

Chair
CABINET BUSINESS COMMITTEE

INCREASING CHOICE IN WORKPLACE ACCIDENT COMPENSATION: DRAWDOWN OF POLICY CONTINGENCY FUNDING

Proposal

- 1 This paper seeks approval to drawdown funds that were set aside as contingency items for ongoing policy work needed to increase choice in workplace accident compensation (increasing choice).

Executive summary

- 2 On 19 April 2010, Cabinet agreed to set aside contingency funds for policy and implementation work to introduce choice to ACC, as follows, and that the Minister for ACC submit them to Cabinet for consideration as part of decisions on ACC competition [CAB Min (10) 13/4(1) refers].

Initiative name	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & outyears
ACC competition Implementation	-	7.500			-
ACC policy advice contingency	-	-	2.000	2.000	-
Total Operating	-	7.500	2.000	2.000	-

- 3 On 11 April 2011, Cabinet agreed that the tagged contingencies for policy advice of \$2 million in 2011/12 and \$2 million in 2012/13 be retained [CAB Min (11) 15/14(1) refers].
- 4 On 16 May 2011, Cabinet confirmed the recommendations of the Cabinet Economic Growth and Infrastructure Committee (EGI) Committee to consult on proposals to introduce choice to the delivery of the Accident Compensation Corporation's (ACC) Work Account. Cabinet also confirmed EGI's decisions to direct officials from the Department of Labour (the Department) to report back to EGI by 17 August 2011 [following public consultation], with detailed advice on a preferred policy option, including any capital requirements, and on all fiscal and financial implementation risks.
- 5 Agreement is now sought to drawdown the \$2 million tagged policy contingency for 2011/12 in order to fund this further policy work.

Background

- 6 On 19 April 2010, Cabinet agreed that \$2.0 million be set aside in 2011/12 and \$2.0 million in 2012/13 as policy advice contingency items for work on increasing choice in ACC's Work Account, that corresponding funding be set aside in the between-Budget spending contingency, and that the Minister for ACC submit them to Cabinet for consideration as part of decisions on introducing competition to ACC [CAB Min (10) 13/4(1) refers]. Cabinet also agreed to set aside \$7.5 million in 2010/11 for implementation of choice proposals.

Budget Sensitive

- 7 On 11 April 2011, Cabinet agreed to extend the contingency of \$7.5 million to February 2013. Cabinet also agreed to retain the tagged contingencies for policy advice of \$2.0 million in 2011/12 and \$2.0 million in 2012/13 [CAB Min (11) 15/14(1) refers].
- 8 On 1 November 2010 Cabinet considered three high-level policy options for increasing choice in workplace accident compensation. Cabinet agreed in principle to introduce competition to the delivery of the ACC Work Account. It also directed the Department to report back to EGI by 23 February 2011, with detailed proposals on two of these options for the purposes of public consultation. It was agreed that:
 - in consultation with ACC, to report back on the details of a proposal for the purposes of public consultation to expand employer participation in the Accredited Employers programme (AEP), and allow a greater range of risk-sharing arrangements; and
 - in consultation with ACC, the Ministry of Economic Development, the State Services Commission, the Treasury, and the Reserve Bank of New Zealand, to report back on the details of a proposal to allow employers to choose either to continue to purchase workplace accident insurance cover from ACC, or to purchase workplace accident insurance from a registered private insurer.
- 9 These report backs were subsequently delayed until May 2011.
- 10 Cabinet also directed the Department to undertake work to identify issues associated with introduction of competition into other ACC Accounts [CAB Min (10) 39/10 refers].
- 11 On 16 May 2011, Cabinet agreed to the release of the discussion document "Increasing choice in workplace accident compensation", for the purposes of public consultation [CAB Min (11) 19/7 refers].
- 12 Cabinet directed the Department of Labour, in consultation with ACC, the Treasury, the State Services Commission, the Ministry of Economic Development, the Reserve Bank of New Zealand, and other relevant agencies, to report back to EGI by 17 August 2011 with detailed advice on the preferred policy option, including any capital requirements, and on all fiscal and financial implications and risks [CAB Min (11) 19/7 refers].

