

CABINET

STOCKTAKE OF ACC ACCOUNTS: AMENDMENTS TO THE TERMS OF REFERENCE

Proposal

- 1 This paper seeks approval for:
 - a a revision to the terms of reference for the Stocktake of ACC Accounts (the Stocktake), to include investigation of the introduction of competition and choice into the Work Account. The revised terms of reference are attached.
 - b a change to the composition of the Stocktake Steering Group, to include additional independent members.
 - c additional funding to cover the extra work associated with this extension of the terms of reference of the Stocktake.
- 2 The paper also notes that the Steering Group's first interim report is due on or before 1 February 2010.

Comment

Terms of Reference for the Stocktake of ACC Accounts

- 3 The overall purpose of the Stocktake is to provide an assessment of the performance of each of the ACC Accounts, an analysis of how the ACC Scheme could be improved to deliver value for money to levy payers and taxpayers, and identification of potential financial savings. The aim is to deliver practical recommendations for improving performance and to ensure New Zealand's accident insurance scheme remains affordable.
- 4 This government made a pre-election commitment to investigate opening the Work Account to competition. The scale of problems found in ACC when we came into government meant that I have had to shift my focus to dealing with immediate cost containment issues. In negotiations with the ACT party for support for the Injury Prevention, Rehabilitation, and Compensation Amendment Bill, it has been agreed to bring forward an investigation of the introduction of competition and choice in the Work Account. The existing Stocktake of Accounts provides a useful mechanism for considering this issue, if amendments are made to its terms of reference and the composition of its steering group.
- 5 I propose that the terms of reference for the Stocktake be amended to include investigation of the introduction of competition and choice into the Work Account. This investigation would need to consider the merits and feasibility in New Zealand of opening the Work Account to competition, and outline a process to achieve this policy objective in a way that resolves any significant outstanding issues. This work will also include an exploration of other areas in which the private and non-government sectors (including iwi) can be involved in injury management and rehabilitation.

Composition of the Stocktake steering group

- 6 The expansion to the terms of reference for the Stocktake will necessitate additional expertise being available to the Steering Group.
- 7 Currently, the Steering Group consists of three independent members, and officials from the Treasury and the Department of Labour, the Chair of ACC, and a representative from the Department of the Prime Minister and Cabinet. The independent members are:
 - Mr David Caygill (Chair)
 - Dr Neil Quigley
 - Mr Gordon Smith.
- 8 Additional members will now be required to ensure that the Steering Group has the required expertise to consider matters covered by the proposed extension to the terms of reference. An amendment to the terms of reference will be necessary to make these additional appointments.
- 9 An appointment process will be undertaken shortly.

Timeframes

- 10 The Stocktake began in August 2009. An interim report outlining progress with the individual components will be provided to the Minister for ACC by 1 February 2010 and the final report with recommendations for the Scheme as a whole will be delivered by the end of June 2010.

Consultation

- 11 The Office of the Prime Minister has been consulted on this proposal. The Treasury and the Department of Prime Minister and Cabinet have been informed.

Financial implications

- 12 The current funding for the Stocktake may not be sufficient to cover the extension to the terms of reference. Additional funding may be required to fund the extension to the Stocktake work programme.

Human rights, gender, and disability implications

- 13 There are no human rights, gender, or disability implications from the proposed extension to the Stocktake.

Legislative implications

- 14 Once the Stocktake is completed, consideration will be given to what, if any, legislative change is required.

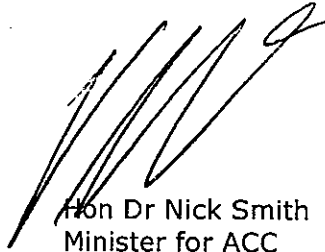
Regulatory and business compliance cost impacts

- 15 There are no regulatory or business compliance costs arising from this extension to the Stocktake.

Recommendations

I recommend that the Cabinet:

- 1 **agree** that the terms of reference for the Stocktake of ACC Accounts be amended to include investigation of the introduction of competition and choice into the Work Account;
- 2 **agree** to the attached revised terms of reference of the Stocktake of ACC Accounts;
- 3 **note** that the Steering Group for the Stocktake will require additional members to ensure that appropriate expertise is represented. An appointment process for these additional members will be undertaken shortly
- 4 **agree** that additional funding will be made available as required to cover the extension to the Stocktake terms of reference;
- 5 **note** that an interim report outlining progress is to be provided to the Minister for ACC on or before 1 February 2010 and the final report with recommendations for the Scheme as a whole is to be delivered by the end of June 2010.



Hon Dr Nick Smith
Minister for ACC

23 / 10 / 2009

Appendix: Terms of Reference for the Stocktake of ACC Accounts

Purpose

These terms of reference outline the scope of the Stocktake of ACC Accounts (the Stocktake) project.

The overall purpose of the Stocktake is to provide an assessment of the performance of each of the ACC accounts, an analysis of how the Scheme could be improved to deliver value for money to levy payers and taxpayers, and identification of potential financial savings.

