Report No. 3

THE ACCIDENT COMPENSATION SCHEME
Interim Report on Aspects of Funding

1987
Wellington, New Zealand

The Law Commission was established by the Law Commission Act 1985 to promote the systematic review, reform and development of the law of New Zealand. It is also to advise on ways in which the law can be made as understandable and accessible as practicable.

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## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter of transmittal</td>
<td>iv</td>
</tr>
<tr>
<td>Terms of reference</td>
<td>v</td>
</tr>
<tr>
<td>Recommendations</td>
<td>vi</td>
</tr>
<tr>
<td><strong>INTRODUCTION</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>THE SCOPE OF THIS REPORT</strong></td>
<td>5</td>
</tr>
<tr>
<td><strong>THE ORIGINS OF THE ACCIDENT COMPENSATION SCHEME</strong></td>
<td>7</td>
</tr>
<tr>
<td><strong>THE PRINCIPLES AND PURPOSES OF THE SCHEME</strong></td>
<td>10</td>
</tr>
<tr>
<td><strong>THE SCHEME IN OPERATION</strong></td>
<td>17</td>
</tr>
<tr>
<td><strong>THE FUNDING OF THE SCHEME</strong></td>
<td>24</td>
</tr>
<tr>
<td>The sources of the funding</td>
<td></td>
</tr>
<tr>
<td>A radical change in funding?</td>
<td>31</td>
</tr>
<tr>
<td>Additional sources - the injured person and the employer?</td>
<td>36</td>
</tr>
<tr>
<td>Additional sources - sports people?</td>
<td>40</td>
</tr>
<tr>
<td>Additional sources - motor vehicle users?</td>
<td>43</td>
</tr>
<tr>
<td>Allocation of funding between sources</td>
<td>46</td>
</tr>
<tr>
<td>Allocation within particular sources - a single rate for employers and the self-employed?</td>
<td>54</td>
</tr>
<tr>
<td>Payment by instalments</td>
<td>69</td>
</tr>
<tr>
<td><strong>SAFETY INCENTIVES</strong></td>
<td>72</td>
</tr>
<tr>
<td><strong>ADMINISTRATION</strong></td>
<td>83</td>
</tr>
<tr>
<td><strong>THE REMAINDER OF THE TASK</strong></td>
<td>86</td>
</tr>
<tr>
<td>Appendix A</td>
<td></td>
</tr>
<tr>
<td>Legislative changes to give effect to recommendations 1, 4 and 6</td>
<td>29</td>
</tr>
<tr>
<td>Appendix B</td>
<td></td>
</tr>
<tr>
<td>Statistical tables</td>
<td>32</td>
</tr>
<tr>
<td>Appendix C</td>
<td></td>
</tr>
<tr>
<td>Submissions</td>
<td>34</td>
</tr>
</tbody>
</table>
LETTER OF TRANSMITTAL TO THE

RT HON. GEOFFREY PALMER, M.P.,

MINISTER OF JUSTICE

30 October 1987

Dear Minister

I am pleased to submit to you an interim report of the Law Commission on the Accident Compensation Scheme.

For the reasons given in the discussion paper on this matter and referred to in the introduction to this report, we have first addressed questions of funding which appeared to us to be urgent. We expect to complete the final report in the first part of next year.

We would be pleased to cooperate in the preparation of any legislation which the Government considers to be necessary as a result of this report.

Yours sincerely

K. J. KEITH

Deputy President

TERMS OF REFERENCE

The Law Commission is asked to examine and review that part of the Accident Compensation Act 1982 which recognises and is intended to promote the general principles of community responsibility, comprehensive entitlement, complete rehabilitation, real compensation and in particular administrative efficiency as propounded by the 1967 Royal Commission Report on Personal Injury in New Zealand.

It may be accepted that those principles are broadly acceptable and deserve to be supported.

The basis upon which the Accident Compensation Corporation or its
predecessor has made provision from time to time for the annual amounts needed by the accident compensation scheme for benefits, administration and contingency or other reserves together with the principles and methods applied in their allocation or distribution will form part of the overall inquiry.

RECOMMENDATIONS

The Law Commission recommends that changes to the following effect be made to the Accident Compensation Act 1982:

1. All employers and the self-employed should pay a single rate annual levy on the payroll of their employees and their own earnings respectively. Parliament would fix the rate from time to time. (The Commission does not propose a rate. That depends on the estimate of next year's spending (see 6 below), on the judgment the Government and Parliament make about the balance between the sources from which the scheme is funded, and on the arrangements, if any, that have to be made about any shortfall this year.) (See para. 68 of the report.)

2. The employers and self-employed levy should be payable, at the option of the payer, either by instalments or in one sum. (Paragraph 71)

3. An appropriate part of the excise duty imposed on petrol, CNG and LPG by the Customs Act 1966 (as amended in 1986) should be paid to the Accident Compensation Corporation. Parliament would continue to control the rate of the overall duty and in addition would fix the proportion which is to be paid to the Accident Compensation Corporation. (Paragraph 45)

4. There should be no statutory direction to use funds from a particular source for the costs of a particular category of accidents. All the funds should be kept in a single account. (Paragraph 48)

5. The period during which the person injured by accident does not receive earnings related compensation from the Accident Compensation Corporation should be extended from one week to two. In the case of work accidents the employer's obligation would similarly be extended from one week to two. (Paragraph 38)

6. So far as funding is concerned, the Accident Compensation Corporation should be obliged each year to supply the Government with estimates of -
   its spending in the next year
   the areas in which it expects that spending to occur
   the amount which will be collected in that year
from the levies on employers and the self-employed, and on motor vehicle owners (and from the excise duty, if any), at the current rates, as well as from investment income.

This information would be provided in time for the annual budget exercise and to enable adequate notice to be given to those affected of decisions resulting from it.

The Corporation would also have the general power to advise the Government about the operation of the Act. (Paragraph 84)

The recommendations concerning the single rate levy, one accident compensation account, and the Corporation's duty to supply information and advice (1, 4, and 6 in the above list) can be adopted with urgency if that is judged appropriate. Appendix A indicates the legislative changes required to give effect to those recommendations.

The recommendation about payment by instalments requires further exploration in terms of its practical implementation. That is true as well of the recommendation about the payment to the Corporation of a proportion of the excise duty on fuel. And the implementation of the recommendation about the extension of the waiting period might be better considered, along with other aspects of the benefits under the scheme, in the light of the final report.

INTRODUCTION

1. The Minister of Justice in the terms of reference asked the Law Commission to examine and review aspects of the accident compensation legislation and its administration in practice. The review expressly includes the principles and methods applied in funding the scheme and in determining the distribution of benefits. The Commission is told as well that the five principles set out in the reference are broadly accepted and deserve to be supported.

2. The immediate context in which the reference was made to the Law Commission included in part the mounting public concern about the funding of the scheme arising from the large increases in the employers and self-employed levies announced late last year. It included as well worries expressed over a longer period about increases in costs which are said to be unexpected and considerable, about abuses of the scheme, and about some aspects of the benefits available under it. In the discussion paper on the Accident Compensation Scheme (NZLC PP2) we set out the first part of our procedure and indicated why we considered that the Commission should make an interim report on aspects of the funding of the scheme. In brief, we thought that if relief were to be provided to those who, it then appeared, had been so hard hit by the levy increases, legislation would have to be enacted in the near future; it could then take effect in respect of the payments to be made in April and May
of next year.

3. The High Court in its decision given on 19 October 1987 in New Zealand Meat Industry Association v. Accident Compensation Corporation (Wellington Registry CP.275/87) held that the levies payable by employers in April and May of this year were to be determined by applying the rate in force in the 1986-1987 year and not in accordance with the greatly increased rates which became effective on 1 April 1987. This decision obviously has serious consequences for the funding this year of the accident scheme: the amount in issue in the particular industry was about $32 million; and much more than that could be involved in all. The Accident Compensation Corporation has appealed. The result of the Court of Appeal proceedings and of any related litigation will affect the position in respect at least of payments made or due to be made during this year. The proposals we make can however take full effect for the next year (beginning on 1 April 1988 and with payments due, under the current legislation, in April or May of that year). Decisions might then have to be made by Parliament, the Government and the Corporation, about any shortfall for the current year. Thus the present law provides for the possibility of the Corporation borrowing on the market, with or without government guarantee, for Parliament to appropriate money for the purposes of the Act, for the Government to lend money to the Corporation, and for the Government to make a grant, in the latter two cases on the appropriation of Parliament. It is perhaps unnecessary but useful to emphasise - as the Corporation has - that the obligation to provide the benefits under the scheme continues and must be met. The legal right to the benefits remains in effect notwithstanding funding difficulties.

4. This report is an interim one not only in the sense that we plan to publish a final report on the full range of issues raised by the reference but also because it is to be seen as part of a holding operation which does not prejudice the final outcome of the Commission's work, let alone of course the response by Government and Parliament to its reports.

THE SCOPE OF THIS REPORT

5. This report makes proposals about the funding of the scheme. The final report will address the benefits and various related matters. In particular in this report we take up the funding matters which we raised in the preliminary paper published earlier last month. We mentioned in that report that we had already received 1,200 submissions and we have already had a further 370 relating to those funding issues. Many of those submissions were also prompted by, or referred to, the indication given in September by the Accident Compensation Corporation that the levy rates to be set in November or December of this year could involve further increases of 20%-30%. We are very grateful for the extensive material provided in this way and as well in discussions we have had with many of those involved. We mention later the range of views expressed to us and the reasons given in support of them.

