MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Budget 2024: ACC summary portfolio information for your discussion

Date:	2 February 2024	**Priority:**	High
Security classification:	Budget - Sensitive	**Tracking number:**	2324-1831

Action sought

	Action sought	Deadline
Hon David Seymour **Associate Minister of Finance**	To inform your upcoming discussion	7 February 2024
Hon Matt Doocey **Minister for ACC**	To inform your upcoming discussion	7 February 2024
Hon Melissa Lee **Minister for Economic Development**	For your information	

Contact for telephone discussion

Name	Position	Telephone		1st contact
Anna Clark	General Manager, Workplace Relations and Safety Policy		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
- ☐ Noted
- ☐ Seen
- ☐ See Minister's Notes
- ☐ Declined
- ☐ Needs change
- ☐ Overtaken by Events
- ☐ Withdrawn

Comments

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BRIEFING

Budget 2024: ACC summary portfolio information for your discussion

Date:	2 February 2024	**Priority:**	High
Security classification:	Budget - Sensitive	**Tracking number:**	2324-1831

Purpose

To provide financial information about the ACC portfolio for your upcoming discussion.

Executive summary

You are meeting soon to discuss the ACC portfolio's potential contribution to MBIE's Budget 2024 expectations.

The expectations relevant to the ACC portfolio include identifying options to meet MBIE's savings target and targeted policy savings and/or revenue options.

Identifying options to meet MBIE's savings target *of $233.9 million per year from 2024/25 (which is 7.5% of MBIE's eligible base).*

For the ACC portfolio this includes funding for policy advice (the Accident Compensation Policy team) and some minor policy initiatives. MBIE proposes a 10% cut to the appropriation for policy advice, which amounts to a saving of $0.898 million over the forecast period.

Confidential advice to Government

Identifying targeted policy savings and/or revenue options.

For the ACC portfolio, the Minister of Finance has required MBIE to include options to improve the efficiency and financial sustainability of ACC as a whole[3]. MBIE has interpreted this to mean changes to policy settings that will either bring in more revenue or reduce ACC's expenses (these changes will not produce cash savings but could have a positive impact on the operating balance before gains and losses, or OBEGAL, at least in the short to medium term). MBIE will provide further advice on options as requested.

Recommended action

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

a **Note** that MBIE has presented savings and revenue options to:

   a. to meet MBIE's savings target, and

   b. to improve the efficiency and financial sustainability of ACC as a whole.

[1] The NEA pays for injuries suffered by those who do not work (children, those who are retired, others who are not employed, and overseas visitors).
[2] The Minister of Finance has excluded the NEA from MBIE's eligible base for this savings exercise.
[3] The expectation is that these options should be of a significant scale, of at least $100 million over the forecast period for each option.

Noted

Confidential advice to Government

e **Agree** to the following $0.898 m departmental baseline savings for the ACC portfolio:

$ million	**Total Savings**	**Consult with Ministers of/for**	**Decision**
Departmental Expenditure Savings Options			
Name/description/initiative			*Yes/No*
A 10% saving in MBIE's Accident Compensation Policy funding	0.898		*Yes/No*
Total Departmental Savings Options by Financial Year	0.898		

Confidential advice to Government

g **Indicate** whether you would like further advice on options to improve the efficiency and financial sustainability of ACC.

Yes / No / Discuss

amclark

Anna Clark
General Manager, Workplace Relations and Safety Policy
Labour, Science and Enterprise, MBIE

02 / 02 / 2024

Hon David Seymour
Associate Minister of Finance

..... / ...... / ......

M M Doocey

Hon Matt Doocey
Minister for ACC

13 / 2 / 24

Background

1. The Minister of Finance has set out her Budget 2024 expectations for MBIE. The expectations relevant to the ACC portfolio include:

   a. Identifying options to meet MBIE's savings target of $233.9 million per year from 2024/25 (which is 7.5% of MBIE's eligible base).

      For the ACC portfolio this includes funding for policy advice (the Accident Compensation Policy team) and some minor policy initiatives.

      Vote Labour Market also includes appropriations which fund ACC's Non-Earners' Account (NEA), but the Minister of Finance has excluded these from MBIE's eligible base for this savings exercise.

   b. Identifying targeted policy savings and/or revenue options.

