Office of the Minister for ACC

CABINET

ACC LEVIES AND RELATED POLICY 2010/11

Proposal

1 This paper seeks Cabinet's decisions on ACC levy rates for the composite average work levy, composite Earners' Account levy and composite average Motor Vehicle Account levy and related policies, so that regulations can be promulgated.

2 The proposed rates for the composite work levy and the composite Earners' Account levy are for the period 1 April 2010 to 31 March 2011. The composite Motor Vehicle Account levy rates apply from 1 July 2010 to 30 June 2011.

Executive summary

3 New levy rates are required to be set in regulation by 31 March 2010 for the composite work levy and composite Earners' Account levy rates otherwise the 2009/10 levy rates will remain in place, and ACC would be significantly underfunded. The Inland Revenue Department requires notification of the new earners' levy rates by 17 December 2009. The New Zealand Transport Agency (NZTA) and New Zealand Customs Services (Customs) also require any changes in classifications in the Motor Vehicle Account (for example, for motorcycles) prior to the new year.

4 The table below outlines the liability and unfunded liability across the Accounts between 2008 and 2009:

	2009 Liability ($m)	2009 Unfunded Liability($m)	Percentage funded
Composite work	$5,868	$2,123	64%
Motor Vehicle Account	$6,845	$4,186	39%
Earners' Account	$4,660	$1,950	58%
Treatment Injury Account*	$2,167	$1,409	35%
Total	$23,785	$12,761	46%

* The Treatment Injury Account is funded from both the Earners' Account and the Non-Earners' Account depending on the earner status of the claimant

5 ACC's unfunded liabilities have grown significantly from $4.2 billion to $12.7 billion over the past four years as a consequence of levies being insufficient to meet the growth in liabilities. The Motor Vehicle and Earners' Accounts have the lowest levels of solvency of the levied Accounts.

6 I have introduced the Injury Prevention, Rehabilitation, and Compensation Amendment Bill, which pushes out the date for fully funding residual claims from 2014 to 2019. The change in the fully funding date will make a substantial difference to the path to full funding in the composite Motor Vehicle and Work Accounts, but not in the Earners' Account. The path to full funding affects levy rates. The Bill is a remedial measure, which, if enacted in February (before the levy regulations for the 2010-11 levy year are made), will provide further reassurance that my recommended levy rates are sustainable.

7 The table below provides a summary of the current 2009/10 rates, ACC's consultation rate for 2010/11, information included in ACC's consultation documents about likely rates should the IPRC Amendment Bill be passed, ACC's recommended rate, ACC and the Department's proposed rate, the minimum rate required to avoid a deterioration in solvency and my proposed rates:

Levy rates for 2010/11[1]

	Composite average work levy[2] Average levy per $100 of liable earnings [3]	**Composite Earners' Account levy**[4] Levy per $100 of liable earnings	**Composite Average Motor Vehicle Account levy**[5] average levy per vehicle
Current Rate (2009/10)	$1.31	$1.70	$287.00
ACC public consultation rate for 2010/11	$1.89	$2.80	$417.28
Reduced rate[6] from information in consultation documents	$1.47	$2.45	$317.00
ACC recommended rate	$1.89	$2.80	$394.95
ACC/DoL proposal	$1.57	$2.70	$352.19
Minimum to avoid solvency deterioration	$1.47	$2.40	$291.96
Minister for ACC's proposal	$1.47	$2.50	$334.52

Levy rates for the 2010/11 composite Motor Vehicle Account licence fee levy

Registration	**Current 09/10**	**Consultation rate**	**ACC proposal**	**DoL proposal**	**Minister's proposal**
Petrol car	$168.46	$272.72	$211.79	$213.08	$198.46
Petrol Moped	$58.97	$257.58	$211.87	$209.53	$129.24
Petrol motorcycles up to 600cc	$252.69	$511.43*	$426.13	$355.14	$327.70
Petrol motorcycles 601cc and over	$252.69	$745.77	$623.91	$537.14	$426.92
Petrol goods service vehicles	$168.46	$291.91	$218.8	$220.35	$238.15
Non-petrol car	$279.09	$390.56	$329.63	$331.84	$311.38
Non-petrol goods service vehicles (mostly trucks)	$302.32	$585.84	$494.45	$497.76	$467.08

* ACC consulted on including under 125cc with mopeds. This is the rate for 125cc to 600cc.

8 I also propose a number of policy changes:

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[1] Levy rates quoted are GST exclusive for the Work and Motor Vehicle Accounts unless indicated otherwise, and GST inclusive for the Earners' Account. The rate shown for the Earners' Account composite levy is the rate that earners will see coming out of their pay.

[2] Including (1) the levy or portion of a levy payable to fund the Work Account to achieve the purpose of fully funding all entitlements provided under the Act by the Corporation to employees, private domestic workers, and self-employed persons for work-related personal injuries, other than as described in (2); and (2) the levy or portion of a levy payable for the purpose of fully funding the total value of the outstanding claims liability for the Residual Claims Account as at 30 June 1999 as recognised by the Corporation.

[3] Including Workplace Safety Management Practices (WSMP) loading.

[4] Including (1) the levy or portion of a levy payable to achieve the purpose of fully funding the outstanding claims liability of the Composite Earners' Account as at 30 June 1999 as recognised by the Corporation and; (2) the levy or portion of a levy payable under section 219 to fund the Earners' Account to achieve the purpose of fully funding the cost of all other claims under the Earners' Account.

[5] Including (1) levy or portion of a levy payable to achieve the purpose of fully funding the outstanding claims liability of the Motor Vehicle Account as at 30 June 1999 as recognised by the Corporation; and (2) the levy or portion of a levy payable to fund the Motor Vehicle Account to achieve the purpose of funding the costs of all other claims under the Account.

[6] This rate is from information included in ACC's consultation documents that was based on possible changes to management practices, regulations and legislation.

a changes to motor vehicle relativities for motorcycles and heavy vehicles;

b dividing the motorcycle classification by engine size up to 600cc and 601cc and over;

c reclassifying the moped subclass;

d removing the current exemption for hearses by reclassifying;

e allowing motor spirit levy to be collected on all motor spirits as currently defined under the Customs and Excise Act 1996[7] (this is a change to realign the Motor Vehicle Account Regulations with the Customs and Excise Act following definitional changes in the Customs and Excise Act last year);

f increasing the maximum liable earnings entry criteria for the Workplace Safety Discount Programme;

g changes to two classification units in the Work Account to provide a suitable classification for existing levy payers that do not fit well within the current definitions

h increases to maximum and minimum liable earnings.

9 These changes will be implemented in the relevant levies regulations for 2010/11.

Background

ACC Accounts

10 ACC is a Crown Entity providing comprehensive, no-fault personal injury cover to all New Zealand residents and visitors to New Zealand. The objects of the ACC scheme are the promotion of injury prevention; rehabilitation so that claimants' health, independence and participation are restored to the maximum extent practicable; and ensuring that during rehabilitation claimants receive fair compensation for loss from injury. ACC provides entitlements to claimants including treatment and rehabilitation costs, weekly compensation for earners, and lump sum compensation for permanent impairment.

11 ACC coverage is managed under six Accounts (this will be reduced to five if the IPRC Amendment Bill is passed and the Residual Claims Account is absorbed into the Work Account). The source of funding and a general description of what these Accounts fund is listed below.

Four Accounts are funded exclusively through levies:

- Work Account – this Account is used to meet the costs of entitlements for work-related personal injuries, including work-related gradual-process, disease or infection where the work exposure occurred on or after 1 July 1999. It is possible for employers to take on some level of self-insurance through the Accredited Employers' Programme. This allows employers to provide entitlements to injured workers in place of ACC, for a set period of time and/or to a set value of claim. This gives these employers a significant discount on their Work Account levy rate.

- Residual Claims Account - this Account is used to meet the costs of entitlements for: work injuries suffered prior to 1 July 1999; personal injuries caused by work-related gradual-process, disease or infection where the causative exposure occurred prior to 1 July 1999; and earners' non motor-vehicle injuries suffered prior to 1 July 1992.

[7] This proposal will be subject to any necessary modifications resulting from the Border (Customs, Excise, and Tariff) Processing Bill if that Bill is enacted before the beginning of the 2010-11 levy year.

- Earners' Account - this Account is used to meet the costs of entitlements for earners' non-work injuries (that is, personal injuries other than work-related injuries, motor vehicle injuries and treatment injuries) from 1 July 1992 onwards. This Account has a residual (pre-1999) component.

- Motor Vehicle Account – this Account is used to meet the costs of entitlements for motor vehicle injuries (that is, personal injuries suffered because of the movement of a motor vehicle, except for personal injuries suffered because of off-road use of a motor vehicle and certain work-related personal injuries). This Account has a residual (pre-1999) component.

One Account is funded from Parliamentary Appropriation:

- Non-Earners' Account – this Account is used to meet the costs of entitlements for non-earners' personal injuries (other than motor vehicle injuries or treatment injuries).

One Account is currently funded from the Non-Earners' Account and the Earners' Account:

- Treatment Injury Account – this Account is used to meet the costs of entitlements for personal injury caused by treatment by, or at the direction of, a registered health professional (other than treatment for a work-related personal injury).