6. A report focusing on funding alone would be misleading. We must provide enough of the context and of the philosophy and principle of the scheme to
explain our proposals. The money after all is gathered for a purpose. Accordingly in this report the Law Commission -

(a) outlines the origins of the scheme (paras.7-9)

(b) refers to the principles mentioned in the reference to the Law Commission and originally set out in the 1967 Royal Commission report on Personal Injury in New Zealand, the purposes stated or implicit in the Accident Compensation Act 1982, and some related matters emphasised in the submissions (paras.10-16)

(c) sets out basic features of the scheme in operation (paras.17-23)

(d) considers in the light of the submissions the proposals made in the discussion paper about funding, and now makes recommendations on those matters (paras.24-71)

(e) discusses aspects of safety incentives (paras.72-82)

(f) comments on the administration of the scheme and particularly on Ministerial responsibility for its main features (paras.83-85), and

(g) indicates major matters which remain for further consideration and recommendation in the final report (paras.86-87).

THE ORIGINS OF THE ACCIDENT COMPENSATION SCHEME

7. Twenty years ago the employer could be faced with the following liabilities in respect of personal injury caused by accident:

(a) if the injury was to an employee in the course of employment, the employee was entitled to limited flat rate compensation;

(b) if the employee could show negligence by the employer - a lack of reasonable care - then damages under the common law were available; they could be much larger than the compensation payments;

(c) if the injury was to a third party, for example someone injured by the driving of a company employee or by the operation or use of a product manufactured by the employer, that person could recover, again if negligence was established;

(d) the sick leave arrangements of the employer might also benefit the employee - even when the injury had nothing at all to do with the employment.

8. Employers were obliged to insure against their liabilities to their workers under the workers' compensation legislation and the common law, and, with other owners of motor vehicles, were obliged to insure against third party
liability for traffic accidents. That business was handled by the insurance industry. That requirement, ensuring that money was available to meet the legal responsibility, was one of a number of important interventions by Parliament over the last century in the direction of giving greater legal and real protection to persons injured by accident at work or on the road.

9. The preceding paragraphs consider accidents from the position of the employer. But what of the position of the persons who were injured? In brief they had three remedies available under the law -

(a) compensation if they were injured at work;

(b) damages if they could show negligence - at work, on the road, at home or anywhere else;

(c) sickness benefit if they qualified under the means test.

They might also have qualified for sick leave from their employer or have private insurance. As well, the social security scheme met public hospital costs and certain other medical expenses. The system then was very patchy and uneven in its coverage: financial compensation depended on the lottery of when the injury occurred, whether fault could be proved, and the circumstances of the injured person. It was also very costly to administer - 30%-50% of premium income went on administration, legal expenses and other matters. It was slow moving. It impeded rehabilitation.

THE PRINCIPLES AND PURPOSES OF THE SCHEME

10. It was in this context that the Royal Commission in its 1967 Report on Compensation for Personal Injury in New Zealand recommended a scheme for immediate compensation for all injured persons, without proof of fault, regardless of any fault by them, and wherever the accident happened. The five principles on which the recommendation was based were:

community responsibility

comprehensive entitlement

complete rehabilitation

real compensation

administrative efficiency

The Law Commission is told in the reference the Government has made to us that these principles are broadly accepted and deserve to be supported. At the same time the reference emphasises the last of them - administrative efficiency - and the basis upon which provision is made each year for the amounts needed for the scheme.
11. Closely related to those principles are the purposes expressly stated in the accident compensation legislation. The 1982 Act, like that of 1972, sets out three:

to promote safety, including occupational health,

to promote the rehabilitation of those who suffer personal injury by accident, and

to provide for the compensation of accident victims.

The question of compensation, highlighted in the title both of the Act and of the Accident Compensation Corporation and often the focus of attention, should not be allowed to overshadow the prevention and minimisation of accidents and of occupational disease, and the rehabilitation of those who do suffer injuries. The Act indeed gives further and major emphasis to safety -

It shall be a matter of prime importance for the Corporation to take an active and coordinating role in the promotion of safety . . .

Parliament gives two reasons for safety promotion, one humanitarian, the other economic or efficient (with a humanitarian element as well) -

to avoid human suffering, and

to prevent wastage of manpower and so assist efficiency and productivity.

12. A great number of the submissions also emphasised safety. Many did this in relation to levies, some making the argument that the introduction of a single levy rate for all employers would reduce any effort made by an employer to reduce workplace hazards. We take up that matter later in this report in the broader context of the range of methods by which safety may be promoted.

13. Two other general matters of principle or philosophy are prominent in the material we are gathering and reviewing. One is individual responsibility - the responsibility of individuals to take care in respect of actions that might injure themselves or others, their responsibility if injured to bear an appropriate share of the cost and of the steps to rehabilitation, their responsibility as employers also to bear an appropriate share of the cost, and their responsibility as providers of health care under the scheme - in all cases a responsibility not to abuse the system and not to make unjustified claims on it. This matter is of course reflected in a number of ways in the present Act and its administration. Thus the safety effort under the Act is directed at individuals - as employers, as workers, on the road, on the sports field, and at home; injured persons are responsible for their own financial support in the first week unless the injury was caused by a work accident in which case the employer takes part of the responsibility; the earnings related payment does not replace the injured person's full employment income; and those providing health care under the Act are entitled to be paid an amount reasonable by New Zealand standards - no more nor less. In this report we return to the concept of individual responsibility in two contexts: the various ways in which individuals can be held responsible for accidents (para. 78), and the waiting period before earnings related compensation is to be paid (paras.36-38).

14. The second idea often stressed in the submissions is related to
individual responsibility. It is variously put. A short version is that the user should pay. A longer one is that business decisions should take into account the full cost of the resources and processes used. That cost presumably includes the resources—among them human resources—damaged or lost as a result of the decisions. We consider this idea when examining the question of a single rate for the employers and self-employed levy. For the moment we make two points. The first is that the identification of "the user" in the case of responsibility for the costs of accidents is not always an easy matter. Consider accidents caused by the use of transport (including commercial transport) delivering people and goods around the country. Some injury is an inevitable cost of transport. The manufacturer of the vehicles, the private or commercial driver, the oil companies and garage owners, the passenger, the manufacturer, wholesaler, retailer and consumer of the goods carried... all benefit in individual and particular ways from the activity. In a more general way the whole community is greatly advantaged by transport. In the case of injury arising in the course of it (perhaps through faulty manufacture or repair, or bad road construction, or negligent driving of one or more vehicles, or some combination, or through an accident for which no one can be blamed) who is "the user" who is to pay for the cost of the injury? Society has long rejected as a general answer the proposition that the injured person alone is to pay. If not that person, who?

15. The second point about "user pays" is perhaps another version of that just made. Do we as a society accept that each enterprise must meet all its costs? Both private and public decisions have for long shown that we do not. Private insurance is a means of pooling the risks and averaging out costs usually (but not always) on a voluntary basis among individuals or businesses facing similar risks which they are not willing to face alone. The individual user does not pay for its particular costs. Rather the group as a whole meets the aggregated costs. And public decision making has long proceeded on the basis that some public facilities—including roads and streets, to return to the transport example—are to be provided through general community funds sometimes supplemented by those who make major use of the facility (as with road user and motor spirits duties and road tolls). No doubt a balance is to be struck between individual responsibility, the responsibility of a wider group (such as heavy road users), and community responsibility. But it is far too simple to say, for instance, that those who produce particular goods must always meet all the costs involved in that production. (We take it that those costs would include the costs resulting from the use of the goods.) Some after all are met by the consumer or the wider community. In a broader sense too the proposition is just not sustainable. It is not possible to isolate every cost and to attribute it to a particular activity. In part this is so for reasons of time. We inherit and temporarily use the human and physical capital built up over many generations. We have access to the great natural resources of this land. We have and use these opportunities in accordance with law, designed in some cases to protect that inheritance and those resources. The use we make of these opportunities within the framework of law can never be fully reflected in the pricing system.

16. What weight are we to give at this time to the principles stated in 1967 and set out in para.10 and in the reference to us, to the express purposes of the Act set out in para.11, and to the other matters that we have just mentioned? The five principles, we said in our discussion paper, have validity today if they can be used as a sensible test of contemporary attitudes and aspirations. In a broad way it appears to us that they do continue to have that status and similarly that the scheme itself is firmly accepted. We say that first because of the submissions we have received. An overwhelming number of those addressing the point expressly indicated that the general form of the scheme should be retained and almost all of the remainder took it for granted.
that there was no question of reverting to anything like the old system of legal remedies supplemented by means-tested benefits. Similarly, in a recent nationwide poll involving a sample of 2,500 people, 80% expressed support for the scheme, though many (like many making submissions to us) also responded positively to a series of questions suggesting a redistribution of some of its costs. In other words, the submissions and the poll confirm the opinion stated in the Ministerial reference to us: the five principles are broadly acceptable and deserve to be supported.

THE SCHEME IN OPERATION

17. The essence of the scheme is simple: those injured by accidents are compensated, as appropriate by medical costs being met, by earnings related compensation and by lump sum payments for the permanent loss or impairment of a bodily function and for the loss of enjoyment of life and pain and suffering. There are limits on those amounts in certain circumstances. We have of course received submissions relating to the benefits and we will take up those matters in our final report.

18. For the moment we give greater attention to the financial position of the scheme and especially its income. For 1987-1988 the Corporation's expected expenditure is $798 million. Of this 48% is likely to be absorbed by earnings related compensation, 21% by lump sum payments, 14% by medical and hospital treatment and 7% by administration. The other 10% will go to smaller benefit items, accident prevention and rehabilitation. Until the recent High Court litigation mentioned in para.3 the Corporation had estimated an income of $963 million, allowing well over $100 million to help build up reserves which as we shall see had been badly diminished. The levies on employers and the self-employed would provide 70%, those on motor vehicle owners 13%, the consolidated account 12%, and interest 5%.