      For the ACC portfolio, the Minister of Finance has required MBIE to include options to improve the efficiency and financial sustainability of ACC as a whole[4]. MBIE has interpreted this to mean changes to policy settings that will either bring in more revenue or reduce ACC's expenses (these changes will not produce cash savings but could have a positive impact on the operating balance before gains and losses, or OBEGAL, at least in the short to medium term).

2. The Associate Minister of Finance, Hon David Seymour, as the lead Minister responsible for co-ordinating across MBIE's portfolio Ministers, and the Minister for ACC will meet soon to discuss the ACC portfolio's potential contribution to these expectations.

3. This briefing provides you with background information to support your meeting.

Description of programmes within the portfolio

Policy advice

4. MBIE has a multi-category appropriation within Vote Labour Market to fund policy advice and other support services to Ministers in discharging their responsibilities. A portion of this is allocated to providing advice on the accident compensation system.

The Non-Earners' Account

5. Within Vote Labour market, there are a number of appropriations which fund the government's contribution 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)[5].

6. ACC should not have discretion to alter the cover and entitlements injured people receive as these are prescribed in the Accident Compensation Act 2001 (AC Act). Some costs are more under ACC's control, such as those associated with improving rehabilitation rates and administrative costs. The Treasury (in its role as ACC's monitor) has separately asked ACC to identify material savings and efficiency improvements in its operations which could have impacts on the NEA (as well as the levied Accounts). This work is underway.

[4] The expectation is that these options should be of a significant scale, of at least $100 million over the forecast period for each option.

[5] 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

7. The 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[6]. Since 2001, successive governments have sought to also fully fund the NEA, even though this is not a legislative requirement.

8. Cabinet set a target funding ratio for the NEA (assets over reported liabilities, the 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. Forecast funding ratios are based on assumptions around future revenue, costs, return to work rates, population growth, inflation, and interest/discount rates, so carry some uncertainty.

ACC as a whole

9. While ACC's operations as a whole do not sit within Vote Labour Market, MBIE advises the Government on the Accident Compensation scheme's (the scheme) policy settings and strategic direction[7], which can have a significant impact on how much ACC costs New Zealanders and how much they pay.

10. Due to its size, ACC has a significant and growing impact of the Crown's accounts. In 2022/23 it had income of $9 billion, managed over $52.5 billion in investments, and spent over $8 billion in expenses[8].

ACC financial performance can have a significant impact on OBEGAL

11. One of the Minister of Finance's objectives is to improve the operating balance before gains and losses (OBEGAL) position. ACC impacts OBEGAL through the income it receives, and the projected lifetime costs of claims incurred in the current financial year. The impact of movements in the underlying value of existing assets and liabilities do not impact OBEGAL as these are recorded as gains and losses, therefore impacting the Operating Balance, but not OBEGAL.

12. Changes to levies affect OBEGAL in the year in which new levies come into effect. In theory they should have a lesser impact when viewed across a number of years but only if levies are regularly increased in line with ACC's increasing expenses. Generally, when a change in levies occurs it is in response to an increase in claims costs from previous years. This means there can be a lag or mismatch between the year(s) when changes in underlying cost movements are recorded and the year in which levies are adjusted. This time lag must be expected given that levies cannot instantly adjust in response to changes in costs. The ACC funding policy expects this lag by allowing corrections to be smoothed over a ten-year period.

13. Similarly, changes to scheme cover and entitlements (and their impact on claims costs) affect OBEGAL in the year they take effect, but the impact can be lessened over a number of years if levies are adjusted in response. Setting levies every three years means the opportunity to adjust levies in response to changes in expenses are relatively infrequent. This

[6] 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.
[7] In addition, the Treasury is ACC's monitor, which means it advises the government of ACC's performance and provides guidance and advice on any performance issues.
[8] Includes all expenses as well as the movement in the Outstanding Claims Liability (an estimate of the funds required now to meet the scheme's future obligations) and Unexpired Risk Liability (a provision for claims ACC can expect to incur after the end of the financial year that are funded by levies already received).

is a key trade-off facing Minister's when settings levy rates and in practice means ACC levy rates are often not set high enough to meet the projected lifetime costs of claims each year.