12 The following table illustrates what levies levy payers pay, and how they pay it:

	composite Motor Vehicle Account levy			
Levy payer	**Licence fee levy**	**Petrol levy**	**composite Earners' Account levy**	**composite work levy**
employee	If owns a vehicle according to vehicle type	If uses a petrol vehicle, according to petrol usage	to IRD through PAYE, at flat rate	No
non-earner	If owns a vehicle according to vehicle type	If uses a petrol vehicle, according to petrol usage	No	No
self-employed	If owns a vehicle according to vehicle type	If uses a petrol vehicle, according to petrol usage	Direct to ACC, at flat rate	Direct to ACC based on industry risk
standard employer	If owns a vehicle according to vehicle type	If uses a petrol vehicle, according to petrol usage	No	Direct to ACC based on industry risk
accredited employer	If owns a vehicle according to vehicle type	If uses a petrol vehicle, according to petrol usage	No	Reduced amount direct to ACC based on industry risk

13 The ACC levy setting process is set out in the IPRC Act. The ACC makes recommendations on levy rates following consultation with levy payers. The Department of Labour also provides me with advice on the proposed levy rates. Each year the Minister for ACC makes decisions on ACC levies so that these can be set in regulations.

14 New levy rates are required to be set by 31 March 2010 for the composite work levy and the composite Earners' Account levy, otherwise the 2009/10 levy rates will remain in place from 1 April 2010, and ACC will be significantly underfunded. If new levy rates are to be charged on 1 April 2010, the Inland Revenue Department's processes would require approved composite Earners' Account levy rates by 17 December 2009.

15 The Motor Vehicle Account levy year runs from 1 July to 30 June of the following year. NZTA and Customs also require any changes to classifications (for example, for motorcycle classifications) prior to the new year.

16 The figures used in this paper are based on economic and claims assumptions at 30 June 2009 unless otherwise specified. However, it should be noted that ACC takes a long-term view of their investments, and are wary of being too reactive to a volatile market.

Economic effect of levy rates

17 The proposed increases in levy rates will have a significant effect on the economy:

a The proposed increase in the Composite Earners' Account levy rate from $1.70 to $2.50 per $100 of liable earnings would reduce in the hand earnings for people earning under $110,000 by 1%. With liable earnings expected to be approximately $106 billion in the 2010/11 year this would remove $850 million of spending power from the economy.

b The proposed increase in the average Composite Work Account from $1.31 to $1.47 is an increase for businesses of almost $150 million.

c The proposed increase in the Composite Motor Vehicle Account from $287.00 to $334.52 averages $47.52 per vehicle, which is just over $150 million plus GST across road users.

18 The deterioration in ACC's liabilities flows directly into the Crown Accounts. ACC contributed $4.8 billion (46%) of the $10.5 billion deficit for the year ending 30 June 2009.

19 The increase in ACC levies will reduce the ACC's deficit, which in turn, reduces the Crown's deficit. My proposed rates would see a gradual improvement in the solvency of the Earners' and Motor Vehicle Accounts, and a reduction in ACC's unfunded liabilities, which would also flow positively into the Crown's financial accounts.

Principles underlying levy setting

20 The Woodhouse principles continue to be the overarching principles guiding the ACC scheme. Falling out of the broad principles are a number of objectives for the Accident Compensation Scheme, including that:

a the scheme is sustainable in the long-term and is therefore adequately funded

b levies are relatively stable to allow businesses to plan with certainty

c strong injury prevention programmes and incentives on employers and individuals are maintained

d the principles of community and individual responsibility are appropriately balanced.

21 At a broad level, the Scheme is also premised on cost recovery, and over time, levies should also be responsive to changes in funding requirements to ensure fairness.

Comment

Comment on general issues that influence the levy rates

22 It is necessary to make some assumptions in the levy setting process, largely based on past experience of the scheme. The extent to which this is reliably predictive of the future is uncertain. For decisions relating to the current levy round, the key areas of uncertainty are the:

a funding policy – which involves risk margins, discount rates and funding horizon components, is a key determinant in setting the funding target over time and hence underpins the setting of the average levy rates;

b exposure base - over which all claims and operating costs are spread and recovered through the levy process. Movements in this base can have major impacts on the levy rates. For the Work and Earners' Accounts, the exposure base is the relevant working population earnings liable for ACC levies, and for the Motor Vehicle Account, the total number of licensed motor vehicles;

c expected claim costs - based on ACC's actuaries' annual valuation of the outstanding claims liability and patterns of future claim payments (incorporating claim frequency trends, exposure and cost per claim assumptions on the different Accounts); and

d reserves and other adjustments - a reserves adjustment is required if the expected level of reserves at the start of the levy year is below or above the funding target. Also, due to the Inland Revenue Department's requirement that the levy rate for the Earners' Account be applied in multiples of 10 cents on a GST inclusive basis for administrative reasons, a rounding adjustment is included in the levy rate for this Account.

Officials advice on 2010/11 levy rates

23 ACC based its levy rate decisions on the following rationale:

a Not anticipate future improvements – ACC consider it financially prudent not to factor in the estimated impact that cost containment initiatives may have on Scheme costs as there is considerable forecast uncertainty. Future levy proposals will include these improvements once these initiatives actually demonstrate consistent and sustainable performance.

b Sustainability of short-term trends and outcomes - although claim frequency and rehabilitation outcomes in recent quarters are beginning to show signs of improvement, it is too early to judge the long term sustainability of these trends. Given the significant upward trends in scheme utilisation over the past five years, the risk involved in premature recognition of patterns that do not materialise would place the Scheme financials in a worse position in the future.

c Solvency position will not be allowed to decrease further – given the current solvency position of the Scheme, it is considered irresponsible to deliberately allow for further decreases in the solvency position.

24 Based on independent actuarial review of the levy rates the Department of Labour considers that the scale of increase proposed by ACC is a necessary response to ACC's current position.

25 The actuarial review commissioned by the Department concluded that the projected 2010/11 average aggregate levy rates, relativities (where appropriate) and projected funding level appear consistent with emerging claims experience and levy setting policy with the following points: claims experience for accident years beyond

2010/11 factors in some improvement to recent adverse trends. The approach adopted for the outyear accident year costs is not inappropriate; however, if claims trends continue rather than improving as ACC predict then future levy rates may need to increase further to achieve full-funding.

26 The Department does not agree with parts of the funding policy that ACC has used in calculating the rates, especially the funding of the risk margin and extension to the funding horizon, however, these policies are largely offsetting and our views on the necessary levies come out similarly.

Composite work levy

27 The composite Work levy funds entitlements that ACC provides to people for work-related personal injuries and pre-1992 non-work injuries. An industry based classification system is used to group employees into classification units. Employers, self-employed and private domestic workers (PDWs) pay levies on the basis of their employee liable earnings and their classification unit. The different levy rates for classification units are set out in regulations.

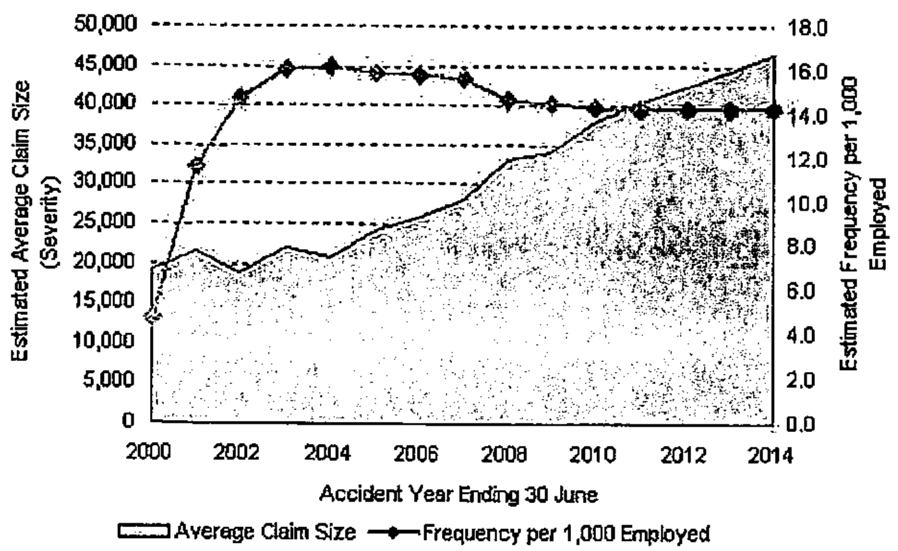
28 The composite average work levy consists of two parts:

a the levy or portion of a levy payable to fund the Work Account to achieve the purpose of fully funding all entitlements provided under the Act by the Corporation to employees, private domestic workers, and self-employed persons for work-related personal injuries, other than as described in (b); and

b the levy or portion of a levy payable for the purpose of fully funding the total value of the outstanding claims liability for the Residual Claims Account as at 30 June 1999 as recognised by the Corporation.