19. The figures represent an increase in expenditure in each of the last three years of over 30% (not allowing for inflation). In our final report we shall give close and careful attention to those increases, to their real extent, to the reasons for them and to action that should be taken to deal with them. There must be a close oversight over spending and it must be properly justified. We would emphasise however that it is not possible to make urgent cuts in expenditure of such an extent that they would provide substantial relief to those who pay - at least if the changes are to be carefully assessed in terms of principle and effect. The figures also reveal a change in the proportions contributed by the various sources. In recent years employers and the self-employed had paid a smaller share - 47% in 1986-1987. (This figure does not make an allowance for investment income arising from earlier payments by employers.) This may be compared with the 67% derived from employers levies in the first year of the scheme and the slightly lower proportions - but never less than 60% - received from the same source in the ten years to 31March 1984.
20. By that date the Corporation had a reserve totalling $396 million. This was the amount by which income had exceeded expenditure in the preceding years. This result was not unexpected. From the inception of the scheme it had received an income similar to the total amount formerly paid to the insurance industry but it did not have any backlog of past claims. This did not mean that the scheme was "funded", in the sense that the income in any particular year had necessarily to cover compensation for all injuries suffered in that year no matter how long into the future the commitment might continue. It is clear from the original report that the intention was to establish the scheme on a "pay-as-you-go" basis; the initial surpluses would diminish as the scheme matured. In the meantime they would build up a useful reserve.

21. As was inevitable, by 1983 or 1984 the maturing scheme was beginning to absorb much larger portions of the levy income; and it was at this very time that employers were pressing for a reduction in their levies. In December 1983 decisions were taken that levies for both employers and the self-employed should be reduced by approximately 30%. The employer levy which at the time averaged $1.07 was reduced to 74 cents for the year ended 31 March 1985. Similar action was taken in respect of levies paid by self-employed persons. Associated with these reductions was a deliberate decision to run down the amount held as reserves.

22. At the same time the expenditure of the Corporation was higher than forecast. In the result there was a growing deficit in the income account and a consequential rapid erosion of reserves. By 31 March 1987 these had been reduced to a figure of $89.2 million. When the implications of this erosion became clear in the course of 1986 independent advice was sought. It was at the end of 1986 that action was taken to handle this matter.

23. By then the need to deal with the situation had become urgent and was recognised as urgent. An Order-in-Council was promulgated in December 1986 increasing by about three times the levies which it was intended should be paid by employers in respect of the financial year 1987/88. A similar increase was made in the levy to be paid by self-employed persons. The size of the increased levies and the apparent need to make payment within five months resulted in criticism and in some cases in hardship. Not surprisingly, many of the submissions have called for a review of levy rates and the basis upon which they are set and paid. The overall way in which the matter was handled and the increases announced is, we think, properly subject to criticism. In part these problems arose from the lack of clear responsibility for the income of the scheme in the legislation and its administration. Our proposal for parliamentary determination of the levies relates to these matters.

THE FUNDING OF THE SCHEME

24. As we have seen, the accident compensation scheme has at this moment four sources of income: the earners and self-employed levy, the motor vehicle owners levy, general taxation, and investment income.
25. We have received strong representations, particularly from employers, that we should reassess the sources. We consider three questions in turn -

Do these sources continue to be appropriate? Should others be added or, more radically, should a quite different approach be used? (Paragraphs 31-45)

Is the balance between the sources fair, especially given recent increases in the costs of the scheme? (Paragraphs 46-53)

Are the payments within each source fair? In particular should there be a single rate for employers and the self-employed? (Paragraphs 54-68)

26. A little history is helpful as a background to a consideration of the questions. The 1967 Report recognised that a comprehensive system in the field of social security involves community responsibilities which should be accepted by the State and supported by contributions from citizens generally. Although as a matter of immediate impression it could be said that the scheme should be financed directly from the Consolidated Fund the report stated that a different recommendation would be made. This was done for two reasons which were explained in the following way:

462. First, the comprehensive scheme is intended to embrace two compulsory insurance schemes already operating. To the extent that the necessary insurance premiums can be built into the costs of industry or transport this has long since been done. If these premiums were wholly rebated in favour of a general system of taxation there would be a continuing advantage to industry at the expense of the general taxpayer. A logical argument is an insufficient reason for shifting these costs in such a fashion.

463. Second, to the extent that the amount of these premiums has been passed on by industry their cost is already being shared by the whole community, even though indirectly. Accordingly the broad principle of community responsibility is in this way being satisfied already.

27. The Royal Commission therefore recommended that subject to appropriate adjustments the amounts then flowing into the compulsory workers' compensation and third-party insurance schemes should be made available for the purposes of the proposed comprehensive scheme. The employers' contribution would be equivalent to 1% of payroll. Self-employed persons, also, should contribute an amount equal to 1% of net relevant income. In a broad way it was thought that the amounts so to be applied would cover the expenditure. However as there might be a balance, that should be financed directly from general taxation.

28. During the gestation period leading to the enactment of legislation the Government decided to exclude non-earners from the scheme except in the case of motor vehicle injuries. And the 1972 Act then spoke of two individual accident schemes supported individually on the basis mentioned. By 1973 before the scheme came into effect a new Government produced a change for those who had been left outside the scheme. They were brought into the system which thus became comprehensive. But to avoid delay in preparing a new Bill which would have enabled the now unnecessary distinctions between the circumstances of
different accidents to be removed a supplementary scheme was set up. Its needs were met from general taxation.

29. Thus, by an historical accident, the system began and continues to operate on a basis which has often prompted misconceptions that inevitably each of the three schemes has to be self-supporting and independent in an insurance sense. There is or seems to be no economic or practical reason for continuing to maintain individual sets of accounts for a system which essentially draws no distinction between beneficiaries once entitlement to compensation is established and in which the rights are not based on showing fault or particular cause. And as shown by a 1983 change which was made in order to move work related traffic accidents from the earners to the motor vehicle account without any alteration to the vehicle levy rate, the present separation can create problems which cause a false impression of the true nature of the scheme.

30. Some accident costs are not borne by the accident compensation scheme. They add up to a large amount, perhaps equalling half of the money paid out by the Accident Compensation Corporation. The direct costs include those carried by-

public hospital and other health costs met through the Health vote

employers paying the first week of earnings related compensation if the accident is a work accident

employers under the relevant conditions of employment paying the difference between that compensation and the regular weekly income or paying sick leave in respect of non-work accidents

employees meeting the difference between the compensation and their regular income and in the case of non-work accidents the costs of the first week

(The report of the Review by Officials Committee of the Accident Compensation Scheme (August 1986) Vol.1, p.83, put the total of such amounts at $280 million against a total ACC payment of $550 million.)

THE SOURCES OF THE FUNDING

A radical change in funding?

31. We have already indicated that many submissions argued for adjustments to or changes within the present system of funding. Thus some proposed that sports bodies or employees or the suppliers of alcohol or overseas visitors should contribute, or that the employers and self-employed fund should be responsible only for work accidents, or that the differentiations in the employers rate should be replaced by a single rate. The present Act too contemplates that the drivers of motor vehicles (and not just owners) can be levied - something that has not happened. We consider some of those issues later. A more
radical change urged on us would be to replace the present system with insurance offered by the private sector perhaps in competition with the Accident Compensation Corporation. The proposal is for a compulsory first party scheme: all New Zealanders would be obliged to buy a minimum level of accident insurance. One reason for compulsion, it is argued, is to prevent those who can afford to buy insurance from "free riding" on social security. (Those who cannot afford insurance would have the support of social security.) This proposal must overcome major practical and philosophical hurdles.

32. The issue of philosophy takes us back to the basics of the scheme and to the principles that underlie it. The present scheme has two essential elements - rights conferred directly by law on those who are injured, supported by taxes exacted by authority of law. Parliament has created public rights and duties based in part on the principle of community responsibility. It is not an insurance scheme, the essence of which is that the seller and buyer of insurance settle by agreement (perhaps within broad limits fixed by public law) their rights and duties as reflected in the benefits and premiums. The accident compensation scheme by contrast is about rights recognised in or conferred by the general law of the land. And to emphasise the taxation point the scheme is supported by levies and not by premiums.

33. The Accident Compensation Act does not refer to "premises", and the word "insurance" is not used either. In that it is in clear contrast to the legislation relating to workers' compensation and motor vehicle (third party risk) insurance which it replaced. "Levy" is a word with a long history in our political and constitutional life and in that history it is always used as a compulsory exaction made by or under the authority of the State for public purposes.

34. Accordingly, the State requires payments at certain levels by employers, the self-employed and the owners of motor vehicles and also contributes by way of parliamentary appropriation from the consolidated account. The system in its present conception is not an insurance scheme any more than other parts of our social welfare system. Now we do not deny that accident costs could be met by private insurance - that after all already happens at the moment in respect of property damage and supplementary personal injury schemes. But a wholesale move to a system of private insurance would involve a rejection of the underlying principles and essence of the scheme. The great bulk of the submissions, the opinion poll and the terms of reference are at one in denying that.

