

Reference: 20150459

25 November 2015



Thank you for your Official Information Act request, received on 28 October 2015. You requested the following:

“Can you please confirm and provide a response on the following: If applicable, advice tendered to the Crown or otherwise, on the issue of ACC Levies by Treasury.

Please provide in a chronological indexed form, that may be caught up in the scope category or describe as such, on an annual basis as Treasury may be willing to provide.”

Interpretation of Request

The scope of your request at this stage is very wide. It appears that you have essentially asked for all Treasury advice on the issue of ACC levies. You have not restricted this to particular dates or confined the scope in any other way. We have not been able to contact you by telephone or email to help you clarify the information you are seeking, as your request does not include a telephone number or email address (only the fax number by which you submitted your request).

In order to accurately respond to your question, we would need to review a large number of documents that we consider may be relevant to your request, and then to collate the relevant information in a chronological indexed form. We do not have the resources to perform such a deep analysis. Please note that if you required us to undertake this work, we would need to fix a charge or decline your request, as it would require substantial collation and research at our end to answer your question accurately.

However, at this stage we have identified key documents that may be of use and which may assist in clarifying the scope of your request.

Information Being Released

Please find enclosed the following document:

Item	Date	Document Description	Decision
1.	22 July 2014	Aide Memoire – 2015/16 ACC Levy Rates	Release in full

I have decided to release the document listed above in full.

Information Publicly Available

The following information may also be covered by your request and is publicly available on the Treasury website. For your convenience we have enclosed hard copies.

Binder One: Information for release TOIA 20150160

Item	Date	Document Description
1.	6 March 2014	Setting a Government funding policy for ACC
2.	6 March 2014	Aide Memoire: Government funding policy for ACC
3.	11 March 2014	ACC funding policy for Fiscal Issues
4.	4 April 2014	Further information about setting a Government funding policy for ACC
5.	8 April 2014	Aide Memoire: Further information about setting a Government funding policy for ACC
6.	27 May 2014	Aide Memoire: Transition to a new ACC funding target
7.	3 July 2014	Aide Memoire: Options for moving to ACC's new funding target
8.	25 July 2014	Aide Memoire: Transition to the funding policy for ACC's levied accounts
9.	31 July 2014	Aide Memoire: Transition to ACC's funding policy – macroeconomic considerations
10.	13 November 2014	Aide Memoire: ACC funding policy – issues for discussion
11.	13 March 2015	EGL Briefing ACC funding and levies

Binder Two: Budget 2014 and 2015 Proactive Release Documents:

Item	Date	Document Description
1.	20 March 2014	Aide Memoire: 2015/16 ACC Levies
2.	4 April 2014	Aide Memoire: ACC Levies in Budget 2014 forecasts
3.	11 April 2014	Aide Memoire: ACC Levies in Budget 2014 forecasts updated information
4.	15 April 2014	Aide Memoire: ACC's forecast for Budget 2014
5.	19 February 2015	Treasury Report: Upcoming Decisions on ACC
6.	10 April 2015	ACC Levies: Implementing Government Funding Policy from 2016/17
7.	24 April 2015	Aide Memoire: Signalling ACC Levy Reductions at Budget 2015
8.	28 April 2015	ACC Levy Assumptions in Budget Forecast
9.	28 April 2015	ACC Levy Assumptions in Budget Forecast: Oral Item for Cabinet
10.	29 April 2015	Provisioning for ACC Levy Reductions in the Budget 2015 Forecasts - Final Recommendations

Some relevant information has been removed from documents listed in the above table and should continue to be withheld under the Official Information Act, on the grounds described in the documents.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

While this may not fully cover the wide range of information you may have intended your request to capture, we hope that the documents listed above will help to narrow the scope of the request to one that is more manageable. As it stands the request would need to be declined under s18 (f) of the Official Information Act 1982 unless the scope of the request can be sufficiently narrowed. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Ben McBride
Manager, Health



Reference: T2014/1287

CM-1-3-1-2-3

Date: 22 July 2014

 To: Minister of Finance (Hon Bill English)
 Associate Minister of Finance (Hon Steven Joyce)

Deadline: 28 July 2014

Aide Memoire: 2015/16 ACC levy rates

This aide-memoire provides you with our advice on ACC levy rates for the 2015/16 levy year.¹ Cabinet is scheduled to consider these rates on 28 July.

