



**Monitoring of the ACC:  
Review of Institutional Arrangements**

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**Final Report**  
**Report to the ACC Stocktake Steering Group**

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## Preface

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This report is issued pursuant to the terms and conditions set out in our contract with the Department of Labour dated 8 March 2010 and the proposal attached thereto.

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## Executive Summary

The Minister for ACC has directed that a Stocktake of the ACC accounts (the Stocktake) be undertaken. This will take a long term view on how ACC's performance can be improved and deliver better value for money. As part of the Stocktake, there is a need to review the institutional arrangements surrounding the monitoring of ACC.

Formally, the accountability of the ACC is through its Board to the Minister for ACC. Under the Crown Entities Act, there are obligations on the Minister to oversee and manage the Crown's interests in, and relationship with, the ACC. An important part of this is reviewing the operations and performance of the ACC. As a matter of practice, the Minister looks to officials within the Department of Labour (the Department) to assist with monitoring of the ACC.

Current monitoring arrangements primarily involve the Department which undertakes monitoring of the ACC through its ACC Policy and Monitoring Team. Treasury has some involvement reflecting its general role in advising on economic and financial matters and monitoring of Vote: ACC. It also undertakes a lead role in monitoring the performance of the ACC's investment portfolio.

The review has identified several issues with current arrangements.

- There has been substantial, and unsustainable, growth over recent years in the value of the ACC's liabilities. Ministers have expressed concern that the financial problems should have been recognised and addressed some years ago. Monitoring plays an important role in providing Ministers with early warning signals. There are indications that the monitoring of ACC has not, under current arrangements, received the level of focus that is warranted. Given the size of the ACC in relation to overall government finances and balance sheet, and the role that the scheme plays in the lives of all New Zealanders, there is a need to ensure that monitoring is focused on the right things and that the monitoring function is accorded high priority.
- Technical and specialist skills are required for the effective monitoring of ACC. We have concerns that the Department has, and will continue to have, difficulties in attracting high calibre specialist monitoring resource.
- Currently, there is a relatively limited monitoring role for the Treasury. We consider there is a second opinion role for Treasury that can be strengthened in the interests of effective monitoring and decision making. Furthermore, Treasury has a depth of monitoring capability that could be used to better effect in relation to the ACC particularly given the significance of the ACC in fiscal and Crown balance sheet terms. In addition, the Reserve Bank has specialist capability that could be relevant to ACC monitoring.

- The points above raise questions regarding the strength of incentives influencing the Department's monitoring role and whether there are options that would result in stronger incentives.

Three main options for institutional arrangements have been considered as part of the review (a number of other options have also been considered involving various Government departments but none of these are seen as being the most effective option). The main options are as follows.

- Option 1 – retention of the status quo in terms of the allocation of roles and responsibilities.
- Option 2 - transfer the bulk of monitoring responsibilities to the Treasury including the Crown Ownership Monitoring Unit (COMU). Assuming that responsibility for administering Vote: ACC remained with the Department, it is assumed that responsibilities for monitoring the non-earners' account would also remain with the Department.
- Option 3 - formalise and enhance the second opinion role performed by the Treasury.

There is a number of trade-offs involved between current arrangements and the two alternatives. The key trade-offs and considerations are as follows.

- In theory, the status quo arrangements should lead to clarity of roles and responsibilities in relation to monitoring. The status quo (Option 1) reflects a common-enough set of arrangements that are replicated across monitoring arrangements for many Crown entities. A key issue, however, is the level of monitoring capability which, in the case of ACC, takes on more importance than normal because of the specialist technical aspects to monitoring ACC and because of the size and nature of the consequences if early warning signs of adverse scheme performance are not detected and addressed by effective monitoring.
- We can see advantages from strengthening and formalising the role that Treasury plays in relation to the monitoring of ACC reflecting its deeper monitoring capability and experience and the incentives that we consider are likely to drive Treasury's interest in relation to ACC. This does not mean, however, that a transfer of most monitoring responsibilities to the Treasury (Option 2) is the preferred option.
- Option 2 (transfer responsibilities to the Treasury) has potential disadvantages in that it would:
  - fragment monitoring responsibilities as a result of Treasury undertaking most aspects of monitoring except for monitoring in relation to the non-earners' account which would remain with the Department. Separation of responsibilities could lead to inconsistent monitoring advice and mixed signals to the ACC
  - mean that the Minister for ACC would, in effect, have to purchase monitoring advice from the Treasury unless there was a split in ministerial accountabilities and/or unless the Minister of Finance was also to become, in effect, a shareholding Minister in ACC (as is the case for State-owned Enterprises and some Crown entities like the Housing New Zealand Corporation). The situation of purchasing monitoring advice from the



Treasury would create an unusual dynamic in terms of the Treasury monitoring team also providing advice to the Minister of Finance

- risk losing critical mass of monitoring capability within the Department and thereby exacerbating the concerns held around capability, and
- largely remove the second opinion role that, to some extent, exists under current arrangements. Maintaining a second opinion role is, in our view, an important check and balance that helps to ensure the effectiveness of monitoring. This role needs to be strengthened rather than diminished.
- Option 3 (enhanced role for the Treasury) strengthens Treasury’s second opinion role to provide an enhanced counter-balance to the monitoring advice provided by the Department. This option maintains close linkages between policy and monitoring. There are pluses and minuses associated with this and it is a matter of judgement as to whether separation assists, or hinders, effective decision making. On balance, we consider strong connection between policy and monitoring is important but, equally, there need to be effective checks and balances to guard against the risk of policy capture of monitoring. The second opinion role is important in this regard and option 3 enhances the role Treasury plays in this respect. This option also allows for the Department to call on specialist technical advice in Treasury (and elsewhere) to support its monitoring roles.

Of the options, we are not strongly attracted to Option 2 which would transfer all monitoring responsibilities (except in respect of the non-earners’ account) to the Treasury. Our main concerns with this option are the loss of any second opinion role, the unusual arrangement that this would imply for Treasury monitors vis a vis the Minister Responsible for ACC and the Minister of Finance, and the separation of monitoring from policy.

The allocation of roles and responsibilities under the status quo (Option 1) involves arrangements that are mirrored elsewhere. The principal concern with this option is that it has resulted in monitoring that has not served Ministers as well as they may have expected. We consider there are two issues underlying this.

- There are tensions between ownership and purchase monitoring and between monitoring and policy interests. There is a need to exercise judgements around these tensions and it is important that these judgements be allowed to surface in a transparent manner. Under current arrangements, there is a risk that tensions and judgements are internalised within the interaction between the Department and the Minister for ACC. There are advantages in allowing for alternative perspectives to be brought into the mix.
- There is a need for specialist technical skills in relation to ACC monitoring and we have a concern that the Department may not be able to retain these skills in-house.