14. There are a number of other factors that impact OBEGAL that are outside the control of the Government and ACC such as interest and discount rates. There is some degree of volatility in these factors – and thus their impact on OBEGAL can also be volatile and difficult to predict. These unpredictable factors can have significant effects and can overshadow the factors ACC controls, such as the costs under its control[9].

15. Officials can provide more detailed analysis of the impact ACC's financial performance has on OBEGAL if required. MBIE, the Treasury and ACC will work together to form a more detailed joint view on ACC's OBEGAL impacts.

Other funded policy initiatives

16. *Sexual Abuse Assessment and Treatment Services (SAATS)* – about $13 million 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.

17. *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 $1.4 million 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 will be returned, along with an underspend for 2022/23 of $0.5 million.

Breakdown of expenditure and FTE growth since 2017

Policy Advice

18. The MBIE Accident Compensation Policy team is currently funded for 8 FTE (comprised of 6 FTE and 2 vacancies). Table 1 sets out current funding which includes salaries, corporate overheads, and funding to purchase actuarial advice during levy rounds and clinical and research expertise for projects such as updating the schedule of occupational diseases in the AC Act.

Table 1: Funding allocated to advice on accident compensation within the Vote Labour Market Policy Advice and Related Services to Ministers MCA

Baseline $million	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyrs	Current FTE
Departmental	2.366	2.369	2.369	2.369	2.369	8

19. Since 2017 FTE numbers have remained relatively stable, fluctuating between 6 and 10 FTE as shown in Table 2.

Table 2: Accident Compensation Policy team FTE numbers since 2017

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
FTE	9.7	6.7	6.0	9.0	7.0	6.0

[9] There are also some differences in accounting treatment that result in OBEGAL impacts. For example, for the purposes of setting levies ACC uses investment returns to forecast its income from its investments, whereas for OBEGAL risk-free discount rates are used.

20. Table 3 sets out cost pressure funding approved since 2017.

Table 3: Policy advice cost pressure funding approved since 2017

$million	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Budget 2018									
Policy Advice – ACC reprioritisation		(0.500)	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Budget 2019									
Payroll		0.006	0.018	0.084	0.084	0.084	0.084	0.084	0.084
Payroll		0.007	0.023	0.106	0.106	0.106	0.084	0.084	0.084
Payroll		0.045	0.146	0.673	0.673	0.673	0.084	0.084	0.084

The Non-Earners' Account

21. 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.

22. 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.

23. 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.

24. Table 4 sets out the current funding appropriated to the NEA.

Table 4: Total funding appropriated to the NEA as at October 2023

Baseline $million	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyrs
Non-Departmental/ Benefits Expenses	2,205.387	2,307.795	2,548.595	2,739.753	2,932.103

25. Since the NEA has shifted to an annual forecast adjustment, the funding ratio has increased to 80%. This shift is only partially due to increased government appropriations, with increasing interest rates also playing a significant role.

26. Both funding approaches have a similar impact on OBEGAL.

NEA funding approved since 2017

27. In addition to the annual forecast adjustment, Table 5 sets out funding appropriated to cover the non-earners' portion of various ACC expenses since 2017. Prior to and including 2020 this included funding for new initiatives as well as cost pressures. Since 2021, only funding that implements new government policies are funded as Budget initiatives (from the operating allowance) with all cost pressures being funded from the annual forecast adjustment from that point.

Table 5: NEA Budget initiatives approved since 2017

$million	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Budget 17									
Increased care costs as a result of the care and support workers' pay equity settlement agreement	44.900	41.000	35.600	35.500	35.500	35.500	35.500	35.500	35.500
Budget 18									
Extending Zero Fees Doctors' Visits to Under 14s		872	1.177	1.192	1.206	1.206	1.206	1.206	1.206
Meeting Air Ambulance Service Cost Pressures		3.700	5.500	6.500	7.200	7.200	7.200	7.200	7.200
Sexual Abuse Assessment and Treatment Services (SAATS) Funding		1.200	1.533	2.267	2.533	2.533	2.533	2.533	2.533
Budget 2020									
Emergency Road Ambulance Services - Maintaining Viable Services				1.717	3.137	3.296	3.463	3.463	3.463
Budget 2021									
Supporting Emergency Road Ambulance Services					7.857	7.857	7.857	7.857	7.857
Budget 2022									
Expand cover to maternal birth injures						9.750	13.000	13.000	13.000
Align increases to the minimum weekly compensation and LOPE rate with increases to the minimum wage						1.000	1.000	1.000	1.000
Sexual Abuse Assessment and Treatment Services (SAATS) Funding						4.275	4.600	5.079	5.536

28. Most of these additional costs resulted from policy choices taken elsewhere in the public sector. For example, decisions around the care and support workers' pay equity settlement,

zeros fees for under 14s and the cost of ambulance services (both land and air) were led from the health and welfare sectors.

