MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Fiscal sustainability options for the ACC portfolio

Date:	27 November 2023	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2324-0935

Action sought		
	Action sought	**Deadline**
Hon Matt Doocey **Minister for ACC**	**Note** the opportunities for reprioritisation within your portfolio.	4 December 2023

Contact for telephone discussion (if required)				
Name	**Position**	**Telephone**		**1st contact**
Nic Blakeley	Deputy Secretary Labour, Science and Enterprise	Privacy of natural persons	Privacy of natural persons	✓
Privacy of natural persons	Manager, Accident Compensation Policy	Privacy of natural persons	Privacy of natural persons	

The following departments/agencies have been consulted
ACC, The Treasury

Minister's office to complete:	☐ Approved	☐ Declined
☐ Noted	☐ Needs change	☐ Seen
☐ Overtaken by Events	☐ See Minister's Notes	☐ Withdrawn

Comments

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Purpose

This briefing sets out reprioritisation options for the ACC portfolio to support the Government's fiscal objectives.

Executive summary

Vote Labour Market includes appropriations which fund ACC's Non-Earners' Account (NEA), other policy initiatives, and a multi-category appropriation for policy advice.

This briefing sets out reprioritisation options across these different appropriations to both contribute to MBIE's Fiscal Sustainability Payment[1] (set at 2% of MBIE's baseline, a third of which is made up of ACC's non-earners' appropriations) and any further savings objectives. The options only cover activities which are funded by government appropriations and therefore not the bulk of ACC's activities which are funded via levies[2]. The Treasury, as the monitor of ACC, will work with ACC to identify efficiencies and productivity improvements to ACC's operations. Any efficiencies it identifies will eventually flow through to future forecasts, although this could take a number of years.

ACC's Non-Earners' Account

Each year the government contributes funding to ACC's NEA (as well as the non-earners' portion of the Treatment Injury Account) to pay for injuries suffered by those who do not work (children, those who are retired, others who are not employed, and overseas visitors)[3].

The NEA and the non-earners' portion of the Treatment Injury Account are made up of a range of appropriations which sit within Vote Labour Market. The government tops up the non-earners appropriations each year as a forecast adjustment, which means the cost of injuries is forecast and built into the profile of the appropriations outside of the Budget process[4]. The annual forecast adjustment is capped at 7.5% each year, meaning appropriations can only increase by a maximum of 7.5% of the previous year's total. Cabinet set a target funding ratio (assets over reported liabilities or forecast cost of injuries) of 100 percent in May 2017 [CAB-17-MIN-0226 refers]. Based on the current policy, the ratio is forecast to go from 80% in 2023 to 90.5% over the next ten years.

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[1] The Fiscal Sustainability exercise aims to find permanent savings, including by reducing spending and cutting back on consultants and contractors, but avoiding front line services.
[2] Next year you will be asked to consider levy increases for ACC's levied accounts. This will provide you with an opportunity to consider how funding ACC's levied accounts aligns with your fiscal objectives.
[3] This contrasts to the levy-setting process for ACC's levied accounts, which is run every three years, involves public consultation, and where Cabinet approves the final levy rates. The next levy round begins in 2024.
[4] This funding approach was introduced in 2020. Previously, cost pressures were considered through the annual Budget process which contributed to falling funding levels due to no cost pressure funding increases since 2013.

Confidential advice to Government [redacted]

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[redacted]

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Other ACC portfolio policy initiatives funded in Vote Labour Market

Other funded policy initiatives include:

- Sexual Abuse Assessment and Treatment Services – about $13m per year is appropriated for ACC to contract, on behalf of the Ministry of Health and Police, with a network of specialist medical personnel across New Zealand to provide victims of sexual abuse access to treatment and referrals to further services and obtain forensic evidence. We recommend this appropriation is maintained at these levels as any reductions will impact front-line services.

- Establishment of the New Zealand Income Insurance scheme –this funding is unspent and can be returned, along with an underspend for 2022/23 of $0.2m. Due to the connection to the broader Income Insurance workstream (led by the Minister for Social Development and Employment) this option is covered in a fiscal briefing to the Minister for Social Development and Employment which will be provided to you, for your information [briefing 2324-0974 refers].

