Submission

By

Business NZ

To

Accident Compensation Corporation

On the

2004/05 Levy Rate Consultation Documents

18 September 2003

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2004/05 LEVY RATE CONSULTATION DOCUMENTS
SUBMISSION BY BUSINESS NEW ZEALAND
18 SEPTEMBER 2003

A. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

1. Introduction

1.1 Encompassing five regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, Canterbury Manufacturers' Association, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 52-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

1.2 In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

1.3 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 (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.

1.4 The health of the economy also determines the ability of a nation to deliver on the social and environmental outcomes desired by all. First class social services and a clean and healthy environment are possible only in prosperous, first world economies.

1.5 The sheer size of the ACC scheme and the influence it has on business means that it has a significant influence economic growth. Businesses paid $424 million in levies to the Employer Account for the year ended 30 June 2003, and the scheme imposes significant compliance costs on businesses. ACC ranked fourth highest priority for action among respondents to the 2003 Business New Zealand – KPMG Compliance Cost Survey (behind health and safety in employment, tax, and employment relations).

1.6 Business New Zealand therefore welcomes the opportunity to comment on the proposed ACC levies for the 2004/05 year. We are particularly concerned about the proposed 6% increase in the average composite levy for the Employer Account and we submit that such a level of increase will be particularly hard on the business community at a time when the economy has been showing signs of slowdown.

2. Executive Summary and Summary of Recommendations

2.1 Business New Zealand is very concerned about the increasing cost of ACC to businesses at a time when the economy is slowing down. A significant factor in the proposed increase in levies for the Employers' Account and the Self-Employed Account is the negative impact on the accounts of lower long-term interest rates, which have since risen (and should therefore reverse some of these cost impacts).

2.2 While long-term interest rates are a factor out of ACC's control, the high level of its prudential margin is very much within ACC's control and ACC should also have an influence on its management of the 'tail' and containing the costs of claims. Business New Zealand submits that ACC should significantly reduce its prudential margin and should work more proactively to rehabilitate long-term claimants and contain claim and scheme costs. Non-work residual claims from pre-1992 should be taken out of the Employers' Account.

2.3 Business New Zealand opposes cross-subsidisation and prefers the retention of 130 industry risk groups. However, we also wish to see businesses rewarded more directly for having low accident rates. This is a particular problem for small and medium sized enterprises that find the current option cover programmes unsuitable for their circumstances. Business New Zealand continues to support experience rating and/or no claims bonuses.

2.4 Business New Zealand would not support moves to amalgamate the Self-Employed Work Account with the Employers' Account, transfer work-related motor vehicle injuries to the work accounts, or use Road User Charges as a method to collect ACC levies.

2.5 Business New Zealand recommends that:

Generic Issues

(a) When considering the impact of interest rate changes on levy rates, ACC should note that 10-year Government Bond yields have firmed from 5.36% on 30 June 2003 to 5.95% on 16 September 2003.

(b) ACC should significantly reduce the prudential margins for each of its accounts.

(c) ACC should work to contain scheme cost increases to below the rates of increase in earnings against which levies are collected and ensure that levy income is spent efficiently and effectively.

(d) The Government should consider funding the residual claims accounts out of general taxation, or at the very least the non-work residual claims from pre-1992.

(e) ACC should 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.

Employers' Account

(f) ACC should be more proactive in containing the increases in average costs of claims and it should revisit its forecasts on claims costs and claims frequency so that they better reflect the desired outcomes of the amended Health and Safety in Employment Act.

(g) The Government should reinstate experience rating and/or no claims bonuses.

(h) In the absence of experience rating, the existing 130 industry risk groups should be maintained.

(i) Optional cover programmes should be made more accessible for small and medium sized enterprises and those with good workplace safety systems and low accident records should be better rewarded.

Self-Employed Account

(j) ACC should be more proactive in containing increases in the average cost of claims.

Earner Account

(k) The Earner levy should remain at $1.20 per $100 earnings, but ACC should note that the proposal of no change to the Earner levy while proposing a 6% increase in the average composite Employer levy sends an unfortunate signal that employers are to blame for work-related injuries.

Looking Ahead – Scheme Coverage and Funding Proposals

(l) The Self-Employed Work Account and the Employers' Account should remain separate accounts.

(m) Work-related motor vehicle injuries should not be transferred to the work accounts.

(n) ACC and the Government should do more work to ensure that Motor Vehicle Account levies better reflect risk parameters, including driver characteristics.

(o) Road User Charges should not be used as a funding option for ACC.

(p) ACC should take proactive measures to ease the compliance frustrations that are reported by many businesses.

