

**Vote ACC**

# Baseline Alignment Proposal

8 March 2010

Submitted by:

**Hon Dr Nick Smith  
Minister for ACC**

## **Section 1: Alignment to Government Priorities**

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### **Role of Vote ACC**

Vote ACC funds policy advice on the accident compensation scheme; and monitors and advises on the performance of the Accident Compensation Corporation as well as providing non-departmental funding for the ACC Non-Earners' Account.

### **Economic contribution**

The accident compensation scheme delivers important services to working and non-working New Zealanders and forms a significant part of the Government's balance sheet. By efficiently managing the scheme's assets and liabilities, the Government makes an important contribution to the economy.

The economic and social cost of workplace injuries alone is estimated to be \$16 billion per year. The ACC scheme impacts on businesses and the community through its focus on the prevention of injuries and provides financial support when injuries do occur. Ensuring people return to work as soon as they are able reduces the costs to the economy and the Government.

### **My intentions for ACC**

In recent years, ACC liabilities have increased rapidly. Significant changes are needed to mitigate further increases in costs for families, businesses and government and to ensure the scheme remains affordable.

Throughout 2010/11 and the following two years, my intentions are to ensure the ACC scheme has a suitable structure that will deliver fair 24/7 rehabilitation and compensation to those who have been injured, whilst also ensuring the scheme is affordable for the Government and individual and business levy payers. My intentions are aligned with the Government's priorities to:

- improve the efficiency and effectiveness of spending
- ensure that New Zealand has the skills needed to support economic growth by ensuring injured people return to work and economic participation as soon as possible

### **My priorities and required actions**

To achieve my intentions, my priorities and required actions for the remaining term of government are detailed below.

#### **Priority 1: Cost containment and levy management**

- The Accident Compensation Amendment Act 2010 has been passed and will contribute to improved levy management and cost savings for taxpayers and levy payers in the vicinity of \$69 million per annum.

#### **Priority 2: Scheme stocktake and benchmarking**

- I will lead the Government's response to the recommendations from the Stocktake of ACC Accounts steering group.
- The existing policy and monitoring function within the Department of Labour will be enhanced.

### **Priority 3: Investigation of choice in the Work Account**

- Extended terms of reference and steering group membership for the Stocktake of ACC Accounts have been developed.
- The Stocktake Group will report to me on competition in the Work Account in mid-April.

### **Priority 4: Improving dispute resolution**

- I expect work to commence on improving dispute resolution as resources allow, given my other priorities above.

### **Level of ambition and risk mitigation**

My proposed direction for ACC is very ambitious because it relies on completion of a substantial work programme to improve the ACC scheme, and may include opening particular accounts to competition. The risks are mitigated by the substantial progress already made:

#### **Cost containment and levy management**

- Spiralling costs have been pegged back.
- ACC has completed an independent value-for-money exercise, reassessed areas of overspend and scrutinised existing contractual arrangements.
- Savings have been achieved in management operating costs, Physiotherapy Endorsed Provider Network, home carer support, and High Definition Digital Imaging (HDDI).
- The Accident Compensation Amendment Act 2010 has been passed.

#### **Scheme stocktake and benchmarking**

- Setting up a Stocktake of the ACC scheme to look at competition.
- An exhaustive investigation is underway and is due to be completed by June 2010.
- An interim report from the steering group on the Stocktake of ACC Accounts was delivered on 1 February 2010, outlining progress to date and indicating areas of priority work being undertaken.

### **Changes to activities to meet my priorities**

To achieve my intentions, I will ensure that the Department concentrates on investigating/providing policy advice on competition, funding and other strategic policy issues, whilst continuing to monitor the performance of the Corporation.

## **Department of Labour context across Votes**

The Vote ACC Baseline Alignment Proposal should be considered in the context of the Department of Labour as a whole and read in conjunction with the Vote Labour, Vote Immigration and Vote Employment Baseline Alignment Proposals.

## **Responding to the changed environment – delivering more for less**

The Department recognises that the Government requires agencies to fundamentally assess how they deliver services and to find new ways to deliver better public services for less.