Policy advice

MBIE has a multi-category appropriation in each of its Votes. These all cover a range of policy functions to provide flexibility in delivering against Government priorities. We are proposing a 10% reduction for the activity as a whole. The current allocation of resourcing reflects existing work programmes, therefore we recommend that MBIE Ministers discuss how best to allocate the remaining 90% across portfolios, given the incoming Government's priorities. Further advice on this matter is covered in the Fiscal Omnibus Briefing [briefing 2324-0917 refers].

Next steps

We recommend that MBIE Ministers meet to jointly consider reprioritisation options across their portfolios.

MBIE officials will liaise with your office to arrange this meeting.

Recommended action

The Ministry of Business, Innovation and Employment (MBIE) recommends that you:

a **Note** that MBIE has undertaken a fiscal sustainability and efficiency programme to support the Government to achieve its fiscal objectives and ensure value for money in government spend.

Noted

b **Note** that Vote Labour Market includes appropriations which fund ACC's Non-Earners' Account and the non-earners' portion of the Treatment Injury Account, other policy initiatives, and a multi-category appropriation for policy advice.

Noted

c **Note** the non-earners' appropriations within Vote Labour Market are subject to a forecast adjustment each year which means the cost of injuries is forecast and built into the profile of the appropriations outside of the Budget process.

Noted

d Confidential advice to Government [redacted]

e Confidential advice to Government [redacted]

f **Note** that reprioritising funding appropriated for Sexual Abuse Assessment and Treatment Services is not recommend because any reductions will impact front-line services.

Noted

g **Note** that funding appropriated for ACC's contribution to establishing the New Zealand Income Insurance scheme can be returned and will be covered in a fiscal briefing to the Minister for Social Development and Employment which will be provided to you.

Noted

h **Discuss** the contents of this briefing with officials at your initial meeting with MBIE.

Yes/No

Next steps

i Agree to attend a meeting for MBIE portfolio Ministers to discuss the reprioritisation options presented in this paper and how best to achieve your respective portfolio priorities as well as overall fiscal objectives.

Agree / Disagree

j **Note** that we will provide further advice on options you would like to progress, including phasing, costs of change, and risk management.

Noted

Nic Blakeley **Deputy Secretary** Labour, Science and Enterprise, MBIE	Hon Matt Doocey **Minister for ACC**
27 / 11 / 2023	..... / ...... / ......

Strategic choices for reprioritisation in the ACC portfolio

1. This paper sets out the key choices for where to reprioritise ACC portfolio appropriations within Vote Labour Market.

The Non-Earners' Account

Background

2. ACC's Non-Earners' Account (NEA) funds injuries suffered by those who do not work (children, those who are retired, others who are not employed, and overseas visitors).

3. ACC's other Accounts are funded by levies. These are the Work Account, Earners' Account, Motor Vehicle Account, and Treatment Injury Account (which is funded by both levies and government appropriations).

Funding policy for the Non-Earners' Account

4. The Accident Compensation Act 2001 (AC Act) sets out principles of financial responsibility which apply to ACC's levied accounts, including that the cost of all claims be fully funded. This means that ACC seeks to hold sufficient assets for each Account to cover the full lifetime costs (liabilities) of every claim that has occurred[5]. Since 2001, successive governments have sought to also fully fund the NEA, even though this is not a legislative requirement.

5. Cabinet set a target funding ratio for the NEA (assets over reported liabilities or forecast cost of injuries) of 100% in May 2017 [CAB-17-MIN-0226 refers]. Based on the current funding policy, the NEA is forecast to go from 80% in 2023 to 90.5% over the next ten years. The non-earners' portion of the Treatment Injury Account is forecast to go from around 86% in 2023 to 93.8% over the next ten years.

Advantages of full funding

6. We recommend retaining the current funding policy for the NEA. There are a number of advantages of full funding, including:

   a. *Intergenerational impacts*: Current levy payers pay for the lifetime cost of claims each year, avoiding cross-subsidisation across generations. For the NEA, the ageing, slower to rehabilitate population and the decreasing proportion of taxpayers represents a considerable cost for future taxpayers. Fully funding the NEA reduces this future cost by covering the costs of liabilities as they arise.

   b. *Transparency*: Full funding makes visible the true cost of services, policies and injuries that extend over multiple years that entail cumulative costs (e.g. social rehabilitation for people with serious injuries). This helps to inform prudent policy making, and signal to levy payers the true cost of injury, incentivising injury prevention.

   c. *Investment returns*: Full funding enables ACC to invest a portion of its revenue, which generates investment income and in turn reduces pressure on future funding.