Option 3 provides a potential solution to these issues. By formalising and strengthening the second opinion role for Treasury, Option 3 provides an added counter-balance to the monitoring and policy roles of the Department. Furthermore, under Option 3, primary monitoring responsibilities continue to vest with the Department but the Department, in effect, has scope to

contract-in specialist assistance from the Treasury to assist with some of the more technical aspects of ACC financial/ownership monitoring. On balance, this is our preferred option although we note that consideration could also be given, in support of this option, to establishing a formal role for the Minister of Finance in relation to ACC.

The three main options have been considered in the context of the ACC scheme as it currently operates. We have also been asked to consider whether the assessment of monitoring arrangements would change if parts of the ACC (such as the Work Account, Motor Vehicle Account or Earners' Account) were opened to competition.

If parts of the ACC were opened to competition, the balance of monitoring focus would shift away from purchase monitoring and toward ownership monitoring. From a purchase perspective, there would be less need for advice on levies (as pricing would become a commercial decision for the ACC to take in light of premiums offered in the market by competitors) and reduced need for advice on the balance between fairness to claimants (the quality of service provided) and the cost to levy payers. In contrast, from an ownership perspective, there would be increased monitoring focus on ensuring that the ACC was achieving the level of financial performance desired by Government and, as part of this, minimising the long term claims liability. The Government would also want assurance that the ACC was not unfairly competing in those accounts opened to competition by subsidising them from the non-competitive accounts within the ACC scheme.

The greater is the relative emphasis on ownership monitoring relative to purchase monitoring, the more the monitoring of ACC would be analogous to the monitoring of State-owned Enterprises (SOEs) where the Government has little, or no, purchase interest. In this situation, consideration could be given to shifting monitoring responsibility to the Crown Ownership Monitoring Unit (COMU) within Treasury. We stop short, however, of recommending this option. Instead we consider that option 3 would continue to be the preferred option assuming that significant parts of the ACC scheme are not opened to competition (which means a need for second opinion advice to balance purchase and ownership monitoring perspectives) and assuming that the Minister for ACC continues to have the sole responsibility for monitoring of the ACC.

# 1 What We Have Been Asked To Do

## Context

- 1 The Minister for ACC has directed that a Stocktake of the ACC accounts (the Stocktake) be undertaken. This will take a long term view on how ACC's performance can be improved and deliver better value for money. As part of this, one of the key objectives of the Stocktake is to review the monitoring framework for ACC.
- 2 The review of the monitoring framework has several elements to it. Two of these are being undertaken in parallel with the work we have undertaken and involve:
  - a consideration of the performance information currently available and development of proposals for different or better performance indicators, and
  - consideration of the monitoring framework's effectiveness in providing services to the Minister for ACC in relation to strategy, governance, capability, financial stewardship, organisational outputs and risk management.
- 3 The third element of the review of the monitoring framework is the focus of this report and it involves a review of institutional arrangements for ACC Monitoring.

## Our Brief

- 4 Our terms of reference have required us to assess, in the context of the monitoring framework, whether there are appropriate delegations and resources to ensure the most productive outcomes (consistent with the overall purpose of the Stocktake noted above). The review is to include an assessment of the agency or agencies best placed to undertake monitoring roles and responsibilities. In short, we have examined whether arrangements surrounding the allocation of monitoring roles and responsibilities are optimal.

## Scope

- 5 Our review has been undertaken in parallel with a range of other workstreams being undertaken as part of the Stocktake (including, but not limited to, the workstreams noted above in relation to the monitoring framework). Our assessment has, for the most part, been conducted in light of the ACC scheme as it currently exists.
- 6 In combination, the workstreams have the potential to materially affect the design and operation of the ACC scheme and the ACC's roles in relation to the scheme. Accordingly, we have also been asked to consider whether monitoring arrangements would need to change if parts of the ACC scheme (the Work Account, Motor Vehicle Account or Earners' Account) were to be opened to competition.

## 2 Approach

- 7 Within this short time frame available for the review of institutional arrangements, we have refreshed our understanding of monitoring roles and responsibilities surrounding ACC through a process of interviews with the following organisations and individuals:
- members of the Department's ACC Policy and Monitoring team (the team is part of the Policy directorate within the Department's Workplace Group)
  - the Department's Group Manager of Policy (Workplace) and the Chief Adviser Workplace Policy
  - the Manager, Planning and Accountability within the ACC
  - the Treasury (Vote: ACC team and COMU), and
  - the State Services Commission.
- 8 We have developed a set of principles and criteria that are relevant to consideration of organisational design issues. These are briefly discussed in section 4.
- 9 We have then sought to identify the core elements of monitoring and assess these against the principles and criteria to assist with an assessment of existing, and possible alternative, monitoring arrangements. Our assessments in this regard have also been informed by our understanding of monitoring arrangements operating elsewhere in the public sector including within the Ministry of Economic Development, COMU, Department of Building and Housing, Ministry of Transport and others.

## 3 Monitoring Roles and Responsibilities

### What Does Monitoring Entail?

- 10 Below, we describe some of the main features of monitoring. The purpose is to provide an overview of the nature and scope of monitoring roles rather than to provide a comprehensive and detailed listing of all outputs and activities performed in relation to monitoring.
- 11 Our terms of reference have not required us to advise on the content of monitoring (i.e. the things that monitors should focus on) as this is the subject of another work stream. We note, however, that monitoring agencies always face an information asymmetry; the agency being monitored will always know more about its business than do the monitors. The design of institutional arrangements can play a part in dealing with the information asymmetry issue. In particular, monitoring arrangements need to be structured in a way that allows for effective monitoring and, as part of this, enabling effective linkages between monitoring and the ability to influence performance.