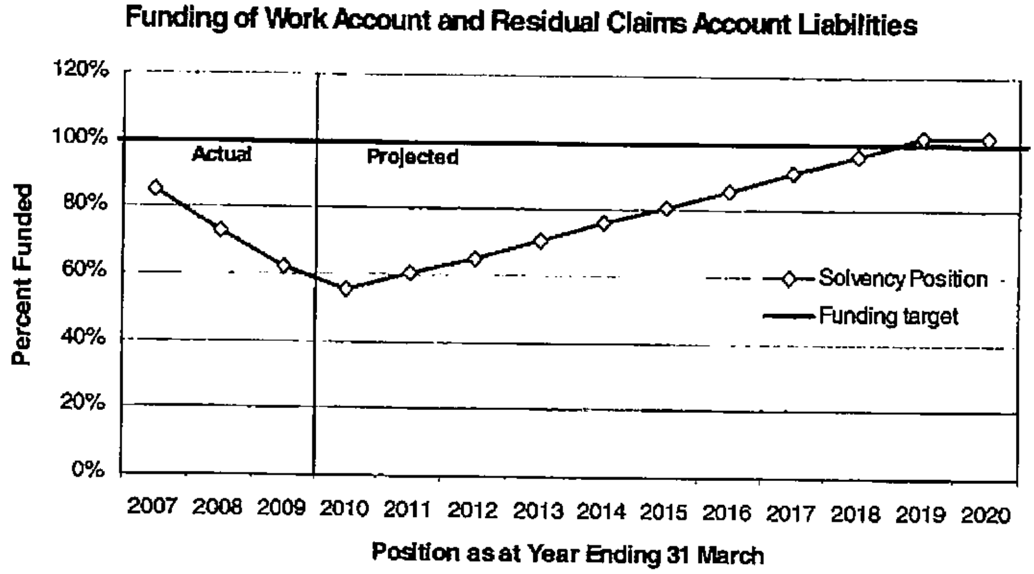
29 The graph below shows the past and future expected trends in cost and frequency of entitlement claims, the key area of cost for ACC:

Work Estimated Frequency and Severity (Entitlement Claims Only)



30 In recent years, the Work Account has experienced reductions in claim frequencies and increasing average claim sizes. ACC has projected that both of these trends will continue over the next five years. The overall level of reduction in frequency is fairly small, averaging less than 0.5% per year over the next five years. The driver of changes in claim costs is, therefore, the change in average claim size. Average claim size is projected to increase at levels over and above inflation.

31 The graph below shows ACC's path back to full funding for the composite work account based on ACC and the Department's proposed levy rate of $1.57 for 2010/11 and similar amounts in future years. Failure to increase levies in the short-term will require significant increases in the future in order to return the Scheme to full funding:



32 I recommend a composite work levy rate of $1.47 cents per $100 of liable earnings. The table below provides a summary of the current 2009/10 rates, ACC's consultation rate for 2010/11, information included in ACC's consultation documents about likely rates should the IPRC Amendment Bill be passed, ACC's recommended rate, ACC and the Department's proposed rate, the minimum rate required to avoid a deterioration in solvency and my proposed rate:

	Composite average work levy[8] Average levy per $100 of liable earnings [9]
Current Rate (2009/10)	$1.31
ACC public consultation rate for 2010/11	$1.89
Reduced rate from information in consultation document*	$1.47
ACC recommended rate	$1.89
ACC/DoL proposed rate	$1.57
Minimum to avoid solvency deterioration	$1.47
Minister for ACC's proposed rate	$1.47

* This rate is from information included in ACC's consultation documents that was based on possible changes to management practices, regulations and legislation

33 The increase in the composite work levy that I am proposing is a balance of the requirement to fully fund the ACC Scheme and the economic impacts on businesses

[8] Including (1) the levy or portion of a levy payable to fund the Work Account to achieve the purpose of fully funding all entitlements provided under the Act by the Corporation to employees, private domestic workers, and self-employed persons for work-related personal injuries, other than as described in (2); and (2) the levy or portion of a levy payable for the purpose of fully funding the total value of the outstanding claims liability for the Residual Claims Account as at 30 June 1999 as recognised by the Corporation.

[9] Including Workplace Safety Management Practices (WSMP) loading.

in this tough economic climate. ACC's performance over recent years has been unacceptable and I want to break away from the cost plus mentality of levy increases. Setting a lower levy will signal to ACC Government's expectation for it to control costs.

34 ACC received 101 submissions from levy payers and key sector groups for the 2010/11 consultation on the levy rates for the Work and Residual Claims Accounts, which is up on last year's total of 39.

35 ACC have summarised the submissions into the following common themes:

- that the proposed levy rate increases will place an economic burden on employers
- that there is an expectation that the IPRC Amendment Bill currently with the Select Committee will result in final levy rates different from those that ACC has consulted on
- that the proposed levy increases will increase incentives for employers to join or remain in the Partnership Programme.

36 A number of submissions made requests seeking:

- a reduced prudential/risk margin
- a revision to employer classification of their own business or industry
- additional information on certain aspects of the levy rate proposal or calculation.

37 Several submitters requested a review of the basic funding and levy collection principles of the ACC Scheme.

Composite Earners' Account levy

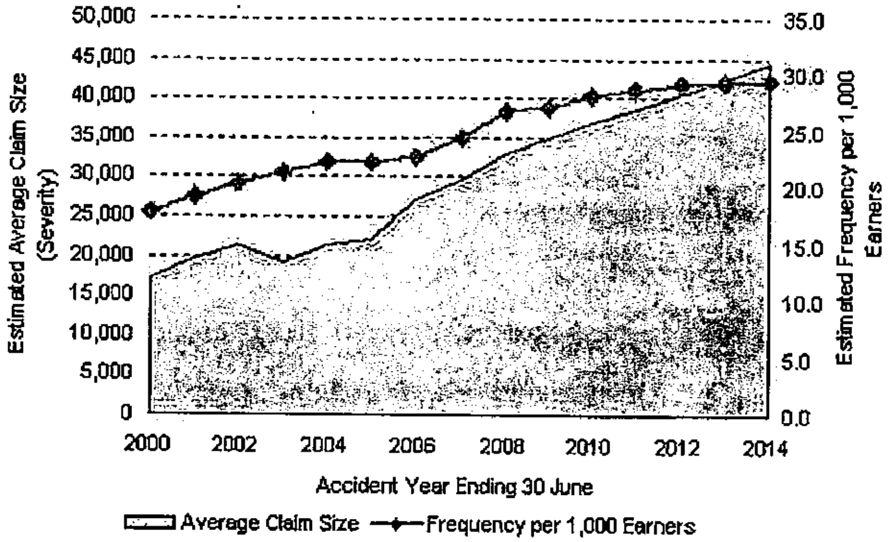
38 The composite Earners' Account levy funds entitlements that ACC provides to wage and salary earners for non-work and non-motor vehicle related personal injuries. The Earners' Account is funded by all earners who pay:

a the levy or portion of a levy payable to achieve the purpose of fully funding the outstanding claims liability of the Earners' Account as at 30 June 1999 as recognised by the Corporation; and

b the levy or portion of a levy payable under section 219 to fund the Earners' Account to achieve the purpose of fully funding the cost of all other claims under the Earners' Account.

39 The graph below shows the past and future expected trends in cost and frequency of entitlement claims, the key area of cost for ACC, for the composite Earners' Account levy:

Earners Estimated Frequency and Severity (Entitlement Claims Only)

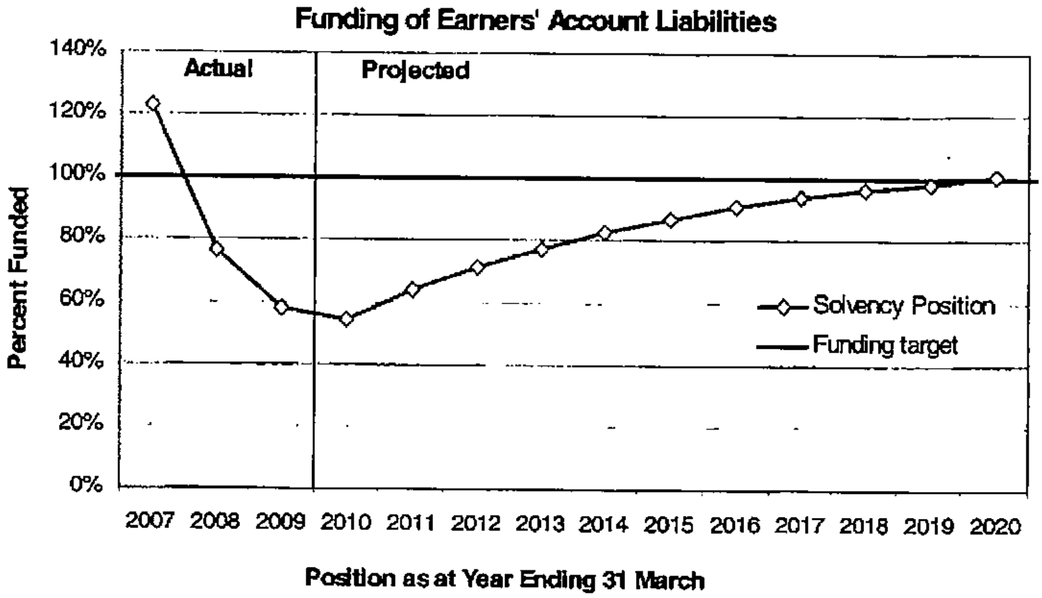


40 The graph shows that both frequency and cost have increased significantly in recent years, especially since 2005. ACC expects reductions in these trends, with claims frequency especially flattening off.