B. GENERAL ISSUES ACROSS ALL ACCOUNTS

3. Principles

3.1 The key principles guiding Business New Zealand's submission on 2004/05 levies are responsiveness, flexibility, transparency, efficiency, and cost effectiveness. Levies should be fair, equitable and reflect the cost of claims. Cross subsidisation should be minimised, levy rates should reflect risk, and those with good claims records should be rewarded. A levy setting process that follows these principles should result in positive incentives to improve health and safety.

4. Consultation Process

4.1 ACC's consultation documents went to considerable lengths to explain the rationale for the proposed levy changes, including setting out the offsetting components. This information enabled us to see clearly the degree to which various factors contributed to changes in average composite levies. We also appreciated the willingness and availability of ACC officials to engage with us and provide additional information and explanation on the issues driving the proposed changes.

4.2 Business New Zealand's overriding concern about increased levies and associated issues such as the prudential margin should not be taken as criticism of the way information was presented in the ACC consultation documents or of individual ACC officials, who we found to be helpful.

5. Impact of Interest Rate Changes

5.1 A significant driver for increased levies across all accounts has been the impact of interest rate changes. Business New Zealand agrees that the 10-year interest rate is the appropriate measure for forecasting earnings from ACC's investments and discounting claims cost liabilities. We therefore accept the logic that lower 10-year interest rates will impact upon the accounts in two ways:

- Reduced forecast earnings from ACC's investments; and
- Increased current value of ACC's claim cost liabilities.

5.2 Both factors result in more money having to be collected from levies. With ACC's documents showing that 10-year rates fell over the past year from 6.5% to 5.5%, this is said to have a negative impact of around $800-$900 million across the accounts.

5.3 Business New Zealand notes that while 10-year Government Bond yields did indeed fall in 2002/03 (from 6.64% on 1 July 2002 to 5.36% on 30 June 2003), the rates have since firmed to 5.95% as at 16 September. This recent rise in long-term interest rates should result in reduced pressure to increase levies and we submit that it should be factored in when ACC re-works its forecasts prior to making recommendations to the Minister.

5.4 Recommendation: Business New Zealand recommends that, when considering the impact of interest rate changes on levy rates, ACC should note that 10-year Government Bond yields have firmed from 5.36% on 30 June 2003 to 5.95% on 16 September 2003.

6. Prudential Margin

6.1 Business New Zealand remains opposed to the 15% prudential margin, which results in ACC targeting assets to equal 115% of liabilities in three years.

6.2 ACC has justified the prudential margin as being consistent with good actuarial practice in the insurance industry. It also claims that margins are required to ensure that the residual claims accounts become fully funded by 2014 (when ACC will no longer be permitted by statute to collect levies for the residual claims accounts) and, for the other accounts, to effectively 'self-insure' for claims shocks such as major catastrophes. The margin has also been justified on the basis that it reduces the risk of ACC making a loss and having a negative impact on the Crown's balance sheet.

6.3 Business New Zealand remains of the view that the 15% prudential margin is inappropriate for ACC, which is a statutory monopoly with the power to tax. The ACC scheme is a creature of statute and the Government may amend legislation at any time it chooses. Meanwhile, with ACC levies set by regulation, the Government may also change levy rates in the event of ACC being hit by a sudden catastrophe or a more pervasive increase in claims frequency and/or cost of claims.

6.4 While the Crown's balance sheet might be affected in the event of ACC making a loss, the wider economy must also be considered. The prudential margin effectively withdraws millions of dollars that could otherwise be spent and/or invested by businesses and individuals. This makes businesses less competitive and efficient, reduces employment growth, reduces the disposable incomes of earners, and dampens overall economic activity.

6.5 Business New Zealand was provided a copy of a May 2002 paper to the ACC Board discussing the background and the pros and cons of the prudential margin[1]. The paper makes some interesting comments, for example "the 15% margin is at the top end of general insurance practice, but is in the middle of the range for long-tail insurance". The paper also admitted that the margin is also likely to act as a constraint on economic activity and that ACC could operate without a margin (albeit with a heightened risk of making operating losses and negative impacts on the balance sheet).

6.6 The paper states that in Australia it is regarded to be good actuarial practice to have prudential margins of around 10-15% (but also notes that South Australia does not have a margin at all). One of the key differences in the Australian workers compensation schemes is the ability for injured persons to sue, which is presumably a large contingent liability that must be considered when setting prudential margins in that country. In New Zealand there is of course no

[1] ACC Board Issues Paper, 'Prudential Margins in Premium Setting', May 2002.

ability to sue, so this would seem to make ACC's 15% margin particularly high in comparison.