35. There are powerful reasons for rejecting the proposal which are not only philosophical but also practical. First, it has been made clear to us that the insurance industry is not interested in compulsory insurance. It is understandable that it wishes to be able to negotiate the terms of its obligations and to decide whether to insure a particular person or not. Second are questions of cost, especially for the administration of high volume, small claims - another matter which has led some insurers to reject suggested insurance options. The present Accident Compensation Corporation administration cost is 7.2% of total expenditure. That figure is to be compared with the 30% or more of premium income absorbed by private enterprise insurance companies for administration, legal expenses and profit under the old workers' compensation insurance and the 40%-50% under the motor vehicle compulsory third party insurance scheme. Extrapolating from these figures, we calculated in the discussion paper (para.126) that if the Accident Compensation Corporation had operated on the same basis the cost of cover would by now have risen by something between $189 million and $398 million. That cost would have to be met within the economy. We appreciate that a private insurance scheme might be quite
different from those which preceded the accident compensation scheme, but we are impressed with the very significant extra costs which appear inevitably to be involved.

Additional sources - the injured employee and the employer?

36. Should the employer, the worker or the injured worker make a larger direct contribution? This could be done by the extension of the waiting period for the costs of which the employer (for a work accident) and worker (for a non-work accident) are responsible; or by the worker being directly taxed. As indicated in para.30, their contributions are already significant, equalling perhaps 15% or more of the accident compensation scheme expenditure. Those contributions to accident costs and the possibility of incurring them must also, for many employers and employees, be a substantial incentive towards safety. The incentive can take effect after, as well as before, the event in encouraging rehabilitation and a speedy return to work. It is an important manifestation of the individual responsibility mentioned earlier in this report. It reflects as well a recurring theme in the 1967 Report that more serious incapacities must always have priority over short term or minor ailments, especially if economic reasons require preference to be given.

37. A longer waiting period would accordingly further enhance individual responsibility - of the employer as well as of those at risk of injury or actually injured; it would give a greater incentive to safety for both; both would have an incentive to deal quickly and efficiently with the consequences of an injury once it has occurred; and it could be a direct form of experience rating for the employer. It would remove a large number of minor injuries from the scheme, removing some financial pressure from the funding, and enabling the Corporation to concentrate on major disabilities and simplifying its administration. In some cases the injured individual would be covered for the extra week by sick leave. On the other hand, the injured individual could face greater financial burdens; and sick leave in some industries is only one week. The matter in the end is one of judgment - of balancing individual responsibility and community responsibility, of ensuring that the real needs of injured persons are met, of providing safety incentives, of dealing with serious disabilities ahead of minor ailments. The amount of money to be saved is also substantial. The saving for the scheme of a second week of waiting, we are informed, would be about $20 million. It may be more than that. And the administrative saving should be significant: about one quarter of all earnings related compensation claims are for just one week.

38. On balance, we recommend that the waiting period should be extended to two weeks. The employer's responsibility would be similarly extended in respect of work accidents. The implementation of this recommendation might be better considered, along with other aspects of the benefits under the scheme, in the light of the final report.

39. That recommendation relates to employers and their employees who are injured. Should employees also make a further direct contribution? They already contribute in less direct ways to the costs of accidents - as taxpayers (in terms of the contribution from the consolidated account), as owners of motor vehicles, as consumers, and through the impact by way of lower wages and salaries (or less employment) on labour of the employers' levy. The contribution could also alter with any changes in the share of the costs of the
scheme supported by general taxation. Those contributions need to be put against the proposal that employees should be directly taxed on the basis that they are major beneficiaries of the scheme. It appears to us that a further tax on employees in this area could only sensibly be considered in the wider context of a proposal for a social welfare tax and that is not a matter for us.

Additional sources - sports people?

40. A frequently made suggestion has been to collect additional revenue for the scheme by direct or indirect levies on those who take part in sporting activities and thereby accept the risk of injury. It was said, for example, that there should be a levy on sports organisations, or on individuals taking part in organised sport, or that a tax should be imposed on takings at the gate or on sports equipment.

41. These suggestions should be evaluated bearing in mind the rather modest costs of sports injuries in relation to injuries as a whole. They account, as best we can estimate, for only about 5% or 6% of total expenditure.

42. The practical difficulties in introducing and administering such levies in an equitable way appear to us to stand in the way of the proposal. (Accordingly we do not address the arguments of principle which it raises.) How would the balance be struck between organised sport and other recreational activity (some of which such as climbing and swimming can give rise to large accident costs), or between the clubs, their members, their supporters and the interested public (who benefit in various ways - some not calculable - from sporting activity)? How would the levy take account of the great emphasis that many sporting organisations place on the promotion of safety (to the immediate advantage of the general public when for example yachting and climbing clubs use those skills in search and rescue operations)? How would the difficulties and costs of gathering the levy weigh against the modest amounts to be collected? How would a tax on equipment operate fairly and efficiently? No one has, we think, provided adequate answers to these questions.

Additional sources - motor vehicle users?

43. Motor vehicle owners, we have already noted, contribute to the funds of the accident compensation scheme. Their intended share this year is 13% although it has been as high as 26% in the past. This levy reflects both the historical origins of the scheme and the fact that motor vehicle accidents are a substantial cause of injury by accident, especially serious injury. The legislation has also always empowered the imposition of levies on drivers - a power which has not however been exercised and which, we understand, with the introduction of life long licences can not now be used in practice. That power does however recognise a general responsibility on the drivers of motor vehicles as well as on their owners.

44. The present practice presents two difficulties. The first is that the levy is fixed in dollar terms and does not increase with inflation in the way that the income linked earners' levy does. Thus the contribution of the motor vehicle levy between 1975 and 1984 dropped from about 26% to about 8% because there was no change in the levy. Such an alteration appears unfair to the other providers of funds. If on the other hand, as has happened over the last two years, the levy is increased by a substantial amount that can also be seen to be unfair to those who make limited use of their vehicles and who produce
little risk of injury. There is in existence a tax which is related more closely to vehicle use - the duty payable on petrol, CNG and LPG. A share of this (estimated to be well over $200 million this year) is paid to the National Roads Board for it to meet its responsibility in respect of the country's roading system (it also receives the road user tax collected from heavy motor vehicles). The remainder (over $600 million this year) is absorbed into the consolidated account. Given that this particular tax is directed at road users and in particular has some regard to the extent of their use and their exposure to the risk of accident, it does appear to us to be an equitable and efficient means of providing funds for the accident scheme.

45. Accordingly, we recommend that in the motor vehicle area there be in effect a two part levy -

a flat rate as at present, and

an appropriate part of the excise duty collected on road transport fuel.

The flat rate element would continue to recognise that all owners of motor vehicles have a general shared interest in the benefits of the scheme. This matter is not as urgent as we consider the employer and self-employed levy issue to be. If the proposition is accepted or thought worthy of further consideration, its detail can be elaborated in the final report following wider consultations. We make some suggestions about its legal form in the next section of this report.

ALLOCATION OF FUNDING BETWEEN SOURCES

46. The foregoing discussion is about the possible sources of the funds to be used in meeting the costs of accidents: general taxation or insurance, employers and persons injured, motor vehicle levies. It does not (except in the proposal about the extension of the waiting period) address the question of the balance between the various sources. How much should be gathered from employers and the self-employed, or from owners and users of motor vehicles, or from general taxation? Many employers contend for example that the levies on employers and the self-employed ought not be used to meet the cost of non-work accidents of earners.

47. Before considering that contention, we wish to address again the character of the levies and in particular the responsibility for fixing them. To repeat what we said in the discussion paper, the income which the scheme draws on is derived from taxes - directly from the consolidated account, as a payroll tax from employers, as a form of income tax from the self-employed and as a lump sum tax in the form of an annual charge on the owners of motor vehicles. That public finance character of the funding is to be expected given that the rights established in the legislation are rights against the State which must be met by the State.

48. Therefore we propose that as with other taxes Parliament should directly exercise its constitutional function of determining from time to time the rate of the particular levies. That is the case for instance with the duty on motor fuels, with motor vehicle registration, and with income tax the rates
for which have indeed to be struck each year in the annual taxing Act. We do not expect that Parliament would often make changes to the rate. As well the proposal would establish clearer ministerial responsibility. The government would have the general opportunity each year to make an overall assessment, against the Corporation's estimates of its needs, of the amount to be gathered from the three or four sources and the balance that should be struck between them. That balance, we propose, should take account of the historical record, and of anticipated changes in the pattern and costs of accidents. It follows from what we have said that the historical accident that led to the creation of the present three funds should now be recognised as just that. We recommend that all the funds, from the various sources, should be available to meet all the claims properly made on the scheme.

49. We have mentioned the recurring employer's argument that the money gathered from employers and the self-employed should not be used to meet non-work accidents. It is unfair, they say, that employers (and the self-employed) should have any responsibility for the costs of accidents over which they have no possible control. The claim of earners on that fund in respect of non-work accidents is of course part of the original scheme of the legislation. The claim of unfairness is to be seen against the relevant history, matters of principle, and in comparative terms.

50. The first historical point is that the employers are no longer responsible, as they once were, for the costs of public hospital treatment arising from work accidents. A second is that they no longer have common law liability towards their employees, a liability which might now produce large awards of damages and associated expenses. Another is that they no longer have to meet through compulsory payments the much higher administrative and related costs of the earlier schemes - or of their own associated legal and administrative costs. Yet another is that they no longer have to meet their former liabilities to those who suffer personal injury through the actions of their employees, or the qualities of their products or services. The amounts involved in these areas could be very substantial ones. We earlier estimated the additional administration and legal costs of a scheme supported by insurance (para. 35 above). And third party liability insurance for some United States doctors of well in excess of US$100,000 a year might be compared with a levy for an individual self-employed doctor here of no more than $3,000 or $4,000.

51. Some of those matters - especially the last - are relevant to the argument of principle that it is unfair for the employer to meet the costs of non-work accidents. Sometimes those costs could arise directly out of the fault of the business or damage done by its product or service. Next, employers have a real interest in having a fit and active work force. They are equally disadvantaged by the absence of skilled and experienced workers whether the absence is caused by an injury at work or at home.