A significant Business Improvement and Change Programme is being undertaken by the Department of Labour to transform all parts of its business.

The Business Improvement and Change Programme brings together existing change programmes and value-for-money reviews within the Department of Labour, including:

- Immigration New Zealand Change Programme
- Corporate Model Implementation Project
- Policy, Research and Evaluation, and Vote Employment Review
- Workplace Review
- Foundation Capabilities Programme.

These programmes are the first part of an ongoing programme of work that is systematically evaluating how the Department does its business and identifying opportunities for doing it better. The Department is further exploring innovative ways of doing business to lift performance and drive productivity, such as third party delivery of services, working at a sector level within Government, and supporting opportunities for shared services where possible.

This will transform the way the Department delivers its business, resulting in savings in outyears with some early benefits to be realised in 2010/11 as contributions to the Department's reinvestment programme. The Chief Executive is managing the Business Improvement and Change Programme as an integrated programme of work using programme methodologies that will demonstrate benefits and monitor delivery against agreed Key Performance Indicators. The Business Improvement and Change Programme is designed so that the costs of change are met within baselines.

## **Transforming the Department within reduced baselines**

The work under way to deliver business improvement and change is taking place within reducing baselines. In Budget 2009, the Department returned gross savings of \$17.414 million (\$6.588 million net) following the line-by-line review.

The Departmental appropriation is \$308 million for 2010/11, of which \$116 million is Crown funded. The balance of \$192 million is sourced from Fees and Levies and cannot be reprioritised to other activities.

In November 2009, the Department confirmed it could operate within this reduced baseline based on existing policy and legislative settings. Baseline Alignment Proposals to achieve that are detailed in Section 2.

Since November 2009, the Department has been asked by the Prime Minister and Minister of Finance to:

- fund additional ACC policy work *[deleted – confidentiality of advice]*.
- find alternative ways to fund the Hazardous Substances and New Organisms (HSNO) enforcement and compliance activity short-fall (other than through legislative change), and
- contribute to the establishment of a Productivity Commission.

## Summary of cross-Vote Departmental Budget Alignment Proposals

### Overview

There are two key issues to address as a consequence of the post-November 2009 requests:

- Funding additional Department of Labour Vote ACC policy advice *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.
- Funding HSNO Act enforcement and compliance activity.

The request for Productivity Commission funding is being met within baselines and is outlined within Section 2 of the Baseline Alignment Proposals for Vote Labour, Vote ACC, and Vote Employment.

### Additional ACC policy work *[deleted – confidentiality of advice]*

The additional funding to be sourced is described in Table 1.

**Table 1:** Additional funding requirements for ACC policy work *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.

\$m	2010/11	2011/12	2012/13	2013/14 and outyears
Additional Department of Labour Vote ACC policy advice	2.000	<i>[Deleted – confidentiality of advice]</i>		
<i>[Deleted – confidentiality of advice]</i>				
<i>[Deleted – confidentiality of advice]</i>				
<b>Total</b>				

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

There are two components to the funding issue:

- Additional Department of Labour Vote ACC policy advice
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.

## Additional Department of Labour Vote ACC policy advice

Options for funding the component related to additional Department of Labour Vote ACC policy advice are outlined in Table 2 below.

**Table 2:** Options and commentary for funding additional Department of Labour Vote ACC policy advice

	Option description	Commentary
1	<p><b>[Minister's preferred option]</b></p> <p><b>Budget allocation for Vote ACC –\$2.000m</b>  <i>[deleted – confidentiality of advice]</i></p>	<ul style="list-style-type: none"> <li>• This funding was originally allocated to meet anticipated costs from the Non-Earners' Account.</li> <li>• The Government made a decision not to fully fund the Non-Earners' Account.</li> <li>• Given the high priority of the policy work for the Government, a portion of this funding could be re-directed to meet additional policy requirements within Vote ACC.</li> </ul>
2	<i>[Deleted – confidentiality of advice]</i>	<ul style="list-style-type: none"> <li>• <i>[Deleted – confidentiality of advice]</i></li> </ul>
3	<i>[Deleted – confidentiality of advice]</i>	<ul style="list-style-type: none"> <li>• <i>[Deleted – confidentiality of advice]</i></li> </ul>
4	<i>[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>	<ul style="list-style-type: none"> <li>• <i>[Deleted – confidentiality of advice]</i></li> <li>• <i>[Deleted – confidentiality of advice]</i></li> <li>• <i>[Deleted – confidentiality of advice]</i></li> </ul>