41 While it is too soon to give any weight to emerging trends, recent reports from ACC since June 2009 are encouraging in terms of claims costs, claims frequency, and the number of earners paying levies.

42 The Department's actuaries point to the risk that if cost trends do not decline as ACC predicts, levy rates may need to increase further in the future in order to achieve full funding.

43 The graph below shows ACC's path back to full funding for the composite Earners; Account levy based on ACC's proposed levy rate of $2.70 for 2010/11 and all future years. Failure to increase levies in the short-term will require significant increases in the future in order to return the Scheme to full funding:



44 Changes to the composite Earners' levy rate are restricted to multiples of 10 cents on a GST inclusive basis, in order to be incorporated within the Inland Revenue Department's PAYE tables. This restriction means that rate changes are stepped and may require an additional rounding adjustment within the total assessment.

45 I recommend a levy of $2.50 per $100 of liable earnings in the Earners' Account (inclusive of GST). The table below provides a summary of the current 2009/10 rates, ACC's consultation rate for 2010/11, information included in ACC's consultation documents about likely rates should the IPRC Amendment Bill be passed, ACC's recommended rate, ACC and the Department's proposed rate, the minimum rate required to avoid a deterioration in solvency, and my proposed rate:

	Composite Earners' Account levy[10] Levy per $100 of liable earnings
Current Rate (2009/10)	**$1.70**
ACC public consultation rate for 2010/11	**$2.80**
Reduced rate from information in consultation document*	**$2.45**
ACC recommended rate	**$2.80**
ACC/DoL proposed rate	**$2.70**
Minimum to avoid solvency deterioration	**$2.40**
Minister for ACC's proposed rate	**$2.50**

*This rate is from information included in ACC's consultation documents that was based on possible changes to management practices, regulations and legislation.

46 ACC calculated a levy rate of $2.70 per $100 of liable earnings, that they would need to cover the cost of injuries in the 2010/11 year. This amount is 59% (or $1.00) higher than the 2009/10 levy rate. I consider this rate to be too high, and instead recommend a slightly more affordable rate of $2.50.

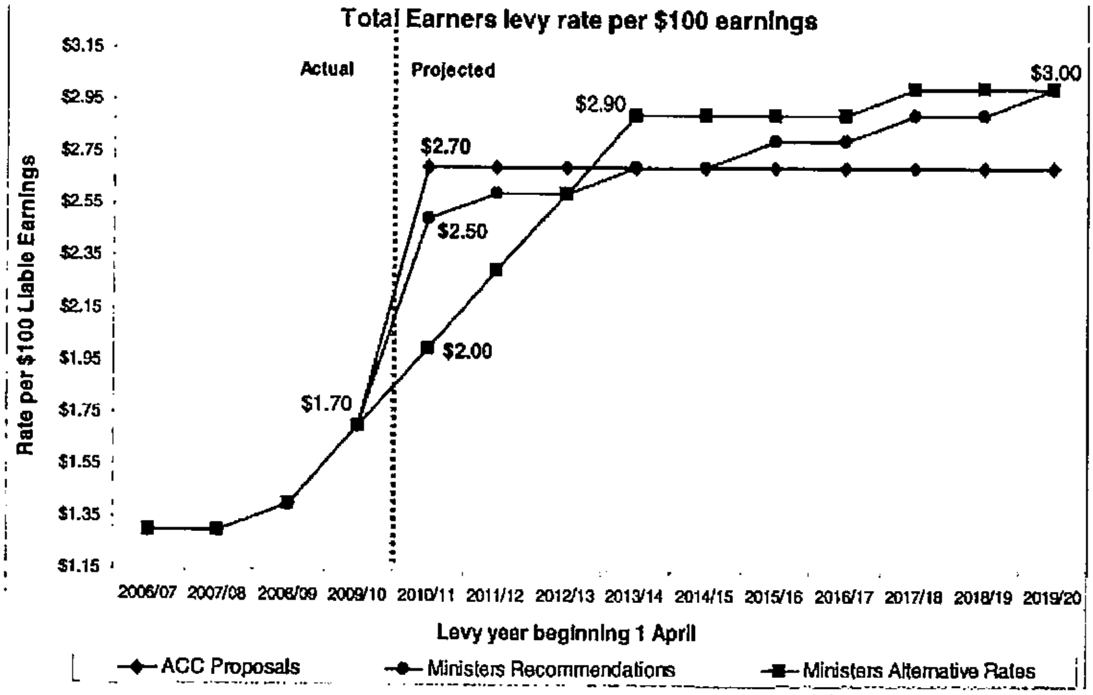
[10] Including (1) the levy or portion of a levy payable to achieve the purpose of fully funding the outstanding claims liability of the Composite Earners' Account as at 30 June 1999 as recognised by the Corporation and; (2) the levy or portion of a levy payable under section 219 to fund the Earners' Account to achieve the purpose of fully funding the cost of all other claims under the Earners' Account.

47 The increase in the composite Earners' Account levy that I am proposing is a balance of the requirement to fully fund the ACC Scheme and the economic impacts on earners who already face significant financial pressures. As mentioned previously, I consider that setting a lower levy will signal to ACC Government's expectation for it to control costs and maximise opportunity for cost savings.

48 The current average wage is $49,500. Increasing the composite Earners' Account levy to $2.50 per $100 of liable earnings will result in an increase of $7.60 per week in ACC levies for a person on an average wage.

49 An alternative proposal would be to increase the composite Earners' Account levy over 4 years, equating to a 30 cent increase on 1 April 2010 and every year through to 2013. The larger increase from 1 April 2011 is required because the cost of capital over intervening years. This would mean a deterioration in the Earners' Account solvency through to 2011/12. This would mean pushing costs out to future levy payers as illustrated in the following graph:

Ministers Alternative Option Compared with ACC recommendation



50 If composite Earners' Account levy rates are not increased in the 2010/11 levy year by the magnitude I propose, solvency ratios will continue to decline and Government will be required to go through the process of significantly increasing levy rates every year.

51 ACC received fourteen submissions relating to the Earners' Account this year. This compares to only six responses received last year, but it is not unusual to receive low numbers. Most submissions for this Account were appended to those coming from large employers on the Work Account.

52 The themes of the few submissions received have been summarised by ACC as:

- objection to the proposed increase, particularly during the current economic climate

- proposals suggesting some form of risk rating should be introduced to move costs to those undertaking higher risk activities
- recommendations to change the approach to financing the Scheme e.g. a move away from full funding
- supportive of some of ACC's initiatives and improvement plans and not of others.

Composite Motor Vehicle Account levy

53 The Composite Motor Vehicle Account levy funds entitlements provided under the IPRC Act for motor vehicle injuries. The costs are funded through:

a the levy or portion of a levy payable to achieve the purpose of fully funding the outstanding claims liability of the Motor Vehicle Account as at 30 June 1999 as recognised by the Corporation; and

b the levy or portion of a levy payable to fund the Motor Vehicle Account to achieve the purpose of funding the costs of all other claims under the Account.

54 ACC currently charge differential levies based on nine different classes of vehicle, split by vehicle type (e.g. motorcycle, passenger vehicle or moped) and type of fuel used. The composite average Motor Vehicle Account levy is an average of these differential levies.

55 The levy is charged for all motor vehicles using public roads. The source of funding for the levy depends on the type of vehicle:

a non-petrol powered vehicles, except those exempted, provide funding through a levy portion of the annual vehicle licence fee only (collected from motor vehicle owners by the New Zealand Transport Agency (NZTA) and remitted to ACC); and

b petrol powered vehicles provide funding through:

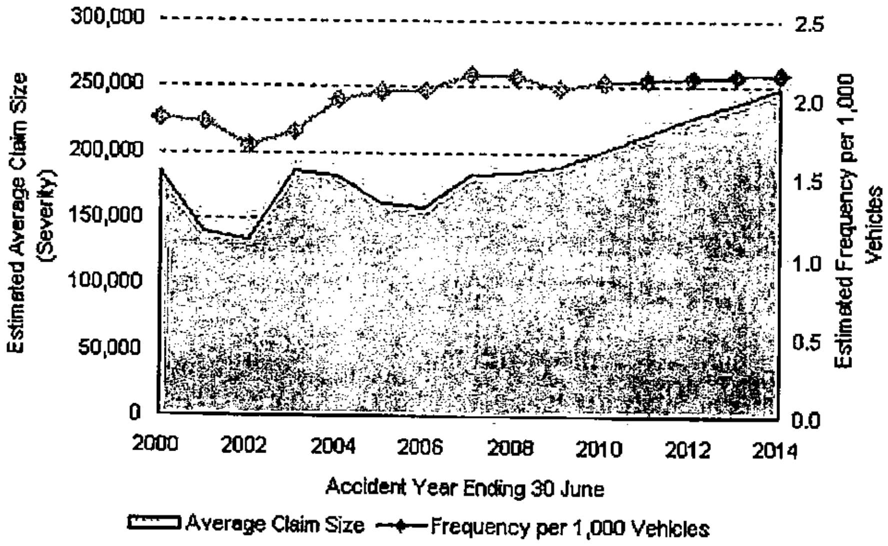
i a levy per litre of petrol that is collected with the excise duty on petrol sales collected by the New Zealand Customs Service and remitted to ACC (currently 9.90 cents per litre); and

ii a levy portion of the annual vehicle licence fee (collected by NZTA and remitted to ACC).