Taking only ACC into account, we support ACC's Earners' and Work levy recommendations – and think the Motor Vehicle levy could fall further

ACC recommends (and MBIE supports) reductions of about 5 per cent in the average Earners' levy (from \$1.26 to \$1.20), 21 per cent in the average Work levy (from \$0.95 to \$0.75) and 40 per cent in the average Motor Vehicle levy (from \$330.68 to \$200.00). Based solely on an assessment of ACC's funding position and performance, we:

- support ACC's Earners' and Work levy recommendations; and
- think the Motor Vehicle levy should fall to at least \$195.00 (the rate in Budget 2014 forecasts). It could go lower than this while still meeting 2015/16 current year claims costs in this account, which are estimated at \$140.00. Motor Vehicle levies for 2015/16 do not affect 2014/15 OBEGAL.

Table 1 compares these recommendations to the 2015/16 levy rates that were included in Budget 2014 forecasts, subject to public consultation and Ministers' decisions.

Table 1: Recommended 2015/16 ACC levy rates (compared to current rates)²

Account	Current (2014/15) rates	2015/16 rates		
		ACC	Treasury	Rates in BEFU 14 forecasts
Earners'	\$1.26	\$1.20	\$1.20	\$1.26
Work	\$0.95	\$0.75	\$0.75	\$0.90
Motor Vehicle	\$330.68	\$200.00	\$195.00	\$195.00

¹ The levy year is April-March for the Earners' and Work Accounts, and July-June for the Motor Vehicle Account.

² Average levy rate ex GST. Earners' and Work rates are per \$100 of liable earnings, Motor Vehicle rate is per vehicle. Including GST, ACC's recommended Earners' levy rate is \$1.38, and the BEFU 14 Earners' levy rate is \$1.45

All else being equal, we support ACC's recommended Earners' and Work levy rates because they better manage funding levels while staying fairly close to estimated 2015/16 current year claims costs (\$1.24 in the Earners' Account and \$0.78 in the Work Account). The case for Work levy reductions is particularly strong, given how far the levy exceeds costs as well as the funding position of this account.

We prefer a Motor Vehicle levy of \$195.00 (rather than \$200.00) because significant levy reductions are needed to prevent over-funding in this account. Even at \$195.00, the funding position of the Motor Vehicle Account is projected to rise (see Table 2).

Table 2: Approximate projected funding position under different 2015/16 levy rates³

Account	Current	Projected at end 2014/15 levy year	Projected at end 2015/16 levy year		
			ACC	Treasury	BEFU 14 forecasts
Earners'	137%	137%	135%	135%	137%
Work	130%	133%	134%	134%	136%
Motor Vehicle	103%	112%	115%	114%	114%

We don't recommend reducing funding levels more quickly through greater Earners' and Work levy reductions in 2015/16. Ultimately, funding does need to fall: Ministers have decided that from 2016/17 ACC should target a lower funding level of 100-110 per cent of reported liabilities [EGL (14) 11/9 refers]. However:

- Ministers are still considering how ACC should get to its new funding target, including over what timeframe funding levels should be reduced. Using steep levy reductions to reduce funding levels in 2015/16 could prejudice this work; and
- substantially lower Earners' and Work levies would deviate too far from new-year costs, and may not be sustainable. The reductions are driven mainly by investment returns and discount rate changes. Experience has deteriorated slightly in the last year – currently, rehabilitation rate KPIs are not being met – and 2015/16 claim costs don't generally allow for further decline in this area.

ACC's recommended levy reductions are significantly higher than forecasts...

The 2015/16 levy rates built into BEFU 2014 forecasts amount to estimated levy reductions of around \$480m. At Budget 2014, Government:

- signalled likely 2015/16 levy reductions of around \$480m, the bulk of which were anticipated to come from Motor Vehicle levies (with the possibility of a reduction for employers and the self-employed)
- noted that, depending on the outcome of consultation, this could reduce the average levy for a private motor vehicle by about \$130 a year from 1 July 2015.

³ Although Earners' and Work levies are below current-year costs, funding takes time to fall because of investment returns on surplus assets (and 2014/15 levy rates will maintain or increase the funding position).