### Ownership

#### Financial Monitoring

- 12 As a state-owned monopoly, ACC is not exposed to the pressures that market competition creates to operate in a prudentially responsible manner and keep costs to efficient levels. Moreover, ownership by the Crown means that there is not the capital market scrutiny that, under a situation of private ownership, serves to promote the efficient use of resources.
- 13 Against this background, monitoring performs a fundamental role in strengthening incentives for efficiency by providing the Minister with advice to support his relationship with the Board.
- 14 Financial monitoring is an important part of monitoring of most Crown entities. In the case of ACC monitoring, it encompasses a wide range of functions including:
- administering Vote: ACC including providing information to meet the Treasury's requirements including baseline updates and forecasts
  - reporting on quarterly, six-monthly and Annual reports prepared by the ACC (this also has non-financial dimensions)
  - advising on levy rates in response to levy proposals submitted by the ACC
  - assessing budget bids, and

- advising on significant business cases.
- 15 In the case of the ACC, financial monitoring is more challenging because of the complexities inherent with an insurance-based organisation that has a large and long-lived liability.
- 16 Viewed as an insurance scheme, Government has a keen interest in the extent to which ACC scheme liabilities now and into the future, are matched by revenues from premiums and investment returns. This is important also from the perspectives of claimants and levy payers. Understanding scheme performance and the drivers of that performance is critical in these respects.
- 17 Scheme performance, and ongoing viability, is influenced by a wide range of factors. The long term nature of the liabilities and large numbers of claimants involved mean that even small changes in underlying aspects of scheme performance (e.g. rehabilitation rates or interest rates) can have major impacts on overall cost and the size of the claims liability. There is, therefore, a need to keep the scheme under constant surveillance and scrutiny to ensure full understanding of what is happening with scheme costs, what is driving changes in scheme costs, whether levies are at the right level, whether the investment mix is optimised and so on.
- 18 Unlike other insurers, ACC does not face the threat of levy payers switching to another provider if levies increase. The disciplines that apply to other insurers to operate both prudently and efficiently do not apply to the ACC.
- 19 Related to this, ownership monitoring involves providing assurance on the ACC Claims valuation for both Crown financial statement purposes and levy setting purposes. This assurance is important from the Crown's perspective for fiscal management and balance sheet management reasons.
- 20 Assessing scheme performance and providing assurance on the claims valuation are specialised areas of ownership monitoring and need to draw on actuarial skills, investment skills as well as more general financial analysis skills.

## **Portfolio Management**

- 21 The ACC manages a large portfolio of investments (circa \$12 billion). Portfolio performance has an important bearing on overall scheme performance.
- 22 Monitoring the investment management function requires expertise that is different to that normally found within monitoring departments. In the case of the ACC, monitoring of investment performance is undertaken by the Treasury as part of the Crown Financial Institution monitoring regime. Reports are provided quarterly to the Minister of Finance based on information provided to the Treasury by the ACC.

## Other

23 In addition to the financially oriented aspects of ownership monitoring, the role of the monitors also includes advice in relation to the Statement of Intent, strategy and business plans (there is cross-over with purchase monitoring in these areas) including assistance with the Letter of Expectations.

## Purchase

24 The purchase interest that the Government has in the ACC has a number of dimensions to it. At one level there is a direct purchase interest in relation to the non-earners' account. Monitoring in this regard is focused on:

- negotiating the non-earners' account purchase agreement including the level of appropriation, and
- evaluating performance against expectations set out in the Agreement.

25 At another level, the Government has a purchase interest that is, in effect, on behalf of levy payers. Individual levy payers are not readily in a position to influence the ACC in terms of the quality, quantity and cost of services provided. This is because levy payers, other than large employers who can part self-insure, do not have the option of switching to another provider. Government determines the mix between quality, quantity and cost on behalf of levy payers. Monitoring contributes to this role in several ways including in terms of advice on levy rates.

26 Monitoring also focuses on the entitlements received by claimants including the extent to which the scheme is being managed in a way which honours those entitlements. While there are mechanisms in place for individual claimants to raise concerns if they consider they are not receiving their full entitlement, these mechanisms are not completely independent of the ACC. More generally, Government has an interest in entitlements and the way they are being delivered to ensure an appropriate balance between fairness to claimants and cost to levy payers. Monitoring plays a key role in informing these assessments.

## Other Monitoring Roles

27 In addition to the core elements of ownership and purchase monitoring, the roles involved with monitoring the ACC also include:

- relationship management (this needs to work well in order for monitoring to be effective)
- issues management (the scope of this is broad)
- ministerial servicing, and

- assistance with Board appointments.

28 For the purposes of this draft report, the first three of these functions are not seen as being critical in terms of determining where monitoring roles and responsibilities should lie. In the case of Board appointments, we note that COMU has a well established process and large database established for this purpose. In addition, the SSC provides assistance in relation to Board appointments and the RBNZ undertakes checks in relation to the appointment of directors to the boards of banks. Which ever agency or agencies is charged with monitoring responsibilities in relation to the ACC should have regard to these sources of assistance.

## Policy

29 Responsibility for monitoring ACC currently rests with the Department in its ACC Policy and Monitoring Team. Although policy functions are not within the scope of this review, the linkages with policy need to be considered as part of thinking about monitoring arrangements. From a policy perspective, there is interest in the ACC scheme in terms of determining the level and nature of entitlements and in terms of how the scheme should be delivered. Both matters impact on the costs of the scheme.

## Current Arrangements

### The ACC Board

30 Under section 26(2) of the Crown Entities Act (CEA), the Board is accountable to the Minister for ACC for performing the duties conferred on the Board. In brief, these duties are to govern the ACC and to exercise and perform the functions of the ACC. The collective duties of the Board include ensuring that:

- the ACC acts consistently with its statutory objectives and functions and consistent with its Statement of Intent and Output Agreement
- functions are performed efficiently, effectively and consistently with the spirit of service to the public, and
- the ACC operates in a financially responsible manner.

### The Minister for ACC

31 The Responsible Minister's roles are also defined in the CEA and they require the Minister to oversee and manage the Crown's interests in the ACC. The Minister is provided with a range of functions and powers to achieve this including the appointment and removal of Board members, the giving of directions (there are some limits on this), the review of the ACC's operations and performance, and participating in the process of setting and monitoring the ACC's strategic direction and targets.



- 32 We note that for Crown-owned companies (including State-owned Enterprises) and some large Crown entities (e.g. the Housing New Zealand Corporation), there are two “shareholding” Ministers. We raise this as an issue for further consideration.
- 33 As a matter of normal practice, the Minister looks to officials in the Department to assist with the roles described above.

## Lead Role Performed by the Department of Labour

- 34 Under current arrangements, the Department has primary responsibility for undertaking monitoring roles as outlined above. These roles derive from the roles and responsibilities of the Minister for ACC which in turn derive from provisions in the CEA including, in particular, section 27 of the CEA, and also the Public Finance Act and the Accident Compensation Act. It is not the role of the monitors to take the place of, or assume the role of, the Board. Rather, it is the role of the monitors to support the Minister in his/her role and to do this by scoping the right questions to ask and right information to request and to assist with interpreting the information and responses provided by the ACC.

