



09/82484

4 February 2009

Hon Nick Smith, Minister for ACC

Budget 2009 - Expenditure Review Vote ACC

Purpose

- 1 This report is in response to Cabinet's direction that Chief Executives of all Departments that administer Votes carry out a review of expenditure in those Votes [CAB Min (09) 1/1, CBC Min (08) 32/6 refers].

Background

- 2 Instructions in the Technical Guide for the Initiatives Phase of Budget 2009 require departmental Chief Executives to report on these reviews to their Minister(s) by 5 February 2009. Individual Ministers are to forward the review reports to the Minister of Finance.
- 3 The reviews have three parts – one of which feeds into the process for Budget 2009, the other two identify areas for future focus:
 - identify expenditure that does not align with government priorities to help free up savings for Budget 2009;
 - identify areas where there are opportunities for improved efficiency and effectiveness (to inform future reviews); and
 - build government confidence that Chief Executives and the state sector management system are well placed to meet the shift the government is expecting the state sector to make (to inform future reviews).
- 4 Departments that administer more than one Vote are required to report to the Responsible Minister for the Department on matters relating to departmental overheads and corporate services.
- 5 A panel of senior executives will consider the completed reviews to ensure that they are robust and meet Cabinet's expectations. The panel may comprise senior state sector officials drawn from the three Central Agencies (or other Departments); retired experienced state sector officials; or individuals drawn from the private sector.

Expenditure review process

- 6 Through the reviews Chief Executives are expected to identify savings in the following categories:
 - savings that can be freed up for Budget 2009;

- programmes that are inconsistent with the Government's priorities and should be discontinued;
 - programmes that are inconsistent with the Government's priorities and should be looked into;
 - programmes and expenditure that are not efficient or effective; and
 - areas where performance information is insufficient to make a judgement about efficiency and effectiveness, and actions agencies should take to make improvements in the next review period.
- 7 The Department adopted the following approach to its expenditure reviews:
- Setting the current 2009/10 Vote baselines as the foundation for each Vote review;
 - Identifying savings in the designated savings categories within each Vote on an output basis;
 - Identifying opportunities for further savings and operational improvements through more considered reviews and initiatives to be undertaken as a priority. These longer term Internal Value for Money (VfM) reviews are to be completed as soon as possible and no later than the end of the second quarter of 2009/10;
 - Discussing the expenditure review outcomes with Vote Ministers in the context of preparing submissions for the Initiatives Phase of Budget 2009.
 - And specifically in Vote ACC, engaging with the ACC Corporation on options for cost containment in the non-earners non-departmental appropriations drawn upon by ACC but administered by the Department in Vote ACC for Budget management purposes.
- 8 The expenditure reviews have been carried out under the auspices of the Deputy Secretary with primary responsibility for each of the Vote areas in the Department. The savings have been aggregated to the Output Class level in each Vote.

Gross savings identified

Whole of Department

- 9 Departmental Baseline – total gross savings of \$16.899m (5.87%) on a baseline of \$288.103m.

| Departmental | Vote Labour | Vote Immi-gration | Vote Employ-ment | Vote ACC | Total | % Savings |
|-------------------------|-------------|-------------------|------------------|----------|----------|-----------|
| | \$m # | \$m * | \$m | \$m | \$m | |
| Baseline 2009/10 | 79.237 | 190.543 | 15.770 | 2.553 | 288.103 | |
| - Gross | (5.329) | (9.160) | (2.334) | (0.076) | (16.899) | 5.87% |

Labour Baseline Funding

| | |
|----------------------------|--------|
| Crown - Backed by HSE Levy | 40.598 |
| Crown | 38.639 |

* Immigration Baseline Funding

| | |
|--------------|---------|
| Crown Funded | 72.543 |
| Fee Funded | 118.000 |

10 Non Departmental Baseline – total gross savings of \$1.375m.

| Non-Departmental | Vote Labour | Vote Immigration | Vote Employment | Vote ACC | Total |
|-------------------------|-------------|------------------|-----------------|-----------|-----------|
| | \$m | \$m | \$m | \$m @ | \$m |
| Baseline 2009/10 | 9.239 | 2.577 | 0.000 | 1,262.910 | 1,274.726 |
| Gross Savings | (0.890) | (0.485) | 0.000 | 0.000 | (1.375) |

@ ACC - NDOC Baseline Funding

| | |
|---|-----------|
| Appropriation as at October Baseline Update | 966.051 |
| Post OBU Cab Min (08) 45/7 Inc. Non-Earners' Acct | 296.859 |
| Appropriation as at March Baseline Update | 1,262.910 |