[5] ACC employs actuaries to determine how much funding it needs each year to meet its liabilities. It takes into account changes in the volume and cost of ACC claims, changes in expected costs due to economic factors (such as discount rates) and expected investment returns.

d. *Balancing the Crown balance sheet*: The ACC liability is included in total Crown net worth, and full funding helps offset this.

e. *Resilience*: Full funding signals the government's commitment to the longevity of the scheme; that it is being maintained in a way that is financially responsible; and that entitlements will be maintained.

Deteriorating funding levels led to a new funding approach in 2020

7. Prior to 2020, funding for the NEA was considered through the annual Budget process. Since 2013, this contributed to deteriorating NEA funding levels due to the lack of cost pressure funding. The low interest rate environment at the time also resulted in lower-than-expected investment returns from ACC.

8. In 2020 the NEA funding ratio fell to 55% and the annual cash costs were forecast to exceed appropriations. This represented a policy shift away from the full funding model, but without an explicit or informed decision from Cabinet to do so.

9. To address this the NEA's funding approach changed to an annual forecast adjustment [CAB-19-MIN-0675 refers]. This means the cost of injuries is forecast and built into the profile of the appropriations outside of the Budget process. The annual forecast adjustment is capped at 7.5% each year, meaning appropriations can only increase by a maximum of 7.5% of the previous year's total. This more closely aligns with the funding approach of other long-term appropriations which aim to pre-fund future liabilities, such as the New Zealand Superannuation Fund. This year's NEA forecast adjustment was recently made in the 2023 October Baseline Update.

10. Since the NEA has shifted to an annual forecast adjustment the funding ratio has increased to 80%.

Confidential advice to Government

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[redacted]

Confidential advice to Government [redacted]

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

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[redacted]

[redacted]

[6] Confidential advice to Government [redacted]

16. Confidential advice to Government

Confidential advice to Government

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20. Confidential advice to Government

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Other ACC portfolio policy initiatives funded in Vote Labour Market

27. Other funded policy initiatives include:

    a. Sexual Abuse Assessment and Treatment Services – about $13m per year is appropriated for ACC to contract, on behalf of the Ministry of Health and Police, with a network of specialist medical personnel across New Zealand to provide victims of sexual abuse access to treatment and referrals to further services, and obtain forensic evidence. We recommend this appropriation is maintained at these levels as any reductions will impact front-line services.

    b. Establishment of the New Zealand Income Insurance scheme – Budget 2022 provided time-limited implementation funding for ACC. In February 2023 Cabinet decided not to progress the New Zealand Income Insurance scheme proposal, and unspent implementation funding was returned. ACC retained $1.4m for 2023/24 to enable them to contribute expertise (for example, actuarial support) to work on other income protection options. This funding was unspent and can be returned, along with an underspend for 2022/23 of $0.2m. Due to the connection to the broader Income Insurance workstream (led by the Minister for Social Development and Employment) this option is covered in a fiscal briefing to the Minister for Social Development and Employment which will be provided to you, for your information [briefing 2324-0974 refers].

Policy advice

28. MBIE has a multi-category appropriation in each of its Votes which cover a range of policy functions to provide flexibility in delivering against Government priorities. We are proposing a 10% reduction for the activity as a whole. The current allocation of resourcing reflects existing work programmes, therefore we recommend that MBIE Ministers discuss how best to allocate the remaining 90% across portfolios, given the incoming Government's priorities. Further advice on this matter is covered in the Fiscal Omnibus Briefing [briefing 2324-0917 refers].

Fiscal background for the ACC portfolio

29. As the Minister for ACC, you are responsible for appropriations totalling $2,222.2m, primarily to cover the estimated cost of injury prevention, claims processing, medical services and social rehabilitation for claims on the Non-Earners' Account, and for treatment injuries.

30. The most recent forecast adjustment to the non-earner's appropriations happened at the 2023 October Baseline Update, as reflected in the table below.

