The Treasury

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Release Document

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[2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[3] 9(2)(a) - to protect the privacy of natural persons, including deceased people

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[7] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[8] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

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[11] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[13] Not in scope

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Reference: T2014/500 CM-1-3-1-2-3

THE TREASURY
Kaitohutohu Kaupapa Rawa

Date: 20 March 2014

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

Deadline: 24 March 2014

Aide Memoire: 2015/16 ACC levies

This aide-memoire updates you on 2015/16 levy rates being considered by ACC and provides other options for 2015/16 levies that would reduce 2014/15 OBEGAL impacts. It aims to support your discussions with Budget Ministers on Monday 24 March.

ACC levy rates for 2015/16

Public consultation on ACC levy rates for 2015/16 is due to start on 20 May 2014. ACC's levy recommendations are likely to differ from the levy reductions signalled by Government, as they are based on ACC's funding policy and do not take wider factors (such as Government's fiscal strategy) into account.

The 2015/16 rates being considered by ACC are shown in the table below, along with current (2013/14) and Cabinet-agreed rates for 2014/15. These are based on ACC's existing funding policy. The ACC Board has not yet considered the 2015/16 rates, and it is possible there may be some change from the 2015/16 rates shown.

Table 1: ACC levy rates being considered for 2015/16 (subject to ACC Board decision)

	Average levy rate (excluding GST)		
Account	**2013/14 (Current)**	**2014/15 (Cabinet agreed)**	**2015/16 (Under consideration by ACC)**
Earners' Account	$1.48	$1.26	$1.20
Work Account	$1.15	$0.95	$0.75
Motor Vehicle Account	$330.68	$330.68	$230.00

Last year ACC recommended 2014/15 levy reductions in all three Accounts. While ACC's recommendations for the Earners' and Work Accounts were accepted, the Motor Vehicle levy was kept at the 2013/14 rate. Even under ACC's current funding

policy, which includes significant extra margins, rapid levy decreases are needed to avoid over-funding. Despite increasing claim frequencies (built into ACC's modelling), ACC's 2015/16 rates are the same as or lower than those they anticipated last year.

ACC's 2015/16 rates would reduce levies by around $541m in the 2015/16 levy year compared to 2014/15 rates, as shown below. The levy year runs from April to March for the Earners' and Work Accounts, and July to June for the Motor Vehicle Account.

Table 2: Impact of 2015/16 levy rates under consideration by ACC

Account	2015/16 average levy rate (excluding GST) (ACC)	Total levy reduction (2015/16 levy year)	Cumulative levy reduction (2014/15 + 2015/16)
Earners' Account	$1.20	$50m	$286m
Work Account	$0.75	$162m	$313m
Motor Vehicle Account	$230.00	$329m	$329m
TOTAL		**$541m**	**$928m**

Levy rates in HYEFU 2013 forecasts

In December 2013, Cabinet agreed ACC levy reductions of $387m in the 2014/15 levy year. At HYEFU you signalled Government's intention to increase levy reductions to $1B in the 2015/16 levy year.

The following table shows the indicative 2015/16 ACC levy rates and approximate levy reductions that were built into HYEFU 2013 forecasts. These rates were not intended to be definitive. They were included in forecasts subject to a range of factors, including further valuations of ACC's liability; this year's levy consultation; and Ministers' decisions on ACC's recommendations.

Table 3: Impact of 2015/16 levy rates built into HYEFU 2013

Account	2015/16 average levy rate (excluding GST) (HYEFU)	Total levy reduction (2015/16 levy year)	Cumulative levy reduction (2014/15 + 2015/16)
Earners' Account	$1.26	$8m[1]	$244m
Work Account	$0.75	$162m	$313m
Motor Vehicle Account	$195.00	$438m	$438m
TOTAL		**$609m**	**$996m**

[1] This arises from an expected increase in the number of earners, rather than a further reduction in the levy rate

Impacts of 2015/16 levy reductions on 2014/15 OBEGAL

Forecast reductions in the Work levy in the 2015/16 levy year would apply from 1 April 2015. Their impact on 2014/15 OBEGAL is estimated at just over $120m, comprising:

- around $41m in levy reductions (from 1 April to 30 June 2015)
- around $82m in Unexpired Risk Liability (URL) arising from Work levy reductions
- a small reduction in investment income.[2]

Other options for 2015/16 levies

Reductions in the Motor Vehicle Account in the 2015/16 levy year do not affect 2014/15 OBEGAL because they do not start until 1 July 2015. Should Ministers wish to avoid 2015/16 levy reductions having an impact on OBEGAL in 2014/15, one approach would be to reduce only Motor Vehicle levies and keep Work (and Earners') levies unchanged from 2014/15 rates.

Another approach could be to delay forecast Earners' and Work levy reductions (and hence OBEGAL impacts) from 1 April 2015 until 1 July 2015. However, we do not recommend further work on this option. We think it would present significant communications challenges, and ACC has previously advised that they do not think it is feasible. As most of the Earners' Account levy is collected through PAYE, which currently has one rate for the tax year, this option would require a mid-year change for IRD. In addition, experience rating in the Work Account is unlikely to be workable with two different rates throughout the year.

Two options for Motor Vehicle-only reductions are outlined below. These options:

- have not been discussed with ACC. Further work would be needed with ACC to confirm impacts.
- assume that ACC's current funding policy would apply until 2016/17. The relationship between 2015/16 levy options and a Government funding policy for ACC is discussed further below.

Option 1: Implement Motor Vehicle levy reductions as forecast

This option would involve implementing the forecast Motor Vehicle levy reductions of around $438m (dropping the rate from $330.68 to $195.00) and delaying reductions to the Earners' and Work Accounts. Under this option:

- levy reductions across the 2014/15 and 2015/16 levy years would be about $825m, compared to the $1B signalled at 2013 HYEFU
- the Earners' and Work Accounts would remain significantly over-funded until at least 2016/17. As at 31 December 2013, solvency in the Work Account was 140 per

[2] There would also be a negligible impact in the Earners' Account due to the expected increase in the number of earners. This arises from the 2014/15 levy reduction and is estimated at around $2m (i.e., one-quarter of the $8m levy year reduction).

cent and in the Earners' Account 136 per cent. Given that a risk margin is currently funded, solvency rates relative to expected claim costs are higher still.

We think there is a strong case for dropping the Motor Vehicle levy to $195.00, as the Account is near full funding and levies in this Account have further to fall than the others. On ACC's current projections (under the current funding policy), Motor Vehicle rates would fall from $230.00 to $160.00 in 2016/17, and remain at this rate until 2020/21. However, without reductions in other Accounts, the greater levels of over-funding in these Accounts would continue to increase under this option.

Option 2: Increase Motor Vehicle levy reductions from forecast rates

This option would involve increasing Motor Vehicle levy reductions from the forecast $438m to get closer to the signalled $1B, while delaying reductions to the Earners' and Work Accounts. Levy reductions of around $600m in the Motor Vehicle Account could reduce levies to the region of $145, though further work with ACC would be needed to assess levy rates and impacts. Under this option:

- levy reductions across the 2014/15 and 2015/16 levy years would be closer to the HYEFU 2013 signal (around $987m, given 2015/16 reductions of around $600m)
- the issue of channelling reductions through the least-funded account (outlined above) would be exacerbated
- based on its current funding policy, ACC may consider that this Motor Vehicle rate is too low to be sustainable, and may recommend a subsequent increase.

[7]

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