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

**Funding Hazardous Substances and New Organisms (HSNO) Act enforcement and compliance activity**

The shortfall in funding (created by cessation of time limited funding) is described in Table 4.

**Table 4:** Funding requirements for HSNO activity

<b>\$m</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14 and outyears</b>
HSNO (Enforcement and compliance activity funding)	2.198	2.198	2.198	2.198
<b>Total</b>	<b>2.198</b>	<b>2.198</b>	<b>2.198</b>	<b>2.198</b>

Options for replacement funding of HSNO enforcement and compliance activity are described in Table 5.

**Table 5:** Options and commentary for funding HSNO enforcement and compliance activity

	Option description	Commentary
1	<i>[Deleted – confidentiality of advice]</i>	<ul style="list-style-type: none"> <li>• <i>[Deleted – confidentiality of advice]</i></li> <li>• <i>[Deleted – confidentiality of advice]</i></li> <li>• <i>[Deleted – confidentiality of advice]</i></li> </ul>
2	<p><i>[Deleted – confidentiality of advice]</i></p> <p><b>Active management in 2009/10 of Vote Labour (\$1.500m) and Vote Employment (\$0.500m) expenditure</b> to enable a funding transfer <i>[deleted – confidentiality of advice]</i></p>	<ul style="list-style-type: none"> <li>• Following the requests from the Prime Minister and Minister of Finance post-November 2009, the Department has been actively managing resources in Vote Employment and Vote Labour to provide options for the Government in finding ways to meet the cost pressures.</li> <li>• This is not a sustainable solution beyond 2010/11.</li> <li>• <i>[Deleted – confidentiality of advice]</i></li> </ul>
3	<i>[Deleted – confidentiality of advice]</i>	<ul style="list-style-type: none"> <li>• <i>[Deleted – confidentiality of advice]</i></li> <li>• <i>[Deleted – confidentiality of advice]</i></li> <li>• <i>[Deleted – confidentiality of advice]</i></li> </ul>



	Option description	Commentary

**Preferred option:**

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

*[Deleted – confidentiality of advice]* active management of 2009/10 Vote Labour (\$1.500m) and Vote Employment (\$0.500m) expenditure to enable a funding transfer (Option 2 in Table 5).

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

## Section 2: Reprioritisation

### Baseline for Vote ACC 2010-11

Table 6:

TITLE	\$m
Policy and Monitoring	2.692
Regulatory Services	0.163
<b>TOTAL</b>	<b>2.855</b>

Source: CFISnet (2010 February Baseline Update)

### Funding

Vote ACC forms 0.9% of the Department's operating budget of \$308.829 million for 2010/11. The following table highlights the funding for the appropriation.

Table 7:

\$m	Departmental	Revenue			
		Crown	Dept*	Fee	Levy
<b>Vote</b>	<b>Appropriation</b>				
ACC	2.855	2.789	0.066	-	-
	<b>Non-Departmental</b>				
<b>Vote</b>	<b>Appropriation</b>				
ACC	1,303.337	-	-	-	-

\* Revenue earned by a department from other departments and is eliminated for purposes of reporting the Crown's overall financial performance and position.

### Impact of priorities on Vote ACC – 2010/11

#### Departmental Activities

Vote ACC will deliver on the Government's priorities for the ACC scheme within the Department's baseline for 2010/11. However, to meet my priorities, some funding changes will need to be made to fund the additional work, including policy advice on competition and other strategic policy; *[Deleted – confidentiality of advice]*.