56 The Motor Vehicle Account levy year runs from 1 July to 30 June of the following year.

57 The graph below shows the past and future expected trends in cost and frequency of entitlement claims, the key area of cost for ACC:

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)

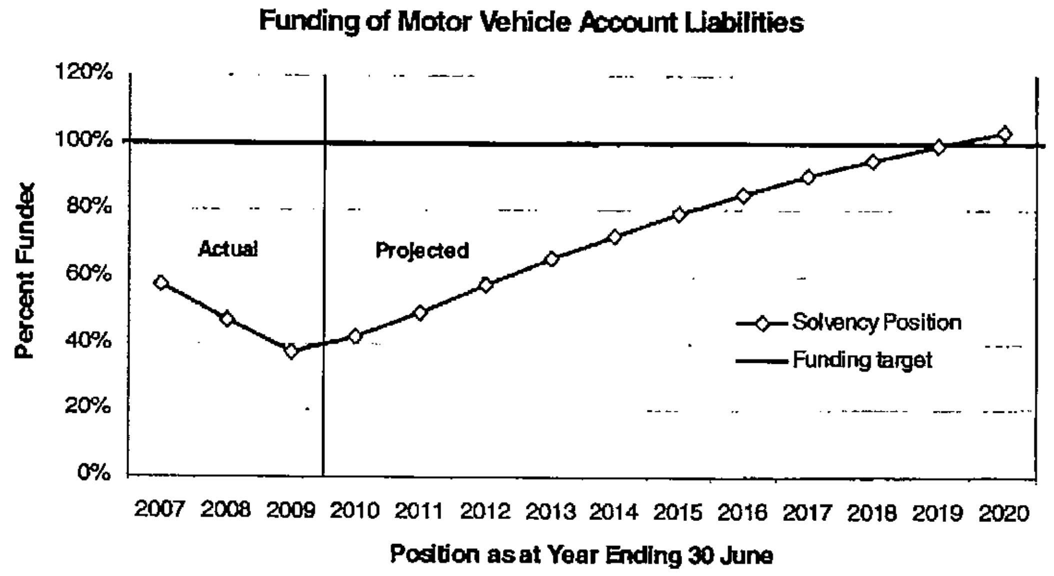


58 ACC continues to project a deterioration in claim cost and frequency beyond 2009. ACC has advised that some early indications are emerging of a slowing of the number of new reported claims.

59 The two dominant payment types for the Motor Vehicle Account are for home carers and non-fatal weekly compensation. For each of these payment types ACC have appropriately incorporated the historical deterioration in frequency and severity for the 2010/11 accident year. Historical increases in frequency and duration are projected to cease from 2011/12.

60 The risk is that if trends in accident year costs do not emerge as favourably as in ACC's projections, levy rates will need to increase.

61 The graph below shows ACC's path back to full funding for the composite Motor Vehicle Account based on ACC's proposed levy rate of $352.19 for 2010/11 with small increase in line with inflation in future years. Failure to increase levies in the short-term will require significant increases in the future in order to return the Scheme to full funding:



62 The table below provides a summary of the current 2009/10 rates, ACC's consultation rate for 2010/11, information included in ACC's consultation documents about likely rates should the IPRC Amendment Bill be passed, ACC's recommended rate, ACC and the Department's proposed rate, the minimum rate required to avoid a deterioration in solvency, and my proposed rate:

	Composite Average Motor Vehicle Account levy[11] average levy per vehicle
Current Rate (2009/10)	**$287.00**
ACC public consultation rate for 2010/11	**$417.28**
Reduced rate from information in consultation document *	**$317.00**
ACC recommended rate	**$394.95**
ACC/DoL proposed rate	**$352.19**
Minimum to avoid solvency deterioration	**$291.96**
Minister for ACC's proposed rate	**$334.52**

*This rate is from information included in ACC's consultation documents that was based on possible changes to management practices, regulations and legislation.

63 I consider the average levy proposed by ACC and the Department is too high for the average motorist. I recommend a rate of $334.52 for the composite average Motor Vehicle Account levy.

64 The increase in the composite average Motor Vehicle Account levy that I am proposing is a balance of the requirement to fully fund the ACC Scheme and the economic impacts on motorists. I am aware of the public expectation raised by ACC's consultation documents that increases in the motor vehicle levy would be approximately $30 if changes to legislation, regulation and management practices were implemented. As mentioned previously, I consider that setting a lower levy will signal to ACC Government's expectation for it to control costs.

[11] Including (1) levy or portion of a levy payable to achieve the purpose of fully funding the outstanding claims liability of the Motor Vehicle Account as at 30 June 1999 as recognised by the Corporation; and (2) the levy or portion of a levy payable to fund the Motor Vehicle Account to achieve the purpose of funding the costs of all other claims under the Account.

65 ACC propose an average composite Motor Vehicle Account levy for the 2010/11 year of $352.19 per vehicle, approximately $15-$45 higher than the preliminary estimated range of cost reductions given in the information about likely levy rates following changes to legislation, regulation and management practices that was included in ACC's consultation document. The preliminary estimated range of cost reductions only gave the 2010/11 reductions; ACC's proposed rate allows for a smooth return to full funding over ten years.

66 ACC received 2,593 submissions relating to the Motor Vehicle Account, including three petitions signed by a total of almost 500 people. ACC received submissions from all the major parties who contribute regularly such as the Automobile Association, NZ Federation of Motoring Clubs, Vintage Car Club, Bikers Rights Organisation of New Zealand (BRONZ), and the Motor Industry Association (motorcycle group). Approximately 30% of submissions that ACC received from motorcyclists were placed using a standard format or pro-forma provided by a club, affiliation or organisation.

67 The submission from the Automobile Association (AA) supports ACC seeking to remove some cross-subsidisation of motorcycle levies. While not seeking full cost recovery, the AA endorses the idea of sending a strong price signal to identify the increased risk of motorcycles.

68 ACC have identified the following common themes which appeared in many of the submissions:

- wholesale objection to the proposal to levy motorcycles on the basis of engine capacity, and concerns that ACC's methodology is unsound
- that a levy per vehicle penalises the owners of multiple vehicles
- support for a system that collects levies from drivers, based on an individual assessed levy, and that discounting be available for those who undertake advanced driver or rider training
- support for setting the petrol levy to the maximum amount possible under current legislation.
- continued opposition to the requirement to fully fund the pre-1999 claims, but if this is an enduring policy then support extension for funding of these claims
- concerns that the large base annual levy will place a significant burden, especially on those with low and fixed incomes, and may result in higher levels of (registration) non-compliance
- unfair targeting of motorcycles because they are easily identifiable, in contrast to higher-risk recreational activities such as off-road cyclists, horse riders, etc

Options for increasing the composite average Motor Vehicle Account Levy for petrol powered vehicles: motor spirit levy or annual licence fee levy

69 ACC consulted on how the increase to the composite average Motor Vehicle Account levy for petrol vehicles should be funded from a licence fee of 0 cents through to the maximum under current legislation of 12.87 cents per litre.

70 The IPRC Act currently requires the residual portion of the Account to be funded only from licence fees.

71 ACC and the Department recommend charging the maximum amount possible under current legislation of 12.87 cents per litre on petrol. At ACC and the Department's rate of $352.19 this would mean that, of the $42.61 increase for a

car, $7.98 would come from an increase in the licence fee levy and $34.63 would come from an increase in the motor spirit levy.

72 The main benefit of increasing the licence fee is that petrol usage is only a rough proxy for risk. A relatively flat licence fee brings in an element of community responsibility. A fuel efficient vehicle is not necessarily safer, but it would pay less motor spirit levy, which is not fair to less fuel efficient vehicles. It also avoids the possibility of reduced levy intake due to a decrease in petrol consumption.