6.7 While the paper concludes that the margin provides some protection against fluctuating levies, it also recommends that the "level of margin should be regularly reviewed" and that where there is low volatility a lower margin could be applied.

6.8 Bearing in mind that a significant driver in the volatility for the proposed 2004/05 levies is the generic impact of the drop in interest rates (which as discussed above may not be as substantial as initially suggested), the various accounts appear to be experiencing reduced volatility. It is our view therefore that significantly lower prudential margins would in fact be justified.

6.9 Business New Zealand submits that the implications of the prudential margin on businesses and the economy, the fact that ACC is a statutory monopoly with the power to tax in the event it makes a loss, and the acknowledgement that the 15% margin is at the upper end of insurance practice, are all compelling reasons for the prudential margin to be significantly reduced.

6.10 Recommendation: Business New Zealand recommends that ACC should significantly reduce the prudential margins for each of its accounts.

7. Increased Scheme Costs

7.1 ACC's consultation documents show scheme costs increasing across all the accounts, with the exception of the Motor Vehicle Account where the larger increase in motor vehicles against which levies are collected results in a slight fall in scheme costs per vehicle. Scheme cost increases make upward contributions to levies for the Employer, Self-Employed, and Earner accounts – despite large increases in the earnings against which levies are collected.

7.2 While supporting measures to improve claimant satisfaction, carry out more research, and undertake injury prevention activities, Business New Zealand is concerned about escalating administrative costs and considers that more should be done to contain such cost increases to below the rates of increase in earnings against which levies are collected.

7.3 Because injury prevention activities are paid for out of levy income, it is also very important that ACC ensures that the benefits of such activities, including training courses, clearly exceed the costs and that they are focused on improving behaviour. We submit that ACC should take firm measures to ensure that levy income is spent efficiently and effectively and not on expensive activities that have questionable outcomes.

7.4 Recommendation: Business New Zealand recommends that ACC should work to contain scheme cost increases to below the rates of increase in earnings against which levies are collected and ensure that levy income is spent efficiently and effectively.

8. Residual Claims

8.1 Business New Zealand accepts that the costs associated with the 'tail' have to be paid for. However, the costs associated with pre-1999 work accidents and pre-1992 non-work accidents are 'sunk costs'. As time passes it is becoming increasingly inequitable to charge today's and tomorrow's employers, the self-employed, earners, and motorists for the costs of injuries that happened in the increasingly distant past and over which they have no control.

8.2 A 1998 article by Professors Lewis Evans and Neil Quigley[2] stated that the decision that employers and self-employed should fund residual claims accounts "…is inconsistent with both employers' legitimate expectations and with the theory of incentives in insurance contracts." Evans and Quigley argued that the 'tail' should be a "liability of the state" and that "funding the liability from a broadly based general tax would be more efficient".

8.3 Furthermore, Business New Zealand notes 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. Business New Zealand submits that these claims should either be moved to the Earners' Account or funded from general taxation.

8.4 Recommendation: Business New Zealand recommends that the Government should consider funding the residual claims accounts out of general taxation, or at the very least the non-work residual claims from pre-1992.

8.5 The major driver of ongoing costs is the number of long-term claimants that are still being managed. Business New Zealand is concerned that according to ACC 'recent experience has seen fewer claimants being rehabilitated than previously projected'[3]. We submit that ACC must 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.

8.6 Recommendation: Business New Zealand recommends that ACC should 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.

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[2] 'Efficiency Suffers if Employers Have to Pay', National Business Review, 25 September 1998.
[3] ACC, '2004/05 Levies for Employers Consultation Document', August 2003, pg 26.

B. EMPLOYERS' ACCOUNT LEVIES

9. Proposed Levy Increase

9.1 ACC has recommended that the average composite levy for the Employers' Account (including the Residual Claims Account average levy) should increase by 6% to $1.23 per $100 payroll.

9.2 ACC advises that the 6% increase has been driven by a 14.3% increase in the average cost of claims, the generic impacts of lower interest rates and higher scheme costs, and an upward reserves adjustment to preserve the 15% prudential margin. These factors are offset by a 10.5% increase in the earnings of employees and a reduction in the amount required for funding the Workplace Safety Management Practices (WSMP) discounts. There is no change forecast for the frequency of claims and the average levy for the Residual Claims Account is proposed to be unchanged.

9.3 Business New Zealand is very concerned about the large increase in the average cost of claims. We note that 5.4% of the 14.3% increase is due to the lower interest rate used and we expect that it will fall when the more recent higher 10-year interest rates are used. However, the remaining increase is due to longer average duration for weekly compensation, and increased costs of medical and hospital treatment and vocational rehabilitation. It is of considerable concern to levy payers that these costs continue to increase significantly.