ACC as a whole

29. Since 2017, a number of changes have been made to scheme settings, but none have had significant financial implications. Changes include:

    a. Removal of the requirement to choose between weekly compensation and New Zealand Superannuation or the Veteran's Pension[10], expansion of cover for spouses, partners, and dependants of New Zealand employees posted overseas, allowing surviving spouses to receive up to 5 years of weekly compensation, regardless of age, and disestablishment the Accident Compensation Appeal Authority. These changes had very minor financial implications for levy payers.

    b. Expansion to include cover for maternal birth injures, which was forecast to cost around $25 million per year. $13 million per year was appropriated to fund the non-earners' portion of this cost, with the remainder being absorbed by the Earners' Account (and incorporated into the next levy-setting process). Numbers of covered injuries have been lower than forecast to date but are likely to increase as health practitioners better understand these new provisions.

    c. Reversal or adjustment of some of the changes made in 2010 that aimed to lower scheme costs. These reversals or adjustments included stating that occupational assessors 'may' (rather than 'must') consider pre-incapacity earnings when undertaking occupational assessments, reducing the threshold for injury-related hearing loss cover from 6% hearing loss to 5% hearing loss, and providing more clarity around the section 30 test for work-related gradual process cover. These changes had very minor financial implications for levy payers.

    d. New requirement for ACC to report annually on access to the scheme by Māori and identified population groups. This change had no direct financial implications.

    e. Other minor policy and technical changes to improve the clarity and usability of the AC Act.

30. ACC's latest Financial Condition Report identifies the following pressures on the financial sustainability of the scheme:

    a. People taking longer to be rehabilitated who then need more weekly compensation payments. This was a key driver of increasing new year claim costs for the Work Account and accounted for more than half of the increase for the other levied Accounts.

    b. Higher claim frequency for weekly compensation claims. This contributed to the increased new year claim costs for most Accounts, except for the Motor Vehicle Account, where the number of new weekly compensation claims was lower than expected.

    c. Funding for ambulance and public health acute services (PHAS)[11] has increased significantly in the past five years. This caused half of the increase in the Motor Vehicle and Non-Earners' Accounts.

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[10] An upper age limit remains in place for weekly compensation, which generally stops at the New Zealand Superannuation qualification age of 65. However, there are provisions which enable weekly compensation to be paid to claimants aged over 65 for up to two years, if they first started receiving weekly compensation when aged close to, or above, 65.

[11] PHAS is a bulk payment ACC makes to the Crown every year to pay for the cost of treating injuries in public hospitals during the acute stage.

d. Serious injury care hour increases were the primary driver of increased costs for the non-levied portion of the Treatment Injury Account and caused small increases in other Accounts.

e. Almost 20% of the increase to new year claim costs in the Earners' and Non-Earners' Accounts was driven by increasing numbers of new sensitive claims[12].

31. Increases to new year claim costs were partially offset by lower medical payments and expected new claim numbers for most Accounts.

32. Many of these pressures are within ACC's control, such as care hours.

Other funded policy initiatives

33. SAATS received cost pressure funding in 2018 and 2022 (see Table 3). The key benefits of this programme are:

a. victims quickly receiving acute medical treatment and ongoing referrals

b. a greatly improved chance of getting a conviction, and

c. less demand for health and Police time.

34. Funding is used to directly purchase the time of front-line specialists.

35. Confidential advice to Government

Alignment of current expenditure with Government priorities

The Minister for ACC's priorities for the ACC portfolio are:

36. Ensure ACC's regulations are efficient, effective and current:

a. ensure ACC's financial sustainability is maintained through the regular levy review which will be establishing rates for 2025-28, and

b. modernise some regulatory settings to ensure they are up-to-date and fit-for-purpose.

37. Clarify the role of ACC and address boundary issues:

a. Confidential advice to Government

b. clarify the role of ACC to ensure ACC is fit for purpose and delivers the services expected of it.