## Treasury’s Involvement

- 35 The Department undertakes a lead role for most, but not all of the functions described in relation to ownership and purchase monitoring. The major exception to this is monitoring of the performance of the ACC’s investment portfolio. This role is undertaken by the Treasury (specifically COMU). We note that the quarterly reports produced by Treasury in relation to portfolio performance are provided to the Minister of Finance but are not copied to either the ACC policy and monitoring team or the Minister for ACC. It is not clear to us why this does not happen. We would have expected this information to be of interest to the monitoring team and could usefully form part of the overall quarterly performance reporting to the Minister for ACC.
- 36 In addition to the role in relation to portfolio performance, the Treasury also has a more general second opinion role in relation to ownership and purchase monitoring of the ACC. This role is, however, episodic in nature and not particularly formalised. Treasury does not receive on a regular basis the quarterly reports prepared by the Department’s ACC policy and monitoring team. From time to time, these reports are forwarded to Treasury for their information but there appears to be no clear guidelines as to when this should occur (or not).
- 37 That said, Treasury will from time to time inject itself into a secondary advisory role in relation to ACC in respect of performance or policy matters. There is, however, no formalised basis for this.

- 38 Treasury receives monthly data which is used for the purposes of updating the Crown Financial Statements but this information is not particularly in a form that would be helpful for monitoring purposes. Treasury also has a formal role in relation to matters affecting Vote: ACC (the non-earners' account) in the same way that it has a role in monitoring all Votes.
- 39 In short, the Treasury's formal role in relation to ACC monitoring is limited. This reflects the fact that there is no role for the Minister of Finance under the Accident Compensation Act (or the Crown Entities Act in respect of monitoring responsibilities).
- 40 Given the size and significance of the ACC, we question whether there should be a more formalised role for the Treasury and Minister of Finance. This is considered further in the options section.

## State Services Commission

- 41 The SSC has several general roles relating to Crown entity monitoring and some specific roles in relation to the ACC.
- 42 Its general roles include:
- issuing monitoring guidance material
  - assistance with Board appointments including board appointment and induction guidelines
  - development of, and interaction with Crown entities in relation to, codes of conduct
  - advice in relation to CEO remuneration, and
  - provision of various services to Crown entities (e.g. the Gateway process).
- 43 A specific function performed by the SSC in relation to ACC, that is relevant to our work, involves providing second opinion on six monthly monitoring reports prepared by the Department that are submitted, by the Minister for ACC, to the Cabinet Expenditure Control Committee. SSC undertakes this advisory role jointly with the Treasury.

## Issues Arising

- 44 Looking across current arrangements in relation to ACC monitoring, there are a number of issues arising.
- At a general level, monitors face an information disadvantage compared to the entity being monitored. Institutional arrangements can help with addressing the

information asymmetry to ensure that the right questions are asked and right interpretation placed in the information received. We are not convinced that existing arrangements have adequately contributed to this.

- There are tensions between ownership and purchase monitoring interests and between monitoring and policy perspectives. Judgements involving trade-offs between these tensions need to be made. It is important that the tensions and judgements be allowed to surface in a transparent way as part of the overall objective of making the best decisions.
- Current monitoring arrangements have not served Ministers as well as they may have expected. The issue is whether this is structural in nature (reflecting the previous point), whether it is a function of capabilities, or a mix of the two. We consider there are elements of both.
- Monitoring responsibilities need to be assigned to those that have the best capabilities to undertake the role. In the case of the ACC, ownership and financial monitoring is more challenging than is normal in the case of most Crown entities. Specialist actuarial and other financial analysis skills are required. We have a concern that the Department has not always had the specialist capabilities that are needed for effective monitoring of the ACC. The issue is whether this can be achieved under existing institutional arrangements.
- The effectiveness of monitoring and the priority that the monitoring function receives compared to other roles and responsibilities will in part be driven by incentives. The ACC has a major impact on Crown finances in fiscal and balance sheet terms. Given this, we would expect Treasury to have strong interest in the performance of the ACC scheme. Under current arrangements, Treasury's role is relatively episodic and not particularly formalised.
- Desirably, monitoring responsibilities should also be assigned to those who can utilise levers to try and influence the performance of the entity being monitored. In the case of the ACC, these levers generally rest with the Minister for ACC (and the Department's monitoring role stems from the monitoring responsibilities conferred on the Minister under the CEA).

## 4 Principles

45 In determining the optimal arrangements for monitoring roles and responsibilities consideration needs to be given to a range of organisational design and machinery of government principles. These are listed below.

- Organisational arrangements should promote effective decision making within government and assist in enabling the achievement of the Government's desired outcomes. Monitoring is not undertaken as an end in itself. Monitoring is undertaken to generate information which is then used to inform decision making. In this respect, the judgements that are critical to decision making, and which are formed as part of the monitoring role, need to surface in a way that assists decision making. In turn, this requires that institutional arrangements allow different perspectives to bear upon decision making.
- To support the principle above, it follows that monitoring functions should be assigned to those who have the strongest incentives to undertake the role.
- There should be clarity of roles and responsibilities which minimise the scope for confusion, overlaps, duplications and gaps. All parties involved need to have a clear understanding of the monitoring mandate, what it means in practice and how the monitoring relationship is to be managed.
- Arrangements should reinforce the accountability of the Board to the Minister and promote the accountability of the agency(s) charged with monitoring roles and responsibilities.
- Monitoring roles should be allocated to those agencies with the tools (or levers) to exercise influence over performance. Monitoring should be linked to the levers.
- Risks should be effectively managed.
- To work effectively, monitoring roles should be supported by appropriate levels of capability and capacity (people, systems, processes). Consideration needs to be given to the relative skills, knowledge and other capabilities necessary to undertake the monitoring function effectively.
- Monitoring functions should also be cost effective (e.g. by achieving economies of scale).

## 5 Options

- 46 Below, we set out a small number of options for future monitoring arrangements and evaluate these against the principles set out in the previous section. Although the principles are described in discrete terms, there is nevertheless a high degree of inter-relationship and linkage between them. By implication, evaluation of the options needs to be considered against the principles in their totality rather than in isolation from one another.
- 47 It is important to emphasise again that the options and their evaluation has been based largely on the ACC scheme as it currently exists. Toward the end of this section of the report, we consider how monitoring arrangements could change if there are higher-level changes to the design and operation of the ACC scheme. These considerations are, necessarily, hypothetical.
- 48 We also consider some other monitoring options that involve transferring monitoring responsibilities from the Department of Labour to other Government ministries.

### Option 1: The Status Quo

- 49 Under this option, the monitoring arrangements described in section 3 are left “as is”. Our evaluation of these arrangements follows.