Background

The Stocktake is the government's top priority for the ACC portfolio because it will provide the information on which to base future decisions that improve the efficiency and affordability of the ACC Scheme.

Scope

The Stocktake steering group will commission work to achieve a series of succinct reports that inform the government. This work is likely to include:

A: analysis of each active Account, covering:

- its underlying cost drivers (these are likely to vary for each Account) and strategies to address them
- how many people come into the Account, how long they receive entitlements under the Account; the entitlements they get, how the interpretation of legislation impact when providing those entitlements; how and whether injury prevention works in the Account
- any subsidisation occurring within the Account or across other Accounts
- options for funding policy (eg, change in balance of funding sources, such as funding the Motor Vehicle Account from petrol as opposed to licences etc)
- the nature of major risks (eg, underwriting, investment performance, liability valuation risks) – who bears these risks and options for managing them
- the constraints on achieving value for money and a steady-state financial position (for example administrative factors or legislation)
- the potential for, and cost effectiveness of, introducing experience rating or risk-sharing.

Note that background information will be made available to the steering group from ACC on financial forecasts for each Account covering 2008/09 and subsequent financial years, and trends in funding (levies and appropriations) if no change is made to policy settings. ACC will also make available to the steering group its own analysis and Account funding plans, and information on claims duration and case management practice.

B: monitoring of ACC's performance: including the performance of the monitoring agency and the usefulness of existing performance indicators. The results from the government-wide review of monitoring of Crown agencies being led by the Treasury will be made available to the Stocktake steering group once Ministers have considered the proposals. The Stocktake will also consider the performance information available, whether the existing performance indicators will provide the information needed for robust monitoring, and proposals for different or better performance indicators as appropriate.

C: assessment of:

- current employer programmes, and incentives to encourage more businesses to focus on health and safety in return for levy discounts
- how injuries sustained outside the workplace by workers can be efficiently managed and paid for by employers to promote rehabilitation
- who is best placed to provide effective rehabilitation services.

D: a review of ACC's \$10 billion investment portfolio, to examine its contribution to the goals of scheme sustainability and levy stability. The ACC Board's review report will be made available to the steering group. The steering group will also comment, and as necessary make recommendations, on how the reserves are being managed (in a quality of processes sense) and the appropriateness of the current level and form of scrutiny of this function from the ACC Board.

E: analysis of key changes in legislation over time and their impact on claimant entitlements.

F: investigation of the introduction of competition and choice into the Work Account. This investigation needs to consider the merits and feasibility for New Zealand of opening the Work Account to competition, and outline a process to achieve this policy objective in a way that resolves any significant outstanding issues. This work will also include an exploration of other areas in which the private and non-government sectors (including iwi) can be involved in injury management and rehabilitation.

In addition, the steering group is able to raise with the Minister additional areas of work it considers are necessary.

Process

The project is expected to commence in August 2009 and will be completed by the end of June 2010.

One or more independent consultant(s) will be appointed by the steering group through a procurement process according to State sector guidelines.

The steering group will ensure that there is opportunity for key stakeholders such as Business NZ and the Council of Trade Unions to have input at appropriate junctures of the Stocktake process, such as following receipt of the initial reports from external consultants and before formal advice is provided to the Minister for ACC.

Timing and deliverables

It is expected that the project will begin in August 2009.

An interim report outlining progress with the investigation of choice and competition in the Work Account will be provided to the Minister for ACC by 1 February 2010 and the final report with recommendations for the Scheme as a whole will be delivered by the end of June 2010.

Governance

The Minister for ACC will be the sponsor for the project.

Steering group

A steering group with an independent Chair, and comprising additional independent advisors supported by senior officials, will provide oversight of the project, commission the work, monitor progress, and assess and report the results.

The steering group will ensure that the advice provided meets the stated objectives of the project.

The steering group will determine its own schedule and programme. Members will be expected to meet as directed by the Chair, during the course of the project. Work will also be undertaken using, as necessary, teleconferencing and email contact.

Consultants

The steering group will ensure that the consultants appointed:

- have the requisite skill sets and competence to undertake the work commissioned
- will be mindful of the considerable public interest this project will generate, and will conduct the work in such a way as to be sensitive to this interest
- have no conflicts of interest that may influence the independence of the advice being provided
- are able to deliver the work within the set timeframes.

Assumptions

Background material and data will be made available to the consultant(s) as needed.

Key people within ACC and the Department of Labour will be made available to the consultant(s) as appropriate and necessary, for interviews or as part of a group consultative process. Meetings with key people in central agencies may also be required.

Budget

The overall budget will be overseen by the steering group.

The budget for undertaking specific pieces of work and for individual parts of the project will be agreed with the consultant(s) through the initial procurement process and on confirmation of the approach.

Payments will be phased according to delivery of the main pieces of work and meeting of time and quality performance measures as agreed between the parties.

Communications

The Stocktake steering group will ensure relevant parties are kept informed about progress with the Stocktake as necessary and as the Chair deems appropriate.