NEW ZEALAND
CHAMBERS OF COMMERCE
*Business Vitality*

**Submission on**

**Accident Compensation Corporation Proposed 2008/09 Levy Rates**
**from**

**The New Zealand Chambers of Commerce (Inc)**

**October 2007**

## Introduction

The New Zealand Chambers of Commerce (Inc), NZCCI, is an umbrella organisation serving the interests of 30 Chambers of Commerce nationwide. These, in turn, represent over 24,000 businesses around the country. While many of our members are in the SME category our membership includes most of the largest corporations in New Zealand.

The NZ Chambers of Commerce and Industry welcomes the opportunity provided by the Accident Compensation Corporation (ACC) to make a submission on the corporation's proposed 2008/09 levy rates.

## Overview Recommendation

For the reasons set out below the NZ Chambers of Commerce recommend that an independent assessment be undertaken of the assumptions and assessment methodology used to justify the proposed 2008/09 ACC levy rates.

In support of our recommendation, we note that:

- ACC is a state monopoly insurer and therefore not subject to normal commercial disciplines that private sector insurer's face in other areas.
- There is no transparent relationship between the level of premiums that ACC proposes to charge as a statutory monopoly and the welfare of the public at large; indeed, one of the proposed levy increases is 800% above the inflation rate.
- From the information available there is no way of assessing value for money of the proposed premium prices as there is no benchmarking with or test against market competition.
- The assessment of the Chamber of Commerce movement internationally over many years is that competitive insurance arrangements with minimal regulation will best serve the interests of the public at large.

Also, as the Chambers have submitted previously, when the Government restored the State monopoly in accident compensation provisions seven years ago, it promised:

- Competitive premiums - that rates that would not exceed those that had been briefly offered by private insurers; and,
- A comprehensive and positive accident prevention culture would be phased in.

However, over time, premiums have increased, in some cases significantly above the rate of inflation. Not only is there no way of easily assessing whether the increases would have been competitive with those offered by a private insurer if that was possible, but there is no choice for the consumer.

In summary, businesses must pay ACC's premiums as there is no other provider of accident insurance permitted. And because ACC has no competition, there are no benchmarks to measure its performance against.

That is, businesses must pay the premiums set by the monopoly provider, regardless of whether they believe they are getting value from the accident prevention and rehabilitation regime that ACC has put in place.

We submit therefore that an independent assessment of the proposed levy changes would serve two primary purposes:

It would help provide some reassurance that ACC levies which are built into the Government's financial system are in fact being used solely and efficiently for ACC purposes.

Second, an independent assessment would help address the residual ongoing concern that maintaining the ACC monopoly leaves Government exposed to the charge of flying in the face of its own rhetoric that New Zealand is a modern competitive economy in virtually all other respects.

That is, the perception persists that the ACC levies' processing centre in Wellington is a branch office of Inland Revenue, and that ACC levies should more properly called a tax.

The Chambers suggest that an independent assessment of the assumptions that the proposed 2008/09 rates have been calculated from – and that the rates are fair and reasonable - would also help address the matters of principle at stake in the Government's insistence on maintaining an ACC monopoly that treats customers as cash cows which the Chamber has previously submitted on and chooses not to repeat here.

**Proposed 2008/09 levy rates**

The Chambers note the summary of proposed levy rates for 2008/09 (GST exclusive) indicates that:

- The self-employed people and employer rate for work and injury claims combined average levy rate per $100 liable earnings will reduce by 7c or just under 4% from $1.32 in 2007/08 to $1.25 in 2008/09.

- The levy rate (through PAYE) for employees for non-work claims ion 2008/09 per $100 liable earnings will increase by 8.88c or just under 7.7% from $1.1556 in 2007/08 to $1.2444 in 2008/09.
- The average motorists levy per vehicle (through licensing fees and petrol levy) will increase by $49.85 or more than 24.3% from $204.78 in 2007/08 to $254.63 in 2008/09.

Among factors that have been taken into account by the Corporation in proposing these changes are the forecast trends in injury and death rates, rehabilitation costs, inflation and interest rates.

It is unclear, however, as to why levy rates for work related employee claims is able to be reduced by some 4% while that for non-work claims is to be increased by around 8%, given that the inputs for these calculations would be broadly the same. The Chambers would welcome an explanation of the justification and rationale of this difference.

The Chambers note that an assumption underlying the setting of levies involves smoothing them over time, so there are not big jumps and drops. However, the definition of a “big” jump or drop is unclear, and suggests that the proposed changes for 2008/09 could be contested if the benchmark for any increase is set around the Reserve Bank’s inflation guideline of 3%.

Certainly, the 8% increase proposed for non-work levies and the 24% increase proposed for motorists are “big” increases and will add to inflation.

**Reassessment of motorists levy recommended**

A $50 increase – or 800% increase against the inflation benchmark - in any government fee or regulation is ill-advised at any time and is a poor example of Government leadership in practice against its rhetoric to the community on the case to keep price rises below the inflation bench mark.

Accordingly, the Chambers **strongly recommend** that the proposed increase in the motorists levy be reassessed. A further consideration in reassessing the proposed motorists levy is the fairness of this increase in the context of other increases in motorists charges that are proposed, and in particular the up to 10c regional petrol tax proposed in the 2007 Budget for helping to fund transport improvements.

The Chambers believe that the stage is not far away when the average motorist will begin to resist the use of licensing fees, petrol levies and other taxes that are collected when buying petrol. Each levy and tax by itself may be small and affordable, but when the proposed new charges – fuel tax and petrol levy (plus any increase in the price of fuel) – come on stream, government will be accountable for a sizeable and ultimately unfair increase. A rethink in the overall context of government economic transformation strategy and goals is therefore strongly recommended.

**Concluding comment**

Our suggestions are put forward in the positive spirit of continuous improvement to the environment for doing successful business. We look forward to their implementation in finalizing the 2008/09 ACC levy rates.

Michael Barnett
Chairman
Management Committee
**NZ Chambers of Commerce**

10 October 2007