Principle	Comment
Effective decision making	<p>Monitoring helps to inform decisions around scheme design (entitlements), scheme operation and scheme funding (levies). There are two key issues relating to the effectiveness of decision making:</p> <ul style="list-style-type: none"> <li>• Should monitoring be closely linked with policy functions (as they currently are)?</li> <li>• Should purchase and ownership monitoring be closely linked (as they currently are)?</li> </ul> <p><i>Links with policy:</i></p> <p>Good policy development should draw on insights gained through monitoring and equally, effective monitoring requires understanding of policy settings and intent. However, there is also benefit in having monitoring advice that is independent of policy advice in part because policy advice needs to take a perspective that is wider than just the entity that is being monitored and in part to mitigate the risk of monitoring being “captured” by policy.</p> <p>Current monitoring arrangements, in theory, allow for close interaction between ACC policy and monitoring roles. The issue is whether monitoring and/or policy advice is compromised as a result. Separating the roles, especially if into different organisations, would make the two streams of advice and the trade-off’s between them more transparent. The potential</p>

Principle	Comment
	<p>downside is that the benefits of interaction are potentially diluted and/or the costs of interaction are increased.</p> <p>A check and balance on the concern around the capture issue is the second-opinion role performed by Treasury although this is fairly limited other than in the context of the non-earners' account and in relation to the setting of levies. If Option 1 – the status quo – was to be retained, we would see benefits in formalising the role for Treasury.</p> <p><i>Links between purchase and ownership monitoring:</i></p> <p>Potentially there is tension between these roles (e.g. bias toward low output prices at the expense of the Crown's ownership interest). Arguably, there has been past evidence of this occurring. A counter-balance to the underlying tension is having strong ownership monitoring. Because of the challenges inherent in having good understanding of scheme costs and their drivers, it could be argued that ownership monitoring to date has not provided a sufficient counter-balance. Formalising the role of Treasury and being able to draw on some of its more specialist expertise could assist in this regard.</p>
Incentives	<p>The Department's incentives for ownership monitoring stem from obligations on the Minister for ACC under the CEA (reviewing the performance and operations of the ACC) and its incentives for purchase monitoring in relation to the non-earners' account stem also from the Department's responsibilities for the administration of Vote: ACC. The strength of these incentives is influenced by the extent to which the Minister looks to the Department to assist and support the Minister in discharging the Minister's responsibilities.</p> <p>It could be argued that Treasury has strong incentives to monitor ACC (particularly in financial and prudential terms) because of the impact of the ACC scheme on the Crown's balance sheet (\$24bn worth of liability). Such incentives could be said to exist independently of whether the Minister of Finance explicitly looks to the Treasury for advice because:</p> <ul style="list-style-type: none"> <li>• the Secretary has to sign the Statement of Responsibility accompanying the Crown accounts</li> <li>• Treasury's role in preparing Economic and Fiscal Updates, and</li> <li>• the lead advisory role which Treasury performs on economic and financial issues.</li> </ul>
Clarity of roles & responsibilities	<p>Current arrangements have some weaknesses as evidenced in the recent review of the funding shortfall in the non-earners' account and the need identified in that review for the roles and responsibilities of the agencies involved to be clearly set and communicated. The issues identified, were not, however, structural in nature.</p> <p>As noted earlier, a significant issue with current arrangements is the lack of a well-defined</p>

Principle	Comment
	<p>second opinion role for the Treasury in relation to the ACC. There is a somewhat lesser issue in terms of the linkages relating to monitoring of the performance of the ACC's investment portfolio.</p> <p>Both issues could be addressed through modest changes to roles and responsibilities (this is discussed further below in the context of Option 3).</p>
Effective accountability	<p>Under the CEA, it is the Minister for ACC that holds the ACC Board to account. In structural terms this arrangement with support from the Minister's monitoring advisers should help to ensure effective accountability. In practice, whether the structural arrangements actually result in effective accountability depends on the effectiveness with which the monitoring function operates. In this respect, the issue is one of whether the Department, or another entity, has the best incentives, information and capability to undertake the monitoring role. We also note that for the monitoring function to work effectively, the monitoring relationship needs to be actively managed at multiple levels within both Department and the ACC. Most of the day-to-day monitoring interaction occurs at relatively low levels within both organisations. There is a need to ensure that monitoring receives appropriate priority at higher levels within both organisations.</p>
Ability to influence performance	<p>If scheme performance falls short of expectations, the Department currently has access to various levers to try and influence performance. Monitoring advice to the Minister is a key lever in terms of how this translates into Ministers' expectations, key accountability documents, participating in the process of setting and monitoring ACC's strategic direction and targets and so on. Other levers include less direct mechanisms such as Board appointments.</p> <p>The efficacy of these levers depends, at least in part, on the role of the Minister. In this context, the issue arises as to whether having two Ministers (i.e. the Minister of Finance as well as the Minister for ACC) holding ACC to account might make a difference.</p>
Risks are managed	<p>In terms of financial risks, understanding the drivers of scheme costs is fundamental. In this regard, we have some concerns that existing monitoring arrangements mean aspects of ownership, particularly financial, monitoring, are not as robust as they could be. This is a capability and capacity issue (refer below) and we are not yet certain as to whether changes in the allocation of roles and responsibilities is needed to address this issue.</p>
Appropriate capability and	<p>There are technically challenging aspects to the ACC monitoring role. Specialist capability is needed to contribute to overall monitoring. Based on our limited interaction with the current monitoring team within the Department, our initial impression is that there is not the</p>

Principle	Comment
capacity	<p>level of technical capability that is required, particularly in relation to actuarial and financial analysis. The issue is whether changes to the allocation of monitoring roles and responsibilities could help to address this issue. We have a general concern that departments which have responsibility for monitoring only one Crown entity (or even a small number of entities), will struggle to gain critical mass particularly where technical/specialist skills are required.</p> <p>The option of outsourcing provides only a partial solution in this regard because to be effective, the agency contracting-in the specialist advice needs to have sufficient technical competency of its own in order to commission the right sort of advice and in order to be able to critically appraise advice once received.</p>
Cost effective	<p>While monitoring arrangements should seek to be cost effective, we note that the costs of ineffective monitoring and poor scheme performance, far outweigh the direct costs of maintaining a monitoring team. In this regard, the “cost” element could be seen as being less significant compared to the “effectiveness” part of this principle. In this regard, effectiveness relies heavily on having the right capabilities to undertake the monitoring role. In our view, the Department lacks critical skills and capability to adequately perform the monitoring role and it is unlikely that this gap can effectively be filled simply by relying on contracting people with expert financial and actuarial skills.</p> <p>We would note, in addition, that cost effectiveness should also have regard to the costs involved in maintaining linkages between monitoring and policy. Current structural arrangements score well in this respect.</p>



## Option 2: Lead Role for the Treasury

- 50 Under this option, most monitoring responsibilities would be transferred to the Treasury. This would mean Treasury having to report either to the Minister of Finance (which does not fit well with current Ministerial portfolios and delegations as it is the Minister for ACC who has the formal monitoring role) or to the Minister for ACC (who, in effect would purchase advice from the Treasury through the Minister of Finance).
- 51 It is assumed that ACC policy responsibilities would remain with the Department (on the grounds of linkages to health and safety and general workplace and employment policy). It is also assumed that the Department would retain responsibility for administering Vote: ACC and, accordingly, retain responsibility for purchase advice monitoring in respect of the non-earners' account.
- 52 The evaluation of Option 2 is summarised below.

