Questions and answers

How have the indicative levies been calculated?
The indicative levy reductions are based on moving towards the levy path that cabinet endorsed in 2014 for a 2-year period. A key element of this approach is a target solvency band for each levied account of 100-110% over a 10-year horizon. We have also taken into account the potential impact on some businesses due to the removal of the residual levy.

How soon could we see these reductions, and what's the process from here to finalise levies for the next two years?
On 1 July this year, levy reductions already announced will come into force – this will see significant reductions in motor vehicle levies. The indicative levies announced today are signalled in Budget 2015 and will take effect in 2016 and 2017.
The ACC board will consult on levy proposals for 2016 later this year, under the existing legislation. The outcome of this consultation will feed into recommendations to the ACC Minister.
The ACC board has indicated it's likely to apply a funding policy that's consistent with the funding framework recommended by them and agreed by cabinet in May 2014. The government will make final decisions on 2016 levies towards the end of this year.
The indicative motor vehicle levy reductions announced today could come into effect on 1 July 2016, and initial indicative work and earners levy reductions could come into effect on 1 April 2016.

Can the government guarantee there will be $500 million of levy reductions?
We're committed to providing at least $500 million of reductions across three accounts – the motor vehicle, work and earners accounts.
However, we will have to wait for the outcome of ACC's public consultation and its recommendations to cabinet before we decide final levies.
The final decisions on levy reductions will also factor in any updated forecasts on costs and solvency, including the impact of economic conditions and ACC's performance. The exact amounts each year may vary depending on consultation and consideration of other issues such as removal of the residual levy.

How much will each specific levy be reduced by?
It's not possible at this stage to give final amounts for the indicative levy reductions announced today. However, on current projections over a 2-year period we're looking at a reduction of around $75 to the average motor vehicle levy, a 20 cent reduction (per $100 of liable earnings) to the average work levy, and a six cent reduction to the earners levy.
Some businesses and self-employed people will receive substantial reductions to work levies, however, reductions for other businesses will be less substantial due to the redistributive impact of removing the residual levy.

What will the new ACC Financial Responsibility and Transparency Amendment Bill do?
In recent years, the process for setting ACC levies and ensuring that they remain relatively stable has not worked as well as it could have.
Some of the issues include:

- there’s currently no formal mechanism in the Accident Compensation Act 2001 (AC Act) to clearly communicate the government’s preferences around balancing the need to collect levies that meet the lifetime costs of claims in a particular year, against the need to maintain a reasonable level of solvency and levy stability
- solvency ratios and levy rates have fluctuated more than necessary
- the downstream implications of annual levy decisions have not always been clear, either to the government or the public, and this may have contributed to the significant funding shortfalls in ACC’s accounts that were incurred in the mid-2000s.

The Bill will make a number of amendments to the AC Act to improve the levy setting framework:

- principles of financial responsibility will be introduced into the AC Act that require the government to balance the need to collect levies that meet the lifetime costs of claims in a particular year, against the need to maintain a reasonable level of solvency and levy stability
- the government will have a greater and more transparent role in governing the levy process – the Bill will require the government to set the overarching funding policy that guides the development of levies on which ACC will consult (this contrasts with the current approach where the government’s role is confined to making a decision on levies at the end of the levy setting process, at which point ACC presents the government with its levy recommendations)
- the government’s funding policy will need to be consistent with the new principles in the AC Act
- ACC will be required to publish the long-term implications of the government’s levy decisions when levies are set in regulations – this will ensure the effect of new levy rates on future levy paths and account solvency is transparent.

The Bill will also amend the AC Act to allow the collection of residual levies to be discontinued earlier than the ‘end date’ required under current legislation (the 2018/19 levy year). This will allow the end date to align with the best estimate of when residual liabilities will have been fully offset by residual levies.
We are working towards having the Bill passed in early 2016, to allow 2017/18 levies to be consulted on and set in 2016 under the new legislative framework.