73 The main benefits which occur from increasing the motor spirit levy:

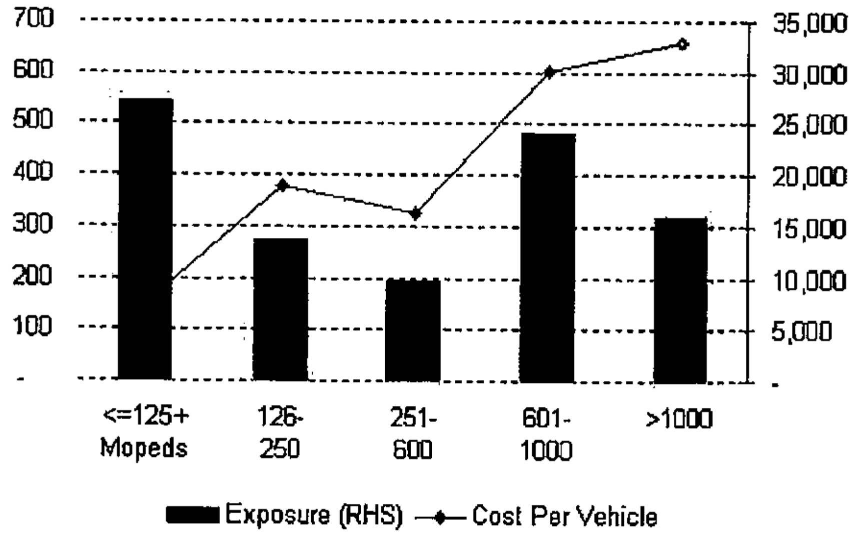
- increasing affordability, particularly for those on low incomes (for whom the lumpy cost of licensing fees has a greater impact than the small variable cost of a motor spirit levy); Warrant of Fitness compliance is also associated with licence fee compliance and therefore this has implications for vehicle safety
- minimising cross-subsidisation of those who do not register their vehicles (because the motor spirit levy is unavoidable)
- reducing the level of cross-subsidisation for owners of two or more vehicles who do not use more than one vehicle at a time
- allowing people, particularly those on fixed income such as retirees, to alter their behaviour to reduce their levy payment and
- aligning with other Government strategies including the NZ Transport Strategy and has a positive co-benefit for the Government's climate change objectives.

74 While increasing the motor spirit levy has many advantages there are a number of other government initiatives which will impact on the price of petrol. This must be balanced against the advantages motor spirit levy has over increasing the licence fee. I consider that there is already too much pressure on petrol prices from government initiatives, including the National Fuel Tax increase from 1 October 2009 of 3.0 cents and the 3.4 cent increase from 1 July 2010 due to the Emissions Trading Scheme. I, therefore, recommend no increase in the motor spirit levy with the entire increase applied to the licence fee levy.

Additional Policy Decisions

Motorcycle levy rates

75 The classifications used by ACC have been reviewed by the Department's actuaries who have confirmed that these are appropriate. The following graph illustrates the relativities between motorcycles:



76 The cost to ACC of 601cc and over motorcycles based on the data above could justify charging approximately double the rate of under 600cc motorcycles, however, I propose only a 35% difference between motorcycles.

77 Although data from the Ministry of Transport shows that large motorcycles are only slightly more likely to be involved in serious injury crashes than smaller motorcycles, the information in the graph above takes into account the costs of an accident and thus better reflects the seriousness of injuries sustained and the costs to ACC.

78 In the last five years, motorcycle fatalities have increased from 28 or 6% of road deaths to 50 or 14% of road deaths. Over the same period, injuries increased from 761 or 5% of road injuries to 1396 or 9% of road injuries. Motorcycles make up less than 4% of the total fleet of New Zealand's registered vehicles.

79 In 2007/08, ACC paid more than $62 million to care for people injured while on their motorcycles, but collected only $12.3 million in motorcycle levies.

80 If ACC charged motorcycle owners for the true cost of injuries, levies for motorcycles would be between $1,200 and $3,700 depending on the engine capacity. Note that the costs in this paragraph are full funded costs compared with the $62 million quoted in the previous paragraph which is a cash cost.

81 Victoria, Tasmania and South Australia have differential levies for motorcycles based on cc rating.

82 Although the relativities (under 125cc, 126-600cc and 601cc+) are actuarially appropriate, there are a number of other considerations which should be taken into account for motorcycle classifications:

a The relativities of motorcycles being proposed is not the true relativity against passenger cars, it has been set at 150% due to issues of affordability. It is, therefore, also appropriate to look at the issue of affordability when considering the cost distribution within this class.

b That having a very high levy for large motorcycles could provide an incentive for motorcyclists to move from a 601cc+ motorcycle to a lower powered vehicle. If 601cc+ motorcycles are more dangerous than smaller motorcycles, this would be a good thing. However, it would not be a good thing if costs are higher for 601cc+ motorcycles than for 126-600cc motorcycles because of the rider profile rather than because of the danger of the motorcycle. For instance, more 601cc+ motorcycles may be owned by older people who may recover more slowly, or by higher income earners who would receive more weekly compensation if injured.

c Increasing the motorcycle levy too much may encourage people not to register their motorcycles. With a $200 fine for an unregistered vehicle, a motorcyclist with a 601cc+ would have to be caught three times per year to make it more expensive than registering their motorcycle

83 Having considered the above factors I recommend the following changes for mopeds and motorcycles:

a that mopeds have a licence fee set at a relativity of 50% of the licence fee of cars plus an additional $30 to be used for moped and motorcycle safety programmes.

b that motorcycles be split into two categories of up to 600cc and 601cc and over (there are just over 5,000 under 125cc motorcycles, insufficient to warrant a separate class)

c that the relativities for the licence fee of these two classes be set at 150% of cars for up to 600cc motorcycles and 200% for 601cc and over, plus an additional $30 to be used for moped and motorcycle safety programmes.

84 Based on my proposed average rate, motorcyclists would pay a licence fee of $327.70 for up to 600cc motorcycles and $426.92 for 601cc and over motorcycles:

Registration	Current 09/10 ($)	Consultation rate ($)	ACC proposed ($)	DoL proposed ($)	Minister's proposed ($)
Petrol car	168.46	272.72	211.79	213.08	198.46
Petrol Vintage/veteran vehicles and tractors	58.97	95.46	74.13	74.58	69.46
Petrol Moped	58.97	257.58	211.87	209.53	129.24
Petrol motorcycles up to 600cc	252.69	511.43*	426.13	355.14	327.70
Petrol motorcycles 601cc and over	252.69	745.77	623.91	537.14	426.92
Petrol goods service vehicles	168.46	291.91	218.8	220.35	238.15
Non-petrol car	279.09	390.56	329.63	331.84	311.38
Non-Petrol Vintage/veteran vehicles and tractors	97.68	136.70	115.37	116.15	108.98
Non-Petrol Moped	97.68	292.93	247.23	224.61	163.12
Non-Petrol motorcycles up to 600cc	392.09	546.78	461.48	371.08	361.58
Non-Petrol motorcycles 601cc and over	392.09	781.12	659.26	573.19	460.08
Non-petrol goods service vehicles (trucks)	302.32	585.84	494.45	497.76	467.08

*ACC consulted on including under 125cc with mopeds. This is the rate for 125cc to 600cc.

85 The motorcycle levy I am proposing is significantly less than consulted on by ACC, however, if the cost of motorcycle claims do not reduce further increases may be

necessary. The aim of the portion of the motor vehicle levy dedicated to moped and motorcycle safety programmes is to help motorcyclists to improve their safety record and reduce costs to the ACC Scheme. ACC have assured me that it will be able to spend this money on cost effective programmes which will help reduce the costs for motorcycle injuries and, therefore, levies.

86 The increase in the motorcycle levy may encourage people not to register their motorcycles. As mentioned above, with a $200 fine for an unregistered vehicle, a motorcyclist with a 601cc and over motorcycle would have to be caught three times per year to make it more expensive than registering their motorcycle. I consider government agencies should work together to update the level of fines, particularly for those who persistently avoid paying licence fees.

Moped levy rates

87 Mopeds are currently grouped with vintage/veteran vehicles and tractors. ACC claims costs data shows that mopeds have a considerably higher risk profile than other vehicles in this class.

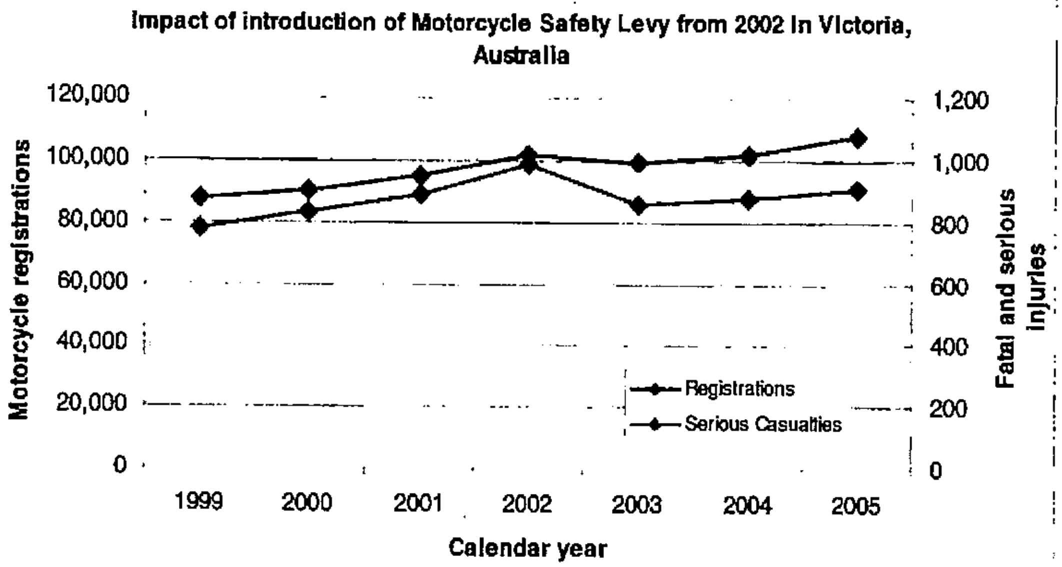
88 ACC consulted on moving mopeds into the motorcycle classification, but charging them a lower levy based on their significantly lower risk when compared to large motorcycles. The licence fee levy that ACC consulted on was similar to the licence fee for cars.