52. We also consider that comparisons with costs in similar jurisdictions are part of the answer to the argument. We realise that the comparisons are not exact. But they do bear immediately on the argument that New Zealand employers are disadvantaged in commercial terms by the size of the levy. We set out below the levy rates per $100 of payroll for four Australian States and New Zealand.
N.S.W.  Vict.  Qld.  W.A.  N.Z.
effective date:  1/7/87  1/9/87  1/7/87  1986/87  1/4/87

$  $  $  $  $

engineering
- heavy  8.40  3.80  6.32  26.84  4.55
- other  6.60  9.48

clothing manufacturing  6.60  3.80  1.51  6.58  1.65

building
- residential  8.40  3.23  6.65  12.39  4.05
- non-residential  3.80

clerical  0.60  0.57 i)25  0.87  1.20
   ii)64

(In Victoria $3.80 is the highest rate.) The Western Australian and Queensland schemes are traditional workers' compensation schemes, while those in the other states are workcare.

53. We see no reason then within the present overall system of funding for recognising in historical terms, in principle, or on a comparative basis, that employers and the self-employed should bear no responsibility for non-work accidents. Their responsibility and interest runs beyond the work place - and not just in respect of their own workers. Under the proposals we have already made, the extent of that responsibility and contribution would be a matter for the Government and Parliament to assess from time to time in determining the relative contributions of employers and other sources including general taxation. For instance if there were no other means of meeting the legitimate concerns of employers groups Parliament could alter the balance.

ALLOCATION WITHIN PARTICULAR SOURCES - A SINGLE RATE FOR EMPLOYERS AND THE SELF-EMPLOYED?

54. The previous section considered the relative contributions of employers and the self-employed, of owners and users of motor vehicles, and of general taxation. We now turn to the relative contributions to be made within the group of employers and the self-employed. The Law Commission proposed in its preliminary paper that there should be a single rate levy on payroll payable by all employers and a levy at the same rate on taxable income payable by the
self-employed. The rate of that levy would depend on three decisions:

the total amount required for the scheme in the following year,

the amount to be collected from employers and the self-employed, and

the estimate of the anticipated payroll of employees and the income of the self-employed.

Those decisions would be made by the Government, with the endorsement of Parliament in the event that the rate had to be changed. On the basis of the calculation made this year about the first and second of the matters listed, the figures would be $2.47 for each $100 of payroll or of income. That figure we note included 48 cents — perhaps more to supplement reserves (which might be seen differently if the view of funding that we have suggested is adopted) and 8 cents collected effectively on behalf of the Department of Labour. We have yet to examine those two elements and to consider whether the Corporation can or should act in that way on behalf of the Labour Department.

55. This proposal for a single rate, we stress, is quite distinct from the question whether a particular employer's levy should be altered — either by a bonus or penalty — because of that employer's own good or bad safety record. A power to make specific levy alterations on that individualised basis is included in the Accident Compensation Act 1982. There is no reason why this should not continue and be used in respect of a single general rate (although we doubt whether on its own that power can have a significant safety role) (see further paras.72-82).

56. The proposal for a single rate levy, as anticipated, provoked much comment. Most submissions which considered the proposal opposed it. Almost all were from employers and employer groups, many of them from employers of clerical workers who would of course be disadvantaged by the change. On the other hand, some employers (mainly at the higher end of the present scales) supported the change — some had indeed originally proposed it — and unions and other bodies with no or a more limited special interest supported it. Thus on the one side were the New Zealand Employers Federation, the Treasury, the New Zealand Business Roundtable, and a number of accident-free businesses, and, on the other, the Institute of Directors (which wanted as well a reduction in the single rate), the New Zealand Nurses' Association, the Federated Farmers of New Zealand, the Federation of Labour and the Combined State Unions.

57. The opponents of the change give two principal grounds of objection. The first was that the flat rate involved, they said, a harmful subsidy: it would shift injury costs generated by more accident prone industries on to those with lower injury costs. This would be counter to current attempts to ensure that business decisions take into account the full cost of the resources and processes used. The second reason — sometimes linked into the first — relates to safety incentives. A single rate, on this view, would discourage any effort made by an employer in any industry to reduce workplace hazards. Facing no additional cost or benefit for taking such efforts employers would have no motivation to act in the interests of their employees' safety.

58. Safety and accident prevention, as we stressed at the outset of this report, are critical features of the legislation. We would certainly not wish
to make a proposal which would reduce safety incentives. We conclude however that the proposal will not in any way affect incentives to safety. Because we consider safety to be such an important matter we treat it separately in the next part of this report (paras.72-82), and there give the reasons for our conclusion.

59. We return to the argument that a single rate would involve a harmful subsidy from less dangerous occupations to more dangerous ones. Injury costs, it is said, would be moved from the latter to the former. This argument goes to the underlying principles of, and reasons for, the scheme and especially to the relevance and application of the principle of community responsibility. The idea of subsidy assumes that there is already a direct responsibility, perhaps a legal responsibility, for the costs of the accident owed by some individual on the basis of fault or cause or benefit. But the scheme in its essence, for reasons of efficiency and equity, rejected individual liability (and the associated ideas of fault and cause) as the basis for compensation. (The law, we must emphasise, did not and does not reject ideas of fault or of individual liability and responsibility in any other respect: see for instance the discussion of the waiting period in paras.36-38 and of safety incentives in para.78.) Its basis is community responsibility, a responsibility which it was thought could be adequately reflected on the funding side by continuing to draw in general on the sources which were already helping meet the costs of accident (para.26). The range of sources reflects the idea that, in addition to the community at large, groups within the community with particular interests and individuals as well should continue to have a direct responsibility to meet some of the costs of injuries caused by accidents. Those individuals and groups can be seen as meeting aspects of their community responsibility in that separate way.

60. Just as responsibility and liability are not any longer specifically assigned to a particular individual, so too the benefit of an activity which can cause injury is not as a general proposition seen as being gained by an identifiable individual. The ``user'' of the activity, to return to an earlier discussion of the point, is not just the particular employer or the employer's customer. Many throughout the community can and do benefit from the activity, and from restoring so far as possible the health and incomes of those in the workforce and elsewhere who suffer from the activity. And then there is another side of community responsibility: ``since we all persist in following community activities, which year by year exact a predictable and inevitable price in bodily injury, so should we all share in sustaining those who become the random but statistically necessary victims''. (1967 Report para.56)

61. The interdependence of industrial and business enterprise, as noted in para.109 of our discussion paper, means that goods and services reach the ultimate consumer through a combination of activities carrying varying degrees of risk. Whether the cost of the levy can be passed on as part of the price depends on factors having nothing to do with the degree of risk. We do not think it equitable that big levy increases (like those announced for some employers for this year) have to be passed back by just some employers in terms of either reduced employment and lower wages or of lower profit. The increase while equal in a relative sense is not at all equal in an absolute one. We are not persuaded by the argument that in that case the market is working efficiently and moving resources to activities which are less accident prone. If there are good policy reasons, say, for having fewer timber workers that should be addressed directly. That should not be a function of the hazards of the operation and effect of a levy gathering mechanism. We say this, we stress, on the basis that we do not consider it appropriate in the first place to talk of responsibilities and benefits which are particular to an employer;
accordingly in our view `subsidies' are not in issue. In legal terms the cost is now being met by the community, there is no longer particular liability for compensation, and in practical terms a direct beneficiary cannot be identified.

62. For us then the principle of community responsibility gives strong support to the single rate. Employers should contribute by reference to the extent of the economic activity of those who have rights under the scheme. The principle has of course always been accepted by Parliament for the self-employed and in a sense for motor vehicle owners.

63. The single rate for the self-employed points to one of the arbitrary elements in the practical operation of the present scheme. The self-employed lawyer and the self-employed aerial top dresser pay the same amount while the latest rates for their employees are $1.20 and $27.85 respectively for each $100 of payroll.

64. Another arbitrary element is that the recently set rate for the self-employed is about 50% higher than the average for employers. Until 1985 it was about the same. A further one is the difficulty in classifying businesses with a mixture of employees in differently rated activities.

65. The system of classification also means that the absolute consequence of an increase like the most recent one is much greater for those who are in high classifications: the employer of clerical staff had to find another 80 cents for each $100 of payroll while the employer of aerial top dressers had to find a further $18.40. That example points as well to the time lag problem with classifications: a declining industry can be faced with meeting the costs of accidents in earlier more buoyant times and this might be so even if the industry is now much safer. On the other hand, a new industry with an expanding payroll will not be carrying what might be seen as an appropriate share of the cost of past accidents. Some have suggested that these problems would disappear with an actuarily fair private insurance scheme. But would they? Is it possible to make predictions of that type? Just how long a commitment (say in terms of earnings related compensation) would insurance companies be prepared to make in such a case? Is there any evidence that they would be willing to insure earnings related compensation for the remainder of the working life of a 20-year old meat worker? Controlled rates, the insurance industry says, are usually insufficient when long term claims continue and proliferate in an inflationary economic environment.