Table 8:

\$m	2010/11	2011/12	2012/13	2013/14 and outyears
Department of Labour policy advice	2.000	<i>[Deleted – confidentiality of advice]</i>		
<i>[Deleted – confidentiality of advice]</i>				
<i>[Deleted – confidentiality of advice]</i>				
<b>Total</b>				

## Funding additional Vote ACC work programmes

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

There are four options for funding the additional Vote ACC policy work programme:

**Table 9:** Options and commentary for funding additional Department of Labour Vote ACC policy advice

	Option description	Commentary
1	<p><b>[Minister's preferred option]</b></p> <p><b>Budget allocation for Vote ACC</b> –\$2.000m <i>[deleted – confidentiality of advice]</i></p>	<ul style="list-style-type: none"> <li>• This funding was originally allocated to meet anticipated costs from the Non-Earners' Account.</li> <li>• The Government made a decision not to fully fund the Non-Earners' Account.</li> <li>• Given the high priority of the policy work for the Government, a portion of this funding could be re-directed to meet additional policy requirements within Vote ACC.</li> </ul>
2	<i>[Deleted – confidentiality of advice]</i>	<ul style="list-style-type: none"> <li>• <i>[Deleted – confidentiality of advice]</i></li> </ul>
3	<i>[Deleted – confidentiality of advice]</i>	<ul style="list-style-type: none"> <li>• <i>[Deleted – confidentiality of advice]</i></li> </ul>
4	<i>[Deleted – confidentiality of advice]</i>	<ul style="list-style-type: none"> <li>• <i>[Deleted – confidentiality of advice]</i></li> <li>• <i>[Deleted – confidentiality of advice]</i></li> <li>• <i>[Deleted – confidentiality of advice]</i></li> </ul>

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

**1. Budget Allocation for Vote ACC (Preferred option)**

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

**Other options**

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

3. *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*
  
4. *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

### **Non-Departmental Activities**

I propose to allocate \$0.070 million in 2010/11, rising to \$0.140 million in 2011 and \$0.150 million in 2012/13, from the Non-Departmental Output Expense appropriation to fund ACC's contribution to the proposed Productivity Commission. This is consistent with the proposals in the Cabinet paper proposing the establishment of the Commission.

I note that the Corporation faces cost increases in the provision of home and community support services associated with the recent increase in the minimum wage, and that the Corporation will meet the cost of the increase within the existing appropriation for the Non-Earners' Account.

### **Impact of priorities on Vote ACC – 2011/12 - 2012/13**

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

### Section 3: Summary of Financial Movements

Vote: ACC					
	2009/10	2010/11	2011/12	2012/13	2013/14
	\$000	\$000	\$000	\$000	\$000
Departmental	3,483	2,856	2,844	2,842	2,845
Non-Departmental	1,262,910	1,303,337	1,344,459	1,344,621	1,344,352
<b>Baseline (2009/10 FBU)</b>	<b>1,266,393</b>	<b>1,306,193</b>	<b>1,347,303</b>	<b>1,347,463</b>	<b>1,347,197</b>
<b>Share Allocation</b>					
Policy Advice		2,000			
<i>[Deleted – confidentiality of advice]</i>					
<i>[Deleted – confidentiality of advice]</i>					
<b>Total Share Allocation</b>	<b>0</b>	<i>[Deleted – confidentiality of advice]</i>			
Centralised Saving	0	0	0	0	0
<b>Reprioritisation</b>					
HCSS	0	0	0	0	0
<b>Total Reprioritisation</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Transfers Outside Vote</b>					
New Zealand Productivity Commission	0	(70)	(140)	(150)	(150)
<b>Total Transfers Outside Vote</b>	<b>0</b>	<b>(70)</b>	<b>(140)</b>	<b>(150)</b>	<b>(150)</b>
<b>Total Changes</b>	<b>0</b>	<i>[Deleted – confidentiality of advice]</i>			
<b>Total Proposed Baseline</b>	<b>1,266,393</b>	<i>[Deleted – confidentiality of advice]</i>			

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