89 It is important to increase the levy for mopeds so that they pay more of the costs that they incur to the scheme, and to send a better signal to the public of how dangerous riding a moped is. However, the rate proposed by ACC was too big an increase and I propose increasing the levy for mopeds to 50% of the licence fee of passenger vehicles, plus $30 dedicated to moped and motorcycle safety programmes.

Motorcycle safety levy

90 I recommend that $30.00 of the motorcycle levy be dedicated to mopeds and motorcycle safety programmes.

91 In 2002, the Transport Accident Commission in Victoria, Australia introduced a motorcycle safety levy of $49.50 for every registered motorcycle 125cc and over to create separate funding to improve motorcycle safety. Trends in motorcycle and pillion fatalities since 2002 have been encouraging with an average 20 per cent reduction in Victoria compared to a 31 per cent increase in fatalities for the rest of Australia.



92 The funds from the Victorian motorcycle safety levy go directly to initiatives to improve the safety of riders. To the end of June 2009 approximately $35 million, raised from the levy, has been committed to motorcycle projects. These projects include education programmes and engineering improvements at black spot locations.

93 Next year I intend to seek changes to the IPRC Amendment Bill to allow for a separate moped and motorcycle safety levy, similar to the Victorian levy.

94 ACC is the main provider, along with NZTA, local government and Road Safety Trust, of funding for community based delivery of safety programmes for motorcyclists. If ACC collects $30.00 from every motorcycle and moped owner for moped and motorcycle safety programmes, this would provide an annual income stream of approximately $3 million for these programmes.

Changes to motor vehicle relativities for goods service vehicles

95 ACC proposed to adjust the relativity for petrol goods service vehicles from 100% to 120%, and for non-petrol powered goods service vehicles from 121% to 150%. These relativities better reflect the costs to the ACC scheme of these vehicles.

96 Non-petrol goods service vehicles have a higher relativity than petrol goods service vehicles because there are more trucks in this group which have higher costs.

Hearses

97 Hearses are currently grouped in the exempt vehicles classification unit and do not pay levies on their registration. However, hearses differ from other exempt vehicles which are either not required to be licensed, attend emergencies, have limited exposure on public roads, or are pulled by a licensed vehicle. This is because they travel routinely on the road and present a risk of injury to road users.

98 Hearses are not a large enough group (approximately 900-1,000 or less than 0.03% of all registered vehicles in New Zealand) to have statistically significant accident costs or statistics. There have been some media reports of some people attempting to abuse this provision by registering non-hearses as hearses.

99 ACC consulted on including hearses in with the passenger vehicle rates, increasing them from the current exempt fee to the passenger vehicle rate and no submissions

were received on this issue despite ACC contacting the Funeral Directors Association of New Zealand.

100 I recommend that hearses be charged the full rate for passenger service vehicles from, the 2010/11 levy round.

Allowing motor spirit levy to be collected on all motor spirits

101 I am recommending that a levy be charged on all motor spirits as currently defined under the Customs and Excise Act 1996[12]. This is fairer to all motorists, as it removes the potential for levy avoidance, and closes a potential loophole which was opened up with definitional changes to the Customs and Excise Act in 2008.

Changes to two classification units in the Work Account

102 The following two minor changes to classification unit descriptions should be made in order to provide a suitable classification for entities that do not fit well within the current definitions.

CU number	Current CU name	Proposed CU name	Reason for change
36103	Electricity Line System Operation (excluding maintenance and operation)	Energy and Services Utilities Operation (excluding construction, maintenance and plant operation)	To provide an appropriate classification for utilities (other than electricity line operators) who subcontract all field operations
61231	Taxi Organisations (excluding those that provide taxi services)	Taxi and Other Vehicle Scheduling Operations	To provide an appropriate classification for organisations who operate in the same manner as a taxi booking office, but schedule van and truck movements

Increase in maximum liable earnings

103 Due to indexation the maximum weekly compensation entitlements for earners have increased in line with the increase in the Labour Cost Index (LCI) by 2.5% for the year to March 2009 and 3.45% for the year to March 2008.

104 In line with these increases the following maximum liable earnings should be applied:

- to self-employed people under the Work, Residual Claims and Earners' Accounts an increase from $102,922 to $106,473 for 2010/11
- to employees, PDWs and earners under the Work and Earners' Accounts an increase from $106,473 to $110,018 for 2010/11 and
- to employees and PDWs under the Residual Claims Account an increase from $102,922 to $106,473 for 2010/11.

105 This will require a change to the levy regulations for the Work, Residual Claims and Earners' Accounts to specify these amounts.

[12] This proposal will be subject to any necessary modifications resulting from the Border (Customs, Excise, and Tariff) Processing Bill if that Bill is enacted before the beginning of the 2010-11 levy year.

Minimum liable earnings for self-employed

106 On 1 April the Minimum Wage Order 2009, increased the minimum wage to $12.50 per hour for all people except trainees and New Entrants.

107 In line with these changes, the minimum liable earnings for self-employed people should increase from $23,400 to $26,000 for all self-employed people.

108 This would require a change to the levy regulations for the Work and Earners' Accounts to specify these amounts.

Increasing the maximum liable earnings entry criteria for the Workplace Safety Discount Programme

109 The Workplace Safety Discount Programme is designed for employers with ten or fewer employees, the liable earnings criteria is a proxy for the number of staff (as ACC does not have records of the number of staff working for each employer, but it does have liable earnings information). I recommend updating the maximum liable earnings criteria from $450,000 to $495,000 in line with the quarterly Employment Survey to reflect average earnings.

Consultation

110 Section 331 of the Injury Prevention, Rehabilitation, and Compensation (IPRC) Act 2001 requires that ACC undertakes public consultation on proposed levy rates for each of its levied Accounts prior to recommending rates to the Minister.

111 The ACC Board carried out public consultation with levypayers from mid-October to mid-November 2009. Consultation and analysis of submissions has been completed. ACC received 101 submissions on the Composite Work levy, 14 submissions on the Composite Earners' Account levy and 2,593 submissions including three petitions signed by a total of almost 500 people on the Motor Vehicle Account.

112 The ACC Board provided its recommendations to me on 26 November 2009. These recommendations were advertised and gazetted on 1 December 2009.

113 ACC, the Treasury, Inland Revenue Department, NZ Transport Agency, the Department of the Prime Minister and Cabinet, the New Zealand Customs Service, Te Puni Kokiri and the Ministries of Social Development, Transport, Womens' Affairs and Pacific Island Affairs were informed of this paper.

Financial implications

114 The financial implications of an increase in the levy rates have been detailed in the individual Comment sections.

Human rights

115 These proposals are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Legislative implications

116 New levy rates are required to be set by 31 March 2010, for the composite work levy and composite Earners' Account levy, otherwise the 2009/10 levy rates will remain in place from 1 April 2010.

117 If new composite Earners' Account levy rates are to be charged on 1 April 2010, the Inland Revenue Department processes would require approved Earners' levy rates before 17 December 2009 so that Payroll software developers can update, test and distribute their systems updates.

118 New levy rates are required to be set by 30 June 2010 for the Motor Vehicle Account, otherwise the 2009/10 levy rates will remain in place from 1 July 2010.

119 If new composite Motor Vehicle Account levy rates are to be changed on 30 June 2010, the NZTA and Customs require any proposed changes to the classification structure before the end of the year in order to make the necessary system changes. The NZTA require the 2010/11 motor vehicle levy rates by the end of March 2010 so invoicing can occur for the new levy year. New Zealand Customs Services also require the petrol levy requirements by the end of March 2010.

Regulatory impact and business compliance cost statement

120 It has not been feasible for the Department of Labour to complete a Regulatory Impact Assessment in the time available.

Gender implications

121 There are no gender implications for the changes to ACC levies and the related policy.

Disability perspective

122 The ACC levies and related policy have no implications for disabled people.

Publicity

123 The ACC Board published advertisements in the major daily newspapers and a notice in the Gazette on 1 December 2009 advising the levy rates that they have recommended to me. ACC and NZTA will undertake a joint communications programme to advise levy payers of the changes to the Motor Vehicle Account.

124 Due to the significant increases proposed by ACC there has been considerable publicity around levies this year. I expect further media interest once levies are announced.

Recommendations

I recommend that Cabinet:

1 **Note** that the ACC levy setting process is set out in the Injury Prevention, Rehabilitation, and Compensation Act 2001 (the IPRC Act). ACC makes recommendations on levy rates to me following consultation with levy payers. The Department of Labour also provides me with advice on the proposed levy rates. Each year the Minister for ACC makes decisions on ACC levies so that these can be set in regulations.

2 **Note** that new levy rates are required to be set by 31 March 2010 for the composite work levy and composite Earners' Account levy, otherwise the 2009/10 levy rates will remain in place from 1 April 2010, and ACC would become significantly underfunded. If new levy rates are to be charged on 1 April 2010, the Inland Revenue Department processes would require the approved composite Earners' Account levy rates by 17 December 2009.