38. Improve rehabilitation outcomes:

a. reverse ACC's long-term trend of declining rehabilitation performance, and

b. use injury prevention as a lever to improve performance, by reducing incidence, severity, and in turn, cost of injury.

12 Mental injuries that result from sexual assault.

High level assessment of alignment of current functions with Government priorities

Table 4: MBIE's assessment

Function	MBIE's high level assessment
Accident Compensation Policy team	Since 2017 FTE numbers have remained relatively stable, fluctuating between 6 and 10 FTE. MBIE can deliver the current work programme and carry out its functions with 6 FTE.
The NEA and ACC as a whole	ACC provides services that are valued by New Zealanders, but there is room to be more effective/efficient, particularly improving rehabilitation performance.
SAATS	SAATS is providing an essential front-line service for victims of serious crime.

Revenue and expenditure options

Savings options

Identification of programmes that can be scaled or stopped

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Savings on contractors, vacancies and overheads

43. All policy and operational areas of MBIE are initially targeting the 7.5% savings from their baselines. They are on track to achieve the approximately $45 million in savings that this represents. All corporate and technology functions are included in this work (HR, IT and other corporate functions). In addition, a 15% target has been set for discretionary spending, for example travel, conferences, training and recruitment. Once Ministers have made final decisions, these corporate and technology functions will seek further operational efficiency savings to support these decisions. MBIE's departmental base (which is a portion of MBIE's eligible base) for the savings target has been reduced to approximately $570 million as Immigration New Zealand and other functions were removed through the Treasury calculations.

44. The MBIE Accident Compensation Policy team is currently resourced at 6 FTE and has been holding 2 vacancies.

[13] The NEA has been excluded from MBIE's eligible base for this savings exercise.

45. MBIE can deliver the current work programme and carry out its functions with 6 FTE. As the team is funded for 8 FTE, a 10% saving could be applied to the Accident Compensation Policy team allocation within the Vote Labour Market multi-category appropriation for policy advice, which would effectively remove the vacant positions and reduce funding available for purchasing expert advice.

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Targeted policy savings and revenue

50. The Minister of Finance has requested that MBIE present options to improve the efficiency and financial sustainability of ACC.

51. Given that MBIE's role is to provide advice on ACC's policy settings and strategic direction, we have interpreted this to mean changes to policy settings that will either bring in more revenue or reduce ACC's claims expenses as both of these changes will have a positive impact on OBEGAL in the short to medium term (in the longer term the impact will lessen as corresponding adjustments are made to levies and forecast claims costs). These changes will not generate immediate cash savings.

52. This briefing does not provide a full assessment of ACC's efficiency and financial sustainability. This is a much broader question that could be progressed after Budget 2024 if necessary. A 2015 report by Finity Consulting[14] in Australia, which identified best practice in workers compensation schemes, defined a financially sustainable scheme as one where costs are fully funded, premiums (or levies) are stable and affordable, there is effective risk management, and cover and entitlements are consistent and fair. Confidential advice to Government

Confidential advice to Government

53. Since ACC was established fifty years ago it has undergone a number of major reforms as governments have sought to balance the following objectives:

    a. providing appropriate no-fault personal injury coverage in part as a replacement for the tort right to sue for compensatory damages

[14] See https://insurancecouncil.com.au/wp-content/uploads/resources/ICA%20reports/2015/201505_Best%20Practice%20Workers%20Compensation%20Scheme.pdf

b. supporting a productive labour market, and

c. ensuring ACC is coherent, fair, and financially sustainable for current and future levy payers.

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Other longer-term options Ministers may want to consider

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Plans for future reprioritisation

59. As ACC aims to be fully funded, this means assumptions about future cost pressures are built into the OCL using an actuarial approach. The OCL then influences future levy rates and the government's contributions to the NEA.

60. Recent court decisions have extended scheme boundaries in ways that set difficult precedents, with implications for scheme costs and sustainability, and consistency across the scheme. Confidential advice to Government Confidential advice to Government

Next steps

61. If Ministers accept the departmental baseline savings presented in this briefing, MBIE will progress these through the Budget process.

62. If Ministers chose to progress any options, some prioritisation may be required across the ACC policy work programme, or additional resourcing found.