66. There must also be very serious difficulties arising from the absence of a sufficient statistical base. Many of the 103 classifications have numerous industries within them. The numbers employed in particular industries in New Zealand are so relatively small that one or two serious accidents could produce a disproportionate result. It is certainly not difficult to find contrasts in the tables which seem unusual. To begin with, there are four classes of industry or occupation in which the number of employers is fewer than 10; and thirty-seven classes in each of which fewer than 100 employers are engaged. For some reason a few manufacturers, for example those producing tobacco and cigarettes or batteries or dairy products, have their own class and rate while other manufacturers are grouped in single classes without regard to their differing activities. Similarly there is one class for retailers generally but a separate class for a few retailers, for example, wine and spirit merchants. The rates fixed for particular classes may also be compared. Those who are engaged in the manufacture of explosives, for example, now pay a levy of $2.75 per $100 of wages. At the same time the manufacturers of rubber mattresses must pay $7.45.
67. Such practical problems were in part predicted at the outset. The Select Committee which reported on the original proposal recommended a classification system on the basis of the substantial reduction of the then existing premium classifications. That Committee, the Gair Committee, added:

If further efforts to develop a satisfactory system of differential premium rates do not succeed, or if the cost of collecting premiums becomes excessive then the Royal Commission's proposal for a flat rate levy can be revived. (1970 App.JHR I 15, 32)

68. We recommend that for reasons of equity and as a matter of principle as well as practicality a single rate levy for employers and the self-employed be introduced. As we see it equity requires equality in this case. The rate, for reasons discussed elsewhere (para. 48), would be fixed by Parliament and would apply evenly to the payroll of employees (in the case of employers) and to the income of the self-employed.

PAYMENT BY INSTALMENTS

69. Many of those who made submissions on the point saw the advantage of payment of the annual levy by instalments. The obligation to meet the levy could be met more easily if it were spread, as are other such obligations, more evenly through the year. This is particularly so if the levies are increased by significant amounts and there is only a few months notice of the change. In addition the payment could be related more closely to actual payroll, and therefore be a fairer levy at the time of payment. In administrative terms the payments could be made along with PAYE returns or with provisional tax. We would not however see this as allowing changes in the rate during the year: the levy is an annual one, and the amount, as well, should be reasonably predictable. As we have said, we do not anticipate frequent changes in the levy.

70. There are disadvantages. The administrative cost would increase, but we have not yet examined the question whether the administration of a single rate levy associated with PAYE on the employees payroll or with provisional tax payments by the self-employed would be a much less significant matter. The Corporation would lose investment income, but the employer would of course have the use of the relevant money for that much longer: should it not be able to make the decision about how to use that money before it is required? And we have to examine more closely the allegedly different position of different groups of employers and the difficulties that would arise from giving an option to pay in a single annual sum or in instalments. We have been advised as well that the lead time for the introduction of periodical payments could be lengthy.

71. Accordingly our recommendation is subject to that further examination. Subject to that however we recommend that employers and the self-employed be given an option to pay their levy either by instalments or in one
SAFETY INCENTIVES

72. Early in this report, we stressed the emphasis the 1982 Act gives to the promotion of safety. We return to this critical matter now for three reasons. One is to stress its importance and to indicate that we will consider it further in our final report. A second is to give the reasons why we consider that the single rate we propose will not reduce incentives to safety. And third we wish to give a brief indication of the safety incentives that exist or might be established.

73. What persuades people at risk of injury or able to inflict it on others to take care to avoid it? The question is a very big one even if limited to employment. It has many answers. We give an indication of their range in part to show why we do not accept that a single rate would discourage any effort made by an employer to reduce workplace hazards.

74. As we have explained the present accident compensation scheme already places financial incentives in favour of safety and minimising injury on employers and workers - the employer or the worker has to meet the cost of the first week and the worker does not receive full earnings related compensation. The proposal made to extend the waiting period for a second week would further enhance that incentive. The total amounts of money involved are already large and would be increased by at least a further $20 million. That is to say the direct financial incentive to safety contained within the accident scheme is already large.

75. The incentives outside the scheme are probably even more significant. First of them must be self interest - of the employee, the driver, the `do-it-yourselfer', the trampler and especially in the present context the employer. The employer as a result of accident may lose the services of a skilled experienced employee. Whether the loss of human resources is significant for the employer or not, other direct costs may be - in damaged and destroyed property, plant, machinery, buildings, spoilage of material, interruption of production, loss of sales and profits and other consequential losses. Many of those property losses are of course covered by insurance taken out in very large amounts. (The total of fire and accidents premiums in New Zealand is considerably in excess of ACC levies.) Accordingly such incentives as an insurance policy may provide through experience rating, accident prevention (by increasing premiums if safety measures are not taken), no claims bonuses, and the like are already relevant to many accidents that may also cause personal injury.

76. The prospects of such losses have led some businesses to introduce sophisticated safety audit programmes. In addition to a substantial drop in recorded accidents such programmes can produce other benefits - in one case, big increases in production, improved communication between the company and the employees, employees' awareness that they are part of a team, decreased fuel consumption, increased employee respect for equipment, and improved
control over production.

77. A related development is the growing acceptance of the need for methods for the promotion of work place safety involving cooperation between all involved. Over recent years legislation relating to railways, construction, electricity, factories and commercial premises has provided for the drawing up of codes of safety practice by departments in consultation with those affected. These codes are not necessarily directly and legally binding, but they can have legal significance. They are also part of a world wide movement towards greater worker participation in occupational health and safety.

78. The law provides at least four other incentives towards safety. Unsafe methods of work or products which cause damage to property outside the work place can be the subject of civil actions in the courts by those damaged. Again insurance may have a role. Secondly, professional and occupational disciplinary processes will be significant in some situations. That prospect and the next two can not be the subject of insurance and accordingly individual responsibility is greater in these areas. Thirdly, much safety legislation imposes standards and rules which can be supervised and enforced through inspection, courts and commissions of inquiry, and prosecution in the criminal courts. Sometimes the official remedies may include the stopping of unsafe activities, such as the closing down of a factory. The general emphasis in the administration of this law so far as it relates to factories and commercial activities, in New Zealand as elsewhere, is however on guidance and education rather than on coercive measures. Road safety law is seen differently, with large numbers of drivers being prosecuted and heavily penalised for unsafe driving. Fourthly, the general criminal law may be revised - manslaughter prosecutions for deaths caused in or by industry are not unknown, and some have urged that they should be more widely invoked.

79. It is against this body of law and practice and the principles of respect for human life and personal integrity which underlie it that we come back to the contention about the single rate (para.57). The argument was, in one of its formulations, that the single rate would discourage any effort made by an employer to reduce workplace hazards. Plainly that is not so. A great number of forces for safety - market place, efficiency, humanitarianism and the law - exist and operate quite independently in support of safety.

80. We also recall the distinction made earlier between a single rate applying to all categories of employment and a power to impose a penalty or confer a bonus on a particular employer for a bad or good accident record. The latter power can be used in respect of a single rate just as well as in respect of multiple rates based on a classification of industry. The bonus/penalty power relates directly to the accident record of each individual business. The general classification system by contrast requires, if it is to work as a safety incentive -

that all or a significant number of the members of that whole industry adopt safer methods because of that system, (it is not enough that just one employer in that industry improves its record, unless it is in a monopolistic position), and

that, as a result, the reported accident record of the whole industry significantly improves, and

that it also improves significantly against the overall accident record of all employment, and

that the administration of the classification process is such that favourable adjustments can be made on a fair and proven basis - adjustments
which will be made some years after the introduction of the improved safety practice directed at that possible reclassification to the advantage of the industry concerned.

We have been provided with no evidence that the classification system creates any such incentive. The proposition is one of theory, not of experience. Even if, considered on its own, the alleged incentive had some chance of operating, the other safety incentives which we have briefly sketched and which in whole or part will also be present appear to be much more important. To take just one, consider the immediate, tangible, calculable and significant impact of the present first week and the proposed second week of the waiting period (on the employee as well as the employer).

81. As already indicated, we are not at this stage considering the removal of the power to impose penalties or confer benefits on an individual employer basis. That is a distinct power. It too must however be considered against the range of forces for safe practices already mentioned and against the generally inconclusive experience of such particular powers elsewhere as well as in New Zealand - an experience based on major statistical problems (when most plants have a small number of employers), the time lag problem, the inability of employers to predict the advantages of the possible future bonus or penalty against the cost of safety measures, the counterproductive effects in some cases of requiring accident reporting, and the growing significance of occupational disease. Like industry classification, the individual penalty or bonus also suffers from being based on the reported accident record rather than on the safety practices of the employer.

82. So far as the power to impose penalties or confer bonuses is concerned, we note in addition that the existing power in the Accident Compensation Act to classify industries and occupations for the prevention of accidents should be retained in some form. Such a classification is necessary if an individual business is to receive a bonus or to be penalised because of its accident record as compared with that of other businesses in the group. To repeat, industries can be classified for this purpose without their basic levy rate being different.

ADMINISTRATION

83. We conclude the substantive part of this interim report with one comment on the administration of the accident scheme especially on the funding side. The comment arises from the basic character of the scheme as we see it: Parliament has created rights which are owed to individuals by the community represented by the State and paid for out of money compulsorily exacted by Parliament or under its authority.

84. The comment is that the responsibility of Ministers and, where appropriate, Parliament for those basic features and the general operation of this public social welfare scheme should be more clearly recognised. The
proposal that Parliament should fix the levies for employers and the self-employed and in respect of motor vehicles (it already determines the amount going into the supplementary fund) makes the point. Parliament would do that on the proposal of Ministers who would have received advice in the ordinary way. The Accident Compensation Corporation would on our present view continue to play a central part in this. We recommend that the Corporation should inform the government of its projected spending in the coming year and of its estimate of the areas in which the spending is likely to occur. This latter advice would relate to the type of accident (work or road) and of spending (earnings related, medical). The Corporation would also have the power to give advice in a more general way about the operation of the scheme and the legislation.