9.4 As Business New Zealand stated in its submission last year on the 2003/04 levy consultation documents, ACC must be more proactive in containing these costs. This should include greater efforts by ACC to ensure that medical practitioners are more diligent in correctly determining whether an injury is work or non-work related, and putting in place mandatory checks with the employer on the availability of 'alternative duties' for injured workers so that they may be more quickly rehabilitated.

9.5 Business New Zealand also notes that ACC forecasts virtually no change in the number of new entitlement claims for 2004/05. This is somewhat bemusing considering the rhetoric espoused by the proponents (including Government Ministers and MPs) of the recently enacted Health and Safety in Employment (HSE) Amendment Act 2002, who suggested that new health and safety laws were needed to dramatically improve workplace safety – and presumably reduce the number of ACC claims.

9.6 The Business New Zealand – KPMG Compliance Cost Survey found that government action on reducing HSE compliance costs was a particularly high priority for respondents, with 65% including HSE in their top three priorities. The survey also found that 83% of respondents considered HSE compliance costs to have increased over the past 12 months.

9.7 Most businesses will accept reasonable compliance requirements provided that there is a clear benefit to themselves and society. However, with regard to HSE the significantly increased compliance burden is very hard to accept when ACC is forecasting that the number of new claims will remain the same and that the average of cost of claims will increase. For many businesses that have expended much time, effort, and cost over recent months in complying with the new HSE legislation, the proposed 6% increase in ACC employer levies is a major blow at a time when the economy is slowing.

9.8 A 6% average increase in Employer Account levies is also unacceptable at a time when annual inflation running at 1.5%. For the year ended June 2003, central and local government charges rose by 3.8%[4], and Business New Zealand has been concerned for some time by the degree to which such charges (which would include ACC levies) have been driving inflation. We submit that the proposed levy increases for the Employer Account would add further to inflationary pressures and would force the Reserve Bank to maintain tighter monetary policy settings.

9.9 Recommendation: Business New Zealand recommends that ACC should be more proactive in containing the increases in average costs of claims and it should revisit its forecasts on claims costs and claims frequency so that they better reflect the amended Health and Safety in Employment Act.

10. Impacts on Industry Risk Groups

10.1 The proposed 6% increase in the average composite levy for the Employers' Account is only the average across all employers. Some of the 130 risk groups are facing large decreases in their levies, but many others are facing large increases (a number by as much as 26%). ACC officials provided us with plenty of information to explain the increases and decreases facing individual risk groups, which we accept as being correct. However, we remain bemused at what the Government Administration risk group has done so well to be enjoying a 37% decrease in levies while the Business and Hiring Services risk group will be facing a 16% increase.

10.2 While Business New Zealand accepts that the proposed levy changes reflect trends of experience, we note concerns expressed by the road transport industry, for example, that a number of road freight operators would appear to be classified in industries other than the 'Road Freight and Freight Forwarding' industry risk group. Significant misclassification of businesses into risk groups could impact on risk group experience.

10.3 While sympathetic with those industries that are facing large levy increases, we accept that changes in an industry risk group's experience (i.e., claims frequency and costs of claims) should result in a change in the levy for members of that industry risk group. Business New Zealand considers that it is important for levy setting to be transparent and that levies should be responsive to changes in experience. We are also strongly opposed to cross-subsidisation and consider that costs should fall where they are incurred.

[4] Statistics New Zealand, 'Consumers Price Index', June 2003 Quarter. Removing the impact of Central and Local Government Charges would have reduced the CPI to an increase of 1.3% for the year ended June 2003.

11. Experience Rating

11.1 Business New Zealand considers that the industry risk group approach is necessary but not sufficient on its own. A weakness of relying solely on industry risk groups is that doing so can send a most unfortunate signal to individual businesses in that they can have a very safe workplace and have no accidents over a period of years yet be faced with a large increase in their levies if they are unfortunate enough to be in an industry risk group experiencing a high and/or increasing claims-to-earnings ratio.

11.2 Business New Zealand therefore continues to support the reintroduction of experience rating and/or no claims bonuses. We consider that such initiatives would provide positive incentives for employers (and the self-employed) to strive to improve their workplace's safety practices and help to minimise risks. Experience rating would also provide a reward for those that who have consistently maintained a low claims rate, particularly small businesses that cannot enter the Partnership Programme or who find that the costs of obtaining a WSMP Audit are too high.

11.3 Recommendation: Business New Zealand recommends that the Government should reinstate experience rating.

12. 130 versus 56 Risk Groups

12.1 The Government has again asked ACC to raise the issue of 130 versus 56 risk groups and the levy rates for each risk group are set out on the basis of the two options. Some industry groups would benefit from lower levies by moving to 56 risk groups, but others would be faced with significantly higher levies.