Comment

- 13 Because the work to advise on and develop policy options to provide for competition in the ACC is large and complex, it cannot be funded from the baseline appropriation of the \$2.8 million that is used to fund the staff and actuarial advice necessary to monitor the performance of the ACC scheme and Corporation by the Department, and maintain current legislative and regulatory settings.
- 14 Instead Cabinet agreed to fund choice policy and implementation work from an increase in the Policy and Monitoring Departmental output expense in Vote ACC of \$2.0 million for 2010/11 only [CAB Min (10) 13/4(1) refers], and tagged policy contingencies of \$2.0 million in 2011/12 and \$2.0 million in 2012/13 [CAB Min (10) 39/10 refers].
- 15 When funding was originally approved, Cabinet was expecting to consider its response to the Stocktake of ACC Accounts in June/July 2010, but did not consider this until November 2010.
- 16 Funding to date has been used to pay for project management services, additional analytical support, and specialist actuarial, financial, communications, and legal advice. It has also been used to plan and provide for public consultation and to scope implementation requirements. By 30 June 2011 it is expected that \$0.190 million of the original \$2.000 million appropriation for work on choice in 2010/11 will remain unspent.

- 17 Consultation has commenced and will conclude in mid-July 2011. As well as ongoing costs associated with this consultation, there will be costs associated with the continued purchase of specialist project management, analytical, actuarial, financial, legal, health, communications, and implementation planning advice needed to deliver on the 17 August 2011 report back, and to prepare for implementation of proposals if that is agreed to. Specialist advice supports work streams including:
- facilitation of a competitive market, including the role and tasks of a market regulator, prudential regulations, and disputes resolution;
 - changes to ACC, including financial separation of the Work Account, deregulation of products and prices, funding the new work account, and managing the funding of residual claims;
 - health interface issues including a claims lodgement unit, Public Health Acute Services, allocation of subsequent injury, and cost of treatment regulations;
 - development of legislation and regulations;
 - the requirements for releasing historic data and the development of a central claims data pool;
 - establishment of a new claims processing system, including macro business process design and mapping of data flows;
 - ICT system design and data integration, including a register of private insurance cover; and
 - changes to crown ownership tasks, including future ACC monitoring.
- 18 It is proposed to meet these costs by a transfer of \$0.2 million in unspent funding from the 2010/11 \$2 million, and the drawdown of the \$2 million budgeted 2011/12 policy contingency. If a decision is made not to proceed further with the implementation of choice proposals following the August report back, it is estimated that approximately \$1 million of the 2011/12 contingency would remain unspent.
- 19 If it is decided to proceed to implement the proposal, further policy work would be required following the August 2011 report back to:
- finalise policy details to a level sufficient to provide for the drafting of necessary legislation and regulations;
 - support the drafting of necessary legislation and regulations and the passage through parliament; and
 - develop the operational detail of aspects of the policy to a level of detail necessary to support their implementation, such as policy details associated with ACC's role in the market, the establishment of new market regulatory functions, and the design and establishment of a claims clearing house.
- 20 For these reasons, agreement is sought now to drawdown the 2011/12 \$2 million policy contingency that Cabinet agreed to set aside as a contingency item on 19 April 2010 [CAB Min (10) 13/4(1) refers], and noted as retained on 11 April 2011, [CAB Min (11) 15/14(1) refers]. Drawdown of the \$7.5 million implementation contingency will be sought at the time that decisions are made to proceed with the implementation of choice, which are expected to be sought in the 17 August 2011 report back.

Consultation

- 21 The Treasury has been consulted on this paper and the Department of Prime Minister and Cabinet has been informed.