Principle	Comment
Effective decision making	<p>Separating monitoring functions from policy has the potential advantage of making the separate streams of advice and the trade-offs between them more transparent. The potential disadvantage is lost opportunities in terms of monitoring informing policy and vice versa. Potentially, this could lead to less effective policy decision making and monitoring activity that is less well aligned with underlying policy objectives and intent.</p> <p>Option 2 would lose the second opinion role currently performed by Treasury in relation to monitoring other than in the context of the non-earners' account. In our view, this is a significant disadvantage as it removes an important check and balance on the quality of monitoring advice.</p> <p>Splitting monitoring responsibilities between the Treasury and the Department (non-earners' account only) is likely to risk diminishing the capability and effectiveness of advice in relation to the non-earners' account (this would be a very small part of the overall Department's activities). There would be greater risk of divergence between purchase advice generally across the scheme and advice specific to the non-earners' account.</p>
Incentives	<p>Treasury is likely to have strong incentives to monitor ACC reflecting its core role as adviser on economic and financial matters, its focus on the Crown's balance sheet, its work on capital management and its monitoring of Crown Financial Institutions. It is a matter of judgement as to whether these incentives are stronger than those of the Department.</p> <p>The Department can be expected to have incentives to rigorously monitor the non-earners' account because of its responsibilities for administering Vote: ACC. The issue is whether</p>

Principle	Comment
	it would have the capability under this option.
Clarity of roles & responsibilities	<p>Splitting monitoring responsibilities creates the potential for less clarity of roles and responsibilities. In reality it is difficult to isolate monitoring of one account (the non-earners') from wider performance monitoring and accordingly, this option has the potential for duplication of monitoring roles. The ACC would be faced with two sets of monitors and that has the potential to complicate monitoring responsibilities from the ACC's perspective. Effective tripartite arrangements would need to be established to mitigate this issue.</p> <p>If the Treasury reported to the Minister of Finance, this would sit awkwardly with the statutory responsibilities on the Minister for ACC to monitor ACC. On the other hand, if the Treasury reported to the Minister for ACC, it makes it difficult for the Treasury to also provide the Minister of Finance with independent advice in relation to ACC.</p>
Effective accountability	Inherently, it could be argued that Treasury wields a more powerful stick than do other agencies and this should, therefore, contribute to more effective accountability than under existing arrangements. This depends, however, on the ability to influence performance.
Ability to influence performance	Option 2 would strengthen Treasury's role in monitoring, but Treasury does not have the same levers as does the Department for influencing performance. Those levers are normally exercised through the responsible Minister which would suggest that for this option to work, Treasury would have to have a direct line of advice to the Minister for ACC (otherwise this option involves something of a disconnect between monitoring and "levers"). The Department would retain the ability to influence performance in respect of the non-earners' account through its role in administering Vote: ACC and its role in relation to the purchase agreement for the non-earners' account.
Risks are managed	<p>Splitting monitoring responsibilities could be seen as increasing the risk of something "falling between the cracks". Split responsibilities exist, however, to a limited extent under current arrangements. Risks can be mitigated through clear understanding of roles and responsibilities.</p> <p>Option 2 eliminates the second opinion role for Treasury (other than in the context of the non-earners' account) and, to this extent, removes an important check and balance that exists under current arrangements.</p>
Appropriate capability and	Splitting monitoring responsibilities would diminish the need for monitoring resource within the Department (compared to current arrangements). This would leave the Department even more vulnerable to the risk of not having sufficient capacity and capability to

Principle	Comment
capacity	<p>effectively monitor the non-earners' account.</p> <p>Transferring other monitoring responsibilities to the Treasury would, however, fit with Treasury's (including COMU) existing monitoring capability and potentially could further strengthen and deepen that capability. COMU is looking to establish a centre of excellence in relation to monitoring Crown Financial Institutions and transferring ACC monitoring responsibilities to the Treasury could be seen as consistent with, and supporting of, this initiative.</p>
Cost effective	<p>This option would involve higher transactions costs as a result of separating monitoring from policy responsibilities. Similarly, this option could diminish the effectiveness of policy advice because of the risk that it is not as well informed by monitoring.</p> <p>Against this, Option 2 would be more effective than current arrangements if, for capability reasons, this option led to an enhancement in the overall quality of monitoring analysis and advice.</p>

## Option 3: Enhanced Role for the Treasury

53 Option 3 has two dimensions.

- It formalises and strengthens the role for Treasury in providing second-opinion advice in relation to ACC. This does not mean that Treasury duplicates the monitoring role of the Department. Instead, under this option, the Treasury provides independent perspective on the advice of the Department to assist Ministers with their decision making. Under current arrangements, there are elements of this occurring anyway. Option 3 seeks to formalise current arrangements.
- It seeks to utilise the specialist technical financial monitoring capabilities that the Treasury already has elements of and which it is seeking to enhance through development of a centre of excellence. This does not mean that Treasury would undertake monitoring for the Department. Rather, it means that the Department would be able to call on specialist assistance as and when required to support its monitoring roles and responsibilities.

54 Under this option, it is assumed that the second opinion advice provided by the Treasury would be channelled through to the Minister of Finance. In general, the Minister of Finance does not have the tools or levers with which to influence the performance of the ACC (these rest with the Minister for ACC). The effectiveness of this option depends, therefore, on the interaction between Ministers. There is a critical judgement as to whether ministerial arrangements should be left as is or whether a role should be established for the Minister of Finance.

55 The table below evaluates Option 3 against the principles discussed earlier.

Principle	Comment
Effective decision making	This option formalises the role for Treasury and ensures that monitoring advice is subject to second opinion. It also retains a close linkage between monitoring and policy and, at the same time, mitigates the risk of policy capture of monitoring. It provides for two streams of advice which we see as being important for ensuring that tensions and judgements, relevant to decision making, surface in an appropriate manner. We see this as being even more important given that there is only a single Minister responsible for the ACC and in light of the size and significance of the ACC.
Incentives	This option takes advantage of the incentives and interest that Treasury can be expected to have in relation to ACC as well as continuing to draw on the incentives that the Department has under current arrangements.