12.2 Business New Zealand's view remains the same as when we were consulted both last year (as part of the 2003/04 levies consultation) and earlier this year (when ACC approached us for our view in advance of the 2004/05 levies consultation). That is, we prefer the higher responsiveness and lower cross-subsidisation that the status quo provides. We also note that ACC's credibility weighting techniques effectively solves the problems faced when risk groups fall below the threshold of statistical credibility (in terms of payroll and claims frequency). ACC have acknowledged that its use of credibility weighting "means that there is no added value, in terms of greater levy stability, in moving from 130 to 56 risk groups"[5].

12.3 The only circumstance in which Business New Zealand would support moving to the 56 risk group scenario would be if experience rating were to be applied to individual businesses within each risk group.

12.4 Business New Zealand recommends that, in the absence of experience rating, the existing 130 industry risk groups should be maintained.

[5] ACC consultation paper 'Principles for Risk Groups in the ACC Work Accounts', June 2003.

13. Optional Cover Programmes

13.1 Business New Zealand notes that no changes are proposed to the Partnership Programme and the WSMP schemes, although we understand that both are under review.

13.2 The Partnership Programme is limited to employers with more than 50 full time employees, although in practice nearly all have over 100 employees. As at 31 March 2003 there were 177 Partnership Programme contacts in place, covering 313,506 employees (24% of the full time workforce)[6]. Although this sounds impressive, the 177 participating enterprises is only a small proportion of the total number of enterprises that have over 50 (or even 100) full time equivalent employees[7].

13.3 In contrast, the WSMP is open to businesses regardless of size, but the discount is only 20% of the industry risk group levy. However, we have previously expressed concern that the compliance costs in meeting the audit requirements mean that only a small proportion of enterprises (mainly medium to large sized) are in a position where the level of discount available will be greater than the cost of meeting the audit requirements.

13.4 ACC statistics appear to confirm this. As at 31 March 2003, there were 1,741 enterprises in the WSMP programme covering 165,665 employees. Over 60% of these enterprises had fewer than 50 employees, but the number of WSMP enterprises with fewer than 10 employees (around 300) remains but a tiny proportion of all enterprises in that size group.[8]

13.5 While ACC considers that the issue with uptake of the WSMP among small businesses is more a matter of 'overcoming attitudinal and knowledge barriers than eliminating technical obstacles', we consider that small and medium sized enterprises need better access to discounts and incentives through the development of programmes better suited to the circumstances of smaller businesses. One of the key findings of the Business New Zealand – KPMG Compliance Cost Survey was that firms in the 6-9 and 10-19 FTE size groups are hit particularly hard by compliance costs as they become exposed to formal requirements expected of large employers.

13.6 Business New Zealand submits that 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 and/or too costly for their circumstances. The review of the WSMP should provide an opportunity to achieve this.

13.7 A higher level of WSMP discount should be considered and acceptance into the WSMP programme should be based not only on a systems evaluation but also performance, so that those businesses with good accident records are rewarded. Also, more could be done to 'pool' groups of small and medium

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[6] ACC paper 'Incentive-based ACC Programmes', June 2003.

[7] According to Statistics New Zealand's 'Business Demography Statistics' there were 1,536 enterprises with 50-99 full-time equivalent employees (FTEs) and 1,337 with over 100 FTEs as at February 2002 (note, the data for February 2003 is not due for release until 31 October 2003).

[8] There were 260,334 enterprises with 0-9 FTEs as at February 2002.

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.

13.8 Recommendation: Business New Zealand recommends that optional cover programmes should be made more accessible for small and medium sized enterprises and those with good workplace safety systems and low accident records should be better rewarded.

13.9 Business New Zealand noted in its submission last year on the 2003/04 levies that some larger members of the Partnership Programme had expressed concerns that the benefits to ACC arising from their excellent risk management practices were not being passed back to them through sufficiently low premiums or administration costs. These enterprises remain 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. Business New Zealand is seeking further elaboration on these concerns.

C. SELF-EMPLOYED ACCOUNT LEVIES

14. Proposed Levy Increase

14.1 ACC has proposed that the average composite levy for the Self-Employed Account should be increased by 1.3% for 2004/05, from $3.17 to $3.21 per $100 earnings.

14.2 The increase in the levy rate is driven by a 23% increase in the average cost of claims and the generic impact of lower interest rates and higher scheme costs. These factors are offset by a 5.6% reduction in frequency of claims, an 11.5% increase in the earnings of the self-employed, and a 10% reduction in the reserves adjustment to preserve the 15% prudential margin. The residual claims account average levy and the earners account average levy are both proposed to be unchanged.