85. The Corporation would of course continue to have independent powers of decision in respect of particular matters (subject to the review and appeal system), and it has important functions in the safety and rehabilitation areas. We are not concerned with those matters at the moment. Rather we wish to emphasise the responsibility of Ministers for the scheme. There has, we believe, been at times a worrying perception of divided authority, and, as a result, a diminution of the responsibility which Ministers should take for the exercise of powers which Parliament has vested in the Government rather than in the Corporation.

THE REMAINDER OF THE TASK

86. This is an interim report. It must be seen as part of a holding operation. And we have still to complete our consideration of the full range of matters which the Minister has referred to us; indeed by 11 December 1987, the date for further comment on the discussion paper, we expect to receive further valuable submissions, in addition to the 1,600 we already have. All those matters help explain why we have not in all cases entered fully into the issues of philosophy and principle arising out of the reference and why this report is not to be seen as prejudicing our final report. A different reason is the need to have regard to the fundamental examination of the principles of a fair society being undertaken by the Royal Commission on Social Policy.

87. The discussion paper indicated some of the matters to which the Law Commission expected to turn in its final report. Among the questions raised by the scheme are the following -

What are the areas in which there have been real increases in the spending under the scheme, what is their extent, what is the reason for them, and what steps if any should be taken to deal with them?

What changes, if any, should be made to the conditions for the application of the scheme for example through the definition of `accident'?

What changes, if any, should be made to the benefits -

the levels of earnings related compensation

the relevance of lost earning capacity
the position of lump sum payments
periodic benefits for non-earners
the part payment of medical expenses?

What role should the Corporation have in promoting safety?
What role should the Corporation have in respect of rehabilitation?
What improvements can be made in the administration of the scheme -
by the Corporation
by health professionals?

And as we have indicated, matters which we have considered in this report might be examined again. There is a further matter - the Accident Compensation Act 1982 itself. We have mentioned something of the reasons for the present drafting of that Act. The Corporation has indicated that it considers that a new, more straightforward Bill should be prepared. That is also our view, an opinion that takes account as well of the directions in the Law Commission Act 1985 about making the law as understandable and accessible as practicable and simplifying its expression and content so far as practicable.

APPENDIX A

LEGISLATIVE CHANGES TO GIVE EFFECT TO RECOMMENDATIONS 1, 4 AND 6

This appendix sets out the main legislative changes required to implement the Law Commission's recommendations numbers 1, 4, and 6 in the summary of recommendations at pages vi-vii of the report.

Recommendation No.1 - Single Rate Levy
The Act should contain a statement that employers and the self-employed shall pay a levy, on the earnings of their employees and on their own earnings respectively, at the rate of ``x'' dollars per 100.00 dollars of such payroll or earnings. This levy should be payable in accordance with ss.43 and 44, as is presently the case. The present s.38 might be replaced by a provision to that effect.

Subject to any necessary transitional provisions, s.39(1)(a), (b) and (c) should be repealed. The Accident Compensation Employers and Self-employed Persons Levies Order 1986 (1986/14) and the Accident Compensation Employers and Self-employed Persons Levies Order 1986, Amendment No.1 (1986/380) should be consequentially revoked.

The Accident Compensation Employers and Self-employed Persons Levies Order 1986, Amendment No.2 (1987/64) provides that the prescribed rates of levies are exclusive of any goods and services tax that may be payable under the Goods and Services Tax Act 1985. If this clarification is necessary it should be included in the new s.38 and the Order should be consequentially revoked.

Regulations under s.39(1)(d) and (e) prescribe the maximum earnings on which the levy is payable and the minimum earnings as a self-employed person on which the levy is payable. As these prescriptions would in effect determine the application of the levy established by Parliament, the amounts should probably be fixed by the Act. In that case, rr. 3(1) and 4 of the Accident Compensation (Prescribed Amounts) Order 1987 (1987/182) and the whole of the Accident Compensation (Prescribed Amounts for Calculation and Payment of Levies) Order 1985 (1985/317) should be consequentially revoked.

In so far as s.39 gives a power to prescribe classes for safety purposes the power might appropriately be replaced or supplemented by a power in s.40 to prescribe classes for reward and penalty purposes, along with a power for the Corporation to determine classes for that purpose in the absence of a regulation.

Section 39(2)(b) should be repealed.

Several other consequential amendments will be needed:

Section 40(2)(a) and (b): Instead of referring to the `normal rate of levy for his class' the provisions should refer to the rate of levy imposed by the new s.38. Section 40(4): The words `appropriate rate prescribed by Order in Council' should be similarly replaced.

Section 43(3) and s.44(3): Each section refers to levies payable at the `appropriate rate prescribed in accordance with s.39'. These should be amended to refer instead to the rate of levy imposed by the new s.38.

Section 120(1)(d): The words `any class or' should be removed unless the power to prescribe requirements in relation to a class of employees or self-employed persons has any application to classes prescribed or determined for safety or for reward or penalty purposes.

Recommendation No.4 - A Single Account

Section 19 should list the sources of the Corporation's funds, without
then going on to require, as it presently does, that the funds must be spent according to their source.

In terms of the Law Commission's recommendation for a single rate imposed by Act, s.19(1)(a) needs to be amended to refer to levies "imposed on" rather than "payable by" employers and self-employed persons "by" rather than "pursuant to" the new s.38.

It may also be desirable to fill a present gap by including in the sources of funds investment income (s.9(3)) and fines (s.21).

Section 19(2) should be replaced with a simple statement that the Corporation shall use its funds for the purposes of, and in accordance with, the Act.

Section 19(3) and (4) should each be repealed.

Recommendation No.6 - provision of estimates by the Accident Compensation Corporation

The Act should contain the requirement that the Corporation provide the Minister with annual estimates in time for the annual budget exercise. This could be done by amendments to s.7. Section 7(1)(a) should be repealed. Instead the Corporation should be required in each financial year to provide the Minister with estimates of its expenditure for the next financial year, specifying the areas in which that expenditure will occur; and with estimates of its income for the next financial year from the levies payable by employers and self-employed persons and by owners of motor vehicles and also from investments.

Section 117(1)(c) should be consequentially amended to refer to the Corporation's estimates as well as its recommendations.

Section 7(2) and (3) should be repealed. The reference to s.39 in s.7(4) should be omitted.

Section 7(6) should be amended so that the required actuarial report relates to the matters on which the Corporation is required to provide estimates, as well as those on which it makes recommendations.

A new provision should be added giving the Corporation a general (but not the exclusive) power to inform and advise the Minister on any matter arising out of the administration of the Act.

APPENDIX B

TABLE 1

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Levies</th>
<th>Government Contribution</th>
<th>Investment Income</th>
<th>Total</th>
<th>Total adjusted for Inflation*1</th>
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*1 Adjusted to 1975 dollars, using March quarter Consumer Price Index.

n.a. = not available
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<td>For Non-work Accidents</td>
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<td>Total</td>
<td>Average Levy</td>
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*1Adjusted to 1975 dollars, using March quarter Consumer Price Index.

n.a. = not available

TABLE 4

The Average Employer Levy (Rate per $100 payroll)
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</tr>
<tr>
<td>*1</td>
<td>To meet a payment to the Industrial Safety, Health and Welfare Programme of the Department of Labour.</td>
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</table>

**APPENDIX C**

Submissions were received from the following in response to the discussion paper.

Abattoirs Assn. of N.Z.
Aburns Glass Industries Ltd
A.H.I. - Metal Containers (Petone)
A.H.I. - Alex Harvey Industries
Airwork (N.Z.) 1984 Ltd
Allan Roberts Ltd
Alco Ladders N.Z. Ltd
Allen Calendars
Alpha Customs Services
A.M.P.
Anchor Fence Ltd
Anglican Diocese of Waikato
Architectural Joinery Components
Arnold & Wright Ltd
ASB Bank
Ashburton County Council
Auckland City Council
Auckland Regional Authority
Auckland Regional Chamber of Commerce
Avon Electric Ltd
Avis

Barnardo's New Zealand
Bay Marquee Hire Ltd
Belsham, D. S.
Bendon Industries
Benefield & Lamb Ltd
P.L. Berry & Associates
R.Bettany & Son Ltd
Bissett, Hodge & Rainey
Blue Grass Products Ltd
Blyth, Mrs M. C.
Bonds (N.Z.) Ltd
Borg-Warner Sales & Services Ltd
Bowen Hospital Trust
Building Societies Assn. (N.Z.) Inc.
Butterfields
Buttle Wilson

Cable-Price Steel
Caltex Oil (N.Z.) Ltd
Canterbury Dairy Farmers Limited
Capper, Macdonald & King
Carborundum Abrasives Ltd
Carter, J. H.
Carter, T. C.
Carter House
Carlton Mill Lodge
CDL Character Developments (N.Z.) Ltd
Charlies Boutique
A.D. Charteris & Co.
Cheviot Pacific Ltd
Children's World
Chilton Ross & Co.
Christchurch Drainage Board
Christchurch Motel Assn.(Inc.)
City of Birkenhead
City of East Coast Bays
Clearwater Signs
Clephane, David & Lewis, Neil
Coachwork International Ltd
Coachwork International Ltd (Palmerston North)
Colortron Carpets
Cook County Council
Cook Howlison
Combined State Services Union
Comesky, G.P.
CompAir
Company Catering Co.
Construction & Maintenance Engineering Ltd
Continental Engineering Ltd
Craighead Diocesan School Trust Board
Cyclone-CMI Industries Ltd
Dannevirke District Council
Decal Harvison Ltd
Deltic New Zealand Limited
J.E. Dennis Ltd
Decor Furniture Ltd
Derek Batts Ltd
Desborough Management Services Ltd
Desiree Hairstyles
Disabled Persons Assembly (N.Z.) Inc.
Divine Design
Doocey, N. F.
Duncans Canvas Supply Co.
Dunlop, B.T.