ACC's recommendations would reduce levies by around \$658m (compared to current levy rates) in the 2015/16 levy year, and Treasury's by about \$669m (see Table 3).

Table 3: Total levy reductions compared to current levy rates⁴

Account	ACC		Treasury		Rates in BEFU 14 forecasts	
	2015/16 levy year	2014/15 + 2015/16 levy year	2015/16 levy year	2014/15 + 2015/16 levy year	2015/16 levy year	2014/15 + 2015/16 levy year
Earners'	\$69m	\$305m	\$69m	\$305m	\$0m	\$236m
Work	\$162m	\$313m	\$162m	\$313m	\$42m	\$193m
Motor Vehicle	\$427m	\$427m	\$438m	\$438m	\$438m	\$438m
TOTAL	\$658m	\$1,045m	\$669m	\$1,056m	\$480m	\$867m

...and would negatively impact 2014/15 OBEGAL by about \$119m

ACC's recommendations would negatively impact 2014/15 OBEGAL by about \$119m compared to BEFU forecasts (see Table 4). Although our recommended Motor Vehicle levy is lower than ACC's, as noted above this would have no impact in 2014/15.

Table 4: 2014/15 OBEGAL impacts of ACC recommendations compared to BEFU forecast

Account	Rate	2014/15 OBEGAL impact (\$m)			
		Levy revenue	URL	Investment income	TOTAL
Earners'	\$1.20	(16.800)	(48.329)	(.062)	(65.191)
Work	\$0.75	(30.687)	(22.923)	(.002)	(53.612)
Motor Vehicle	\$200.00				0
TOTAL		(47.487)	(71.252)	(.064)	(118.803)

If Ministers prefer to avoid additional OBEGAL impacts in 2014/15, Earners' and Work levies should be set in line with Budget 2014 forecasts...

Setting Earners' and Work levies in line with Budget 2014 forecasts would avoid additional 2014/15 OBEGAL impacts from ACC levies. This would slightly worsen over-funding in these accounts relative to ACC's recommendations.

⁴ 2014/15 levy year reductions comprise about \$236m in the Earners' Account and \$151m in the Work Account. Levy reduction figures are approximate, and cannot be reconciled with the actual drop in levy income because changes to levy rates do not all flow through to levy income in the year they are implemented.

...or a small positive 2014/15 OBEGAL impact could be generated by keeping the Work levy at \$0.95, i.e. reducing only Motor Vehicle levies...

Keeping the Work levy at \$0.95 for 2015/16 would have an estimated positive OBEGAL impact of about \$10m in 2014/15 compared to BEFU forecasts. This would mean:

- a further slight increase in funding levels in the Work Account
- total levy reductions of about \$438m, compared to the Budget signal of \$480m (assuming Motor Vehicle reductions went ahead as forecast).

As noted above, we support a Motor Vehicle levy of \$195. Based on the relative funding position of the three accounts, however, there is little case for reducing Motor Vehicle levies while keeping Earners' and Work levies the same.

...with the option of a further Motor Vehicle levy reduction to get to a total \$480m

If Ministers wished to deliver \$480m in levy reductions without reducing the Work (or Earners') levy, this could be achieved by setting an average Motor Vehicle levy of around \$185.00 – lower than the possible reduction signalled at consultation. This would still be above expected costs. However, this option would exacerbate the problem (highlighted above) of running reductions through the least-funded account.

Table 5: Summary of levy options to manage 2014/15 OBEGAL impact

Account	Option 1: As per BEFU 14	Option 2: \$0.95 Work levy (MV reductions only)	Option 3: \$0.95 Work levy with greater MV reduction
Earners'	\$1.26	\$1.26	\$1.26
Work	\$0.90	\$0.95	\$0.95
Motor Vehicle	\$195.00	\$195.00	\$185.00
Total levy reduction	\$480m	\$438m	\$480m
2014/15 OBEGAL impact vs. BEFU 14	0	\$10.350m	\$10.350m

Next steps

Cabinet is due to consider ACC levy rates for 2015/16 on 28 July. These decisions will be built into ACC's PREFU forecasts.

Helen Anderson, Senior Analyst, Health, 04 917 6307
Ben McBride, Manager, Health, 04 917 6184