14.3 Business New Zealand notes that the higher average cost of claims is driven in part by the lower forecast interest rate (which has since risen), but is mainly due to higher estimates for medical and hospital treatment, weekly compensation, and social rehabilitation costs. As stated under comment on the Employers' Account, we consider that ACC must be more proactive in containing these cost increases.

14.4 Recommendation: Business New Zealand recommends that ACC should be more proactive in containing increases in the average cost of claims.

14.5 Please note that Business New Zealand comment on the proposal to amalgamate the Employers' and Self-Employed Accounts is contained under Section F of this submission.

D. EARNER ACCOUNT LEVIES

15. Unchanged Levy

15.1 ACC has proposed that the composite levy for the Earner Account should remain unchanged for 2004/05, at $1.20 per $100 earnings (inclusive of GST).

15.2 The levy rate is proposed to remain unchanged despite a 6.8% increase in the average cost of claims, a 6.4% increase in the frequency of claims, and the generic impacts of lower interest rates and higher scheme costs. These factors are offset by a 9.6% increase in the earnings of employees and the self-employed, a 64% reduction in the reserves adjustment to preserve the 15% prudential margin, and a small downward rounding adjustment.

15.3 Business New Zealand recognises that the Earner Account covers only non-work injuries to earners and the self-employed and we accept that the no-change proposal is justified on the basis of the information provided in the consultation documents.

15.4 However, Business New Zealand considers that it is important to make the point that ACC's proposal of no change to the Earner levy while in the same breath proposing to increase the average composite Employers' levy by 6% inevitably sends an unfortunate (albeit unintended) signal that employers are to blame for work-related injuries. Such a signal is contrary to the spirit and intent of the Health and Safety in Employment Act, which emphasises shared responsibility for workplace safety.

15.5 Recommendation: Business New Zealand agrees that the Earner levy should remain at $1.20 per $100 earnings but notes that the proposal of no change to the Earner levy while proposing a 6% increase in the average composite Employer levy sends an unfortunate signal that employers are to blame for work-related injuries.

E. MOTOR VEHICLE ACCOUNT LEVIES

16. Decreased Levy

16.1 ACC has proposed that the average composite levy for the Motor Vehicle Account should reduce by 3.3% for 2004/05, from $211.96 to $205.04 per vehicle.

16.2 The decrease in the levy rate is driven by a lower than expected increase (3.7%) in the average cost of claims, a 5.5% increase in the number of vehicles against which levies are collected, a small reduction in scheme costs per vehicle, and a $20.63 reduction in the reserves adjustment required to preserve the 15% prudential margin. These factors are partially offset by the generic impact of lower interest rates and a 0.7% increase in the number of claims.

16.3 Business New Zealand welcomes the proposed reduction in the average composite levy for the Motor Vehicle Account and we note that with interest rates having increased in recent times that a subsequent recalculation should result in a larger decrease in motor vehicle levies.

17. Options for Petrol Powered Vehicles

17.1 Business New Zealand notes that the consultation document sets out four options for delivering the levy reduction for petrol powered vehicles, with varying levels of petrol tax and licence fee. The options provided are as follows:

- Option 1: Petrol tax unchanged (5.08 cents per litre) with a reduced licence fee (from $141.36 to $133.83).
- Option 2: Licence fee unchanged ($141.36) with reduced petrol tax (from 5.08 to 4.55 cents per litre).
- Option 3: Equal proportion from petrol tax and licence fee (petrol tax increased to 7.29 cents per litre, licence fee reduced to $102.63).
- Option 4: Funding only from petrol tax (petrol tax increased to 14.56 cents per litre, licence fee reduced to zero).

17.2 Of the options provided, Business New Zealand prefers Option 2. We are 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 New Zealand Transport Strategy, which seems intent on having motorists paying the full environmental and health costs of vehicle use. There is also enthusiasm at a local level for regional petrol taxes to fund transport infrastructure and even passenger transport services.

17.3 As discussed earlier in this submission, increases in central and local government charges are a significant driver of inflation. Higher petrol taxes would add further to inflationary pressures and would impact adversely on business and export competitiveness as well as make driving less affordable for those on lower or fixed incomes.

17.4 Recommendation: Business New Zealand recommends that Option 2 (licence fee unchanged and petrol tax reduced) should be adopted for levying petrol-powered vehicles.

17.5 Please note that while Business New Zealand recommends Option 2 for levying petrol powered vehicles for 2004/05, longer-term we submit that ACC should consider alternative sustainable charging options that would better reflect risk factors, particularly driver risk. This is discussed further under Section F below.