Vote ACC

11 Vote Departmental Baseline - total gross savings of \$0.076 m (3.0%) on a baseline of \$2.553 m comprised as follows:

| Output Class | Baseline 2009/10 \$m | Savings \$m | % |
|-----------------------|----------------------|--------------|------------|
| Policy and Monitoring | 2.452 | 0.074 | 3.0 |
| Regulatory Services | 0.101 | 0.002 | 2.0 |
| TOTAL | 2.553 | 0.076 | 3.0 |

12 While Vote ACC has a very small department baseline, the non-departmental baselines are significant, in the order of \$1.2 billion in 2008/09. These non-departmental appropriations fund the non-earners account as part of the broader ACC scheme. The cost of the government's share (paid via the non-earners non-departmental appropriations in Vote ACC) is assessed through an actuarial valuation of the total ACC Scheme, with the costs to be funded from the relevant levies and appropriations.

13 In the period between the election and the February 5 budget initiatives and savings submission deadline, significant work has been done to look at cost containment options for the ACC scheme as a whole, and for the non-earners account in particular. The majority of the options identified are quite fundamental in their nature, and are most appropriately pursued within the auspices of the stocktake of the Scheme announced as part of the Government's policy priorities.

14 There are, however, legislative options with cost containment effects under consideration for an IPRC Amendment Bill in 2009, and administrative cost containment options available to ACC itself and the way in which it manages contracts for treatment provision. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

15 The features of the identified departmental savings including their implications and impact are set out in Schedule 1. The savings are further disaggregated in Schedule 2.

Other savings

- 16 The Department has an ongoing Economy Project instituted in 2006 which has set savings targets in operational expenditure. The Economy Project is covered in the Report on Departmental Overheads and Corporate Services to the Responsible Minister.
- 17 The management of the Department's capital programme and its review are also covered in the report to the Responsible Minister.

Internal VfM reviews

- 18 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Contribution of Vote ACC

- 20 The immediate priorities for the ACC portfolio are to amend the legislation to allow an extension to the date on which all accounts have to be fully funded, an analysis of options to control costs in the ACC scheme *[information deleted in order to maintain the current constitutional conventions protecting the*

confidentiality of advice tendered by ministers and officials]. These pieces of work will contribute to the long term goals of a highly effective compensation and rehabilitation scheme that delivers value for money to levy payers and tax payers.

Budget 2009

21 The Department adopted a number of principles to guide its work in developing its Budget 2009 responses. These included a principle to fund existing contractual commitments and unavoidable costs within existing baselines from the gross savings identified. The following table sets out the distribution of these costs of \$10.326m by Vote across the Department. These costs comprise remuneration costs of \$7.8m, rental costs of \$2.151m and a share of the cross departmental Identity Verification Services project funding of \$0.375m.

| Departmental | Vote Labour | Vote Immi-gration | Vote Employ-ment | Vote ACC | Total | % Savings |
|--------------------------|----------------|-------------------|------------------|----------------|----------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | |
| Baseline 2009/10 | 79.237 | 190.543 | 15.770 | 2.553 | 288.103 | |
| Savings | | | | | | |
| - Gross | (5.329) | (9.160) | (2.334) | (0.076) | (16.899) | 5.87% |
| - less unavoidable costs | 3.099 | 6.428 | 0.753 | 0.046 | 10.326 | |
| Net Savings | (2.230) | (2.732) | (1.581) | (0.030) | (6.573) | 2.28% |

22 The total net savings of \$6.573m after funding unavoidable costs represent realisable savings for Budget 2009. Individual Vote Ministers have considered the application of these savings in their decision making for the Initiatives Phase of the budget.

23 Following your direction, Vote ACC departmental savings have been reprioritised to:

- offset the cost of a bid to undertake manifesto and policy priorities for the new government. This bid includes both the stocktake of the ACC Scheme *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.
- allow for small investments to maintain or update critical departmental systems (financial, human resource, and document management) which uses \$15,000 of available savings.

24. As discussed previously in this paper, there are, legislative options with cost containment effects under consideration for an IPRC Amendment Bill in 2009, and administrative cost containment options available to ACC itself and the way in which it manages contracts for treatment provision. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Recommendations

24 It is recommended that you:

Note the contents of this report.

noted

Christopher Blake
Secretary of Labour

Schedule One: Savings –impacts and implications by Output Class

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

* Savings categories:

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Schedule Two

Gross saving summary by Output Class

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Schedule Three: Internal Value for Money (VfM) reviews

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]