the local shops?

11.19 We note that it would not be possible to efficiently tailor a levy collection method for the 2003/04 year that would take into account all risk parameters (e.g. driver characteristics such as age, gender etc, time and day of travel, and type and quality of road travelled on, etc). In the absence of such a method, Business New Zealand would support (albeit reluctantly) the continued use of the motor vehicle licence fee for the collection of the bulk of the ACC motor vehicle levy, with different classes of vehicles continuing to be subject to be different rates depending on their safety risk – providing that ACC does more work on alternative methods of calculating and collecting levies for the Motor Vehicle Account, based on commercial actuarial practice.

11.20 The majority of the feedback we received on this issue was that increased taxes on petrol should be avoided[3]. Business New Zealand would therefore support Option 1, where the petrol-powered vehicle licence fee is increased

[3] For example, a survey of employers undertaken by Employers and Manufacturers Association (Northern) in October 2002 found that 56% of respondents supported Option 1 (petrol tax unchanged, licence fee increased) and 35% Option 2 (licence fee unchanged, petrol tax increased to 5.1 cents per litre). There was little support for either of the other two options.

from $140 to $177 and the petrol excise duty remained unchanged at 2.3 cents per litre.

Recommendation: the increased levy for petrol-powered vehicles should be funded through an increase in the ACC portion of the vehicle licence, with petrol excise duty remaining unchanged (Option 1).

11.21 On the matter of vehicle classifications, we consider it important to continue classifying vehicle types according to risk and the cost of injuries – for example, it is totally appropriate for motorcycles, with their higher accident rate, to pay a higher levy. We therefore favour the continuation of the status quo (Option 1) rather than classifying all vehicles into one group (Option 2). However, we believe it is difficult to justify vehicles in Classification Group 1 (ambulances, fire brigade vehicles, hearses, trailers etc) continuing to be exempt from ACC levies.

Recommendation: vehicle classification groups should be retained to provide differential levy rates in line with the cost of injuries allocated to vehicle type (Option 1).

11.22 More fundamentally, we submit that setting the motor vehicle levy solely on the type of vehicle and the amount of fuel consumed is a poor substitute for a system that should take account of all risk parameters. ACC should therefore investigate alternative options for setting premiums for the Motor Vehicle Account that would take into account all aspects of risk, including driver, vehicle and road characteristics, in accordance with commercial actuarial practice.

Recommendation: ACC should investigate other options for setting premiums for the Motor Vehicle Account that would take into account all aspects of risk, including driver, vehicle and road characteristics.

12. Final Levies Struck by Minister

12.1 Business New Zealand notes that ACC levy recommendations are not binding on the Minister of ACC, who may accept, reject, or modify its recommendations. Indeed, last year the then Minister decided to reject ACC's proposed employer levy reduction of $0.10 per $100 payroll and instead kept it unchanged at $0.90 per $100 payroll.

12.2 It is our strong view that if the Minister decides to reject or modify ACC's recommendation then a clear and public explanation must be made. The actuarial advice that influenced such a decision must also be published. This would provide a degree of transparency over the decision-making process, given that ACC is a state monopoly. In the absence of such transparency, there is a real danger that levies will be perceived to have been set to take account of political pressures rather than sound commercial and actuarial practice.

Recommendation: In order to provide transparency in the decision-making process, the Minister should provide a clear and public

explanation why any ACC recommendations on premium levels have been rejected or modified.

13. Conclusion

13.1 While welcoming the progress ACC is making in its attempts to improve safety, contain costs and reduce levies, Business New Zealand remains concerned that costs of claims are continuing to rise faster than the rate of inflation; that the frequency of claims has ceased falling after the promising results under the competitive model; and that levies remain higher than they ought to be.

13.2 In particular, ACC should be firmer and more proactive in managing the 'tail' and containing the costs of claims, and it should reduce its prudential margin from 15% to a figure more in keeping with its status as a monopoly provider with the power to tax. While ACC's accident prevention and workplace safety management programmes are useful, their coverage needs to be extended to smaller firms and there needs to be a carrot as well as stick approach to reward those employers who have good safety records.

13.3 We are also strongly opposed to moves to increase the coverage and the cost of ACC, particularly suggestions that co-payment of medical costs should be abolished without any form of commitment that amounts payable to medical practitioners will be subject to a contracted maximum amount. Also, it is very important that in the event that ACC recommendations on premium levels are rejected or modified, then the Minister must clearly and publicly explain the reasons why.

14. Recommendations

14.1 Business New Zealand recommends that:

(a) The average employer levy should be reduced from \$0.90 per \$100 payroll to \$0.75 per \$100 payroll;

(b) ACC should be firmer and more proactive in its efforts to contain the cost per claim for all Accounts, but particularly the Employers' and Motor Vehicle Accounts;

(c) The prudential margin should be set at a level more in keeping with ACC's status as a monopoly insurer with the power to tax, say 5% rather than 15%;

(d) Non-work residual claims from pre-1992 (currently representing approximately 32% of the outstanding claims liability) should either be moved to the Earners' Account or funded from general taxation;

(e) Firm and proactive management of the 'tail' of residual claims should continue to ensure that both of the following occur:

(iii) A consistent annual reduction in the residual claims levy; and

(iv) Residual claims are completed at or prior to 2014 and the Residual Claims Account is closed.

(f) The co-payment of medical costs should be retained, although it would be appropriate to review payment levels;

(g) Direct contracting initiatives for accident and medical services and the endorsed provider framework should continue and ACC should actively seek the co-operation of medical providers to ensure that treatment costs are kept at reasonable and affordable levels;

(h) Any move to abolish co-payment must include a contractual cap on the maximum amount payable to medical practitioners;

(i) The existing Employer risk groups should be retained, with those falling below the required minimum size being combined with others that share similar characteristics, so that any reduction occurs progressively and gradually over time;

(j) Optional cover programmes should be made more accessible for small and medium sized enterprises and those with good safety records should be better rewarded;

(k) The proposed increases in the Partnership Programme public health care levy and administration costs should not occur and ACC should instead more proactively and effectively manage its costs;

(l) Workplace Safety Evaluations should proceed;

(m) Experience rating should be re-introduced to provide stronger incentives for firms to improve their accident performance;

(n) Small employers and the self-employed who have not made claims over a cumulative period should be provided with a discount or a no-claims bonus;

(o) ACC should more actively promote its CoverPlus and CoverPlus Extra to the self-employed;

(p) The levy for non-petrol powered vehicles should be funded solely through the ACC portion of the motor vehicle licence;

(q) The increased levy for petrol-powered vehicles should be funded through an increase in the ACC portion of the vehicle licence, with petrol excise duty remaining unchanged (Option 1);

(r) Vehicle classification groups should be retained to provide differential levy rates in line with the cost of injuries allocated to vehicle type (Option 1);

(s) ACC should investigate other options for setting premiums for the Motor Vehicle Account that would take into account all aspects of risk, including driver, vehicle and road characteristics; and

(t) In order to provide transparency in the decision-making process, the Minister should provide a clear and public explanation why any ACC recommendations on premium levels have been rejected or modified.