18. Levy Classifications

18.1 Business New Zealand agrees with the existing practice of having different levies and different collection methods for different classes of vehicle. For example, it is inappropriate to tax diesel due to its large off road and industrial uses, and as a result, it is appropriate for the levy for diesel-powered vehicles to be collected solely through the motor vehicle licence fee. Meanwhile, motorcycles are a significantly higher risk, so they quite rightly pay a higher motor vehicle licence fee than motorcars (150% higher).

18.2 Recommendation: Business New Zealand recommends that diesel-powered vehicles should continue to be levied solely from the motor vehicle licence fee and that motorcycles should continue to be subject to a higher motor vehicle licence fee than motorcars.

18.3 Please note that Business New Zealand comment on the proposals to (a) transfer work-related motor vehicle injuries to work accounts and (b) use the Road User Charges system as a long-term funding option is contained in Section F below.

F. LOOKING AHEAD – SCHEME COVERAGE AND FUNDING PROPOSALS

19. Amalgamating the Self-Employed Work Account with the Employers' Account

19.1 Business New Zealand is opposed to the suggestion floated in the consultation document to amalgamate the Self-Employed Work Account with the Employers' Account.

19.2 This position is consistent with Business New Zealand's opposition to cross-subsidisation, discussed earlier in this submission on whether to have 130 or 56 industry risk groups.

19.3 While Employers' Account and Self-Employed Account accident rates and claim costs might be similar for some industry risk groups, this is not the case for the majority. In fact, the differences for some industry risk groups are quite marked, particularly in the agricultural services, fishing, construction, and property and business services. In each of these industry risk groups the self-employed levies appear to be significantly higher than for the employer levies (even when recognising that the self-employed levies include the earner component).

19.4 It is also noticeable that for a number of industry risk groups, the self-employed levy is proposed to fall while the equivalent employer levy is proposed to rise For example, for Plant Nurseries (Risk Group 01110) the self-employed levy is proposed to decrease by 15% while the employers' levy is proposed to increase by 12%. The same is true in reverse – for example, for Electrical Services (Risk Group 42320) the self-employed levy is proposed to increased by 15%, while the employers' levy is proposed to decrease by 16%.

19.5 These factors clearly indicate that the Employers' Account and the Self-Employed Account are very different and that amalgamating the two accounts would increase cross-subsidisation and reduce responsiveness. Amalgamation would therefore be inefficient and inequitable for both employers and the self-employed.

19.6 Business New Zealand also considers it to be premature to consider any amalgamation. Much effort went into establishing the Self-Employed Account, and although the Account is still relatively new, the quality of information is improving with every year. It would be most unfortunate if amalgamation were to result in a loss of important information on the safety performance of the self-employed, which can be used to target areas for improvement.

19.7 Recommendation: Business New Zealand recommends that the Self-Employed Work Account and the Employers' Account should remain separate accounts.

20. Motor Vehicle Account – Transfer of Work-Related Motor Vehicle Injuries to Work Accounts

20.1 Business New Zealand is strongly opposed to the suggestion in the consultation document to transfer work-related motor vehicle injuries to the work accounts.

20.2 Defining what is and what is not a 'work-related motor vehicle injury' is fraught with difficulty and it is quite possible that a large number of motor vehicle accidents would be inappropriately deemed as being 'work-related'. Would a work-related accident be an employee driving to or from work in a private vehicle? Would it be a work-related accident if a driver were in the process of dropping into work after hours (e.g., on the weekend) en route to a social or recreational engagement?

20.3 There is the important issue of responsibility for safety. While employers have a degree of influence and control over what happens in the workplace itself, extending employer responsibility over areas outside the workplace, such as the road, would be totally inappropriate. The employer generally has no influence or control over the behaviour of a driver once he or she is on the road, whether they are on 'work' or 'non-work' related business.

20.4 There is the issue of the cause of a motor vehicle accident. It would be most unfair to determine an accident to be work-related and effectively impose a cost on employers if the accident were the fault of a driver on a non-work related journey.

20.5 We also consider that employers and the self-employed most probably already pay their fair share of the Motor Vehicle Account levies through their payment and/or reimbursement of vehicle operating costs (including vehicle licence fees and petrol taxes).

20.6 Business New Zealand also wonders why it was proposed for work-related motor vehicle accidents to be transferred to the work accounts when there was no equivalent proposal to transfer non-work related motor vehicle accidents to the Earner Account – the same principles would surely apply. In our view it can only be that such a proposal would significantly increase the average earner levy.

20.7 Overall, Business New Zealand considers that the arguments to transfer work-related motor vehicle accidents to the work accounts are weak. The Motor Vehicle Account should cover all motor vehicle accidents and we submit that the status quo should be maintained.