Principle	Comment
Clarity of roles & responsibilities	There is a need to ensure that Treasury's role is not seen as a second monitor duplicating that of the Department. This can be achieved by ensuring that Treasury's focus remains as a check and balance to the monitoring advice provided by the Department.
Effective accountability	The strengthened role for Treasury is likely to enhance the ACC's accountability for scheme performance in part because of the added capability that Treasury can bring to monitoring and in part reflecting Treasury's role as a central agency. Like Option 2, however, Treasury does not have access to the same levers as does the Department (through the Minister for ACC) to influence performance.
Ability to influence performance	Like Option 2, while Treasury might be regarded as being influential, it would not have the same levers as does the Department (through the Minister for ACC) to influence performance. The Department would continue to use the tools currently available to it to influence performance.
Risks are managed	Unlike Option 2, this option strengthens the role of second opinion advice. Because Treasury's roles are more formalised under option 3, risks to the Crown's interests (and those of levy payers and claimants) are likely to be more effectively managed than current arrangements.
Appropriate capability and capacity	Option 3 draws on the combined capabilities of the Treasury and Department more effectively than is the case under current arrangements. This option draws on the capability that Treasury is seeking to enhance as part of its role in relation to the monitoring of Crown Financial Institutions. Although a matter of judgement, we consider that this is likely to be a more realistic way of strengthening monitoring capability than trying to grow that capability within the Department. The Department does not have the breadth of monitoring responsibilities that does the Treasury and, accordingly, the Department is likely to find it much more challenging to attract highly capable monitors including, in particular, those with relatively specialised skills.
Cost effective	Because links are preserved between policy and monitoring, this option avoids the higher transactions costs that would arise under Option 2. Compared to current arrangements, Option 3 strengthens monitoring capability and this can be expected to enhance the effectiveness of monitoring.

## Monitoring Arrangements Under a Competitive ACC Scheme

56 The Stocktake is taking a long term view on how performance can be improved. In this context, it is likely that options for changes to ACC scheme design and operation will be raised. In this regard, the Stocktake Steering Group has asked us to also consider if monitoring arrangements would need to change if parts of the ACC scheme (the Work Account, Motor Vehicle Account or Earners' Account) were to be opened to competition. In response to this, the extent of potential change to the current ACC scheme will impact on the extent of change to monitoring arrangements.

### Full Competition and ACC Divested

57 If the ACC scheme was opened fully to competition (i.e. all Accounts) and if the ACC was divested to the private sector, the need for monitoring would change fundamentally. In particular, it could be argued that the Government's ownership and purchase monitoring interests in the ACC scheme would no longer be relevant. That said, the Government would still have a policy interest in ACC (to ensure the market was working as intended) and, moreover, it is likely that the Government would still have interest in assessing how well arrangements were serving New Zealanders' needs. On that basis, monitoring could take the form of:

- prudential supervision of the scheme by the Reserve Bank as is envisaged under the Insurance (Prudential Supervision) Bill for general, health and life insurance businesses, and
- provision of mechanisms to assist with ensuring that claimants receive their entitlements (which could take the form of an ombudsman role similar to that of the Insurance and Savings Ombudsman).

58 The role envisaged for the Reserve Bank under the Insurance (Prudential Supervision) Bill builds on the roles that the Bank already has in relation to the supervision of other financial institutions. In this respect, the Reserve Bank has specialist expertise and experience that potentially is relevant to the monitoring of ACC. A potential option to consider, therefore, is whether there is scope to leverage these specialist skills in the context of any of the three options discussed earlier in this section. In effect, this would amount to an out-sourcing arrangement between the Treasury (or possibly the Department) and the Reserve Bank.

### Some Accounts Opened to Competition

59 Under a scenario where aspects of the scheme (e.g. the Work Account, Motor Vehicle Account or Earners' Account) were opened to competition and the ACC remained in Government ownership, the balance of monitoring functions would shift away from

purchase monitoring and toward ownership monitoring. From a purchase perspective, the implications are as follows.

- There would be reduced need for advice on levies. It is assumed that for those accounts opened to competition, premiums would be established in the market. The pricing of the ACC's premiums in the competitive markets would be a commercial decision for the ACC to take.
- There would be less need for purchase monitoring to advise on the balance between fairness to claimants and the cost to levy payers. It is assumed that government would continue to have an interest in the extent to which claimants fairly received their entitlements but as this is an issue that would apply across all providers, and not just the ACC, it is assumed that this role would be performed by some form of ombudsman or, possibly, regulator.
- Purchase monitoring functions would remain essentially unchanged with respect to those ACC Accounts not opened to competition. An exception to this is that from a purchase perspective, the Government would want assurance that ACC's costs were appropriately assigned and allocated across the accounts and that there was no suggestion of costs being loaded into the non-competitive accounts so as to make it easier for ACC to compete in the competitive accounts.

60 From an ownership perspective, government would continue to have strong interest in scheme performance and ongoing viability. The need, therefore, to keep the scheme under constant surveillance and scrutiny would remain. Advice on claims valuation and portfolio management would still be required. If anything, the relative emphasis on ownership monitoring could intensify for the reason that competition could be expected to put downward pressure on premiums and intensify the need for strict cost containment.

61 Taking these points into account, the focus of monitoring functions would shift away from purchase monitoring and toward ownership monitoring. In light of that, the issue arises as to whether that would change our conclusions regarding monitoring arrangements.

62 By shifting the balance of monitoring focus toward ownership monitoring (and away from purchase monitoring), the scope of the monitoring function begins to look more like the monitoring function that is performed by COMU in respect of SOEs and Crown companies where the Crown has little, or no, purchase interest. Given the expertise that COMU has established around ownership monitoring, consideration could be given to assigning ACC monitoring responsibilities to it. This arrangement would leverage the incentives that the wider Treasury has to take close interest in the financial performance of the ACC.

- 63 We stop short, however, of concluding that this would be the optimal arrangement. Our reasons for this are as follows.
- The Government would continue to have a purchase interest in the ACC in terms of the non-earners' account (and any other accounts not opened to competition). As a consequence, there remains a strong need for second opinion advice to balance purchase and ownership monitoring advice. That said, the need for second opinion advice is less of a requirement with respect to those accounts that are opened to competition.
  - The Treasury (and COMU) do not have the levers that are available to the Department (through the Minister for ACC) to influence ACC performance.
  - COMU's/Treasury's role would sit awkwardly with the statutory responsibilities on the Minister of ACC to monitor ACC.
- 64 The second and third of the points above would change, however, if the Minister of Finance had a more formal role in relation to ACC.
- 65 In summary, a scenario in which elements of the ACC scheme were opened to competition would not cause us to shift from our earlier assessment that Option 3 offers some advantages compared to current arrangements. Our conclusion in this regard could switch to Option 2, however, if the extent of opening to competition was across most, or all, of the ACC accounts.