Treasury Comment

22 The Treasury recommends a staged drawdown of the \$2 million policy advice contingency set aside for 2011/12. Treasury recommends that \$0.800m be made available now to ensure all obligations of the August 2011 report-back are met. The Department has sought an in-principle expense transfer of \$0.200 million, which is the projected under-spend from the \$2 million contingency approved in Budget 2010. This will bring the total available for policy advice on the introduction of competition to the Work Account to \$1 million, which the Department advises is sufficient to meet the projected costs to the end of September 2011. But as no information has yet been provided on the breakdown between the existing baseline and the use of additional funding, to meet Ministers' expectations that increases in expenditure are justifiable, the Treasury recommends that a decision to drawdown all or part of the remaining contingency be made as part of the August 2011 report-backs for the following reasons:

- further funding is dependent on decisions on whether to proceed with changes to the ACC Scheme and on the nature of those changes. If, for example, only changes to the AEP are to go ahead, implementation will largely be undertaken by ACC;
- there has been no significant increase in the scope or nature of advice being provided, over and above what was expected for this work programme, notwithstanding the delays in it being considered by Ministers; and
- while specific specialist skills and advice will be required if contestability is implemented, Ministers should expect significantly more of the ongoing policy and implementation work to be funded from existing baselines undertaken by Departmental staff, particularly to retain institutional knowledge.

Financial implications

23 Cabinet has previously considered the financial implications of the work needed to develop proposals to introduce choice to the delivery of ACC. On 19 April 2010, Cabinet agreed that \$2.0 million be set aside in 2011/12 and \$2.0 million in 2012/13 as policy advice contingency items for work on choice in ACC.

Human rights implications

24 There are no human rights implications associated with this proposal.

Legislative implications

25 There are no legislative implications associated with this proposal.

Regulatory impact analysis

26 The regulatory impact analysis requirements do not apply to this proposal and no Regulatory Impact Statement is required.

Gender implications

27 There are no gender implications associated with this proposal.

Disability perspective

28 There are no disability implications associated with this proposal.

Publicity

29 There are no publicity intentions associated with this proposal.

Recommendations

30 I recommend that the Committee:

1 **note** that:

- 1.1 on 19 April 2010, Cabinet agreed that \$2.0 million be set aside in 2011/12 and \$2.0 million in 2012/13 as contingency items, that corresponding funding be set aside in the between-Budget spending contingency, and that the Minister for ACC submit them to Cabinet for consideration as part of decisions on ACC competition [CAB Min (10) 13/4(1) refers];
- 1.2 on 11 April 2011, Cabinet agreed to extend the contingency of \$7.5 million agreed in CAB Min (10) 13/4(1) for the implementation of choice to February 2013 [CAB Min (11) 15/14(1) refers];
- 1.3 on 11 April 2011, Cabinet noted that the tagged contingency of \$2 million in 2011/12 and \$2 million in 2012/13 agreed in CAB Min (10) 13/4(1) is to be retained [CAB Min (11) 15/14(1) refers];

2 **EITHER**

- 2.1 **agree** that the \$2.0 million funding set aside in the between Budget contingency for policy advice as part for decisions on ACC competition be drawn down and included in the existing Departmental Output Expense: Policy and Monitoring in Vote ACC; [DEPARTMENT OF LABOUR]

AND

- 2.2 **approve** the following changes to appropriations to provide ongoing policy advice as part of decisions on ACC competition, with a corresponding impact on the operating balance:

	\$m – increase/(decrease)				
Vote ACC Minister of ACC	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Department Output Expense: Policy and Monitoring (funded by revenue Crown)	-	-	2.000	-	-

OR

- 2.3 **agree** that \$0.8 million of the \$2 million set aside in the between Budget contingency for policy advice as part for decisions on ACC competition be drawn down and included in the existing Departmental Output Expense: Policy and Monitoring in Vote ACC, and that a decision on drawing all or part of the remaining contingency be made as part of the August report back; [TREASURY]

AND

- 2.4 **approve** the following changes to appropriations to provide ongoing policy advice as part of decisions on competition in ACC, with a corresponding impact on the operating balance:

Budget Sensitive

Vote ACC Minister of ACC	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Department Output Expense: Policy and Monitoring (funded by revenue Crown)	-	-	0.800	-	-

- 3 **agree** that the proposed changes to appropriations be included in the 2011/12 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 4 **authorise** the Minister for ACC to approve expenditure from the appropriation set out in recommendation 2; and
- 5 **note** that no publicity is planned around the decisions in this paper.

Hon Dr Nick Smith
Minister for ACC

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