20.8 Recommendation: Business New Zealand recommends that work-related motor vehicle injuries should not be transferred to the work accounts.

21. Motor Vehicle Account – Road User Charges System as a Long-Term Funding Option

21.1 Business New Zealand welcomes discussion on ways to better fund the Motor Vehicle Account. In our submissions on both the 2003/04 levies consultation documents and the recent Injury Prevention Rehabilitation and Compensation Amendment Bill we commented on the need for levies to better reflect risk.

21.2 However, we are disappointed that the consultation documents only discuss one additional option – using the Road User Charges (RUC) system – and that there is no discussion on alternatives to reliance on the licence fee and petrol taxes. We are also concerned about the use of RUC as an option, for the reasons discussed further below.

Petrol Taxes an Unsustainable Funding Option

21.3 While there are compelling arguments that it is fairer for people to pay on the basis of the use they make of their vehicle, the use of petrol tax is becoming an increasingly poor proxy. This is due to the dramatically improving fuel efficiency of newer vehicles over the past decade, a trend that is likely to exacerbate in the future (particularly as electric and hybrid vehicles come onto the market). While this is good news for the environment and for those who are well off and can therefore afford new vehicles, it means that the burden for raising the required revenue from petrol taxes falls more heavily on those with older vehicles, who are usually on lower incomes. Petrol taxes are therefore becoming an increasingly regressive form of revenue collection.

21.4 It is also difficult to justify claims that the risk of an accident is purely a result of the distance travelled. 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 all more important factors. 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?

21.5 Business New Zealand accepts that it would not be possible to efficiently tailor a levy collection method for 2004/05 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, we reluctantly support 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 and the Government does more work on alternative methods of calculating and collecting levies for the Motor Vehicle Account, based on commercially sound actuarial practice.

Road User Charges an Inappropriate Funding Option

21.6 Business New Zealand’s concerns about the use of the RUC system are two fold. Firstly, for the reasons outlined above regarding petrol taxes, we are not convinced that distance travelled (one of the components of RUC) is the best proxy for risk. Secondly, and more fundamentally, the RUC system is a distance and weight charge, which results in RUC rates increasing exponentially as vehicle weights increase. This is due to RUC rates being based on a specific engineering formula to recover the higher costs heavier vehicles impose on the roading network through greater wear and tear. The RUC system has been developed and refined over a period of many years following detailed consideration of credible research and extensive consultation with the road transport industry.

21.7 It would be totally inappropriate to crudely apply an ACC charge to RUC, particularly if it would result in heavier vehicles paying significantly more than light vehicles simply because they impose higher road maintenance costs. If heavy vehicles have a poorer accident record then it would be appropriate for them to pay higher levies but it would be highly unlikely in our view that their safety record would be exponentially worse than light vehicles. Applying differing ACC levies for different types of heavy vehicles would be acceptable only if they were based on commercially sound actuarial research and analysis followed by extensive consultation with the road transport industry.

21.8 Overall, Business New Zealand welcomes discussion on funding options for the Motor Vehicle Account. However, we submit that ACC and the Government should do more work to ensure that Motor Vehicle Account levies better reflect risk parameters, including driver characteristics. In the meantime, we do not consider RUC to be an appropriate funding option for ACC.

21.9 Recommendation: Business New Zealand recommends that ACC and the Government should do more work to ensure that Motor Vehicle Account levies better reflect risk parameters, including driver characteristics.

21.10 Recommendation: Business New Zealand recommends that RUC should not be used as a funding option for ACC.

22. Other Issues – Compliance Cost Frustrations

22.1 Although not discussed in the consultation documents, Business New Zealand wishes to take this opportunity to discuss other problems it sees with the current ACC system. Many of these problems clearly cause a great deal of frustration to employers and may help explain the findings of the recently released Business New Zealand – KPMG Compliance Cost Survey, where ACC was the fourth highest priority for survey respondents, with a large proportion of respondents perceiving ACC-related compliance costs to be rising.

22.2 Examples of employer frustrations include the extra paperwork associated with the separation of ACC payments from the IRD system, time and cost of overly frequent external audits, different filing/payment dates for companies within the same group of companies, and having to deal with different people each time employers contact ACC. Many businesses reported better service levels and lower premiums under the competitive market.

22.3 There are also strong concerns over rehabilitation issues. Many employers report much time and hassle in trying to get information from doctors on return-to-work dates and information from ACC about work plans for their injured employees.

22.4 Recommendation: Business New Zealand recommends that ACC should take proactive measures to ease the compliance frustrations that are reported by many businesses.