## Transfer of Monitoring Responsibilities to Other Ministries

- 66 Brief consideration has been given to the options of transferring monitoring responsibilities to other Government ministries. In all cases, the reasons supporting such a transfer are fairly tenuous and, accordingly, have not received more detailed consideration. This is outlined below.
- 67 It should be noted that in the context of this review, we have not met with any of the Ministries listed below and, therefore, have not discussed their existing monitoring capabilities (let alone whether ACC monitoring would fit with these).

Option	Reason for Raising the Option	Why the Option is not Recommended
Ministry of Health (MoH)	ACC and the Ministry share common interest in the purchasing of health services Experience in monitoring (DHBs)	No obvious capability in monitoring an insurance business and unlikely to have strong incentives to view ACC monitoring as a high priority. Like Option 2 above, a transfer of monitoring



Option	Reason for Raising the Option	Why the Option is not Recommended
		<p>responsibilities to another Department would, in this case, involve the MoH reporting to the Minister for ACC if the linkage between monitoring and levers is to be preserved. This issue applies to this and the other options below. It would also separate monitoring from policy.</p> <p>Ministry is undergoing significant change so in the near term at least, transferring monitoring responsibilities to it would be high risk.</p>
<p>Ministry of Economic Development (MED)</p>	<p>MED has reasonably extensive monitoring roles across several Crown entities. Accordingly, more critical mass for monitoring than DoL. The MED is part of the cluster of departments under the economic development and infrastructure sector of which the Department is also part.</p>	<p>ACC unrelated to any existing aspect of the Ministry's activities. ACC would be an "add-on" and, hence, may struggle to attain priority within the MED. No obvious capability in monitoring an insurance business.</p>
<p>Ministry of Transport (MoT)</p>	<p>MoT has reasonably extensive monitoring roles across several Crown entities including NZTA (another of the large Crown entities). Accordingly, more critical mass for monitoring than DoL. The Ministry has policy and other interest in ACC because of the linkages to road safety. The MoT is part of the cluster of departments under the economic development and infrastructure sector of which the Department is also part</p>	<p>No obvious capability in monitoring an insurance business and may not have strong incentives to view ACC monitoring as a high priority. Risk that the Ministry would unduly focus on the Motor Vehicle account at the expense of the other accounts.</p>
<p>Ministry of Social Development</p>	<p>None other than if ACC is viewed as an arm of the welfare system</p>	<p>No obvious capability in monitoring an insurance business and may not have strong incentives to view ACC monitoring as a high priority.</p>

## 6 Findings

- 68 The Government has embarked on a programme of reform to ACC to ensure its long term financial sustainability and to ensure that the serious financial issues with the scheme are addressed. The Stocktake is taking a long term view on how ACC's performance can be improved and deliver better value for money.
- 69 The need for effective monitoring arrangements is a part of this.
- 70 Current arrangements have some issues with them and, accordingly, there is concern that they are not as effective as they need to be. In particular, current arrangements raise the following issues.
- There has been substantial, and unsustainable, growth over recent years in the value of the ACC's liabilities. Ministers have expressed concern that the financial problems should have been recognised and addressed some years ago. Monitoring plays an important role in providing Ministers with early warning signals. There are indications that the monitoring of ACC has not, under current arrangements, received the level of focus that is warranted. Given the size of the ACC in relation to overall government finances and balance sheet, and the role that the scheme plays in the lives of all New Zealanders, there is a need to ensure that monitoring is focused on the right things and that the monitoring function is accorded high priority by the Department and Treasury.
  - Technical and specialist skills are required for the effective monitoring of ACC. We have concerns that the Department has, and will continue to have, difficulties in attracting high calibre specialist monitoring resource.
  - Currently, there is a relatively limited monitoring role for the Treasury. We consider there is a second opinion role for Treasury that can be strengthened in the interests of effective monitoring and decision making. Furthermore, Treasury has a depth of monitoring capability that could be used to better effect in relation to the ACC particularly given the significance of the ACC in fiscal and Crown balance sheet terms. In addition, the Reserve Bank has specialist capability that could be relevant to ACC monitoring.
  - The points above raise questions regarding the strength of incentives influencing the Department's monitoring role and whether there are options that would result in stronger incentives.
- 71 Options for monitoring arrangements have been considered in this draft report. They are:
- Option 1 – Retain existing arrangements (the status quo).

- Option 2 - Transfer the bulk of monitoring responsibilities to the Treasury (including COMU). Assuming that responsibility for administering Vote: ACC remains with the Department, it is assumed that responsibilities for monitoring the non-earners' account would also remain with the Department.
- Option 3 - Formalise and enhance the role performed by the Treasury.

72 Of the options, we are not strongly attracted to Option 2 which would transfer all monitoring responsibilities (except in respect of the non-earners' account) to the Treasury. Our main concerns with this option are the loss of any second opinion role, the unusual arrangement that this would imply for Treasury monitors vis a vis the Minister for ACC and the Minister of Finance, and the separation of monitoring from policy.

73 The allocation of roles and responsibilities under the status quo (Option 1) involves arrangements that are mirrored elsewhere. The principal concern with this option is that it has resulted in monitoring that has not served Ministers as well as Ministers may have expected. We consider there are two issues underlying this.

- There are tensions between ownership and purchase monitoring and between monitoring and policy interests. There is a need to exercise judgements around these tensions and it is important that these judgements be allowed to surface in a transparent manner. Under current arrangements, there is a risk that tensions and judgements are internalised within the interaction between the Department and its Minister. There are advantages in allowing for alternative perspectives to be brought into the mix.
- The need for specialist technical skills in relation to ACC monitoring and a concern that the Department may not be able to retain these skills in-house.

74 Option 3 provides a potential solution to these issues. By formalising and strengthening the second opinion role for Treasury, Option 3 provides an added counter-balance to the monitoring and policy roles of the Department. Furthermore, under Option 3, primary monitoring responsibilities continue to vest with the Department but the Department, in effect, has scope to contract-in specialist assistance from the Treasury to assist with some of the more technical aspects of ACC financial/ownership monitoring. On balance, this is our preferred option although we note that consideration could also be given, in support of this option, to establishing a formal role for the Minister of Finance in relation to ACC.

75 We have been asked to consider whether our conclusion in this respect would change if parts of the ACC (the Work Account, Motor Vehicle Account or Earners' Account) were opened to competition. Under this scenario, the balance of monitoring functions would shift away from purchase monitoring and toward ownership monitoring. Accordingly, consideration could be given to transferring monitoring responsibilities to COMU recognising its expertise in ownership monitoring over SOEs and Crown

companies where the Crown has little, or no, purchase interest. We stop short, however, of recommending this option and instead consider that option 3 would continue to be the preferred option assuming that significant parts of the ACC scheme are not opened to competition and assuming that the Minister for ACC continues to have the sole responsibility for monitoring of the ACC.