Eastern Bay Traders (1979) Ltd
Economic Development Commission
Electric Furnace Co. Ltd
Electrical Supply Authorities Assn. of N.Z.
EMMS Building Centre
Equiticorp
Erni, Mrs P. & Eaton, R.
Ernst & Whinney
Euroway Industries Ltd

Farm Products Co-operative (Hawkes Bay) Ltd
Federated Farmers of N.Z. (Inc.)
Federated Farmers of N.Z. (Mid-Canterbury Provincial District Inc.)
Federated Farmers of N.Z. South Canterbury Provincial District (Inc.)
Federated Farmers of N.Z. (Inc.): Women's Division
Federation of Labour
Fermentation Industries (N.Z.) Ltd
Field Rubber Ltd
Firth Certified Concrete
Fisher Catering Services
Fisher & Paykel Industries Ltd
Fleming, F.
FML (Franklin Machinery Ltd)
Foodstuffs (Auckland) Ltd
Foodstuffs (Wellington) Co-op Society Ltd
Ford Motor Company of N.Z. Ltd
Fowler Industries Ltd

Gabites, Sinclair & Partners
Gallagher Group of Companies
Gang-Nail N.Z. Ltd
Gawith Cunningham & Co.
General Accident
General Motors N.Z. Ltd
Geoffrey M. Shortt Ltd
C. Gibbons Holdings Ltd
Gillespie, J.
Golden Coast Poultry Industries Ltd
Grant, J.
Greymouth Book Exchange Society (Inc.)
Guy Engineering Ltd

Hair Flair Salon
Hairlucination
Hair now
Hannahs
Hamilton City Council
Happy Days Co. Ltd
Harbours Assn. of N.Z.
Harris & Taylor
Hawkes Bay Rape Crisis Centre
Hazlewood Transport Ltd
Keith Hay Group
Borough of Henderson
Henke, W. F.
Highflo Co. Ltd
Hobo, K.
Holmes Aluminium Limited
Horizon Shore Sails
Horsburgh, R. B.
Hotel Assn. of New Zealand
Hughes, J.
M F Hunter Holdings Ltd
Hutt Valley Chamber of Commerce
Hutt Valley Veterinary Services Ltd

Inland Revenue
Innes-Owens Pty. Ltd
Institute of Directors N.Z. Division
Insurance Council of N.Z.
Insurance Employers Assn.
Ivon Watkins-Dow Ltd

Kaitaia Chamber of Commerce
Keilaws Investments Ltd
Kelly & Bryant
Kendons
Kernohan Engineering Ltd
Kerridge-Odeon Corp Ltd
Keywin Sports Limited
Kindercare Learning Centres Ltd
King's College
King Country Electric Power Board
Kitt Personnel Consultancy Ltd
Kiwi Co-op Dairies Ltd
Koller & Hassall

Lane Neave Ronaldson
Lawrence Anderson Buddle
K.T. Lawson & Son Ltd
Les Bamford Motors Ltd
Levingston Bros Ltd
Lichfield (N.Z.) Ltd
Littlejohn Machinery Ltd
Lucas Ford
Lucas Industries N.Z. Ltd
Lynch, H.
Ludlon Seal Ltd

McKinstry, B. A.
Maidstone Veterinary Clinic Ltd
Mainly Cane
Mangere Law Centre
Masterton Employers
G.& J. Martin Ltd
Martin Roberts Motors Ltd
Marton Borough Council
Mason King
Massey Heights Veterinary Hospital
Massey University
Masterton Plumbing Services
Meadows Freight N.Z. Ltd
Mid-Canterbury Industries Ltd
Midland Transport Services Ltd
Mines, Q.
Ministry of Transport
Mirotone (N.Z.) Ltd
Mitsubishi Motors
Moa-nui Co-op Dairies Ltd
Moffat Appliances Ltd
Mollers Dunedin
Morley Engineering Ltd
Motor Rebores (U.H.) Ltd
Mt Roskill Borough Council
J.B. Mouldings Ltd
Mount Cook Group Ltd
Motor Trade Assn. (Inc.)
Municipal Assn. of N.Z. Inc.

National Assn. of Retail Grocers & Supermarkets of N.Z. (Inc.)
National Collective of Independent Women's Refuges Inc.
National Mutual
Naughton, J.B.
N.Z. Assn. of Bakers Inc.
N.Z. Bankers Assn.
N.Z. Business Roundtable
N.Z. Chambers of Commerce (Inc.)
N.Z. Contractors Federation (Inc.)
N.Z. Co-operative Dairy Coy Ltd
N.Z. Cosmetic Laboratories Ltd.
N.Z. Dairy Factories' Industrial Union of Employers
N.Z. Dental Assn. Inc.
N.Z. Employers Federation
N.Z. Family Planning Assn.
N.Z. Federated Hotel Trades Employees' Industrial Assn. of Workers
N.Z. Federation of Master Cleaners
N.Z. Federated Painting Contractors Industrial Assn. of Employers
N.Z. Federation of Young Farmers' Clubs (Inc.)
N.Z.F.P. Forests Ltd
N.Z. Forest Products Limited
N.Z. Fruitgrowers Federation: Gisborne Fruit Advisory Committee
N.Z. Furniture Manufacturers Federation Inc.
N.Z. Manufacturers Federation
N.Z. Master Builders' Federation (Inc.)
N.Z. Nurserymens Assn. Inc.
N.Z. Nurses' Assn. Inc.
N.Z. Paraplegic & Physically Disabled Federation Inc.
N.Z. Refining Co. Ltd
N.Z. Retail Meat & Allied Trades Federation Inc.
N.Z. Society of Physiotherapists Inc.
N.Z. Taxi Proprietors' Federation Inc.
N.Z. Timber Industry Employees Industrial Union of Workers
N.Z. Timberlands Ltd
N.Z. Waterside Workers' Federation Industrial Assn. of Workers
N.Z. Wholesale Wine & Spirit Merchants' Federation
James Nilsson Ltd
Noble Lowndes (N.Z.) Ltd
Noel Drake Ltd
North Taranaki District Council
Northern Fire Brigades' Employees' Industrial Union of Workers
Northern Foods Ltd
Nu-Look Windows Wellington Ltd

O'Neill, B. J.
Oregon Paint Co. Ltd
Otorohanga District Council
Owen Young

Pacific Steel Ltd
Palmers
Paparua County Council
Pascoe, B. C.
Eric Paton Ltd
Patriotic and Canteen Funds Board
Peaches Hair Design
Pegler, C.
Penguin Books (N.Z.) Ltd
Penney, J.
Penrose's
Personnel Professionals
Petty, G. B.
Pfizer Laboratories Ltd
Phillips New Zealand Ltd
Pinex Timber Products Ltd
Porirua City Council
Post Office Union (Inc.)
Prentice, T. W.
Presbyterian Support Services
Printpac
Private Coalmine Proprietors Fed
Pugh, D. W.
Purfex Display Models Ltd
Purser, D. M.
Pyne Gould Guinness Ltd

Ramage, S.; Holland, K.; Egerton, R.
Ramset Fasteners (N.Z.) Ltd
Refrigerated Freight Lines Ltd
Rennie, D. A.
Rennie, Mrs P. M.
Retail & Wholesale Merchants Assn.
Richmond Bone O'Connell & Co
Rivercity Pharmacy
Robert Bryce & Co. Ltd
Robertson Young Telfer
Rocol Cleaning Services
Roper & Jones
Ross Todd Motors Ltd
Rotgans, J.
Royal Insurance
Ryder-Lewis, N.

Sander Apparel Ltd
R.W. Saunders Ltd
W. Savage & Son Ltd
Sealord Products Ltd
Sellar Bone & Partners
Shaws Motors Limited
Sew Hoy & Sons Ltd
Sheldon & Partners
Sincerity Drycleaners
Singing Telegrams
Skellerup Industries Ltd
Smith & Smith Glass
South Canterbury Catchment Board
Southern Cross Building Society
Southern Cross Medical Care Society
Southern Pacific Hotel Corporation
J. & R. Strevens Ltd
Stuckey, R. G.
Sulphur Wells
Summit of New Zealand
Supertex Holdings Ltd

Tainui Home Trust Board
Taranaki Newspapers Ltd
Tasman Forestry Ltd
Tauranga, City of
Tauranga, Port of
Technical Group Limited
Tasman Electric Power Board
Textile Bag & Sack Co. Ltd
Textile & Garment Manufacturers' Federation
Total Mower Services
Transpac Holdings Ltd
Travel Personnel
Treasury
Trigon Packaging Systems (N.Z.) Ltd
Trinity Schools
Tuapeka County Council

Union Carbide
Universal Shipping Agencies Ltd

Versatile Garages Ltd
Victoria Jewellery Ltd
Video Station
Vision Aluminium Ltd
Voluntary Welfare Organisations (Inc.)

Waikato Bitumen
Waikato County Council
Waikato Diocesan School for Girls
Waitara Town & Country Club
Wallace Cooper
Waterfront Industry Commission
Wayman Roofing Ltd
Wella N.Z.
Wellcare Corporation Ltd
Wellington School of Medicine
Wellington Unions Health and Safety Centre Trust
Wesley Social Services Trust
Westermeier, I. G.
Whitcoulls Ltd
Wills New Zealand
Winstone Ltd
Wood Electronics Manufacturing Ltd
W E Wood Glass Co. Ltd
Woodcroft Industries Ltd
W.H. Worrall & Co. Ltd

The names of those who made submissions before the issue of the discussion paper are listed in Appendix B to that paper.

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