3 **Note** that the composite Motor Vehicle Account levy year runs from 1 July 2010 to 30 June 2011. The New Zealand Transport Agency and New Zealand Customs Services require any changes in classifications (for example, for motorcycles) prior to the new year.

4 **Note** ACC's unfunded liabilities have grown significantly from $4.2 billion to $12.7 billion over the past four years as a consequence of levies being insufficient to meet

the growth in liabilities. The Motor Vehicle and Earners' Accounts have the lowest levels of solvency of the levied Accounts.

5 **Note** that ACC and the Department of Labour made the following proposals for the composite work levy, composite Earners' Account levy and composite Motor Vehicle Account levy:

Levy rates for 2010/11[13]

	Composite average work levy[14] Average levy per $100 of liable earnings [15]	**Composite Earners' Account levy**[16] Levy per $100 of liable earnings	**Composite Average Motor Vehicle Account levy**[17] average levy per vehicle
Current Rate (2009/10)	$1.31	$1.70	$287.00
ACC public consultation rate for 2010/11	$1.89	$2.80	$417.28
Reduced rate* from information in consultation documents	$1.47	$2.45	$317.00
ACC recommended rate	$1.89	$2.80	$394.95
ACC/DoL proposal	$1.57	$2.70	$352.19
Minimum to avoid solvency deterioration	$1.47	$2.40	$291.96

*This rate is from information included in ACC's consultation documents that was based on possible changes to management practices, regulations and legislation.

6 **Agree** to the following rates for ACC levies in 2010/11:

Composite average work levy[18] Average levy per $100 of liable earnings [19]	**Composite Earners' Account levy**[20] Levy per $100 of liable earnings
$1.47	$2.50

[13] Levy rates quoted are GST exclusive for the Work and Motor Vehicle Accounts unless indicated otherwise, and GST inclusive for the Earners' Account. The rate shown for the Earners' Account composite levy is the rate that earners will see coming out of their pay.

[14] Including (1) the levy or portion of a levy payable to fund the Work Account to achieve the purpose of fully funding all entitlements provided under the Act by the Corporation to employees, private domestic workers, and self-employed persons for work-related personal injuries, other than as described in (2); and (2) the levy or portion of a levy payable for the purpose of fully funding the total value of the outstanding claims liability for the Residual Claims Account as at 30 June 1999 as recognised by the Corporation.

[15] Including Workplace Safety Management Practices (WSMP) loading.

[16] Including (1) the levy or portion of a levy payable to achieve the purpose of fully funding the outstanding claims liability of the Composite Earner's Account as at 30 June 1999 as recognised by the Corporation and; (2) the levy or portion of a levy payable under section 219 to fund the Earners' Account to achieve the purpose of fully funding the cost of all other claims under the Earners' Account.

[17] Including (1) levy or portion of a levy payable to achieve the purpose of fully funding the outstanding claims liability of the Motor Vehicle Account as at 30 June 1999 as recognised by the Corporation; and (2) the levy or portion of a levy payable to fund the Motor Vehicle Account to achieve the purpose of funding the costs of all other claims under the Account.

[18] Including (1) the levy or portion of a levy payable to fund the Work Account to achieve the purpose of fully funding all entitlements provided under the Act by the Corporation to employees, private domestic workers, and self-employed persons for work-related personal injuries, other than as described in (2); and (2) the levy or portion of a levy payable for the purpose of fully funding the total value of the outstanding claims liability for the Residual Claims Account as at 30 June 1999 as recognised by the Corporation.

[19] Including Workplace Safety Management Practices (WSMP) loading.

[20] Including (1) the levy or portion of a levy payable to achieve the purpose of fully funding the outstanding claims liability of the Composite Earner's Account as at 30 June 1999 as recognised by the Corporation and; (2) the levy or portion of a levy payable under section 219 to fund the Earners' Account to achieve the purpose of fully funding the cost of all other claims under the Earners' Account.

7 **Note** that increasing the composite Earners' Account levy over a four or even three year period would mean a deterioration in the Earners' Account solvency through to 2011/12 and would mean pushing costs out to future years' levy payers.

8 **Agree** that the maximum liable earnings for:

8.1 self-employed people under the Work, Residual Claims and Earners' Accounts increase from $102,922 to $106,473 for 2010/11;

8.2 employees, private domestic workers, and earners under the Work and Earners' Accounts increase from $106,473 to $110,018 for 2010/11; and

8.3 employees and private domestic workers under the Residual Claims Account increase from $102,922 to $106,473 for 2010/11.

9 **Agree** that the minimum liable earnings for self-employed increase from $23,400 to $26,000 for 2010/11.

10 **Agree** to change the following two classification units in the Work Account to provide a suitable classification for existing levy payers that do not fit well within the current definitions as consulted on:

10.1 Replace the words "Electricity Line System Operation (excluding maintenance and operation)" with the words "Energy and Services Utilities Operation (excluding construction, maintenance and plant operation)" for classification unit 36103

10.2 Replace the words "Taxi Organisations (excluding those that provide taxi services)" with the words "Taxi and Other Vehicle Scheduling Operations" for classification unit 61231

11 **Agree** to increase the maximum liable earnings entry criteria for the Workplace Safety Discount Programme from $450,000 to $495,000 in line with the quarterly Employment Survey to reflect average earnings.

12 **EITHER**

12.1 **Agree** to the recommended average composite Motor Vehicle Account levy rate of $334.52 per vehicle for 2010/11 with no increase to the motor spirit levy of 9.90 cents per litre.

or

12.2 **Agree** to ACC and the Department's proposed average composite Motor Vehicle Account levy rate of $352.19 per vehicle for 2010/11 and increase the motor spirit levy from 9.90 cents per litre to 10.90 cents per litre.

13 **Note** that the Transport Accident Commission in Victoria, Australia introduced a motorcycle safety levy of $49.50 for every registered motorcycle 125cc and over to create separate funding to improve motorcycle safety. Trends in motorcycle fatalities have been encouraging with an average 20% reduction in Victoria compared to a 31% increase in fatalities for the rest of Australia since the motorcycle safety levy was introduced in 2002.

14 **Agree** to reclassify mopeds to their own subclassification and that mopeds have a licence fee set at a relativity of 50% of the licence fee of cars plus an additional $30 to be used for moped and motorcycle safety programmes.

15 **Agree** to divide the motorcycle classification by engine size and that the relativities for the licence fee of these two classes be set at 150% of cars for up to 600cc motorcycles and 200% for 601cc and over, plus an additional $30 to be used for moped and motorcycle safety programmes.

16 **Note** that the relativity of goods service vehicles has been increased in line with their costs to the ACC scheme.

17 **Agree** to increase the annual licence fee levies for 2010/11 for each vehicle classification as follows:

Classification Number	Description of motor vehicle	Recommended levy for 2010/11
1	Exempt vehicles: • Ambulances • Fire brigade vehicles • Exempted vehicles • Trailers • Holders of trade licences for trailers/caravans	$Nil (a)
2	Petrol driven: • Motor cars • Self-propelled caravans • Mobile cranes • Passenger service vehicles • Hearses All petrol driven motor vehicles not classified elsewhere Holders of trade licences for vehicles not classified elsewhere	$198.46 (a)
3	Petrol driven: • Tractors • Veteran motor vehicles • Vintage motor vehicles • Non-registered vehicles	$69.46 (a)
4a	Petrol driven: • Mopeds Holders of trade licences for: • Mopeds and motorcycles up to and including 60cc	$129.24 (a)
4b	Petrol driven: • Motorcycles up to 600cc	$327.70 (a)
4c	Petrol driven: • Motorcycles 601cc and over Holders of trade licences for: Motorcycles 61cc and over	$426.92 (a)
5	Petrol driven: • Goods-service vehicle	$238.15 (a)

Classification Number	Description of motor vehicle	Recommended levy for 2010/11
6	Non-petrol driven: • Motor cars • Self-propelled caravans • Mobile cranes • Passenger service vehicles • Hearses All non-petrol driven motor vehicles not elsewhere classified	$311.38
7	Non-petrol driven: • Tractors • Veteran motor vehicles • Vintage motor vehicles • Non-registered vehicles	$108.98
8a	Non-petrol driven: • Mopeds	$163.12
8b	Non-petrol driven: • Motorcycles up to 600cc	$361.58
8c	Non-petrol driven: • Motorcycles 601cc and over	$460.08
9	Non-petrol driven: • Goods-service vehicle	$467.08

(a) plus motor spirit levy of 9.90 cents per litre

AGREE / DO NOT AGREE

18 **Agree** to reclassify hearses from exempt vehicles to passenger service vehicles, meaning they will be charged the full passenger vehicle rate from 2010/11.

19 **Agree** to allow motor spirits levy to be collected on all forms of motor spirit as currently defined under the Customs and Excise Act 1996.

20 **Note** that the above decisions will be subject to any necessary modifications resulting from the Injury Prevention, Rehabilitation, and Compensation Amendment Bill if the Bill is enacted before the beginning of the 2010-11 levy year

21 **Invite** the Minister for ACC to issue drafting instructions to Parliamentary Counsel to draft the proposed regulations required to set levies consistent with decisions in the recommendations above.

Hon Dr Nick Smith
Minister for ACC

4 / 12 / 2009