Current portfolio baseline

Table 1: ACC portfolio baseline

	OBU 2023 2023/24	OBU 2023 2024/25	BGT 2023 2025/26	BGT 2023 2026/27	BGT 2023 2027/28
ACC - Case Management and Supporting Services	301,070	324,139	348,686	375,533	401,531
ACC - Case Management and Supporting Services - Treatment Injuries for Non-Earners	24,379	26,020	27,990	29,704	31,974
ACC - Establishment of New Income Insurance Scheme	1,400	-	-	-	-
ACC - Public Health Acute Services	470,100	506,119	544,447	586,366	626,959
ACC - Public Health Acute Services - Treatment Injuries for Non-Earners	2,895	3,091	3,325	3,529	3,799
ACC - Rehabilitation Entitlements and Services	1,059,415	1,139,675	1,224,291	1,318,597	1,410,077
ACC - Rehabilitation Entitlements and Services - Treatment Injuries for Non-Earners	233,413	249,129	267,996	284,411	306,146
ACC - Sexual Abuse Assessment and Treatment Services	13,033	13,512	13,969	13,969	13,969
Total Non-Departmental Output Expenses	2,105,705	2,261,685	2,430,704	2,612,109	2,794,455
Benefits or Related Expenses					
ACC - Compensation Entitlements	91,838	98,844	106,282	114,468	122,398
ACC - Compensation Entitlements - Treatment Injuries for Non-Earners	22,277	23,778	25,578	27,145	29,219
Total Benefits or Related Expenses	114,115	122,622	131,860	141,613	151,617
Total ACC	**2,219,820**	**2,384,307**	**2,562,564**	**2,753,722**	**2,946,072**

Next steps

31. Officials from MBIE will be available to discuss this paper, and your thoughts on the resourcing of the ACC portfolio at your convenience, and to provide you with support in advance of any discussions with your colleagues regarding MBIE's policy expenditure.

32. We also expect that portfolio resourcing will factor into the planning of your work programme, which we anticipate will be a focus of our early discussions with you.

33. Additionally, as the proposals we have presented in this paper have been undertaken as part of an MBIE-wide fiscal sustainability exercise, there is also the possibility the Minister responsible for MBIE may wish to discuss approaches to savings and reprioritisation in your portfolio either with you, or as part of a wider discussion with MBIE Ministers. We will be available to provide you with analysis and advice to support your participation in any such engagement.

Annexes

Annex One: Fiscal Summary for the ACC portfolio

Annex One: Fiscal Summary for the ACC portfolio

Current Baseline

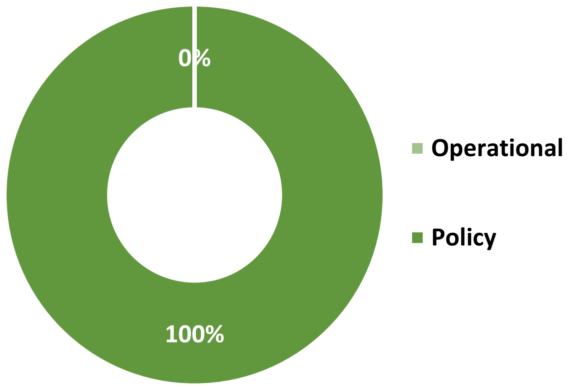
The following table sets out the appropriated funding for the ACC portfolio, by funding source. Departmental funding is received by MBIE to directly provide services. Non-departmental funding is provided via MBIE to ACC.

Changes to Crown funded activities will have a direct impact on the Government's financial position. Changes to Third Party funded activity will generally have no impact on the Government's financial position, as most third-party charges are set on a cost-recovery basis.

Baseline $million	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyrs	Current FTE
Dept.	2.366	2.369	2.369	2.369	2.369	8
Non-Dept	2,219.820	2,384.307	2,562.564	2,753.722	2,946.072	n/a
Total Crown	2,222.186	2,386.676	2,564.933	2,756.091	2,948.441	8.0
Dept.						0
Non-Dept						n/a
Total Third Party	$-	$-	$-	$-	$-	0.0

People Resources in MBIE

The ACC portfolio is supported by MBIE with 5 FTE as of 30 September 2023 (we are funded for 8 FTE including 3 vacancies), which is 0.1% of the total MBIE workforce. This is broken down as follows:



Fiscal Sustainability

The following table summarises options identified for reprioritisation within the ACC portfolio (either within the portfolio, or for return to the centre). This includes programmes that could be stopped, and others that can be scaled.

Option for reprioritisation	Fiscal implication $million pa	FTE implication	Implementation	Comment
Confidential advice to Government [redacted]	Confidential advice to Government [redacted]	Confidential advice to Government [redacted]	Confidential advice to Government [redacted]	Confidential advice to Government [redacted]
Total	Confidential advice to Government [redacted]	Confidential advice to Government [redacted]		Confidential advice to Government

The Fiscal Briefing has further details on options and the implications of these choices.